

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

ONE-YEAR PROGRESS REPORT

OCTOBER 21, 2008

ABBREVIATIONS AND ACRONYMS

AAA	Analytic and advisory activities
ACS	Administrative and Client Support
AFR	Africa Region
AFRVP	Africa Region Vice President
AGIs	Actionable Governance Indicators
AIDS	Acquired Immuno-deficiency Syndrome
AML	Anti-Money Laundering
BRAC	Bangladesh Rural Advancement Committee
CAS	Country Assistance Strategy
CGAC	Country Governance and Anticorruption Strategy
CONADER	Commission Nationale de Désarmement, Démobilisation et Réinsertion, DRC
CoST	Construction Sector Transparency Initiative
DECVP	Office of the Senior Vice President for Development Economics and Chief Economist
DFID	Department for International Development
DGF	Development Grant Facility
DIR	Detailed Implementation Review
DPL	Development policy lending
DRC	Democratic Republic of Congo
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
EF&C	Error, fraud, and corruption
EITI	Extractive Industries Transparency Initiative
EXT	External Relations
FATF	Financial Action Task Force
FLEG	Forest Law Enforcement and Governance
FM	Financial management
FMI	Financial Markets Integrity
FPD	Finance and Private Sector Development
FTE	Full-time equivalent
FY	Fiscal year
GAAP	Governance and Accountability Action Plan
GAC	Governance and anticorruption
GOVNet	Network on Governance
HD	Human Development
HIV	Human Immunodeficiency Virus
HR	Human Resources
HRM	Human Resource Management
IBRD	International Bank for Reconstruction and Development
ICAR	International Center for Asset Recovery
ICMM	International Council on Minerals and Mines
IDA	International Development Agency
IDF	Institutional Development Fund
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International financial institutions
IGS	Institute for Governance Studies
ILGRP	Indonesia Local Governance Reform Project
ILO	International Labor Organization
INT	Institutional Integrity Vice Presidency
ISEAL	The International Social and Environmental Accreditation and Labeling
ISR	Implementation Status Report
KMU	Knowledge management unit
LAC	Latin America and Caribbean Region
LEG	Legal Vice Presidency

LGSP	Local Government Support Project
MD	Managing director
MDB	Multilateral development bank
MDTF	Multidonor trust fund
MeTA	Medicines Transparency Alliance
MIC	Middle-income country
MNA	Middle East and North Africa Region
MOU	Memorandum of Understanding
NACC	National AIDS Control Council
NGO	Nongovernmental organization
NRIMP2	Second National Roads Improvement Project
NVP	Network Vice Presidency
OBI	Open Budget Index
OECD	Organisation for Economic Co-operation and Development
OPCS	Operations Policy and Country Services
OVP	Operational Vice President
P4P	Pay-for-Performance
PAD	Project Appraisal Document
PAM	Public Accountability Mechanisms
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public financial management
PPP	Public-Private Partnership
PREM	Poverty Reduction and Economic Management
PSM	Public Sector Management
PSU	Preventive Service Unit
QAG	Quality Assurance Group
QER	Quality Enhancement Review
RAPMAN/	Operational Information System for Financial Management
PRIMA	
RMT	Regional Management Team
ROSC	Report on the Observance of Standards and Codes
RTI	Right to Information
RVP	Regional vice president
SAP	Systems, Applications, and Products
SAR	South Asia Region
SBM	School-Based Management
SDN	Sustainable Development Network
SDV	Social Development Department
SECO	Swiss State Secretariat for Economic Affairs
SMU	Sector management unit
StAR	Stolen Assets Recovery Initiative
SWAp	Sectorwide Approach
TOWA	Total War Against HIV and AIDS
TTL	Task team leader
UNCAC	United Nations Convention Against Corruption
UNODC	United Nations Office on Drugs and Crime
USAID	United States Agency for International Development
VDP	Voluntary Disclosure Program
VP	Vice president
VPU	Vice presidential unit
WBG	World Bank Group
WBI	World Bank Institute

STRENGTHENING WBG ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION ONE-YEAR PROGRESS REPORT

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EXECUTIVE SUMMARY

A. GAC for Development: The Challenge of Mainstreaming

1. This document reports on progress in the first year of implementation of the World Bank Group (WBG) strategy, *Strengthening World Bank Group Engagement on Governance and Anticorruption (GAC)*, approved by the Board of Executive Directors in March 2007. The GAC strategy is the most recent stage in an evolution of development work that has been under way for at least 15 years. The evolution has taken development work beyond an exclusive preoccupation with engineering and economic considerations to incorporate attention to the governance institutions and political incentives and constraints that shape development decision-making. It has had three distinct drivers:

- Enhanced understanding of the importance of institutions for development effectiveness;
- Growing public awareness of the cancer of corruption, with associated reputational risks for the aid endeavor; and
- Enhanced global attention to public sector transparency and accountability as ends in themselves.

2. In 2005 the Board of the WBG requested management to put forward a strategy as to how it planned to integrate GAC into the WBG's development mandate. The resulting strategy paper, which built on extensive external consultations, has provided a consensus platform for moving forward. It affirmed unambiguously that *the principal purpose of GAC work is to enhance development effectiveness* – and that engaging multiple stakeholders is key to effective implementation. GAC work is thus relevant at every step in the operational cycle of the WBGs country programs:

- *Country Assistance Strategies* set priorities (including priorities for governance reform) based on systematic diagnosis, together with country counterparts and other development partners, of country-specific GAC constraints to development effectiveness;
- *Sectoral strategies* identify feasible ways forward given the GAC context – including strategies for empowering stakeholders that have strong incentives to achieve the sector's development goals;
- *Project design and implementation* incorporate the lessons of sectoral strategies as to feasible next steps, and provide opportunities to incorporate enhanced transparency, participation, third party monitoring, and other strengthened fiduciary controls into operational design.

GAC engagement thus adds to the development toolkit a wide variety of innovative approaches and so can improve results in a very wide variety of areas (see Box below).

Box ES1: Development Results – the GAC Contribution

- **Procurement cost savings.** Indonesia's Bali Urban Infrastructure Project supported reforms in procurement and bidding process - including wider advertising, greater geographic coverage, removing restrictions on bidders, and stronger oversight over the bidding process to prevent corruption. These reforms led to lowering of infrastructure prices by an average of 31 percent by the end of the project.
- **Improved access to drinking water:** Dakar, Senegal's public-private urban water partnership included innovative institutional arrangements explicitly designed to offset potential weak points in the country's regulatory structure. Household connections reached 76 percent in 2006. Access to water services (including access at public fountains) rose from about 74 - 81 percent in 1996 to about 98 percent of people living in cities in 2006.
- **Reduced malnutrition.** In Maharashtra, India, a community monitoring and scorecards pilot – which included an awareness campaign - in the Satara district resulted in significant reduction in child malnutrition, leading to 7-10 percent increase in the percentage of healthy children in the program, as well as a significant decline in the number of malnourished children, within a few months time.
- **Enhanced civil service capability.** In Macedonia, a series of administrative and civil service reforms over the period 2001-2008 strengthened the efficiency and quality of the civil service. Merit-based competitive recruitment of civil servants rose from 37 percent of civil service recruitments in 2004 to 64 percent in 2007, and the number of qualified applicants per advertised position rose from 4.5 in 2004 to 33.1 by 2006.
- **Reduced teacher absenteeism.** In 2007, the state of Sao Paulo, Brazil, launched a major reform aimed at making teachers more accountable for student learning progress. The reform has already been associated with a decline in teacher absenteeism from 13 percent in 2007 to 7 percent in 2008.
- **Better provision of health services.** Following far-reaching reforms in the institutional arrangements for the Kyrgyz Republic's health sector, the proportion of people making informal payments to healthcare providers has fallen from 70 percent in 2001 to 52 percent in 2006. There has been a 36 percent increase in the number of people using cost-effective primary health care since 2004.
- **A better business environment.** The El Salvador Eficiente program supported a one-shop facility for start-up business. This has led to the elimination of more than 24 requirements for registering business and obtaining licenses, and has reduced time required for these services from 20 days to 5 days.

3. To help realize these broad-based gains, a principal focus of the implementation plan, reviewed by the Board in October 2007, was thus on mainstreaming GAC across the range of the WBG's development work. The 2007 strategy and implementation plan also underscored that GAC interventions need to be country-specific, that there are no ready-made "cookie-cutter" solutions, and thus that the approach to GAC work should be *learning oriented*. This paper reports on progress after one year of effort towards the specific goals laid out in the implementation plan.

4. At the outset of implementation, the positive vision laid out in the GAC strategy was not how the agenda was perceived by many in the development community – including some within the WBG. GAC work often was perceived to be polarizing – another in a long line of externally-driven mandates imposed on top of an already challenging mission, with little regard to the real on-the-ground challenges of leaders in developing countries and their external partners. Transforming wariness into proactive engagement with the GAC agenda has been a critical task for the first year of GAC implementation – and important gains have been made.

B. Orchestrating Change – The First Year of GAC Strategy Implementation

5. The approach to change management laid out in the GAC implementation plan combined “bottom-up” engagement with “top-down” commitment. The bottom-up approach followed from a judgment that, in the first year of implementation, the active engagement of staff working at the frontlines of development work was more important for building momentum than new mandated guidelines and procedures. Top-down commitment took the form of a new *Governance Council* - chaired by each of the three MDs on a rotating basis, with participation by senior management from all OVPs – which meets monthly to oversee GAC implementation.

6. On top of the very substantial Bank expenditures on GAC work that predated the 2007 GAC strategy, significant incremental resources have been made available to implement the strategy. The Bank provided \$7 million at the beginning of FY08; an additional \$10.7 million midway through the fiscal year, specifically to support the newly approved implementation plan; and \$16.2 million for FY09; additional internal resources have been freed up through redeployment to strengthen the availability of staff with GAC skills. To complement these internal resources – and to underscore the centrality of partnership in this agenda – an \$85 million (over three years) Multi-Donor Governance Partnership Facility has been set up, with contributions so far from the United Kingdom (\$60 million), the Netherlands (\$15 million), and Norway (\$10 million). In addition, a high-level group of external advisors is being convened to review progress and provide feedback. The additional resources are being used to support four distinct entry points: country-level engagement; ‘GAC in projects’ work; strengthening the thematic underpinnings of operational work; and some global GAC initiatives. The subsections that follow report on progress for each of these entry points.

1. Country Engagement – the CGACs

7. The “CGAC” (Country Governance and Anti-corruption; CGAC) approach has been the bottom-up centerpiece of the first year of implementation. Twenty-seven countries were nominated as CGACs by the Bank’s RVPs. Each country team was provided with incremental funds of \$100,000 from the FY08 mid-year resources. Intentionally, as part of the bottom-up, country-program-driven approach to implementation, CGACs were described in very broad terms as “a country-team-led process intended to identify, deepen, systematize and mainstream engagement on governance.” Each country team was encouraged to identify priorities based on the country context. The only consistent expectation was that the CGAC process would engage a broad spectrum of participants in each country team.

8. As expected, given the diversity of country circumstances, there has been substantial variation in the one or two priority areas on which each CAS focused:

- Just over half focused on broadening engagement with stakeholders, in strategy design and implementation.
- About two-thirds invested in diagnostic work.

- About one-quarter used the CGAC resources to strengthen the GAC dimensions of their project portfolio.

9. In many of the CGAC countries, work began only in late FY08, so it is premature to judge progress. Even so, one overarching lesson already has emerged. Of the 27 CGAC countries, so far 9 – Albania, Bangladesh, DR Congo, Honduras, Indonesia, Moldova, Mongolia, Nepal, and Zambia – have systematically mainstreamed the CGAC approach by building a multisectoral GAC platform across their country team, aligned with country priorities. These countries are precisely the ones where the CGAC work shows most promise of development impact. The case seems strong for further scaling-up of CGAC-style engagement across the WBG’s country programs.

2. GAC in Projects

10. The run-up to the first year of GAC implementation saw an intensified focus on anticorruption in Bank projects. The heightened profile that this brought to GAC work has generated both opportunities and pressures. The principal opportunity was that it provided a positive environment to scale-up many good operational practices that have been pioneered over the past decade by committed Bank staff, by country counterparts, and by other development practitioners. The main challenge – one with which Bank staff and management continue to engage – has been to ensure that GAC-in-projects work does not focus exclusively on fiduciary risks. While at the outset of the first year of GAC implementation a narrower preoccupation seemed to dominate, over time a more balanced approach to risk management has begun to emerge. Four elements are key to this balanced approach:

- Upstream diagnostics to identify governance and corruption constraints to the development effectiveness of projects;
- Proactive “smart project design” to address these constraints – including via expanded use of transparency mechanisms, participation, and third party monitoring;
- Strengthening fiduciary controls in project design and smart project monitoring and supervision during implementation; and
- Informed risk-taking for initiatives where the potential for development impact is large, even though the risks remain high.

11. The balanced approach is beginning to take hold, although much remains to be worked through. More than 30 projects benefited from the approximately \$2 million of incremental GAC resources allocated in FY08 to foster project-level innovation (Annex A). Many RVPs have topped this up with injections of core budget resources, and some country teams (e.g., India, Albania) have been especially proactive. Leading examples of operations approved by the Board in FY08 that have incorporated smart project designs are the Philippines Second National Roads Improvement Project; the Kenya Total War on HIV and AIDS project; and the Indian state of Orissa Rural Livelihoods project (see Boxes 8 and 10 in the main text).

12. To reinforce these gains at the operational frontline, a variety of initiatives are underway to improve the enabling environment of operations policy and quality management within which project task teams operate. These include:

- Identification of opportunities for enhancements in public disclosure of information concerning Bank operations, including disclosure of INT reports;
- The implementation of a new sanctions regime to deter corruption by private sector contractors;
- Enhancements of the GAC-related quality management systems within the Bank's Regions;
- Preparation of new guidance to task teams on financial management, procurement, and GAC in investment projects; and
- Congruent with the recommendations of the Volcker Report, a systematic effort to integrate the Department of Institutional Integrity (now a Vice Presidency) into the mainstream of Bank work.

3. Strengthening the Thematic Underpinnings of GAC Work

13. To accelerate mainstreaming in country programs and projects, four thematic focus areas were identified for the first year of GAC implementation: GAC in sectors; the demand side of governance; country systems; and actionable governance indicators. Important progress has been made on each, but there is significant work ahead.

14. ***GAC in Sectors.*** Prior to the 2007 strategy, the GAC agenda was managed within the Bank as one of many silos, and most operational staff in the sectors (infrastructure, education, health etc.) did not perceive it to be relevant to their work. Though the 2007 strategy addressed sector-level engagement, it did not receive the same attention as did GAC at country and project levels. But as implementation has proceeded, it has become apparent that GAC in sectors is central to the effectiveness of the agenda as a whole: Sectoral staff are responsible for the majority of Bank projects and so are at the frontline of the effort to transform the Bank's approach to risk management, and to incorporate "smart" GAC features into project design and implementation.

15. At the outset of the first year of implementation, the Bank's GAC-in-sectors work was undertaken within the HD and SDN Network anchors (central units that provide technical support to staff working on the operational frontline). Their principal focus was on improving diagnostic work – ranging from direct support of country operations (e.g., water sector governance in Guatemala; control of error, fraud, and corruption in social benefits administration in Kazakhstan), to multicountry engagement and syntheses of experience in selected topics (e.g., pharmaceuticals procurement), to sourcebooks and guidance notes (e.g., new sourcebooks on reducing corruption in the electricity and urban water sectors). Over time, both Network anchors expanded their outreach efforts to operational staff through training and the establishment of

nascent communities of practice. These efforts by sector anchors are one of multiple ways – including the CGACs and GAC in project work – through which the GAC agenda is making itself felt by front-line operational sector staff. The cumulative impact of these diverse engagements is beginning to be evident: As of the writing of this progress report, both SDN and HD had developed plans in partnership with RVP staff for major new initiatives to scale up their GAC operational efforts at the country level.

16. ***The Demand Side of Governance.*** The past decade has generated many “good practice” examples as to how to incorporate into the WBG’s development work the demand side of governance (i.e., enhancements in transparency, participation, and accountability, both close to the service provision front line and in the upstream institutional arrangements for overseeing the public sector). More systematically bringing this good practice into the mainstream was the principal goal for the first year of GAC implementation. Progress has been made on a variety of fronts, including the following:

- New momentum for the demand-side agenda via work on CGACs (the Bangladesh and Democratic Republic of Congo CGACs are good examples; see Box 4 of the main text) and on GAC in projects (e.g., Argentina’s State Modernization Loan, and Indonesia’s Local Governance Reform Project; see Box 8);
- New guidance to clarify for operations staff the parameters of demand-side work; and
- The development of a new community of practice, including both Bank staff and external participants, to facilitate experience sharing and knowledge development on the demand-side agenda.

But for all of the gains, the continuing momentum provided by GAC strategy implementation will be key to ensuring that the demand side of governance becomes a routine, mainstreamed part of the Bank’s development toolkit.

17. ***Improving “core” country systems.*** The WBG’s commitment to helping strengthen core public management and accountability institutions in developing countries is strong – and predates the GAC strategy. Though the GAC strategy itself did not push the frontier of WBG engagement vis-à-vis country systems, three activities in the course of the first year of implementation have important implications for the agenda:

- A new initiative to enhance the use of country procurement systems in Bank operations was launched in 8-10 pilot countries – an important example of the development potential of incorporating country systems work into investment projects, as well as programmatic loans.
- An IEG review of public sector reform highlighted both the solid performance of work to improve country systems for public finance and expenditure management – and the large continuing difficulties in getting results on support for civil service reform.

- A second IEG review – of decentralization – underscored the lack of a consistent approach to Bank work (not simply across countries but, more troublingly, within a given country), and attributed the weakness to rigidities that resulted from the Bank’s stove-piped organizational structure.

18. In different ways, each of these activities is giving an important new impetus for the coming year to the Bank’s work on these “core” systems. An important next step will be to invest more systematically in approaches tailored for different types of countries (e.g., a focus on strengthening the capacity of central finance agencies in weaker governance settings; and on positioning the Bank as a center of global excellence on results-oriented management to support the heightened performance aspirations of middle-income and other countries).

19. **Actionable Governance Indicators (AGIs).** Over the past decade, much effort has gone into the development of aggregate governance indicators. As a complement to this work, the 2007 GAC strategy committed to “further develop and use disaggregated and actionable indicators.... to help track progress in specific reforms.” This will take time. It has taken seven years for the now-widely-used Public Expenditure and Financial Accountability (PEFA) AGIs to achieve broad acceptance. Even so, the first year of GAC implementation has seen significant gains in AGI work, including:

- Continuing updating and expansion of coverage of PEFA, the OECD-World Bank Budget Practices and Procedures Data Base, the Open Budget Index, the Global Integrity Index – plus scaling up of a new procurement assessment tool;
- Outreach (including CGAC and Regional workshops, and support at the country level) by specialist staff to foster greater use of AGIs in operational work;
- Development of new indicators to track progress on core country systems -- including a new set of human resource management indicators, a new public accountability mechanisms database, and the initiation of work on new AGI decentralization indicators.
- Development of new sectoral AGIs, including measures of education and health service delivery at the point of contact between provider and client, and input and output measures for natural resource management and infrastructure.

20. Annex D lays out a results framework that suggests how these AGIs can be used to assess the value added for development of GAC work.

4. Global Initiatives

21. The GAC strategy and implementation plan identified global initiatives as important complements to the country and project levels. A key objective of these global initiatives is to help alter those “rules of the game,” both statutory and norm-based, that are set globally or in developed countries – but have an important impact on the behavior of public officials, private firms, and other organizations active within developing countries.

22. The Stolen Asset Recovery (StAR) initiative, launched in late 2007 and allocated \$3.9 million of GAC scale-up funds, has been a flagship global initiative in the first year of GAC implementation. To help developing countries recover assets stolen through acts of corruption by officials, StAR has initiated work on a variety of fronts including:

- Active engagement in Indonesia, Bangladesh, and two additional pilot developing countries, and possible work with an additional four, to help build national capacity to recover assets and deter new illicit flows (e.g., guidance for non-conviction based asset forfeiture laws); and
- Knowledge sharing and awareness-raising (principally amongst developed countries) of the challenges to international asset recovery, and developing tools to facilitate asset recovery efforts (e.g., a study on illicit financial flows).

23. StAR's initial work has signaled its potential value added in fostering collaboration among agencies that had not previously worked together – both within developing countries and internationally. A “Friends of StAR” group has been established to provide ongoing feedback on priorities, and support for international collaboration on asset recovery. Ties of trust and confidence are beginning to be established with counterparts committed to recover stolen assets – and the demand from these counterparts for more specific assistance has begun to grow. Going forward, StAR will thus scale up its capacity building activities – integrating StAR into ongoing, country-led governance and anticorruption programs, expanding its advocacy in support of the framework offered by UNCAC, and deepening technical work aimed at lowering the barriers to asset recovery in global financial centers.

