

STRENGTHENING GOVERNANCE: TACKLING CORRUPTION
THE WORLD BANK GROUP'S
UPDATED STRATEGY AND IMPLEMENTATION PLAN

March 6, 2012

This document was endorsed by the Board of Executive Directors on March 27, but is subject to subsequent minor amendments.

ACRONYMS AND ABBREVIATIONS

AFR	Africa Region	IBRD	International Bank for Reconstruction and Development
AGI	Actionable Governance Indicators	ICHA	International Corruption Hunters Alliance
ATI	Access to Information	ICT	Information and Communications Technologies
BRIC	Brazil Russia India China	IDA	International Development Association
CAS	Country Assistance Strategy	IEG	Independent Evaluation Group
CFO	Chief Financial Officer	IMF	International Monetary Fund
CFP	Concessional Finance and Global Partnerships	INT	Integrity Vice Presidency
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora	LCR	Latin America and Caribbean Region
CoP	Community of Practice	MDTF	Multi-Donor Trust Fund
CoST	Construction Transparency Initiative	MIGA	Multilateral Guarantee Agency
CPIA	Country Policy and Institutional Assessment	MNA	Middle East and North Africa Region
CPS	Country Partnership Strategy	NGO	Nongovernmental Organization
CSO	Civil Society Organization	OECD	Organization for Economic Cooperation and Development
DFGG	Demand for Good Governance	OES	Office of Evaluation and Suspension
DPL	Development Policy Loan	OPCS	Operational Policy and Country Services
DPO	Development Policy Operation	ORAF	Operational Risk Assessment Framework
E4D	Extractives for Development	PEA	Political Economy Analysis
EAP	East Asia and Pacific Region	PFM	Public Financial Management
ECA	Eastern Europe and Central Asia Region	PREM	Poverty Reduction and Economic Management Vice Presidency
EITI	Extractive Industries Transparency Initiative	PRMPS	Poverty Reduction and Economic Management Public Sector Department
ESW	Economic and Sector Work	PSM	Public Sector Management
EXC	Office of the President	PSU	Preventive Services Unit
EXT	External Affairs Vice Presidency	QAG	Quality Assurance Group
FLEG	Forest Law and Governance Initiative	REDD	Reducing Emissions from Deforestation and Forest Degradation
G20	Group of 20	SDV	Social Development Department
G24	Group of 24	SEGOM	Sustainable Energy, Oil, Gas, and Mining Sector
G7+	Group of 7 Fragile States	UK	United Kingdom
G8	Group of 8	UN	United Nations
GAC	Governance and Anticorruption	UNODC	United Nations Office of Drugs and Crime
GPF	Governance Partnership Facility	VPU	Vice Presidential Unit
GPSA	Global Partnership for Social Accountability	WBI	World Bank Institute
HR	Human Resources	WDR	World Development Report

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EXECUTIVE SUMMARY

This paper updates the Governance and Anticorruption Strategy endorsed by the World Bank Board of Executive Directors on October 7, 2007. The Updated Strategy responds to the fundamental changes that have swept the world since the Strategy was adopted: the impact of the financial crisis on economies and governments globally; a spate of civil society movements protesting against marginalization from economic opportunities and growth; the rise of social media as a fundamental driver of transformation in social and political relationships; and increasing understanding among governments that greater participation by citizens and correcting disparities in status and opportunities between men and women will be critical to governing in the 21st century.

These developments have fundamental implications for the way in which the World Bank Group (hereafter ‘the Bank’) does its business, and the kinds of support it provides governments. The Updated Strategy adopts an approach that both enables the Bank to deliver on its development mandate with greater effectiveness, and ensure that countries are able to put in place institutions and systems that can become the foundations of sustainable growth.

The Updated Strategy rests on six pillars:

I. SCALING UP AND SYSTEMATIZING SUCCESS

The Bank will continue its effort systematically to mainstream governance and anticorruption elements. The implementation of the 2007 Strategy evidenced several innovative and promising examples of integrating attention to governance dimensions across the Bank’s Country Assistance Strategies, Sector Strategies, and operational portfolio. Building on these examples, the Bank will aim to integrate governance issues more systematically across these critical instruments.

II. SUPPORTING COUNTRY INSTITUTIONS

The Updated Strategy recognizes that systems and processes within countries are the key drivers of development. So, building ‘capable, transparent and accountable’ country institutions will be fundamental to ensuring sustainable development. Bank assistance will aim to strengthen both core country systems of governance, as well as sector institutions. Bank projects will also use country systems wherever feasible and appropriate.

Central to the Updated Strategy are the related themes of transparency and openness. Increasingly it is accepted that both are fundamental elements of institutional development. Recent events in the Middle East and North Africa have highlighted the importance of openness and transparency in governance - government processes, decisions, and expenditures that are visible to public scrutiny, and voice for citizens in decisions affecting their access to basic services and economic opportunities. Increasingly, the Bank will support initiatives that enable greater openness in governments and the closer interaction among citizens, the private sector and the state.

To support the focus on country institutions and country systems, the Bank will put in place revised approaches to work in the public sector, procurement, judicial reform and the private and financial sector. These areas are all critical elements of any country’s

institutional system. The revised approaches will be stronger in their empirical grounding, their problem focus, and their alignment, wherever feasible, with the country's own approach.

III. FOCUSING ON RESULTS

A more rigorous framework to measure results is essential to ensure that Bank efforts are helping achieve development outcomes. The results framework associated with the Updated Strategy seeks to measure improvements in project design, outputs from Bank-supported initiatives, and improvements in country-level governance institutions. This task represents one of the Updated Strategy's biggest intellectual and practical challenges. The Bank will actively seek partners for this work.

A major challenge – and priority – for the Updated Strategy is to identify a practical set of indicators to measure institutional quality. Improvements in country institutions lead to better delivery of government services and contribute ultimately to development outcomes. Working with partners, the Bank will seek to develop indices that can improve the measurement of institutional quality.

IV. MANAGING RISKS

The Bank will aim more effectively to manage, rather than avoid, the risks inherent in working in development contexts. The Bank recognizes that working in a diversity of country contexts, some emerging from violent conflict, others with weak institutions, and some with high degrees of corruption – inherently carries with it risks that objectives intended by development projects might not be delivered, or that development funds might be lost to fraud and corruption. The Bank's Integrity Vice-Presidency ((INT) both investigates allegations of fraud and corruption in Bank projects, and works to improve safeguards against corruption in lending. In keeping with the Bank's policy of zero tolerance, wherever instances of fraud and corruption are discovered, decisive measures will be taken to address these. The Bank remains absolutely committed to the highest fiduciary standards in all its work.

The Bank will thus continue to honor its obligations to shareholders to ensure that funds are spent on their intended purposes to improve development. More effective management of risks will require that operational staff are given better guidance on risk thresholds, and tools better to analyze and mitigate risks.

V. IMPROVING GLOBAL GOVERNANCE

The Bank will expand its work on improving global governance by embedding governance dimensions into global programs. Given the scope of its operations, and its relationships with a range of stakeholders and actors on the global stage, the Bank is well positioned to play a strategic and catalytic role in improving the governance of global initiatives, whether it is protecting the global commons, or protecting the integrity of transnational flows of money, or guarding against illegal trade in natural resources. The Bank will leverage synergies between its work at the global, country and sector levels to address these issues.

VI. ORGANIZING FOR DELIVERY

Implementing the Updated Strategy will require changes in the systems and processes of the Bank. Implementation of the 2007 Strategy launched the internal change management agenda. Building on this, the implementation of the Updated Strategy will strengthen training programs for of staff, establish clear accountabilities that align resources with priorities, and integrate monitoring and reporting into regular management systems.

UPDATED STRATEGY

A CHANGED LANDSCAPE

1. **Since the Bank adopted its Governance and Anti-Corruption Strategy in 2007¹, fundamental changes have swept the world.** The implications of the 2008 financial crisis continue to play out, the most prominent of which are continuing uncertainties in the Euro-zone, nervousness in the financial markets, and fragile growth in most of the developed world. Emerging economies have been less affected but, even there, growth forecasts are down. Beyond the world of finance and economics lie a broader set of changes rooted in longstanding themes in political economy: what is the citizen's relationship with the state? How can integrity and accountability be better integrated into public life? How can the state better govern and regulate its affairs, including the governance of the private sector that drives jobs and growth?

2. **The contours of a new social contract are emerging. Citizens are seeking a relationship with their government based on transparency, accountability and participation.** From revolutionary change in the Arab world, to powerful anti-corruption movements in India and Brazil, to the 'Occupy' movement in some western countries, a groundswell of citizens' movements signals frustration with the seeming inability of governments to handle increasingly complex global problems of poverty, joblessness, fiscal crises, and environmental vulnerability. A new generation of tech-savvy citizens is at the center of several of these movements, empowered by transformations in new communications technologies that enable unprecedented opportunities to access and share information and forge global networks. Much of their advocacy has focused on the expansion of the space for voice and participation, the need for strong checks and balances, and a demand for transparency as essential elements of a redefined social contract. While these disparate social movements have each taken a different form, they have at heart one common feature: men and women are increasingly unwilling to accept a passive role in society. Individuals are demanding the rights and the responsibilities of citizenship, and this includes a sense of fairness in the distribution of material gains, as well as a say in how they are governed.

