STRENGTHENING WORLD BANK GROUP ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION

MARCH 21, 2007
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AML</td>
<td>Anti-money laundering</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation Forum</td>
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<td>AUSAID</td>
<td>Australia Agency for International Development</td>
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<td>BP</td>
<td>Bank Procedure</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<td>CDD</td>
<td>Community-driven development</td>
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<tr>
<td>CFAAA</td>
<td>Country Financial Accountability Assessment</td>
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<td>CFT</td>
<td>Combating financing of terrorism</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Report</td>
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<td>CPIA</td>
<td>Country Policy and Institutional Assessment</td>
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<td>CSO</td>
<td>Civil society organization</td>
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<td>DEC</td>
<td>Development Economics</td>
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<td>DFID</td>
<td>Department for International Development, United Kingdom</td>
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<td>DPO</td>
<td>Development policy operation</td>
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<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<td>FATF</td>
<td>Financial Action Task Force</td>
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<td>FLEG</td>
<td>Forest Law Enforcement and Governance regional Ministerial initiatives</td>
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<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<td>GAC</td>
<td>Governance and Anticorruption</td>
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<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Country</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFI</td>
<td>International financial institution</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>INT</td>
<td>Department of Institutional Integrity</td>
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<td>ISN</td>
<td>Interim Strategy Note</td>
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<td>MDB</td>
<td>Multilateral development bank</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>NEPAD</td>
<td>New Partnership for Africa’s Development</td>
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<td>NGO</td>
<td>Nongovernmental organization</td>
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<td>OAS</td>
<td>Organization of American States</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OECD-DAC</td>
<td>Organisation of Economic Co-operation and Development Development Assistance Committee</td>
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<td>OED</td>
<td>Operations Evaluations Department</td>
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<td>PACI</td>
<td>Partnership Against Corruption Initiative</td>
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<td>PBA</td>
<td>Performance-based allocation system</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PER</td>
<td>Public Expenditure Review</td>
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<td>PFM</td>
<td>Public financial management</td>
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<td>QAG</td>
<td>Quality Assurance Group</td>
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<td>SSIIU</td>
<td>Sector Strategy Implementation Update</td>
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<td>TA</td>
<td>Technical assistance</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>VDP</td>
<td>Voluntary Disclosure Program</td>
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<td>WBG</td>
<td>World Bank Group</td>
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<td>WBI</td>
<td>World Bank Institute</td>
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<td>WDR</td>
<td>World Development Report</td>
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STRENGTHENING WORLD BANK GROUP ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION

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THE GUIDING PRINCIPLES FOR STRENGTHENING WORLD BANK GROUP ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION

1. The World Bank Group (WBG’s) focus on governance and anticorruption (GAC) follows from its mandate to reduce poverty—a capable and accountable state creates opportunities for poor people, provides better services, and improves development outcomes.

2. The country has primary responsibility for improving governance—country ownership and leadership are key to successful implementation, and the WBG is committed to supporting a country’s own priorities. A country’s government remains the principal counterpart for the WBG.

3. The WBG is committed to remaining engaged in the fight against poverty, and seeking creative ways of providing support, even in poorly-governed countries—“don’t make the poor pay twice”.

4. The form of WBG engagement on GAC will vary from country to country, depending on specific circumstances—while there is no ‘one-size-fits-all’, the WBG will adopt a consistent approach towards operational decisions across countries, systematically anchored in national strategies, supported by WBG Country Assistance Strategies, with no change in the performance-based allocation system for IDA countries or IBRD resource allocation system.

5. Engaging systematically with a broad range of government, business, and civil society stakeholders is key to GAC reform and development outcomes—so, consistent with its mandate, the WBG will scale up existing good practice in engaging with multiple stakeholders in its operational work, including by strengthening transparency, participation, and third-party monitoring in its own operations.

6. The WBG will strive to strengthen, rather than bypass, country systems—better national institutions are the more effective and long term solution to governance and corruption challenges and to mitigating fiduciary risk for all public money, including that from the Bank.

7. The WBG will work with donors, international institutions, and other actors at the country and global levels to ensure a harmonized approach and coordination based on respective mandates and comparative advantage—“the WBG should not act in isolation.”
STRENGTHENING WORLD BANK GROUP ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION

EXECUTIVE SUMMARY

1. This paper articulates the World Bank Group’s (WBG’s) strategy for heightening its focus on governance and anticorruption (GAC) as an integral part of its work to reduce poverty and promote growth. It is an updated version of the paper that was presented to the Development Committee in Singapore in September, 2006. Following the guidance of and issues raised by the Development Committee, the WBG undertook an extensive round of international consultations to explore the views of stakeholders as to how the WBG’s work on governance and anticorruption can be strengthened to reduce poverty.

2. Consultation Overview. From November 10, 2006 to January 26, 2007 the WBG held consultations with representatives from governments, donor agencies, parliaments, civil society organizations, private sector, media, and other stakeholders. The consultations were held in 35 developing countries and 12 donor countries, during four global events, and through online web feedback—reaching more than 3,200 stakeholders worldwide. Summary reports from these consultations are posted on the web. The consultations uncovered a striking convergence of views which has been incorporated into the updated strategy presented here. All groups of stakeholders acknowledged the special challenges to development posed by weak governance and corruption and welcomed the WBG’s interest in providing stronger support for addressing these challenges. The question is not whether but how the WBG can be a useful partner for GAC reform under different circumstances. Consultations have opened new entry points and potential partnerships and show directions for broader and deeper engagement. They also have created high expectations that the Bank will follow up on the consultations by incorporating the lessons learned and by providing greater support.

3. Governance and Corruption. Governance and corruption are not synonymous. Governance refers to the manner in which public officials and institutions acquire and exercise the authority to shape public policy and provide public goods and services. Corruption is one outcome of poor governance, involving the abuse of public office for private gain. Public office is abused when an official accepts, solicits, or extorts a bribe and when private agents give or offer bribes to circumvent public policies and processes for competitive advantage and profit. It is also abused through patronage and nepotism, the theft of state assets, or the diversion of state revenues. Corruption can also take place among private sector parties, yet interface with and affect public sector performance.

4. The principal purpose of the WBG’s engagement on governance and anticorruption is to support poverty reduction. On a daily basis, poor people around the world are unable to access health clinics, schools, or other essential services because their public systems are unresponsive or because they themselves cannot or will not pay bribes. Corruption and weak governance often mean that resources that should fuel economic growth and create opportunities for poor people to escape poverty instead enrich corrupt elites. Where transparency and accountability mechanisms are weak or lacking, poor people’s needs are often marginalized and development outcomes suffer. In some cases, extremely poor governance and corruption have contributed to financial and economic collapse, public alienation, and even violence and failed
states, with disastrous consequences for the poor. Thus, improving governance and reducing corruption are crucial to helping poor people escape poverty and helping countries to achieve the Millennium Development Goals (MDGs).

5. The WBG’s GAC work thus aims to help develop capable and accountable states and institutions that can devise and implement sound policies, provide public services, set the rules governing markets, and combat corruption, thereby helping to reduce poverty. The behavior of the state, and of other key stakeholders such as the private and financial sectors, shapes the quality of governance and impacts development outcomes. Excessive regulation, for instance, increases the cost of doing business and often provides opportunities for corruption. By contrast, reforms that clarify the role of the state, reduce excessive regulatory burden, and promote competition can result in stronger firms, more jobs, and better public services. Hence governance reform and anticorruption are essential to helping the WBG in its main mission to serve the poor.

6. In addition to its developmental mandate to reduce poverty, the WBG also has a fiduciary obligation, enshrined in its Articles of Agreement, to ensure that its funds are used for their intended purposes. Aid funds face risks from corruption and weak governance, and both donors and recipients want assurances that this assistance will be protected. In the spirit of the mutual accountability framework of the Monterrey Consensus, efforts to strengthen governance and increase aid flows need to be pursued in tandem to help countries achieve the MDGs.

7. An Evolving Agenda. GAC has been on the WBG’s agenda since James Wolfensohn’s ‘cancer of corruption’ speech at the 1996 WBG-IMF Annual Meetings; the 1997 Helping Countries Combat Corruption: The Role of the World Bank; the 1997 World Development Report, The State in a Changing World; and the 2000 World Bank strategy paper, Reforming Public Institutions and Strengthening Governance. Over the past decade, there has been a wealth of accumulated research and experience—with country-based innovations often leading the way. Governments around the world are trying to improve governance and tackle corruption, and they are seeking support and learning from international experience to craft and implement complex programs of reform, build supporting coalitions, and monitor their impact. Development institutions have the opportunity and responsibility to help them, and the Bank is responding through the scaled-up engagement set out in this paper.

8. Guiding Principles. The process of preparing this strategy—including guidance from the Bank’s Board, the Development Committee, and global multistakeholder consultations—has helped crystallize seven guiding principles for GAC work by the WBG going forward. These guiding principles reflect an emerging consensus, and build on the lessons of experience. The principles are:

1. The WBG’s focus on GAC follows from its mandate to reduce poverty—a capable and accountable state creates opportunities for poor people, provides better services, and improves development outcomes.

2. The country has primary responsibility for improving governance—country ownership and leadership are key to successful implementation, and the WBG is
committed to supporting a country’s own priorities. A country’s government remains the principal counterpart for the WBG.

3. The WBG is committed to remaining engaged in the fight against poverty, and seeking creative ways of providing support even in poorly-governed countries—“don’t make the poor pay twice”.

4. The form of WBG engagement on GAC will vary from country to country, depending on specific circumstances—while there is no ‘one-size-fits-all’, the WBG will adopt a consistent approach towards operational decisions across countries, systematically anchored in national strategies, supported by WBG Country Assistance Strategies (CASs), with no change in the performance-based allocation system for IDA countries or IBRD resource allocation system.

5. Engaging systematically with a broad range of government, business, and civil society stakeholders is key to GAC reform and development outcomes—so, consistent with its mandate, the WBG will scale up existing good practice in engaging with multiple stakeholders in its operational work, including by strengthening transparency, participation, and third-party monitoring in its own operations.

6. The WBG will strive to strengthen, rather than bypass, country systems—better national institutions are the more effective and long term solution to governance and corruption challenges and to mitigating fiduciary risk for all public money, including that from the Bank.

7. The WBG will work with donors, international institutions, and other actors at the country and global levels to ensure a harmonized approach and coordination based on respective mandates and comparative advantage—“the WBG should not act in isolation.”

In work on governance and anticorruption, including interactions with other partners, WBG institutions must act within the constraints imposed by the Articles’ general limitation on interference on a member’s political affairs and on basing decisions on a member’s political character or on non-economic considerations. In keeping with existing practice, as part of the overall framework of cooperation with its members, in undertaking multi-stakeholder engagement, the WBG will, in consultation with government, make sure to work within the country’s constitutional and legislative framework, seek the approval of government where it is required by its operational policies and procedures, and avoid engagements that are not consistent with the Articles framework.

9. **Lessons of Experience.** The WBG’s strengthened governance and anticorruption strategy builds on more than a decade of global experience working with country, donor, and civil society partners. Key lessons include the following:

   - A large body of research shows that in the longer term good governance is associated with robust growth, lower income inequality, child mortality, and illiteracy; improved
country competitiveness and investment climate; and greater resilience of the financial sector. Research also indicates that aid projects are more likely to succeed in well-governed environments.

- Institutional reforms can succeed, especially when there is committed country leadership and coalition of reformers, so WBG programs must work closely with reform leaders in government and in collaboration with a broad range of stakeholders.

- Governance challenges are far from uniform across countries, so the WBG’s strategies must be differentiated and strongly based on local knowledge, innovation on the ground, and extensive consultation and collaboration with local constituencies.

- Strengthening accountability requires capacity in government and institutions outside central government, such as parliament, civil society, media, and local communities, as well as an enabling environment in which these stakeholders can operate responsibly and effectively.

- Excessive regulatory burden and unwieldy public sector enterprises can be associated with poor governance and corruption. A thriving, competitive, and responsible private sector can be a strong source of support for better governance.

- Even when opportunities for governance reform at the national level are limited, there may be entry points at the local level. In some settings, the entry point might be bottom-up participatory reform, such as community-driven development, especially when it also supports the development of local government transparency, capacity, and accountability.

- While there has been progress in tackling administrative corruption, deep-seated political or systemic corruption—including the link between money and politics and the capture of state institutions by some powerful interests at the national and local levels—is harder to address. In these cases, traditional public sector management interventions need to be supplemented with transparency and related reforms as well as wider engagement with multinationals, the domestic private sector, the financial sector, and civil society. The pace of change often will be slow. What is important—and must be the basis for assessing impact—is that the trends show sustained improvement over time.

All of these lessons point to the need for significant Bank engagement on the ground, and a long-term perspective that recognizes that governance reform is a continuing endeavor, with large variations from one country to another.

10. **Scaling up Based on the Lessons Learned.** Over the past decade, the WBG has engaged in many GAC initiatives at the country, sectoral, and project levels, with country-based innovations often leading the way. The WBG’s experience with supporting reforms has been mixed. While many initiatives have been successful, generally they have been *ad hoc* and not consistently applied across countries. Moreover, donors have not been consistent, sending mixed signals to governments about the importance of GAC reforms, weakening their potential
effectiveness. While some countries have shown improvements in governance and anticorruption, others have deteriorated. In order to make greater progress, there is a need to build on lessons learned and more systematically scale up successful approaches in a consistent manner across countries. For the Bank, a scaled-up approach also means reviewing its own staffing, skills, use of resources, and the incentives guiding managers and staff.

11. **The Bank Group Strategy.** The WBG’s strategy is to help developing country governments, in light of their distinct national challenges, to identify their own priorities for improving governance and to articulate and implement programs responding to those priorities, in a manner that is effective and sustainable over the long term. The strategy takes a comprehensive approach that involves working at the country, operational, and global levels to enhance and integrate governance and anticorruption measures, deploying the full range of WBG activities to assist partner countries in achieving demonstrable results for sustained poverty reduction. The strategy seeks to build on lessons of experience, to systematically scale up programs that have a track record of success, including programs strengthening public management and governance in infrastructure, extractive industries, health and education, and the financial and private sectors. Many of these programs focus on increasing transparency of decisionmaking, and involve beneficiaries and other stakeholders in policymaking and oversight. In addition, the strategy aims to ensure the highest fiduciary standards in Bank-financed operations, in large part by preventing opportunities for corruption through improved project design, greater disclosure, enhanced participation, and strengthened monitoring and supervision.

12. **Country Level.** A central focus of the Bank’s work is supporting the development of more effective and accountable states, in partnership with other actors, including multilateral and bilateral organizations. Reforms to strengthen the accountability and transparency of state institutions are an increasingly important focus of partner countries, and, thus, the Bank needs to provide more consistent, continuous, and systematic assistance to government programs in governance and anticorruption. For IDA borrowers, lending and grant allocations will continue to be based on the Bank’s performance-based allocation system; for IBRD borrowers, allocations will continue to reflect creditworthiness as well as performance and governance concerns. In all cases, consistent treatment of countries will be a key objective.

13. **Consistent Approach Across Countries.** A systematic and disciplined CAS process, with careful upstream attention to GAC challenges, will be the basis for ensuring a consistent approach across countries. This process will ensure that the strategy is matched, in a transparent and consultative manner, to the challenges that poor governance may pose for growth and poverty reduction in the country. The evolving, complex, and diverse nature of country circumstances makes it undesirable to rigidly classify countries in any way; no lists or rankings of countries is being considered. Instead, in countries where governance is a central issue for poverty reduction, formulating and implementing the CAS will be supported by appropriate diagnosis and feature governance as a central theme, in support of the country’s own priorities. There are a variety of ways to incorporate governance in CASs, with no “one-size-fits-all approach.” Even in the most poorly governed countries, the WBG will seek to stay engaged, in some cases with shorter interim strategies while agreement is pursued with the government on medium-term priorities. If there is a substantial probability that the governance environment will change during the CAS period in a way that will significantly affect aid effectiveness, alternative scenarios for implementation of the program may be specified explicitly in the CAS, with
triggers for moving between scenarios. These triggers will consist of monitorable actions to be taken by the government. If any further mid-course correction is warranted, a Progress Report or other appropriate document will be presented to the Board for discussion.

14. **Governance Performance and WBG Assistance.** For IBRD-eligible borrowers, the CAS sets out IBRD lending envelopes that derive from the Bank’s creditworthiness analysis, which explicitly considers governance as it impinges on political stability or economic policies and outcomes. In IDA-eligible countries, this linkage is achieved through the performance-based allocation system (PBA). The high weight assigned to governance in the PBA, through the Country Policy and Institutional Assessment (CPIA), ensures that better governed countries are allocated a higher per capita share of IDA resources. The Bank will continue to rely on the PBA for allocating scarce IDA resources across lower income countries.

15. **Staying Engaged, Even in the Most Poorly Governed Settings.** The WBG will seek to stay engaged, even in the most poorly governed countries. In these exceptional circumstances, where the central government cannot adequately administer the proceeds of Bank-financed operations, the WBG will seek creative ways of engaging to provide services directly to the poor using instruments such as community-driven development and third-party delivery systems which do not rely on central government administration for disbursing resources. The Bank also will seek to use policy dialogue, analytic work, and technical assistance to try to build support for a stronger engagement on governance. In the rare instances where the Bank and the government cannot agree on an effective program of governance reform, the Bank will prepare an interim strategy note outlining the limited areas of engagement which are viewed as having the potential for positive development impact as well as presenting triggers for moving to a regular CAS when progress is made. In these circumstances, IFC and MIGA may still play key roles as partners in pursuing a socially responsible investment policy (as elsewhere), as strategic engagement with the private sector remains a potentially important means for change in high-risk settings.

16. **Entry Points for Reform.** The scope, sequencing, and speed of GAC reforms will be tailored to the country context and the government’s program. Where country leadership is undertaking major governance and anticorruption reforms, the Bank will match such resolve by rapidly scaling up technical and financial assistance to support these reforms. Where weak governance and corruption pose obstacles for development and government commitment is more uneven, the Bank will strive to find appropriate entry points—scaling up support for government programs to improve governance and combat corruption, ensuring that governance issues are adequately addressed in the sectors in which the Bank engages, and seeking to expand government interest in reform through country dialogue, analytic work, and technical assistance. The range of entry points include:

- **Helping strengthen state capability and accountability.** In all countries where governance is a challenge, there will be a continuing focus on public financial management of both revenues and expenditures, procurement, auditing, the judiciary, and legal reforms, as well as a renewed engagement with governments on civil service and transparency reforms. In addition, greater systematic attention will be given to addressing governance issues in infrastructure, extractive industries, health, education, financial and private sectors, strengthening local governments and
community participation, and building capacity in supreme audit institutions and other formal oversight institutions.

- **Expanding private sector engagement.** The WBG, including IFC and MIGA, will engage more closely with the private sector to address corruption, for example by supporting national and sectoral business coalitions for change and voluntary codes of business conduct. The WBG will also continue to deepen its support for improving the enabling environment for the development of competitive private and financial sectors and increased private investment.

- **Engaging more systematically with a broad range of stakeholders.** As stated in the Development Committee Communiqué, “Governments are the key partners of the Bank in governance and anticorruption programs, while, within its mandate, the Bank should be open to involvement with a broad range of domestic institutions taking into account the specificities of each country.” While working with the government as its principal counterpart, the WBG will scale up existing good practice in working with a broad range of stakeholders. The aim is to help strengthen state accountability, thereby also providing impetus for gains in state capability. For instance, as affirmed by the consultations, the Bank, consistent with its mandate and in collaboration with other multilateral and bilateral organizations, will continue to support initiatives that: enable citizens to access information and participate in the development of policies, spending priorities, and service provision; promote community participation to improve local governance; strengthen the enabling environment and capacity of civil society and the media to monitor public policymaking and implementation; and encourage greater oversight over public procurement, asset declarations, and other important dimensions of government performance. The Bank will revise its disclosure policy to improve the Bank’s own transparency, and will enhance current guidance to staff in order to consistently apply best practices on consultation and participation in Bank-financed operations.

17. **Project Level.** At the project level, the Bank’s strategy aims to improve the development impact and integrity of Bank-funded projects. Actions to prevent opportunities for corruption—the best way to mitigate fiduciary risk—include:

- Helping countries to strengthen country systems, as the long run solution to mitigating fiduciary risk in Bank-financed operations, while also taking measures to protect Bank-financed projects in poorly governed settings;

- Incorporating concrete good governance and anticorruption objectives in sectoral programs, tailored to each sector’s distinctive features and potential risks;

- Working with governments to identify risky operations and ensure upstream risk mitigation, including preparing anticorruption action plans as part of high-risk operations where appropriate;

- Improving the quality of project design, supervision, and evaluation, and enhancing third-party monitoring of Bank-financed projects by improving the timely disclosure
of project information (including anticorruption action plans) and increasing upstream consultation and participation throughout the project cycle, based on lessons learned and good practice;

- Focusing on fiduciary quality concerns during joint reviews with governments of the Bank’s project pipeline and financing portfolio; channeling resources and attention, especially during supervision, toward projects deemed to be of high risk; and

- Establishing anticorruption teams, particularly in the field, to review project design, risk rating, and anticorruption action plans and, together with governance advisers (especially field-based), also to serve as a focal point for dialogue on governance and anticorruption issues with governments and other stakeholders.

Where operations are co-financed, the Bank will coordinate with those partners.

18. The Bank’s Department of Institutional Integrity (INT) will continue to investigate allegations of corruption in Bank-financed projects, and when corruption is detected, the WBG will publicly sanction corrupt firms and promote follow up actions by government and internally. In addition, the WBG will enhance collaboration between the Bank’s investigative team and the country’s own anticorruption institutions. Feedback from the consultations urged that INT take additional steps to improve its transparency and partnership approaches. Currently, INT is being reviewed by an independent panel of experts, with the goal of strengthening INT’s operations and effectiveness.

19. IFC and MIGA will work directly with the private sector to strengthen ethical corporate practices across their operations, encouraging clients to join public-private coalitions for reform, and reinforcing that integrity is “good for business.”

20. **Global Level.** Finally, at the global level, the Bank will support harmonized approaches with other international actors. The strategy aims to strengthen the WBG’s bilateral and multilateral partnerships in accordance with the Paris Declaration, with a view to:

- Harmonizing governance and anticorruption initiatives with the IMF, United Nations, regional development banks, and other donors, including in public financial management, procurement, and judicial reform;

- Promoting coordinated action in countries where governance and corruption problems pose challenges for development, including consulting with other partners when considering limited engagement;

- Recognizing the limitations of the Bank’s legal framework, there should be a division of labor among donors—to be articulated in the CAS—with others taking a lead in areas that are outside the Bank’s mandate or comparative advantage;

- As part of a process of joint sanctions reform by the multilateral development banks (MDBs), making investigative rules and procedures more consistent, strengthening
information sharing, and establishing mechanisms to recognize each other’s sanctions decisions;

- Continuing to work closely with the private sector, civil society, youth, and the media to support change coalitions such as the Global Integrity Alliance as well as sector-specific initiatives such as the Extractive Industry Transparency Initiative (EITI) and Publish What You Pay, while raising the cost of corrupt behavior through increasingly harmonized MDB sanctions and the WBG’s new Voluntary Disclosure Program;

- Supporting implementation of key international conventions such as the OECD Anti-Bribery Convention, the UN Convention against Corruption, and regional initiatives;

- Helping enhance a country’s ability to track, freeze, and confiscate the proceeds of corrupt behavior, including through technical assistance for asset recovery and monitoring of use of recovered assets; and

- Working with developed countries, the OECD, and the private sector to provide assistance on anti-money laundering, and greater cooperation to address tax havens and asset restitution.

21. Monitoring for Results. Monitoring is key to accountability. Recognizing that IDA resources will continue to be allocated through the existing Country Policy and Institutional Assessment (CPIA) and Performance Based Allocation system, the Development Committee asked the Bank to further develop and use disaggregated and actionable indicators. Disaggregated and actionable indicators can serve two purposes—to inform the CPIA and to help track progress in specific reforms implemented by governments. Over the past year there has been significant progress in the development and use of disaggregated and actionable indicators, such as the public financial management indicators developed by the mult donor Public Expenditure and Financial Accountability (PEFA) initiative. Aggregate worldwide governance indicators (gathered by DEC and WBI) are research products that draw on a wealth of information from non-WBG efforts to monitor governance and exist alongside many other products (e.g., enterprise surveys) to provide comparative information for policymakers; they are not official ratings by the WBG, and they have no formal role in any WBG operational decision-making. During the recent consultations, the majority of stakeholders endorsed an approach of using a mix of indicators—aggregate governance indicators, country monitoring and evaluation systems, specific disaggregated indicators, and outcome indicators—judiciously and with care, keeping in mind their strengths and limitations for particular purposes.

22. Role of the Board. The Bank’s Board will continue to have an important role in the development of the Bank’s country strategies, to ensure that they are consistent across countries and continue to have broad support in the international community. If country circumstances change in ways that warrant a shift in the Bank’s approach, an appropriate document will be presented to the Board for discussion. In addition, for all CASs that present alternative scenarios, the CAS and the midterm CAS Progress Report will continue to state clearly which scenario applies as well as what conditions would trigger alternative scenarios. New country developments will continue to be discussed at Steering Committee meetings, and Management
views on appropriate financing levels will be presented to the Board in a timely manner. In the exceptional cases when changes in country circumstances warrant a significant change or a suspension of Bank’s operations, Management will seek the Board’s support. The Board will continue to be involved in reviewing individual projects, including any that are delayed because of corruption concerns. In addition, the Board has provided guidance and feedback on refining this strategy and will provide oversight as it is implemented.

23. **Going Forward.** This strategy implies a change in how the WBG does business, including providing incentives to managers and staff to engage proactively on the ground on governance issues; addressing staffing, skills, and resource needs to operate effectively in challenging governance settings; and developing a stronger results framework, with greater progress on strengthening country monitoring and evaluation systems, specific disaggregate governance indicators, and outcome indicators. The emphasis of the strategy will be on the front lines, tapping into local knowledge and engaging closely with partner countries. Operational guidance to staff will be developed, reflecting ongoing innovations in the field. Bank country teams will be reporting back to the stakeholders that participated in the consultations, to share with them how their inputs were reflected in this enhanced strategy and to engage them in the implementation phase. Given the complexity of the effort, the WBG will also need to proceed pragmatically. In addition, partnerships will need to be strengthened, including with local institutions such as universities, civil society groups, and businesses to increase the Bank’s technical know-how and develop common approaches. Furthermore, given the importance of learning in these fields, the Bank will continue to support research on causes and effects of governance and corruption and their links to growth and development. This agenda demands innovation and experimentation as well as rigorous monitoring and evaluation of results—all in a spirit of openness to learning what works, what does not, and why. The specific initiatives needed to fully operationalize this strategy will be outlined in an Implementation Plan, to be prepared and submitted to the Board by the end of the current fiscal year.
STRENGTHENING WORLD BANK GROUP ENGAGEMENT IN GOVERNANCE AND ANTICORRUPTION

In the last half-century we have developed a better understanding of what helps governments function effectively and achieve economic progress. In the development community, we have a phrase for it. We call it good governance. It is essentially the combination of transparent and accountable institutions, strong skills and competence, and a fundamental willingness to do the right thing. Those are the things that enable a government to deliver services to its people efficiently.

– Paul Wolfowitz, World Bank President, Jakarta, April 11, 2006

I. INTRODUCTION

1. At the 2006 Spring Meetings, the Development Committee “agreed on the need to improve governance in all countries, to help build effective states with strong national systems and to work together on implementing global initiatives to improve governance, increase transparency and build support for good governance at the country level in a way that strengthens ownership.” It asked the World Bank Group (WBG) to set out its strategy on governance and anticorruption, to be discussed at its September 2006 Annual Meetings in Singapore.1 This paper is an updated version of the paper that was presented to the Development Committee in Singapore in September, 2006. Following the guidance of the Development Committee, the WBG undertook an unprecedented round of international consultations to explore the views of stakeholders as to how the WBG’s work on governance and anticorruption (GAC) can be strengthened to reduce poverty (see Box 1, below).