24. In addition to StAR, the global agenda for the first year of GAC implementation included support for a variety of multistakeholder initiatives – generally involving private sector and global civil society actors – to fight corruption and support better governance more broadly. Especially noteworthy are:

- Continued support for the ratification and implementation of the United Nations Convention Against Corruption (UNCAC), including by a gap analysis in Bangladesh to assess the disconnect between the standards defined in the convention and the prevailing policies, procedures, and practices.
- IFC-led work on the link between better corporate governance and firm-level anticorruption efforts. IFC has updated its corporate governance compliance and support methodology to incorporate anticorruption, has enhanced its integrity due-diligence procedures, and has invested in a variety of outreach initiatives to communicate good practice.
- Support for initiating and scaling up promising collaborative initiatives including the Medicines Transparency Alliance (MeTA), the Construction Sector Transparency Initiative (CoST), an expansion of the Extractive Industries Transparency Initiative (EITI) to address governance issues throughout the value chain in natural resources extraction, plus a new World Bank Institute-led initiative (in partnership with private

firms and business-oriented civil society organizations), Business Fighting Corruption Through Collective Action.

- Investment in identifying frontier challenges faced by collaborative initiatives – including the need for systematic assessment of their development impact, and approaches to better address continuing governance challenges to their effective implementation

C. Crossing the Threshold

25. The principal objective of the first year of GAC implementation has been to accelerate mainstreaming by generating bottom-up engagement and innovation on many diverse fronts. In this, implementation has so far been successful:

- The proactive CGAC pilots are showing how a multisectoral GAC platform for country programs, with strong leadership and the involvement of entire country teams, can support development effectiveness;
- The GAC-in-projects work is demonstrating the benefits of a balanced approach to risk management, including smart project design and implementation, and informed risk-taking;
- Work on the demand side of governance is becoming increasingly common in both strategy development and in operational programs; and
- Work on governance in sectors is moving beyond diagnostics by central units, and is beginning to engage the sectoral operational staff who are responsible for the majority of the Bank's lending.

Over the past year, the cumulative impact of these many diverse efforts has been to move the WBG to the threshold of a profound shift in its approach to development, a shift that promises to enhance the effectiveness of its poverty reduction efforts.

26. Though a “tipping point” may thus be approaching, it has not yet been reached. Bottom-up experimentation with GAC approaches to enhancing development effectiveness has been under way for close to a decade; enthusiasm has waxed – and waned – before. Going forward, the frontier challenge is thus twofold.

27. A first challenge is to accelerate implementation via a “big push” in one or two key areas. One especially promising area is support for strengthening procurement systems in developing countries. The developmental impact potentially is major: procurement accounts for up to 70 percent of public spending in some countries, with a global amount estimated at between 12 and 20 percent; where procurement systems are weak, they can be a major source of corruption vulnerability. As Box 9 in the main text describes, a promising new initiative has been launched to enhance the use of country procurement systems in Bank operations. A focused push to implement effectively the pilot procurement program – and to build within the Bank the

expertise required to help develop the capacity of country procurement system – will be a priority in the upcoming year.

28. A second, broader, challenge is to ‘lock-in’ the current momentum for GAC engagement by *systematizing* and *scaling up* GAC work in the many areas where good practice is now well recognized, and where the bottom-up approach to implementation is gaining traction. The aim should be to lock in a norm among operational staff that value-adding GAC approaches should be part of strategy development, and of project design and implementation. To achieve this, the second year (and beyond) of GAC implementation will need to balance continuing experimentation and learning – vital in themselves, and necessary to sustain enthusiasm for the agenda – with careful attention to “nuts-and-bolts” managerial challenges. The latter include (a) assuring that operational staff have available in sufficient quantity the knowledge and specialized expertise needed to deliver on a scaled-up agenda; and (b) systematically incorporating the GAC dimensions of development work into the Bank’s ongoing quality management processes at both regional and corporate levels. Sections IIIA and B of the main body of this progress report lay out a program of specific actions. Getting these management details right will be a hard slog – and it will be important to ensure that staff view the effort as value adding, not a new layer of bureaucracy. But if the GAC agenda is finally to move beyond a showcase of many promising ad hoc examples, and become a systematic part of how the WBG works to realize its poverty reduction mandate, these managerial challenges are surely the priority task for the second year of GAC strategy implementation.

29. An update on progress in implementing the steps detailed above, and of continuing progress in implementing the actions laid out in the matrix in Annex C will be provided to the Board following a further year of experience.

STRENGTHENING WORLD BANK ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION: ONE-YEAR PROGRESS REPORT

I. GAC FOR DEVELOPMENT: THE CHALLENGE OF MAINSTREAMING

1. In March 2007, the Board of Executive Directors of the World Bank Group (WBG) approved the strategy paper, *Strengthening World Bank Group Engagement on Governance and Anticorruption*. In October 2007, it approved the plan for its implementation, and requested a report on progress. This paper reports on progress after one year of effort to achieve the results laid out in the implementation plan.

2. As the 2007 GAC strategy paper detailed, GAC work is not new in the WBG, so neither the total existing stock of the WBG's GAC work nor all GAC-related innovations over the past year can be attributed to implementation of the 2007 Strategy. This paper thus necessarily focuses narrowly on progress in relation to the specific tasks laid out in the October 2007 implementation plan. The paper first summarizes the rationale for the approach adopted to implementation, including the priorities used to allocate the substantial incremental Bank resources made available for this purpose. Thereafter it provides specific details on progress at each of the three levels of engagement – country, project, and global – laid out in the GAC strategy and implementation plan.

A. The Development Opportunity

3. The WBG GAC strategy is the most recent stage in an evolution of development work that has been under way for at least 15 years. Three drivers of this evolution are especially noteworthy:

- A recognition that development cannot be imposed from the outside, but requires country ownership, including capable state institutions, developmentally-oriented decision-makers, and engaged societies;
- A growing understanding that the cancer of corruption undermines both development efforts within developing countries and the legitimacy and reputation of development support more broadly; and
- Enhanced global attention to public sector transparency and accountability as ends in themselves, sometimes in a way that goes beyond the mandate of the WBG.

Taken together, these three drivers have moved development work beyond an exclusive focus on engineering and economic considerations to incorporate attention to the governance institutions and related incentives and constraints that shape development decision-making.

4. The GAC opportunity is far-reaching. GAC engagement adds to the development toolkit a wide variety of innovative approaches to achieving development results. As the following examples illustrate, these approaches can enhance effectiveness across a very broad range of areas of engagement:

- ***Procurement cost savings.*** In Indonesia's Bali Urban Infrastructure Project, a series of reform measures in procurement led to lowering of infrastructure prices by an average of 31 percent by the end of the project. Reforms in procurement and bidding process – including wider advertising, greater geographic coverage, removing restrictions on bidders, and stronger oversight over the bidding process to prevent corruption – reduced chances of collusion, increased competition, and empowered capable and honest contractors, leading to a lowering on bid prices that translated into lower infrastructure prices. The lessons from the project were fed into dialogue at the national level and helped provide input to the national procurement reforms.
- ***Improved access to drinking water.*** Dakar, Senegal's World Bank-supported public-private partnership was underpinned by innovative institutional arrangements explicitly designed to offset potential weak points in the country's regulatory structure that were identified through governance assessments undertaken as part of project preparation. The water company operates free of government subsidies. Household connections reached 76 percent in 2006, and global access to water services (including access at public fountains) rose from about 74-81 percent in 1996 to about 98 percent of people living in cities in 2006.
- ***Reduced malnutrition.*** In Maharashtra, India, a community monitoring and scorecards pilot – which included an awareness campaign – in the Satara district resulted in significant reduction in child malnutrition, leading to 7-10 percent increase in the percentage of healthy children in the program, as well as a significant decline in the number of malnourished children, within a few months' time. The pilot, initially undertaken in 14 villages, is now being scaled up to 121 villages in Satara, using the local government's own resources.
- ***Enhanced civil service capability.*** In Macedonia, a series of administrative and civil service reforms over the period 2001-2008, strengthened the efficiency and quality of the civil service. Merit-based competitive recruitment of civil servants rose from 37 percent of civil service recruitments in 2004 to 64 percent in 2007, and the number of qualified applicants per advertised position rose from 4.5 in 2004 to 33.1 by 2006. The civil service also became considerably more depoliticized over this period. Quarterly turnover rates for civil servants averaged 3.4 percent over the 2004-07 period during periods when the political leadership remain unchanged. Even following a change of political leadership, the average was only 1.8 percent, in contrast to political appointees, whose quarterly turnover rates jumped from 2.4 percent to 35.7 percent following a change in political leadership.
- ***Reduced teacher absenteeism.*** In 2007, the state of Sao Paulo, Brazil, launched a major reform aimed at making teachers more accountable for student learning progress. All 5,000 primary and secondary schools in the state system have agreed on targets for controlling teacher absenteeism and improving their school's performance – and linking these to bonus payments. The reform has already been associated with a decline in teacher absenteeism from 13 percent in 2007 to 7 percent in 2008.

- ***Better provision of health services.*** Far-reaching reforms in the institutional arrangements for the Kyrgyz Republic’s health sector have been highly effective at channeling funds to services and providing a fair, transparent, modest, and balanced benefit package for the population. People in the poorest half of the population spent 27 percent less of their household budgets on health services in 2007 than they did in 2004; the proportion of people making informal payments to healthcare providers fell from 70 percent in 2001 to 52 percent in 2006. Access to health services has also improved, with only 3.1 percent of the population now claiming that medical services are too expensive or far to use when needed (down from 11.2 percent in 2001) and a 36 percent increase in the number of people using cost-effective primary health care since 2004.
- ***A better business environment.*** The El Salvador Eficiente program has implemented administrative simplification to enhance efficiency of public services to citizens and business. El Salvador opened a one-shop facility for start-up business. Instead of visiting five institutions, businessmen can register business, pay taxes, and obtain licenses in one institution. Sharing databases and information among the institutions has led to the elimination of more than 24 requirements for registering business and obtaining licenses, and has reduced time required for these services from 20 days to 5 days.

5. As these diverse examples suggest, fully realizing the development opportunities offered by GAC will involve a far-reaching evolution in how the WBG works across the breadth of the organization. This is why the GAC strategy and implementation plan give central attention to the challenge of “mainstreaming.” Fully realizing the opportunities will also involve a far-reaching change in how Bank staff, management – and the development community more broadly – conceive of the path to realizing these results. The approach needs to go beyond a preoccupation only with individual operations and their specific short to medium-term impacts to incorporate also a longer-term view. Box 1 illustrates, using the example of the WBG’s decade-long engagement on GAC issues in Indonesia, how initiatives such as these can enhance development results – and also how GAC engagement inevitably evolves over time as country circumstances change.

Box 1. Indonesia – GAC for Development in Action

The Indonesia program comprises the WBG's longest sustained GAC engagement – and reveals vividly many of the strengths, limitations and challenges GAC poses for development work. In Indonesia, the Bank did not seek out a GAC engagement; GAC found the Bank. Prior to 1998, the Bank-Government of Indonesia working relationship was a classically technocratic one– and, with decades-long reductions in poverty, seemingly hugely successful. But a confluence of events that came in rapid succession after 1997 led to the collapse of the country's increasingly ossified institutional base: the 1997 Asia financial crisis; the 1998 resignation of long-term President Soeharto; a turn to democracy; and a far-reaching “big bang” decentralization in 2001. Moreover, Indonesia's citizenry had become enraged by the entrenched corruption of the Soeharto years, and the Bank came to be seen as “part of the problem.” As IEG's 2007 Country Assistance Evaluation put it, “by 1999, even those technocrats who had maintained close relations with the Bank found it difficult to be publicly associated with the institution.”

The Bank's Indonesia country team responded proactively to these extraordinarily challenging circumstances. Four sets of innovations are especially noteworthy:

- First, GAC mainstreaming in all projects – to address forthrightly the perception that corruption was pervasive within Bank operations. The Indonesia team required that all operations prepare governance and anticorruption action plans; supported the inclusion of transparency, participation, and empowerment mechanisms in sectoral operations; focused engagement on sectors and regions with leadership committed to better governance; and vigorously followed up on allegations of corruption.
- Second, an unprecedented large participatory, community development initiative that enhances the demand for good governance, the Kecamatan Development Program (KDP) and Urban Poverty Project (UPP): \$1.6 billion in Bank commitments by 2008, reaching over 34,000 villages (about 50 percent of the Indonesian total), with about 70 percent of the resources going to village-level infrastructure, prioritized by communities, and at a cost generally about 30 percent below conventional government programs – the Indonesian government has adopted the model in its new national poverty reduction program.
- Third, support to the Indonesian authorities' far-reaching program of intergovernmental reform, including a combination of high quality analytical work, the establishment of a multi-donor Decentralization Support Facility – and ongoing efforts to leverage the KDP experience as a model for strengthening the participatory and other processes of local governments.
- Fourth, early engagement with an innovative government plus civil society Partnership for Governance Reform – followed by support for the determined post-2004 efforts of the Indonesian government to reform public financial management, civil service, procurement and the justice system.

A decade into the GAC program, the results are not unambiguously positive. Many parts of the institutional reform agenda have moved only slowly, if at all; perceptions of public sector corruption have shown consistent modest improvements while remaining very high (though the Bank no longer is perceived to be complicit); the 2007 IEG evaluation has questioned whether the focus on communities undercut both momentum for intergovernmental reform, and attention to infrastructural investment and growth. Indeed, infrastructure and country systems are the priorities of the 2008 Country Partnership Strategy for Indonesia. But any judgments as to success or otherwise depend on perceptions as to what the counterfactual might have been – and knowledge gaps are especially large concerning the dynamics of sequencing (especially the interactions between governance and growth). Indeed, even the otherwise critical IEG report notes that “the Bank has re-emerged as the lead economic adviser to the core ministries....Both the Bank and the Indonesian government deserve a great deal of credit for their success in restoring a relationship that seemed in the aftermath of the crisis likely to result in the Bank have a very limited presence and program.” By any standard, for the Bank to have navigated the extraordinarily turbulent waters of the past decade of Indonesia's economic and political development in a way that rebuilt its damaged reputation – and to have done so by being consistently at the cutting edge of the country's most pressing development challenges – is a remarkable achievement.

B. The Principles for WBG Engagement

6. For all of the opportunity, the evolution of development work from a narrow economic and engineering focus to a broader perspective that incorporates governance has been contentious. This led the Board of the WBG in 2005 to request management to put forward a strategy as to how it planned to integrate GAC into the WBG's development mandate. The 2007 strategy paper, based on extensive external consultations, laid out seven core principles (Box 2) for proceeding with GAC work. Broadly, these seven principles group along three themes.

7. *Theme 1: the principal purpose of GAC work is to enhance development effectiveness* (principles 1, 3 and 6)

Key GAC initiatives that demonstrably enhance development results, including by helping to reduce the risk of corruption, include (a) strengthening country systems; (b) enhancing transparency and access to information; (c) engaging stakeholders in the design and implementation of development operations; and (d) across the range of development activities, supporting interventions that have a "good fit" with country-specific institutional realities, rather than some cookie-cutter version of "best practice."

8. *Theme 2: the WBG will adopt a learning-oriented approach to its GAC work* (principles 3 and 4).

A commitment to learning follows directly from (a) the reality that different country situations pose different opportunities and challenges for the design and implementation of development-enhancing GAC initiatives; (b) the need for ongoing experimentation to find the right balance between informed risk-taking to support development goals, and due caution to guard against corruption; and (c) the reality of the current limits of our knowledge. While the long-run relationship between the quality of governance and development performance is robust, much less is known about the short to medium-term interactions between institutional change and development performance, and how to leverage them effectively.

9. *Theme 3: stronger partnerships between the WBG and other stakeholders are key to effective implementation of the GAC strategy* (principles 2, 5 and 7).

The focus on partnership underscores that development is a collective process. Effective policymaking, implementation, and accountability need engagement by a country's government, its citizens, civil society organizations, private firms, and its development partners. A commitment to partnership positions the WBG to play a facilitating role, by helping to orchestrate results-oriented engagement, underpinned by high-quality technical inputs.

10. In sum, as the three themes underscore, the 2007 GAC strategy laid out a positive vision that fits well with the WBG's development mission. But as implementation of the strategy began, this is not how the agenda was perceived by many in the development community – including many staff within the WBG. GAC work often was perceived to be polarizing – another in a long line of externally-driven mandates imposed on top of an already challenging mission, with little regard to the real on-the-ground challenges of leaders in developing countries and their external partners.

Box 2. Key Principles of the GAC Strategy

The process of preparing the strategy—including guidance from the Bank’s Board, the Development Committee, and global multi-stakeholder consultations—helped crystallize *seven guiding principles for the WBG’s GAC work*:

- The 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.
- 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.
- 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.”
- 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.
- 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.
- 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.
- 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.”

C. The First Year of GAC Implementation: Priorities, Resources, and Achievements

11. Transforming wariness into proactive engagement with the GAC agenda has been a critical task for the first year of GAC implementation. It has shaped the approach taken to change management, engaging top management, allocating resources, and involving development partners.

12. The approach to change management adopted for the first year of GAC implementation has combined bottom-up engagement with top-down commitment from senior management. The bottom-up approach followed from a judgment that in this initial period, the active engagement of staff working at the front lines of development work was more important for building momentum than top-down mandates of new guidelines and procedures. Although the overall picture is a mixed one, the GAC implementation plan has generated bottom-up innovation and creativity in many parts of the WBG. Box 3 highlights six important areas where momentum is being built.

Box 3. Year One of GAC Implementation – Six Momentum-building Initiatives

The bottom-up change management approach adopted for the first year of GAC implementation is inherently unpredictable: some priorities highlighted up front can fail to get traction; other seemingly marginal initiatives can generate major momentum. Six sets of Year One initiatives seem to have provided strong momentum on which to build. The six are highlighted here, with details and examples of each incorporated throughout the text.

1. Better GAC-related risk management is beginning to be mainstreamed in project design and implementation. Key initiatives in Year One, with important demonstration effects, are:

- *Strengthening comprehensive governance and anticorruption plans in project design* (e.g., Indonesia, Cambodia, South Asia, Albania).
- *Systematically incorporating assessment of governance risks into RVP-level quality management review processes* (all Regional VPUs).
- *Leveraging synergies between country systems and projects.* Use of country systems to strengthen governance and anticorruption in projects (e.g., India RTI; Nepal Health and Education SWAs).
- *Enhanced transparency, participation and third-party monitoring* in project design and implementation (e.g., Philippines and Orissa Roads).

2. Development-effectiveness-enhancing approaches to multi-stakeholder engagement (building on the precedents laid out in the GAC strategy) **are beginning to be mainstreamed.** While no single initiative stands out in this area, the Progress Report points to an increase in efforts to design CASs, and prepare and implement operations in ways that leverage active engagement of nongovernmental and local actors to enhance development effectiveness (e.g., Argentina, Bangladesh, DRC, Honduras, India, Indonesia; see Boxes 4, 8).

3. Systematic diagnostics of governance challenge are helping reshape CAS design, sector strategies, and project preparation (e.g., Albania, Bangladesh, Zambia; see paras. 28-30, 36-40).

4. INT is becoming recognized as a value-adding contributor in project design and implementation in helping mitigate corruption risks (e.g., Democratic Republic of Congo, India).

5. New tools are emerging for better measuring the impact of governance interventions, including actionable governance indicators being developed in key areas – human resources management, health, and education.

6. Global initiatives aimed at enhancing accountability for development results are building momentum (e.g., STAR, EITI, CoST, MeTA).

13. High-level commitment from top management has been key to signaling to staff that the WBG indeed gives a high priority to the GAC agenda – and that the aim is to mainstream GAC across the range of Bank work. A top management-level *Governance Council* meets monthly; its meetings serve as a crucial platform to engender Bankwide coordination and commitment for this work. The Council is chaired by each of the three MDs on a rotating basis, with participation by senior management from all OVPs. PREM provides the Secretariat for GAC and monitors its implementation. GAC management structures are also being set up at the Regional level.

14. Along with the substantial resources already provided for ongoing WBG work on GAC (both for ongoing operational programs and through special purpose funds, e.g., the Institutional Development Fund grant facility), substantial additional financial resources have been made available to support implementation – by both the Bank and development partners. At the beginning of FY08, incremental Bank resources of over \$7 million were provided for governance

and anticorruption work,¹ with an additional \$9.7 million made available midway through the fiscal year (including StAR, and an additional \$1 million to INT for implementing Volcker report recommendations and strengthening INT functions). The FY09 Bank Budget included \$12.9 million of scale-up resources for GAC implementation (including StAR); a further \$3.3 million for INT; and an additional \$8.4 million of redeployment resources targeted to strengthening GAC staffing skills. Annex A details how these resources have been allocated.

15. Partnership in implementation – including partnering both with counterparts in developing countries (see Section II.A) and with other development partners – is a key emerging theme:

- An \$85 million (over three years) Multi-Donor Governance Partnership Facility has been set up, with contributions so far from UK (\$60 million), the Netherlands (\$15 million), and Norway (\$10 million). As Annex B details, these resources are geared directly towards supporting implementation by the WBG of the GAC strategy, principally by providing additional resources for the GAC efforts of Bank country teams.
- A high-level group of external advisors is being convened to review progress and to provide feedback. By the end of 2008, using this report as their point of departure, the group will report on its views on the WBG's progress in implementing the GAC strategy. The advisors' report will be made available publicly.