3. **In many countries, the state is responding to, and in some cases leading, the move to greater openness, transparency, and citizen engagement.** While some states are struggling to catch up with the legitimate aspirations of their citizens and enterprises, others are leading the transformation process. Nations, increasingly, are putting open, transparent, and accountable governments at the forefront of their national agendas, promoting measures to improve transparency. These include opening up budgets, passing right-to-information laws, and publishing commercial contracts, service obligations, and assets of officials. In September 2011, 43 countries signed up to the Open Government Partnership, a multilateral initiative launched by several heads of state at the United Nations. These are all steps in the direction of instituting a new model of governance and tackling corruption.

4. **Similarly, countries around the world are increasing their attention to disparities in women's voice and participation.** Several countries are adopting affirmative action programs to increase opportunities for women as social and political actors. For example, by adopting quotas, both Mexico and Morocco increased the proportion of women in national parliaments (WDR

¹ World Bank, 2007. 'Strengthening World Bank Group Engagement on Governance and Anti-Corruption'.

2012). Greater prominence too is being given to the private sector as a key actor. There is rising demand from the private and financial sector both for transparency and predictability in public sector policy-making and implementation, and for combating corruption through better regulation and/or enforcement. At the same time, the private sector itself can be part of the problem. In some countries there is capture, where narrow private interests may prevail over the broader public interest, be it as a result of cronyism or the undue influence of a small group of privileged firms or due to conflicts of interest between public and private officials. Capture allows corruption to flourish, thereby hampering private sector led growth. Fostering a responsible private sector requires addressing governance challenges through various ways, including by: removing barriers to entry and competition while promoting the development of new entrepreneurship to reduce the power of vested interests; developing the capacity of regulatory institutions to enforce regulations and hold vested interests to account; and promoting transparency of government-firm relations and broadening public-private dialogue.

5. **The Bank is responding to this agenda by strengthening and enhancing its own practices, corporate governance, and anti-corruption focus.** The Bank's aim is further to cement its reputation as a truly credible and trusted partner in this most difficult area of development through its ongoing internal reforms program. In July 2010 the Bank's new Access to Information policy became effective. As part of its rapidly expanding Open Data initiative, the World Bank has unlocked the institution's knowledge and development data for the public's access across the globe. In the first year of launching the Open Data initiative, there were more than 25 million page views on the Open Data site, where more than 7,000 indicators can be found. The Access to Information Policy is viewed as a "gold standard" for international financial institutions, according to the watch-dog organization, the Bank Information Center. Publish What You Fund recently rated the Bank "best performer" in terms of aid transparency out of 58 donors for the second year in a row.² Furthermore, the Center for Global Development and Brookings ranked IDA as a top donor in transparency and learning in its 2011 Quality of Official Development Assistance assessment.³

6. **The Bank's business model also positions it well to engage as an external actor on governance and anti-corruption at both the country and global level.** The Bank will continue to work closely with a range of development partners – regional banks, bilateral agencies, civil society organizations, the private sector – in order to meet Busan aid effectiveness commitments. Building on the Bank's country-driven business model, global convening power, and its track record for reliably safeguarding public funds, the Bank can serve as the essential link among global efforts, country impact, and strengthened country capacity to manage resources. The Bank not only works with country governments, but it works *through* them building country institutions by using them. The Bank seeks to build ministries of transport as much as it seeks to build roads.

7. **Critical too has been the sustained improvement in the Bank's capacity to detect, investigate and sanction fraud and corruption.** The renewal of the Bank's Integrity Vice-Presidency (INT) has transformed the Bank's credibility in fighting corruption, the working relationships among INT and Bank operational staff, and the process and transparency of the

² Publish What You Fund, '2011 Pilot Aid Transparency Index'.

³ Centre for Global Development, 'Quality of Official Development Assistance' website,

Bank's sanctions system. As stated in the 2007 GAC Strategy, INT continues to investigate allegations of corruption in Bank-financed projects and when corruption is detected the WBG will publicly sanction corrupt entities and promote follow up actions by governments and internally. The Bank will also enhance collaboration between INT's investigative teams and the country's own anticorruption authorities. While the renewal of INT's investigative capability strengthens a critical piece in the Bank's arsenal of corruption detection and investigative tools, the day-to-day frontline of this effort remains with the operational staff of the Bank. Outreach efforts by INT's Preventive Services Unit are helping to raise operational team's awareness and skills.

8. The objective for the Bank's Governance and Anti-Corruption Strategy of building capable and accountable states remains unchanged. When states possess capability, and exercise state power with appropriate accountability and oversight mechanisms, it is difficult for corruption and malpractice to flourish. Corruption is a symptom of weak, ineffective or bad governance. This is why the governance and anti-corruption (GAC) agendas are so closely aligned and why the Bank has a conjoined Governance and Anti-Corruption Strategy. It is the broad governance environment as embedded in institutions which will either foster or bear down on corrupt behavior. Experience shows that while anti-corruption strategies without effective broader governance strategies are unlikely to succeed, at the same time, effective enforcement of anti-corruption legal frameworks (including through criminal justice) gives increased credibility to overall governance efforts.

9. The seven core GAC principles also remain robust and relevant (Box 1). These principles are core to the Bank's approach to the governance and anti-corruption agenda.

Box 1: Seven GAC Principles

1. The World Bank's focus on governance and anti-corruption (GAC) follows from its mandate to reduce poverty—a capable and accountable state creates opportunities for poor people, provides better services, and improves development outcomes.
2. The country has primary responsibility for improving governance—country ownership and leadership are key to successful implementation, and the World Bank is committed to supporting a country's own priorities. A country's government remains the principal counterpart for the World Bank.
3. The World Bank is committed to remaining engaged in the fight against poverty, and seeking creative ways of providing support, even in poorly-governed countries. The clear objective: Don't make the poor pay twice.
4. The form of World Bank engagement on GAC will vary from country to country, depending on specific circumstances. While there is no one-size-fits-all model, the World Bank will adopt a consistent approach towards operational decisions across countries, systematically anchored in national strategies, and supported by World Bank Country Assistance Strategies, with no change in the performance-based allocation system for IDA countries or IBRD resource allocation system.
5. Engaging systematically with a broad range of government, business, and civil society stakeholders is key to GAC reform and development outcomes. Consistent with its mandate, the World Bank will build upon existing good practice in engaging with multiple stakeholders in its operational work, including by strengthening transparency, participation, and third-party monitoring of its own operations.
6. The World Bank will strive to strengthen, rather than bypass, country systems—better national institutions are the more effective and long term solution to governance and corruption challenges and to mitigating fiduciary risk for all public money, including that from the Bank.
7. The World Bank 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 World Bank should not act in isolation."

World Bank 2007 '*Strengthening World Bank Group Engagement on Governance and Anti-Corruption*'. Page ii

10. **The 2007 Strategy and associated Implementation Plan emphasized that GAC was, in essence, an internal change management strategy.** The Bank would learn about what worked and what did not by experimenting in different ways, in different contexts, and with different approaches. GAC was the opposite of a ‘blueprint’ approach as it was designed to be revised and updated to incorporate new knowledge and lessons learned. GAC annual progress reports confirmed this approach. Four years on, the Bank has indeed learned a lot about what worked and what fell short, although identifying why certain approaches worked in certain contexts remains contested. While GAC’s underlying objective, core principles, and entry points for action will remain the same, the lessons learned and the dynamic external and internal context make it an opportune moment to update the Bank’s GAC Strategy. The revised and Updated Strategy and Implementation Plan therefore not only build on what has worked well, but also establishes new directions – including the private and financial sectors – and in those areas where innovation and shifting priorities are required.

11. **Scaling-up and Systematizing Success.** This represents the agenda where, simply put, the Bank needs to do more.

- Embedding a governance and anti-corruption focus in Bank-wide sector strategies, in country assistance strategies, in country sector programs and at the project level;
- Strengthening central and sector government institutions, not only through explicit capacity building initiatives, but through their actual use wherever they are sufficiently robust;
- Developing sector and context-specific tools, guidance, and approaches to assist operational staff reflect GAC issues in selection, design, and implementation; and
- Enhancing project design through better risk management and prevention using targeted mitigation measures and due diligence.

12. **New Priorities and New Directions.** This represents the agenda where GAC requires innovation and an adjustment of priorities:

- **A focus on closer interaction between citizens and the state.** The Bank will seek to support processes that strengthen citizenship and enable citizen participation in policy decision-making and budgeting, as well as institutions and mechanisms that strengthen oversight and monitoring of the executive’s actions. These include formal institutions like ombudsmen, information commissions, anti-corruption authorities, audit agencies, and the judiciary and other justice institutions, as well as civil society mechanisms such as community scorecards and third party monitoring. The proposed Global Partnership for Social Accountability (GPSA) is an example of an innovative Bank instrument in this area (see paragraph 169)⁴;
- **A more robust approach to thinking about results and monitoring progress.** A results framework is developed that shows how Bank inputs and outputs link to intermediate outcomes (interpreted as changes in country level institutions), and finally to development outcomes (see paragraphs 98-110);
- **A revised approach to risk, emphasizing risk management rather than risk avoidance,** built on a corporate culture that values and promotes both candor in the discussion of risks as well as controlled risk-taking for increased development impact.