2. The consultations uncovered a convergence of views which has been incorporated into the updated strategy presented here. All groups of stakeholders acknowledged the special challenges to development posed by weak governance and corruption and welcomed the WBG’s interest in providing stronger support addressing these challenges. The question is not whether but how the WBG can be a useful partner for GAC reform under different circumstances. Consultations have opened new entry points and partnerships and show directions for broader and deeper engagement. They also have created high expectations that the Bank will follow up on the dialogue with greater support.

1 Development Committee Communiqué, World Bank, Washington, D.C., April 23, 2006. Specifically, the Development Committee requested the Bank to “lay out a broad strategy … for helping member countries strengthen governance and deepen the fight against corruption, working closely with the Fund, other multilateral development banks and the membership, to ensure a coherent, fair and effective approach.”
Box 1: Consultations on WBG Work in Governance and Anticorruption

From November 10, 2006 to January 26, 2007, the World Bank Group consulted widely on the governance and anticorruption strategy with representatives from governments, donors, civil society, parliaments, private sector, academia, and other stakeholders. Summary reports of these consultations are posted on the Bank’s website. The Bank held consultations in 35 developing countries and 12 donor countries through face-to-face meetings and videoconferencing (see graph below). The Bank also held several consultations with global audiences in addition to seeking feedback through the web. Participants were provided with the paper on Strengthening Bank Group Engagement on Governance and Anticorruption as discussed by the Development Committee during the 2006 World Bank-IMF Annual Meetings, a core presentation, and key questions. An estimated 3,200 individuals participated in the consultations around the globe. Results of these consultations were reported to the Board on January 30, 2007, and a summary is in Annex F.

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3. **Context.** Many government officials joined citizens and businesses to call for reforms that would increase government transparency and accountability. While weak governance and corruption are hardly unique to developing countries, their impact on poverty and growth is particularly devastating. On a daily basis, poor people around the world cannot access health clinics, schools, or other essential services because their public systems are unresponsive, or because they themselves cannot or will not pay bribes. Weak governance and corruption often mean that the resources that should fuel economic growth and create opportunities for the poor to escape poverty instead go to enrich corrupt elites. Aid funds face the same risks, and citizens in both donor and recipient countries want assurances not only that this assistance will be protected, but that it will make a difference in promoting growth and reducing poverty. In some cases, poor governance and entrenched corruption have contributed to financial and economic collapse, with disastrous consequences for poor people. In extreme cases, the failure of governance can result in widespread alienation, degenerating into violence, and in some instances, leading to failed states. Thus, improving governance and reducing corruption are crucial for helping poor people to escape poverty and countries to achieve the Millennium Development Goals (MDGs).
4. **Governance and Corruption.** Governance and corruption are not synonymous. Governance refers to the manner in which public officials and institutions acquire and exercise the authority to shape public policy and provide public goods and services. Corruption is one outcome of poor governance, involving the abuse of public office for private gain. Public office is abused when an official accepts, solicits, or extorts a bribe and when private agents give or offer bribes to circumvent public policies and processes for competitive advantage and profit. It is also abused through patronage and nepotism, the theft of state assets, or the diversion of state revenues. Corruption can also take place among private sector parties, yet interface with and affect public sector performance: for example, bidders may collude in a public procurement with intent to defraud the state. Corruption and governance are also intertwined, as corruption is often a symptom of poor governance, and grand corruption can fundamentally undermine governance.2

5. **The Principal Purpose of the WBG’s Engagement on Governance and Anticorruption is to Support Poverty Reduction.** To make progress in reducing poverty, countries need good policies, a workable regulatory framework for markets and private sector development, and reasonably efficient and effective provision of public services—all of which depend greatly on the effectiveness of the state. Research and experience have shown that the quality of governance, including control of corruption, has a significant impact on growth and poverty reduction: on average, countries with better governance grow faster than countries with poor governance, and Bank-funded projects are less likely to succeed in countries with weak governance and high corruption. Unchecked corruption can destroy economies by undermining the legitimacy of state institutions, strangling the private sector, increasing inequality, and damaging civil society. Hence, the main purpose of the WBG’s governance work is to help develop capable and accountable states and institutions that can reduce poverty, promote growth, and contain corruption.

6. **The Bank’s Mission.** Poverty reduction is the main mission of the Bank’s work. With much evidence demonstrating the link between governance and poverty reduction, and between corruption, governance, and aid effectiveness,3 strengthening governance and fighting corruption are key to achieving this mission. Pursuing good governance and fighting corruption are also consistent with the Bank’s Articles of Agreement. For many years the donor community was virtually silent on these issues, but the last decade has seen a clear shift in emphasis. The WBG has been playing its part, both operationally—through policy dialogue, technical assistance, and the financing of innovative GAC operations—and through applied research and development of indicators and diagnostics on governance and corruption. The way the Bank and other donors do business in poorly governed countries has begun to change, even if not systematically across all countries.

7. **Worldwide Trends.** The growing attention to these issues has yet to result in the major improvements worldwide that everyone would like to see. Some countries have improved, but others have deteriorated, and the world on average has not made sufficient progress on

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2 Annex E provides definitions of governance, corruption, and related terms.

3 There is an extensive body of literature on governance and its impact on growth, aid effectiveness, and other aspects of development. See Annex H for selected references.
governance and corruption control. While a number of countries and institutions in developing economies are exhibiting real leadership, in other countries rhetoric may be present without concrete reforms or results on governance and corruption. In addition, reformers often have not had the support they need to develop and implement difficult governance reform programs in the face of powerful vested interests.

8. **Toward a Strengthened Strategy.** Despite many improvements in the past decade—in global awareness of the issue, in measuring performance, in building domestic and international coalitions for change, and in changing the way the Bank and other donors work—the Bank can do more. In particular, the Bank will apply the lessons from research and experience to a strategy focused on systematic and concrete operational results on the ground, in support of poverty reduction. This strategy recognizes that many governments are seeking support for policy and institutional reforms that address the roots of weak governance and corruption to spur investment and growth in their countries. It also recognizes that where weak governance and associated corruption systematically weaken the impact of aid, the WBG needs to find a strategy of GAC engagement that supports countries’ efforts at poverty reduction while directly addressing fiduciary risks and constraints on aid effectiveness.

9. **Vision.** This strategy builds on the vision President Wolfowitz outlined in a speech in Jakarta in April 2006, and reflects lessons (detailed in Annex A) from the experience of the Bank and other partners. These lessons underscore that, to advance poverty reduction, the WBG must move toward a more consistent and results-oriented approach to incorporating governance and anticorruption into the full range of poverty-reducing projects, sectors, and country programs. Such an approach has broad implications for the whole WBG, including IFC and MIGA, entailing changes in the way it develops Country Assistance Strategies (CASs); prepares, reviews, and implements Bank-funded operations; works collaboratively with development partners; and deploys human resources and operates on the ground.

10. **Guiding Principles.** The process of preparing this strategy—including guidance from the Bank’s Board leading to the Development Committee discussions, the Development Committee Communiqué (see Box 2, below), and the post-Singapore consultations—has helped crystallize seven guiding principles for GAC work by the WBG. These guiding principles reflect an emerging consensus, and build on the lessons of experience. The principles are:

1. The WBG’s focus on GAC follows from its mandate to reduce poverty—a capable and accountable state creates opportunities for poor people, provides better services and improves development outcomes.

2. The country has primary responsibility for improving governance—country ownership and leadership are key to successful implementation, and the WBG is committed to supporting a country’s own priorities. A country’s government remains the principal counterpart for the WBG.

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4 See, for example, Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, *Governance Matters V*, World Bank, Washington, D.C., 2006. It should be emphasized that, given the nature of governance, unavoidably there is an element of judgement and inherit issues in the way governance can be measured, posing a significant challenge in developing objective and accurate measures of governance.
3. The WBG is committed to remaining engaged in the fight against poverty, and seeking creative ways of providing support even in poorly-governed countries—“don’t make the poor pay twice”.

4. The form of WBG engagement on GAC will vary from country to country, depending on specific circumstances—while there is no ‘one-size-fits-all’, the WBG will adopt a consistent approach towards operational decisions across countries, systematically anchored in national strategies, supported by WBG Country Assistance Strategies, with no change in the performance-based allocation system for IDA countries or IBRD resource allocation system.

5. Engaging systematically with a broad range of government, business, and civil society stakeholders is key to GAC reform and development outcomes—so, consistent with its mandate, the WBG will scale up existing good practice to engage with multiple stakeholders in its operational work, including by strengthening transparency, participation and third-party monitoring of its own operations.

6. The WBG will strive to strengthen, rather than bypass, country systems—better national institutions are the more effective and long term solution to governance and corruption challenges and to mitigating fiduciary risk for all public money, including that from the Bank.

7. The WBG will work with donors, international institutions, and other actors at the country and global levels to ensure a harmonized approach and coordination based on respective mandates and comparative advantage—“the WBG should not act in isolation.”
Box 2: Guidance from the Development Committee *Communiqué*, 2006 World Bank-IMF Annual Meetings in Singapore (DC2006-0017)

“Actions to promote good governance are crucial to successful development and poverty reduction, and helping member countries on these issues is therefore important to the Bank’s mission and to achieving the MDGs. Tackling corruption effectively and firmly is a significant part of this. The principal objective of the Bank’s governance work should be to help develop capable and accountable states to deliver services to the poor, promote, private sector led growth and tackle corruption effectively. We supported the Bank’s engagement in governance and anticorruption work. Country ownership and leadership are key to successful implementation. Governments are the key partners of the Bank in governance and anticorruption programs, while, within its mandate, the Bank should be open to involvement with a broad range of domestic institutions taking into account the specificities of each country. We also emphasized that predictability, transparency, and consistent and equal treatment across member countries are the Bank’s guiding principles. In stepping up attention to governance and anticorruption in Country Assistance Strategies, we asked the Bank to further develop and use disaggregated and actionable indicators, recognizing that IDA resources will continue to be allocated through the existing Country Policy and Institutional Assessment and Performance Based Allocation system. We recognize that the strategy will evolve with implementation and in light of experience, but the paper sets out a framework for continued Bank engagement in this work and the further consultation which is planned with partner countries, with the Fund and with other donors and multilaterals, with civil society, and with the private sector. Given the importance of this issue, we stressed the importance of Board oversight of the strategy as it is further developed and then implemented, and we look forward to a report from the Board at our next meeting.”

11. **The WBG’s Legal Framework.** Any WBG strategy for governance and anticorruption must conform to the purposes set out in the Articles of Agreement of each of the WBG’s institutions: broadly stated, to promote the economic development of members.\(^5\) In WBG work on governance and anticorruption, including interactions with other partners, WBG institutions must act within the constraints imposed by the Articles’ general limitation on interference in a member’s political affairs and on basing decisions on a member’s political character or on noneconomic considerations.\(^6\) In addition, IBRD and IDA are specifically required to have arrangements in place to ensure that their funds are used for the purposes intended as expenditures are incurred, with due attention to considerations of economy and efficiency, and without regard to political or other noneconomic influences or considerations.\(^7\)

12. **Objectives.** Following from these principles, the Bank has three main objectives with this strategy. First, the Bank aims to scale up support for country efforts to strengthen governance and combat corruption, using the WBG’s full range of instruments and operations and a systematic approach that ensures consistent treatment across countries. To accomplish this,

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\(^5\) IBRD Articles of Agreement, Article I, IDA Articles of Agreement, Article I, IFC Articles of Agreement, Article I, MIGA Convention, Chapter 1, Article 2.

\(^6\) *IBRD Articles of Agreement*, Article IV, Section 10: “The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.” See also *IDA Articles of Agreement*, Article V, Section 6; *IFC Articles of Agreement*, Article III, Section 9; *MIGA Convention*, Chapter V, Article 34.

\(^7\) *IBRD Articles of Agreement*, Article III, Sections 5(b), (c); *IDA Articles of Agreement*, Article V, Sections 1(g), 1(h). As part of the overall framework of cooperation with its members, the WBG will make sure to work within the country’s constitutional and legislative framework, seek the approval of government where it is required by its operational policies, keep government appropriately briefed, and avoid engagements that are not consistent with the Articles framework.
governance and anticorruption innovations and multistakeholder approaches need to be integrated into a much wider range of Bank activities across sectors. Second, the Bank aims to ensure the highest fiduciary standards in WBG operations, whatever the funding source—IDA, IBRD, IFC or trust fund. Preventing opportunities for corruption, including by strengthening country systems, and improving project design by enhancing participation and increasing disclosure and third party monitoring of Bank-financed operations, is a key element of this. Finally, the Bank will work in close concert with the broader development community, to coordinate engagement, harmonize approaches, and address transnational governance and corruption concerns.

13. **Global Experience.** The Bank’s strengthened governance and anticorruption strategy builds on a decade of global experience and evidence working with country, donor, and civil society partners. In 1996, the then-President of the WBG publicly committed to fight the “cancer of corruption.” In September 1997, the Board endorsed the World Bank’s first anticorruption strategy. In 2000, the Board endorsed the World Bank strategy paper, *Reforming Public Institutions and Strengthening Governance*. Since then, the state of the art in governance and anticorruption has been evolving, informed by a large body of research and operational experience. Realities differ from one country to another. The difference between success and failure often turns on whether political and business interests effectively lead the fight against corruption—or whether they collude to obstruct progress. Moreover, as Box 3 suggests, GAC problems also can vary from sector to sector. There are no “one size fits all” reforms. Modesty is warranted as the WBG scales-up its GAC work, building on learning and successful innovation over the past decade.

14. **Tailoring Reforms to Country Realities.** Where governance and corruption pose challenges for development, governance will be a central theme of Bank engagement. However, the scope, sequencing, and speed of governance reforms will be tailored to the country context. Feasible entry points to address GAC challenges will vary from one country to another, depending on both the initial political impetus and the longer-term historical processes that can shape and constrain institutional reform. In some countries, Bank support for GAC reform will principally take the form of supporting improvements in capacity, transparency, participation, and accountability within the mainstream of our poverty reducing operations. Country dialogue and technical assistance may be used to expand government interest in reform. In other countries, where governments are supportive, the focus may be more directly on helping strengthen formal institutions of executive oversight and civil society efforts for better governance.

15. **Learning.** Given the importance of learning in this evolving area, the Bank will continue to support external and internal research on both governance and corruption, and their respective links to growth and development. This research offers the promise to understand better what types of policy interventions and operations are likely to be successful (or not), and in what types of settings. Lessons have been learned thanks to the distillation of experience over the past decade.

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8 *Helping Countries Combat Corruption: The Role of the World Bank*, World Bank, Washington, D.C., September 1997. The strategy contains four main components that still have relevance: (a) helping partner countries reduce corruption; (b) mainstreaming anticorruption through the CAS; (c) preventing fraud and corruption in Bank-financed projects; and (d) supporting international efforts to combat corruption.
decade, as indicated below. The need for an expanded research agenda, drawing on worldwide
talent and building on country and project-level evidence, stems from the recognition that there
is much still unknown or unanswered in this complex and evolving field.

16. Lessons. What are some of the key lessons that have emerged over the last decade? Highlights are as follows (see Box 3, below, for lessons from Europe and Central Asia and Annex A which provides a more detailed discussion):

- A large body of research shows that in the longer term good governance is associated with robust growth; lower income inequality, child mortality, and illiteracy; improved country competitiveness and investment climate; and greater resilience of the financial sector.

- Institutional reforms can succeed, especially when there is committed country leadership and coalition of reformers, so Bank programs must work closely with reform leaders in government and in collaboration with a broad range of stakeholders.

- Governance challenges are far from uniform across countries, so strategies must be differentiated, and strongly based on local knowledge, innovation on the ground, and extensive consultation and collaboration with local constituencies.
Box 3: Lessons from Europe and Central Asia

A recent World Bank report finds significant progress in reducing corruption in several countries in Europe and Central Asia: firms are paying bribes less frequently and in smaller amounts, and they report corruption to be less of a problem than in the past. However, progress is not uniform. The most visible progress has come in areas where reforms, sparked by strong leadership and prospects for European Union accession, have been focused. Many transition countries have adopted simplified low- or flat-rate income taxes with broad bases and few exemptions, and firms’ perceptions of the tax system have improved, tax evasion is falling, and bribes related to taxes are paid less frequently. Nearly all countries have revised customs legislation, most have invested in new information technology, and many customs administrations in the region are moving to risk-based assessment and more selective auditing—leading to a decline in corruption. The record in other areas is spottier. Judiciaries were neglected in the early years of transition; and bribery to obtain government contracts and corruption in the lawmaking process, or “state capture,” have not declined significantly.

Some Progress in Reducing Corruption in Europe and Central Asia, 2002-2005

- While the main responsibility for good governance and corruption control resides with the country’s leadership and the country’s own institutions, external actors—including donor agencies, financial institutions, and multinationals—also play a supportive role.

- Strengthening accountability requires capacity in government and institutions outside central government, such as parliament, civil society, the media, and local communities as well as an enabling environment in which these stakeholders can operate responsibly and effectively.

- A thriving, open, and competitive private sector can be a strong source of support for better governance. Helping governments improve the enabling environment for the development of competitive private and financial sectors and increased private investment can help level the playing field and stimulate better corporate citizenship.

Notes: Transition countries include 26 former socialist countries in Europe and Central Asia; comparator countries are Germany, Ireland, Portugal, Spain and Turkey. Source: Anticorruption in Transition III: Who is Succeeding …and Why?, World Bank, 2006.
• Even when opportunities for governance reform at the national level are limited, there may be entry points at the local level. In some settings, the entry point might be bottom-up participatory reform, such as community-driven development, especially when it also supports the development of local government capacity and accountability.

• While there has been progress in tackling administrative corruption, deep-seated political or systemic corruption—including the link between money and politics and the capture of state institutions by some powerful interests at the national and local levels—is harder to address. In these cases, traditional public sector management interventions need to be supplemented with transparency and related reforms as well as wider engagement with multinationals, the domestic private sector, the financial sector, and civil society.

• Donor-financed projects can have an important demonstration effect, as well as direct impact, when strong safeguards against corruption are applied in project design and execution, and when projects support governance reforms and systemic change. At the same time, the recognition of governance and anticorruption challenges across development partners has been uneven and uncoordinated, sending mixed signals to partner countries and to firms participating in bids and project implementation.

• Following the money illicitly obtained from corrupt activities in developing countries often leads back to banks, property, and investments in industrialized countries.

• Lessons from World Bank and donor programs point to relative successes in supporting country reforms in some governance areas, such as gains in public financial management, contrasting with a mixed record in other areas, such as supporting civil service reform or anticorruption commissions.

• Within the WBG there has been much innovation over the past decade in incorporating governance and anticorruption concerns into country programs, sectors, and member institutions. But these innovations have not yet been mainstreamed systematically into the Bank’s operational program. Generally, Bank work does not yet have the required staffing, skills, and incentives to effect results-oriented changes at the front lines of WBG operations, especially in country offices.

The strategy that follows from these lessons is organized around three levels of activity—the country level, the project level, and the global level. In each of these three levels, the role of institutions outside the executive branch of government—including the private sector and civil society—is integrated into treatment of that level.

II. A Strategy for Engaging Countries

17. This strategy aims to improve the effectiveness with which the Bank helps to reduce poverty, by providing a framework for engaging countries on governance. The principle thrust is to scale up WBG support to countries to help them build transparent and accountable institutions capable of delivering public services, protecting public welfare, and ensuring a sound investment
climate—so that poor people have greater opportunities to move out of poverty. While the government remains the WBG’s key counterpart, the strategy envisages Bank-financed operations to engage a broad range of domestic institutions and actors—both inside and outside of government—who are working toward governance reform.

A. Country Assistance Strategies

18. A country’s national development strategy is the natural starting point for helping countries improve governance and the CAS is the Bank’s business plan for supporting the authorities in delivering their goals. The Bank’s best practice suggests that the most successful CASs are aligned behind national strategies and priorities, and are informed by extensive discussions with partner countries, donors, and civil society. CASs are a central tool with which Management and the Board review and guide the WBG’s country program and judge the impact of its work. Coverage of governance and corruption issues in CASs and the associated Bank program have often not been commensurate with their importance for development in the country. A key priority is to institute a systematic and disciplined approach that fine-tunes the strategy to the challenges that governance and corruption may pose for poverty reduction and to the fiduciary risks to the WBG. The treatment of governance issues will be assessed during the corporate review process for strategies, ensuring that countries with especially severe governance and corruption problems receive higher-level Management review.

1. Addressing Governance and Corruption

19. The CAS is the business plan that guides WBG activities in a member country. It starts from the country’s vision of its development goals, and sets out the Bank’s diagnosis of the country’s development situation and a selective program of WBG support tailored to the country’s needs, against the background of the Bank’s ongoing portfolio and comparative advantage vis-à-vis other external partners. The objective of the CAS is to identify the key areas in which WBG support can best assist the country to achieve sustainable development and poverty reduction. Going forward, where appropriate, Bank teams preparing CASs will be required to give explicit consideration, underpinned by improved diagnostic work, to governance shortcomings and corruption in the country, the potential risks that they may pose for development and Bank-funded operations, the adequacy of the government’s program for addressing these problems, and the ways in which private sector engagement and domestic accountability mechanisms can be used to support and strengthen the program’s implementation and governance outcomes. Within the overarching objective of poverty reduction, Bank teams will use these findings in developing the CAS and its program of Bank activities in the country. These assistance strategies are by their nature programs of engagement—outlining how the full range of Bank instruments can be used most effectively to ensure development results.

20. Engaging In Different Country Circumstances. An especially strong message coming out of the global consultations is for the Bank to remain engaged, even in poorly governed countries, so that “the poor do not suffer twice” (see Box 4, below). The Bank intends to do more than simply stay engaged. Using a process set out below, the Bank will adjust its engagement to ensure that governments receive the full support they need to improve governance in ways that improve development outcomes. Where government leadership is undertaking major governance and anticorruption reforms—possibly against a history of poor governance and widespread corruption—the Bank will match such resolve by rapidly scaling up technical
and financial assistance to support these reforms. Where weak governance and corruption pose obstacles for development and government commitment is more uneven, the Bank will strive to find appropriate entry points—scaling up its support for the government’s own programs to improve governance and combat corruption; ensuring that governance issues are adequately addressed in the sectors in which the Bank engages; and seeking to expand government interest in reform through country dialogue, analytic work, and technical assistance. CASs for these countries will feature governance as a central theme tailored to country context and make use of diagnostic and monitoring tools, anticorruption teams, governance advisors (especially field-based), and anticorruption action plans in projects, as appropriate.

**Box 4: A Global Call to Stay Engaged**

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21. **Staying Engaged, Even in the Most Poorly Governed Settings.** The WBG will seek to stay engaged, even in the most poorly governed countries. In these exceptional circumstances, where the central government cannot adequately administer the proceeds of Bank-financed operations, the WBG will seek creative ways of engaging to provide services directly to the poor using instruments such as community-driven development and third-party delivery systems which do not rely on central government administration for disbursing resources. The Bank also will seek to use policy dialogue, analytic work, and technical assistance to try to build support
for a stronger engagement on governance. In the rare instances where the Bank and the
government cannot agree on an effective program of governance reform, the Bank will prepare
an interim strategy note outlining the limited areas of engagement which are viewed as having
the potential for positive development impact as well as presenting triggers for moving to a
regular CAS when progress is made.\(^9\) These triggers will consist of monitorable actions to be
taken by the government. In such circumstances, IFC and MIGA may still play key roles as
partners in pursuing a socially responsible investment policy (as elsewhere), as strategic
engagement with the private sector remains a potentially important means for change in high-risk
settings.

22. **A Systematic Approach for Tailoring CASs.** Where governance and corruption
challenges pose important obstacles for development, the CAS will typically focus on these
obstacles, with special emphasis on the most critical sectors or institutions. As Box 5 below
illustrates, there is a variety of ways to incorporate governance in CASs, with no “one-size-fits-
all” approach. The extent to which this will lead to an emphasis on helping countries strengthen
core, sector, or local governance will depend on country circumstances. The CAS will also
address the adequacy of the government’s program for addressing these issues, the role of the
private sector and domestic accountability mechanisms in supporting better governance, the risk
of governance and corruption challenges on Bank-financed operations, and cooperation and
division of responsibilities among donors. The evolving, complex, and diverse nature of country
circumstances makes it impossible and undesirable to rigidly classify countries in any way; no
lists or rankings of countries is being considered. Instead, as will be set out in new CAS
guidelines, where governance is a central issue for poverty reduction, formulating and
implementing the CAS will be supported by appropriate governance diagnosis (see Box 6,
below) and feature governance as a central theme, in support of a country’s own priorities.

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\(^9\) The circumstances under which ISNs are to be used are described in the “Note on Interim Strategy Notes
and Recent Trends,” circulated to the Board on February 1, 2007.
Box 5: Three Country Assistance Strategies with a Strong Governance Focus

Indonesia (FY03) is an early example of a CAS that featured governance as the key to reducing poverty; this focus was a necessary and innovative response to the damage done to the WBG’s reputation in the 1990s by its high levels of financial support to a government that was perceived to be highly corrupt. Two other examples of CASs that also focus on governance—but in a different way than Indonesia—are Bangladesh (FY06) and Albania (FY06). While all three CASs address governance as a central challenge for poverty reduction, their distinctive approaches underscore that “no one size fits all” when it comes to governance reform.

These CASs propose work on governance across four areas of intervention:

- Sector governance, with a focus on strengthening accountability for the use of public resources, by strengthening sector-level transparency and by making providers more accountable to clients. A sectoral focus is especially strong in the Bangladesh CAS, which highlights governance constraints in power and ports as obstacles to poverty reduction.

- Local governance—with the aim of fostering local citizens’ and groups’ participation in development decisionmaking, monitoring, and implementation. The Indonesia CAS places a strong emphasis on the interface between local governments and communities as key to improved accountability, and better provision of poverty-reducing services.

- Governance and private sector development, where policy reforms can reduce opportunities for rent-seeking and strengthen the role of private actors committed to competitive markets and an efficient public sector. The Albania CAS highlights the use of business environment surveys as a way of monitoring progress in implementation.

- Core governance—public management (where all three CASs emphasize public financial management and procurement) and domestic accountability institutions. The Bangladesh CAS suggests interventions ranging from justice reform to improved freedom of information, and the Indonesia CAS supports a national-level Partnership for Governance Reform that involves civil society, donors, and government.

To mitigate fiduciary and reputational risks, the CASs propose a dual strategy: strengthening the ability of national actors to hold the public sector to account through enhanced transparency and participation and through improved core governance systems; and deepening the Bank’s own fiduciary risk management, including up-front scrutiny of the corruption-proofing features of individual operations, anticorruption action plans in high-risk projects, anticorruption teams, preemptive audits, stronger supervision, vigorous investigation of and follow-up to allegations of corruption in Bank-financed projects, and public disclosure of the results. In addition, the Bangladesh and Indonesia country teams have field-based governance advisers.

Although the Indonesia CAS is well advanced in implementation, the challenge for the other two now lies in translating their governance-intensive CASs into action. Designing operations that address governance in key sectors, as well as using innovative methods to mitigate risk during supervision, requires appropriate staff capacity. Monitoring progress across the ambitious variety of cross-cutting governance initiatives laid out in these CASs is key to their credibility. While each CAS proposes some indicators, the operationalization of governance monitoring needs further work.

See Indonesia Country Assistance Strategy (Report No. 27108-IND), Bangladesh Country Assistance Strategy (Report No. 21326-BD), and Albania Country Assistance Strategy (Report No. 34329-AL) for more details.
Box 6: Using Diagnostics to Help Design the CAS

To design the CAS, Bank teams can draw on economic and sector work. For example, at the country level, Development Policy Reviews and Investment Climate Assessments can help identify some of the more binding constraints to development. Institutional and Governance Reviews can help uncover some of the political and institutional drivers of these obstacles, while Governance and Anticorruption Diagnostic Surveys, Doing Business, and Anticorruption in Transition can help to document and benchmark specific forms of weak governance and corruption. Disaggregated and actionable indicators can be useful in identifying specific constraints and in tracking reforms implemented by government. Public financial management (PFM) analytic work such as a PFM Performance Report using the Public Expenditure Financial Accountability (PEFA) program framework (and where appropriate, the institutional aspects of Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), Country Procurement Assessment Reports (CPARs), and the IMF’s Reports on Standards and Codes (ROSCs)) can help assess and identify strengths and weaknesses of the country’s public financial management system. The Department of Institutional Integrity’s (INT) investigative findings and Detailed Implementation Reviews can help identify specific country or sectoral fiduciary risks. Sector-specific diagnostics are currently under development.