II. PROGRESS IN THE FIRST YEAR OF GAC STRATEGY IMPLEMENTATION

16. The next sections of the report detail actions and progress in the first year of implementation on the specific tasks identified in the October 2007 Implementation Plan at each of country, project, and global levels. The discussion follows the structure laid out in the Action and Results Framework included in the October 2007 Implementation Plan and reproduced as Annex C to this document (the Annex includes a summary of the results achieved for each of the main action indicators).

A. Implementing the GAC Strategy at the Country Level

17. Well-executed WBG country programs comprise an integrated whole, so effective GAC implementation potentially creates the opportunity for development-enhancing change at every step along the operational cycle, with strong synergies among the different parts:

- *Country assistance strategies* set priorities (including priorities for governance reform) based on systematic diagnosis of country-specific GAC constraints to development effectiveness;

¹ These resources predated the GAC Implementation Plan, and so could not be allocated according to the priorities laid out there. Reporting on their use falls outside the scope of the present paper.

- *Sectoral strategies* (including strategies for improving country systems) identify feasible ways forward given the GAC context – including strategies for empowering stakeholders with strong incentives to achieve the sector’s development goals;
- *Project design and implementation* incorporates the lessons of sectoral strategies as to feasible next steps, and provides opportunities to leverage GAC activities at sector and country level, and to pilot new approaches that can be scaled up – by incorporating enhanced transparency, participation, and third-party monitoring into operational design, as well as strengthening other fiduciary controls.

18. The expectation is that this enhanced attention to GAC throughout the operational cycle will help accelerate poverty reduction in developing countries. This section reports on implementation progress along four “upstream” country-level dimensions: (a) the CGAC process; (b) mainstreaming GAC in sectors; (c) multi-stakeholder engagement to foster demand for better governance; and (d) strengthening country systems. Section B provides further detail on GAC at the project level.

1. *The CGAC Process*

19. Table 1 reports the results of a retrospective review of the extent to which CASs going to the Board between 2006 and 2008 incorporated GAC issues. As the table reveals, the process of mainstreaming work on governance and anticorruption into WBG CASs predates the first year of GAC implementation: already in 2006, all CASs incorporated at least some coverage of GAC. This coverage, however, was broad rather than deep. Even for the most recent period, fewer than one-third of CASs offered a more than adequate diagnosis of governance conditions – and only 12 percent integrated GAC issues into lending and technical assistance strategies. At the CAS level, quality rather than quantity is thus the central challenge for GAC implementation.

Table 1. The Integration of GAC into CASs, 2006-2008

	<i>Not At All</i>	<i>Some</i>	<i>Adequate</i>	<i>High</i>	
<i>Do CASs provide a diagnosis of governance conditions and corruption risks (%)?</i>					
FY 2006 CAS	0	19	62	19	100
FY 2007/8 CAS	0	4	64	32	100
<i>Do CASs integrate GAC issues in TA/lending (%)?</i>					
FY 2006 CAS	0	6	75	19	100
FY 2007/8 CAS	0	8	80	12	100

Source: GAC Secretariat

20. This quality challenge has been addressed via the CGAC (Country Governance and Anticorruption) approach – the centerpiece of the first year of implementation. In mid-2007, a group of Bank field-based staff convened in Tunis to advise on how to proceed with GAC implementation. The CGAC approach was adopted in response to the advice of this group. It was based on three clear messages: first, that in the initial stage of GAC implementation, the mobilization of bottom-up energy, driven by country team staff at the front lines of development work was key to building support for the GAC agenda. Second, that in this initial stage, new examples of good practices were more important for building momentum for implementation

than a top-down effort to mandate new guidelines and procedures. Third, that an effective bottom-up approach should engage broadly the country team working in a particular country – thereby leveraging the synergies that came from a consistent country-team-wide approach to GAC challenges.

21. Consistent with this advice, at the outset of GAC implementation, Regional Vice Presidencies were asked to identify priority CGAC countries. Twenty-seven countries were nominated, and each country team was provided \$100,000 from mid-year incremental funds for GAC scaling up. Intentionally, CGACs were described in very broad terms as “a country-team-led process intended to identify, deepen, systematize and mainstream engagement on governance.” The intent was to encourage each country team to identify priorities based on the country context. The only consistent expectation was that the CGAC process would engage a broad spectrum of participants in each country team.

22. An intensive learning process was part of the bottom-up approach to CGAC engagement. A series of workshops were held for CGAC teams in Washington DC (including some experience-sharing initiatives sponsored within RVPs, ECA for example) followed by workshops for field-based staff in the EAP/SAR, MNA, and AFR (southern) Regions. A global workshop of CGAC teams from various Regions, held in Istanbul in May 2008, formed a very useful platform to review the CGAC experience to date, share lessons from the experience of various countries, address emerging challenges. A set of concrete recommendations emerged from the workshop; they provided one important basis for the discussion in Section III on the way forward.

23. Predictably, given the bottom-up approach, there have been very large variations in the ways in which CGAC teams have engaged. A first variation was in the extent of proactivity: with about one-third of the CGACs having been very proactive, another third more mixed, and a final third with little evident progress. Note, though, that the incremental resources for CGACs only were provided midway through FY08; consequently, in many of the CGAC countries work only began late in FY08, so it is premature to judge progress. The proactive teams report that the CGAC budget resources have been useful to support scaling up of activities and start building a staff base with stronger governance skills.

24. A second variation was in the link between CGACs and CASs. Thirteen of the 27 countries undertook the CGACs upstream of CAS preparation; 14 used them to support the implementation of recently finalized CASs.

25. A third variation was in the one or two priority areas on which each CAS focused: just over half focused on broadening engagement with stakeholders, in strategy design and implementation. About two-thirds invested in diagnostic work. About one-quarter used the CGAC resources to strengthen the GAC dimensions of their project portfolio. The paragraphs that follow introduce what has been learned in each of the priority areas.

26. ***Enhancing Country Engagement.*** Strengthening multistakeholder engagement was one of the core principles that underpinned the GAC strategy. Multistakeholder engagement has been introduced into the mainstream of the WBGs work over the past decade, via the participatory

Poverty Reduction Strategy process. Harmonizing among donors is a central plank of the Paris Declaration. Efforts have been under way since the mid-1990s to incorporate transparency, participation, and third-party monitoring into Bank operations.

27. The CGACs have fostered different types of multistakeholder engagement (see Box 4). Some have supported multistakeholder engagement upstream as part of CAS preparation. Others (e.g., Lebanon, Paraguay, and Uzbekistan) have focused multistakeholder engagement on sectoral reforms; yet others (e.g., Honduras) have included multi-stakeholder approaches as part of their portfolio enhancement efforts. Along with these types of engagement, an additional hope for CGACs was that they would facilitate enhanced dialogue with governments and other development partners, explicitly on governance reform. Especially – but not only – in middle-income countries (MICs), to initiate and sustain engagement on governance issues it is vital to win the confidence of governments that the WBG will bring both high value-adding expertise and a constructive spirit to dialogue and ongoing operational partnerships. Overall, the WBG is making some progress in this regard. But it cannot be said that the CGAC process has resulted in a major push in the frontiers of engagement in this area.

Box 4. CGAC-facilitated Multistakeholder Engagement

In **Bangladesh**, a dialogue on institutions of accountability, bringing together various stakeholders and conducted in partnership with a local university, is enabling the emergence of multistakeholder coalitions. Taking as its point of departure that sustainable governance reforms must be led locally, not by the donor community, the Bank, in partnership with BRAC University's Institute for Governance Studies (IGS) initiated an Institutions of Accountability program. Following an initial round of research on a specific accountability institution, the program brings together, in a day-long workshop, principals from the relevant institutions of accountability (for example, the Anticorruption Commission and the Public Service Commission), government officials from related agencies, and critical external stakeholders to arrive at a consensus on practical reform measures. Important by-products have come out of this workshop based initiative including the Government decision and effort to establish and train an interagency task force on recovering stolen assets overseas, to which the Caretaker Government has given high priority.

In the **Democratic Republic of Congo**, the CGAC process is opening up new spaces for engagement with provincial governments as a critical tool to support the government's decentralization agenda. Decentralization, along with public financial management, is the cornerstone of the DRC central government's "Governance Compact." The decentralization agenda is putting new pressures on provincial governments on key sectoral governance issues, including: (a) increasing devolution of sector management responsibilities to the provincial level; (b) enhancing responsibilities of provincial government for human resources management; and (c) budget planning and budget execution, including a shift to programmatic budgeting. To support this agenda, the Bank is expanding dialogue with provincial governments on key sector reform issues, including budget reform. A critical first step has been a series of assessments on key governance issues and options for reform in three sectors – health, education, and agriculture. These assessments are helping to shape the future assistance agenda at the provincial level and further support decentralization.

In **Honduras**, the country team has worked with nongovernmental stakeholders, including the media and civil society, to bring governance issues into the development discourse, opening space for engagement on governance issues in a very difficult country context. Upstream, sector governance assessments on roads, land administration and health are being used as a tool to promote dialogue with a wide range of stakeholders, generate a sector reform agenda with broad-based participation, and contribute to the design of projects scheduled for Board presentation. Each new project in the portfolio includes a participatory governance assessment, and civil society involvement. The Bank is also enhancing supervision transparency and information disclosure by posting Implementation Status Reports and a procurement planning tool on the Internet.

28. ***Better Governance Diagnostic Work.*** The CGACs have helped catalyze the development of a new generation of governance and political economy diagnostic tools. Diagnostics are part of the CGAC process in 18 of the 27 countries. These diagnostics help clarify what are the governance constraints to achieving development goals – both looking at country systems as a whole, and drilling down into the points of vulnerabilities and incentive structures in priority sectors. They are emerging as important inputs across the entire operational cycle – supporting the design and implementation of country strategies, sector strategies, and projects.

29. A variety of different diagnostic approaches are being used; sectoral diagnostics are discussed further in the next section. Several country teams (Burundi, Democratic Republic of Congo, Guatemala, and Yemen) have teamed up with the World Bank Institute to produce participatory diagnostic surveys, with the results disseminated widely in the country and used to help build coalitions and design GAC action plans. At the CAS level, PREM has sponsored a series of pilots that explicitly link governance and political economy diagnostics with development strategy via the following three step process:

- Step one: an overview input on the governance drivers of development decision-making for discussion with the country team, prepared by eminent political scientists with strong country-specific knowledge (generally one national and one international);
- Step two: in-depth inputs drill down to identify governance and political economy constraints to achieving the sector-level development objectives identified in the CAS, and the implications of these constraints for the operational approach within the relevant sector;
- Step three: an integrated assessment, which includes discussion of options for governance reform, for discussion with the full range of development partners.

30. This approach has been piloted with four CGAC countries (Mali, Moldova, Mongolia and Zambia – plus non-CGAC South Sudan). Some have advanced more systematically than others. The experience suggests that done well – and this requires high-level GAC analytic skills -- the diagnostics can add important value to the design of country programs (including at sector level; see Box 5). One emerging lesson is that a useful approach to this work and its dissemination is to draw on the expertise of country specialists that are not Bank staff – and to share their perspectives among Bank staff, and other interested parties, as informal inputs into the preparation of Bank products.

31. ***Strengthening the GAC Underpinnings of the Project Portfolio.*** Seven country teams focused their CGAC efforts principally on enhancing the management of their project portfolio from a GAC perspective. Section A3 and Section B describe in more detail what gains are being made Bankwide in this area. In addition, in a few countries the Bank has begun to work with our developing country counterparts to strengthening their domestic processes for addressing fraud and corruption (para. 60).

32. ***An Overarching Lesson -- Adopting a Holistic, Country-Specific Approach to GAC.*** The country experiences signal clearly that effective engagement needs to be driven by the

development and governance priorities in partner countries – which vary from country to country. GAC implementation thus cannot be assessed by its conformity with some standardized “one-size-fits-all” agenda. Moreover, for engagement to be effective, the country-specific GAC-for-development agenda needs to be led by the Bank’s country director/manager and internalized across the entire country program.

33. Yet for all of the unevenness in CGAC implementation, one overarching lesson has emerged from the experience thus far. Of the 27 CGAC countries, so far only a minority – Albania, Bangladesh, DR Congo, Honduras, Indonesia, Moldova, Mongolia, Nepal, and Zambia – have systematically mainstreamed the CGAC approach by building a multisectoral GAC platform within their country team. Also noteworthy is India; though it is not a CGAC country, the Bank team responded especially vigorously to the findings of the health sector Detailed Implementation Review (see paras. 60 and 62). These countries are precisely the ones where the CGAC work shows most promise of having development impact. The case seems strong for further scaling up of systematic CGAC-style engagement across the WBG’s country programs.

2. Mainstreaming GAC in Sectors

34. Sector-level engagement was included in the WBG GAC strategy, but it did not receive the same attention there as did GAC at country and project levels; the goals laid out in the GAC Implementation Plan matrix were correspondingly modest. As implementation has moved forward, though, it has become apparent that “GAC-in-sectors” is central to the effectiveness of the agenda as a whole:

- Sectoral development objectives can be met with far greater efficiency and equity if sector governance is addressed. Furthermore, sector strategies at the country level which are designed to achieve a “good fit” adaptation with the country’s political economy and governance realities are more likely to be successfully implemented.
- The design of sector operations can be improved by incorporating enhanced transparency, participation, and third-party monitoring – important “demand for better governance” mechanisms that help manage governance risks and enhance development effectiveness.
- Sectoral staff have responsibility for the large majority of Bank projects – so they are at the front line of efforts to incorporate enhanced fiduciary controls into project design and implementation.

35. Some progress has been made in each of the three dimensions highlighted above; the remainder of this section highlights some of the areas of progress. Section A3 will lay out the relevance of the governance “demand-side” for sectoral operations. Section B will discuss the synergies with “GAC-in-projects” work.

36. Box 5 illustrates how CGAC-sponsored sectoral diagnostics have begun to reshape sector operations. Both the SDN and HD Networks also have sponsored country-level GAC diagnostic work. This work ranges from direct support of country operations, to comparative syntheses of cross-country experience in selected topics, to sourcebooks and guidance notes.

Box 5. Zambia – The Operational Impact of CGAC-sponsored Diagnostics

In preparing its Country Assistance Strategy, the WBG's Zambia country team concluded that its principal challenge was to break from a long-standing pattern, evident across the entire country program, of far-reaching reform proposals with weak implementation – and to give top priority to finding more feasible entry points for engagement, consistent with the situation on the ground. Recognizing that the principal reason for the gap was that governance realities were not adequately being incorporated into policy recommendations and operational interventions, the team sponsored an in-depth diagnostic of the drivers of development decision-making – an overall analysis followed by in-depth assessments for telecommunications, electricity, urban water, decentralization, and land administration.

Telecommunications illustrates the operational impact. Reform efforts in the sector had focused on liberalization of the monopoly-controlled “gateway” for international communications. But these efforts had stalled – and the governance and political economy assessment suggested an important reason why: because in the short term the proposed reforms shifted revenues from the only nationally controlled telecommunications provider to the dominant, foreign-owned providers of mobile services – with no immediately evident benefit to domestic constituencies (the vast majority of Zambian citizens make only local calls with their mobile phones). The program needed to be structured in a way that would better mobilize support from influential local private sector and civil society actors that stood to gain from better policy – and a ready alternative was available. With a single, dominant provider controlling close to 90 percent of Zambia's 2 million cellphone subscribers, weaknesses in telecommunications regulation have resulted in Zambia being among the higher priced African markets for local, as well as international, mobile calls. In just a few months, focusing on how domestic users can benefit from a regulatory regime that facilitates entry and competition has begun to transform the reform dialogue in the sector – from confrontation to an emerging new partnership with the regulator and other key Zambian stakeholders that stand to gain from pro-market regulatory reforms.

37. The Sustainable Development Network has under way a variety of GAC diagnostics that draw directly on country experiences, notably work on:

- *Corruption vulnerabilities*, including an analytic piece on corruption in transport projects based on a review of Bank projects in Africa, and ongoing studies of corruption in construction in Ethiopia, Indonesia, and Mauritania;
- *Governance in natural resources management* (with a focus on oil, gas, and mining), including an AFRVP initiative focused on the political economy of extractive industries;
- *The political economy of cotton sector reform*, focused in particular on how better to leverage demand-side incentives for reform in Benin;
- *Governance of infrastructure state-owned enterprises*, including a June 2008 workshop in Colombia;
- *Country-level energy and water sector governance challenges*, including work in Guatemala, and on the political economy of the energy sectors in Bangladesh and Nigeria; and
- *Sourcebooks for operational staff on good practices for addressing governance and anticorruption challenges* – completed for electricity and urban water in FY08, with a third (on transport) planned for FY09 (see Box 6). Dissemination and learning events around the sourcebooks are planned for the next fiscal year.

Box 6. Electricity and Water Sourcebooks

The Electricity and Water Supply and Sanitation Sourcebooks explain and illustrate approaches and instruments to reduce corruption through improved governance at the sector and project level. They are designed to be used by sector practitioners inside and outside the Bank who are undertaking analysis, developing reform programs or implementing projects. The Sourcebooks have four sections that cover tools and approaches: (a) **understanding corruption** – what is it, what sustains it, how it relates to governance, and how might it be reduced; (b) **assessing the risk**, extent, and locales of corruption in any particular country; (c) **reducing corruption by improving governance**; and (iv) **monitoring and evaluating** measures implemented to improve governance, to allow learning from experience. In each section, corruption and governance are considered at the levels of the sector, the provider, and capital projects.

38. To further facilitate ongoing learning and experience sharing, SDN also has recently established two GAC-focused peer learning networks – one on natural resource management, and the other on network infrastructure. The natural resources management community of practice brings together Bank expertise on forestry, fisheries and mining; this group has proposed an ambitious FY09 agenda of both upstream analytic work and country-level work that will combine subsector-specific work and work on themes that cut across the individual subsectors. The network infrastructure community of practice is proposing to establish a major new Advisory Facility to support sectoral operational teams to better address their governance challenges.

39. The increased focus on governance at the sector level is already feeding through into a growing number of sector-level operations that incorporate significant governance components. Examples in the past year include development policy loans in Chile (which focused on governance of the Ministry of Public Works) and Indonesia (where oversight and procurement reform covering transport forms a pillar of the DPL). In addition, numerous investment projects have built on diagnosis of GAC challenges to incorporate technical assistance components designed to strengthen sector governance. Not least, the Second Philippines National Roads Improvement Project built upon lessons learned from governance challenges in the first project (see Box 10).

40. The Human Development Network also has focused on providing guidance to staff on how addressing governance and accountability issues can improve service delivery. Major initiatives included:

- *For public expenditure analysis in education, health and social protection:* (a) updating the guidance on good practices for inclusion of these sectors in Public Expenditure Reviews (PER) by building on a review of approximately 100 PERs carried out by the Bank since 2003, (b) building a database of information extracted from PERs; and (c) reviewing experience with Public Expenditure Tracking Surveys (PETS).
- *For service delivery in health and education,* two major policy notes outlining the key issues of governance and corruption related to service delivery in sectors are in the final stages of preparation. Work in the education sector on exam cheating, the role of school councils, and the implications of the interactions between politics and policy for school and teacher performance are broadening the debate to take into account the impact of GAC on the quality of service provision.

- *To expand the evidence base on governance interventions in education and health service delivery*, a major set of impact evaluation studies is under way for various types of reforms, including school-based management (SBM), pay-for-performance in health (P4P), Public-Private Partnerships (PPP) programs, as well as incentives to teachers and improving access to information on results by parents and communities.
- *On pharmaceuticals*. A major new global, collaborative initiative was initiated in partnership with DFID and leading global corporations aimed at enhancing transparency in the sector (see Box 7).
- *On social protection*, pilot programs in Ukraine and Kazakhstan of analytic work on control of error, fraud and corruption (EF&C) in social protection (social benefits administration and pension funds) was undertaken.
- *On public pension fund governance*, (a) a review of the transparency of publicly available information for a sample of 50 pension schemes and identification of a set of preliminary indicators, based on the review, was conducted; and (b) a report on the core principles for good governance of public pension funds (*Code of Good Practices and Manual on Public Pension Governance, Accountability and Transparency*) was written.

Box 7. Flagship Initiatives on Pharmaceuticals

The World Bank's engagement on GAC in pharmaceuticals has been at both the global and country levels. At the global level, it has partnered with DFID, the World Health Organization and other private and civil society stakeholders to launch in May 2008 the Medicines Transparency Alliance (MeTA). MeTA aims to increase the transparency and accountability of the healthcare marketplace throughout the pathway from medicine production and international trade, to patient use. MeTA brings together a diverse range of stakeholders with interests in the pharmaceutical sector at international and national levels, and aims to strengthen national capacity to collect, analyze, disclose and apply data influencing medicine procurement, promotion and supply. An initial round of pilots is being conducted in six countries; after 24 months, MeTA will take stock of its value added, and next steps.

At the country level, the HDN network has conducted assessments (followed by local stakeholder workshops) of governance and management issues in the pharmaceutical sector in six countries (Peru, West Bank, Ghana, Yemen, Indonesia, Benin). The assessments have been followed by local stakeholder workshops to ensure in-country ownership, and in some instances, integrated into the MeTA country work-plan preparation.