⁴ The GPSA will go to the Board for consideration on April 10.

Implementing this revised approach will require work to (i) better understand how the Bank currently manages operational risks, (ii) progressively extend risk-based decision-making across all Bank operations, (iii) integrate analysis of risks and results in operational practices and (iv) a move beyond a focus on GAC risks associated with individual transactions to manage risks more effectively at a portfolio level; and

- **A global GAC program that uses the Bank’s knowledge, convening power and connecting role in producing global public goods** by linking them to country level initiatives for reform.

13. **The Updated Strategy and Implementation Plan articulate how the Bank will redefine and reposition its governance and anti-corruption work.** The next section summarizes the Bank’s approach to governance and anti-corruption. It then considers what changes in the global environment and in the Bank itself mean for Bank work in this area. The fourth part reviews the lessons learned over the last four years of GAC, while the final part looks forward by outlining the directions the Bank will take to deliver on its governance and anti-corruption objectives for the coming years. Chapter II details the Implementation Plan.

THE BANK’S APPROACH TO GOVERNANCE AND ANTI-CORRUPTION

14. **The Bank’s objectives of strengthening governance and tackling corruption reflect the impact that poor, weak or ineffective governance, as well as corrupt practices, can have on the prospects for sustainable growth and poverty reduction. This includes the development initiatives that the Bank helps to finance.** The Bank’s first publication on governance was issued in 1991⁵ and it observed that governance includes the form or nature of the political regime; the processes by which authority is exercised in the management of a country's economic and social resources; and the capacity of governments to design, formulate, and implement policy and deliver goods and services. The paper emphasized that the first aspect fell outside the Bank's mandate, requiring that it focus on the second and third elements. This remains the Bank’s position today.

15. **Despite the significant progress made over the last few years, it is clear that the Bank needs to do even better in understanding issues of governance, institutions for development effectiveness, and ways to tackle corruption and malfeasance.** It is insufficient to stress economic governance alone. The Bank’s traditional strength—its economic and technical understanding—needs to be complemented by a step change in its grasp of the opportunities and constraints in governance, within the parameters of its mandate. The Bank then must apply this knowledge to the development and strengthening of country institutions.

16. **In the literature, governance is about what the state can do and how it does it.** What the state can do is determined by its capacity, its legitimacy, and its authority.⁶ Capacity is the

⁵ World Bank, 1991. *Managing Development: The Governance Dimension: A Discussion Paper*.

⁶ See for example Frances Stewart and Graham Brown (2009). *Fragile States*. Centre for Research on Inequality, Human Security and Ethnicity, University of Oxford. Working Paper no 51, p 3; Carment, El-Achkar, Prest and Samy (2006). *The 2006 Country indicators for Foreign Policy: Opportunities and Challenges for Canada* in Canadian Foreign Policy, Vol 13 No 1, p 6-7, and Goldstone, Haughton, Soltan and Zinnes (2004), *Strategy Framework for the Assessment and treatment of Fragile States*. Centre for Institutional Reform and the Informal Sector at the University of Maryland, p v.

ability of the state to procure and deliver goods and services, design and implement policies, build infrastructure, collect revenue, dispense justice, and maintain a conducive environment for the private sector. Legitimacy is simply whether citizens feel the government has the right to govern – and whether they trust the government. Authority is the ability of the state to govern its territory effectively, reach all citizens regardless of their location, gender, or ethnicity, maintain law and order and protect citizens from predation and violence. It is the ability of the laws and rules of the state to trump all other laws and rules.

17. **Governance also includes some question of how the state uses that capacity and authority.** First, *how accountable* is the state in its use of its power? Are there effective oversight institutions? What limits does the state impose on itself under the rule of law? Is the capacity and authority of the state used in a way that protects citizens’ rights and responds to their legitimate needs and aspirations? Does the state seek to foster the growth of the private and financial sectors? To what extent are citizens’ views represented and what is the nature of the process of representation? Second, *how transparent* is the state in its activities? Does it provide access to information? Does it publish the budget and explain the basis of policy decisions? Does it seek to practice open government, in the national interest? In developing its capability in this area, the Bank must also recognize that different components of this governance reform agenda may progress at different rates according to circumstances, and that different components at any one time may demand priority. These judgements can only be made in discussion with clients and with their full support. The Bank must also be realistic about what it can achieve; it is one actor among many in an increasingly complex international context.

18. **The Updated Strategy and Implementation Plan builds on the core importance of institutions.** It recognizes that effective, transparent, and accountable institutions lie at the core of development. Institutions establish the formal and informal rules that determine whether the public sector acts in its own interests, or on behalf of all citizens. These rules influence private sector investment decisions, create incentives that either create or curtail rent-seeking opportunities for civil servants, and influence the expectations citizens have of their governments.

19. **These institutions are country-specific and cannot be imposed from outside.** It is this insight that creates the Bank’s comparative advantage. Its business model is country-owned and country-driven. Bank clients demand services and borrow funds for their own priorities and to meet their own aspirations. The Bank’s governance and anti-corruption agenda recognizes that governance priorities will vary greatly country to country. The issues facing middle-income countries are very different from those facing countries emerging from conflict. Governance is not about a particular form of government; rather it is about a context-specific set of institutions that meet country needs and fit country circumstances that deliver development and poverty reduction outcomes in ways that are sustainable, transparent, and accountable. The Bank’s country-led approach is well-placed to assist the spectrum of Bank member countries meet their development priorities.

20. **There remain many entry points for Bank work on governance and anti-corruption.** In addition to the Bank’s traditional mode of working with the executive branch and improving

the supply of public goods and services, it is now even more important to engage with civil society, the private and financial sector, the oversight and anti-corruption authorities, and non-executive institutions of accountability, such as the judiciary, as envisaged by the original GAC Strategy. These not only respond to, but help create change, and sustain the institutional environment in which development takes place.

21. **The Bank will also continue to use its convening power to mobilize efforts globally in order to make a difference at country level.** Such initiatives are designed to improve integrity in natural resource use, in financial markets, in contract arrangements, and in public administration, and foster international cooperation and collective action. The Bank's approach to such transnational work is presented in Section V of the Implementation Plan.

ADDRESSING PERSISTENT GOVERNANCE ISSUES

22. **Weak, ineffective or corrupt governance takes many forms:** from relatively minor problems in resource use, sometimes - at one end of the spectrum - caused by a lack of capacity, or through financial mismanagement and corrupt procurement practices, right to grand corruption and state capture at the other. The Bank's engagement in any country is influenced by the nature of country specific governance challenges, which also help to inform what may be suitable entry points for strengthening governance and tackling corruption. As laid out in the 2007 GAC Strategy, Bank engagement will vary from country to country, depending on specific circumstances. In cases where there are persistent governance issues, the nature of Bank engagement will be appropriately calibrated through a graduated response—including potential selectivity in the instruments used and/or sectors that receive Bank-supported financing.

23. **In calibrating the nature of Bank support, a number of factors are taken into consideration.** First, the Bank's core mission is to reduce poverty. In cases where persistent governance issues make it unlikely that the development objectives for a potential intervention can be achieved and sustained, the Bank does not support the operation. Second, the Bank has a fiduciary obligation, enshrined in its Articles of Agreement, to ensure that its funds, across lending instruments, are used for their intended purposes. In cases where there are no reasonable assurances that these fiduciary obligations will be upheld—for a particular type of instrument and/or in a particular sector—the Bank does not utilize that instrument or provide financing for the sector. The Bank also takes into account the responses to indications and reports of fraud and corruption in Bank financed projects. In making its programming decisions, the Bank considers the extent to which development objectives could be achieved by introducing additional measures to mitigate risks; using different instruments; or shifting focus to different sectors, depending on the risk, where the circumstances may be more conducive to sustained development outcomes.

24. **In exceptional cases where client governments cannot adequately manage and oversee the proceeds of Bank-financed operations, the Bank already seeks creative ways of engaging.** It may do so by providing services directly, using instruments such as third-party delivery systems that do not rely on central government administration disbursing resources. The Bank also uses policy dialogue, analytic work, and technical assistance to build support for stronger governance.

25. **In considering the appropriate Bank response to persistent governance issues or deteriorating governance environments, the Bank considers ‘mitigating’ or counterbalancing factors**, such as the severity of the impact of disengagement on the poor, and alternative arrangements to stay engaged (*e.g.*, through civil society, independent monitors, exceptions for selected priority sectors focused on the poor). In all cases, the Bank will provide the client with notice of its concerns, and an opportunity to address the issues within a reasonable time period based on clear criteria.