Other sources of information may be available at the country level, produced by local or other international organizations, such as the UK’s Department for International Development (DFID) Drivers of Change Report, Transparency International’s National Integrity System Country Studies, or the World Resources Institute Electricity Governance Toolkit. To address gaps and to provide a more structured diagnosis for the CAS, some country teams may choose to prepare an integrated report (a Country Governance and Corruption Assessment). All these instruments can be used to help gauge the importance of weak governance and corruption in a country and identify potential entry points and options for reform. Many of these reports can be prepared in collaboration with other development partners and made public. The Organisation of Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) Governance Network is planning to undertake joint assessments on governance and corruption in selected countries, beginning with Cameroon.

2. Designing and Implementing Bank Strategies

23. All Bank strategies link levels of financial assistance and modes of engagement to progress on key obstacles to development effectiveness, which frequently include weak governance and corruption. For IDA-eligible countries, good governance is rewarded through the performance-based allocation system (PBA), which is based on (a) the Bank’s Country Policy and Institutional Assessment (CPIA), where heavy weight is given to governance, and (b) portfolio performance. Based on the financial envelope set by the PBA for IDA-eligible countries or derived from the Bank’s creditworthiness analysis for IBRD-eligible borrowers, the Bank develops its country-specific lending program. The Bank will continue to rely on the PBA system for allocating scarce IDA resources across lower income countries.

24. Role of the Board in Country Strategies. Given the central importance of country strategy documents to strengthening work on governance and anticorruption, the Board’s active role in the development of the Bank’s assistance and partnership strategies for its member countries places it in the center of implementation of this approach. Board review of CASs, ISNs, and CAS Progress Reports ensures that the WBG’s strategies are consistent across countries and broadly supported within the international community. If changes in country circumstances warrant a shift in the WBG’s approach, an appropriate document will be presented to the Board for discussion. In addition, for all CASs that present alternative lending scenarios, the CAS and the midterm CAS Progress Report will continue to state clearly which scenario is assumed to govern the CAS period as well as what conditions would trigger alternative scenarios. New country developments will be discussed at Steering Committee meetings, and Management views on appropriate financing levels and/or restricting financing will be presented to the Board in a timely manner in order to fully engage the Executive Directors. In the exceptional cases when changes in country circumstances warrant a significant change or a
suspension of Bank’s operations, Management will seek the Board’s support. The Board will also continue to be involved in reviewing individual projects, including any that are delayed because of corruption concerns. In addition, the Board has provided guidance and feedback on refinement of this strategy and, as called for by the Development Committee, will provide oversight as it is implemented.

25. **Use of Development Policy Operations.** Bank strategies propose whether development policy operations (DPOs) will be part of the financing program for countries, and this choice will be affected by the country’s governance situation. All DPOs are underpinned by an up-front assessment of the country’s overall fiduciary environment and of the country’s reform measures to improve public financial management, which over time mitigate fiduciary risks for all budget resources, and their design will be consistent with the Bank’s good practice principles for the application of conditionality. Fiduciary improvement measures are typically included in the operation, and in exceptional cases, the Bank’s policy allows for additional fiduciary arrangements—for example, the use of dedicated accounts for foreign or local currency equivalents of loan proceeds. Although DPOs are predominantly used in stronger governance settings, experience shows that they offer a unique opportunity to support countries emerging from conflict or crisis, including for reestablishing core public governance functions, as in Afghanistan or Timor-Leste, as long as government commitment and ownership are strong.

26. **Joint Nature of the WBG Strategy.** A key challenge for the WBG is to find ways for its constituent parts to work more effectively together at the country level. Staff need to make every effort to mobilize the full range of WBG instruments (including those of IFC and MIGA, as appropriate) to engage as broadly as possible. Multinational corporations often see IFC and MIGA as partners in pursuing a socially responsible investment policy in difficult countries. Engagement with the private sector, even when the Bank is having difficulty structuring lending operations, is potentially an important avenue for change in high-risk settings. Moreover, harmonization with other international financial institutions, particularly the IMF.

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10 Operational Policy (OP) 8.60, para. 3, explains that the “decision to extend development policy lending is based on the assessment of the country’s policy and institutional framework … The Bank considers the strength of the program and the country’s commitment to and ownership of the program against its track record.” The proposed approach is consistent with the “Readiness Framework for DPOs,” prepared for and endorsed by IDA Deputies during the recent IDA14 MTR.

11 The framework for assessing appropriateness of development policy lending is OP 8.60, para. 3. For fragile states, detailed recommendations are made in Good Practice Note for Development Policy Lending: Development Policy Operations and Program Conditionality in Fragile States (SecM2005-0353), June 2005.

12 The strength of governance is measured by the CPIA’s public sector management cluster rating. During FY98-06, 11 percent of Bankwide policy-based lending commitments have been made to countries in the bottom 25 percent of the public sector management CPIA cluster rating, and 20 percent to the bottom half. More narrowly, policy-based lending has also been skewed away from more corrupt countries (as measured by the CPIA question on transparency, accountability, and corruption in the public sector [question 16, formerly question 20]). Bankwide the bottom 33 percent of the CPIA transparency, accountability, and corruption rating received about 20 percent of policy-based lending commitments during FY98-06. See Development Policy Lending Retrospective (SecM2006-0319), July 13, 2006.

13 The key document regarding Bank and IMF staff collaboration at the country level is the 2002 Bank/Fund Collaboration Guidelines that contain two main elements: (a) early engagement between the staff of the two institutions in program design and country assistance strategies, and (b) transparent and systematic reporting of
and with the donor community will be crucial to supporting country strategies, especially for exceptional-risk countries. Joint or collaborative CASs—(such as those recently developed for Bangladesh, Nigeria, and Uganda) could be one effective tool to coordinate across the donor community.

27. **Course Corrections.** During implementation, country teams will need to remain ready to adjust the Bank’s strategy to new information, including information from the Bank’s Department of Institutional Integrity (INT) about confirmed instances of corruption in Bank-financed projects. New information related to risks from governance weaknesses and corruption may imply distinctly higher overall risks to the country program. The appropriate response may be to switch scenarios within the existing CAS, propose a revision in the midterm CAS Progress Report, or move to an ISN. It may sometimes be necessary to curtail operations and agree on risk mitigation measures. Likewise, country teams should stand ready to adjust the Bank’s strategy (whether a CAS or an ISN) in the event of demonstrated improvements in governance and anticorruption; and the status of countries with limited engagement should be reviewed at least annually. Especially in more volatile country settings, the Bank will be prepared to engage in mid-course corrections responding to changed circumstances, adjusting its program in response to improvements or deterioration during implementation. If changes in country circumstances warrant a shift in the WBG’s approach, an appropriate document will be presented to the Board for discussion.

B. **Supporting Country Efforts to Strengthen Governance and Reduce Corruption**

28. As part of its support for poverty reduction, the WBG works with client countries to help strengthen governance and reduce corruption. Governance reform aims to build capable and accountable states in support of development and poverty reduction, through an appropriate combination of rules, restraints, and rewards; competitive pressures; transparency, voice, and partnership.

29. **Entry Points.** The scope, sequencing, and speed of governance reforms must be tailored to the country context. The trajectory of change will vary from one country to another, depending on both the initial political impetus and the longer-term historical processes that can shape and constrain institutional reform. Depending on the country context, the range of governance interventions might thus include:

- Helping build capable and accountable states—by working to strengthen both the public administration and non-executive state oversight institutions;
- Helping states to become more transparent;
- Engaging multiple stakeholders in support of better policymaking and service provision;
- Supporting more broadly participation and oversight by civil society, media, and communities—and (a repeated theme in the GAC consultations) helping improve the
enabling environment and capacity of these actors to play constructively their development role;

- Supporting the development of a competitive and responsible private sector; and
- Helping strengthen governance in the financial sector.

The WBG has been actively engaged in each of these areas for at least the past decade, and important lessons have been learned. The strategy envisages building on this track record, and within the WBG’s mandate and comparative advantage, more systematically scaling up support for a broad range of domestic institutions and actors—both inside and outside of government—who are working toward governance reform. How this is done must, of course, be differentiated across countries and strongly based on country demand, local knowledge, innovation on the ground, and extensive collaboration with local constituencies. The following paragraphs summarize a range of the Bank’s interventions. (Annex B details emerging good practice for each entry point).

30. **Capable and Accountable States.** The Bank is committed to helping states function effectively, so that the government can provide sound economic management and deliver public goods, courts can dispense justice, and the legislature can provide leadership and oversight. Capable and accountable states also constitute the strongest defense against corruption. To assist governments, the Bank will (a) continue deepening its work to improve public financial management related to both revenues and expenditures and strengthen civil service performance—learning from its successes and failures to better address the complexity of these challenging reforms; (b) significantly scale up work on improving governance and combating corruption in the sectors—for example, in infrastructure, health, extractive industries, and the financial sector; (c) increase attention to working with local governments, as decentralization in many countries has shifted governance and corruption challenges to the local level; and (d) place a special emphasis on capacity building in countries with strong commitment to governance improvement, but with severe shortfalls in skills and organizational capabilities. Outside the executive branch, the Bank will (a) scale up support for judicial reform; and (b) in partnership with other donors, more systematically help legislatures, supreme audit institutions, and other formal oversight institutions develop the capacity to oversee public expenditures.

31. **Transparency.** A key cross-cutting priority that has increasingly been emphasized in Bank work over the past decade (see Table 1, below) is to enhance development effectiveness by helping states become more transparent, including by facilitating greater participation and oversight by civic organizations and the media. Citizens and media that have broad access to information on the operation of state institutions are crucial for fostering accountability. Such access may include publication of budget and procurement data, access to state records and reports, and the state’s active dissemination of information on its operations and performance including through e-government. Citizens and media can also promote accountability and greater corporate responsibility in the private sector. In addition, greater transparency can help to enhance the credibility of decision-makers through the public disclosure of their income and assets and promote more ethical behavior by government, private sector, and civil society actors. Building on a growing track record of success in this area, the Bank will scale up its work with interested governments to strengthen transparency in public policymaking and service provision.
<table>
<thead>
<tr>
<th>Major Program Area</th>
<th>Illustrative Areas of Bank Intervention</th>
<th>Examples of Bank Interventions</th>
</tr>
</thead>
</table>
| Participatory prioritization of policies and public spending | - Participatory poverty reduction strategies (PRSP) as basis for Bank programs in IDA countries  
- Notice and comment on draft policy legislation                                                      | Investment Operations  
Rural Poverty Reduction Project – Rio Grande do Norte (Brazil); Third Social Action Fund (Malawi); Northern Mountains Poverty Reduction Project (Vietnam)  
Development Policy Lending  
Armenia SAC IV; Laos PRSC1; Timor-Leste Consolidation Support Program Policy Grant, Vietnam PRSC (I to IV) |
| Strengthening transparency and oversight over the use of budgetary resources | - E-procurement  
- Improving quality and transparency of national budget systems                                                                | Investment Operations  
Public Procurement Reform Project (Bangladesh); Public Financial Management and Accountability Project (Cambodia); Government Financial Management and Revenue Administration Project (Indonesia); Governance and Institutional Development Project (Madagascar); Financial Reporting and Auditing I and II (Pakistan); Fiscal Federalism and Regional Fiscal Reform Project (Russia)  
Development Policy Lending  
Haiti Economic Governance Reform Operation I and II; Honduras PRSC; Uganda PRSC (I to V); Tanzania PRSC (I to III); Turkey Programmatic Public Sector Development Policy Loan 1 (SAI) |
| User participation and oversight in service provision  | - Reforms to empower users (parental participation in schools, water users associations, community conservation groups)  
- Strengthening capacity of user groups  
- Service delivery scorecards                                                      | Investment Operations  
Andhra Pradesh District Poverty Initiatives Project (India); Initiative for Human Development Support Project (Morocco); Social Risk Mitigation Project (Turkey); Poor Rural Communities Development Project (China); Sustainable Forestry Pilot Project (Russia); Development Policy Lending  
Brazil PHDSRL I; Georgia PRSC; Peru PSRL III  
Ethiopia, Protection of Basic Services |
| Strengthening participatory local governance               | - Intergovernmental reforms to realign assignment of resources and responsibilities;  
- Resources for  
- Local government capacity, including in participatory processes  
- Facilitation of community-based decision-making on local public infrastructure | Investment Operations  
Community Works 2 Project (Albania); Local Governance Support Project (Bangladesh); Capacity Building for Decentralized Service Delivery (Ethiopia); Kecamatan |
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<th>Examples of Bank Interventions</th>
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<tr>
<td>Enabling Environment</td>
<td>Engagement with Non-Central Government Actors</td>
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<tr>
<td>community based infrastructure</td>
<td>priorities</td>
<td>Development Project (Indonesia); Municipal Development in Rural Areas (Mexico); Support to the Social Development Agency (Morocco); Institutional Reform and Capacity Building Project (Sierra Leone); Local Government Support Project (Tanzania); Second Local Development Project (Uganda) Development Policy Lending Sierra Leone ERRC III</td>
</tr>
<tr>
<td>Strengthening other formal oversight institutions</td>
<td>- Administrative appeals - Participatory regulatory impact assessment - Publishing income &amp; asset declarations</td>
<td>- Judicial &amp; public defenders capacity - Ombudsmen - Parliamentary capacity development Investment Operations Judicial Reform Project (Guatemala); Institutional Reform and Capacity Building Project (Kenya); Legal &amp; Judicial Implementation &amp; Institutional Support Project (Macedonia); Judicial Reform Support Project (Philippines), Accountability, Transparency, and Integrity Project (Tanzania), Other WBI Parliamentary Strengthening Program</td>
</tr>
<tr>
<td>Other actions</td>
<td>- Right to information (RTI) - Enabling legal and regulatory framework for civil society and media</td>
<td>- Media capacity development - Other civil society capacity development Development Policy Lending Bangladesh DSC III Other WBI Media Program; Community Radio Initiatives; Water and Sanitation Program Strategic Communication and Dissemination for South Asia; Partnership for Transparency Fund</td>
</tr>
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</table>

32. **Supporting Poverty Reduction Via Multi-stakeholder Engagement.** Gains in transparency, participation, and accountability support the objective of poverty reduction. Engaged local communities, a vibrant civil society, and a transparent flow of information (including well-functioning, capable and open media) support poverty reduction by helping to hold governments accountable for delivering better services, creating jobs, and improving living standards. Gains in accountability foster pressure for performance and therefore multistakeholder engagement enhances state capability. As stated in the Development Committee Communiqué, “Governments are the key partners of the Bank in governance and anticorruption programs, while, within its mandate, the Bank should be open to involvement with a broad range of domestic institutions taking into account the specificities of each country.” While government transparency can help to facilitate participation and oversight, more proactive engagement of society is also vital. Countries can achieve this by:

- Creating concrete opportunities for participation and oversight, for example, through participatory development of policies and public spending priorities (the
poverty reduction strategy process has provided a major impetus in this area in IDA-eligible countries, social accountability in the delivery of services, community-driven development, civil society and media oversight over public procurement, monitoring of income and asset declarations, and other arrangements that empower legitimate social groups;

- Supporting the development of an enabling environment and of capacity so that civil society organizations can effectively take advantage of these opportunities; and

- Enabling the development of independent and competitive media that can investigate, monitor and provide feedback on government performance, including corruption.

How the WBG will engage in these areas will depend on the division of labor among donors based on their respective mandates and comparative advantage and on country context.

33. As Table 1 summarizes, the Bank has recognized this reality over the past decade—and has made engagement with stakeholders increasingly integral to operational design and implementation. (Annex G provides country-specific examples of recent Bank-financed operations in each of the areas identified in Table 1). Over the past decade the Bank has engaged increasingly with civil society groups, and Bank capacity and sophistication in this work have expanded dramatically. Civil society groups vary in their mandates, transparency, and commitment to integrity. Experience has underlined the importance of working with groups that are competent and accountable, and consistent with the Bank’s legal mandate. The GAC consultations have confirmed broad-based support for broad multi-stakeholder engagement (see Box 7, below).

34. **The WBG’s Legal Framework for Multistakeholder Engagement.** In keeping with existing practice, as part of the overall framework of cooperation with its members, in undertaking multi-stakeholder engagement, the WBG will, in consultation with government, make sure to work within the country’s constitutional and legislative framework, seek the approval of government where it is required by its operational policies and procedures, and avoid engagements that are not consistent with the Articles framework. Working with the government as its principal counterpart in accordance with these parameters, the WBG will scale up existing good practice in working with a broad range of stakeholders in close collaboration with other development partners, respecting a division of labor among donors based on expertise and mandate.
Box 7: The GAC Consultations Showed Broad-based Support for the Bank Engaging More Systematically with a Broad Range of Stakeholders

Strong support for a multistakeholder approach to the Bank’s development work—in ways that increase public participation in policymaking and civil society oversight over government performance—was evident in both Part I and Part II countries. Unsurprisingly, support for this approach from civil society organizations was overwhelming. Perhaps more surprising was the quite widespread support from government consultees in Part II countries, with about half explicitly voicing positive views (and with explicit disagreement from government only in one country). Among the supportive comments from participants working for state institutions were:

**Egypt:** “The government strongly supports the engagement of civil society in governance reform, for such reforms will not succeed if left to the government alone. However, it must be recognized that progress needs to be maintained in ensuring that civil society organizations improve their own quality of governance.”

**Vietnam:** “Firstly, a priority should be to focus on enhancing transparency in Bank-funded projects; secondly, the Bank should continue to expand its support to civil society organizations, private sector, and the media to strengthen the demand side for good governance and anticorruption; thirdly, the official supervision institutions, such as parliament, people’s councils, should be provided with more resources to implement effectively its supervision mandate.”

**Tanzania Parliament:** “Consultation is the best approach rather than sanctions. Bring pressure to bear on governments to adopt democratic and accountable institutions. In countries with weak government, the Bank should not engage in supporting government projects. Bank should engage with CSOs (civil society organizations), even though the government is corrupt. The government should engage by supporting CBOs (community-based organizations), especially faith based organizations, which have been very useful in service delivery. The Bank should avoid legitimizing corrupt governments.”

**Canada:** “The Bank should engage beyond the macro level. Need more engagement at the micro level to help build capacity among civil society, parliament, media, judiciary and ensure that supply-side interventions are not superficial.”


35. **Competitive and Responsible Private Sector.** Better governance can underpin competitive and productivity-enhancing private sector led growth—and a thriving, open, and competitive private sector can be a strong source of support for better governance. In practice, the role of the private sector in the struggle against corruption has been mixed. Some private businesses, including some from developed countries, fuel the supply-side of corruption by engaging in corrupt practices. But the GAC consultations pointed to strong momentum from within the private sector in both developing countries (see Box 8, below) and globally (Box 11 in Section IV) to lend support to efforts to combat corruption and improve governance. Supporting the growth of a competitive private sector—and facilitating the efforts of private firms to engage more actively in efforts to combat corruption—requires multifaceted engagement by the WBG at the country level: (a) IBRD, IDA, IFC, and MIGA helping governments to improve the enabling environment for the development of competitive private and financial sectors and increased private investment and to stimulate better corporate citizenship; (b) IFC and MIGA working directly with the private sector to strengthen ethical corporate practices, including a strong focus on corporate governance and support for private sector initiatives to promote the adoption of ‘zero tolerance for corruption’ codes of conduct underpinned by effective, verifiable internal programs of implementation and compliance, by encouraging businesses to join public-private coalitions for reform, such as the Extractive Industries Transparency Initiative and Publish What You Pay, and more broadly advocating that integrity is “good for business;” and (c) the WBG using public sanctions to raise the cost to businesses of continuing to engage in corruption. The WBG will continue to monitor the investment climate through its Doing Business reports, and
Investment Climate Assessments and also, in collaboration with outside partners, continue to carry out enterprise surveys providing publicly available indicators that monitor corporate practices by domestic and multinational firms at the country level, including measures of bribery and undue influence by firms.

**Box 8: “Integrity is Good for Business”—Voices from the Private Sector**

In a number of Part I and II countries, private sector participants in the GAC consultations signaled their strong commitment to support GAC reforms actively. In part, this support is because GAC reform helps improve the business environment. But in some countries support for GAC reflected also a desire to signal to society more broadly the commitment of the private sector to the vision of an ethical society. Thus:

- **Cambodia’s private sector**: “The private sector is very willing to work with the WBG on the agenda for improving governance and fighting corruption, to devote their time to provide inputs into improving and implementing this strategy. After all, they are the victims of bad governance and high corruption.”
- **French private sector**: "The private sector should be a major player in the fight against corruption ... It would be good for the Bank to work more closely with the private sector, especially through a sectoral approach."
- **Mongolia’s private sector**: “There is a need for the Bank’s input and assistance to separate business from politics and encourage business participation in good governance and anticorruption.”
- **Morocco’s private sector**: “The heavy concentration of economic power and extensive network of private sector interests within [politics] is running the risk that legitimate entrepreneurial activity will be ‘crowded out’ by those with political connections.”
- **Uganda’s private sector**: “I would like to suggest that we strengthen professionalism in this country through appropriate institutions...of corporate governance. This is because if you are a professional you would not like anything that will ruin your name permanently.”


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36. **Governance in the Financial Sector.** Developing sound and transparent financial systems that allocate resources well and are a source of discipline on public and private agents is a powerful way to promote good governance and reduce corruption. The WBG will pay increasing attention to the challenges of governance in the financial sector, among other things focusing on continuing support for financial sector reforms; financial systems that reach out to the underserved (and not only to a few insiders); development of transparent financial markets, tools for assessing and improving Bank governance and transparency practices, including financial reporting and disclosure; and the transparent sale of state banks and bankrupt private banks. The WBG will also continue to strengthen its efforts on anti-money laundering and take initiatives to build capacity to facilitate asset restitution.

37. **Supporting Reform.** The GAC consultations underscored the important role of reformers, with numerous respondents explicitly suggesting that, in weaker governance settings, the Bank should focus its development operations more on sectors and agencies where stakeholders inside and outside government are committed to achieving results. Working within its mandate, WBG support for reform will be based on sound professional judgment about development impact. Experience indicates that for a reform program to be successful, not only should it be realistic and appropriately sequenced, it should also be led by committed and informed reformers in the country who have the authority to advance the reform agenda and the local knowledge to find a way through the inevitable obstacles. Often these reformers are in government; this is why “country ownership” is key to the reform process.
III. ADDRESSING CORRUPTION IN BANK GROUP OPERATIONS

38. Reducing corruption in Bank-supervised projects is essential not only to the Bank’s mission to reduce poverty, but also to its credibility in advising and supporting countries’ governance and anticorruption efforts. The Bank’s fiduciary obligations and its concern for aid effectiveness require a strong anticorruption focus. Bank shareholders, partners, and other stakeholders expect the Bank to do all it can to ensure that its resources, including Bank-administered trust fund grants from other donors, are used for the purposes intended, and thus they expect the highest standards of integrity and accountability. As the accumulating findings from INT’s investigations of corruption in projects have made clear, despite substantially strengthened fiduciary arrangements, the Bank needs to do more to ensure the proper use of its funds.

39. **Stand-alone Projects versus Country Systems.** The WBG can rely on self-standing “ring-fenced” projects as a straightforward way of addressing fiduciary risks, but the developmental advantages of using country systems—where circumstances are appropriate—are large and sustainable. The use of country systems can reduce costs for the government and the Bank, enhance capacity, increase country ownership and project sustainability, and facilitate harmonization. In some cases, ring-fenced systems that operate outside of the country’s regular rules can weaken the overall project control environment and encourage patronage and corruption. More broadly, while ring-fencing isolates aid projects from other government programs and potentially provide useful demonstration effects, a country systems approach aims to strengthen the country’s own governance system, magnifying the impact of aid (see Annex C). The Bank is increasingly emphasizing capacity development of country systems, which can have a major multiplier effect by leading to broad improvements in the quality of those systems. In recent years, the Bank has begun using country systems in specific fiduciary areas—financial management and national competitive bidding for procurement—where it has appraised those systems and found them to meet mutually agreed and verifiable standards.

A. Anticorruption Measures at the Project Level

40. **Project Selectivity and Design.** Prevention of corruption, which remains the best protection against fiduciary risk, requires the integration of anticorruption approaches into the early stages of project design. At the identification stage, staff assess the project’s susceptibility to corruption by considering country and sector environments as well as the nature of project activities. Where project risk is high, selective engagement with sectors and institutions can help to mitigate overall fiduciary risk. Instruments such as community-driven development or third-party delivery systems, which do not rely on central government administration for disbursing resources, and operations with multi-donor oversight can increase the prospects for effective use of aid. Analytical work to assess options and impacts ex ante can be used more systematically in this regard.

41. **Disclosure, Participation, and Monitoring.** One of the strongest messages from the consultations across stakeholders is the importance of disclosure, participation, and monitoring to preventing corruption (see Box 9, below). Projects must be appropriately designed with a focus on upstream consultation and participation, based on existing good practices; enhanced oversight mechanisms; timely disclosure of project information and handling of complaints, and strengthened supervision. Projects should seek to increase the accountability of implementing
agencies and service providers through instruments that empower beneficiaries, such as access to information legislation, beneficiary surveys, and citizen scorecards. To allow for subsequent supervision, recordkeeping and documentation by project entities must be improved. In addition, supervision must be cognizant of “red flags” identified by INT work, indicating possible corrupt behavior at various stages of project implementation. (See Annex C for further details).

<table>
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<tr>
<th>Box 9: Preventing Corruption with Domestic Accountability</th>
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<tr>
<td>A key message that emerged from the global consultations was the importance of country-level accountability processes to mitigating fiduciary risk in Bank-financed operations. First, stakeholders called for strengthening, not bypassing, country systems, given that efficient use of all of a country’s resources—not just ODA—is critical for development. Hence, strengthening country systems is viewed as the long run solution to mitigating risk. Second, greater disclosure and third party monitoring are seen as important instruments for mitigating project risk—a view shared by both government and other stakeholders. Voices from Part II countries included the following:</td>
</tr>
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**On the importance of strengthening country systems:**

**Albania Government:** “In relations with the World Bank and intergovernmental relations, we need to aim at establishing systems and mechanisms that would be self-functioning systems by applying administrative procedures … Technical assistance needs to focus on establishing sustainable capacities.”

**Cambodia Government:** “Based on the principles of the Paris Declaration, the Bank should make extra efforts to build capacity within the government. Weaknesses in implementation are because of lack of capacity within the public sector. Capacity building is a sustainable solution and the only way to invest for the longer term.”

**On the importance of greater disclosure, participation and third-party monitoring of Bank-financed operations:**

**Dominican Republic Legislature:** “It is important to take the three branches of government into account and not only the executive. Have more dialogue with Congress and involve them in early stages of project design. When considering priorities for new CASs and different lending scenarios have a mechanism to involve Congress in the discussion. Build technical capacity within Congress to scrutinize the budget and participate in budget formulation.”

**Moldova Civil Society:** “Include the actual beneficiaries in the monitoring of the committees and in the anti-corruption activities—beneficiaries that are both real and artificial, that is people that go and test if there is corruption by offering money.”

**Mongolia Civil Society:** “Allow substantial involvement of civil society institutions in the monitoring of Bank development programs and projects from preparation through supervision and involve its representatives in project steering committees in order to control project implementation and enhance their effectiveness.”

**Thailand Academia:** “Transparency and disclosure is an important aspect of fighting corruption. When non-government actors are empowered with information, they would be able to play their oversight role effectively. The Bank should make a point of disclosing all information in its operations; while at the same time also encourage the government to legislate laws that will enable more public access to information.”

**Uganda Civil Society:** “I think we could involve the people. I am looking at the people involved in projects that affect their communities. You are constructing a school in Kisoro, involve the people so that they own the project. It would be very difficult for a local person to steal the cement. If you involve the people, accountability becomes more serious, but if you don’t involve them everybody will participate in the loot because it is their opportunity to steal.”

**USA Civil Society:** "I think our conclusion is that any strategy for improving governance and anticorruption requires monitoring and an increasing capacity to monitor. The World Bank can get civil society in these countries to do the monitoring, that’s a critical element. We have found with our operations, that the NGOs are enormously creative in coming up with good ideas on how to monitor activities."