HDN has also supported specific initiatives focused on pharmaceuticals in various countries. For example:

- In the **Philippines** the Bank supported the development and implementation of an e-drug procurement system to increase transparency and efficiency, including a web-based procurement platform.
- In **Panama**, the Bank is providing technical assistance to conduct a rapid situational analysis to identify the main bottlenecks faced by Panama's health care sector and possible alternatives for improving the efficiency and transparency of the procurement and distribution of pharmaceuticals.
- In **India** an assessment for the Rajasthan State Systems Strengthening Project showed weak accountability and governance in the supply chain, including poor inventory control systems increasing the risk of leakage; and shortages leading physicians to steer patients to procure supplies from physician-owned or affiliated pharmacies. Along with providing the Indian authorities with recommendations for strengthening the health care sector, an additional output was a "lessons-learning" paper for the Board.

41. A two-day workshop on how governance and accountability can improve service delivery in the HD sectors was organized in April to expose operational staff to indicators, approaches,

and project designs for good governance. The Network will offer a similar and more focused course during HD week.

42. For FY09, the HD sector is planning a major investment in the development of a new knowledge and learning program. The program will develop and disseminate a minimum set of Actionable Governance Indicators (AGIs; see also Section IIC) for the HD sectors, plus instruments to measure them – and then to use the measures to identify weak spots in the service delivery chain, and suggest accountability and other mechanisms to improve performance.

3. Facilitating Country Team Engagement on the Demand Side of Governance

43. In the GAC strategy, the WBG affirmed its commitment to “scale-up existing good practice in working with a broad range of stakeholders..... Gains in transparency, participation and accountability support the objective of poverty reduction.” In work on the demand side of governance, the principal goal for the first year of implementation thus was not to break new ground; as the strategy detailed, there already are ample examples of good operational practice. Rather, the principal ongoing challenge is to more systematically bring “good practice” demand-side approaches into the mainstream of development work, including in the Bank.

44. The first year of GAC implementation has seen progress in mainstreaming demand-side approaches on a variety of fronts:

- SDN, EXT, and LEG are preparing joint guidance to clarify the legal considerations for multistakeholder engagement, focusing on the Articles framework and adopting a risk-management approach; in the interim, draft legal guidance is being used by LEG to advise staff when issues arise;
- Demand-side work has featured prominently in many CGACs (see paras. 26-27);
- A number of high profile operations that went to the Board in FY08 have incorporated transparency, participation and third-party monitoring as key design features (Boxes 8 and 10);
- SDN has sponsored a variety of learning and knowledge initiatives, including (a) establishing a new demand-side of governance community of practice, in which 350 Bank staff participate; and (b) assembling a database of 155 operations illustrative of good practice demand-side work, and using the database to develop practical guidance notes for staff; and
- Beginning in October 2008, resources to support demand-side work in a flexible manner, within the parameters of the formal and informal legal guidance, will be made available through the multi-donor Governance Partnership Facility.

45. Partly as a consequence of these efforts, external stakeholders increasingly are recognizing that the Bank has moved from a narrowly government-centric to a more inclusive

approach to its development work. Indeed, in addition to the 350 Bank staff, the community of practice also includes over 250 external participants.

46. A continuing challenge, for which implementation is at an early stage, is to monitor systematically the extent and quality of attention in Bank operations to transparency, participation and accountability as part of the WBG's tracking and quality management systems:

- The Quality Assurance Group (QAG), for its review of Quality at Entry in 2006 and 2007, modified its assessment template to incorporate demand-side and other governance-related approaches, but this is not yet routinized in QAG assessments.
- SDN and OPCS have begun work to modify coding systems for project monitoring to better track demand-side activities on a more routine basis.
- Some RVPs (notably South Asia and LAC; see Section C and Box 8) have begun to feature a focus on transparency, participation, and third-party monitoring as a standard part of their internal quality management processes.

47. Systematically incorporating the demand side of governance-for-development work into these and other management systems Bankwide will be a priority task for the second year of GAC implementation.

Box 8. Recent Operations with Innovative Demand-side Elements

In **Indonesia** and **Bangladesh**, local governance and rural livelihood projects are incorporating support for access to information. The **Bangladesh** Local Government Support Project (approved June 2006) is facilitating access to information by communities at the local government level through support for records management, building capacity of people living in rural areas to access information from Union Parishads, and support for legal and organizational infrastructure for enhanced access to information. The **Indonesia** Local Governance Reform Project (approved June 2005) has led each district to issue local regulations on access to information.

In the **Indian state of Orissa**, the Orissa Rural Livelihoods Project (approved July 2008) is supporting the implementation of the India Right to Information Act of 2005. Support for RTI implementation has been embedded by the Government of Orissa's Governance and Accountability Action Plan (GAAP) for the project. The project will support implementation of this action plan, including compliance with RTI *suo moto* disclosures.

At the national level, in **Argentina**, the State Modernization II Loan (approved May 2007) includes support for increasing access to public information through strengthening public administration information management systems and institutionalization of procedures and monitoring programs for the implementation of the Access to Information Decree.

The 2008 **Honduras** Education Quality, Governance, & Institutional Strengthening Project (approved January 2008) includes civil society monitoring of education service delivery, particularly through strengthening the community-based management program, PROHECO, which has been operational since 1999. The project, which aims to expand pre-school coverage in disadvantaged communities, improve completion rates, and improve teacher and school accountability, includes community participation within an Integrated School Management System. The project supports consolidated policies and norms for community participation, social management, school planning, and school information, monitoring and evaluation systems, and seeks to empower existing entities such as parents' associations, teaching staff committees, and the student government.

4. Improving “Core” Country Systems

48. The WBG’s commitment to strengthening core country systems predates the GAC strategy. It was part of the mutual accountability framework laid out in the 2000 global quest to meet the Millennium Development Goals, and was reaffirmed in the harmonization principles agreed at the 2005 High-Level Forum in Paris, and again in the 2008 Accra Agenda for Action. Principles 2 and 5 of the GAC strategy incorporate this commitment (Box 2). As discussed in Section A.3, the focus on country systems includes support to help strengthen non-executive institutions of accountability (e.g. independent audit institutions, justice systems, right-to-information institutions) in those developing countries that seek WBG support in this area. Though the GAC strategy itself thus did not push the frontier of WBG engagement vis-à-vis country systems, three sets of lessons emerged in the course of the first year of implementation that have important implications for the country systems agenda going forward.

49. The first set of emerging lessons concerns the interface between efforts to strengthen country systems on the one hand, and the design and implementation of Bank projects on the other. The long-standing practice has been to view these as separate activities – albeit with an inevitable tension between project ring-fencing and systems development. In the first year of GAC implementation, it increasingly has become apparent that the choice between ring-fencing and country systems might better be viewed as a continuum. Depending on the strengths and weaknesses of specific systems within a country, project sponsors might build into project design a mix of relying on specific systems, establishing parallel arrangements, and system capacity building to facilitate an evolution away from ring-fencing. But staff and management continue to wrestle with the challenge of finding the right balance between going around country systems and working with a system with evident weaknesses in order to strengthen it. Development-enhancing capacity building pushes in the direction of working with country systems; fiduciary concerns push in the direction of ring-fencing.

50. Box 9 describes a promising new initiative to enhance the use of country procurement systems in Bank operations. The developmental impact potentially is major: procurement accounts for up to 70 percent of public spending in some countries, with a global amount estimated at between 12 and 20 percent; where procurement systems are weak, they can be a major source of corruption vulnerability. Strengthened systems create fairer competition for a much wider set of contracts than does an exclusive focus on Bank projects, opening up new opportunities for both domestic and international firms. Going forward, if the pilot work continues to be scaled up, an important challenge will be to better align the skills of the Bank’s procurement cadre – which have concentrated almost exclusively on ring-fenced procurement within projects – to the challenges of helping build country capacity for better procurement management.

Box 9. Using Country Procurement Systems – A Pilot Initiative

The GAC strategy committed the WBG to strive to strengthen rather than bypass country systems (see principle 6 in Box 1) – and a new pilot approach to procurement in World Bank operations, approved by the WBG Board in April 2008, potentially is a major advance. The essence of the idea is simple (though implementation will be complex). Instead of using the Bank’s guidelines and safeguards, the country’s own system would be used when it can deliver results equivalent to the Bank’s system.

The pilot program will be carried out in projects/sectors in 8-10 countries, across all Regions. Country readiness will be assessed on three levels. The first level looks at the overall quality of the country’s procurement system against a set of international benchmarks that have been developed, adapted and tested over a period of over four years. The second level assesses the equivalence of the country’s system with the Bank’s procurement guidelines. The third level determines the capability of the proposed project entity. In each pilot country, once the first two levels have been successfully completed, any proposed operation in that country could use them as a platform for proceeding with the third level. The approach thus shifts the emphasis of the Bank’s procurement work from an exclusive focus on the narrow task of safeguarding Bank resources to incorporate also the broader task of helping build the capacity of the country’s procurement system as a whole. The developmental impact potentially is very large – the new approach can help enhance the effectiveness of the full range of public spending, whether financed with taxes, with World Bank funds, or with resources from other partners.

51. The second set of lessons comprises the findings of a review by the Independent Evaluation Group of the WBG’s work on public sector reform. IEG noted that demand for public sector reform products has grown very strongly in recent years – especially support for public financial management (PFM) reforms, which account for the large majority of Bank lending in this area. About two-thirds of countries borrowing for PFM showed improvement. Performance was far weaker for the civil service reform segment of the portfolio, where fewer than half the borrowers for civil service reform showed improvement. IEG attributed this latter weakness to a combination of the inherent political difficulty of civil service reform – and the absence of coherent reform strategies, based on careful diagnosis of the political constraints. IEG also underscored the importance of the interlinkages between the different areas of public sector reform, and hence the need to strengthen the Bank’s work on civil service reform. Going forward, the Bank will take action to strengthen the linkages between different areas of PFM, in particular focusing on human resources management, including through the use of country-based indicators, and assessments of the interaction between political economy and reform options. An important next step will be to build skills to address public sector reform that are more systematically differentiated by type of country, including:

- A focus on strengthening the capacity of central finance agencies, especially relevant in institutionally weaker settings; and
- Intensified efforts to support the heightened performance aspirations of many countries, mainly MICs, through positioning the Bank as a center of global excellence on results oriented management.

52. The third set of lessons also follows from a major IEG review – this one on the Bank’s decentralization work. IEG found that Bank support was highly relevant, and had improved significantly since the 1990s, but that there were important continuing weaknesses. IEG noted that decentralization is a politically driven process, so a central challenge is to adapt engagement to specific country-level change processes. Yet, rarely did Bank work have a clear results-based

monitoring framework at the country level, focused not just on the process of decentralization but also on local outcomes (e.g., enhanced accountability, citizen participation, and service delivery). Underlying this lack of coherence was an organizational problem. In many countries, multiple staff, from different organizational units, are all involved in one or another aspect of the agenda, with the result – given the Bank’s stove-piped organizational structure – of a lack of consistency in the approach taken. Over the coming months, a new cross-Network working group on decentralization and local governance will seek to develop a tractable agenda for addressing these weaknesses. An initial area of emphasis will be on the design and implementation of a comprehensive set of local governance indicators that country teams can use to coordinate around a clear set of target objectives for decentralization interventions.

B. GAC Strategy Implementation in Bank-Supported Projects

53. The tension noted in Section I between a narrow focus on anticorruption and a broader focus on governance as a development effectiveness issue is most apparent at the project level. In addition to the GAC strategy and implementation plan itself, the recent impetus for an enhanced focus on anticorruption in projects has come in response to a number of high-profile corruption cases and has included:

- The 2006 Management Review of Investment Lending (MRIL) process, which introduced a new mandatory review by management of the riskiness of all new operations – and a requirement for a more detailed assessment of projects judged to be “high risk.”
- The 2007 Volcker report and attendant management controversies that all heightened external scrutiny of the Bank, especially around any perceived laxity in attention to corruption risks.
- Introduction of Anticorruption Guidelines, that clarified borrowers’ responsibilities to monitor, report, and take action in response to suspected cases of fraud and corruption.
- The publication of the Detailed Implementation Review of health sector projects in India, conducted by the Bank’s Department of Institutional Integrity (INT) (now a Vice Presidency) which highlighted weaknesses in processes for identifying and responding to corruption risks.

54. This heightened profile for the GAC agenda has generated both opportunities and challenges. The principal opportunity was that it provided a positive environment to scale up many good practices at the project level that have been pioneered over the past decade by committed staff. The main challenge – one with which Bank staff and management continue to wrestle – has been to ensure that “GAC in projects” work balances concerns about fiduciary risks with broader considerations of governance and anticorruption as means for enhancing development effectiveness. Other challenges are to achieve greater consistency of approaches through knowledge sharing, and to realign resources, incentives, policies, and management processes to support more intensive engagement in GAC issues during design and supervision of high-risk projects.

55. This section describes how these implementation challenges have been met. In FY08, \$1.9 million was allocated for GAC-in-projects work as part of the mid-year incremental funding for GAC scaling up; as Annex A details, these resources were used to provide support for innovative design initiatives, upstream diagnostic assessments, and intensified supervision. The next subsection describes some of these innovations; the subsequent section reviews progress in relevant quality management systems.

1. Design and Implementation Innovations to Address GAC-Related Risks

56. There exists a broad menu of possible actions to address GAC-related risks in projects, and enhance their development effectiveness. While at the outset of implementation, there was a narrow preoccupation with enhanced fiduciary controls only, as GAC implementation has proceeded a more holistic approach to risk management is beginning to take hold – although much remains to be worked through. Four elements are key to this more holistic approach:

- Upstream diagnostics to identify governance and corruption constraints to the development effectiveness of projects;
- Proactive “smart project design” to address these constraints – including via expanded use of transparency mechanisms, participation and third-party monitoring;
- Strengthening fiduciary controls in project design and smart project monitoring and supervision during implementation; and
- Informed risk-taking for initiatives where the potential for development impact is large, even though the risks remain high.

57. Progress in use of GAC diagnostics was discussed in paras. 28-38, and trends in incorporation of demand for better governance approaches in operational work in paras. 43-47. This subsection offers additional detail, and highlights some especially noteworthy FY08 trends.

58. **“Smart” Project Design.** Well before the GAC strategy was conceived, smart project design to address GAC challenges had been pioneered by Bank staff working in Indonesia and other countries where GAC weaknesses had been recognized as central to the development challenge. In the first year of GAC implementation, a key goal has been to disseminate these earlier lessons of good practice. To facilitate this process and to encourage continuing learning, in FY08 OPCS launched a GAC-in-Projects Working Group that has proven useful as a clearinghouse of ideas, and has contributed to the development of draft guidance and training of project task team leaders to help them address the GAC dimensions of operations more systematically. Box 10 illustrates the trend in project work via three examples of projects incorporating these good GAC practices.

Box 10. “Smart” GAC Design in new FY08 Operations

In the **Philippines**, the Second National Roads Improvement Project (NRIMP2) (approved May 2008) has become recognized both as a best practice example of risk identification and mitigation, and as piloting innovative use of third-party monitoring and use of country systems. The project, developed with close cooperation between government and several parts of the Bank, followed on the heels of strong signs of corruption and collusion in the First Roads Improvement Project that led to the rejection of two large road contracts in three successive rounds of bidding and an INT investigation. NRIMP2 includes a variety of good practice approaches to addressing GAC in projects:

- Appointing a special independent procurement evaluator to provide a second opinion on bids;
- Support for strengthening procurement controls and audit capacity in the Department of Public Works and Highways, including enhanced vetting on bid-rigging and price inflation;
- Independent oversight of roads contracting by a new non-government oversight group, Road Watch – not only for NRIMP2 resources, but for the entire sector; and
- The Bank also increased its supervision funding to about double the normal amount.

In **Kenya**, the Total War Against HIV and AIDS (TOWA) Project (approved June 2007) is drawing lessons from mismanagement of funds in the preceding AIDS Project through enhanced community oversight; rigorous, transparent, and performance-based selection process of the NGOs that will help implement the project through grant funding, performance monitoring and sanctions; full dissemination of information; strengthened financial management and procurement capacity; and further strengthening the governance of the National AIDS Control Council (NACC)—the lead agency for designing strategies and overseeing the implementation of HIV-AIDS programs in the country.

The Sindh Water Sector Improvement Project (approved September 2007) in **Pakistan** strengthens procurement transparency through oversight by Transparency International Pakistan, which will review procurement documents and participate as an observer in all bid/proposal opening and evaluation committee meetings for contracts that are above the threshold for prior review, and on a random basis for contracts subject to post review. TI oversight mechanisms include ensuring (a) that the bid is opened as scheduled and is accessible to all prospective bidders; (b) that bid documents are made available to all interested parties and posted on the procurement website; (c) that bids received are sealed, opened publicly, and kept in verifiably safe place till the evaluation is complete to avoid tampering; (d) that bid evaluations are carried out confidentially, with intermediate working reports available to only the evaluators; (e) that complaints are entered into the system and processed through the established complaint redressal system; and (g) that reporting documents to the relevant authorities include any anomalies in the procurement process.

59. **Strengthened Fiduciary Controls.** As the examples in Box 10 underscore, strengthened fiduciary controls are part of smart project design – a part that has received heightened management attention in the Bank at least since 2005. Reforms initiated in 2006 and 2007 included:

- Introduction of Anticorruption Guidelines for borrowing entities, and development of detailed guidance on exercise of legal remedies;
- Implementation of the RAPMAN/PRIMA system across all Regions, facilitating tracking of financial management safeguards;

- Sensitization and training of fiduciary staff working closely with INT to share lessons learned and emerging good practices, through both formal training events such as Fiduciary Week and information sharing via the web.

60. Work on strengthening fiduciary controls received added momentum from the publication in January 2008 of a thorough Detailed Implementation Review (DIR) of five health projects in India, conducted by INT. The India DIR found significant indicators of malfeasance, irregularity, noncompliance, and service under-delivery. The review confirmed a need for the Bank to address systemic weaknesses in project financial, audit, and internal controls systems, as well as project evaluation methodologies. INT and OPCS are working together to ensure that the lessons learned in the DIRs are applied Bankwide – part of a broader enhancement of INT’s role (discussed further below) in helping the Bank Group to improve its systems to detect and deter fraud and corruption more effectively. Regular discussions of INT findings take place with Regional operations staff and OPCS, and INT is routinely involved in various operational committees dealing with anticorruption policy and fiduciary guidelines. Efforts are also under way to help countries improve their own systems for detecting and addressing fraud and corruption.

- In Cambodia, for instance, in response to a request from the Government, INT provided capacity-building support on strengthening the country’s systems against fraud and corruption to Cambodia's Ministry of National Assembly, Senate Relations and Inspection (MONASRI), which was appointed by the government to investigate corruption allegations arising from INT analyses. The assistance included training on detecting, investigating, and proving fraud and corruption, identifying red flags in procurement, conducting due diligence, forensic accounting, and net worth analysis.

61. **Disclosure.** A further aspect of strengthened accountability and transparency that began to receive sustained attention in FY08 was the Bank’s disclosure policy. An approach paper, based on a presumption to disclose all information subject to limited exceptions, currently is in an advanced stage of preparation.

62. Enhanced disclosure also is an important part of INT’s ongoing agenda, consistent with the Volcker Panel recommendation for more transparency concerning INT investigative and DIR reports (see Annex D for a summary of progress in implementing the Volcker Panel recommendations.) Since January, the Bank and INT have started to make various INT reports publicly available on the INT website. In addition to the India DIR, for example, INT in April 2008 published a redacted report of an investigation in the Democratic Republic of Congo (DRC), which found fraud, corruption, and disallowed expenses under certain contracts in a project financed by the Bank and a multi-donor trust fund. As a result of these findings, the DRC government disbanded the Project’s executing agency CONADER, dismissed its director and replaced senior management, reassigned implementation responsibility within the government, and tightened fiduciary control arrangements (including through involving a major international accounting firm).

63. **The Sanctions Regime.** Serious high-profile investigations and sanctions of firms and individuals involved in fraud and corruption are a deterrent to private sector corruption and an

incentive to firms to seek ways to mitigate risks of enforcement action. INT continues to investigate allegations of fraud, corruption, collusion, and coercion in Bank-supported projects and to initiate sanctions proceedings against firms and individuals that it finds have engaged in these practices. Since the GAC strategy was agreed, INT has completed more than 250 investigations. Only four firms were sanctioned in FY08, mainly due to teething pains resulting from the recent sanctions reform, but proceedings against a large number of additional respondents have recently been initiated and are expected to result in numerous public debarments. These actions are also expected, over time, to encourage more firms and individuals to enter INT's Voluntary Disclosure Program (VDP) or, if they are already under investigation, to cooperate with INT in the manner that some high-profile global firms have publicly acknowledged in the last year. INT's exposure of fraud and corruption in Bank-supported projects, the debarment of firms and individuals that have engaged in sanctionable practices (fraud, corruption, collusion, coercion, obstruction), and work with firms and individuals that seek to improve their anticorruption programs, are critical components of the Bank Group's overall anticorruption effort.