26. **Notwithstanding these commitments, the Bank retains the right, if necessary, to reach an independent judgement on whether the overall governance environment is conducive to poverty reduction and the proper use of Bank funds, and if not, to adjust the nature of support or to withdraw from future assistance either to the sector or the country.** This position is necessary because the absence of a conducive governance environment brings to question whether Bank funds would be used for productive purposes, and enhances the reputational risk of the Bank in the event that they are not. The Bank cannot keep the widespread confidence of shareholders, donors and the public alike, if it cannot deliver development uncompromised by corruption. The Bank’s aim remains building long-term relationships which do not respond to every twist and turn of domestic policy evolution, but which take a longer-term view of governance and corruption.

27. **The Bank also has contractual remedies that allow it to suspend disbursements for existing loans, credits and grants in response to governance failures** under Bank-financed projects, in cases where (i) fraud and corruption occur in connection with Bank financing and the borrower fails to take timely and appropriate action to address the situation and (ii) an extraordinary situation, which may include persistent governance failures, make it improbable that a project will be carried out or the borrower will be able to perform its obligations. The Bank may extend this to the entire country portfolio through ‘cross suspension’. These remedies do not allow the Bank, on the other hand, to exercise remedies for governance failures that have not impacted on the ongoing portfolio—but the Bank has at its disposal various means to apply heightened scrutiny of ongoing projects when governance conditions deteriorate in a country. The Bank has traditionally been cautious in exercising its non-monetary remedies, in light of the potential, adverse effect on a member’s development. At the same time, failure to exercise remedies may help to perpetuate underlying governance problems that adversely impact upon the members’ development. In balancing these considerations, the same principles that would guide the Bank’s withdrawal from future assistance would be relevant to any decision to exercise contractual remedies on the basis of governance issues.

A CHANGED CONTEXT FOR GAC

A Changed World

28. **Issues of governance, citizen engagement and the fight against corruption have dominated headlines worldwide.** Accountability, trust in government and integrity in public life are high on the global agenda, fuelled by the growing acceptance that states exist to serve their citizens, and a revolution in technology that puts information in the public domain. Scenes reflecting calls for change play out daily as citizens, businesses, and even civil servants demand greater accountability and transparency from their governments. Clean government is now seen

as a right, not a privilege. In increasing numbers, elections are being contested in terms of effective service delivery, responsiveness to citizen needs, transparency in government-business relations, improved state accountability, and national integrity. The role of engagement is increasingly recognized as central to sustained development outcomes—and rapid advances in information and communications technologies have changed the landscape in how a multiplicity of stakeholders can engage and hold their governments to account.

29. **Developing countries are at the forefront of these developments.** In Kenya, local groups have developed an innovative e-tool application, *Ushahidi*, to map reports of violence in Kenya after recent post-election fallout. This tool has now grown to become an important resource for citizen journalists and advocates in other countries. In Jordan, *Ishki.com*, a complaints brokerage facility, collects and organizes complaints from local citizens about the public and private sectors. In Russia, *Democrator* is an online initiative that enables citizens to send petitions and inquiries to government bodies in Russia. In India, pressure from a powerful civil society movement is intensifying attention to a series of accountability reforms. A number of countries in Africa are promoting greater transparency and scrutiny of budget processes. Public-private dialogue platforms have been established in such countries as Bangladesh, Bosnia, Cambodia, Cameroon, and Mexico among many others, the goal being to give voice to the private sector and to broaden participation and enhance transparency in policy-making and implementation.

30. **These changes are taking place against the backdrop of continued economic sluggishness.** The global economy is expected to grow by 2.5 percent and 3.1 percent in 2012 and 2013 respectively (compared to 3.6 percent projected in June 2011 for both years). High-income country growth is projected at 1.4 percent in 2012 and 2.0 percent in 2013. Developing country growth has been revised down to 5.4 and 6.0 percent.⁷ However, even achieving these much weaker outturns is very uncertain. The slow growth in Europe complicates efforts to restore market confidence in the sustainability of the region's finances, and could exacerbate tensions. Meanwhile the medium-term challenges represented by high deficits and debts in Japan and the United States and slow trend growth in other high-income countries have not been resolved and could trigger sudden adverse shocks. This uncompromising economic context will put extra pressure on governments worldwide to ensure sound policy making, effective program and project implementation, and the delivery of value for money while containing fraud and corruption.

31. **There have been significant changes too in the global governance architecture.** The Group of 20 (G20) has replaced the Group of Eight (G8) as the main forum through which global leaders meet informally to exchange views, and build trust and confidence. The voice of developing countries is now, rightly, central to the global architecture. The G7+ was formed in 2010 to represent the interest of some of the world's most vulnerable countries, including those emerging from conflict; its Secretariat is based in Dili, Timor Leste. Alongside G20, a group of large multinational enterprises, known as the B20, is working on the private sector role and responsibility in addressing corruption in the business environment.

⁷ World Bank 'Global Economic Prospects'. Vol 4, January 2012

A Changed Understanding of What Works

32. **The Bank's commitment to governance and anti-corruption remains unequivocal.** In April 2010 five strategic priorities were set out in the 'New World, New World Bank' post-crisis directions paper, of which one is to strengthen governance at country, regional, and global levels. This endorses the Bank's commitment as expressed in the GAC Strategy to help build capable and accountable states. President Robert Zoellick has urged a rethink of development economics to make it more useful to policymakers and announced a reorientation of Bank research to tap more effectively the experiences in developing countries through "open data, open knowledge, and open solutions". His April 2011 speech⁸ highlighted issues of transparency, and signaled an increasing recognition that citizen-state engagement is an emerging development paradigm. The World Bank works with governments to help strengthen their capacity and accountability, but—whatever the political system—there cannot be successful development without accountability and citizen participation. Finally, his September 2011 speech⁹ noted that investments in citizen voice, in civil society and in social accountability are as important to development as investments in infrastructure, firms, factories and farms.

33. **President Zoellick's speeches mark the continuation of the development community's journey from 'best practice' towards 'good fit' in strengthening institutions.** The period since governance first explicitly entered the development discourse has seen an additional reform emphasis. Initially, there was a concentration on *reform contents* (technical recommendations including the rise of the so-called 'Washington Consensus') that evolved to include an emphasis on *reform context* (country circumstances and political incentives). More recently, the debate has shifted to the *process of reform* (how problems and solutions are identified jointly with clients, and how active feedback during implementation is ensured).

A Changed Bank

34. **Alongside the step-change on transparency and access to data,** the Bank has demonstrated its willingness to confront risks corporately and to respond to the pressure to demonstrate results. This is all being achieved in a flat-budget environment. These changes have opened up a new space for the Bank, which brings with it a range of challenges and opportunities. The Bank is seeking to build a global reputation in governance and anti-corruption alongside its reputation for economic and technical excellence. Accordingly, it needs to demonstrate that it can move quickly and respond with imagination, creativity, and flexibility in country contexts that are changing almost literally overnight, and where governance—and government—is in flux. Box 2 presents an example of such imagination, creativity and flexibility. The challenge is to make this the norm for all Bank operations.

⁸ Robert Zoellick April 6th, 2011. 'A New Social Contract for Development' speech delivered at the Peterson Institute for International Economics.

⁹ Robert Zoellick, September 14th, 2011. 'Beyond Aid'. Speech delivered at George Washington University.

Box 2: Responding to the Arab Spring

In January 2011, Tunisia experienced a wave of protests that eventually toppled the government. These protests were fueled by a lack of social, economic, and political opportunities, and were exacerbated by deep-rooted frustration among young Tunisians at their lack of voice in the management of public affairs and by severe economic governance failures that favored insiders. While macroeconomic policies were sound, the economic environment was characterized by lack of transparency, cronyism and related anti-competitive practices that discouraged entrepreneurship and private sector investment. As a result, domestic private investment remained low and increasingly focused on real estate, considered a safer alternative. A broader lack of transparency, social accountability and citizen participation in government's affairs further exacerbated a sense of denied opportunities.

To support the transition following the revolution, the Bank approved a Development Policy Loan (DPL) in June 2011 which supported a set of measures to signal a clear break from the past and set the country on a new path, in line with the aspiration of Tunisians as expressed in the January revolution. The thrust of the program supported by the DPL was to underscore that greater voice, transparency, participation, and inclusion, all lead to increased investment and competition, and thereby support sustained economic growth.

The DPL measures included:

- Removing the constraints that prevent public access to information held by the administration in order to promote transparency, create scope for independent analysis, and inform the policy debate and public choice;
- Opening up access to the internet and easing the registration of Tunisian websites;
- Improving public procurement procedures to accelerate decision-making, while reducing discretion and increasing transparency;
- Streamlining the administrative and regulatory burden faced by firms in the area of taxes and customs to reduce cronyism and arbitrariness;
- Introducing new rules for good governance in the banking sector; reforming the National Employment Fund to break with the cronyism of the past and introduce new programs to better assist the unemployed;
- Introducing citizen voice mechanisms in the provision and evaluation of key public services (health, education, and social assistance);
- Adopting a national services outreach policy to expand access to health care, education and social assistance services using participatory approaches in underserved regions.
- The reforms supported by this program form the building blocks of a strong, more open and inclusive Tunisia, and set the country on a faster, more inclusive, development path.