**Vietnam Government:** “We welcome the approach to work with private sector and civil society. We have seen how government agencies have not detected cases of corruption in the beginning, but how private citizens noticed these practices much sooner. This was then reported to the mass media, and only then did it get the governments attention. When mass media comes into play, we see that the issue can be resolved, so the World Bank should have stronger coordination with the mass media and civil society.”

*Source: Summaries of the consultations are located at: http://www.worldbank.org/html/extdr/comments/governancefeedback/.*

42. **Communications Strategy.** Because of the importance of an effective dialogue on issues of fraud and corruption (among other matters), it is important to develop an effective
communications strategy that covers all phases of the project. The communications plan must provide for consistent messages to be conveyed to all relevant stakeholders: government officials in the implementing agency; contractors, suppliers, and consultants who may be involved in bidding on the project; members of civil society affected by the project; and (as appropriate) the local press. The role of the media may be especially important if the plan includes the use of publicity—both positive and negative stories—as a tool for reducing the level of fraud and corruption in Bank-financed projects. The objective would be to highlight both noteworthy achievements in quality, cost-effectiveness, and sustainability, as well as any incidents of alleged collusion, fraud, or corruption. Further, feedback from each of the groups noted above will enhance the positive impact of these communications.

B. Risk Mitigation and Special Tools

43. Responsibility for risky projects lies squarely with the Regional vice presidents, and so they are best suited to addressing and mitigating risk. Given that the risks of corruption are not the same for all Bank-funded projects, a risk management approach featuring upstream mitigation will focus resources where they are most needed. Projects will be rated early in preparation to identify the subset that are most at risk and provide an efficient way to mitigate corruption and other risks. Review processes will be strengthened, with the review of riskier projects elevated appropriately to more senior levels. It will be particularly important that staff receive clear guidance on due diligence and risk tolerance, both for the Bank’s own resources and for Bank-administered trust funds.

44. **Portfolio Reviews.** The Bank will conduct regular risk reviews of the project pipeline and lending portfolio to identify where attention should be focused, especially during supervision. Projects deemed to be of highest risk will receive enhanced managerial oversight. Clusters of projects that share common features and risks—for example, projects incorporating block grants, cash transfers, compensation payments, or subnational components—will also receive further in-depth review. Finally, projects deemed risky need to receive a consistently higher supervision budget.

45. **INT Investigations.** Prompt investigation by INT into projects in which there are allegations of wrongdoing, together with clear accountability of project teams, form the centerpiece of the Bank’s deterrence effort. The speedy and transparent resolution of these investigations is fundamental in reassuring shareholders and others that the Bank’s fiduciary obligations are being met and development effectiveness preserved. These investigations, Detailed Implementation Reviews, and findings from the Voluntary Disclosure Program provide lessons for operational staff on where projects are failing and how to address those failures. In order to ensure that the effectiveness of INT work is maximized, Management has agreed to an independent review of INT work to be completed in 2007.

46. **Supporting Actions by Governments.** INT investigations often reveal information that can be important to governments and other development partners, both to the operation of specific projects and to the prosecution of allegedly corrupt individuals. Given the sensitive nature of the evidence, it is important to clarify as much as possible how such information will be managed. The WBG will work to enhance collaboration between the Bank’s investigative team and the country’s own anticorruption institutions and other development partners (where projects are co-financed with the Bank).
47. **Special Tools for High-Risk Environments.** For countries, sectors, or projects facing especially high risks from corruption and weak governance, some special tools already in use by some country teams may prove useful. It is expected that they will be widely recommended in governance-oriented CASs.\(^{14}\)

- **Anticorruption action plans.** For high-risk projects, staff will be expected to prepare anticorruption action plans that synthesize the main corruption prevention aspects built into project design. In addition to normal fiduciary controls, these detailed project-specific plans typically cover such areas as transparency of information and processes, participation of project beneficiaries or civil society organizations, receiving and resolving complaints, investigating allegations of wrongdoing, and sanctioning those found guilty. The plans will be jointly developed with the government (and other partners where the project is co-financed), included in project documentation, and publicly disclosed. Supervision of these projects will be expected to focus, among other things, on implementation of the action plan. In some cases, these action plans may be at the agency, subsector, or sector level, depending on where they can be the most effective.

- **Anticorruption teams.** To oversee the design of projects in risky settings and, in particular, those with anticorruption action plans, and to help manage the portfolio, an anticorruption team may be established at the country level. Especially in high-risk countries, such teams will typically include governance advisers, operations managers, key sector coordinators or project team leaders, and fiduciary staff (procurement, financial management, and legal specialists). Anticorruption teams can review a project’s design, risk rating, and anticorruption action plan. They can also serve as a focal point for dialogue on anticorruption issues, both in individual projects and in the country program more broadly, with key local counterparts. A team might also liaise directly with INT during corruption investigations.\(^{15}\)

- **Governance advisers.** These specialists, particularly when based in the field, can be used to provide integrated advice on governance in support of the broader country program, leading discussions with the government, local stakeholders, and the donor community; and also to serve as focal points for the country team on governance issues, allowing greater knowledge-sharing across task teams and early warning on high-risk projects.

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\(^{14}\) Experience in fragile states is relevant. Tools that have been useful in countries facing war-to-peace transitions (for example, Afghanistan, Timor-Leste, Sudan, and Liberia) or newly reengaging with the international community (for example, Haiti and the Central African Republic) may well serve in other challenging environments. These tools include early diagnostics and dialogue; a focus on simple, sequenced reforms at the national level and community-based accountability mechanisms at the local level; and, in some cases, use of special transitional arrangements drawing on private sector and civil society capacity for selected executive and oversight functions.

\(^{15}\) These teams could serve a range of functions; for example, in the South Asia Region they serve as advisers to country and task teams on corruption issues, as a forum for sharing experiences across sectors, and as a vehicle for considering strategies to improve governance.
48. **IFC and MIGA.** IFC and MIGA are working actively with clients to ensure strict standards of corporate integrity. IFC actively addresses the need for strong corporate governance as part of its investment decisions, and uses specialized assessment tools, tailored to the type of company, as part of its risk analysis and investment appraisal. IFC is working on an operational strategy for further mitigating corruption risk, focusing on selection of investments, contract design and remedies, and supervision and exercise of remedies. Priority IFC actions include preparing additional guidance for staff on due diligence procedures and investments in companies owned by persons defined in the IFC investment guidelines as “politically exposed”, as has already been done for anti-money laundering and combating financing of terrorism risk. MIGA has adopted a new and more systematic process for identifying possible integrity issues in projects over the last year; it has designated an Integrity Adviser and arranged access to commercial databases to facilitate due diligence; and it has been making efforts to strengthen the pre-transaction due-diligence process, to assess the level of the client company’s commitment to integrity and the quality of its preventive controls to address the risk of corruption in projects.

**IV. GLOBAL PARTNERSHIPS ON GOVERNANCE AND ANTICORRUPTION**

49. Improving governance and reducing corruption requires stronger collective action and partnerships—with donor partners, with the private sector and civil society, and with developed countries. Global partnerships promote coordinated action, resource pooling, sharing of innovations and expertise, and a more effective division of labor consistent with each partner’s resources and mandate. To this end, consistent with its expertise, the WBG will play a strong, proactive role with international donors and other actors on the governance and anticorruption agenda. Consistent with the feedback from the recent consultations that the Bank should not “act in isolation” (see Box 10, below), the WBG will share its own experience in these areas, eliciting input and guidance from partners to inform the Bank’s approach, and coordinate upstream in country assistance strategies and actions at the country level (see Annex D for further details).

50. **Donors and Multilateral Development Banks.** There are serious challenges of coordination among current and emerging bilateral donors, multilateral development banks (MDBs), and other international financial institutions. If there are divergences in approaches and standards, recipient countries may be inclined to turn to donors that are less stringent on governance and anticorruption issues. Thus, the strategy for enhanced global engagement envisages stronger consultation and coordination among donors to promote a consistent approach to governance and anticorruption, in accordance with the Paris Declaration, including consulting with partners when considering limited engagement. For example, the Bank will continue its coordination with the IMF on a range of areas related to governance and transparency—such as public financial management, tax and customs reform, the poverty reduction strategy process, debt relief, work to assess countries’ compliance with the Financial Action Task Force

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16 This paper benefited throughout from comments from partners, especially the IMF and the other MDBs.
18 Bank-IMF collaboration has been guided since 1989 by a formal Concordat and subsequent guidelines. See Bank-Fund Collaboration in Assisting Member Countries, SM/89/54, Rev.1, March 31, 1989.
recommendations to combat money laundering and the financing of terrorism, and the Report on Observance of Standards and Codes (ROSC) initiative. The Bank will also explore the possibility of coordinating the activities of Export Credit Agencies (ECAs) by promoting the harmonization of their approach to anticorruption.

**Box 10: Global Collective Action – The Bank Should Not Act in Isolation**

<table>
<thead>
<tr>
<th>Clients overwhelming called for greater coordination among donors. Key areas for improvement included creating better divisions of labor among donors, harmonization of procedures, and increasing compliance with international conventions.</th>
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<tbody>
<tr>
<td><strong>Argentina Government:</strong> “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.”</td>
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<td><strong>Bolivian Government:</strong> “So far efforts made by different donors have been dispersed, weak and not sustainable (e.g. ethic offices/codes). Need to develop a common GAC strategy and harmonization fiduciary controls.”</td>
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<tr>
<td><strong>Cambodia Donors:</strong> “Governance assessments should be a joint exercise. The Bank should work together with other donors in conducting country governance assessments in order to avoid duplication of efforts and wasting of resources. DFID is starting a governance assessment in Cambodia and invited all other donors to join in to make it a joint, multi-donor assessment.”</td>
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<td><strong>Cameroon Government:</strong> “The different means of intervention and collaboration by partners can bear fruits if intervention procedures are harmonized. The European Union, the World Bank and the UNDP, each has its procedures. The best approach will be to harmonize these different intervention procedures. We should also understand the spheres of activities of the various partners. Before signals are sent out, the different actors should be able to receive harmonized signals.”</td>
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<td><strong>El Salvador Civil Society:</strong> “GAC strategy has not addressed the need to develop regional strategies, in particular for those countries with regional links.”</td>
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<tr>
<td><strong>MDB Representative:</strong> “The World Bank should not act in isolation.”</td>
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<td><strong>Morocco Donors:</strong> “Donors agreed that it made sense to establish a Governance Coordinating Group to perform a number of valuable tasks, including: (i) exchanging information about governance issues and concerns in certain sectors; (ii) ensuring consistency in programming on key governance issues and topics; and (iii) helping to coordinate views on governance indicators and rankings.”</td>
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<td><strong>Yemen Donors:</strong> “Coordination should follow on areas of mutual comparative advantage. For example, it is clear that the Bank is prohibited by its Articles of Agreement of working on political issues, such as campaign finance reform or political party development. But many bilateral donors can work on these issues.”</td>
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51. The strategy also aims to ensure that, recognizing the limitations placed on WBG activities by the Articles of Agreement, there should be a division of labor among donors, with others taking the lead in areas that are outside the Bank’s mandate or comparative advantage (for example, political governance). The particular division of labor in a country should be articulated in the CAS, based on consultation with stakeholders. Moreover, the strategy aims to

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19 The IMF launched three international codes of good practice—for fiscal transparency, data dissemination, and monetary and financial policies. Currently, the IMF and the Bank collaborate in assessing the observance of standards and codes in 12 areas critical to the functioning of a market economy, including those relating to transparency, corporate governance, financial sector, market integrity, and anti-money laundering. The results are summarized in Reports on the Observance of Standards and Codes (ROSCs), which are typically published with the consent of the member.
facilitate the sharing of information among development partners, the harmonization of strategies in countries with weak governance, including through joint assessments, as well as the coordination of investigative procedures and sanctions decisions at the level of the institutions (as recommended by the Joint International Financial Institutions Anticorruption Task Force, see Annex D). The Bank is working with bilateral and multilateral donor partners through initiatives such as the Governance Network of the Organisation for Economic Co-operation and Development’s Development Assistance Committee (OECD-DAC) on anticorruption, including joint assessments, coordinated strategies on anticorruption, and support for global initiatives. In particular, it was agreed during the recent consultations to work on harmonized assessments in selected pilot countries both with DFID and with the OECD DAC Governance Network (Govnet). Finally, the GovNet paper proposes a code of conduct on the part of donors to harmonize actions in very corrupt settings, to avoid *ad hoc* responses and mixed signals.

52. **Private Sector, Civil Society, and the Media.** A principal focus in the next stage will be for the WBG to scale up its successful efforts over the past decade to engage the private sector, the media, and civil society organizations. While individual firms may benefit from weak governance (with politically connected companies sometimes shaping key policy decisions in ways that benefit them while undermining the efficiency and competitiveness of the business environment), the private sector as a whole loses when corruption is pervasive and the rule of law is undermined. Consequently, as Box 11 describes, in recent years global private sector leaders have taken bold new initiatives to help tackle the supply-side of corruption and signal that “integrity is good for business”. The WBG, and particularly IFC and MIGA, will scale up support to such initiatives—and engage more broadly with the private sector as a crucial ally for good governance. In addition, the cost of engaging in corruption related to Bank-financed projects has been raised by ongoing sanctions reform by the MDBs, and especially by the newly launched Voluntary Disclosure Policy, which is expected to elicit extensive and high-quality evidence on corruption in Bank-financed projects. Within its mandate, the WBG will also strengthen partnerships with civil society organizations and the media at the country and global levels as a powerful force for holding governments accountable. This will include forging stronger alliances with global civil society organizations such as Transparency International (particularly their country-based chapters), Global Witness, and also with national and local civil society organizations and media on country-level governance initiatives such as monitoring of public procurements or asset declarations of public officials.
Box 11: The Global Private Sector is Helping Address the Supply-Side of Corruption

The World Economic Forum Partnering Against Corruption Initiative contributed the following written input to the GAC consultations:

“While it is certainly true that multinational companies historically have been part of the problem, as a source of corrupt payments, there has been a sea-change in attitudes at many companies in recent years comparable to—and in some instances ahead of—reforms at the World Bank and other international institutions. Responsible business leaders believe that there is a moral imperative to support policies and governance practices that will help to alleviate world poverty. But there also are practical business reasons for supporting good governance reforms:

- “Efficient markets and effective governments are both indispensable to economic development and the business this generates for international companies. Ethical companies also need a predictable environment for doing business, grounded in a fair and reliable rule of law.
- “In some countries, including many of the poorest, a company that rigorously adheres to a no-bribery policy effectively may be barred from doing business altogether—and, in fact, many have been left with no choice but to withdraw entirely from these markets. This harms individual companies, deprives multilateral aid agencies of the best contractors, and ultimately undermines local development objectives.

“In early 2003, [private sector] Chief Executive Officers” at the World Economic Forum Annual Meeting in Davos were challenged to move beyond the debate over whether the onus for controlling corruption lies more with the companies that pay bribes or governments that fail effectively to police their own, and explore ways in which international business could help find practical solutions. The outcome was a set of model practices that were derived from Transparency International’s Business Principles for Countering Bribery and that have since come to be known as the “Partnering Against Corruption – Principles for Countering Bribery (PACI Principles).” The PACI Principles commit signatory companies to a “zero tolerance” policy on bribery and to implementing an effective system to guide the behavior of their employees and business partners. Today, PACI has 120 signatory companies representing more than $500 billion in annual revenues and over 1.5 million employees worldwide.”

53. **Supporting Global Coalitions for Reform.** The WBG will continue to support initiatives at the global level to promote coalitions among government representatives, civil society, the media, and the private sector for governance reform. The Extractive Industries Transparency Initiative (discussed in Annex D) represents an example of such an effort at the sector level in countries. Innovative networks such as the Global Organization of Parliamentarians against Corruption, the Global Integrity Alliance, PACI, The Access Initiative, and associations of young leaders, can identify ways to recognize and support leaders in developing countries who take a tough stand on corruption, often at high risk to themselves, and can help combat entrenched networks of corruption and promote good governance and integrity.

54. **International Conventions.** Corruption is a global problem that requires collective action from developing and developed countries alike. Developed countries have an enormous responsibility to tackle transnational corruption generated by multinational corporations. The WBG will use its global influence to promote tougher monitoring and enforcement of the OECD Anti-Bribery Convention, and will advocate for the ratification and implementation of the UN Convention against Corruption, including helping countries recover stolen assets (see Box 12).

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20 The formal name of this convention is the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.
Box 12: Collective Action Against Corruption: The United Nations Convention

Recognizing the importance of a collective response to corruption, the OECD, the Council of Europe, the African Union, and the Organization of American States have crafted treaties binding members to work collectively to combat corruption. The most comprehensive treaty, in terms both of geographic reach and degree of cooperation required, is the United Nations Convention against Corruption.

Those ratifying the convention must establish a merit system for civil servants, ensure sufficient penalties to deter the commission of corruption-related crimes, increase the transparency of their policymaking process, and assist others to obtain evidence of corruption and return persons wanted for corruption. Special emphasis is put on asset recovery. Nations pledge to honor orders to freeze and seize the proceeds of corrupt activities issued by other parties and to amend bank secrecy laws to ensure that these statutes do not impede asset repatriation.

The World Bank assisted in drafting the convention and is helping to write the technical guide to implementation. It is training its own staff on the convention’s provisions, has provided advice and guidance to Bank clients on ratification, and attended the December 2006 meeting of state parties in Amman, Jordan. Unlike other anticorruption conventions, for which the monitoring process is spelled out in the treaty itself, the parties attending this meeting are deciding the process for monitoring implementation.

Note: The Convention, along with a list of countries that have signed or ratified it, is available at http://www.unodc.org/pdf/crime/convention_corruption/signing/Convention-e.pdf.

55. **Restitution of Assets and Bank’s Role in the International Arena.** For developing countries to recover assets stolen by corrupt officials and hidden abroad they must be able first to trace the assets and then to invoke legal procedures to freeze and seize them. As the GAC consultations have emphasized, developed countries have a major responsibility for asset restitution because the assets are most often located in banks or investment funds within their territory. The first step the developed nations should take is to ratify the U.N. Convention against Corruption, for it requires parties to amend their laws to make the freezing and seizing of stolen assets easier. But locating stolen assets often poses the greatest challenge—thanks to a broad range of “service providers” in developed and developing countries willing to help hide the funds for a price. And tracing the funds can be next to impossible if they are funneled through certain offshore financial centers where devices such as vista trusts, shell banks, and corporations with nominee directors and shareholders facilitate concealment. The OECD’s Tax Haven Initiative is an important step in curbing such abuses, but the international community needs to do more to ensure that all offshore financial centers meet certain minimum levels of transparency and agree to cooperate with law enforcement authorities from other jurisdictions. Although the Bank may not have the strongest comparative advantage in this area, it has an important advocacy role to play in this regard and it should use its convening power to place this issue higher on the international agenda. Its anti-money laundering program provides some important support to such efforts, by advising on capacity to freeze and confiscate corruption proceeds. (See Annex D) As the recent experience with asset recovery in Nigeria shows, the Bank can also provide important assurance that the restituted assets will be put to good use in the developing country from which funds were taken. The Bank is currently reviewing how it can most effectively help developing countries recover stolen assets, and is considering one or two country pilots.

56. **Emerging Issues from the Recent Consultations.** During the recent consultations, a number of additional issues (see Box 13, below for examples) emerged in terms of the Bank’s credibility to address the governance challenge, global governance, and the internal culture
dominating the Bank. The Bank has already begun to address some of these issues, and others will be reviewed through the appropriate channels.

**Box 13: Examples of Emerging Issues from the Recent Consultations**

- **WBG’s transparency and governance.** In some of the consultations, representatives of civil society, the private sector, and legislatures highlighted problems with the Bank’s own transparency and governance, and that the Bank needs to get its own house in order before asking developing countries to improve governance. Two specific issues mentioned were: (i) perceived shortcomings of whistleblower protection; and (ii) voice/voting rights of developing countries on the Bank’s Board. The WBG is in the process of updating and strengthening its whistleblower protection policies. Increasing the voice of developing countries on the Bank’s Board has been a topic of recent discussion by the Development Committee, and requires shareholder consensus and actions by the Bank’s Board.

- **Odious debt.** Discussants at the consultations noted that debt incurred by previous corrupt governments and repressive regimes can create a burden on new governments. Calling such debts "odious", some discussants suggested that the WBG forgive such loans. However, forgiving sovereign debts on such grounds outside the framework of strict legal principles and procedures would increase the risks of lending to sovereign borrowers, thereby reducing financial flows to developing countries, and weaken financial institutions by creating the risk of *ex post* challenges. The World Bank has issued recent statements recognizing the importance of the international community addressing this issue and has noted that the WBG has been an active participant in international anti-money laundering efforts, in drafting of the UN Convention Against Corruption, and in international efforts to restitute assets stolen by corrupt government officials in low income countries.

- **Transparency in defense and security spending.** During the recent consultations, stakeholders suggested the importance of addressing the issue of transparency in defense and security spending. The WBG has provided support to some countries that have requested assistance in improving the transparency of defense and security spending. The WBG will explore what can be done to increase support in this area.

- **Prevention versus enforcement culture.** A common message that was emphasized during the consultations was that the Bank appears to be dominated more by an enforcement culture, with not enough emphasis on positive incentives for change. Concrete suggestions were made encouraging the WBG to develop a system of positive incentives (e.g., loan/credit interest rates, additional technical assistance, etc.) for countries to promote more open, more accountable and transparent governments; these will be considered during the implementation phase and development of guidance for Bank staff.

- **INT.** A number of comments also specifically highlighted the Department of Institutional Integrity (INT), urging that INT work more in a more transparent and partnership manner, and suggesting that public consultations be held around the upcoming INT Independent Review.

### V. NEXT STEPS

57. Implementing the strengthened approach to governance and anticorruption set out in this paper will require clear accountabilities and responsibilities, careful development of a realistic but detailed results framework, consideration of budget and staffing implications, the production of guidance to staff on a range of operational areas and topics, and further consultations with stakeholders. Management will be responsible for implementation of the strategy, while the Board will provide overall guidance and oversight, through discussion of each country strategy, approval of each operation, and frequent interaction with Management on refinement of the strategy and its implementation. Given the complexity of the effort, the WBG will need to proceed with a clear sense of realism as to what can be achieved, and an expectation that midcourse corrections will be necessary. The specific initiatives needed to fully operationalize this strategy will be outlined in an Implementation Plan, to be prepared and submitted to the Board by the end of this fiscal year.
58. **Operational Guidance to Staff.** While some elements of this strategy can become operational in the very short run, others will require revision of staff operational guidance or the development of new guidance. Staff guidelines on CAS products will need to be revised and expanded to include detailed advice on how to review the nature of risks posed by weak governance and corruption to the country’s development and to Bank-supervised operations; and to record emerging lessons of good practice on how Bank strategies and operations can effectively address these risks while enhancing development impact, including how to effectively consult and engage civil society and other stakeholders. Guidance will also need to be strengthened on identifying high-risk operations as well as on designing and supervising investment projects to be more resistant to corruption (including through enhanced fiduciary approaches). It will be particularly important that staff receive clear guidance on due diligence and risk tolerance. Another important element will be a further revision of the Bank’s disclosure policy to boost the Bank’s own transparency as well as to improve performance of Bank-funded operations.

**Box 14: Progress in Developing Disaggregated and Actionable Indicators**

Initiatives by the WBG, multi-donor groups, and independent civil society organizations all have contributed to progress in the development of specific, disaggregated and actionable governance indicators.

- **The World Bank Group** published in 2006, for the first time (but only for low-income countries), disaggregated CPIA scores. Some of the CPIA results—especially those on public financial management, on the quality of public administration, and on property rights and the rule of law—can be used to track the progress of specific governance reforms. Similarly the disaggregated indicators underpinning the worldwide governance indicators (gathered by DEC and WBI) have been disclosed, making available valuable information coming from non-WBG efforts to monitor governance. The year 2006 also saw the systematization and scaling up of the WBGs efforts on enterprise surveys. Building on the successful experience in Europe and Central Asia, regional roll-outs currently are underway worldwide, including for 30 countries in Africa and 15 in Latin America.

- **Multi-donor initiatives** have resulted in significant gains for the Public Expenditure and Financial Accountability (PEFA) public financial management indicators, and the OECD/DAC work on procurement. Use of the PEFA indicators has expanded rapidly. As of February 2007, public financial management assessments had been initiated in 78 countries, and substantially completed in 45 of these. However, only for 8 countries are the final assessments in the public domain, and efforts are underway to ensure greater disclosure. In July 2006, following a long gestation period, the OECD/DAC Joint Venture for Procurement published a revised tool—*Methodology for Assessment of National Procurement Systems* (version 4). The tool has successfully been piloted in five countries, and is currently being used in 15–20 more.

- **Independent civil society organizations** made two noteworthy contributions, with some WBG support. In January 2007, Global Integrity released 43 additional country reports based on their index for monitoring the quality of checks-and-balances institutions. These included follow-up reports for 17 of the 25 countries surveyed in the initial 2004 round. In October 2006 (after four years of work), the International Budget Project released a new index to monitor the transparency of public budgets. As with the Global Integrity Index, the Open Budget Index is based on a combination of expert assessments and peer review at both country and global levels.

Scaling up availability and use of disaggregated and actionable indicators takes time. For example, it has taken seven years of sustained effort to design, build consensus, and scale up the use of the PEFA indicators.

59. **Monitoring for Results.** Monitoring is key to accountability. Recognizing that IDA resources will continue to be allocated through the existing Country Policy and Institutional Assessment and Performance Based Allocation system, the Development Committee asked the Bank to further develop and use disaggregated and actionable indicators (Box 14). Disaggregated and actionable indicators can serve two purposes—to inform the CPIA and to help track progress in specific reforms implemented by governments. As Box 14, above, details,
over the past year there has been significant progress in the development of these indicators. Aggregate worldwide governance indicators (gathered by DEC and WBI) are research products that exist alongside many other products (e.g., enterprise surveys) to provide comparative information for policymakers as needed; they are not official ratings by the WBG, and they have no formal role in any WBG operational decision-making. The aggregate, and newly-disclosed underlying specific indicators, summarize valuable information coming from non-WBG efforts to monitor governance. During the recent consultations, the majority of stakeholders endorsed an approach (see Box 15, below) of using a mix of indicators—aggregate governance indicators, country monitoring and evaluation systems, specific disaggregated indicators, and outcome indicators—judiciously and with care, keeping in mind their strengths and limitations for particular purposes.

Box 15: Monitoring for Results: Link Governance Monitoring to Governance Reform

Consultations highlighted a strong need to balance the use of aggregate cross-country indicators with complementary, in-country disaggregated indicators and programs. Suggestions were plentiful and included increasing client capacity in monitoring and evaluation, broadening the menu of disaggregate indicators, and promoting participation.

Albania Government: “The most important point would be the last one: the monitoring process. Without having monitoring and evaluation instruments we can never come to a conclusion. We need to know what the level of corruption is. What type of corruption is it? How much would be achieved in one or two years? If we implement an anticorruption strategy we need to have an evaluation mechanism because we need to know whether this strategy has been efficient or not otherwise we can not evaluate it. So in my view evaluation is of paramount importance.”

Argentina 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.”

Bolivia Legislature: “There is the need to develop specific indicators for relevant institutions and ensure social monitoring of budget execution and implementation of projects. A good practice in this sense is the dissemination of budget information carried out through the brigadas parlamentarias.”

Canada Government: “Agree with any system where measurements do not determine decisions, but are used to interpret, analyze and compare. We must have a very rigorous set of indicators that can withstand scrutiny and explain changes in country ratings from year to year.”

El Salvador Civil Society: “The Bank should better disseminate its monitoring indicators, which are not very accessible and/or understandable outside the World Bank.”

Kenya Sectoral Consultation: “Two suggested areas for Bank focus: public complaints and feed-back mechanisms; effective public complaints mechanisms can be used to measure levels of end-user satisfaction and can be used as watchdog tools to track slip-ups & Point of service surveys; conduct regular point of service audits and surveys to assess the level of end user satisfaction.”

Morocco Consultation: “The indicators should be discussed with the countries before being applied. It is necessary to have an open debate with Morocco on the application of indicators that may ultimately penalize the country. The Bank can help in devising indicators that can help bridge the gap between perceptions and what is actually occurring on the ground. Public education and awareness-raising will be extremely important for combating corruption and monitoring progress on the good governance agenda.”