2. Strengthening WBG GAC- in-Projects Quality Management Systems

64. Recognizing that a principal challenge is to scale up existing good practices, the Year One GAC-in-projects results framework targeted for action improvements in the GAC dimensions of the Bank's project management systems. This subsection reports on progress by the Bank's Regional Vice Presidencies in implementing this agenda; progress in implementing relevant management-related recommendations in the Volcker report; and progress in provision of Bankwide guidance for GAC-in-projects work.

65. ***Improving GAC-related Management Systems within the Bank's Regions.*** All of the Bank's Regions have responded to the intensified momentum by giving heightened attention to the GAC challenges of their operational portfolios, though each has responded in its own way:

- In AFR, the Region's management of the risk of corruption in projects was strengthened in FY08. For each project, an overall project risk identification worksheet together with the project concept note is discussed at a quality enhancement review meeting. Participants discuss the balance of expected development results, relevant risks, and the adequacy of the proposed risk mitigating actions. Overall risk ratings are agreed at the meeting. High-risk projects generally receive intensified review as the project proceeds, and their teams are provided with increased budget and staff support, at both design and implementation stages. AFR also has moved systematically to enhance the effectiveness of audits of Bank-assisted projects as a tool for enhanced oversight. The AFR Region has also established a Regional GAC Council with broad representation across sectors and country units that exchanges experiences and challenges, reviews progress and challenges in implementation, and proposes items for consideration by the Regional Management Team.
- EAP has put strengthened emphasis on identification of both fiduciary and reputational risks at the design and implementation stage of projects, putting in place mitigation measures, monitoring progress, and taking remedial actions wherever necessary. Projects

considered high risk at the design stage have to strengthen governance aspects, usually through some form of anticorruption plan embedded in the PAD (all new investment loans in Cambodia and Indonesia have such plans), prior to seeking management support. The Region is establishing a Governance Hub in Bangkok to support GAC-related work and actively supports the creation of projects that promote good governance.

- ECA has a Regional GAC Steering Committee with each Sector Unit and Country Unit represented by a committee member who acts as the GAC champion and ensures that GAC aspects are covered at operational review meetings. A one-day ‘GAC 101’ learning event has been developed and will be delivered in FY09. All ECA staff are expected to take this course, underscoring the point that “GAC is everyone’s business,” and raising staff awareness of GAC issues and entry points. Governance filters are being developed, both for overall country programs and within individual sectors, to guide staff in appropriate project design to mitigate against GAC-related risks. A fiduciary learning module for all task team leaders is currently being developed. GAC-related risks are systematically discussed at the Risk Assessment Review meeting (per Management Review of Investment Lending) and will be monitored during implementation and recorded in the ISR as appropriate.
- LAC has a long-standing risk review process. A regional risk list – composed of an RVP risk list and a Directors’ risk list – includes both pipeline and supervision operations that require the most senior level of management focus. Risks assessed were traditionally reputational, fiduciary, and safeguards. In addition, all sectors/projects undergoing an INT investigation/subject to Inspection Panel investigations were included in the list. Following the adoption of the Bankwide GAC strategy and the introduction of the MRIL process, governance risks are now more explicitly considered. Some task teams are proactively coming forward to initiate a dialogue on whether or not their projects should be included on the risk list. Countries on the list are required to prepare a risk mitigation plan (such as the country fiduciary action plan piloted in Argentina) and are accordingly allocated a supervision premium to implement these plans. Country Operations Advisors are required to report back, quarterly, on the status of the risk mitigation action plans. Following the adoption of the GAC strategy, governance risks are now more explicitly considered, and task teams are more proactively initiating dialogues on including their projects on the risk lists. This structured risk review process is helping ensure that risks in projects are both addressed early in the project preparation cycle and more systematically across the portfolio. The Region also has a regional senior-level GAC team, which meets fortnightly to review progress, share emerging issues, lessons and good practices, agree on GAC-related actions to be taken, and identify learning needs.
- MNA has taken a number of measures to strengthen GAC in operations. It has ramped up its regular fiduciary work, by increasing ex post project level procurement reviews (91 percent of Projects covered in FY08 compared to 60 percent in FY07, and 100 percent coverage expected in FY09), and by maintaining monthly updates of portfolio financial management risk ratings. Significant resources have been allocated to the development of risk-based anticorruption strategies in fragile states, audit firm assessments (Egypt, Yemen, and West Bank & Gaza), FM transaction reviews (Yemen and West Bank &

Gaza), a series of best practice notes on reducing the risk of fraud and corruption in Bank sponsored projects, a stocktaking of experience with use of country systems, and a regional pharmaceuticals procurement review, and further analytic work is planned on FM and procurement. A GAC Implementation Committee has been established to coordinate this effort consisting of representatives from all country and sector units, along with FM and procurement. Training has been provided in both the field and Washington, including a specific focus on the water, education, and health sectors. The Region's quality review work is also placing greater emphasis on risk assessment and mitigation and risky projects are receiving additional budget.

- SAR has introduced procedures for review by the RVP of all high-risk operations. Supported by in-country GAC coordinators, the Region is also mainstreaming smart project design, systematically building enhanced transparency and disclosure, demand-side initiatives including community oversight, agreed mechanisms for complaints handling and follow-up, and strengthened fiduciary arrangements in project design. Systems are also being put in place to strengthen monitoring of procurement and audit. As part of this process, the India country team systematically rated the GAC risks of all ongoing operations, and reallocated resources to provide a 30 percent budget increase for supervision of all operations rated as high risk (with a corresponding reduction in the number of new operations under preparation).

Box 11. Albania -- Systematically Mainstreaming Governance and Anticorruption in Country Portfolios

The **Albania** governance filter, included in the FY06-09 CAS, seeks to mainstream a governance focus in all Bank Group interventions in the country. The Filter requires all interventions to apply four key principles of good governance:

- Seek greater transparency in the use of public resources;
- Support increased autonomy and depoliticization of key public sector counterpart organizations;
- Analyze the formal (and future) roles of local governments, and develop capacity, and local mechanisms of accountability to enable local governments to effectively take on these roles; and
- Strengthen mechanisms for advocacy and increased involvement of citizens to encourage improved performance of public service delivery and policymaking bodies.

The governance filter is both reshaping portfolio management and catalyzing a broader dialogue on governance in the country – although assuring systematic follow-through is an ongoing challenge. Key implementation actions include:

- Strengthening participatory processes by designing projects to ensure local level participation (e.g., through the establishment of local users association in irrigation, fisheries, and community forests); supervising more closely implementation of public consultation and participatory processes; and sponsoring a workshop for media, staff, and watchdog NGOs on how disaggregate governance indicators can be used to monitor results.
- Strengthening procurement practices via development of a portfolio-wide monitoring system for procurement processes and outputs on Bank-financed projects: efforts to enhance the performance orientation of procurement specialists on Bank projects; better assurance of the transparency of procurement processes and audits; and measures to build line ministry procurement capacities in line with the portfolio policy of mainstreaming project implementation into government structures.

66. ***Integrating INT More Fully into the Bank Group.*** The Volcker Panel’s review focused many of its recommendations on improving INT’s relations with the rest of the Bank (see Annex D). These recommendations are now being implemented. With recent changes in its administration, INT is now becoming a key player in implementing the GAC strategy as well as a participant in the Governance Council and various GAC working groups. In addition, INT is ensuring that it will be present and systematically active in three critical areas: Bankwide meetings on operational policy; Operations Committee meetings; and relevant Regional Operations Committee meetings, where priority or large projects are under discussion.

67. Two additional initiatives to better integrate INT into Bank work are especially noteworthy. First, INT recently restructured its approach to case intake to provide Regional operations with visibility into allegations received at a much earlier stage than in the past. INT’s knowledge management unit (KMU) now includes not only the initial assessment of complaints but also follow-up action on low- and medium-priority cases. Upon receipt of an allegation, the KMU shares information with the task team leader of the potentially affected project, so that the project team is able to undertake enquiries with the borrower, or review the relevant procurement or project component when on a supervision mission. The complaint is still the subject of the triage process within the KMU, but each entry is now discussed at a monthly meeting between the Regions and INT, at which time the priority for a case is agreed.

68. Second, INT has established a Preventive Service Unit (PSU) to provide structured opportunities to enlarge its engagement with Bank operational staff on the detection and deterrence fronts. While the PSU is not yet fully staffed, it is rapidly becoming a valued part of the Bank’s anticorruption machinery. The key objectives of the PSU are to draw on INT’s investigative findings to (a) raise awareness of the potential risks of fraud and corruption in Bank-financed projects; (b) provide practical advice and training on how to assess and mitigate such risks; (c) distill lessons learned from INT’s investigative work to develop best practices and mainstream these into future operations; and (d) where opportunities exist, support client anticorruption functions. The PSU aims to become a knowledge center on fraud and corruption prevention, detection, and mitigation and to bring this knowledge in practically beneficial ways to task team leaders, procurement and FM staff, country and sector managers, and directors.

- Pakistan’s Electricity Distribution and Transmission Improvement Project offers an example of how such support can work: responding to indicators of possible collusion among private companies, two PSU staff participated in the project appraisal mission, which included dedicated training to government officials on how to detect and combat collusion, and the inclusion in the operation of a module on the issue.

69. INT already has assisted more than 60 task teams with operational advice on fraud and corruption risk assessment and mitigation, and demand continues to expand.

70. ***Providing Formal Guidance to Bank Teams on Addressing GAC in Projects.*** Increasingly, the bottom-up approach to GAC implementation will need to be complemented with formal guidance. Preparation of such guidance is under way:

- Formal guidance for task teams on GAC in investment lending projects is currently in draft. Subject to internal consultations and management approval this should be available early in 2009 with an associated training program for task teams. This will be complemented by the development of good practice notes on various techniques for dealing with GAC issues, developed by the GAC in Projects Peer Learning Network.
- The Bank's Procurement Guidelines are being updated to enhance the efficiency and effectiveness of the Bank's procurement rules taking account of corruption risks.
- The Financial Management Sector Board is developing guidance on how to enhance the effectiveness of audit as an anticorruption tool, including advice on specialist audit engagements such as performance and technical audits; and more general guidance to FM staff on their roles and responsibilities with respect to GAC will be included in a revised version of the FM in Investment Lending (Manual) that is currently in preparation.
- Joint INT/OPCS Guidance is being developed on "Red Flags" or corruption indicators, based on lessons extracted from INT investigations and the operational experience of World Bank staff.

C. Measuring Governance Better

71. The measurement of governance is both challenging and controversial. Over the past decade, much effort has gone into the development of aggregate governance indicators. But, even predating the GAC strategy, there was debate as to the value added of aggregate governance indicators – especially as tools for tracking progress in addressing governance constraints to development. For this reason the 2007 GAC strategy committed "to further develop and use disaggregated and actionable indicators...to help track progress in specific reforms implemented by governments."

72. This section reports on progress in the development and use of disaggregate, actionable governance indicators (AGIs) in the first year of implementation of the GAC strategy (it should nonetheless be noted that the recent period has seen continuing controversy over the use of aggregate governance indicators). This controversy is likely to continue until the complementarity between different types of indicators is recognized more widely – and major further gains have been achieved in the quality, availability, and use of AGIs.

73. One part of the first-year implementation agenda for AGIs has been to expand country coverage and accelerate the use of existing indicators. Over the past year, significant progress has been made in this area:

- As of March 2008, assessments using the Public Expenditure and Financial Accountability (PEFA) AGIs had been carried out in 74 countries, and as of August 2008, 38 assessments were posted on PEFA's website.
- Use of a new procurement assessment tool is being scaled up as part of a broader effort to pilot enhanced use of country systems in Bank procurement (Box 9).

- An updated and expanded OECD/World Bank Budget Practices and Procedures database will be released in the fall of 2008.
- The Open Budget Index (OBI) is releasing its updated results for about 85 countries in the fall of 2008.
- Global Integrity will release new results for about 60 countries in the winter of 2008/2009. The MNA region worked with Global Integrity to significantly enhance the coverage of countries in that Region.
- PRMPS staff specializing in AGIs have been consulting frequently with operational staff in various contexts, including CGAC workshops, Regional workshops, and at the country level (e.g., Albania, Egypt, Ethiopia, and Paraguay).

74. A second part of the agenda is to develop a new generation of AGIs, covering areas where measurement is important for GAC work, but where measures do not yet exist. Gains will certainly be gradual: it has taken seven years for the PEFA indicators to evolve from their initial 2001 version (when their creation was spurred by the urgent need to provide a basis for tracking the benefits of debt reduction to heavily indebted poor countries) to the broad acceptance, widespread use, and increasingly public availability achieved as of 2008. Even so, the first year of GAC implementation has seen significant progress in the development of new AGIs:

- A new set of *human resource management* (HRM) AGIs is being developed. The indicators focus on the six core objectives of a public sector HRM system: (a) *attract and retain* required human resources; (b) ensure a *fiscally sustainable wage bill*; (c) ensure *meritocratic, depoliticized HRM practices*; (d) ensure *ethical behavior* by public officials within any given HRM system; (e) ensure that public officials within any given HRM system focus their energies on furthering the *performance* objectives of the organization within which they are employed; and (f) ensure *effective collaboration and cooperation* across cadres of personnel within a country's public administration. Pilot testing has begun in seven countries (Ghana, Guatemala, Kyrgyz, Perú, Paraguay, Tajikistan, and Tanzania). A final version of the full HRM AGI instrument is expected to be available by late winter/early spring 2009.
- A new generation of AGIs in *health and education* is being developed, building on the *World Development Report 2004: Making Services Work for Poor People*. This entails measuring service delivery at the point of contact between provider and client, as well as evaluating the impact of health and education interventions (often focused on improving incentives to providers and accountability mechanisms) aimed at improving service delivery. This measurement agenda is under way with several ongoing efforts in various countries.
- New AGIs covering *natural resource management and infrastructure* are being developed. It is envisaged that input measures will build on considerable existing work covering (on the infrastructure side) measures of corporate governance, private

participation and regulatory capacity and (on the environment side) analyses of the strength of environmental institutions. Output measures are similarly likely to build on considerable existing work covering coverage, cost, and quality of infrastructure as well as measures of natural resource depletion and sustainability.

- A new *Public Accountability Mechanisms (PAM)* database has been developed, measuring efforts across 78 developing countries to enhance transparency and the accountability of public officials – and covering four distinct areas: asset disclosure, conflict of interest, freedom of information, and immunity provisions. OECD countries have been added to provide comparison.
- Development has begun on new *AGI decentralization* indicators. The aim is to provide a comprehensive set of measures that covers each of the many dimensions of decentralization (including fiscal, administrative, upward accountability, downward accountability, and local governance capacity).

75. The existing and new AGIs potentially provide a platform for monitoring the impact of GAC work. But this potential will only be realized if they are systematically incorporated and tracked in results frameworks at the project and country levels. Section III and Annex D suggest ways forward for a results framework for GAC work.

D. GAC Strategy Implementation at the Global Level

76. The GAC strategy and implementation plan identified global initiatives as important complements to country- and project-level efforts. A key objective of these global initiatives is to help alter those “rules of the game,” both statutory and norm-based, that are set globally or in developed countries – but have an important impact on the behavior of private firms and other organizations active in low-income settings. In the first year of GAC implementation, efforts at the global level focused on (a) the Stolen Asset Recovery (StAR) initiative, plus related official global collective initiatives to combat corruption; and (b) multistakeholder global collaborative initiatives – generally involving private sector and global civil society actors – to fight corruption and support better governance more broadly.

1. The StAR Initiative

77. The WBG, in partnership with the United Nations Office of Drugs and Crime (UNODC), launched the StAR Initiative on September 17, 2007, in New York City with UN Secretary General Ban Ki-Moon. The main purpose of StAR is to help developing countries recover assets stolen through acts of corruption by officials. This will be achieved by focusing on three areas of work: (a) global knowledge sharing and advocacy aimed at lowering the barriers to asset recovery; (b) building national capacity to recover assets and deter new flows; and (c) providing preparatory assistance aimed at collecting and sharing information to encourage progress on countries’ asset recovery efforts.

78. ***Progress in the First Year of Implementation.*** The report, *Stolen Assets Recovery Initiative (StAR): Challenges, Opportunities and Action Plan*, released at the launch generated an

immediate interest from member countries. Shortly after the launch, the President of Indonesia, Susilo Bambang Yudhoyono, requested the World Bank President that Indonesia be accepted as the first pilot country of the StAR Initiative. Since then, StAR has received letters of request, as well as expressions of interest, from 10 different countries. Currently, StAR is actively working with four pilot developing countries, and is considering engagement in an additional four. In order to meet this increasing demand, the StAR Secretariat has begun to staff-up and now includes two UNODC staff members and five World Bank staff. A multi-donor trust fund is being established to help finance the work program.

79. ***StAR's Global Agenda and Focus.*** Despite the progressive integration and globalization of 21st century financial systems, the prevailing legal framework for tackling corruption and asset recovery continues to be highly bureaucratic, with heavy evidentiary demands on law enforcers, and poor collaboration between national jurisdictions. Raising awareness (principally amongst developed countries) of the challenges to international asset recovery, and developing tools to facilitate asset recovery efforts, have been priorities for StAR in its first year of implementation. Key initiatives at various stages of development and implementation include:

- Promoting, through public fora and the media, the importance of ratification and implementation of the asset recovery provisions of the United Nations Convention Against Corruption, which offers a state-of-the-art framework for international asset recovery.
- Establishing, up-to-date and accessible on-line information as to who is the relevant contact person/unit in each foreign jurisdiction.
- Reviewing implementation of G8 commitments to asset recovery announced by the Ministers of Justice and Interior at the Sea Island Summit on 2004.
- A study on illicit financial flows, their size and composition, the processes that generate them, the effect they have on developing countries, and the effectiveness of programs aimed at tackling them.
- Support for developing countries to undertake their own asset recovery initiatives, including training and technical assistance activities in Bangladesh and Indonesia – both of which subsequently formed interagency task forces responsible for handing their asset recovery efforts – and regional and country-specific training and workshops. Training activities have been undertaken in close collaboration with the International Center for Asset Recovery (ICAR), and have sought to build skills in drafting mutual legal assistance requests; legal issues in corruption and money laundering; and forensic audits.
- Developing a practitioner's guide for the drafting of non-conviction asset forfeiture legislation, which is expected to be finalized by October 2008 (StAR has been providing Indonesia with support in the drafting a nonconviction-based asset forfeiture law).

80. A "Friends of StAR" group, established to provide ongoing feedback on priorities and support for international collaboration on asset recovery, met in Washington on February 2008.

The group underscored the importance of working with transit and destination jurisdictions to lower barriers to asset recovery.

81. ***Early Lessons and Challenges.*** StAR’s initial work has signaled its potential value added in fostering collaboration among agencies that had not previously worked together – both within developing countries and internationally. An especially important early lesson is the need to adapt to extremely heterogeneous, and continually changing, working conditions. Understanding the degree of political commitment is critical; and so is a clear understanding of the existing institutional capacity and legal framework in each country. StAR has learnt that country engagement is not a one-time decision, but that it should be monitored on an ongoing basis so appropriate measures can be taken whenever there are changes in country context or circumstances.

82. After one year of implementation, ties of trust and confidence are beginning to be established with counterparts committed to recover stolen assets – and the demand from these counterparts for more specific assistance has begun to grow. The StAR Initiative’s FY09 work plan seeks to scale up capacity-building activities and engage with a wider range of partner countries, responding to demand and promoting asset recovery as an element of national anticorruption strategies. In this context, the StAR Initiative intends to work closely with UNODC and Bank country teams – notably CGAC teams – integrating StAR into ongoing, country-led governance and anticorruption programs. StAR will also accelerate the development of knowledge products, technical tools, and information systems that will assist in countries’ efforts to implement asset recovery programs. At the same time, StAR will highlight the need for international collaboration within the framework offered by UNCAC, expanding its advocacy in support of the Convention and technical work aimed at lowering the barriers to asset recovery in global financial centers.

83. ***Other Global Collective Action Initiatives to combat Corruption.*** The WBG is supporting various other global initiatives as part of its effort to support global collective action against corruption:

- ***OECD-DAC Common Principles:*** The World Bank Group is part of the OECD Development Action Committee (DAC)’s Network on Governance (GovNet). As required in the GAC Implementation Plan, WBG is working with GovNet on developing common response principles to address GAC challenges at the country-level. Diagnostic and pilot work on this initiative is well underway following the October 2007 OECD DAC Policy Paper “Setting an Agenda for Collective Action,” which highlights four areas for donor cooperation: joint corruption assessments; support for anticorruption benchmarks and targets; coordination of GAC work; and development of good practice principles or voluntary codes of conduct.
- ***Anti-money Laundering:*** The FPD Financial Markets Integrity (FMI) team is developing training modules on use of anti-money laundering instruments to strengthen capacity of anticorruption agencies in collaboration with the Financial Action Taskforce (FATF).

- ***UNCAC Implementation:*** In some countries (such as in Mongolia, under the Governance Assistance Project), the Bank is working with donors and partner countries to support the implementation of UNCAC. In South Asia, the Bank is involved in a multi-donor group to push ratification and implementation of UNCAC, and has supported a gap analysis in Bangladesh to determine the gap between the standards defined in the convention and the prevailing policies, procedures and practices. The StAR Initiative is also intended to support one of the critical pillars of UNCAC on asset recovery.