35. In most country contexts, governments are implementing governance and anti-corruption reforms in predominantly incremental, long-term programs. Here, the Bank's approach will necessarily focus on addressing the 'nitty-gritty' of organizational change and bureaucratic reform. Occasionally though, an opportunity arises for more transformative change, whereby major structural improvement to governance institutions and the 'rules of the game' are put in place. The Bank needs the intellectual resources and the operational instruments to respond effectively.

LOOKING BACK: LESSONS LEARNED

36. A number of lessons and challenges have been identified over the last four years of implementation:

- **Better governance is critical for development, and problem-based approaches have more traction than 'best-practices'.** Effective GAC country and sector strategies begin with identifying a problem, and not with a predetermined solution. Box 3 provides examples of a country program where teams have increasingly approached governance issues from a problem-driven and results perspective, grounding those programs with a better understanding of the constraints to change and the incentives for reform.

Box 3: GAC Impacts at Country Level-The Philippines Experience

The 2009 Country Assistance Strategy defined weak governance as a binding constraint to inclusive growth in the Philippines and committed the Bank to embedding more systematic approaches to governance challenges across the portfolio, and at each step of the project cycle. An innovation was to introduce political economy analysis at the pre-concept stage to consider governance risks and mitigation strategies for all new proposed lending operations.

Based on traction and potential impact, the Country Assistance Strategy identified three results areas: GAC in selected agencies; procurement and public financial management reforms at national and local levels; and better local governance. Some of the examples of GAC in sectors and agencies include GAC in conditional cash transfers, enhanced anti-corruption measures in the roads project, pilot application of a Public Expenditure and Financial Accountability-like assessment in the Health Ministry, and just-in-time technical assistance on financial accountability in the security sector, where recent high-level corruption scandals revealed fundamental weaknesses in internal governance and control. For local governance, the Bank supports nation-wide expansion of the successful community-driven approach and top-down incentives for good local governance such as the ‘Seal of Good Housekeeping’ that rewards local governments that disclose a set of financial and other information.

Of these, a core priority is public financial management. Here the innovation was how the Bank attempted to work. Taking advantage of the strengths of the Philippine civil society and trying to compensate the weak institutional checks and balances that have often allowed the executive to act opportunistically, the Bank prioritized enhancement of budget transparency as a key objective of public financial management reforms. The strategy combined flexible, low-key technical assistance to foster a broad consensus and ownership of reforms among government technocrats on the one hand and direct support to CSOs to build capacity for evidence-based policy advocacy along the annual budget cycles on the other. The Bank’s engagements with both government counterparts and the CSO community were calibrated on the basis of detailed mapping of the relevant players and their interests, placing the Bank as ‘an honest broker’ to foster genuine domestic ownership of reforms.

- **The strengthening of country institutions remains central to the governance agenda, but several systems are required, and there are no simple, unequivocal shortcuts to putting them in place.** Three sets of institutions are central to the governance and anti-corruption agenda: those relating to cross-cutting core government systems (*e.g.*, for managing policy development, finance, people, information, assets); those relating to specific sectors (*e.g.*, forestry, education, transport, natural resources); and those relating to the ways in which the executive is held accountable to citizens (*e.g.*, parliaments and parliamentarians, ombudsmen, anti-corruption authorities, the judiciary, third-party mechanisms at various levels, civil society). For the Updated Strategy, the objective of strengthening country *institutions* will build on but go beyond the use of one or two specific country *systems*, such as for finance or procurement¹⁰. Entry points will vary according to the nature of the sector or institution; some will be high level - such as introducing new laws or changing the regulatory framework - while others may be at a lower level focusing on organizational structures or management systems.

¹⁰ It is noteworthy that the 2011 IEG GAC Evaluation (page ix) found that in FY08-10, the Bank committed to support institutional strengthening in three times as many countries as it had in FY04-07. In Africa, projects using at least some country systems increased from 11% to 40%. In countries with Country Policy and Institutional Assessment (CPIA) governance scores lower than 3.5, 41% of FY08-FY10 projects used at least some country systems—that is, public financial management, procurement, or personnel systems—compared to only a quarter from FY04-FY07. In Africa, projects using at least some country systems increased from 11% to 43% over these same time periods. This is encouraging – but clearly more needs to be done.

- **Better governance can be ‘demanded’.** It is here that the global governance agenda has seen the most dramatic changes since 2007. The ‘demand side’ is not limited to civil society and its capacity to engage with government, express its legitimate needs, and hold the state to account. It includes also the institutional arrangements that facilitate constructive engagement between the state and non-state actors, such as citizens and the private sector, as well as non-state institutions of accountability, such as parliaments and ombudsmen, information commissions, anti-corruption agencies, supreme audit agencies, the judiciary and other justice institutions as well as other third party monitoring mechanisms. While firms in many countries are taking the initiative to form collective action centered on chambers of commerce, industry associations, and even in relation to specific events and projects, they are aware of the limitation if the public sector is not also represented. By bringing together different strands of the participation, rights, and public sector reform spheres, the demand for good governance agenda puts people at the center of development. Box 4 illustrates how measures to address this demand are being implemented in current Bank- supported activities.
- **The private and financial sector plays a central role which needs to be better integrated.** The Bank’s corporate governance work at the country level includes listed companies, state-owned enterprises, and financial institutions, and supports policies and practices aimed at protecting investors, building competitive and transparent businesses and financial institutions, and enhancing accountability and performance. Reducing red tape and arbitrary decision-making in areas such as business registration, licensing and inspections helps to ensure fair rules of the game and reduce opportunities for corruption, while tax programs are helping to improve the transparency and predictability of the tax system and strengthen tax authorities. The International Finance Corporation (IFC) is focusing on corporate governance practices at the enterprise level and leading an effort to maintain common tools for corporate governance review by 29 development financial institutions under the Corporate Governance Development Framework. This aspect of the GAC agenda needs to be better integrated with work in the public sector.
- **GAC requires continuous country engagement, rather than occasional activities.** The IEG evaluation noted that sustained engagement at the country level on the difficult issues of governance and anti-corruption was a major Bank strength.¹¹ Here the Bank’s country-driven model creates a real comparative advantage underpinned by its continued drive to decentralize staff, resources, and decision-making authority to a global network of country offices.

¹¹ World Bank 2011. ‘*World Bank Country-Level Engagement on Governance and Anti-Corruption*’. Independent Evaluation Group. p ix.

Box 4: Strengthening the Demand-Side to Improve Governance and Deliver Results

In the Dominican Republic, the Bank's current country strategy has adopted a 'demand-side' approach, focusing on building capacity and constituencies for reform:

- The Participatory Anti-Corruption Initiative brings together civil society, the private sector, and government to coordinate efforts to fight corruption. It devised a roadmap with concrete anti-corruption measures whose implementation is monitored by Civil Society. By February 2012, two thirds of the recommendations had been fully implemented.
- In September 2011, an Internet portal ('*Portal Ciudadano*') was launched to give citizens access to budget execution data, thereby promoting transparency and improved public expenditure. The government will henceforth also publish "citizen's budgets", making revenue and expenditure data available to the public in simplified form.
- The Bank has supported the Conditional Cash Transfer program '*Solidaridad*', which pilots the country's first Community Score Cards. These cards will help evaluate the quality and availability of health and education services receive through *Solidarida*.
- Reestablishing trust between electricity distribution companies and citizens, a bank-financed project includes a community outreach component that establishes "social agreements" between companies and communities. In those agreements, companies commit to enhanced service quality while communities commit to increased payment rates for electricity consumption.
- At the grassroots level, a variety of initiatives seek to improve participation in, and transparency of, budgeting processes, and increase access to information. The Public Budget Monitoring Project aims to improve civil society's capacity to analyze and monitor budgets. A Japan Social Development Fund-financed project aims to empower rural communities to make use of the 2004 Access to Information Law through training civil society to work more effectively with local governments. The goal is to improve their access to information, as well as to build local government capacity to respond in a timely way. A Korean Trust Fund-funded project is piloting the use of mobile technology to improve participatory budgeting, which is mandatory at the municipal level. This is complemented by the organization of a Youth Anti-Corruption Coalition supported by the Bank's Civil Society Fund.
- With the support of the USAID, the Bank is delivering a comprehensive civil capacity building program with a strong focus on organizations located outside the capital city. Connected to this program, the team has also provided training to CSOs on gender equity, as well as, on social accountability mechanisms.
- The Bank, in the context of a Health Sector Reform Loan, is supporting a group of civil society organizations to monitor the prices and availability of medicines distributed in government owned pharmacies. This will result in improving availability of needed medicines and avoiding corruption in the pricing mechanism.

- **GAC requires rigorous and in-depth diagnostics.** This lesson emerges clearly from the Bank's recent work in public sector management, the demand side, and in the justice sector. Over the past four years, there has been a sharp acceleration in the use of diagnostics in advance of country, sector and project-level operations, including the use of political economy analysis. Box 5 provides an example of such analysis that has led to changes in project design. A majority of staff also now see some form of attention to political economy analysis as essential for development effectiveness.¹² Continued improvements to the quality and operational usefulness of such analysis requires that such work takes a clear problem-driven approach, that there is a forward perspective, and that the country team is closely involved and supported with the right skill mix.