Yemen Civil Society: “The Bank should develop control mechanisms to prevent corruption and the diversion of expenditure rural areas. For example, the Bank could help bring civil society and NGOs into project management—particularly with regard to monitoring progress in remote areas.”


60. **Going Forward.** This strategy implies a change in how the WBG does business, including providing incentives to managers and staff to engage proactively on the ground on governance issues; addressing staffing, skills, and resource needs to operate effectively in challenging governance settings; and developing a stronger results framework. The emphasis of the strategy will be on the front lines, tapping into local knowledge and engaging closely with
partner countries. Operational guidance to staff will be developed, reflecting ongoing innovation in the field. Bank country teams will be reporting back to those that participated in the consultations, to share with them how their inputs were reflected in this enhanced strategy and to engage them in the implementation phase. Given the complexity of the effort, the WBG will also need to proceed pragmatically. In addition, partnerships will need to be strengthened, including with local institutions such as universities, civil society, and businesses to increase the Bank’s technical know-how and develop common approaches. Furthermore, given the importance of learning in these fields, the Bank will continue to support research on causes and effects of governance and corruption and their links to growth and development. This agenda demands innovation and experimentation as well as rigorous monitoring and evaluation of results—all in a spirit of openness to learning what works, what does not, and why.
ANNEXES
LESSONS FROM A DECADE OF SUPPORTING COUNTRY PROGRAMS ON GOVERNANCE AND ANTICORRUPTION

1. For much of the history of the WBG, corruption was considered nearly a taboo subject—something that many were aware of but did not speak of or address. President Wolfensohn changed that attitude in 1996, when he publicly committed the institution to fighting the “cancer of corruption.” In September 1997, the Board endorsed the World Bank’s first anticorruption strategy,1 and in parallel, the 1997 World Development Report (WDR) deepened global understanding that an effective state is crucial for development. In 2000 the Board endorsed a Public Sector Governance Strategy that recognized corruption as an outcome of a poorly functioning governance system.2 Subsequent WDRs elaborated potential pathways of reform, focusing on cross-cutting public sector institutions (2002), service delivery (2004), and the investment climate (2005). Over the same period, the WBG has also been increasingly engaged in research and data analysis on governance and corruption, distilling lessons for policy. Most recently, the 2006 Global Monitoring Report proposed a framework for monitoring developments in a range of areas, including corruption, complementing the existing research on governance indicators inside and outside the Bank.3 (Figure A1 provides a graphic presentation of this history).

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1 *Helping Countries Combat Corruption: The Role of the World Bank*, PREM, World Bank, Washington, D.C., September 1997. The strategy contains four main components that remain relevant today: (a) helping partner countries reduce corruption, (b) mainstreaming anticorruption through the CAS, (c) preventing fraud and corruption in Bank-financed projects, and (d) supporting international efforts to combat corruption.

2 *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy* (R2000-91), November 2000. The strategy identifies four key priorities: (a) supporting public sector reform through a combination of voice and participation, competition, and internal rules and restraints; (b) tailoring reform interventions to institutional and political realities through systematic institutional and political assessments; (c) focusing Bank lending activities on long-term institution building, including greater strategic use of programmatic lending; and (d) strengthening internal capacity through improvements in staff skills, incentives, and partnerships.

3 See Selected Literature on Growth and Governance in Annex F.
2. **Governance Systems** Figure A2 groups the actors that comprise a public sector governance system into five broad categories: (a) the *central government executive*, including cross-cutting control agencies responsible for public finance and human resource management, and front-line regulatory and service provision agencies; (b) *formal oversight institutions outside the executive*, including the judiciary, parliament and other independent oversight institutions; (c) *subnational governments and local communities*, with their own service provision responsibilities, and often their own local arrangements for control and accountability; (d) *civil society and the private sector*, both in their role as watchdogs (including the independent media) and as the recipients of services and regulations, and hence a potential source of pressure for better performance; and (e) *political actors and institutions* at the apex, setting the broad goals and direction of the system as a whole.
3. **Accountability Relationships.** In a well-functioning governance system, accountability relationships between these actors help ensure that public policy supports development, that public services are delivered efficiently and effectively, and that corruption is held in check. But with weak governance, policy can be captured, service provision and regulation can be distorted to support favored elites, and corruption can run rampant. Improving governance requires interventions to strengthen capacity (boxes) and accountability (arrows) and to match the role of the state to its ability to effectively provide public goods. Transparency is a system-wide feature that helps to make accountability relationships work.

4. **Global Trends.** Global trends in governance and corruption (Figure A3) indicate that, while some progress may have been made in strengthening state capacity and accountability worldwide, there is little evidence that this has had a significant aggregate impact on reducing corruption overall. Where reforms have been sustained, economic liberalization, increased competition, and improvements in state capacity and accountability have contributed to improved service delivery, more efficient regulation, and lower rates of corruption. When implemented, reforms have been particularly effective in combating certain types of administrative corruption, such as petty bribes to utility officials, tax collectors, licensing officials, and inspectors. In many states, however, forms of corruption with deep political roots—such as state capture and procurement corruption—have been more difficult to address.
Political and business interests, including multinational corporations from developed countries, often collude to obstruct progress in combating corruption; unraveling these networks is extremely difficult. Thus, it is clear that effective leadership from both arenas is essential to tackling the problem.

Figure A3: Trends in Governance and Corruption

5. **Country Experiences with Reform.** Across the globe, countries with committed governments have made significant progress in improving governance and reducing corruption. In some countries the governance reforms with the most impact on development efforts have improved public policy and management; in other countries the gains have come more from strengthening formal oversight institutions or increasing opportunities for civic participation and oversight (see Box A1). Regulatory reform has been a successful instrument for reducing opportunities for corruption—for example in tax, customs, permits and licensing, and inspections—particularly when combined with reform of administrative practices. In addition to reducing corruption, these reforms have contributed to the development of a class of independent small and medium-sized businesses with a stake in supporting governance reform. Many
countries have tried to address corruption by creating an anticorruption agency. While in a few cases such a structure appears to be working reasonably well, recent research shows the Hong Kong or Singapore models are not suitable for many other countries. In many countries, these agencies are captured by political elites and are unable to successfully tackle political corruption.

**Box A1: Country Progress in Improving Governance**

<table>
<thead>
<tr>
<th>Public Sector Policy and Management</th>
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<tr>
<td>Efforts to monitor trends in the performance of public financial management systems as part of the Heavily Indebted Poor Country (HIPC) debt reduction process have been a powerful spur to improving these systems in at least some countries. Between 2001 and 2004, Ghana, for example, made visible improvements in seven of the 15 areas monitored; and substantial gains also were achieved by Senegal, Niger, Mali and Cameroon.</td>
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<td>Procurement reforms, including the use of Integrity Pacts (for example, Argentina) and e-procurement (for example, Chile, Guatemala, India, and the Republic of Korea) have significantly reduced the time and cost of public procurement, saving billions of dollars in public sector expenditures.</td>
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<td>Public administrative systems showed improvement in countries, such as Tanzania and Latvia, where there was some political commitment and the reform program was skillfully designed.</td>
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<tr>
<td>In many countries in Eastern Europe, more streamlined policies and administrative practices have contributed to improved regulatory compliance and lower rates of corruption in tax and customs, permits and licensing, and business regulations.</td>
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<tr>
<td>Efforts to deepen downward accountability by shifting resources and accountability downwards to local governments and their constituents have been a central feature of governance reform across Latin America, East Asia, many countries in Europe and Central Asia.</td>
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<th>Formal Oversight Institutions</th>
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<td>Kenya’s parliament emerged in the 1990s as an important counterweight to a government that seemingly had acted without the restraint of formal accountability—and systematically called government to account on policies, on how resources were used, and on the openness of government to civil society more broadly.</td>
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<tr>
<td>Supreme audit institutions, operating independently and reporting directly to parliament, became a focus of capacity development across a number of African countries, including Cameroon, Ghana, Rwanda and Zambia.</td>
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<td>Since 2002, the High Court in Malawi has provided an important check on the executive and legislative branches. For example, when the ruling party sought to expel six members of the legislature, and thus give it the two-thirds majority required to amend the constitution so as to enable the ruler to seek a third term, the court held that the expulsions were unlawful.</td>
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<th>Transparency, Participation, and Oversight</th>
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<tr>
<td>Close to a dozen countries showed measurable, statistically significant gains in voice and accountability between 1996 and 2004, including Bosnia, Croatia, Serbia and the Slovak Republic in Eastern and South-Eastern Europe; the Gambia, Ghana, Nigeria and Sierra Leone in Africa; plus Indonesia and, in Latin America, Mexico and Peru.</td>
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<tr>
<td>A growing number of countries have adopted a Freedom of Information Law—over 50 as of the end of 2004, with efforts under way in an additional 30. In Asia, for example, nearly a dozen countries have either adopted laws or are very close to doing so. The Mexican office of Human Rights Watch says that such a law “dealt a major blow to [the] culture of secrecy” and describes it as “the single most unambiguous achievement in the area of human rights during the Fox presidency.”</td>
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<tr>
<td>Governments around the world are requiring senior public officials to disclose their income and assets. In the first six months of 2006 alone, Cameroon, Liberia, Mongolia, Serbia, and the Kyrgyz Republic all instituted disclosure requirements, bringing to 103 the number of World Bank clients with such requirements. Of these 103, almost one-third also require the statements be disclosed to the public as well.</td>
</tr>
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6. **Country Assistance Strategies.** As reported in the latest Sector Strategy Implementation Update (SSIU),
4 governance issues are being addressed in CASs, with instances of notable initiatives in countries with weak governance and corruption to develop integrated governance strategies to help strengthen state capacity and accountability and reduce fiduciary risks. Four-fifths of CASs incorporated some diagnosis of the causes of corruption, and an even higher proportion integrated some governance and anticorruption elements in their lending and analytic work. A review of FY05 CASs indicates that, while all CASs comply with the mandate to treat governance, the majority of CASs deal with governance in a perfunctory manner and still do not adequately assess the developmental or fiduciary risks of corruption. Indeed, the majority of FY05 CASs reviewed incorporated governance into their operational programs in a narrow way, focusing primarily on traditional areas of core public management. According to the FY05 SSIU, three reasons for this are weak commitment of governments to governance reform, disincentives for Bank country teams to analyze more fundamental institutional and political drivers of corruption and poor governance, and the tendency to compartmentalize and treat governance as a sector rather than as a cross-cutting theme.

7. **Public Sector Reform Operations.** Public sector reform operations have been launched in many countries, historically with a strong focus on core public management reforms—and more recently with growing attention to incorporating transparency, participation, and accountability into a broad range of poverty-reducing operations (see Annex G). In FY06, over 20 percent of new Bank-supported operations and almost 20 percent of new financing commitments tackled public sector governance issues broadly defined, and nearly half of the prior actions for development policy operations were related to governance. Compared to all Bank-financed operations, public sector governance operations have about the same quality at entry, perform less well in supervision, and are about average in terms of institutional development impact and likely sustainability. The overall performance of the public management portfolio is very sensitive to the larger governance environment.5 One of the most important lessons that the Bank has learned is that diagnostic and operational instruments are most effective when there is a committed leadership, a coalition of reform, and basic bureaucratic capacity in a country. To more effectively learn which approaches have been most effective, greater attention needs to be paid to integrating research into Bank-financed operations.

8. **Assessment.** Important gains have been made in the area of public finance management, the dominant part of the public management portfolio. Through HIPC expenditure tracking and now Public Expenditure and Financial Accountability (PEFA), a set of actionable indicators have been developed to track progress in public finance management; these indicators are in the process of being implemented in 70 countries worldwide. Public financial management (PFM) operations increasingly incorporate measures to strengthen transparency to citizens and other

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4 Sector Strategy Implementation Update, FY05 (SecM2006-0125), March 21, 2006.
5 Quality Assurance Group (QAG) assessments of the public sector governance portfolio have showed that it has been riskier than the overall Bank portfolio, although at the end of FY06 it outperformed the overall Bank portfolio: the percentage of both projects and commitments at risk in governance portfolio was lower than that for the Bank overall. The average Country Policy and Institutional Assessment (CPIA) ratings for transparency, accountability, and corruption for satisfactory projects in FY04-05 was 3.4, while for unsatisfactory projects it was 2.5.
stakeholders regarding how public resources are used. Unlike other types of governance operations, PFM operations tend to perform well, regardless of country context, possibly reflecting the Bank’s long track record of working with governments to improve public financial management. Public administration reform operations, many of which aim to reform systems that are heavily based on patronage, appear to be much more sensitive to country context. Many of the less successful operations are overly ambitious relative to the setting, and are thus not sufficiently tailored to the political and institutional realities on the ground.

9. **At the Sector Level.** The sector level provides a potentially important entry point for governance reform. During the past decade, the focus on governance in key sectors has primarily been on experimenting with more efficient means of delivering services, including through restructuring, contracting out to private sector firms, and privatization—and with rising attention to the new ways of incorporating social accountability into operational design. More recently, attention has also been given to addressing vulnerabilities of sectors to illegal practices, including corruption and fraud, with some evidence of success (see Box A2). Some sectors, such as forestry, roads, extractive industries, fisheries, water, and agriculture, have begun to develop risk assessment tools, specialized databases, and monitoring systems. In many sectors, transnational corruption and fraud have become especially problematic, with multinational corporations and networks playing a critical role. Weaknesses in public sector institutions, including public expenditure planning and execution, public procurement, civil service incentives and turnover, and continuity in commitment to reform, have had a considerable impact on sector performance. However, in many countries, the Bank has had difficulty in marrying reforms that support the development of these cross-cutting systems with reforms within specific sectors. As the spotlight is increasingly focused on governance and corruption in key sectors where lending is expected to scale up, attempts are being made to identify the points at which the sector is most vulnerable. While there have typically been some low-cost quick wins, in some cases focusing on only one or two points shifted corruption to other points in the system.

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ANNEX A

Box A2: Strengthening Governance and Reducing Corruption in Sectors

Pharmaceuticals

**International cooperation:** In 2003, an alliance between the United States, the World Health Organization, and local authorities began a drug monitoring program in the Mekong Region which revealed fake anti-malaria medicine in circulation. The effort increased communication between regional monitoring authorities and the speed of notification of sale of fake drugs.

**Modernization:** The Azeri Central Drug Control Laboratory began a program of labeling quality tested drugs with hard-to-copy hologram labels to prove that the drugs had passed quality control. As a result, trade of counterfeit drugs dropped dramatically and confiscation of unregistered drugs rose.

Electricity

**Modernization and enforcement:** In Andhra Pradesh, India, revenue losses of 38 percent due to theft and inefficiency prompted authorities to establish special courts to punish electricity theft and to install millions of new meters for customers. As a result, 2.25 million unauthorized users were brought into the billing records, collection dues reached 98 percent, and a large number of electricity thieves were successfully prosecuted.

Forestry

**Independent monitoring and reporting units:** In 1999, Global Witness became an independent monitor for forest crimes and for the performance of two state-run forest regulatory agencies in Cambodia. This led to the suspension of corrupt forest officials and to increased investigation of illegal logging.

**Involving local stakeholders:** In the Philippines, the Bank supported local stakeholder alliances, provided effective reporting services, mobilized public opinion against violators, and took action against illegal loggers. The number of alliances grew from 16 in 1994 to over 400 nationwide by 1999.

Banking and Money Laundering

**Regulatory enforcement:** The Swiss Federal Banking Agency forced the resignation of the general manager of Bank Leumi le-Israel (Switzerland) Ltd., after the bank was found responsible for laundering money for corrupt former Peruvian security chief Vladimiro Montesinos.

**Forensic investigation:** Forensic investigations in Lesotho revealed a money trail, exposing bribery in the 1990s Highlands Water Project. Finding the Chief Executive Officer of the project guilty of accepting bribes, Lesotho courts sentenced him to 15 years in prison for receiving $1 million through a money laundering intermediary.

10. **The Role of the Private Sector.** While the public sector takes a lead role in shaping the investment climate faced by domestic firms and foreign investors in a country, private sector firms are not always the passive “takers” or recipients of such investment climate. In recent years, there has been a sea change within the private sector in both developing countries and globally to lend support to combat corruption and improve governance and signal that “integrity is good for business.” Yet it is also true that politically-connected companies can play an important role in shaping public policies and regulations that constitute the “rules of the game” and the business environment within which they operate, hampering competition. Further, unsolicited bids for public investment projects, often accompanied with promises of kickbacks, can seriously distort public investment. Over the medium- to long-term, a key defense against such activity is to enable entry of firms, providing incentives to build a vibrant private sector and an entrepreneurial citizenry, promoting better governance and a level playing field.

11. **Transnational Issues.** The private-public sector governance challenge is not confined to domestic businesses. In spite of the OECD Anti-Bribery Convention having come into force over five years ago, many multinational corporations are still involved in less-than-transparent behavior abroad, at times undermining public governance in emerging economies. While one
ought not to foreclose the possibility that some progress may be taking place thanks to the OECD convention, in most signatory countries there appears to have been little progress in actually bringing serious cases of bribery to court. The existence of a significant gap between practices of multinationals within the OECD and outside it in terms of bribery highlights the need for tougher monitoring and enforcement of the convention across the OECD, and of considering deeper complementary measures. The UN Convention against Corruption also addresses transnational corruption, but has only recently come into force.

12. **Tailoring Reforms to Country Realities.** The scope, sequencing, and speed of governance reforms must be tailored to country context. Although country evidence indicates that with leadership and resolve, substantial progress is feasible in the short-term, attaining high overall standards of governance is a long-term endeavor, requiring sustained reform efforts in which the focus is most usefully on performance trends. The trajectory of change will vary from one country to another, depending on both the initial political impetus and the longer-term historical processes that can shape and constrain political and institutional reform. It is also important to tailor reforms to the particular country context. Thus, the Bank needs to work closely with countries and donors to develop workable approaches to governance reform, based on diagnostic analysis, with a clear developmental focus. The *Global Monitoring Report 2006*, as well as other recent research and publications on governance by the World Bank and others, offers some guidance on these complex challenges. (See the selected bibliography in Annex H).
COUNTRY EFFORTS: ENTRY POINTS FOR GOVERNANCE AND ANTICORRUPTION REFORM

1. The principal aim of governance reform is to build capable and accountable states that can devise and implement sound policies, provide public services, set the rules governing markets, provide oversight of how public resources are used, and so support development. Within this, a critical aspect is to align the incentives of state officials with these goals, through an appropriate combination of rules, restraints, and rewards; competitive pressures; and voice and partnership. The incentives of nonstate actors, too, need to be aligned with these goals, especially those of businesses and other nongovernmental entities that often play a pivotal role in undermining governance.

2. Entry Points. Potential entry points for strengthening incentives and improving governance fall into five broad categories. The first comprises reforms to improve the capacity, transparency, and accountability of state institutions. Government reforms have historically been the strongest area of Bank engagement in countries, although less attention has been paid to institutions outside of the executive branch of government. A second category comprises reforms that help to increase opportunities for participation and oversight by civil society, the media, and communities. The Bank has been engaged in this work during the past decade, but in an uneven way. A third category is reforms to create a competitive and responsible private sector. The WBG (IBRD/IDA, IFC, and MIGA) will jointly take a more proactive role in engaging with the private sector on governance and anticorruption. A fourth category comprises leadership—specifically the key role of country-level reformers in moving forward the governance reform agenda. Finally, a fifth category is reforms to strengthen political accountability, for instance, through political competition, and transparency and regulation of political parties. However, this area is outside the WBG’s mandate and legal framework, and work where needed will be supported by other development partners.

3. Tailoring Reform to Country Context. The Bank has learned that governance challenges are far from uniform across countries—implying that relative emphasis across the categories must be differentiated, and strongly based on local knowledge, innovation on the ground, and extensive collaboration among local constituencies.

A. Capable, Transparent, and Accountable States

4. The WBG is committed to helping states function effectively, so that the executive branch of government can deliver public goods, courts can dispense justice, and the legislature can provide leadership and oversight.

5. Improving Public Financial Management. Better public financial management remains central to getting results on the ground and assuring donors that aid resources are being used

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2 For a list of entry points and description of the governance strategy in the Middle East and North Africa Region, see the Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability, World Bank, Washington, D.C., 2003.
prudently. Key dimensions include: policy-based budgeting; comprehensiveness of budget coverage; transparency of fiscal and budget information; budget credibility—that the budget is realistic and implemented as planned; predictability, control, and stewardship in the use of public funds (for example, internal audit, payroll and procurement systems); accounting, recordkeeping and reporting to provide information for proper management and accountability; and external audit and other mechanisms to ensure external scrutiny of the operations of the executive branch (for example, by the legislature). Improvements to these facets of PFM need to be carried out in a feasible sequence, matching the reform to current country performance and capacity—in a way which assures country ownership and leadership for PFM reforms, a coordinated program of support by development partners, and integrated harmonized approaches to measuring country PFM performance over time. The multi-donor Public Expenditure and Financial Accountability (PEFA) performance measurement program provides a useful, harmonized system for assessing and monitoring the quality of PFM systems, and is being implemented in about 70 countries worldwide. In addition, the Bank collaborates with the IMF in PFM through the integration of IMF ROSCs, technical assistance in public sector financial management, and other work in improving transparency and good governance.3

6. **Improving Administrative Capability.** Experience has shown that an effective public administration involves well-functioning mechanisms for policy coordination; well-designed administrative structures for individual line ministries and semiautonomous executive agencies, with little duplication of responsibility, clear lines of authority, streamlined business processes, and a focus on results; meritocratic human resource management; adequate pay and benefits; and sufficient controls to ensure that the public sector wage bill is sustainable under the country’s fiscal constraints. In countries where public administration reform is confronting heavily patronage-based systems, the experience of reform has been mixed. The Bank is learning from these experiences and designing new approaches that are more tailored to these environments. (Box B1 discusses the lessons of experience in civil service reform).

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3 For example, the Bank and Fund continue to have active collaboration in public financial management work anchored in the principles of: (a) government articulation of a public expenditure reform strategy in the Poverty Reduction Strategy Process or other country-owned work; (b) an integrated and well-sequenced program of diagnostic work by development partners; (c) well-coordinated technical and financial support from development partners for implementation of the country's public expenditure reform strategy; and (d) periodic reporting by countries of performance in public expenditure policy, financial management and procurement. See Bank/Fund Collaboration on Public Expenditure Issues, (SecM2003-0077), February 27, 2003.
Box B1: Civil Service Reform: Some Emerging Lessons

After two decades of supporting civil service reform, the World Bank has learned that a narrowly technocratic approach—which seeks to apply a similar blueprint across very disparate settings—is less effective than a more learning-oriented approach. Three lessons stand out:

**Comprehensive civil reform IS feasible**—but the process is slow, and can succeed only in settings with strong and sustained political commitment. Between 2000 and 2003, Latvia promulgated an ambitious agenda of administrative reform, including a civil service law that guaranteed meritocracy; though implementation certainly has not been perfect, the effort transformed the environment for civil service recruitment. Over a 15-year period, Tanzania brought civil service employment and the wage bill under control, clarified roles, and right-sized across a wide range of government ministries, departments, and agencies; today, its performance improvement program gives agencies incentives to clarify their results targets, make public commitments to service standards, and address capacity shortfalls.

The Bank’s standard approach to civil service reform tends to be less successful in weaker governance settings.

The Independent Evaluation Group rated 23 operations whose primary theme was administrative and civil service reform that closed between 2001 and 2005—12 in countries whose score on the CPIA measure of “transparency, accountability and corruption” was 3.0 or higher; and 11 in countries where this CPIA score was below 3.0. Ten of the first group (83 percent) were rated satisfactory or higher, a rate that is similar to the Bank portfolio as a whole. By contrast, four of the second group (36 percent) were rated satisfactory.

However, in weaker governance settings, carefully designed incremental approaches can achieve significant results.

Albania’s administrative reform focused narrowly on introducing meritocracy and market-competitive pay for the country’s top 1,300 civil servants. Such a narrow target is not enough for system-wide improvements, but it can yield important gains in the quality of policymaking and the management of public resources, establish a precedent of new ways of doing business, and open the way to broaden the scope of application over time. The reforms were widely publicized and enjoyed both the support of donors and broad approval among Albania’s citizens; therefore, in 2002 when the reformist prime minister was replaced, the senior civil servants constituted a powerful constituency for continuing the reforms, and the meritocracy arrangements have largely been sustained.

7. **Public Salaries.** Low pay can contribute to corruption within a public administration, particularly when total remuneration fails to pay a living wage, as is often the case in many African countries. In many countries, however, careful analysis suggests that public sector salary structures are the real problem, rather than average levels of public sector remuneration. First, public administrations typically pay progressively less competitive total remuneration the higher are the skill requirements and levels of responsibility. Second, when the extent of bribe-taking or other measures of bureaucrat-level administrative corruption has been subjected to careful, multivariate statistical analysis, average salaries are often not statistically significant determinants of such corruption. When similar analysis is undertaken, but is able to include position-specific measures of the competitiveness of remuneration, low competitiveness does bear a significant relationship with such bribe-taking. This research strongly suggests that key human resource management determinants of lower bureaucratic corruption are meritocratic human resource management practices and the competitiveness of remuneration ensured by the structure of remuneration. In short, simple linkage between pay and corruption can be misleading. Changes in compensation levels can only work if they are part of a package to reform public servants’ behavior. Other elements are essential to reducing corrupt practices.

8. **Sectoral Approach.** Because reforms of bureaucracies generally take a long time to help improve governments’ front-line performance, it is natural to complement them with approaches that work more directly at the interface between governments and citizens and firms: the provision of such services as education, health, utilities, and transport infrastructure, and credible regulation of markets to protect public welfare without unduly raising the costs of doing business. A central priority is to combat corruption in these sectors where it poses major
challenges for service delivery, investment climate, and accountability in the use of public resources. A sector-specific approach to governance and anticorruption also requires paying particular attention to the challenges of the financial sector, which have economy-wide repercussions (see Box B2).

### Box B2: Governance and the Financial Sector

Well-functioning and transparent financial markets and institutions are a powerful force for improving governance and combating corruption by imposing discipline on public and private agents. When financial systems do not function well, they become vulnerable to abuse. And the costs of subpar governance in the financial sector can be dire. In the case of Indonesia, which was hit hard during the Asian financial crisis, the fiscal costs to the government to make good on the obligations of the privately held banks exceeded 100 percent of the country's GDP. Empirical studies show a strong link between good governance and the soundness of financial systems.

Banks are the principal financial intermediary in emerging markets. Despite a wave of privatization around the world in the past two decades, 40 percent of the world's population still resides in countries where most bank assets are controlled by state-owned institutions. State-owned banks pose particular challenges, since they can undermine competition, and thwart supervision, increase the opacity of banks' operations, and often lead to excessive and misused government spending. Even in countries with fully privatized banks, the effectiveness of financial sector regulators to intervene is often constrained. Recent research suggests that direct official supervision of banks and disciplinary powers does not promote bank development or efficiency, nor does it reduce corruption in lending or banking fragility. By contrast, policies that promote good corporate governance of banks and banking regulatory policies facilitating private sector monitoring of banks, and including disclosure of reliable and timely information, do make a contribution to improving bank efficiency and controlling corruption in lending.

Generally, independence of financial regulators is key, as are laws that strengthen the rights of private investors to enhance the corporate governance of banks, as opposed to policies that weaken market monitoring of banks, such as deposit insurance, which tend to introduce moral hazard effects. A public policy role for the government is, however, important, particularly in the development of an effective legal system and in government regulations regarding transparency and disclosure requirements.

Corruption in the financial sector takes several forms, such as borrowers bribing loan officers, particularly in state banks that offer subsidized loans; well-connected borrowers; political insiders benefiting from loans on favorable terms that are not collected; corruption in public oversight of banks; foreign exchange and financial assets sold at favorable rates; and money laundering.