2. Collaborative Governance Initiatives

84. As the GAC strategy detailed, in recent years there has been growing support for the GAC agenda from global private sector leaders committed to the proposition that “integrity is good for business.” In the first year of GAC implementation, IFC and the Bank have helped build on this commitment in two ways. First, as Box 12 details, the IFC has strengthened the anticorruption components of its corporate governance work. Second, the GAC implementation plan committed to support an important trend in private support for better government – the participation of leading private firms in global collaborative initiatives that help set and monitor new rules of GAC engagement within developing countries.

85. Predating the GAC strategy, IFC and the Bank have actively supported many global collaborative initiatives, including the Extractive Industries Transparency Initiative (EITI), the Forest Law Enforcement and Governance Initiative (FLEG), the Equator Principles, PROFISH, the Global Corporate Governance Forum, the International Council on Minerals and Mines (ICMM), the ILO-IFC Better Work Program, and multiple Commodity Roundtables. The GAC strategy committed the WBG to expand support for initiating and scaling up promising collaborative initiatives. Box 7 described progress on the multistakeholder Medicines Transparency initiative (MeTa). Three additional new engagements also are noteworthy:

- *The Construction Sector Transparency (CoST) initiative* is a partnership between Governments, private sector, and civil society, which aims to increase transparency and accountability in construction procurement. The core idea of CoST is “Get What You Pay For.” CoST will require public disclosure of contracting, payment, and oversight information regarding government-financed construction projects. This information will be audited and compared to outcomes on the ground, with follow-up by in-country multistakeholder groups comprising civil society, government, and private sector participants. CoST pilots are being launched in Ethiopia, Malawi, the Philippines, Tanzania, the United Kingdom, Vietnam, and Zambia. The UK’s Department for International Development (DfID) has committed £4.4m over two years to support this pilot process; the World Bank is partnering in the effort, along with the European Commission, Transparency International, and the UK Anticorruption Forum.
- Prior to the GAC strategy, the *Extractive Industries Transparency Initiative (EITI)* already had achieved notable success in facilitating publication of information on financial transfers between international oil and mining companies and host governments within developing countries. In the first year of GAC implementation, the WBG has begun to build on the platform provided by EITI by targeting at the country level

governance issues throughout the value chain in natural resources extraction. The Bank has conducted a number of pilot EITI++ scoping missions (Azerbaijan, Guinea, Madagascar, Mauritania, Mongolia, and Mozambique), helping interested countries to take stock of the strengths and weaknesses of their EI management system and to prioritize analytical and policy interventions, capacity development, and investment.

- *Business Fighting Corruption through Collective Action* is a new collaborative initiative among private firms – sometimes in partnership with civil society organizations – to combat corruption. It was launched in June 2008 by the World Bank Institute jointly with business, NGO, and multilateral partners (including the Global Compact, Transparency International, and the International Center for Private Enterprise). The initiative aims to build on an important lesson of recent experience in engaging the private sector in the fight against corruption – namely that effectiveness can be enhanced through collective approaches that are organized around specific large-scale public procurements and other public-private partnerships, and involve mutual commitments to transparent, zero-bribery rules of the game, and third-party monitoring. The initiative provides a practical resource for businesses working against corruption through collective action tools and a new guide and portal “Fighting Corruption through Collective Action - Resources for Business.”² In the coming year, the WBG intends to support the adoption of this approach in a number of new pilot countries.

Box 12. Enhancing the GAC Impact of the Bank/IFC’s Work on Private Sector Development

The GAC strategy highlighted the role of the private sector as potentially central to enhancements in GAC – noting that “corruption has a supply-side as well as a demand-side.” Improving the business environment has been a longstanding priority for the WBG – and has a direct, positive impact on GAC. In the first year of GAC implementation, the IFC has sought to complement its longstanding engagement in this area with new, strengthened approaches.

A major focus area has been on the link between better corporate governance and firm-level anticorruption efforts. IFC has updated its corporate governance compliance and support methodology to incorporate anticorruption, and has enhanced its integrity due-diligence procedures. It has further enhanced its corporate governance work to incorporate GAC challenges more directly by:

- Issuing guidance on company-level anticorruption policies and implementation programs;
- Strengthening skills in such areas as anti-money-laundering;
- Implementing the WBG’s new sanctions process in investments;
- Monitoring corporate governance indicators;
- Support for the Global Corporate Governance Forum; and
- Preparation of a toolkit on the Business Case for Anticorruption.

An emerging new area of engagement – the strategic use of IFC investment to help break entrenched monopolies and facilitate competition more broadly – has not yet received explicit attention as part of GAC, but seems especially promising.

86. To complement this expansion in support for global collaborative initiatives, the GAC strategy also committed the WBG to help strengthen the knowledge underpinnings and strategic focus of this engagement. To this end, a strategic review was commissioned to assess the WBG’s role, an informal working group was established within the Bank to share experiences, and a new dialogue was initiated with an umbrella organization (the ISEAL Alliance) that has as members

² Available at www.fightingcorruption.org

many of the most robust of the multistakeholder initiatives with which the Bank engages. Two key themes emerged from these efforts:

- Knowledge as to the developmental impact of collaborative governance initiatives remains limited. The impact depends in important part on their interface with country-level environmental, social and ethical policy-making and regulatory practices. The Bank, together with the Swiss donor agency, SECO, has provided financial support to the ISEAL Alliance to initiate research on how to leverage this interface for enhanced development effectiveness.
- A paramount challenge for collaborative governance initiatives is to ensure that their internal governance arrangements effectively harness the energies of their diverse participants around a common objective. The track record of meeting this challenge is mixed – with important implications for the WBG given our financial and trustee support for many of these initiatives.

In the second year of implementation, the GAC Secretariat, together with the IFC and the Bank’s global partnership groups, will work to better address the opportunities and challenges suggested by these findings.

III. CONCLUSIONS AND NEXT STEPS

87. Over the past year, the cumulative impact of many diverse efforts to implement the GAC strategy has been to move the WBG to the threshold of a profound shift in its approach to development, a shift that promises to enhance the effectiveness of its poverty reduction efforts. At the country level:

- Proactive CGAC pilots are showing how a multi-sectoral GAC platform for country programs, with strong leadership, and the involvement of entire country teams, can support development effectiveness;
- GAC-in-projects work is demonstrating the benefits of a balanced approach to risk management, including smart project design and implementation, and informed risk-taking;
- Work on the demand side of governance is becoming increasingly common in both strategy development and operational programs; and
- Work on governance in sectors is moving beyond anchor-level diagnostics, and is beginning to engage the sectoral operational staff, who are responsible for the majority of the Bank’s lending.

The first year of GAC implementation has thus achieved its principal goal of generating bottom-up momentum and creativity across many parts of the Bank. The next step is to “lock-in” the mainstreaming of GAC-in-development work.

88. Though a “tipping point” may thus be approaching, it has not yet been reached. Bottom-up experimentation with GAC approaches to enhancing development effectiveness has been under way for close to a decade; enthusiasm has waxed – and waned – before. Going forward, the frontier challenge is thus twofold.

89. A first challenge is to accelerate implementation via a “big push” in one or two key areas. One especially promising area is support for strengthening procurement systems in developing countries. Given the central role of procurement in public spending (and, where country procurement systems are weak, as a source of corruption vulnerability), the new pilot program described in Box 9 provides an especially attractive opportunity. A focused push to implement effectively the pilot procurement program – and to build within the Bank the expertise required to help develop the capacity of country procurement system – will thus be a priority in the upcoming year.

90. A second, broader, challenge is to “lock-in” the current momentum for GAC engagement by *systematizing* and *scaling up* GAC work in the many areas where good practice is now well recognized, and where the bottom-up approach to implementation is gaining traction. The aim should be to lock-in a norm among operational staff that value-adding GAC approaches should be part of strategy development, and of project design and implementation. To achieve this, the second year (and beyond) of GAC implementation will need to balance continuing experimentation and learning – vital in themselves, and necessary to sustain enthusiasm for the agenda – with careful attention to ‘nuts-and-bolts’ managerial challenges. The latter include (a) ensuring that operational staff have available in sufficient quantity the knowledge and specialized expertise needed to deliver on a scaled-up agenda; and (b) systematically incorporating the GAC dimensions of development work into the Bank’s ongoing quality management processes at both Regional and corporate levels. This needs to be done in a way that continues to position GAC as a positive tool for development effectiveness – and signals to operational staff that high-quality risk management includes informed risk taking, anchored in candid risk assessment upstream, smart project design, and risk-based project supervision.

A. Skills Development, Results Monitoring, and Learning

91. As GAC mainstreaming accelerates, alleviating skill and knowledge constraints has emerged as a frontier challenge. A large number of staff will need to have the skills to identify and address GAC constraints. More investment will be needed to monitor and assess the results of GAC work.

92. *Skills.* Staff constraints were a focus of the first year of GAC implementation, with a strategic staffing exercise resulting in commitments to create (including through redeployment) an additional 64 GAC-related staff positions. But recruitment and redeployment alone cannot fill the skills gap – partly because the requisite skills are not readily available externally, and partly because “mainstreaming” requires more across-the-board proficiency in how to incorporate GAC into the full range of Bank products. To support skills upgrading and continuing learning among existing staff, a new generation of GAC-related peer learning networks is beginning to emerge, including:

- The SDV sponsored demand side of governance peer learning network that includes both Bank staff and external participants;
- A GAC-in-projects peer learning group sponsored by OPCS, with support from INT, and the RVPs and NVPs. This is intended to provide a platform for sharing knowledge, providing resources to staff via the web, and supporting a community of practice;
- SDN’s planned peer learning networks to address the governance challenges of natural resource management and network infrastructure;
- HDN’s planned community of practice organized around the use of disaggregated governance indicators as tools for monitoring operational performance and for assessing the performance of alternative institutional project designs; and
- The global collaborative governance peer learning network, sponsored by PREM, with participants from across the WBG.

93. These peer learning networks should continue to be nurtured, but they are not sufficient – both because more structure learning is required, and because peer networks can favor face-to-face communication (through brown-bag lunches, etc.) and so tend to be headquarters-centric. Thus, an important priority for the second year of GAC implementation is to design and implement a structured learning program for governance, including (a) integrative, multisectoral skills; (b) sector-specific governance skills for TTLs; (c) awareness training in governance for all Bank staff, including ACS; and (d) governance/political economy awareness programs for managers – and deliver it not only in face-to-face workshops but also with distance learning technologies.

94. **Results.** A results framework, organized around actionable governance indicators and focusing on medium-term impact, is critical to manage expectations and assess progress and impact on the ground over the next 3-5 years. Annex E lays out one possible approach that suggests how the two classic questions for assessment – Are we doing the right things? and Are we doing them right? – might usefully be addressed for GAC interventions intended to enhance development effectiveness. The goal is that by the end of the second year of GAC implementation, a framework for GAC results will increasingly be incorporated into Country Assistance Strategies. Getting there will require:

- Continuing investment in actionable governance indicators that can be used at project, sector, and country levels, with the aim of achieving significant gains in the quality and use of AGIs in some key areas (notably human resource management, education, and health) over the next two years; and
- Acceleration of the initiative begun by OPCS and SDN to modify the Bank’s coding systems so that they systematically track the inclusion of transparency, participation, third-party monitoring – and other GAC-related components – in Bank operations.

95. **Learning.** Even as consensus has emerged among both practitioners and scholars as to the centrality of governance in the development process, very large gaps in knowledge remain. These gaps point to the urgency of continuing to invest systematically in lessons-learning – and of humility in prescribing GAC solutions to development problems.

96. Evidence is overwhelming as to the important long-run link between institutions and development. But the inter-relations in the short to medium run are less clear – and this sequence of short and medium terms is the time horizon of most operational relevance for development practitioners. Both for practitioners and researchers, the frontier knowledge challenge is thus a systematic investment in understanding the details of specific settings, the incentives they generate for development actors to act in developmentally oriented ways (or not), and the resulting processes of change.

- For practitioners, such knowledge can provide useful reference points for their efforts to address similar problems in other (inevitably somewhat different) country settings.
- For research, such knowledge can serve as useful building blocks for more systematic assessments.

97. It is anticipated that by the end of the second year of GAC strategy implementation, a major GAC-for-Development knowledge program along these lines (conducted in partnership with DFID, the Dutch, and the Norwegians) will be well under way, supported by the Governance Partnership Facility (see Annex C).

98. One specific sub-group of countries needs to receive heightened attention. In recent years, the WBG and other development agencies have made major efforts to step up their engagement in fragile states – and governance obstacles evidently are at the heart of their development challenges. So far, though, work on fragile states and the broader GAC agenda has proceeded largely in parallel. A priority for the second year of GAC implementation will be to achieve greater integration in these agendas – with a special push on lessons learning.

99. Experience-sharing is a crucial part of lesson-learning. The community of practice and the training programs described above are an integral part of the learning agenda. But these will be geared principally for Bank staff. An additional effort is needed to engage country counterparts and other external stakeholders in the learning agenda. To do so, beginning in the second year of GAC implementation, the Bank will host global and regional governance-focused development marketplaces, at which both governments and NGOs could propose governance-related initiatives, to be funded by the Bank and other donors that the Bank will help mobilize. Knowledge fairs will also be organized in parallel with marketplace events to support knowledge-sharing on good governance stories.

B. Mainstreaming GAC in the WBG's Quality Management Systems

100. For all of the continuing knowledge gaps, the first year of GAC implementation has signaled strongly the value added of a GAC focus for the WBG's country programs – both for overall strategy at the country level (via systematic CGAC processes), and for individual

operations (via smart project design and implementation). Quality management now needs to catch up with these lessons. Four sets of activities initiated in the first year will be key.

101. First, RVPs will need to strengthen further their quality enhancement systems vis-à-vis GAC. In the first year of GAC implementation, each RVP developed its own approach to managing better the GAC dimensions of its operational portfolio. There also has been quite widespread experimentation with better portfolio management by some country teams. Individual staff also have weighed in with suggestions (notably, as summarized in Box 13, at a stocktaking workshop with field-based staff, held in Istanbul in May 2008) for improving the management of quality in project design and supervision. Over the next few months, each RVP will share its experiences at meetings of the Governance Council. Following this process of experience-sharing, a working group comprising operational directors from each RVP will prepare a guidance note summarizing emerging good practice lessons for managing GAC-related operational risks at the RVP level.

102. Second, GAC-in-sectors work needs to continue to scale up – and to engage more systematically with operational-level sectoral staff located in the RVPs. As Section II.A.2 noted, as the first year of implementation proceeded, the centrality of engagement at the sectoral level became increasingly evident. A variety of actions initiated in the first year will provide a platform for scaling up, as long as follow-through is consistent. These include:

- The GAC-in-infrastructure advisory facility proposed by SDN to support sectoral operational teams to better address their governance challenges;
- Enhanced project quality management systems to assure that sectoral operations appropriately leverage opportunities to include smart GAC-in-project designs;
- The “big push” initiative to scale up the use of governance and political economy diagnostics as part of upstream preparation of sector projects; and
- The initiative begun by SDN and OPCS to modify coding systems for project monitoring as a means to better track the extent to which transparency, participation, third-party monitoring, and other GAC-related fiduciary measures are included in Bank operations.

103. Third, by the end of the second year of implementation, central units within the WBG should have put in place systems for better monitoring the GAC agenda at the corporate level, including:

- The Operations Policy and Country Services unit will have issued its guidance on managing GAC-related risks in lending operations. It will also have finalized the arrangements for incorporation of GAC-related interventions into operational tracking systems.
- The Quality Assurance Group (QAG) and the Independent Evaluations Group (IEG) will have issued updated guidelines for addressing the GAC dimensions of operations in each of their review mechanisms.

- The GAC Secretariat, with SDN and OPCS, will provide (as part of the two year progress report on GAC implementation) a baseline on the extent of utilization of various GAC components across the Bank portfolio for all operations approved in FY08 and FY09.

104. Taken together, (a) stronger monitoring systems at corporate level, (b) strengthened Bank-wide quality management and engagement among sectors, and (c) enhanced alignment across RVPs in their approaches to quality management from a GAC perspective will further enhance the WBGs ability to deliver on a key principle of the GAC strategy – a consistent approach towards operational decisions across countries.

105. Communication – both internally and externally – about the WBG’s GAC work is a final area that warrants enhanced systematization. Over the past two years, EXT has built significant in-house capacity to improve skills for GAC work for both Bank staff and government officials from CGAC countries. Consistent with the bottom-up approach of the first year of GAC implementation, this work has proceeded more or less independently, with weak linkages to the rest of the WBG’s GAC work. In the second year of GAC implementation, these efforts need to be mainstreamed – as part of a broader effort to ensure consistent external and internal communication as to the WBGs approach to GAC. Hopefully, this one-year report of progress can provide a common informational platform for such communication.

106. An update on progress in implementing the steps detailed above, and of continuing progress in implementing the actions laid out in the matrix in Annex C, will be provided to the Board following a further year of experience.

Box 13. Mainstreaming GAC in Project Design and Supervision – the Istanbul Agenda

Working groups on project design and project supervision at the Istanbul workshop made key recommendations to strengthen risk management and mitigation. On **project design**, these included:

- Integrate early in project preparation objective and independently reviewed governance risk assessments and mitigation frameworks.
- Establish an OPCS-led working group to encourage more candor and objectivity in governance risk assessments.
- Improve and formalize the QER and peer review processes by ensuring independence of the reviewers, recording a formal response to review comments, and making management accountable for follow up on peer reviewer inputs.
- Institute a guideline that allows country directors to request early *in principle* clearance by Senior Management to proceed with high-risk high-reward operations.
- Institute a corporate policy on risk-based topping-up of budgets to tasks teams to cover project design and supervision.

Enhanced Focus on Risk Management in Project Supervision.

- Budget, prepare, and implement integrated supervision plans that include risk-based approaches and field testing.
- Modify Implementation Status Report to include effective risk monitoring. This would require adjustments to the existing SAP-based software to include (a) risk assessments prepared in the PAD to be presented in the ISR report and for these assessments to be adjusted during project implementation; (b) a space for teams to describe their annual supervision plan, with some instruction indicating that this should highlight the supervision priorities, methods to be employed, and field testing; and (c) subsequently, monitor compliance providing feedback to VPs as regards the status of implementation biannually.
- Develop risk assessment tools (including INT data mining tools for fraud and corruption risk assessment currently being developed) to help TTLs assess the level of competition in procurement at the level of the project, market segments and at the country level.

Implementation Support for Supervision through:

- Basic training for all new and current TTLs on project supervision as part of the core curriculum, alongside courses such as the introduction to Bank operations and procurement;
- The development of web-based resource materials on project supervision planning and supervision methods;
- Nomination of supervision resource persons among senior operational staff in each region and sector, to provide just in time advice on supervision methods (OPCS, Sector Boards).

Increased Transparency in Supervision: Currently Bank disclosure practices and policies focus on preparation rather than project implementation. As a result, information on ongoing Bank activities (i.e., our own disclosure) sometimes lags behind the access to information provided for by client governments (their own disclosure), ironically under transparency legislation frequently supported by the Bank. Increasing transparency in project supervision through publishing information for projects under implementation (to the fullest extent permitted by national policy) by ensuring publication of the following under Bankwide disclosure requirements:

- Implementation Status Reports.
- Procurement Plans and Execution, including adjusting policies to allow the publication of contracts awarded, and developing supporting information systems.
- Audit reports and Management Letters.

ANNEXES

INCREMENTAL BUDGET AND STRATEGIC STAFFING

A. Incremental GAC Allocation for FY08 and FY09

1. The total of incremental Budget from core Bank resources for GAC, StAR, and INT over FY08 and FY09 amounted to about \$27 million.¹
2. In FY08, \$10.7 m incremental funds² were provided for scaling up GAC midway through the fiscal year, based on implementation action plans prepared by the OVPs.
 - \$8 m allocated for core GAC work across OVPs, of which:
 - ⇒ \$2.7 m went to the CGAC process (average of \$ 100,000 to each of the priority CGAC countries, and to PREM to support CGACs).
 - ⇒ \$1.9 m to strengthen GAC in Projects, all of it going to RVPs.
 - ⇒ An additional \$1.5 m to the RVPs (\$ 250,000 each) for other GAC-related initiatives.
 - ⇒ \$1.9 m to the NVPs (half of their requests beyond CGACs and GAC in Projects, and full funding for GAC Secretariat to PREM).
 - \$1.6 m allocated to the Stolen Assets Recovery Initiative (StAR).
 - \$1 m allocated to INT for its work and to implement Volcker panel recommendations.