¹² In a recent survey of Public Sector staff (n=303), 84% agreed that political economy analysis is important or very relevant for the Bank's work.

Box 5: Use of Political Economy Analysis

Mongolia's transition from a communist state to a market economy fuelled by a rapid expansion of mining, posed challenges for the country in macroeconomic management, governance, and avoiding a 'resource curse'. The Bank team developed a set of governance and political economy notes on key aspects of natural resource dynamics and management. Two key findings emerged. The first was the need for closer engagement with Parliament (in addition to the traditional engagement with line ministries and the Ministry of Finance) to encourage a greater understanding and ownership of the proposed reforms. The second was an awareness that institutional solutions for good natural resource management had to recognize strong political forces and high public expectations, as well as policy preferences that differed from Bank orthodoxy in some areas. These findings led to an intensified engagement with Parliament that helped to bring about the adoption of a Fiscal Stability Law with support from parliamentary members from across the political spectrum. The first provisions of the law that have come into effect are now directing savings into a Stabilization Fund. (The law has a unique combination of provisions that are now also being considered by other resource-rich countries.) The analytic work informed a mining sector technical assistance operation, which puts strong emphasis on public outreach and engagement to explain policy options around contentious issues such as the share of government ownership. Furthermore, the Bank mobilized additional trust fund resources to support the establishment of a local think tank. It is building local capacity to assess and comment on economic, fiscal, and related mining sector policy issues. The think tank aims to become a credible voice and source of information among local stakeholders. A high volume of website visits to the recently established institute indicates the strong demand for such locally generated policy research.

In **Zambia**, political economy analysis helped to reframe the dialogue away from "first best" reforms towards more incremental actions on reforms in the telecommunications and electricity sectors. In electricity, findings from a political economy analysis helped shift the debate from comprehensive sector restructuring to a more incremental approach of linking new investments in the energy-intensive (and dependent) mining sector. In telecommunications, the discussion focus swung towards the high cost of domestic calls and away from the previous preoccupation with the liberalizing the international gateway. In both cases, proactive use of information and communications helped to inform citizens about reform needs and the drawbacks of non-reforms; high cost in the case of telecommunications and very limited access in the case of electricity. This shift in dialogue helped to unlock dysfunctional equilibrium. The power sector realized the next generation of electricity investment and successive price increases, amounting to a total tariff increase of over 80 percent; while still below cost recovery, at least it moves the sector a step closer to sustainability.

- **Making the growing knowledge base widely known and easily accessible both inside and outside the Bank is critical to embed GAC in the Bank's operational support.** The Bank's online GAC knowledge platform (www.worldbank.org/governance) integrates the resources (e.g., good practice examples, guidance, online training) of each of the Bank's 'communities of practice', and makes them available to all Bank staff, as well as globally. Going forward, it is important to further to raise the visibility of, and engagement with, the platform so that it can realize its potential as a hub for global conversation and learning on governance and anti-corruption.

LOOKING FORWARD: A COUNTRY-OWNED, COUNTRY-DRIVEN APPROACH

37. **The revised and updated approach to governance and anti-corruption is built upon two foundations. The first recognizes that effective, transparent, and accountable institutions lie at the core of development.** Institutions establish 'the rules of the game,' which are the formal and informal rules that determine whether the public sector acts in its own interests or on behalf of all citizens. These also influence private sector investment decisions and create incentives that either create or curtail rent-seeking opportunities for civil servants, and influence expectations citizens have of their governments.

38. **The second foundation recognizes that these institutions are country specific and cannot be imposed from outside.** Herein lies the Bank's comparative advantage; its business

model is country-owned and country-driven. Bank clients demand services and borrow to fund their own priorities and to meet their own aspirations, which vary from country to country. The issues facing middle-income countries are different from those facing countries emerging from conflict. Governance is about a context-specific set of institutions that meet country needs and fit country circumstances that deliver development and poverty reduction outcomes in ways that are sustainable, transparent, and accountable. The Bank's country-driven approach is exceptionally well-placed to assist the spectrum of Bank member countries meet their development priorities.

39. There are many entry points for Bank work on governance and anti-corruption, including the country, sector, project, global levels. In addition to the Bank's traditional mode of working with the executive and improving the supply of public goods and services, it is now even more important that the Bank engage with civil society, the private sector, and non-executive institutions of accountability, such as the judiciary. These not only respond to, but help create, change and sustain the 'rules of the game', the institutional environment in which development takes place. The Bank will use its role as a generator of knowledge and its connecting and convening power to make a difference at the country level. In addition potentially powerful global initiatives, when well connected to country priorities, can help to improve integrity in natural resource use, in financial markets, in contracting and in public administration.

Systematizing Success and Scaling Up at Country and Sector Level

40. Integrating GAC measures within country strategies, programs, and operational work has been the central element of the GAC Strategy to date. The IEG evaluation noted that although progress has been achieved in these areas, it has not been consistently achieved across the Bank. Particular successful was integrating key GAC dimensions (the use of political economy analysis, transparency, accountability, civil society participation, monitoring, and oversight) into sector work, especially education, health, and social protection. A priority for the Bank now is to accelerate the focus on integrating GAC elements into all sector strategies and operations.

41. Efforts to accelerate GAC-responsiveness at country level were enhanced in 18 countries through the Governance Partnership Facility (GPF) multi-donor trust fund. The GPF - funded by the UK, Norway, the Netherlands, and Australia - provides additional resources to implement cutting-edge governance initiatives. The activities and operation of the GPF is summarized in Annex 1. GAC implementation will increasingly build on the successes of these innovations¹³, as well as others that have integrated GAC into country programs. Incorporation of GAC elements into country programs will become part of the regular design of Country Assistance Strategies, using the regular Bank budget.

¹³ An independent stocktake in 2011 found evidence of a 'step-change' in the country strategies in a significant portion of these 18 countries where an intensive effort was made to spearhead GAC implementation. Eleven these 18 country programs were rated as having strong support for GAC, four programs were assessed as meeting the standard for good GAC practice, and three showed room for considerable improvement. The reasons underpinning strong performance included: (i) strong management support at Vice-Presidency and country office level; (ii) the availability of governance skills within the country team, and (iii) judicious use of forward looking political economy analyses. (Source: John Lobsinger September 2011. 'Implementing Country Level Governance Programs: A Review of Window 1 Country Programs').

42. **GAC has seen much experimentation regarding ‘smart’ project design**, through the integration of GAC action plans, heightened attention to political economy, integration of stronger fiduciary controls, a new access to information policy, and support to the development of country systems in financial management, procurement, audits, monitoring, and oversight. A review by the Quality Assurance Group within the Bank in 2008 found that almost 46 per cent of a sample of projects integrated such GAC elements. Over the next phase of implementation, efforts will be directed to increasing the portion of GAC-sensitive projects. If resources permit, the Bank will repeat the Quality Assurance Group exercise to assess progress and deepen learning. Teams will continue to be encouraged to engage with INT’s Preventive Services Unit early in the project or programming cycle. INT’s preventive work will be planned more strategically, in particular on projects that are successors to those that were subject to INT investigations or are located in high-susceptibility sectors such as infrastructure and natural resource exploitation. Box 6 gives examples of INT support.

Box 6: Real Time INT Support to Projects

INT has provided early preventive support to regional management, task teams, and borrowers enabling them to stop potentially tainted procurement actions before they are finalized. For example, expanded communication between INT investigative teams and operational task teams during investigations led to the withdrawal of a bid worth US\$4.4 million by a consulting company suspected of falsifying its submission. In another instance, a borrower declined to award a contract worth US\$5 million based on serious issues identified by INT. INT’s Preventive Services Unit has also worked closely with task teams to improve project design and implementation by providing specific information on integrity risks in specific sectors, regions, or implementing agencies culled from the results of completed investigations, complaints, or the Bank’s Voluntary Disclosure Program. A typical example of such preventive work is the use of information received by INT from allegations to: (i) enhance fiduciary and internal control training for implementing agency staff under the proposed project; (ii) help deepen effective inspection and complaints handling procedures for the project; and (iii) strengthen the integrity requirements in the terms of reference for supervising engineers. Other examples of preventive measures recommended by the Preventive Services Unit and addressed in Bank operations include technical audits to avoid substandard quality; asset, income, and conflict of interest disclosures for implementing unit staff; and integrity risk-based terms of reference for project audits.


Strengthening Country Institutions and using Country Systems

43. **The Updated Strategy recognizes that development and poverty reduction depends on the capacity of a country’s institutions to manage resources, deliver services, and foster private sector growth** Supporting countries to strengthen their institutions, so that serve all the people, including minorities, requires efforts to address the more deeply-entrenched governance challenges. A core foundation of the Strategy is that both the formal (*de jure*) and informal (*de facto*) rules of the game that influence - if not determine – behavior, need explicit support and strengthening. Such institutions are not limited to only those that lie at the heart of government, managing policy, money, people, information, and assets. They include institutions within each sector that determine how governments plan, deliver, monitor, and account for resources deployed within the fields of education, transport, water and sanitation, and health, among others. At the same time, though, the Bank will always attach a high priority to ensuring IBRD, IDA, and trust fund resources are used for the purposes intended. This is core to the Bank’s business. The extent to which the Bank can use the systems that are in place in each country, without additional risk mitigation measures, depends on its strength. When additional measures

are needed—for example ‘ring-fencing’ of Bank resources in the extreme—when done in smart ways, these measures can provide positive demonstration effects and contribute to a process of system strengthening.