The WBG addresses these financial sector governance challenges in a number of ways, including:

- **Strong support through Bank policy-based operations, technical assistance, and IFC investments in bank restructuring and privatization**—the WBG promotes the transparent sale of state banks and insolvent private banks to new, well-run banks, thereby ensuring good practice and transparency in the sale process. These new banks reduce the power of insiders, increase competition, and improve lending and collection practices;

- **Better corporate governance in banks through policy dialogue, financial support and technical assistance, financial sector reform (as component of development policy operations), and methodologies for assessing and improving bank governance and transparency practices**, such as the Corporate and Bank Governance ROSCs undertaken jointly by the Bank and IFC;

- **Development of financial markets and non-bank financial institutions to stimulate competition and alternative sources of finance**;

- **Supporting the development of improved regulation, supervision and financial reporting** (for example, through the Bank-IMF Financial Sector Assessment Program (FSAP) program, support from Bank technical assistance (TA) loans, including over 160 Bank restructuring and privatization loans in the last 10 years), as well as better transparency on customer information through the supervisory framework for anti-money laundering (AML), followed up by Bank TA where needed (see detailed treatment of AML in Annex E on Global Partnerships and of asset restitution in para. 46 of the main text); and,

- **Ensuring that in its projects, the Bank works with financial intermediaries that are sound and associated with good governance practices**.

9. Building on lessons from the last decade, a common operational approach is emerging to identify and address governance vulnerabilities at the sector level—for example, in
pharmaceuticals, forestry, roads, education, and customs (see Box B3). One lesson of work at the sector level is the importance of involving stakeholders who care about the outcome—engaging not only users of social services and communities, but also the private sector, civil society organizations, politicians, and bureaucrats in a sustained process of reform. Another lesson is the importance of transparency, competition, and oversight: in the financial sector for instance, the Bank has supported the open, transparent sale of state banks and bankrupt private banks; better regulation, supervision, and financial reporting; and strengthened corporate governance in banks. Finally, experience also suggests that even in countries with more pervasive governance challenges, some sectors can function well.

**Box B3: Tackling Vulnerabilities at the Sector Level**

A forthcoming WBG publication sets out an approach to combating corruption that is being piloted in many sectors in the Bank: preparing a detailed “road map” at the beginning of a program with indicators along the way to signal possible corruption risks that might arise at various points in the program cycle. Two examples:

- In public procurement, corruption risks could arise during procurement planning, product design, advertising/invitation to bid, prequalification, bid evaluation (technical and financial evaluation), post-qualification, contract award, and contract implementation.
- In the delivery of essential drugs in the primary health sector, corruption risks could arise in the manufacturing of the drugs, drug registration, drug selection, procurement, distribution, and dispensation/prescription (see figure).

A road map approach provides a structured and detailed picture of a problem area and can help identify remedial measures. In the transport/roads sector, for example, the capture of resource allocations by vested interests during budget formulation can underpin bid rigging during the procurement stage (when the budget is executed), which in turn can trigger so-called “change orders” during contract implementation. Similarly, in the forestry sector, high rents are reaped (and large-scale corruption takes place) during the stage when illegal lumber is laundered into legal products such as furniture; and any serious attempt to address corruption in the sector would have to focus on this particular link in the chain. The road map also offers a tool for developing measurable indicators for tracking the incidence of corruption. In procurement, for example, if bidders systematically drop out from the initial expression of intent through the financial evaluation of bids, it may signal some form of collusion among participating firms.


10. **Strengthening Governance at the Local Level.** Even when opportunities for governance reform at the national reform are limited, there may be entry points at the local level. Local politics vary considerably, so that there are sometimes very striking differences in local governments’ interest and willingness to engage in governance reform. In some settings, top-down reforms can recognize, support, and reward progress at the local level. In other settings, the entry point might be bottom-up participatory reform, such as community-driven development (CDD), especially when it also supports the development of local government capacity and
accountability. In a small number of countries where prospects for government reform are limited, CDD operations may be the only feasible entry point for reform.

11. **State Oversight Institutions.** Formal oversight institutions can provide important pressures for improving government performance. Where judiciaries are independent, competent, and accountable and where public accounts committees, supreme audit institutions, and ombudsmen have sufficient capacity, they often can hold the executive to account. Equally important is attention to the legal framework by which the judiciary operates and which it applies. Poorly conceived and drafted laws can contribute to creating an environment in which corruption flourishes. While the Bank has a fairly active engagement in judicial reform in Latin America and Europe and Central Asia, it has taken a more limited role elsewhere. The Bank has also been increasingly engaging with and supporting supreme audit institutions and the work of public accounts committees, state audit institutions, and ombudsmen through policy dialogue, capacity building, and operations; however, these areas have not historically been a strong central focus of the WBG. The Bank will work more systematically, consistent with its legal framework and in partnership with other donors, to help countries strengthen their formal oversight institutions.

12. **Strengthening Transparency in Government.** Assuring that the executive operates in a transparent way by making information broadly available to citizens on the operation of the public sector can help strengthen accountability, and so improve public sector performance. Citizens and media that have broad access to information on the operation of state institutions are crucial for holding the state to account. Such access may include publication of information on budget and procurement data, access to state records and reports, and the state’s active dissemination of information on its operations and performance including through e-government. Moreover, greater transparency can help to establish the credibility of decision-makers through the public disclosure of their income and assets. Working with partners, the Bank will push for a significantly greater focus on assuring greater access by citizens to information on how government operates, including expanded production of information that can allow citizens to assess the services they are getting from government.

**B. Multi-stakeholder Engagement with Civil Society, Media, and Communities**

13. Engaged local communities, a vibrant civil society, and a transparent flow of information (including well-functioning, capable and open media) support poverty reduction by helping to hold governments accountable for delivering better services, creating jobs, and improving living standards. Over the past decade the Bank has engaged increasingly with civil society groups, and Bank capacity and sophistication in this work have expanded dramatically. Civil society groups vary in their mandates, transparency, and commitment to integrity. Experience has underlined the importance of working with groups that are competent and accountable, and consistent with the Bank’s legal mandate. Drawing on and informed by this experience, while working with the government as its principal counterpart, the Bank will thus systematically scale up multi-stakeholder engagement in our operational work, in close collaboration with other development partners, depending on which initiatives offer the best prospects at the country level.

14. **Participation and Oversight.** While government transparency can help to facilitate participation and oversight, more proactive engagement of society is also vital. Where
governments are supportive, opportunities for participation and oversight can be increased, for example, through participatory development of policies and public spending priorities (where the poverty reduction strategy process has provided a major impetus in IDA-eligible countries), social accountability in the delivery of services, community-driven development, civil society and media oversight over public procurement, monitoring of income and asset declarations, and other arrangements empowering legitimate social groups. In many settings, capacity in civil society organizations (CSOs) will need to be strengthened to effectively take advantage of these opportunities. Also helpful is the development of independent and competitive media that can report on government performance, including corruption. As the examples in Annex G underscore, the Bank increasingly has recognized this reality over the past decade—and has made engagement with stakeholders increasingly integral to operational design and implementation. While working with the government as its principal counterpart, the Bank will more systematically use a range of instruments—policy dialogue, analytic work, capacity-building, policy-based lending, and community-driven development—to scale up existing good practice to increase opportunities for participation and oversight.

15. **Financing.** At the country level, the Bank will continue to pursue this agenda in partnership with other donors that have traditionally engaged actively with civil society and media, and will work to strengthen these partnerships. Because the Bank’s traditional financing instruments are geared to work with the executive, nontraditional funding mechanisms have a special salience in this area. A number of grant facilities already have proven useful. Examples include the Japan Social Development Fund, which (with the concurrence of government) provides grant support directly to CSOs working with communities; trust funds which provide financing for innovative accountability mechanisms and capacity-building of both government and civil society, like the Bank Netherlands Partnership Program priority support for social accountability, the Norwegian Governance Trust Fund, and the Trust Fund for Environmentally and Socially Sustainable Development; and the financing provided through the Development Grant Facility to the Partnership for Transparency, a highly effective organization that gives small grants to civic watchdogs. The WBG will encourage other donors to increase financial support for such organizations as well.

C. **Competitive and Responsible Private Sector**

16. The role of the private sector in the struggle against corruption has been mixed. On the one hand, some private businesses, including some from developed countries, fuel the supply-side of corruption by engaging in corrupt practices. On the other hand, as the GAC consultations underscored, there recently has been strong momentum from within the private sector in both developing countries and globally to lend support to efforts to combat corruption and improve governance. It is also important to bear in mind that the private-public sector governance challenge is not confined to domestic businesses: in spite of the Organization for Economic Cooperation and Development (OECD) Anti-Bribery Convention that came into force over five years ago, multinational corporations’ involvement in corrupt behavior abroad can undermine public governance in emerging economies. There has been little progress in bringing serious cases of bribery to court; and the gap revealed in enterprise surveys between multinationals’ bribery behavior when operating in another OECD country as compared with operating outside of it highlights the need for rigorous monitoring and enforcement of the OECD convention. In recent years, some large multinational corporations have adopted anticorruption policies, in part
as a function of tighter regulations in key markets (represented, for example, by the Sarbanes-Oxley Act in the United States) that increased the compliance requirements for listed companies and raised penalties for failures in corporate governance.

17. **A Sound Investment Climate and Competitive Private Sector.** Supporting the growth of a competitive, responsible private sector—and facilitating the efforts of private firms to engage more actively in efforts to combat corruption—requires multi-faceted engagement at the country level, which can be taken up by different members of the WBG. First, IBRD, IDA, IFC, and MIGA all have roles to play in helping governments improve the enabling environment for the development of competitive private and financial sectors and increased private investment. Reforms in these areas can help level the playing field, reduce incentives and opportunities for corruption, stimulate better corporate citizenship, and help nurture support for better governance. Bank support for developing countries’ efforts to address barriers to doing business yields a double benefit on the anticorruption front: many of the obstacles to business identified in the Doing Business Reports and Investment Climate Assessments are also “collection points” for various forms of illegal levies, and serve as invitations for corrupt behavior by both government officials and private sector individuals. A successful private sector that widens opportunities to make money honestly commensurately reduces the pressure on individuals to seek corrupt avenues.

18. **A Responsible Private Sector.** Direct engagement by IFC and MIGA with the private sector to strengthen corporate governance, foster ethical corporate practices more broadly, and encourage them to join public-private coalitions for reform, such as the Extractive Industries Transparency Initiative (EITI), Publish What You Pay, and the regional Forest Law Enforcement and Governance regional Ministerial initiatives (FLEG), can help create pressures on government to reform. IFC, in particular, has an important role to play: it can use its investments and advocacy to engage the private sector as a proactive ally in the fight against corruption. IFC will work to introduce partnerships that create and reinforce incentives for private firms to avoid corruption, helping create visibility around the idea that avoiding corruption is good for businesses. This will be consistent with IFC’s existing approach to building the “business case” for private sector engagement on environmental and social issues.

19. **Raising the Cost of Corruption.** Finally, public sanctions that result from investigations by the Department of Institutional Integrity (INT) can help to raise the cost to businesses for continuing to engage in corruption, while voluntary disclosure by contractors that have engaged in corruption can help to unravel embedded corruption networks. Joint sanctions reform by the MDBs has begun the important process of standardizing definitions of corruption; improving the consistency of investigative rules and procedures; strengthening information sharing; and assuring compliance and enforcement actions taken by one institution are supported by all others. For the Bank, the recently launched Voluntary Disclosure Program (VDP) promises to be an efficient and very cost-effective method of eliciting high-quality evidence of the nature, forms, and patterns of corruption in Bank-financed projects, as well as the identities of corrupt actors. With both the UN Convention against Corruption and the OECD Anti-Bribery Convention now in force, firms with corrupt practices face greater law enforcement risks, which are amplified by the new possibility of being identified by a VDP participant. As a result, entering the VDP is likely to make good business sense for many firms, especially since they will then have an opportunity to come clean while continuing to do business with the Bank.
20. **Working Together.** The WBG will more fully engage in countries to create a competitive and responsible private sector, working with both governments and firms in a more coordinated way, through joint IBRD/IDA, IFC, and MIGA CASs. The WBG will more effectively work together to create public-private partnerships in countries, exploring how to extend existing approaches to new areas.

D. **Supporting Governance Reform**

21. **Supporting Reform.** The GAC consultations underscored the important role of reformers, with numerous respondents explicitly suggesting that, in weaker governance settings, the Bank should focus its development operations more on sectors and agencies where stakeholders inside and outside government are committed to achieving results. Working within its mandate, WBG support for reform will be based on sound professional judgment about development impact. Experience indicates that for a reform program to be successful, not only should it be realistic and appropriately sequenced, it should also be led by committed and informed reformers in the country who have the authority to advance the reform agenda and the local knowledge to find a way through the inevitable obstacles. Often these reformers are in government; this is why “country ownership” is key to the reform process.
ADDRESSING CORRUPTION IN BANK GROUP PROJECTS

1. The Bank’s record in reducing corruption in projects that it supports is essential for achieving its mission to reduce poverty in its client countries, as well as for its credibility in advising and supporting governance and anticorruption efforts. Bank shareholders expect the Bank to do all it can to ensure that the resources it provides will not be wasted, especially at a time when so much attention is being given to the issue of aid effectiveness. Given the small share of overall spending represented by Bank-financed projects in most countries, merely protecting Bank-financed projects from the misuse of funds will not affect overall corruption levels—strengthening country systems is the long term solution to mitigating fiduciary risk.

2. **Fiduciary Controls.** The Bank has always been concerned to ensure that the funds it provides are used for the intended purposes, and it has generally relied on safeguards on lending for this purpose. Fiduciary controls—the Bank’s financial management, procurement, and disbursement procedures—have advanced since 1977: in most countries the Bank routinely assesses not just the arrangements for Bank-supported operations but the country’s overall fiduciary environment. This diagnosis informs the Bank’s operational strategy; and Bank-financed operations (including policy-based loans) in turn support governance reform to strengthen public financial management. More recently, some Bank-financed operations have begun to include accountability mechanisms aimed at giving “voice” to civil society as a means of reducing the risks of corruption. These mechanisms might include social assessments, institutional and implementation assessments, and strategic communications. Importantly, operational experience has demonstrated that protecting Bank funds can also advance local capacity. (See Box C1).

   **Box C1: Developing Domestic Capacity is Key to Protecting Bank Funds in Latin America**

   Experience in Latin America indicates that good procurement and financial management help improve public expenditure, achieve development results, and protect the use of country, Bank, and donor funds for intended purposes. For example, in **Mexico** the introduction of a state-of-the-art e-procurement system resulted in 20 percent cost savings in public procurement, as well as increased foreign competition. In **Guatemala** the development of an integrated financial management system, also linked to the e-procurement system, has led to a significant improvement in the perception of transparency at both the central and municipal government levels. In both countries the prospect of using such systems under Bank-financed projects motivated some of the reforms.

   In countries where fiduciary risks are very high and the government’s engagement on public expenditure and fiduciary reforms is limited or institutional capacity is very low, ring-fencing Bank-financed projects may be the only feasible option. For example, Bank-supported projects in **Haiti** use simple project designs and rely both on permanent organizational structures such as the Ministry of Finance and on special-purpose project implementation units. The Bank reduces opportunities for corruption through procurement prior review of contracts; ring-fencing of funds, including through special accounts in the Central Bank and disbursement of funds on the basis of statements of expenses; and careful prior evaluation of control systems and implementation of action plans to improve them.

   Latin American experience indicates that development of local capacity (with a view toward progressive reliance on domestic systems) and ring-fencing can be complementary, not mutually exclusive, approaches. They can both be part of an overall development strategy tailored to fit specific country, sector, or program circumstances. As a critical tool for strengthening fiscal and program management, combating corruption, and improving governance, project-level procurement and financial management work is becoming progressively integrated with analytic work, institutional development, and capacity building in borrowing countries.

3. **Department of Institutional Integrity.** Concern about fraud and corruption in Bank-financed operations has risen sharply in recent years because of the accumulating findings of the Bank’s Department of Institutional Integrity’s (INT) investigations of investment projects. The
establishment of INT and the Sanctions Committee/Board in 2001 has created capacity to investigate allegations of fraud, corruption, coercion, and collusion related to WB financed projects and to sanction firms and individuals found to have breached the fraud and corruption provisions of the Bank’s Procurement Guidelines or the Consultants Guidelines. More than 2,000 external cases of alleged fraud, corruption, or other misconduct have been handled since 1999 and more than 330 companies and individuals have been publicly sanctioned, providing significant examples of issues in projects financed or managed by the Bank across countries. Lessons are also emerging from INT’s proactive Detailed Implementation Reviews (in which several projects in multiple sectors in a relatively high risk country are reviewed by INT for indicators of fraud and/or corruption), with four reviews completed and two under way. Problems identified include kickback brokers (a local agent arranging kickback payments to the officials responsible for awarding a contract), bid rigging (in which government officials agree on who will win the bid), use of front companies (generally used with other schemes, to disguise ownership), and use of official-owned companies (generating conflict of interest).1

4. Lessons. Both INT investigations and Bank supervision have revealed frequent shortcomings in project documentation and recordkeeping by project agencies. INT findings further point to the need for each project to identify the risks it faces clearly and meaningfully and the need for supervision to be carried out differently, with a team that includes fiduciary and technical skills undertaking a unified review. About half of INT investigations that led to specific corrective actions were linked to infrastructure projects, suggesting the heightened vulnerability of this sector. Among the lessons of recent experience: country-specific, risk-based assessments of fiduciary management are important; internal Bank incentives need to be aligned with the goal of identifying country institutional weaknesses; operations staff need to be appropriately trained; and results-focused and participatory approaches are essential to good project preparation and implementation.2

5. Prevention. Prevention of corruption in investment operations will emanate from a more explicit focus on anticorruption during project identification as well as during implementation and supervision. At the identification stage, the project’s susceptibility to corruption will be assessed by considering the country and sector environments as well as the nature of project activities. A key source of information is any INT investigative findings or relevant Detailed Implementation Reviews. Appropriate corruption mitigation measures will then be included in the project’s design, in a growing number of countries, drawing on lessons from INT investigations regarding effective anticorruption safeguards and due diligence. Project design should increasingly include enhanced oversight mechanisms, disclosure of project information, complaints handling, and strengthened supervision. Moreover, project agencies or units need processes in place to ensure adequate recordkeeping and documentation, which is vital for subsequent detection of problems. Most importantly, the measures must aim to increase the accountability of project implementing agencies and service providers through instruments that give “voice” to beneficiaries (such as beneficiary surveys and citizen scorecards). Strengthened

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anticorruption measures will also include an enhanced focus on internal controls, audits, and readiness of fiduciary arrangements for project implementation. Other measures might include technical assistance components, especially in fiduciary areas; enhanced transparency and disclosure on project procurement and financial management issues; and stronger monitoring mechanisms (including physical and value-for-money audits). Since an effective dialogue on issues of fraud and corruption (amongst other matters) is critical to project success, a communications strategy that covers all phases of the project should be developed. (See Box C2 for a recent project example).

**Box C2: Integrating Anticorruption Elements into Project Design: Paraguay Road Maintenance**

The $74 million Paraguay Road Maintenance Project currently under preparation, which finances the enhancement, management, and maintenance of the country’s roads infrastructure, directly integrates anticorruption components. The design of the project sets three guiding themes in all components: (a) performance, through monitoring targets whose attainment will be the indication of success; (b) accountability, through planning and programming all interventions on the basis of objective and quantifiable criteria; and (c) participation and transparency, through mechanisms that allow stakeholders to influence and share control over the decisionmaking. Preparation of the proposed project, while two years in the making, has influenced the implementing ministry to prepare a road sector strategy that aims to generalize the approach.

The project’s design includes clear roles for the borrower, the Bank’s task team, and—an innovation—INT during project implementation, including a set of monitorable indicators triggering specific responses tailored to the level of the corruption risk identified. The project’s anticorruption action plan proposes enhanced supervision to be triggered by biannual Borrower reports on indicators of potential inefficiencies or “alerts” (such as the number of firms participating in bids dropping below three). If the Bank discovers indicators of potential fraud or “red flags” (such as improper communication with contractors) during enhanced supervision, then the team reports its findings to INT. If the gravity of the flags is deemed high, INT will investigate.

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6. **Options for Very High Risk Environments.** When engaging in some of the highest risk environments, greater measures for mitigating fiduciary risk may be needed. Greater use of instruments that rely less on central government administration, such as Community Driven Development, can help to mitigate fiduciary risk. Use of output-based payment mechanisms, third-party delivery mechanisms, and even World Bank execution are also potential options. While some of these approaches can help to strengthen domestic accountability—by strengthening the capacity of communities, the private sector, and CSOs to be responsible development partners—simultaneous attention should be given, where feasible, to strengthening country systems as the longer term strategy for mitigating fiduciary risk.

7. **Detection and Deterrence.** The focus on prevention during project design will be pointless unless the borrower and the Bank follow up during project implementation and supervision. The starting point in detecting corruption must be a change in mindset that assumes little or no corruption, to a realization that with weak accountability mechanisms, the likelihood of corruption is high. Within the Bank, this change will be facilitated through better dissemination of INT findings and emerging good practice, and more explicit training and sensitization of task teams. Supervision will also rely more heavily on “red flags,” that is, indicators of corruption that task teams can use during supervision (see Box C3). Strengthened anticorruption measures include an enhanced focus on controls, audits, and reviews, and greater
attention to fiduciary arrangements and to the readiness of the implementing agency or unit for project implementation. Other elements of a more effective approach to supervision might include integrating procurement, financial management, and implementation reviews; integrated procurement and financial management monitoring of controls in the contract cycle; carrying out detailed reviews of selected contracts and corresponding site visits; creating twinning arrangements with government auditors and inspectors general for training purposes; suspending disbursements if government response is inadequate; and publicizing both quality work and suspensions, misprocurement, and cancellations. More intensive supervision will be more costly, disbursements may slow to some extent as a result of this more careful supervision, and cancellations due to misprocurement may rise. Revised staff guidelines on supervision in general and supervision of high-risk operations in particular will be prepared.

**Box C3: Red Flags from INT: Indicators of Corruption in Procurement**

| Corruption in a development project may involve bribes and kickbacks, bid collusion or manipulation, and fraud |
| Bribes or kickbacks are paid to secure contracts. If they are required to secure the payment of subsequent invoices, they may be in the nature of facilitation payments. |
| Bid collusion may take place either among all bidders or, more often, among project officials on the one hand and the bidders on the other hand. It relies on designated losers being paid for their willingness to support collusion. Since the designated winning bidder may have to pay off the losers—in addition to project officials—to secure the contract, the winning contractor/supplier inflates prices, overbills for materials and labor, and/or underdelivers on quantity and quality in comparison with what the bid and the contract specify. Indicators of bid collusion may be in the form of rotating awards in any given series of consecutive or concurrent biddings; often the bids show unusual similarities (for example, the same typographical errors, or the same breakdown of unit prices). More broadly, indicators of bid manipulation by project officials may include bid specifications too narrow or too vague; unreasonable prequalification requirements; an unreasonably short time to submit bids; selection of other than the lowest evaluated bidder; selection of a bidder followed by change orders increasing price or scope; questionable disqualification of winning bidder and rebidding; persistent high bid prices; the same (few) bidders bidding; or apparent connections between bidders. |
| Fraud indicators include the appearance of local agents or consultants that provide ill-defined, generic, or unneeded services—especially in a country with a reputation for corruption; unjustified or repeat sole-source awards; repeated selection of unqualified or high-priced contractors; a project official insisting on the use of certain local subcontractors or suppliers; long or unexplained delays in contract execution after bid award; and a project official living beyond his means. It may also include the surfaced of new and unknown bidders or subcontractors, or a sudden and significant change in an implementing agency’s approach to procurement—either rigid adherence to normally flexible procurement rules, or the reverse. Indicators of fraud during contract implementation include poor-quality work, repeated failed tests or inspections, delays or refusals to allow tests or inspections, and complaints from users. |

GLOBAL PARTNERSHIPS ON GOVERNANCE AND ANTICORRUPTION

1. To strengthen the impact of work on governance and anticorruption and more effectively support individual countries in their effort, the WBG is engaged broadly with other development institutions, international partners and local stakeholders on the global anticorruption agenda. Global partnerships promote coordinated action, resource pooling, sharing of innovations and expertise, harmonization of procedures and a more effective division of labor consistent with each organization’s resources and mandate. The Bank’s strategy for enhanced global engagement consists of stronger coordination with multilateral and bilateral donors; strengthened global partnerships with parliamentarians, civil society, the private sector, and the media; strengthened global coalitions among leaders of the state, civil society, the media, the private sector, and international organizations to promote change at sector, country, and global levels; promote the harmonization of procedures and guidelines among different organizations; and support for implementation of international initiatives and conventions.

2. Enhancing Public Goods. In the area of governance and anticorruption, global partnerships on anticorruption have been used to enhance global public goods, including by: (a) sharing experience and information;1 (b) developing approaches to tackle transnational aspects of corruption;2 (c) building support for better governance;3 and (d) fostering coordination and harmonization of practices among donors.4 In many of these partnerships, the Bank has played a central, proactive role.5

3. Areas for Strengthening. As the recent consultations underscored, deeper and more effective partnerships are needed, with a view to: (a) harmonizing governance and anticorruption initiatives with the IMF, United Nations, regional development banks, and other donors; (b) clarifying division of responsibilities; (c) promoting coordinated action in countries where governance and corruption problems pose challenges for development, including consulting with other partners when considering limited engagement; (d) as part of a process of joint sanctions reform by the multilateral development banks (MDBs), making investigative rules and procedures more consistent, strengthening information sharing, and establishing mechanisms to recognize each other’s sanctions decisions; (e) working closely with the private sector, civil society, youth, and the media to support change coalitions such as the Global Integrity Alliance as well as sector-specific initiatives such as the Extractive Industry Transparency Initiative and Publish What You Pay, while raising the cost of corrupt behavior through increasingly harmonized MDB sanctions and the WBG’s new Voluntary Disclosure Program; (f) supporting implementation of key international

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2 The Organisation for Economic Co-operation and Development (OECD) Anti-Bribery Convention, the United Nations Convention against Corruption, the Global Program on Fisheries, the Extractive Industries Transparency Initiative, and the Forestry Law Enforcement and Governance Ministerial initiatives.
3 The Partnership for Transparency Fund, the Global Integrity Alliance, the Partnership Against Corruption Initiative (PACI), the Business Competitiveness and Development Program for corporate governance and the International Budget Project.
4 The OECD-DAC Governance Network (GovNet), the Public Expenditure and Financial Accountability (PEFA) program, and the MDB Governance and Capacity Building Working Group.
5 For example, the Forest Law Enforcement and Governance Ministerial processes (FLEG) in East Asia, Africa and Europe and North Asia have been facilitated by the Bank since the first Ministerial Conference in Bali, Indonesia in 2001.
conventions such as the OECD Anti-Bribery Convention, the UN Convention against Corruption, and regional initiatives; (g) helping enhance a country’s ability to track, freeze, and confiscate the proceeds of corrupt behavior, including through technical assistance for asset recovery; and (h) working with developed countries, the OECD, and the private sector to provide assistance on anti-money laundering, and greater cooperation to address tax havens and asset restitution.

4. **Harmonization and Coordination with Donor Partners.** There are serious challenges of coordination among bilateral donors, multilateral development banks (MDBs), and other international financial institutions (IFIs). For example, if there are divergences in approaches and standards, recipient countries may be inclined to turn to donors who are less stringent standards on governance and anticorruption issues. More broadly, improved coordination among donors in governance work generally and anticorruption work specifically is central to ensuring development impact. By coordinating and developing an harmonized approach for analytic work, donors can promote a more effective use of resources, ensure better quality work, develop consistent messages on key issues, and encourage the identification of agreed follow-up programs that have broad support. With respect to project funding and subsequent implementation, consolidating a myriad of donor activities into one agreed program reduces transaction costs, maximizes the benefits of division of labor, facilitates priority setting, allows for common reporting, and generally reduces the burden of donor requirements on governments. The main messages of the Paris Declaration have particular relevance in many areas of governance—it makes little sense for donors to pursue separate approaches to civil service reform, work on budget and financial management systems, and support for key anticorruption and judiciary institutions. New and emerging strategies on governance and anticorruption by several donor organizations, including the African Development Bank, the Asian Development Bank, Australia’s Australia Agency for International Development (AusAID), the Canadian International Development Agency, the European Commission, France, the Netherlands, the UK’s Department for International Development (DFID), the United Nations, the US Agency for International Development, and others provide important opportunities to advance coordination.