Table A1. FY08 Midyear Incremental Budget (USD million)

<i>Unit</i>	<i>CGACs</i>	<i>GAC in Projects</i>	<i>Other</i>	<i>TOTAL</i>
RVPs	2.6	1.9	1.5	6.0
NVPs	0.13	--	1.92	2.05
StAR	--	--	1.61	1.61
INT/Volcker	--	--	1.06	1.06
Total	2.73	1.9	6.09	10.72

3. In FY09, total incremental Budget of \$16.2 m was allocated to OVPs, based on requests submitted as part of the SRAM (Strategic Resource Allocation Mechanism) exercise:
 - \$10.6 m for GAC, of which:
 - ⇒ \$3 m allocated by OVPs for staffing increments.
 - ⇒ \$2.2 m for deepening and expanding the CGACs process.
 - ⇒ \$1.1 m for GAC in Projects.
 - ⇒ \$4.3 m for other GAC-related initiatives for mainstreaming in sectors, demand-side activities, core public sector management, and learning.
 - \$2.3 m for StAR (of which .8 m for staffing), and \$ 3.3 m for INT.

¹ About \$7.2 million was allocated at the beginning of FY08 for GAC, but this preceded the Implementation Plan. These funds were not systematically tracked by OVPs, so the actual allocation to GAC activities is not determined.

² Comprising of both overrun authority and contingency funding.

Table A2: FY09 Incremental Budget (USD million)

<i>Unit</i>	<i>CGACs</i>	<i>GAC in Projects</i>	<i>Other</i>	<i>Staffing</i>	<i>TOTAL</i>
RVPs	2.0	1.0	2.8	2.0	7.8
NVPs	0.2	0.1	1.5	1.0	2.8
StAR	--	--	1.5	0.8	2.3
INT/Volcker	--	--	3.3	--	3.3
Total	2.2	1.1	9.1	3.8	16.2

B. Strategic Staffing

4. As required in the GAC Implementation Plan, a strategic staffing exercise was undertaken by the GAC Secretariat, beginning with a needs assessment of all CDs, CMs, and Sector Boards on staffing and skills gaps. Based on this, and guidance provided by the Governance Council, OVPs prepared detailed strategic staffing plans with:

- \$ 3.8 m from new incremental funds, supplemented by approximately \$ 8.4 m in redeployment funds for a total commitment of 63.5 new and redeployed staff for FY09. The staffing breakdown by skills area is provided in Table A3.

Table A3. Staffing Plans of OVPs, FY09

<i>Units</i>	<i>Multisector Gov</i>	<i>GAC in Sectors</i>	<i>Core PSM</i>	<i>GAC in Projects</i>	<i>Other</i>	<i>Total</i>
RVPs	9	8	11.5	16	--	44.5
NVPs	2.75	5.25	2.5	--	3	13.5
StAR	--	--	--	--	5.5	5.5
Total	11.75	13.25	14	16	8.5	63.5

C. Spending Patterns for Variable Cost Budget

5. Variable cost Budget for both FY08 and FY09 was spread between CGACs, GAC in Projects, and other activities, focused on mainstreaming and learning.

- In FY08, each of the CGAC countries spent incremental funds for strengthening diagnostics, stakeholder engagement, and country team mobilization (details in Section II.A.1). In FY09, incremental funds are being allocated to both deepen the process in existing CGAC countries, and expand to new countries.
- Both RVPs and NVPs are also investing in mainstreaming and learning, including through learning workshops, guidance notes, new diagnostic tools, and governance indicators (details in Section II.A.2).
- The total of \$3 million earmarked for GAC in Projects between FY08 and FY09, supplemented by most RVPs by core budget resources, is being spent to strengthen diagnostics and reviews of corruption risks in projects, prepare comprehensive risk management and governance and anticorruption plans as part of project design, strengthening supervision, particularly in high-risk projects, and strengthen transparency and disclosure, training, and special initiatives such as DFGG and Natural Resources Management in Africa. Table A4 lists the projects/initiatives that

the RVPs reported as being funded from the FY08 increment of \$1.9 m for GAC in Projects, supplemented by approximately \$1 million from RVP budgets.

**Table A4. GAC in Projects Activities funded from FY08 GAC Budget
(as reported by the Regions)**

<i>Region</i>	<i>Country</i>	<i>Project</i>
AFR	DRC	Consultation for preappraisal of Water project
	Zambia	Support to ADSP Project for line of credit governance issues
	Mozambique	Supervision of GAC strategy for Maputo City Council
	Tanzania	Review of decentralized subprojects
	Nigeria	Governance framework for PPP
	Benin	Political economy and demand side of cotton reform
	Cote d'Ivoire	Consultation for PEMFAR and TA governance
	Guinea	Communication and dissemination of demand-side related ESW
	Guinea-Bissau	Conflict risk analysis
	Madagascar	Mainstreaming social accountability in projects
	Mauritania	Anticorruption study and stakeholder analysis
	Senegal	Outreach to various stakeholders
	Sierra Leone	Stakeholder analysis of new regime
	Togo	Stakeholder consultations on PEMFAR
	Uganda	Outreach for Kampala GAC Strategy
Multicountry		Governance-oriented ICAs
		Dissemination of Corp Governance Strengthening of SOEs
		EITI support
EAP	Laos, Philippines	Supervision review
	Cambodia	Anticorruption training for client
	Multi-country	GAC-in-Projects workshop
ECA	China	SMS/email feedback pilot
	Estonia	Anticorruption workshop in health sector
	Tajikistan	PFM project preparation
	Kosovo	Public sector modernization project preparation
	Azerbaijan	Financial services modernization project preparation
	Turkey	Benchmarking update
	Kosovo	Lignite power project supervision
	Ukraine	Roads & Railways projects preparation
	Azerbaijan	Water Supply and Sanitation Project Supervision
	Moldova	National water facility project preparation
Croatia		Rijeka Gateway Project
	Uzbekistan	Rural Enterprise Support Project (RESP II) preparation
	Ukraine	Roads and railways indicators
MNA	Egypt, Yemen	Independent Procurement Review
	Yemen, Egypt, West Bank/Gaza	Country assessments of audit firms
	Yemen, West Bank/Gaza	WBG high risk transactions
SAR	Multicountry	USC overview assessment
	India	GAAP in Multi-state Biodiversity Project
	India	Portfolio GAC Assessment & Sectoral Mitigation strategies
	India	Mainstreaming Social Accountability Workshop & Website
	India	India Technical Education GAC Plan
	Bangladesh	IT for cash transfers in Bangladesh
	Multicountry	Strengthening GAC plans in rural livelihoods projects
	India	Chhattisgarh District Rural Poverty Project GAC Plan
Multicountry	GAAP in BD Social Investment Program II, Sri Lanka Gemidiriya II and TN CDD Projects	

Pakistan	GAC Risk Mitigation Strategy for Urban and Rural Water Sector
Pakistan	Rules/procedures for debarring or penalizing fraudulent practices
Bangladesh	Developing the core MIS for new CCT program
Bangladesh	LGED teambuilding workshops
India	GAAP for India Agricultural Competitiveness projects
India	Support to Comptroller General on Reviews of CSS Expenditures
Multicountry	Consultant team of “Operational Quality Advisors”
Afghanistan	National Solidarity Program Supervision Design

GOVERNANCE PARTNERSHIP FACILITY

A. Background and Objectives

1. An \$85 million Multi-Donor Governance Partnership Facility has been launched to support the implementation of the GAC strategy over the next three years, with support from UK DfID (\$60 m), the Netherlands (\$15 m), and Norway (\$10 m). The Facility aims to (a) create incentives to support high-quality governance and anticorruption strategies at the country level; (b) stretch the frontiers of governance work; and (c) stimulate innovation and learning in this area.

B. Focus Areas

2. The three funding Windows of the Facility will support these objectives:

- **Window 1** will support **Country Governance and Anticorruption processes** to support the implementation of comprehensive and innovative governance programs at country level. The focus will be on context-specific programs that anchor governance work in country-specific development objectives.
- **Window 2** will support governance work in **frontier areas** and support cutting edge activities that have a significant demonstration effect and can be scaled up and disseminated as good practice in six main areas: (a) political economy diagnostics; (b) strengthening governance in sectors/operations; (c) strengthening institutions of accountability; (d) leadership; (e) generating public goods at the country level; and (f) innovative regional and global programs implementation.
- **Window 3** will stimulate **innovation and strategic shared learning** and strengthen knowledge networks in the area by enhancing staff access to knowledge networks and funding policy-relevant research on governance.

3. The GPF allows for Bank execution of grants, but also enables nongovernmental entities (e.g., civil society organizations, think tanks) to access funds to execute some of the activities funded under the other three Windows (through Window 4). This will only allow nongovernmental organization-executed components embedded in the proposals for the other Windows.

C. Organizational Arrangements

4. Funds will be allocated through a competitive selection process, with each funding proposal carefully reviewed and vetted through a peer review process based on criteria that include consistency with GAC Implementation Plan and LEG Guidance on the Bank's mandate; contribution to learning in this area, especially on development impact of governance work; country team commitment; and complementary financing from core Bank resources.

5. The Facility will be overseen by a Governance Partnership Council, consisting of representatives of the Bank and funding partners of the Facility, and responsible for providing overall guidance and strategic direction. A Standing Review Committee (SRC), comprising of senior level governance experts from the Bank and funding partners, will review all proposals submitted for support under the Facility, based on a peer review process. The review process is streamlined to ensure rapid approval. The Facility will be supported by a Secretariat in its day-to-day functioning, staffed by a Program Manager and support staff.

**GOVERNANCE AND ANTICORRUPTION STRATEGY 2007 - ACTIONS AND RESULTS FRAMEWORK
RESULTS ACHIEVED**

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved</i>
GAC Strategy at the Country Level				
Country teams conduct a stocktaking CGAC process to assess GAC implications for development effectiveness				
Deepened engagement with countries on how GAC issues impinge on poverty reduction. Support countries to develop enhanced programs to address these issues and reflect such an enhanced understanding in the CAS.	Each country team with an upcoming CAS will deepen its engagement with its client and partners to take stock of the country's critical governance and corruption impediments to achieving development goals at the country, sector, and project levels, assessing implementation, reputational, and fiduciary risks.	RVPs, country teams	Significant and credible increase of GAC programs of support built into the CAS by the end of FY08. These CASs will have explicit governance indicators to monitor for positive change.	CGAC process launched in 27 countries with incremental financing. (see Section II.A.1).
	Each country team will identify the further analytic, institutional, or diagnostic work needed to enhance the Bank Group's knowledge.	RVPs, country teams		Diagnostics included in 18 of 27 CGACs. Also sectoral diagnostics (see Section II.A.2 paras. 28-30).
	The CAS will outline a clear business plan indicating how it intends to support the country to address GAC issues more effectively to increase development effectiveness and reduce poverty.	RVPs, country teams		9 of 27 CGAC countries systematically mainstreamed GAC in country program (para. 33).
	By the time of finalization of the Implementation Plan in September 2007, Regional Vice Presidents (RVPs) will agree with OPCS which FY08 CASs will incorporate such a process. After a year's experience and evaluation of results to date, it would be determined how such CGAC processes could be mainstreamed.	RVPs, OPCS		RVPs identified 27 CGAC pilot countries
Mainstreaming GAC in sectors and improving 'core' systems for development effectiveness				
Countries are better equipped to address GAC issues at the sector level, where opportunities for interventions are often more immediate.	Network VPUs (NVPs) will develop and pilot a new generation of GAC-focused diagnostic and monitoring AAA products—both sector-specific and cross-cutting—for use on a demand-driven basis by clients and by country teams.	PREM and NVP sector specialists	SD and HD will have issued guidance in this regard in the areas of transport, health, and education. Other sectors will be encouraged to do likewise.	New diagnostic tools piloted and guidance provided by PREM, SD, and HD (paras. 37-40).

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved</i>
Skills are adequate to address 'core' governance systems improvements.	With Network assistance, each RVP will take stock of whether the supply of specialist "core" public financial and administrative management skills is sufficient to meet the underlying demand.	PREM, RVPs, HR	GAC HR strategy issued to accompany first year evaluation.	GAC strategic staffing completed; commitments for 14 additional public management staff (Annex A).
<i>Facilitating country team engagement on the demand-side of governance</i>				
Countries are supported to enable them to have a strengthened focus on demand-side drivers of accountability.	SDN to (a) sponsor training for countries and The World Bank Group staff to enable them to better incorporate demand-side and civil society initiatives (including support for demand-side initiatives at sub-national levels) into programs and operations supported by the Bank; (b) sponsor training for social development staff to enable them to more effectively work with sector and technical staff on the demand side of World Bank Group operations; (c) design and implement quality management and M&E systems to assure the effectiveness of these scaled-up efforts; and (d) institute programs of lesson-learning on what works, and disseminate them widely through open websites, training, toolkits, and guidance notes.	SDN, EXT, WBI	Significant increase in new operations in FY08 in which there is support for the demand side of governance in all Regions.	(a) New "demand for better governance" community of practice established, including training (para. 44). (b) Transparency, participation and third-party monitoring being systematically included in GAC in project quality management systems (Sections II.B.1 and II.B.2, Box 10). (c) Work initiated by OPCS and SDV to systematically track incorporation of demand-side components in Bank operations.
Ensure resources are available on terms suitable to support demand-side activities.	Building on past experience, work with partners to develop a funding mechanism that can effectively finance project and program-related demand-side activities, including capacity building and training for civil society groups, to complement existing but limited resources for this (DGF, trust funds).	PREM, SDN, WBI	Funding mechanism in place and new grants available in FY08.	(a) Window 4 of multi-donor trust fund provides financing for civil society groups (Annex B); (b) Development Grant Facility for Partnership for Transparency Fund replenished and graduated to permanent window.
Provide guidance to staff on demand-side good practice and mandate issues vis-à-vis civil society engagement.	Prepare staff guidance for civil society engagement, including on demand-side approaches to ensure positive civil society roles in such areas.	SDN, EXT, LEG	Guidance note issued.	SDN, EXT, and LEG are preparing joint guidance to clarify these legal considerations (para. 44).
<i>Working collaboratively with the private sector</i>				

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved</i>
Encourage and work with firms to incorporate anticorruption into corporate governance.	IFC and WBI will take lead to intensify efforts to make the business case for anticorruption, working especially with new IFC partner companies.	IFC, WBI	Significant increase in new IFC and other World Bank Group engagements in which the firms have adopted enhanced corporate governance measures (including explicit anticorruption plans).	(a) IFC has upgraded its corporate governance work to incorporate anticorruption (Box 12); (b) WBI launched new “Business Fighting Corruption through Collective Action” initiative.
Help professionalize voice of organized business and related stakeholders in dialogue on investment climate.	Scale up programs of support to business associations, chambers of commerce, and professional associations to strengthen their capacities to participate in public policy dialogue on the business environment.	WBI	Such associations will have developed new advocacy programs in this area.	New WBI program will partner with associations.
Enhance quality of World Bank Group engagement in collaborative initiatives that set voluntary standards of business conduct.	Establish a World Bank Group-wide technical working group to provide, in collaboration with expert external stakeholders, knowledge management and support on market-focused global collaborative initiatives; to identify good practices and share them both internally and with non-Bank stakeholders; to generate research on their developmental impact; and to deepen our knowledge as to how these voluntary commitments can usefully be applied at country level.	PREM, Global Programs Group, IFC and other NVPs	New collaborative initiatives adopt programs to enhance their developmental impact, including voluntary codes of conduct where possible.	(a) Technical working group established (para. 86); (b) Support given to new CoST and MeTA initiatives; enhanced engagement with EITI (para. 85 & Box 7).
<i>Measuring governance better</i>				
Countries, stakeholders and staff use indicators more systematically to better monitor operational effectiveness, and understand the links between GAC and development.	Establish a technical working group to promote the more systematic utilization in relevant Bank operations and strategies of governance indicators and diagnostic tools by <ul style="list-style-type: none"> educating staff on the appropriate use of different types of indicators; actively engaging operational task teams to promote the mainstreamed use of appropriate indicators for monitoring performance of relevant Bank lending products. 	PREM, WBI, and OPCS	Guidance on governance indicators issued, and work on new governance indicators under way.	(a) Technical working group established; support provided for enhanced use of existing actionable indicators (paras. 73-75); (b) work under way on new AGIs (paras. 73-75); (c) results framework provided (Annex D).
	The Bank will support broader country use of Public Expenditure and Financial Accountability (PEFA) indicators and advocate countries’ voluntary disclosure of PEFA indicators and analyses.	RVPs	PEFA exercise undertaken in increased number of countries, and with increased number of countries disclosing their indicators.	PEFA carried out in 74 countries; number disclosed risen from 8 to 38 (para. 73).
	Sectoral networks to develop governance indicators at the sectoral level, and apply them in sector operations, focused on	NVPs	Governance indicators for transport, health, and	New AGI initiatives by HD and SDN (para. 74).

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved</i>
	indicators that can be replicated across countries.		education under way and/or issued.	
	The Research Committee will issue a call for proposals for research that explores empirically, using new and existing governance indicators, the relationship between specific governance interventions and development outcomes.	DECVP, Research Committee	New research proposals in this area approved.	DECRG researchers have submitted multiple proposals on measuring the development impact of governance to the multi-donor Governance Partnership Facility.
GAC Strategy Implementation in Bank Supported Projects				
Countries build GAC issues more systematically into their projects, notably for capacity building, including those supported by the Bank.	Increase the number of projects that include elements to address GAC issues, including capacity and institution building for country systems in financial management and procurement, accountability at the sector level, and participation in decision making and other demand-side approaches for strengthening governance.	RVPs, OPCS, WBI	New operations include capacity building in sector governance and fiduciary institutions. Indicators of measurable change would be included.	(a) Ongoing mainstreaming of 'smart' project design (para. 58, Box 8, 10); (b) Work initiated by OPCS to systematically track incorporation of GAC components in Bank operations.
Address GAC dimensions of development effectiveness throughout project cycle.	Country and project teams will systematically address governance and corruption risk to development effectiveness throughout the project preparation and implementation cycle through means such as systematic analysis of corruption risk in project preparation; smart project design; enhanced information disclosure; stronger supervision, including through participatory or third-party monitoring and review of GAC-related aspects of each operation; more systematic pursuit of remedies; and, where appropriate, development of project-specific anticorruption plans. Bank systems will be adjusted to reflect good practice approaches on governance and anticorruption.	RVPs, project teams, OPCS	Guidance on addressing risk in projects, including GAC risks, has been issued. Annual report to be prepared on how GAC issues have been addressed and mitigated throughout the Regions.	(a) Guidance available on risk assessment as part of 2006 Management Review of Investment Lending; (b) Guidance for task teams on GAC in investment projects currently in draft; related guidance also under preparation (para 70); (c) para 65 reports on progress in addressing GAC in RVPs
Strengthen quality management on GAC-related aspects of operations.	For projects incorporating governance and anticorruption plans (GAAPs) or corruption-related measures, supervision will include review of GAC-related aspects, and each implementation supervision report (ISR) will explicitly report on progress in implementing GAAPs and project-related measures to improve governance and mitigate corruption	RVPs, Project teams, QAG		(a) As Above, (b) QAG modified assessment template for most recent quality at entry review; in FY09 will be expanded to additional products (para. 46).

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved</i>
	The Bank's quality management processes will assure adequacy of coverage of the GAC dimensions of development effectiveness for relevant country AAA and operational products	OPCS, RVPs		As above (Section II.B.2).
GAC Strategy Implementation at the Global Level				
Improve donor coordination on GAC approach.	Harmonize GAC policies and procedures (e.g. investigative procedures, sanctions) among MDBs, including in the field, possibly through a revived MDB GAC working group.	INT/LEG	Target agreement on harmonization of sanctions policies by end-2008.	The issue of the harmonization of sanctions regimes has been on the agenda of the discussions among the investigative and legal functions of the MDBs. Ongoing discussions in respect of harmonizing the different sanctions regimes of the MDBs may lead to a revived MDB group on harmonization, to further guide and strengthen the ongoing process.
	Investigate scope for common response principles for donors to improve donor coordination in countries with severe GAC constraints to development effectiveness.	PREM		Pilot work under way (para. 83).
Strengthen support for multistakeholder engagement.	Scale up support for collaborative governance initiatives and peer-based networks, such as EITI.	EXT, WBI, Networks	Support provided for new peer-based arrangements (e.g., construction industry).	Support given to new CoST and MeTA initiatives; enhanced engagement with EITI (para. 85, Box 7).
Support global and regional GAC conventions.	Intensify support for the implementation of GAC-related conventions and initiatives, including the United Nations Convention Against Corruption, and the Stolen Asset Recovery (StAR) Initiative.	PREM, WBI, NVPs	StAR has facilitated the asset recovery process in additional countries.	Implementation of StAR under way (Section II.D.1).
Foster global learning on the GAC-development nexus.	Coordinate a biannual conference on GAC at the WBG' Annual Meetings. Intensify global research on the impact of GAC on development, including establishment of an electronic working	DEC, WBI, PREM	First biannual conference in 2008.	(a) Window 3 of multi-donor trust fund targets promotion of strategic shared learning; (b) no progress on conference.