44. **Reflecting on lessons learned over the past few years, a critical priority for GAC will be a new focus on building the capacity of institutions that bring together the citizen and the state.** Often referred to as ‘demand-side’ institutions, this priority will build on the Guidance Note on Bank Multi Stake-holder Engagement of June 2009, and include initiatives to promote transparency and access to information, open budgets, and citizen participation, where there is country demand. The Bank will look at mechanisms to strengthen oversight and accountability of the executive branch of government, such as anti-corruption commissions, ombudsmen, the judiciary, information commissions and auditors-general. Box 7 summarizes how the World Bank Institute is now seeking to build capacity across these institutions.

Box 7: World Bank Institute’s New Approach to Capacity Development



WBI’s mission is to catalyze change for development results, leveraging World Bank Group finance. It does this by strengthening the capacity of government and non-government stakeholders to collectively solve development challenges through three interlinked clusters of support:

- Open Knowledge:** connecting them to global knowledge & learning on the “how” of reform;
- Innovative Solutions:** scanning & incubating innovations to help them tackle key development challenges; and
- Collaborative Governance:** enabling them to mobilize and coalesce for collective action.

Programs mobilize different combinations of the three clusters to galvanize & inspire stakeholders to achieve results. For example, WBI and its partners are helping:

- Governments to become more open:** by mapping budgets and aid programs, so that citizens have better and more accurate information on budgetary expenditures and project locations and results;
- Non-governmental stakeholders to participate and provide oversight:** by strengthening networks of Parliamentarians, CSOs, media, youth, and business to be accountability partners in countries and for Bank operations;
- Citizens to provide feedback through Information and Communications Technologies:** through the *Open Development Technology Alliance*, a knowledge platform hosted together with SDN which is helping Bank teams and country partners incorporate citizen feedback into their programs and operations; and
- Multistakeholder Collaborative Action:** by supporting multi-stakeholder coalitions for open budgets, open contracts, and access to information; and helping leadership teams in countries tackle implementation challenges in operations.

45. **The Bank has updated its approach in four crucial thematic areas: the public sector, the private sector, procurement, and justice.** All now reflect more empirically-based, pragmatic, and realistic approaches. In the public sector, this means a strong focus on a problem to be solved, not a solution that the Bank brings ‘in advance’. It means engaging flexibly and systematically with a variety of stakeholders in identifying both the problem and the likely solution, and asking searching questions about political economy (such as why are current systems so dysfunctional and resistant to change? Who wins and who loses from the current arrangements? Where will support for this reform come from, and from where will opposition arise? What can be done to persuade opponents?). This also entails using empirical evidence to review the likelihood that a given reform will actually solve the problem.

46. **In procurement, the Bank's approach increasingly will be to strengthen principles and performance-based procurement institutions.** In the private and financial sectors, the GAC agenda includes strengthening country-, industry- and firm level frameworks and institutions. The Bank's work on corporate governance will cover the full public to private sector spectrum, including regulatory and policy issues for improved corporate governance of listed companies, state-owned enterprises, and financial institutions, as well as IFC's initiatives at the enterprise level.

47. **The full spectrum of Bank instruments needs to be deployed, including investment lending, development policy operations, analytic and advisory work.** Giving that support to governance reforms requires agility, navigating diverse interests, individual incentives, and political affiliations, and working with multiple stakeholders, the Bank will continue to explore whether existing instruments need to be buttressed with possible new instruments to ensure GAC issues are addressed.

Measuring Results

48. **The lack of a results framework has hampered the ability of the Bank both to focus consistently on priorities, and to demonstrate that its GAC work is having an impact.** The inconsistent use of indicators has also been a problem, and the development of a results framework with appropriate metrics is a priority.

49. **There is a need for a clear framework for thinking about GAC results.** This Updated Strategy posits a results chain that starts with the premise that program inputs, such as the quality of its diagnostic work. It and improved project design, will lead to better outputs from Bank-supported initiatives. These outputs, combined with many other factors, will lead to an improvement in the quality of laws, regulations, and public official behaviors. Assuming that the latter are sustainably institutionalized, the quality of country institutions will ultimately lead to improved service delivery, and other public sector outputs, which will, in turn, contribute to eventual improvements in development outcomes. While there currently are very limited indicators to measure aspects along each of the dimension of the results chain, it is expected that the specific of the results framework will encourage further work, by the Bank and other development partners, to carry out work that begin to help fill those gaps.

50. **Existing indicators of country institutions will be used more systematically to provide an overview of the institutional landscape in client countries.** Yet there is much that happens within the chain that is not well understood. For example, in what ways do better institutions lead to better outcomes? Do the measures exist to track country systems? Recognizing that existing indicators are limited, a program of work to develop additional indicators of institutional quality will be prepared during the next phase of GAC implementation, and a concerted push will be made to interest others in partnering with the Bank to advance this work. A research program will be piloted better to comprehend the link between institutions and service delivery, with an aim to inform the design and prioritization interventions with the biggest impact on service delivery.

51. **The Bank will track progress in using a GAC lens in its operational work. It will also track actions taken to strengthen organizational effectiveness in relation to implementing the Updated Strategy.** For sustainability, monitoring will be increasingly

incorporated into regular corporate monitoring and reporting tools. While some of this will be carried out at the corporate level, this will mainly need to be done at the region, country, and sector levels. Recognizing their limitations, efforts will be made to develop a small set of existing country indicators (e.g., publication of the state budget) to track broad aspects of the institutional landscape in client countries. Similarly, the various sectors will be encouraged to develop and track sector-specific indicators of strength of country systems at the sector level.

52. **However, the Bank cannot commit to ensuring time-bound country level improvements and actions.** These commitments are for countries to make, not the Bank. GAC issues are difficult, contentious, and long-term, and the Bank needs to be realistic about its reach and ability to influence.

Managing Risks

53. **The Bank will continue to strengthen its approach to risk management.** The Bank has made it clear that more effectively addressing and managing risk is a corporate priority. The vision for a new approach to building institutions, managing risk and addressing malpractice has been laid out by President Zoellick:

Some of the risks we take, on complex projects or in challenging environments, are not going to work out. This means that we need to make a special effort to clarify accountabilities so we catch problems early. Everyone needs to be accountable for the quality of their efforts to assess risks. Management needs to help their colleagues assess which risks to manage—and which not to take. And staff need to accept the responsibility for sharing difficult information with management—including, of course, information on corruption hazards.

54. **GAC acknowledges that development is a risky business and there is no way, other than not lending at all, to guarantee the absence of fraud and corruption.** The Bank therefore will maintain the highest standards for managing and mitigating fiduciary risk. The Bank has articulated clearly its position on ‘zero tolerance’, which has two components. The first component acknowledges that the Bank has an appetite for risk, but little tolerance for poor planning. The Bank recognizes that development initiatives in developing countries will inevitably encounter challenges and obstacles that present risks to its projects, and while the Bank seeks to mitigate these risks they will not be removed completely if the Bank is to maintain an ambitious approach to its governance work. The key is to recognize the likely degree of risks beforehand and plan for their mitigation as fully as possible. The second component is the application of zero tolerance to incidences of fraud, corruption or other malfeasance that occur once activities are underway. In such circumstances the Bank will always and everywhere take action to address the problem. Actions such as prompt investigation by INT into projects in which there are allegations of wrongdoing, public sanction of corrupt entities, facilitation and tracking of follow up national actions, together with clear accountability of project teams, form the centerpiece of the Bank’s deterrence effort.

55. **Delivering on this component requires a better understanding of the governance, political, and integrity impediments to achieving development goals.** These include management systems that balance risks and rewards, and implementation systems that better monitor and mitigate those risks that are taken on. A start on this agenda has been made by

recognizing that development risks can vary significantly according to country context.¹⁴ The Bank will more clearly distinguish between fiduciary risks to its own funds and implementation risks that stem from project shortfalls or failure. While the Bank remains committed to reducing fiduciary risk to zero or as close to zero as possible, the Bank recognizes that there will always be some initiatives that will fail; this implementation risk cannot be removed without removing development ambition. The Bank will attempt to mitigate risks as far as possible in its design work.

56. Implementation risks will be addressed through greater flexibility in design and implementation planning, informed by political economy analysis and evidence on what works, as well as more active implementation supervision, and support of 'risky' projects and portfolios. The revised approach also seeks to ensure strengthened project relevance, through greater attention on selectivity at country strategy and portfolio planning levels, deeper diagnostics to identify underlying problems, and a focus on the relevant institutional and sector level binding constraints. Early in the period, the Bank will develop an approach to risk that enables Bank management to:

- Make explicit the Bank's major operational risks;
- Assess the effectiveness of efforts to manage those risks; and
- Make informed decisions on new commitments based on the risk-reward balance.