5. **Bank Efforts.** A substantial body of country-level good practice on harmonization is emerging, and the lessons of this work need to be more broadly applied. At the global level, coordinated and harmonized donor approaches can better support partner countries in building more capable and accountable institutions, and can tackle more effectively the challenges of poor governance and corruption in high-risk settings. The Bank’s efforts in global areas include the following:

- Enhanced focus on undertaking joint assessments of governance and corruption and fostering greater specialization and division of labor among international organizations and donors. The Bank is working closely with bilateral and multilateral donors through the Governance Network (GovNet) of the OECD-Development Assistance Committee (DAC) in preparing a policy paper for the DAC that outlines an agenda for collective donor action on anticorruption. The GovNet is piloting a collective donor approach in Cameroon.

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• Continued coordination with other institutions—for example, the recent work of an IFI task force on sanctions reform to improve consistency in investigative rules and procedures, strengthen information sharing, and implement mechanisms to recognize each other’s sanctions decisions. Another priority is to coordinate donor strategies in exceptional-risk countries to avoid mixed signals—that is, a determined stance by one donor may be negated by different standards or opportunistic behavior of other donors. To this end, it is important that efforts are made to integrate new and emerging donors. There are some examples of collaborative CASs (for instance, Uganda), which could serve as an important instrument to facilitate coordination.

• Continued coordination with the IMF on a range of areas related to governance and transparency—for example, in public financial management, tax and customs reform, support for Poverty Reduction Strategy Papers, coordinated strategies on debt relief, through the IMF’s publications policy, work with the Financial Action Task Force (FATF) to assess countries’ compliance with the FATF’s recommendations to combat money laundering and the financing of terrorism, and on the Report on Observance of Standards and Codes (ROSC) initiative (see Box D1). The Fund’s involvement in governance requires a macroeconomic rationale and is concentrated in their areas of expertise, notably fiscal and financial sector policies and practices—two key areas where governance issues arise. When warranted, anticorruption and governance measures are incorporated in conditionality and are addressed in many Article IV consultations and programs, and the Fund’s governance-related conditionality focuses on questions of good economic governance and measures that are directed toward achievement of the objectives of members’ programs, for example under the Poverty Reduction and Growth Facility (PRGF), or under the enhanced Heavily Indebted Poor Country (HIPC) initiative.

7 In November 2005, the integrity units of all the MDBs met for the first time to discuss common issues, challenges, and their experiences. At a meeting in February 2006, the heads of IFIs agreed to launch the Joint International Financial Institutions Anticorruption Task Force with a mandate to: standardize definitions of corruption; improve consistency of investigative rules and procedures; strengthen information sharing; and assure compliance and enforcement actions taken by one institution are supported by all others. The task force has agreed in principle on definitions; on investigative guidelines; and on information sharing. The heads of the IFIs endorsed the report of the task force at a meeting in Singapore in September 2006, recommending four harmonized definitions of fraud and corruption, while the Bank Board had approved five definitions (see Annex E) on August 1, 2006. For further details, see Sanctions Reform: Expansion of Sanctions Regime Beyond Procurement and Sanctioning of Obstructive Practices - Revised (R2006-0149/4, IDA/R2006-0158/4, IFC/R2006-0209/4, MIGA/R2006-0045/4), approved on August 1, 2006.

8 Bank-IMF collaboration has been guided since 1989 by a formal Concordat and subsequent guidelines. See Bank-Fund Collaboration in Assisting Member Countries, SM/89/54, Rev.1, March 31, 1989.

9 The IMF launched three international codes of good practice—for fiscal transparency, data dissemination, and monetary and financial policies. Currently, the IMF and the Bank collaborate in assessing the observance of standards and codes in 12 areas critical to the functioning of a market economy, including those relating to transparency, corporate governance, financial sector, market integrity, and anti-money laundering. The results are summarized in Reports on the Observance of Standards and Codes (ROSCs), which are typically published with the consent of the member.
Box D1: The IMF’s Approach to Promoting Good Governance and Combating Corruption

In response to the IMF’s Board of Governors’ request, in 1997 the IMF’s Executive Board adopted a guidance note, *Good Governance: The IMF’s Role*, which describes how the IMF, given its mandate and expertise, can contribute to good governance (including the avoidance of corrupt practices) through its policy advice and technical assistance, focusing mainly on two spheres: i) improving the management of public resources through reforms covering public sector institutions, including administrative procedures; and ii) supporting the development and maintenance of a transparent and stable macroeconomic and regulatory environment conducive to efficient private sector activities. The note also indicates that the IMF should get involved in governance issues only when they have a significant current or potential impact on macroeconomic performance, focusing only on the economic aspects of those issues that fall within its mandate. IMF staff are encouraged to collaborate closely with other multilateral institutions, in particular the Bank.

Since 1997, the IMF’s role in promoting good governance has been to encourage transparency and accountability in economic policies through the development and promotion of internationally recognized standards and codes of good practice, and, together with the Bank, address the adequacy of systems for tracking public expenditures on poverty reduction. The IMF assists countries’ compliance with internationally recognized standards and codes through the joint IMF-World Bank ROSC initiative. This includes implementing policy transparency codes on fiscal policy, monetary and financial policies, and data, as well as on other financial sector institutions and regulations. It also includes the intensifying of Bank and Fund involvement in international AML/CFT activities. Minimum standards for control, accounting, reporting and auditing systems of central banks were also introduced to safeguard the use of Fund resources, and a Guide on Resource Revenue Transparency was developed in 2005 to supplement the general manual on fiscal policy transparency with good practice examples of specific relevance to countries with large extractive industries.

Increasingly, countries request IMF technical assistance in building capacity—such as strengthening tax and customs administrations, and improving budgeting and public expenditure management—that has a direct bearing on good governance.

Source: IMF staff and website.

6. **Strengthened Partnerships with Civil Society and the Private Sector.** While working with government as its principal counterpart, the WBG will engage with civil society and the private sector as vital partners in promoting better governance and anticorruption. At the global level, the Bank partners with civil society organizations along a range of economic reform and governance dimensions, and it will work to strengthen these partnerships further. The WBG, and especially IFC, has also been working with business associations and private firms in the area of corporate responsibility and transparency, and also with global professional and standard-setting bodies. These partnerships have been especially useful to establish a dialogue with the private sector and other stakeholders, examine the challenges facing businesses at the local level, and identify possible policy solutions to improve the business environment, and shape the standards and codes and thus have an impact on regulatory approaches in developed and developing countries. More broadly, while IFC/MIGA focus on ensuring adherence to corporate integrity at a transactional level, the WBG will marshal its collective efforts to engage proactively with the private sector at the country and global levels, as in Partnership Against Corruption Initiative (PACI). The WBG, and particularly IFC and MIGA, will engage with the private sector as a crucial ally for good governance and will promote the idea that avoiding corruption is good for business, consistent with mounting pressure in recent years from investors and regulators for multinational corporations to commit to corporate social responsibility. The WBG will also strengthen partnerships with civil society organizations and the media at the country and global levels as a powerful force for holding

10 The Bank collaborates with Transparency International on a variety of initiatives, including the International Anticorruption Conferences and periodic consultations. A joint workshop in 2003 with Transparency International took stock of the Bank’s progress on anticorruption.
governments accountable. This will include stronger partnerships with global civil society organizations such as Transparency International, and also with national and local civil society organizations and media on country-level governance initiatives such as monitoring of public procurements or asset declarations of public officials.

7. **Supporting Global Coalitions for Reform.** The WBG will continue to support a series of initiatives at the global level to promote coalitions among government representatives, civil society, the media, and the private sector for governance reform. The Extractive Industries Transparency Initiative (see Box D2) represents an example of such an effort at the sector level in countries. Another important sectoral initiative is the Forest Law Enforcement and Governance regional Ministerial processes (FLEG), which help to combat illegal logging and other forest crime through a shared responsibility of producer and consumer countries of forest products, and in which governments, civil society, and the private sector all have distinct roles to play. Through such innovative global partnership as the Global Integrity Alliance and the Global Organization of Parliamentarians Against Corruption, and through working more with youth groups and leaders, as well as with reformist networks within countries, the WBG can identify ways to recognize and support leaders in developing countries who take a tough stand on corruption, often at high risk to themselves, and can help combat entrenched networks of corruption.

Box D2: The Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative (EITI), a global initiative aimed at increasing transparency and accountability in countries dependent on extractive industries (oil, gas and mining), was developed in response to the so-called “resource curse”—increasing evidence that resource endowments only contribute to sustained growth when there are high levels of transparency and accountability. EITI was launched in 2002 as donors, companies, and civil society groups (for example, the Publish What You Pay Coalition) looked for a mechanism to address extractive industries' issues. The multi-stakeholder initiative promotes auditing, reconciliation, and publication of information on what companies have paid to governments, and what governments have received from those companies. A Secretariat based in the UK’s DFID coordinates and leads the Initiative. Some 21 countries across Africa, Asia, Latin America, and the former Soviet Union have endorsed or are implementing EITI. Of these, 14 have active ongoing EITI programs, and 4 have produced EITI reports. Examples of EITI implementation include Nigeria, one of the most advanced country in terms of implementing the EITI, where financial, physical, and process audits have been carried out which have identified a number of problem areas where sector management is not transparent and where reforms are required to deter corruption and mismanagement; and Azerbaijan, where recent EITI reports have identified discrepancies between the figures reported by companies and the Government, enabling Azeri civil society to scrutinize the oil and gas sector and to be more closely involved in discussions with the Government and the oil companies. Looking forward, EITI is recognized as an important first step, but that countries need to see it as a part of an overall sector governance program which looks at broader issues of effective regulation, sector management, and revenue distribution. An international validation system is being developed which will assess the level of implementation of the Initiative.

*Note: For further information see [www.eitransparency](http://www.eitransparency)*

8. **Supporting Implementation of International Initiatives and Conventions on Governance and Anticorruption.** Certain international legal conventions and initiatives strengthen the anticorruption framework in industrial countries in ways that hold individuals and companies responsible for acts committed in other countries. This extraterritorial reach is potentially a great support for developing countries, whose judiciaries are not always up to the task of prosecuting complicated corruption cases with international dimensions, especially when they involve large
international companies or politically influential nationals. The most important such anticorruption initiatives are the OECD Anti-Bribery Convention, the anti-money laundering recommendations of the Financial Action Task Force (FATF), and the United Nations Convention against Corruption.

- Inspired by legislation in effect in the United States since 1977, the OECD Anti-Bribery Convention actions came into effect in 1997 as the first global instrument to target the supply side of corruption. Until then, most OECD countries considered bribes paid to foreign officials as legitimate tax-deductible business expenses. The implementation of the Convention is supported by a strong monitoring mechanism.¹¹ Ways will need to be found to engage more with countries, especially emerging market economies whose importance in trade and investment in developing countries is growing rapidly. The Bank will continue its partnership clients and the OECD for tougher monitoring, disclosure, and enforcement of the OECD Anti-Bribery Convention.

- The multinational FATF issued its Forty Recommendations on Money Laundering, now an international standard, in 1990 and added nine special recommendations for measures to aid in combating financing of terrorism (CFT) in 2003 and 2004. At the heart of the anti-money laundering (AML) recommendations is the identification of the crimes—including corruption and bribery—that give rise to money laundering. The Bank and Fund have been providing assistance and training to partner countries to build AML/CFT systems and implement measures to complement other instruments to combat corruption, including assistance on asset freezing and forfeiture.¹² In the Bank, assistance is provided as stand-alone AML/CFT programs, or as part of Bank lending and nonlending financial sector programs. Further, in financial sector lending programs, putting in place AML/CFT laws has been supported by development policy operations, such as in Vietnam and Cambodia. (See box D3, below, for lessons of Bank work in anti-money laundering.)

- A very important global anticorruption convention is the United Nations Convention against Corruption, which became effective in December 2005, after 30 countries had ratified it. The Convention covers both public and private corruption and emphasizes prevention, detection, prosecution, confiscation of proceeds, and international cooperation. The World Bank is working closely with UN Office of Drugs and Crime in supporting the implementation and monitoring of the Convention (see Box 12).

¹¹ The OECD will soon publish a review of two dozen reports from the peer review monitoring process, involving on-site visits to assess enforcement. Transparency International has published a report that shows a positive start to enforcement, with foreign bribery cases or investigations in 15 of 24 countries surveyed, but it notes with concern the nine countries that have neither cases nor investigations. Transparency International’s 2006 Progress Report on the Enforcement of the OECD Convention notes both strengths and potentially serious weaknesses, and recommends strengthening government enforcement organizations to deal with foreign bribery cases.

¹² A stronger AML/CFT system can be crucial in detecting large-scale corruption, reducing incentives, and facilitating prosecution for corruption. See, for example, the Joint Fund/Bank Report on the AML/CFT Work Program, SM/05/338, September 1, 2005.
The regional dimension of the multi-partner, multi-country collaboration strategy is also of high importance, such as working closely with New Partnership for Africa's Development (NEPAD), the African Union, the UN Economic Commission for Africa (UNECA), regional bodies under the FATF, the Asia-Pacific Economic Cooperation Forum (APEC), and the Organization of American States (OAS), (in particular, in their regional peer review and related anticorruption and good governance mechanisms and initiatives).

**Box D3: Anti-Money Laundering (AML) and Corruption—Some Lessons Learnt and Ongoing Bank Efforts**

Corruption and money laundering are a related and self-reinforcing phenomenon. Corruption proceeds are disguised and laundered by corrupt officials to be able to spend or invest such proceeds. At the same time, corruption in a country’s AML institutions (including financial institutions regulators, Financial Intelligence Units (FIU), police, prosecutors, and courts) can render an AML regime of a country ineffective. The link between money laundering and corruption has increasingly led to practitioners at the Bank to focus on corruption related proceeds. A significant deterrent to corruption is the certainty that there is no safe haven for corruption proceeds and that they can be traced, seized, confiscated and repatriated to the victim state. This requires interdisciplinary and international approaches for identifying, tracing and confiscating the proceeds of corruption and the willingness of countries to work across jurisdictional boundaries to recover what has been stolen. The ability of developing countries to pursue stolen assets is hindered, among other things, by a lack of an anti-money laundering regime, investigative tools and capacity. Tracing and recovering these funds is difficult, costly and time consuming. Synergies to be derived from combining AML with anticorruption measures are manifold, but a few “lessons learnt” are particularly relevant:

- AML measures contribute in a very direct way to the transparency of the financial sector and thus play an important role in combating corruption. The thorough due diligence conducted by financial institutions as part of AML obligations both at the start of a business relationship and thereafter provide detailed information on the background of the client, the identity of a beneficiary, and the background of the funds involved. This process of ensuring knowledge of bank clients and the end sources of their funds contributes significantly to enhance transparency in financial institutions.

- Knowledge and subsequent use of information of other domestic or international authorities greatly enhance the effectiveness of both AML and anticorruption measures. Close interagency cooperation (FIU and anticorruption agencies) together with close cooperation between law enforcement authorities and the private sector, greatly enhances the effectiveness of AML measures, and the prevention and detection of proceeds from corruption. Combining the information collected by Anticorruption agencies (such as asset declaration by officials) with information on suspicious transactions available to FIUs improves effectiveness of dealing with corruption.

- In many client countries AML is, to a large extent, an anticorruption tool. In many client countries, the law enforcement agencies will list corruption as the main illegal activity generating profits. All AML measures designed to prevent the laundering of those funds and, at a later stage, their detection, therefore amount, in fact, to measures to track funds that are the proceeds of corruption.

Ever since the Board recognition of the 40 Recommendations of the Financial Action Task Force against money laundering (FATF), the Bank (Financial Market Integrity Unit) has been dedicated to helping countries to implement them in their own systems, in law and in fact, through a process of assessment, policy development and technical assistance (the former two serving as a basis for the latter). Under the FSAP program the Bank has so far undertaken 27 assessments (8 jointly with the Fund). The global standard setter for AML is the FATF, but they do not have technical assistance capacity. For technical assistance to all AML related authorities (Financial Supervisors, Ministries, FIUs and law enforcement agencies) both the Bank and the Fund are the main provider world wide. For the legal area (law enforcement and legislative) the United Nations Office on Drugs and Crime also provides technical assistance.
**DEFINITIONS**

**Governance:** Governance refers to the manner in which public officials and public institutions acquire and exercise the authority to provide public goods and services, including the delivery of basic services, infrastructure, and a sound investment climate. Corruption is one outcome of weak governance.

**Corruption:** the abuse of public office for private gain; it public office is abused when an official accepts, solicits, or extorts a bribe. It is also abused when private agents give or offer bribes to circumvent public policies and processes for competitive advantage and profit. Public office can also be abused for personal benefit even if no bribery occurs, through patronage and nepotism, the theft of state assets, or the diversion of state revenues. Corruption can also take place among private sector parties, yet interface with and affect public sector performance: for example, collusion among bidders to a public procurement with the intent to defraud the state can seriously distort procurement outcomes.

In exercising its fiduciary duties regarding projects it funds, the Bank applies specific legal definitions, contained in the Procurement and Consultant Guidelines. The following new definitions were approved by the Board on August 1, 2006 to strengthen the Bank’s approach on governance and corruption.

**Corrupt practice:** offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the action of another party.

**Fraudulent practice:** any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

**Coercive practice:** impairing or harming, or threatening to impair or harm, directly or indirectly, any party or property of the party to influence improperly the actions of a party.

**Collusive practice:** an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party.

**Obstructive practice:** (a) deliberately destroying, falsifying, altering, or concealing evidence material to the investigation, or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/or threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (b) acts intended to materially impede the exercise of the Bank’s contractual rights of audit or access to information.

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45 In other circumstances, private sector corruption may not directly affect public sector performance, yet have a significant development impact. When corporate governance is weak, employees in one firm may purchase higher priced or lower quality goods from another in exchange for kickbacks, raising the cost of doing business.
1. **Introduction.** At the September 2006 World WBG and IMF Annual Meetings in Singapore, the Development Committee (DC) reviewed the paper entitled “Strengthening World WBG Group Engagement on Governance and Anticorruption”.

2. **Description of Consultation Process.** The most recent process of structured consultations began on November 10, 2006, when Management invited comments on the DC paper from WBG staff and from external stakeholders through the web. Subsequently, 51 sets of consultations were organized with multiple stakeholders including governments, donors, civil society organizations (CSOs), private sector, academic institutions, parliamentarians and other interested parties. Of these, 35 were in developing countries, 12 in donor countries, and 4 were events with global audiences (see Table F1 below, for complete listing of consultations held). The overall consultation process was organized by EXT, PREM and WBI together with WBG country teams, who took the lead in holding consultations with their respective in-country stakeholders. The WBG also received nearly 200 submissions from external respondents through the web, of which 56 percent came from developing countries. In total, it is estimated that well over 3,200 individuals were reached through the structured consultation process, and hundreds more through other outreach events held during and after the Singapore meetings.

3. **Overall Feedback on Consultations.** In general, all of the stakeholder groups appreciated the opportunity for consultations, the WBG’s willingness to listen to their views, and the overall level of transparency in the process. Several expressed the desire for more time to
hold additional consultations, including at the community level, or with key actors around specific sectors. WBG country teams reported that the consultations opened up a number of potential new entry points and partnerships for GAC work, with many specific suggestions made for action at the country, project and global levels. High expectations have been raised that the WBG will revise the strategy in response to stated concerns and suggestions, and that it will follow up with concrete actions and support, as well as with continued dialogue.

4. **Guiding Questions.** To ensure a level of consistency across the consultations and in order to address the key issues raised by the Development Committee, stakeholders in all countries and through the web were asked to respond to questions covering the five following topics: i) the WBG’s engagement strategy in countries with weak governance and high levels of corruption; ii) whether and how the WBG should engage stakeholders outside of the executive branch of government; iii) mitigating fiduciary risk; iv) global collective action; and v) tracking progress. Participants in developing countries were also asked several country-specific questions, to help the WBG determine how it can better assist countries on governance reforms (see Table F2 for the common questions posed in the consultations).

5. **Overview of Main Findings.** All groups of stakeholders consulted acknowledged the special challenges to development posed by weak governance and corruption, and welcomed the WBG’s interest in providing stronger support for addressing these issues. The message that perhaps came out most strongly was not “whether” but “how” the WBG can stay engaged in countries with weak governance, and how it can be a useful partner to countries in promoting GAC reforms. There was also widespread support that the WBG should engage more systematically in GAC work with a broad range of stakeholders, including civil society, media, the private sector and others outside the executive branch, including parliamentarians and the judiciary. Other main messages that emerged were that the GAC strategy should put more focus on: strengthening country systems versus ring-fencing individual projects; improving transparency, participation and third-party monitoring of WBG operations; linking governance monitoring to governance reforms; and the WBG harmonizing its efforts with other donors and global actors. Following is a summary of these main findings along with some specific suggestions made by participants in the consultations. Illustrative examples of the country or region and type of stakeholder that provided the inputs are included in parentheses. More detail can be found in the consultation reports that are posted on the web.49

6. **Stay Engaged, Even in Poorly Governed Countries.** There was a clear consensus among those consulted that the WBG should seek to find ways to remain engaged even in those countries with weak governance and a high incidence of corruption, by continuing to provide financial and technical support. This view is perhaps best illustrated by the following quotes: “The WBG cannot unplug the IV line from the arm of the patient and hope he/she will recover” (Burkina Faso, government); “zero tolerance for corruption does not mean zero engagement” (Canada, government); and “a total withdrawal on the part of the World WBG may be disastrous” (Bangladesh, civil society). There was a strong message was sent from all stakeholder groups that in difficult environments the WBG should find alternative and creative

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49 Summary reports from country-based consultations, web-based feedback and written submissions are posted at www.worldbank.org/governancefeedback.
ways of using its knowledge and resources that do not rely on central government administration, to serve the basic needs of the poor, particularly through instruments such as community-driven development (CDD), working through local governments, CSOs or other third party delivery systems. The WBG was cautioned that it should not take a “one size fits all” approach (Botswana, government). There was strong support for calibrating the WBG’s strategy to country-specific circumstances and the use of selected entry points or sectors (China, Cambodia and Tanzania, government; Bangladesh civil society); others urged the WBG to focus on creating incentives for performance improvement, instead of penalizing weak capacity (China, academia; Dominican Republic, civil society). At the same time, some donors questioned how a country-specific approach could be managed so that all parties believe that they are being treated fairly. Representatives from multilateral development banks said they faced a particular challenge in applying governance and anticorruption standards in middle-income countries, which are less aid dependent. Many respondents also emphasized the need for greater transparency and to strengthen the capacity of institutions, including civil society and media, which would in turn build support for better governance.

7. Other suggestions for targeting WBG engagement in weak governance environments included: working directly with civil society, community and faith-based organizations (Tanzania, parliament); supporting e-government mechanisms (Egypt, government); deregulation (Mexico, government); transparency and competition (Morocco, civil society); more transparent civil service recruitment (Mozambique and Yemen, civil society); international benchmarking (Russia, government); leveraging international instruments (Dominican Republic, civil society) and helping countries tackle a culture of impunity where it exists (Cambodia, private sector) or so-called “bright lines” – areas within government perceived to be beyond the rule of law (Egypt and Morocco, civil society). The WBG also was urged to recognize reformers in the civil service as an incentive to stem corruption and improve service delivery (North America, individual) and to advocate that public officials provide full financial disclosure before taking office (Europe, academia). While a minority of respondents argued that the suspension of financial support was indeed justified in certain circumstances (“things would have to be very dire” according to donors in Cambodia), it was widely agreed that such a decision should be based on clear, objective and transparent criteria that would help ensure consistent treatment and build public understanding and support for the decision. Upstream decision-making processes, linked to Country Assistance Strategies (CASs), were identified as an important tool to address GAC concerns in a more systematic, disciplined and transparent manner (US, civil society).

8. **Engage More Systematically with a Broad Range of Stakeholders.** There was widespread support from both developing and donor country audiences for the WBG to step up its engagement in support of the good governance and anticorruption efforts by major actors outside the executive branch of government, including civil society, parliamentarians, judiciary, the media, and the private sector, and to do so in coordination with other donors. The WBG was strongly urged to engage with countries in ways that would promote greater public participation in policymaking and oversight and participatory local governance, and to strengthen the enabling environment for civil society and media to operate effectively, including efforts to promote greater access to information and institutional capacity; parliamentary oversight and judicial performance. Many stakeholders suggested that the WBG expand its existing work in CDD, participatory budgeting and other social accountability programs. Indonesian participants cited CDD as a more cost effective and transparent means of aid delivery, with fewer risks of leakage.
An international NGO based in Vietnam noted that the need for citizen involvement in monitoring is greater than ever today with the growing trend toward provision of budget support. Some also saw the WBG as having an important role to play as a facilitator of dialogue and consensus building among governments and local actors (Argentina, non-executive government; Cameroon, government; Mauritania, civil society). Civil society around the globe overwhelmingly came out in favor of scaled-up WBG efforts in these areas, as did the donor community more generally, and there was explicit support from about half of the developing country government representatives consulted as well (Dominican Republic, Georgia, Mexico, Morocco, Uganda, Vietnam, Yemen). However, some governments (Argentina, Botswana, Cambodia, Egypt, Rwanda) said the WBG must exercise caution in its engagement with non-governmental actors, and pay close attention to the governance and accountability of its interlocutors and partners.

9. A wide range of suggestions were made as to how the WBG could expand its engagement with these stakeholders, including many appeals for the WBG to scale up direct financial and technical assistance to civil society, and for building the capacity of civil society and media so that they can operate freely and promote good governance in their countries. Some of the other suggestions for how the WBG could support the role of local stakeholders in helping encourage good governance, include: promoting transparency of public institutions and freedom of information laws (Bolivia and Cameroon, civil society; El Salvador, government and legislature; India, government; Mauritania, media; Rwanda, government and donors); expanding the use of social accountability mechanisms and sharing best practices across countries (Dominican Republic, private sector and civil society); strengthening the judicial system, especially access for the poor (Mexico, various stakeholder groups) and women (Yemen, civil society); helping governments enact an enabling environment and legal framework for civil society and media, based on best practices, and addressing this issue in the Poverty Reduction Strategy (PRS) and in the CAS (US, civil society); promoting responsible investigative journalism (Mozambique, civil society); creating a website where various stakeholder groups can get information about what donors are doing in a given country (Canada, civil society and government); and ensuring more integration of civil society at all stages of policy and project design and implementation (Australia and US, civil society). International civil society groups also noted that the WBG can promote better governance by putting in place a regular, multi-stakeholder dialogue process as part of its country operations. Some stakeholders in developing countries also urged the WBG to provide more support for public communications and raising awareness, with the aim of promoting a good governance and ethics culture, particularly among younger generations (Cambodia, private sector; Thailand and Uganda, civil society).

10. **Integrity is Good for Business, So Engage More with the Private Sector.** Private sector actors in both developing and donor countries, along with some governments and CSOs, said the GAC strategy should place more emphasis on how the WBG can work more closely with the private sector to combat corruption. There was substantial support for the WBG to work more closely with business associations and chambers of commerce at the national, industry- and sector-wide levels, foster voluntary codes of conduct, promote greater transparency and more sound corporate governance. An international CSO network also urged that the WBG develop a more rigorous process to screen and choose its private sector clients, with greater attention to their commitments to corporate governance. Other specific suggestions made included: more IFC support for small and medium enterprise development (Bolivia, private sector) and
assistance to SMEs to help develop compliance policies (US, civil society); improving tax code administration (Georgia, private sector); WBG and other donors sharing common blacklists of sanctioned firms, or cross debarment (Canada and Japan, government); WBG doing more to promote country compliance with international anticorruption agreements (Latin America, academia; Morocco, government; international parliamentarians); better coordination of information on corruption (Europe, private sector; MENA, academia). The WBG also was urged to consult more with the private sector as the GAC strategy is implemented, and to give country offices guidance on how to engage private sector more effectively (Cambodia, Mongolia and US, private sector).

11. **Leverage Country-level Accountability Processes.** Many stakeholders responded that strengthening country systems is the long-run solution to mitigating fiduciary risk in WBG-financed and other donor operations, instead of having stand-alone or so-called “ring fenced” operations. Suggestions included more focus on the need to strengthen countries’ own procurement systems (Philippines, civil society), greater transparency (Albania, civil society and private sector; Mexico, state government), donor harmonization, and capacity building (Botswana, government; Moldova, civil society). Some US private sector representatives, however, urged the WBG not to dilute its procurement guidelines or standard bidding documents, which they argued represent the “gold standard”. There was also a strong message from some developing country governments that the GAC strategy should focus more on prevention versus enforcement, including disseminating good practices and experiences across countries (China, academia; Guatemala, government, civil society and private sector). If sanctions for corruption are to be imposed by the WBG, a suggestion was made that they should be handled by a neutral, independent third party or arbitration panel (Egypt, government).