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved</i>
	paper series.		Relevant research proposals approved.	
Organizational, Human Resource, and Budget Actions to Support GAC Implementation				
Identify a group of staff to improve GAC coordination and awareness in RVPs and NVPs.	Country teams and SMUs (both within RVPs and Network anchors) will designate a senior staff member to be the focal point on governance and anticorruption and will allocate time in the work program to enable that staff member to advise on GAC-related issues of the unit's products.	RVPs	Bankwide team in place before end 2007.	All RVPs have designated GAC focal points; ECA has systematic structure down to sector unit level. (para. 65).
	Each RVP will put in place an appropriate regional coordination process and/or structure and operationalize this in FY08; this process will work under the leadership of a senior person(s) designated by the VP.	RVPs		Each RVP has established a coordination process; cross RVP learning on good practices is being initiated (paras. 65, 101).
	For Networks, HD and SDN will each establish immediately a VPU-level steering group (including representation from RVPs) to facilitate and monitor implementation of actions to mainstream GAC.	HDN, SDN		(a) SDN established new learning networks (para. 38, 44); (b) HD is initiating a new learning network, focused on measuring and assessing results (para. 42).
Strengthen the Bank's human resources for GAC strategy implementation.	The Networks, supported by Regional governance focal points, will work with the Regional learning coordinators to develop GAC-related learning programs and event, and will identify critical GAC staff shortages that may need to be filled by recruitment	Sectoral VPUs with PREM and Regional focal points		(a) Multiple learning programs delivered by Networks (Section II.A.2).
	Initiate a GAC skills needs and assessment exercise that will be completed by the first annual review. The plan will lay the basis for a more comprehensive scale-up strategy to be implemented in FY09 and beyond, and will include (a) identification of any specific GAC frontier areas where additional in-house skills will be required; (b) attention to the specific needs of field offices; and (c) to how commitment to GAC strategy implementation can be incorporated into staff (especially management) performance evaluations.	OPCS and HR, with PREM, HD, SD, Legal, and FP	GAC HR strategy to be issued along with first-year report.	Completed (Annex A).

PROGRESS ON VOLCKER PANEL RECOMMENDATIONS

	<i>Volcker recommendation</i>	<i>Action</i>
1	INT status and reporting lines: INT Director should have direct reporting line to the President, carry rank of VP.	Done. INT Vice President appointed, reporting directly to President.
2	Independent Advisory Oversight Board: Establish External Advisory Oversight Board, reporting to the President and Audit Committee.	Done. IAB members appointed.
3	INT consulting unit: Create new consulting unit within INT, staffed by professionals with experience in investigations, operations management, auditing, and the Bank's legal framework.	Done. Preventive Service Unit (PSU) established, and being staffed. INT has assisted more than 60 task teams with operational advice on fraud and corruption risk assessment and mitigation, and demand continues to expand (paras. 66-69). Preparation of formal guidance is under way.
4	Action plan to follow INT findings of corruption: President should designate the relevant MD (or other senior official) as accountable for a timely and comprehensive action plan on remedies, disclosures, referrals, and future prevention related to INT's findings.	Operational MDs responsible for action plan; OPCS hiring staff to monitor implementation.
5	INT and confidentiality in general: Make INT's policies, practice, and procedures transparent. INT, with LEG, should reevaluate practices undertaken under perceived concerns of confidentiality.	Under way. " <i>Guide to External Investigations</i> " under preparation. New protocol for granting confidentiality agreed in August 2008 (para. 62).
6	Disclosure of ongoing investigations to operations staff: Interim warning or other assistance given to operations personnel to protect against the Bank's future commitment of resources to the custody, control, or influence of persons and entities that are strongly implicated by a pending investigation.	Done; allegations are reviewed jointly with RVPs, IFC, or MIGA, and appropriate preventive measures agreed.
7	Disclosure of report drafts to operations staff: Redacted draft investigative reports to be shared with RVPs, and Regional response to be included in final report to President.	Being done for all reports completed since Sept. 13, 2007.
8	Disclosure to Executive Directors: Disclose redacted final investigative findings to EDs (timing and substance at President's discretion). Disclosure to public is at the discretion of the President.	Being done for all final reports completed since Sept. 13, 2007.
9	Disclosure to funding partners: Share information (with confidentiality guarantees) with donors and funding partners where fraud and corruption present a risk of loss of funds.	Being done. Disclosure to cofinancing donors will be incorporated into the disclosure protocol, and implementation will occur, as set out in recommendation 8.
10	INT relations with OPCS and IAD: Share and discuss investigative findings with OPCS, and OPCS to include INT in discussing procurement and fiduciary guidelines that relate to investigative findings. INT to be included in Operations Committees that address anticorruption policy.	Ongoing. Monthly as well as special issue meetings being undertaken between OPCS and INT (and also IAD). INT is present and active in Bankwide meetings on operational policy, OC meetings, and ROC meetings, where priority or large projects are under discussion.
11	Detailed Implementation Reviews (DIRs): INT takes lead and initiative on DIRs, or Regions take lead, depending on DIR objectives.	Building on lessons of experience, OPCS and INT working to develop guidelines for different types of DIRs.

12	Sanctions Board chair: Bank should require that the Chair of the Sanctions Board and of any Panel thereof be one of the outside members of the Board.	Planned for January 2009, when Board membership is scheduled to rotate. Board approval is required to amend the existing sanctions framework set forth in R2004-0025/2004. Need to decide on the selection process for the Chair.
13	Speed of external investigations of fraud and corruption: INT should expedite the report review process for external investigations. INT should issue regular reports to the President, the Audit Committee, and any Advisory Oversight Board on the “aging” of all its external cases.	INT is monitoring trends and recruiting additional investigators in an effort to achieve required resource-to-case ratio.
14	Reassignment from INT of internal cases not involving fraud and corruption: Reassign primary responsibility for the investigation of staff misconduct cases not involving allegations of significant fraud or corruption to an administrative unit(s) other than INT (e.g., LEG), with proper organization and staffing, and appropriate procedural protections for staff.	New Chief Ethics Officer (CEO) appointed. Task force established (composed of the CEO and representatives from OPCS, INT, LEG, HR and SA). Transfer to the Ethics Office programmed to be completed by January 2009.
15	Speed of internal investigations: Institute case tracking milestones <ul style="list-style-type: none"> • Cases involving fraud, bribery, or other corruption: nine months • Cases of workplace conflict such as sexual harassment and discrimination: six months. 	Case tracking mechanisms developed and trends being monitored; outcomes pending transfer of responsibilities.
16	Fairness of INT investigations to staff members: Review of staff e-mail; advance notice to staff member of allegations before interview; staff members’ prompt access to interview transcript; staff members’ right to communicate with witnesses; staff members’ right to prompt receipt of final investigation report; rights of complainant and victim to notice of case status; clarification, codification, and publication of staff rights.	Annex to Staff Rule 8.01 in draft; HR VP approval anticipated in October 2008.
17	Diversity, recruitment and turnover: Advertise globally and beyond the World Bank’s website. Ensure that recruitment of competent professionals from borrowing countries is achieved.	Recent recruitment has significantly improved diversity; additional technical specialists being recruited through global search.
18	Measuring, auditing, and evaluating INT: Take further steps to measure INT’s performance. Establish reasonable benchmarks for assessing systems, processes, and results.	INT has articulated a performance metric (July 2008) and is considering further improvements to its annual reporting, consulting with MDB peers.

GAC RESULTS - A SUGGESTED FRAMEWORK FOR MONITORING AND ASSESSMENT

1. This Annex suggests a framework for monitoring and assessing the value added¹ for development of GAC work over a three- to five-year horizon. The framework is designed to be relevant both for country programs as a whole, and for individual operations. Relevant operations include both (a) GAC reform interventions to enhance capacity and accountability; and (b) operations with a more direct poverty reduction objective, for which GAC interventions contribute to results by enhancing capacity and accountability (including measures to reduce the risk of corruption).

2. The Annex builds on the well-developed overall approach to assessment adopted by both the Bank's Quality Assurance Group (QAG) and the Independent Evaluation Group (IEG). It suggests how the two classic questions for assessment – Are we doing the right things? and Are we doing them right? – might usefully be addressed for GAC interventions intended to enhance development effectiveness. While the framework builds on earlier work (e.g., the analysis of governance monitoring in the 2006 Global Monitoring Report),² it represents a first effort to suggest how that work might usefully be applied to monitoring a country-level GAC program. The hope is that in coming years an increasing number of WBG country programs will apply – and improve – the suggested approach.

A. Assessing the Effectiveness and Efficiency of Operational GAC Interventions

3. The operational focus of the WBG's GAC interventions appropriately should vary from country to country, with priorities set by the GAC-informed country strategy:

- In some countries, the priority might be to strengthen core public management systems.
- In others, the focus might be on strengthening non-executive institutions of accountability.
- In others, there may be no direct GAC-related interventions, with the focus exclusively on mainstreaming GAC across the range of the operational portfolio, including by enhancing transparency, participation, third-party monitoring, and other fiduciary controls.

¹ Note that the term 'value added' is used in preference to 'impact'. As discussed in the annex, impact is a term of art in results assessment – the final step in a results chain that proceeds from inputs to outputs to intermediate outcomes to final outcomes to impact. Examples of impact include: increases in per capita income, or reductions in the number of people living in absolute poverty. It generally is understood that outputs and intermediate outcomes generally are better foci for operational monitoring and managerial decision-making over the medium-term. Longer-run research is the appropriate tool for assessing the relationships between inputs and intermediate outcomes on the one hand, and development impact on the other.

² World Bank, *Global Monitoring Report*, (Washington, DC: 2006), Part II, pp. 121-192

4. A specific country program's GAC results framework is not expected to address all three types, only those that were identified as priorities – although, of course, in some countries the result of a careful effort at prioritization could be to focus on specific activities/outputs that are drawn from across these three types of engagement.

Assessing the outcomes of efforts to strengthen public management systems

5. The 2005 Paris Declaration and 2008 Accra Agenda for Action affirmed the consensus that well-functioning country systems achieve the *impacts* of improved public service provision and reduced poverty by delivering the *outcomes* of better prioritization, effectiveness and efficiency of public expenditure. For those country programs that have chosen improvements in country systems as the appropriate GAC priority, what is the appropriate results framework for monitoring progress?

6. For three reasons, impacts and outcomes do not appear to be the appropriate targets for monitoring; rather, it is suggested that the results framework focus on *intermediate outcomes*, as well as performance in providing the targeted *outputs* necessary for achieving the intermediate outcomes:

- Impacts and outcomes are subject to many influences outside the scope of the areas of WBG support (logrolling within political coalitions, or hurricanes, for example).
- Given the long chain that links changes in public management systems to observable changes in the quality of public spending at the service provision front line, the time horizon within which there will be observable changes in service quality is medium- to long-term – too long to be a useful metric for monitoring year-on-year progress over the typical CAS period.
- A country's public management system is an aggregation of very many distinct subsystems; within any given CAS period, only a subset of these can be the focus of attention.

7. Even those CASs which choose to give priority to improving country systems can and should focus their energies only on some specific subsystems. A GAC results framework focused on the strengthening of “core” public management systems could thus:

- *PUBMAN RESULT 1: include a clear statement as to which specific public management subsystems will be the focus of effort, and what is the rationale for these priorities.*

8. The distinction between outputs and intermediate outcomes can be useful to help clarify further the focus of effort – and what will be monitored. For this purpose, it is useful to utilize a common property of actionable governance indicators (AGIs): they tend to be organized in a nested form. Each specific area of intervention can usefully be viewed as an output – with the intermediate outcome comprising the cumulative consequence of effort across multiple mutually reinforcing outputs.

9. To illustrate, consider the public financial management performance assessment framework used by the Public Expenditure and Financial Accountability (PEFA) multi-donor partnership. The PEFA framework distinguishes among six dimensions of a well-functioning public financial management system – and includes specific indicators to monitor progress in each 28 specific building-blocks that aggregate into the six dimensions. One of the six dimensions is “external scrutiny and audit of the budget,” which a CAS might identify as the target intermediate outcome over the CAS period. This, in turn, would lead the program to focus its efforts on improving the performance of a specific cluster of four public financial management subsystems identified in the PEFA framework as most relevant to achieving the intermediate outcome: (a) the timeliness and quality of – (i) annual financial statements, and (ii) external audit; and (b) legislative scrutiny of – (i) the budget, and (ii) of external audit reports. Each subsystem comprises a specific output; taken together, the cluster of sub-systems defines the intermediate outcome. Results monitoring would proceed both at the level of the individual output and the cluster as a whole.

10. The requirements needed for a set of AGIs to provide a platform for the approach described above are demanding. What is needed are carefully designed measures of the quality of individual subsystems, embedded in a framework that systematically organizes the relevant area of public management into a comprehensive set of intermediate outcomes. PEFA has led the way; in other areas much remains to be done to enhance the coverage and quality of AGIs (decentralization is a notable gap). Even so, new AGIs in other areas of public management can help to identify a target intermediate outcome, relevant outputs, and specific progress indicators. They are (with the relevant intermediate outcomes in parentheses):

- Human resource management AGIs (intermediate outcomes: recruitment and retention; wage bill sustainability; meritocracy; ethics; performance orientation; coordination);
- Procurement AGIs (intermediate outcomes: procurement legislation; central institutional capacity; capacity to execute procurement; integrity and transparency of the procurement process);
- Open Budget AGIs (intermediate outcomes: public availability of – pre-budget statement; executive’s budget proposal; citizens’ budget; in-year reports; midyear review; year-end report; auditor’s report); and
- PEFA AGIs (intermediate outcomes: budget credibility; comprehensiveness and transparency; policy-based budgeting; predictability and control; accounting, recording and reporting; external scrutiny and audit).

11. Where existing AGIs do not fit the operational goals of a specific country program, the appropriate response should, of course, be to custom design the results framework. But the underlying logic could usefully follow the lines laid out above:

- *PUBMAN RESULT 2: Be explicit as to the target intermediate outcome, the cluster of individual outputs that together are expected to deliver that outcome – and the measures to be used to assess progress towards achieving each individual output.*

Assessing the outcomes of efforts to strengthen non-executive institutions of accountability

12. The GAC strategy underscored the potential value added for development effectiveness of non-executive institutions of accountability (e.g., the justice system; parliament as overseer of public expenditures; right to information; “watchdog” civil society organizations). In countries where the upstream diagnostics uncover both major gaps in the quality of these institutions *and* a country environment where political leaders have both the incentive and authority to strengthen them, improving the performance of non-executive accountability institutions would naturally be a GAC priority in the country program.

13. The results framework for assessing efforts to improve these accountability institutions would parallel directly that laid out for public management:

- *INSTACC RESULT 1: include a clear statement as to which specific institutions of accountability subsystems will be the focus of effort, and what is the rationale for these priorities.*
- *INSTACC RESULT 2: identify the relevant intermediate outcome, the cluster of outputs that can deliver it; and appropriate measures of progress in the delivery of each output.*

14. While for none of this group of institutions is AGI work as advanced as for PEFA, some structured data sets are available:

- The Global Integrity Index, available for 60 countries, reports for 21 groups of institutions on quality in law and in practice (examples of clusters: civil society, public information and media; oversight and regulation; whistle blowing measures);
- The Public Accountability Mechanisms database, available across 78 countries (clusters: asset disclosure; conflict of interest; freedom of information; immunity provisions); and
- For justice reform, two indicator initiatives launched by the European Commission for the efficiency of justice.

15. But more than for public management, country programs that have chosen to focus on non-executive accountability institutions as a GAC tool will likely need to complement pre-existing AGI data sets with custom-built approaches to identifying the relevant intermediate outcomes, the cluster of outputs that produce the outcome, and progress measures for each output.

Assessing the outcomes of efforts to enhance transparency, participation, third-party monitoring, and other fiduciary controls across the range of operational interventions

16. Some country programs might choose to focus their GAC efforts entirely on mainstreaming GAC in their infrastructure, human development and other poverty-reducing operations, rather than through self-standing governance reform initiatives. Intermediate outcomes provide a natural way of assessing the GAC results of this approach; they highlight especially well the links between GAC and development results. Examples of relevant intermediate outcomes are: the absenteeism rate of key personnel in schools and clinics; the quality and cost of road construction – and the many others that are being identified in the work on sectoral actionable governance indicators described in Section IIC. For GAC engagements of this type, one part of the results framework should thus be an assessment of:

- *MAINSTREAM RESULT 1: The extent to which each operation in the country portfolio identifies relevant sectoral/ service delivery AGIs, monitors them, and improves performance over time.*

17. Of course, especially in countries where governance is weak, achieving these intermediate outcomes will depend in part on the extent to which value adding GAC inputs/outputs are incorporated into operational design. Here, GAC diagnostics can add value in two ways. First, better understanding of the drivers and constraints to decision-making of key project participants helps achieve greater realism in project design (‘good fit’ rather than ‘best practice’). Second, a careful assessment of where corruption vulnerabilities are greatest along the operational supply chain can lead to better design of risk mitigation measures. The results framework for a ‘GAC mainstreaming’ approach could thus usefully consider:

- *MAINSTREAM RESULT 2: The extent to which GAC diagnostics of the incentives and disincentives of key project participants, and of corruption vulnerabilities, have contributed to operational design – both via “‘improved fit” with country conditions, and via inclusion of GAC-related mitigation measures in projects.*

As discussed in Section II.B, over the past few years, work on governance and anticorruption action plans (GAAP) in Indonesia and elsewhere have helped clarify what these mitigation measures might be; Table E1 offers one possible checklist.

18. A governance and anticorruption action plan is, of course only as good as its outputs – i.e., the implementation of the risk mitigation measures laid out in the plan. So a results framework should incorporate:

- *MAINSTREAM RESULT 3: The extent to which GAC-related mitigation measures have been made operational in the course of project implementation.*

This requires measurement; the second column of Table E1 suggests specific measures that might be used to assess progress in delivering the targeted GAC outputs.

Table E1: GAC Risk Mitigation Measures, and their Monitoring

<i>Approach to Mitigation</i>	<i>Example of progress indicator</i>
Transparency and information disclosure	Timeliness of disclosure of operational information. Scope and relevance of information, format and ease of use. Demonstrable use of the information.
Participation in implementation	Involvement in verification before payment. Number of people taking an active part in subproject level activities (managing, monitoring and as labor). Measurable impacts on ability to participate resulting from any related capacity building activities
Voice for communities/ beneficiaries	Periodic service delivery surveys; perception surveys of ability to influence decision-making. Number of activities where communities/ beneficiaries are given the opportunity to meet and question implementers. Evidence that meetings had an impact.
Civil society participation in oversight	Perceptions of designated monitors. Operation of complaints mechanism.
Quality of procurement	Price, quality and timeliness of deliveries or completion; Processing of complaints from bidders or others
Quality of financial management	Ability to analyze financial information as a part of broader management systems (e.g. correlation of fund flows with progress). Compliance with internal controls, including existence and effectiveness of internal audit function. Timeliness and transparency of budgets, financial statements, and audit reports. Accounts reconciliation (indicator of quality, accuracy). Actions taken in response to audit findings or other financial reports.

B. Assessing the Quality of Prioritization of GAC Interventions

19. If the results of some specific GAC interventions are poor, the explanation could be either that they were not well implemented (i.e., “not doing them right”) or that the choice of interventions was poor (i.e., “not doing the right things”). Building on the approach used by IEG and QAG, this section suggests how the quality of the prioritization process might usefully be assessed.

20. The relevance of GAC work for prioritizing development interventions goes way beyond the specific GAC agenda. IEG’s 2006 Retrospective of its program of Country Assistance Evaluations concluded that:

“A key component of successful country programs is that they are tailored to the country context and an understanding of the political economy of reform is essential. Domestic politics and vested interests largely determine the pace and content of reforms in countries. The Retrospective found a number of cases where an insufficient understanding of the political economy of reforms led the Bank to push reforms that stood little chance of success.... Undertaking more robust risk analysis to carefully assess borrower commitment to reform and implementation capacity would serve to improve the outcomes of Bank assistance programs.”³

³ World Bank, *Country Assistance Evaluation Retrospective: An OECD Self-Evaluation*, Executive Summary, p.x-xi (Washington, D.C.: 2005)

21. Hence the following criterion for assessing the overall quality of a country program – i.e. whether it is “doing the right thing” – from a GAC perspective.

- *GAC PRIORITY RESULT1: To what extent is the selection of entry points for engagement in a country’s development program -- the (i) scope; and (ii) realism and complexity of the operational program, and (iii) the approach to its implementation -- adequately responsive to a country’s governance and political economy realities?*

Note that this criterion appears both to the overall development program and the specific approach to government reform. Assessments of the responsiveness of a country program to country-specific GAC realities generally focus on the quality of the underlying diagnostic work – including diagnostic work on the drivers of decision-making at both the aggregate level, and the disaggregate levels relevant to individual operations. The QAG’s Quality at Entry questionnaire includes a variety of questions that assess the link between diagnosis, on the one hand, and program design, on the other.⁴ Note that the above assessment criterion is relevant to the quality of prioritization both of the overall country program and of the specific approach adopted to GAC reform. Both dimensions should be included in an assessment of the value-added of GAC efforts.

⁴ Questions and guidance in the ‘Strategic Relevance and Approach’ section of QAG’s 2006-7 lending questionnaire include: “(i) adequacy of country and sector knowledge underpinning the operation; (ii) consistency of the project’s objectives with the country and sector strategies; (iii) clarity, realism and scope of the project’s development objectives; and (iv) appropriateness of project approach and complexity.