12. **Strengthen Transparency, Participation and Accountability in WBG Operations.** Along with strengthening country systems, many governments and CSOs in both developing and donor countries agreed that the WBG could also mitigate fiduciary risk by taking deliberate steps to incorporate greater disclosure, participation and third-party monitoring in the way it conducts its own investment and policy lending operations, throughout the project or loan cycle. There were strong calls in particular from developing country CSOs to do more to involve poor people in projects in their communities, and in monitoring how aid funds are spent (Moldova and Uganda, civil society). MDB representatives cautioned that any changes to the Bank’s disclosure policy should be carefully coordinated with them. There were a wide range of specific recommendations made, including: integrating anticorruption and governance specialists into WBG country teams (Albania, legislature); more systematic and upstream use of poverty impact and options assessments (Europe and US, civil society); strengthening project level transparency and communications (Thailand, academia); and setting up GAC councils in each country which would hold periodic public hearings to evaluate the WBG’s country portfolio (South Asia, media; US, civil society). Concerns were expressed about the incentives on WBG staff to push loans, despite the risk of corruption (Thailand, civil society). On disclosure and transparency, there were a number of specific suggestions, including: that the GAC strategy explicitly mention the importance of contract and revenue transparency and the WBG disclose its own audits and investigations (US civil society); that the WBG should publicize the results of its economic and sector analytical work (US, government); that the WBG should formally adopt the principles of the Publish What You Pay Coalition and the Extractive Industries Transparency Initiative (EITI), and also subscribe to the Global Transparency Initiative (GTI) charter.
(international parliamentarians and civil society; Africa, private sector). A suggestion also was made by an international CSO that the WBG put in place a credible evaluation framework to assess GAC implementation.

13. **Link Governance Monitoring to Governance Reform.** Many stakeholders, especially some developing country governments and donors, acknowledged the role played by aggregate indicators in the governance debate and urged that their use be complemented by greater use of disaggregated indicators that can more accurately reflect changes in specific policy measures and focus on development outcomes. In particular, stakeholders from donor countries tended to underscore the importance of aggregate indicators, while stakeholders from developing countries emphasized the need to capture policy changes with more specific, disaggregate measures. Some existing indicators were said to be “subject to a variety of conceptual and methodological issues that may compromise their accuracy” (Egypt, government); rather the WBG should concentrate on developing more objective, specific indicators based on hard data and analysis (El Salvador, Morocco, Thai, Yemen governments). Some urged that indicators be developed through more transparent, participatory and independent methodologies (Europe, civil society and government; Africa, civil society and government; Nepal, local government). Some African and European government representatives suggested that the WBG make use of the indicators in the country’sPRS, where they exist. A few civil society participants expressed their concerns about the Country Policy and Institutional Assessment (CPIA) and urged that it be reviewed, while some governments wanted assurances that the Performance Based Allocation (PBA) system for IDA allocations, which relies on the CPIA, would remain unchanged. Representatives of oversight institutions in Kenya made a specific recommendation to review public complaint mechanisms and conduct regular point of service audits in order to assess the level of end-user satisfaction. Other respondents urged greater use of Public Expenditures Tracking Surveys (PETS) (North America, private sector; Thailand, civil society). Many also urged that the WBG develop joint indicators and action plans together with governments, donors and other local partners, including civil society, to better monitor results. However, some also noted that weak institutional capacity for monitoring is an obstacle in many countries (Argentina, legislature; Georgia, civil society).

14. **The WBG Should Not Act in Isolation.** The overwhelming majority of stakeholders consulted called for a shared approach and better coordination among donors on governance reform, especially in higher risk settings, to avoid mixed signals. This was viewed as an important demonstration of the WBG’s commitment to greater harmonization and aid effectiveness, as affirmed in the Paris Declaration. Some governments and donors also suggested that donors should agree on a better division of responsibilities in a given country, based on their comparative advantages and respective legal constraints. A number of governments and donors emphasized that the WBG should support implementation of key international conventions, particularly helping countries comply with the UN Convention Against Corruption (UNCAC) (China, government; Egypt, civil society and donors; Spain, government; international parliamentarians). Specific suggestions were made that governance assessments should be a joint donor exercise (Cambodia, private sector and donors; Netherlands and Sweden, governments) or that the WBG should consider joint CASs with other donors in high risk countries (MDBs; MENA, government; US, civil society). The work of such multi-stakeholder coalitions as the Global Integrity Alliance (Canada, government), The Access Initiative and Global Transparency Initiative (UK and US, civil society) were highlighted as important efforts for the Bank to support as an important means of engagement, especially in
poor governance environments (Canada, government). As a result of the GAC consultations, donors in Morocco agreed to establish a Governance Coordinating Group to exchange information and help coordinate views on governance indicators and rankings and to ensure consistency in donor programming. Stakeholders in Japan also urged that the WBG engage more with emerging donors, especially those in Asia, to ensure greater harmonization with them on governance issues.

15. Other Emerging Issues. The consultations also brought forward a number of other issues that were not discussed in the Development Committee paper. Some CSOs and governments in both developing and donor countries pointed to the weakness of the WBG’s own transparency and governance, and suggested that as a result the WBG has a credibility challenge in helping countries address governance and anticorruption. A few international CSOs questioned the WBG’s comparative advantage in promoting good governance and expressed fear that the GAC framework would be used to push privatization or certain economic policy conditionality (France, UK and US). Some civil society groups also said the legacy of “odious” debt as a result of past lending to corrupt regimes as an issue that the WBG should address, as were the recovery of stolen assets, to curb tax havens regulate international financial centers and promote tax compliance. A number of stakeholders raised the need for the WBG to strengthen its own whistleblower policies and to support governments to do the same (Europe and Indonesia, civil society; Rwanda, civil society and private sector) and to promote greater transparency in defense and security spending (UK, civil society). Participants in Lao PDR made the specific suggestion that the WBG should expand its work on the negative impacts of “the resource curse”. A few international CSOs and academics (France, Japan, Netherlands, US) noted the absence of human rights as part of the definition of the WBG’s governance framework and urged that this be incorporated in the revised strategy. Some respondents also thought that multinational companies should be held accountable to an international tribunal and forced to pay stiff fines for any corrupt activities (Africa, civil society and private sector).

16. Many comments from stakeholders in both developing and donor countries also specifically highlighted the role Department of Institutional Integrity (INT). In particular, there were a number of suggestions that INT work more in a more transparent and partnership manner, establish protocols to be applied consistently across countries, and engage more with country oversight agencies (Cambodia, donors). There was also a specific suggestion that public consultations be held around the INT Independent Review (Cambodia, government). In addition, the WBG was urged to lay out an explicit strategy for consultations during implementation of the overall GAC framework (US and Europe, civil society).

17. Feedback from WBG Staff. Over 30 detailed written comments on the paper also were received from WBG staff. The main themes of this feedback were that the WBG should model the openness and transparency that it advises countries to practice; the WBG should define its comparative advantage in carrying out governance work; and it should actively support experimentation and innovation. There were some criticisms that innovation was more difficult as a result of restrictions on trust funds. On country-level engagement, staff emphasized the need for more robust diagnostics as the WBG’s “calling card,” and called for stronger partnerships with CSOs. In order to mitigate fiduciary risk, staff emphasized more prevention and early detection; improving communications; strengthening rather than bypassing country systems; and the need to resolve what many saw as contradictory requirements on procurement,
supervision and fiduciary controls (“Is it less or more?”). In terms of capacity building, staff said more governance specialists were needed in the WBG, but they were often hard to find, and more training of existing staff may be needed. There was a call to have more of the WBG’s headquarters-based staff spend more time in the field, and for longer periods, in order to increase their local knowledge and effectiveness. Staff also expressed a desire for “callable technical support” from headquarters. They also pointed to the need to protect locally recruited WBG staff that may be at risk if the WBG is viewed as advocating for governance and anticorruption reforms amid opposition in their countries. Staff respondents in general felt strongly that the Bank’s Country Directors should be given the space to manage the relationships with their respective governments, as they are closer to the local situation. On INT, staff respondents wanted INT to improve its disclosure and its partnerships with countries and with WBG country teams, but thought that INT should not engage in technical assistance; rather it should focus on more timely resolution of its investigations.

18. **Next Steps.** At the request of the Board, Management is revising the DC paper to take into account the main messages from the consultations. Country teams are in the process of following up with the consultation participants, sharing the summary reports from the consultations and updating the participants on next steps. Once the paper is finalized, country teams will be asked to report back to the participants on how their inputs were used to revise the GAC strategy, and also on how the inputs have already or will inform future country-level operations. Country teams will also be asked to establish mechanisms for continuing dialogue with country stakeholders on strategy implementation. To this end, lessons learned from this consultation process will be compiled and shared with staff and management across the WBG. A field-based advisory group of WBG staff has been assembled and will have an important role in this ongoing engagement effort, working in tandem with the relevant anchor teams in WBG headquarters.
Table F1: List of GAC Consultations, November 2006 – February 2007

**AFRICA**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>DATE</th>
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<tbody>
<tr>
<td>Botswana</td>
<td>1/16</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>1/17-1/25</td>
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<tr>
<td>Cameroon</td>
<td>1/15, 1/16, 1/25</td>
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<tr>
<td>Congo, Republic of</td>
<td>2/13-2/15</td>
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<tr>
<td>Kenya</td>
<td>1/18-1/25</td>
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<tr>
<td>Mauritania</td>
<td>1/4-1/5</td>
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<tr>
<td>Mozambique</td>
<td>12/19-12/20</td>
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<tr>
<td>Rwanda</td>
<td>1/15-1/16</td>
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<tr>
<td>Senegal</td>
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<tr>
<td>Tanzania</td>
<td>1/26</td>
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<tr>
<td>Uganda</td>
<td>12/15-12/18, 1/15-1/16</td>
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**EAST ASIA AND PACIFIC**

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<tbody>
<tr>
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<tr>
<td>Cambodia</td>
<td>1/11-1/12</td>
</tr>
<tr>
<td>China</td>
<td>1/23-1/24</td>
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<tr>
<td>Indonesia</td>
<td>12/1, 1/19, 1/22, 1/23</td>
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<tr>
<td>Japan</td>
<td>1/26</td>
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<tr>
<td>Lao PDR</td>
<td>1/17/1-1/24</td>
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<tr>
<td>Mongolia</td>
<td>Dec 2006-Jan 2007</td>
</tr>
<tr>
<td>Philippines</td>
<td>1/15-1/16</td>
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<tr>
<td>Thailand</td>
<td>1/10-1/24</td>
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<tr>
<td>Vietnam</td>
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**EUROPE AND CENTRAL ASIA**

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<tr>
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<td>12/5-12/8</td>
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<tr>
<td>Bulgaria</td>
<td>Jan 2007</td>
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<tr>
<td>Georgia</td>
<td>1/11, 1/16-1/17</td>
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<tr>
<td>Moldova</td>
<td>12/28</td>
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<tr>
<td>Russia</td>
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**LATIN AMERICA AND CARRIBEAN**

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<td>Dominican Republic</td>
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<td>El Salvador</td>
<td>12/7-12/8</td>
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<td>Guatemala</td>
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<td>Mexico</td>
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### MIDDLE EAST AND NORTH AFRICA

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<td>Yemen</td>
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<tr>
<td>Ottawa, Canada</td>
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<tr>
<td>Washington DC, USA Society for International Development</td>
<td>12/14</td>
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<tr>
<td>Washington DC, USA Transparency International</td>
<td>12/19</td>
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<tr>
<td>Washington DC, USA Government</td>
<td>1/10</td>
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<tr>
<td>Washington DC, USA-Civil Society Organizations</td>
<td>1/22</td>
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### SOUTH ASIA

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<tr>
<td>India</td>
<td>1/17</td>
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<tr>
<td>Nepal</td>
<td>1/5, 1/18, 1/26</td>
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### WESTERN EUROPE

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<tr>
<td>Brussels, Belgium</td>
<td>12/5</td>
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<tr>
<td>Paris, France</td>
<td>12/6</td>
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<tr>
<td>Videoconference with Spain, Italy, Sweden, and Netherlands</td>
<td>1/17</td>
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### GLOBAL EVENTS

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<td>OECD, Paris, France</td>
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<tr>
<td>Videoconference with Multilateral Development WBGs</td>
<td>1/17, 1/25</td>
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<tr>
<td>High Level Trade Unions Meetings, Washington DC, USA</td>
<td>12/13</td>
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SEPARATE WRITTEN SUBMISSIONS RECEIVED (in addition to feedback submitted through the web-based form that was provided, a summary of which is posted at www.worldWBG.org/governancefeedback)

WBG Information Center (BIC), USA
Global Organization of Parliamentarians Against Corruption (GOPAC)
Kenya Human Rights Commission
Parliamentary Network on the World WBG (PNoWB)
Researchers Alliance for Development (RAD)
Swedish International Development Cooperation Agency (SIDA)
World Economic Forum Partnering Against Corruption Initiative (PACI)
World Resources Institute (WRI), USA
Young Leaders Integrity Alliance, International Steering Committee (YLIA)

Box F1: Guiding Questions for GAC Consultations (for global feedback)

1. **Engagement Strategy:** What should the WBG do in countries with weak governance and severe corruption, where government leadership is not consistent in tackling these problems? In such circumstances, how should the WBG remain engaged to help reduce poverty? Are there circumstances under which the WBG should restrict or stop lending? How can the WBG ensure consistent treatment across countries?

2. **A Multi-stakeholder Approach:** While government is the key counterpart of the WBG, how can the World WBG Group better engage non-governmental stakeholders, including civil society, media, and the private sector? How should the WBG support champions of reform inside and outside the executive branch of government?

3. **Global Collective Action:** How can bilateral donors, the World WBG, and other multilateral organizations complement each other in supporting governance reform? How can mixed signals by donors be avoided? How can the role of multinationals from industrialized countries in corruption be addressed?

4. **Tracking Change:** How should indicators be used to monitor progress at the country level?

Country-specific Questions (adapted for discussion in each country as appropriate):

1. What are the most pressing governance challenges in your country?
2. What are the main entry points and obstacles to governance reforms in your country?
3. How can the WBG better assist your country on governance reforms? What further actions would you like to see from the WBG and in the GAC strategy?
HOW ONGOING OPERATIONS OF THE WORLD BANK CURRENTLY ENGAGE A BROAD RANGE OF STAKEHOLDERS

This Annex provides details of projects referenced in Table 1, highlighting projects that supported transparency, accountability, and a multi-stakeholder approach to governance and development engagement.

I. PARTICIPATORY PRIORITIZATION OF POLICIES AND PUBLIC SPENDING

Investment Operations
Brazil – Rural Poverty Reduction Project – Rio Grande do Norte; Board: June 2002; Amount: USD 22.5 million
The Project aimed to improve access to basic social and economic infrastructure and services by rural communities, and increase their social capital through collective organization.

Malawi - Third Social Action Fund; Board: June 2003; Amount: USD 32.80 million (Credit) USD 27.20 million (Grant)
The Project aimed to finance activities meant to increase transparency and accountability for service delivery at community and national levels.

Vietnam – Northern Mountains Poverty Reduction Project; Board: October 2001; Amount: USD 110 million
The project supports demand for good governance by strengthening the responsiveness of sub-national authorities to community priorities in the provision of small-scale infrastructure, and social and agricultural extension services.

Development Policy Lending
Armenia SAC IV; Board: May 2001; Amount: USD 50 million
The project supported participatory consultations for the reform of the Ministry of Revenue.

Timor-Leste - Consolidation Support Program Policy Grant; Board: October 2005; Amount: USD 500,000
The dialogue surrounding the CSP provides a forum for intensive monitoring and policy dialogue between the World Bank, line ministries, the Ministry of Planning and Finance, the donor community, Parliament and civil society. Meetings with civil society representatives and sector experts from the Bank and other donors also enable getting feedback on sector performance and discuss priorities.

Vietnam – PRSC (I to IV); Board: June 2001 (I) to June 2006 (IV); Amount (total): USD 550 million
The operation supported participatory consultations for the national strategy for environmental protection.
II. STRENGTHENING TRANSPARENCY AND OVERSIGHT OVER THE USE OF BUDGETARY RESOURCES

Investment Operations

**Bangladesh - Public Procurement Reform Project; Board: May 2002, Amount: USD 4.5 million**
The Project aimed to help lay the legal framework for public procurement in Bangladesh; and establish the basic infrastructure for an IT based information system that would link line agencies to the Government's Central Procurement Technical Unit (CPTU), situated within the Planning Department.

**Cambodia - Public Financial Management and Accountability Project; Board: June 2006; Amount: USD 22 million**
The Project supports reducing corruption by introducing greater competition into the public procurement process. A new budget manual, which includes streamlined execution procedures as well as a program budget structure, has been prepared.

**Indonesia – Government Financial Management and Revenue Administration Project; Board: December 2004; Amount: USD80 million**
The Project aims to strengthen the effectiveness, transparency and accountability of national government spending and support and strengthen entities functioning as strategic "checks and balances" in the broader governance and accountability framework. ; and, 4) the Project Governance and Implementation component will support ownership, sustainability, and coordination activities. A PHRD co-financing grant, under the Project also financed a component to strengthen parliamentary capacity for budget oversight.

**Madagascar - Governance and Institutional Development Project (Board: November 2003; Amount: USD 58 million)**
The Project assists in: improving accountability and transparency of Government operations; establishment of an independent internal audit function in the Ministry of Finance and Budget; strengthening of other control functions; transformation of the Office of the Auditor General; and strengthening the public procurement system to international standards.

**Pakistan - Financial Reporting and Auditing I and II; Board: September 1996 and September 2005; Amount: USD 29.9 million and USD 84 million**
The first project funded integrated government-wide accounting systems; improved auditing; and human resource development. The second project supports roll out to line agencies to cover about 95% of the government transactions (except defense), and provides support to the Auditor General and Controller General of Accounts.

**Russia - Fiscal Federalism and Regional Fiscal Reform Project; (Board: January 2002; Amount: USD 120 million)**
The Project aims to strengthen the system of fiscal federalism and promote financial transparency, budgetary accountability, and strengthen fiscal management policies and practices at the regional level.
Development Policy Lending
Haiti – Economic Governance Reform Operation I and II; Board: January 2005 and January 2007; Amount: USD 61 million and 23 million
The operation contains a component for civil society monitoring of economic governance reforms in five key areas: budget transparency, anticorruption strategy, public procurement reform, reform of public enterprises, and public-private partnerships in health and education.

Honduras - PRSC; Board: June 2004; Amount: USD 58.8 million
A component of the Project supports Supreme Audit Institutions, asset declarations, and includes a transparency and social accountability conditionality.

Tanzania PRSC (I to III); Board: May 2003 to September 2005; Amount (total): USD 432 million
The Project helped make public, information on resource transfers to sub-national governments. It also included a benchmark on the conversion of results of service delivery surveys and their publication in the media.

Turkey - Programmatic Public Sector Development Policy Loan 1; Board: June 2006; Amount: USD 500 million
The Project supports structural and institutional reforms of the public financial management and budget systems to reduce regional disparities, promote decentralization, and combat corruption. The Project supported the establishment of an Internal Audit Coordination Board which sets internal audit standards, organizes training for internal auditors and provides quality assurance.

Uganda PRSC (I to V); Board: May 2001 to January 2006; Amount (total): USD 735 million
This operation helped make public, information on resource transfers to sub-national governments and at delivery points such as schools and health clinics. It also supported the production and publication of a citizen’s guide to the budget.

III. USER PARTICIPATION AND OVERSIGHT IN SERVICE PROVISION

Investment Operations
China - Poor Rural Communities Development Project; Board: June 2005; Amount: USD 142.6 million
The Project seeks to improve livelihood security and strengthen participation and grassroots capacity in community development management, project design, implementation, and monitoring and evaluation in three provinces. It seeks to strengthen community leaders' basic skills on local administrative management, basic financial management, development of village-level planning, local dispute resolution, and small-scale infrastructure construction, including special training for women.

Ethiopia, Protection of Basic Services; Board: 1996; Amount: USD 120 million
The operation (co-financed with other donors) both provides resources to enable Ethiopia to continue to scale up provision of basic services and helps strengthen civil society oversight of front-line providers and local governments.
Russia – Sustainable Forestry Pilot Project; Board: May 2000; Amount: USD 60 million
The Project aimed to increase stakeholder participation in forest management.

India – Andhra Pradesh District Poverty Initiatives Project; Board: April 2000 Amount: USD 111 million
The Project funds capacity building for self-managed community based organizations and demand-driven sub-projects to improve access to social services, generate income, and build facilities.

Morocco – Initiative for Human Development Support Project; Board date: 12 December 2006; Amount: USD 100 million
The program aims to empower communities to identify needs and define actions in a participatory way to improve services and economic opportunities. It also promotes better local governance.

Turkey – Social Risk Mitigation Project; Board date: 13 September 2003; Amount: USD 500 million
The project uses third party delivery instruments that do not rely on central government administration. It reached 2.6 million beneficiaries with local initiative sub-projects without political bias, with excellent FMS, and no procurement complaints.

Development Policy Lending
Brazil PHDSRL I; Board date: 25 February 2003; Amount: USD 500 million
This operation supported the use of citizen report cards to strengthen the voice of users of social services and the implementation of participatory consultations for the national housing policy. It also supported the establishment of a Consumer Grievance System in the health sector.

Georgia PRSC; Board: June 2004; Amount: USD 24 million
This operation supported the use of citizen report cards to strengthen the voice of users of social services. It also supported the implementation of ‘access to information laws.’

Laos PRSC I; Board: March 2005; Amount: USD 10 million
This operation supported participatory policy development via the establishment of a regular semi-annual dialogue between the private sector and the Government in Laos. It also supported the use of citizen report cards to strengthen the voice of users of social services.

Peru PSRL III; Board: November 2003; Amount: USD 150 million
This operation supported the use of citizen report cards to strengthen the voice of users in service delivery in education, health and social protection services. It also supported the implementation of ‘access to information laws.’

IV. STRENGTHENING PARTICIPATORY LOCAL GOVERNANCE

Investment Operations
Albania - Community Works 2 Project; Board: June 2003; Amount: USD 15 million
The Project aims to strengthen participatory local development to improve access to quality social and economic infrastructure and promote institutional development at the local level.

**Bangladesh - Local Governance Support Project; Board: June 2006; Amount: USD 111.5 million**
The Project helps expand the autonomy and capacity of local governments while strengthening mechanisms to hold local governments accountable.

**Ethiopia – Capacity Building for Decentralized Service Delivery; Board: July 2002; Amount: 28.2 USD million**
The Project aims to enhance decentralized service delivery performance and restructuring and empower local governments to be financially sound and have the ability and incentives to improve service delivery, especially to the poor.

**Indonesia – Kecamatan Development Project (1, 2, 3 and 3B); Board: June 1998, December 2000, June 2001, June 2003, March 2005; Amount (total): USD 1,300.2 million**
The Project is part of a long-term village level governance program and includes the objective of institutionalizing participatory processes in local government.

**Mexico – Municipal Development in Rural Areas; Board: July 2002; Amount: USD 200 million**
The Project aims to reduce the incidence of rural poverty by supporting investments through a community-driven development approach.

**Morocco – Support to the Social Development Agency; Board: June 2002**
Amount: USD 5 million
The aims to develop and strengthen participatory and decentralized programs to reduce poverty, fight exclusion, and reduce vulnerability of the poor, especially in rural areas.

**Sierra Leone - Institutional Reform and Capacity Building Project; Board Date: May 2004; Amount: USD 25.1**
The project has improved local public resource management through a decentralization and empowerment program that has established an inter-governmental transfer system, including block grants to finance local government development projects.

**Tanzania – Local Government Support Project (and Scale up); Board: November 2004 and June 2006; Amount: USD 52 million and USD 98 million**
The Projects aim to strengthen fiscal decentralization and improve accountability in the use of local government resources.

**Uganda – Second Local Development Project; Board: May 2003; Amount: USD 50 million (development credit) and USD 75 million (development grant)**
The Project aims to improve local government institutional performance for sustainable, decentralized service delivery.
**Development Policy Lending**

**Sierra Leone ERRC III; Board date: 20 May 2003; Amount: USD 30 million**

This operation created Community Budget Oversight Committees in all the regions to participate in the annual discussion of the budget with ministries and departments and to monitor budget execution in their respective regions.

**V. STRENGTHENING OTHER FORMAL OVERSIGHT INSTITUTIONS**

**Investment Operations**

**Guatemala - Judicial Reform Project (mobile courts); Board: October 1998; Amount: USD 33 million**

The Project aims to create a more effective, accessible, and credible judicial system that will foster public trust and confidence in it and improve consistency and equity in applying the law. It strengthens access to justice by diversifying judicial services and reorganizing the Justice-of-the-Peace courts and developing a civil society participation program to promote access to justice.

**Kenya - Institutional Reform and Capacity Building Project; Board: January 2006; Amount: USD 25 million**

The Project supports capacity building activities of the staff of the Parliamentary accountability committees, including advising Parliament of the funding required for establishing a separate parliamentary support program in the Kenyan Institute of Administration (KIA).

**Macedonia - Legal & Judicial Implementation & Institutional Support Project; Board: May 2006; Amount: USD 14.77 million**

The Project aims to improve judicial efficiency and effectiveness by enhancing ministerial and judicial capacity, strengthening the capacity of key institutions in the justice system, and improving the quality of judicial management and the judiciary.

**Philippines - Judicial Reform Support Project; Board: August 2003, Amount: USD 21.9 million**

The Project aims to support the development of a more effective and accessible judicial system, improve the efficiency of case adjudication and access to justice, upgrade the integrity of the judiciary, strengthen institutional capabilities, and promote stakeholder support for reform of the judiciary.

**Tanzania - Accountability, Transparency, and Integrity Project; Board: May 2006; Amount: USD 40 million**

The project’s governance pillar supports improved access to judicial and legal services; transparent use of public financial resources, and state and non-state oversight and watchdog institutions. The Facility for ethics, accountability and transparency provides support to state and non-state actors for supply and demand sides of accountability.
**Other Instruments**

**WBI Parliamentary Strengthening Program**
The Program aims to enhance parliaments’ capacity to effectively fulfill their responsibilities, especially with regard to their oversight role over government policy implementation, and the budgetary process, and ensuring greater transparency in decision-making.

**VI. OTHER ACTIONS TO IMPROVE ENABLING ENVIRONMENT FOR NATIONAL CIVIL SOCIETY**

**Development Policy Lending**

**Bangladesh – DSC III; Board: December 2005; Amount: USD 200 million**
This operation supported the implementation of ‘access to information laws’ and participatory consultations in preparation for the police reform.

**Other Instruments**

**WBI Media Program**
The Program aims to support the emergence of an independent and viable media, encourage a policy environment conducive to independent and effective media oversight, including through support for Freedom of Information laws, as well as skills development within media organizations.

**Water and Sanitation Program Strategic Communication and Dissemination for South Asia; Amount: USD 45 thousand**
Water and Sanitation Program-South Asia has developed a key, on-going activity for environmental journalists who would like to learn more about water and sanitation issues. The result is progression towards informed media coverage on WSS concerns, and the fostering of a journalist community in the countries of focus (Bangladesh, India and Pakistan).

**Timor-Leste; Amount: USD 50 thousand**
A 12-week training program funded by the World Bank-administered Norwegian Trust Fund for Mainstreaming Gender (GENFUND) between January - April 2007, was the first in Timor-Leste targeted at women journalists working with community radios in 10 different districts. Through the program, the women developed an understanding of issues affecting women’s lives through special workshops on issues such as governance, domestic violence, gender equality and the petroleum sector – a vital sector to Timor-Leste, a nation with significant oil and gas resources. They also learned how to use state of the art digital recording and editing equipment and how to write a story and gather information.

**Partnership for Transparency Fund: Community Mobilization to Combat Corruption**
The World Bank-supported Partnership for Transparency Fund (PTF) finances micro grants (less than $30,000) in developing countries to civil society organizations to promote civil society involvement in good governance activities, enhance transparency, accountability and integrity in the public service, including procurement, privatization, public auctions, licensing, public financial management, and build capacity of CSOs to engage in the fight against corruption.
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