57. The Bank will ensure full compliance on the use of the Operational Risk Assessment Framework (ORAF) across the investment lending portfolio, and work with frontline units and managers to use the expanding database of information on risks and mitigation measures to help strengthen country and sector level risk management, including key governance and corruption risks. The Bank will review the experience with ORAF after two years (notably its use as intended in differentiating the management of operations by risk) and make adjustments as needed.

Global Governance

58. The global GAC agenda is an important component of GAC. There are a range of global threats that can significantly impede efforts to improve governance and development gains at the country level, including transnational organized criminal activity, corruption, the illegal trade in natural resources, the laundering of the proceeds of crime, and tax evasion. International cooperation and collective action is critical to address these challenges. While, this has been a somewhat weaker pillar of the early phase of GAC implementation, the Bank will accelerate its work in this area, supporting cooperation and mutual accountability among international actors to protect national assets and domestic income in poor countries against global threats. The goal will be to embed the governance and anti-corruption perspective into the work on global initiatives, and develop synergies between work at the global, country, and sector levels.

¹⁴ This was recognized in the April 2010 'New World, New World Bank' post-crisis directions paper. The Bank's Board endorsed a variegated target for project effectiveness (i.e. projects rated moderately satisfactory and above); the target for IBRD countries is 80%, for LICs it is 75% and for fragile and conflict-affected states it is 70%¹⁴. This encourages greater freedom to take greater risks where justified by potential rewards in fragile situations.

Organizing for Impact

59. **Continued efforts are needed to boost the Bank's own capabilities to engage effectively with countries on governance and anti-corruption issues.** The GAC model is based on creation of knowledge, learning, and awareness-raising as means of furthering integrating GAC issues into the Bank's operations. Despite the fact that a series of toolkits, guidance notes, and 'good practice' notes were prepared, it is clear that more needs to be done in terms of delivering support, reaching the intended audiences, and addressing sector-specific needs. Adequate training of staff, clear accountabilities that align resources with priorities, and integrating monitoring and reporting into regular management systems are important elements for effective implementation. The Bank will make adjustments in how it manages and monitors GAC; in the way it learns, in the instruments at its disposal, and in how it deploys staff and resources. Key to success will be a more formal system of oversight and management, with a strengthened role for the GAC Council.

UPDATED IMPLEMENTATION PLAN

I. INTRODUCTION

60. **The Updated Implementation Plan represents a consolidation and a deepening of efforts over the past four years, together with a few significant changes.** The Strategy for the Bank’s governance and anti-corruption work is to scale up the successes identified to date, and to make a few important changes in the Bank’s approach to strengthening country institutions, measuring results, and in managing risk. An important element of the Updated Strategy and Implementation Plan is to enable citizens to participate more meaningfully in those institutions and mechanisms that strengthen oversight and monitoring of the executive’s actions. This Strategy will be underpinned by strengthened Bank management and oversight procedures and more systematic learning.

61. **Implementation will also take into account the views from many front-line operational staff in the Bank that the initial GAC Strategy did not go far enough in considering what were seen as key issues in the emerging GAC agenda.** These include: (i) the drive to improve project and portfolio performance in increasingly risky environments, resulting in incentives to select unambitious project objectives to ensure success; (ii) the need to demonstrate short-term results ‘on the ground’ while at the same time building country capacity and institutions; (iii) the need to maintain - and increase - lending while at the same time adequately addressing GAC issues; (iv) the perception that in a flat budget environment staff are constantly being asked “to do more with fewer resources”; and (v) to build, strengthen and where possible use country systems yet ensure at the same time Bank resources are protected. These views need to be acknowledged and addressed to the extent possible.

62. The structure of the Updated Implementation Plan is as follows:

Section II: Scaling Up and Systematizing Success. This section presents the ways in which the Bank will embed the successful lessons learned to date at country, sector and project level.

Section III: Strengthening Country Institutions and Using Country Systems. This section will make the important distinction between using country systems (a key issue for public financial management and procurement issues) and the updated approach the Bank will take to strengthening country institutions. The final part of this section considers the role of INT.

Section IV: Measuring Results and Managing Risks. This section presents the results chain to be adopted for GAC, and how the Bank will make more effective its approach to risk management. It also articulates the Bank’s understanding of zero tolerance.

Section V: GAC Global Action. The development outcomes sought by the Bank and its clients will be influenced—and indeed, constrained—by the nature of the external environment and by the balance of global incentives and disincentives for good governance. It is therefore important that the Bank continue a realistic program aimed at strengthening global governance.

Section VI: Organizing for Delivery. This section describes the supporting changes that will be made to the corporate management and oversight of GAC, as well as summarizing staffing, resourcing, and learning and knowledge management issues.

Section VII: Conclusions.

II. SCALING UP AND SYSTEMATIZING SUCCESS

EMBEDDING GAC AT COUNTRY LEVEL

63. **The high-level objective of the Bank’s engagement on GAC remains to build capable and accountable states that can devise and implement sound policies, provide public services, set the rules governing markets, and provide oversight of how public resources are used.** Hence, country assistance strategies, and their implementation, stand at the center of GAC implementation. Preparing country strategies through a GAC lens would not only help identify gaps in existing governance knowledge but would help provide an understanding of:

- How **severe** are a country’s governance and corruption challenges in terms of their implications for development effectiveness and the reputational, fiduciary and implementation risks for the World Bank (and other donors)?
- What are the **prospects** for significant governance and anti-corruption reform?
- What are the potential **entry points** for improving governance and reducing corruption (either directly or as an indirect, joint product, as part of poverty-reducing interventions)?
- How, specifically, might governance constraints **impact** effective implementation of the Country Assistance Strategy (CAS)?

64. **Bringing together even tentative answers to the first two questions - the severity of the problem and the prospects for meaningful reform - will help design and calibrate the strategic approach to country assistance.** An early priority for the Updated Implementation Plan will be to consider how Regions can be better supported to implement existing CAS guidance.

GAC IN OPERATIONS

65. **Bank-funded projects increasingly need to be designed not only to meet their development objectives and protect the use of Bank-provided funds, but they must also leverage improvement and possibly reform in the systems and institutions in which they are embedded.** This is the clear message from Bank clients. Such a shift has clear implications for project selection, how the Bank treats risk, and the use of Bank instruments. Making the shift will require a broad range of changes: more GAC-knowledgeable sector staff, appropriate sector specific guidance, relevant and accessible tool-kits, supportive budgets, the use of governance related indicators, a more directed knowledge management and learning effort, and an incentive framework aligned with these objectives.

66. **The Governance Council established the GAC in Projects Working Group in 2008.** It is anchored in OPCS and guided by a working group comprised of representatives from the Bank’s Regions, Networks, INT, the World Bank Institute, the Legal Department, and External Affairs. Since its creation, the GAC in Projects Group has:

- Issued a guidance note for staff (“*Dealing with GAC issues in Project Lending*”), and followed this up – in collaboration with other communities of practice– with a “how to” Note series on GAC-related tools and approaches;
- Designed a GAC in Projects core skills course targeted to task team leaders and other task team members, offered both in Washington and in country offices and training hubs;

- Established a peer learning network, launched with the participants of the first core skills course. It is now one of the largest communities of practice (CoP) within the Bank;
- Created an interactive website to connect the members of the CoP, which has a searchable database of GAC-related tools and approaches, project examples that have used those tools, and related “how to” notes, impact evaluations, and other relevant documents.

67. **At the project level, the focus on ‘smart’ project design will continue.** This means broadening the use of political economy analysis, the use of appropriate demand side measures, better diagnostics and flexibility in implementation. The work of the GAC in Projects CoP will continue, but be expanded to include sector approaches; the CoP will be renamed GAC in Operations. Teams will be encouraged to engage with them as well as with INT’s Preventive Services Unit early in the project/program cycle. INT will broaden its preventive work within sectors, in close collaboration with networks, in terms of diagnosis and lessons learned using the recent Road Sector report as an example.

68. **In order to implement GAC objectives, it is important that project teams assess how sector risks influence project design.** Therefore, it will be important to continue the work that has been done at project level to create greater awareness of GAC-related issues and develop tools and knowledge products that will help teams assess how GAC issues in sectors will impact on the work that is being done at project or program levels. The newly reconfigured GAC in Operations Community of Practice will work with the networks and the regions to identify sectors that have developed processes to analyze GAC issues in order to foster greater exchange of information and develop appropriate tools to be used across the Bank.

EMBEDDING GAC IN SECTOR WORK

69. **Individual investment projects are only as effective as the sector policy and institutional environment in which they operate.** The Updated Implementation Plan sees a step-change in the emphasis the Bank gives to embedding GAC in sector work. One key strategic objective is to give as much emphasis to strengthening the various systems in which the project operates as the Bank does now to ensuring Bank resources are used for the purpose intended. This will entail matching what can be described as one of the Bank’s signature operations—the narrowly-defined investment project, ring-fenced with separate financing and implementing arrangements—with an institution-wide focus.

70. **A review of current Bank Sector strategies found that the term governance is ascribed three different meanings:**

- As a synonym for public sector management;
- As corporate governance, referring broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled; and
- The more commonly accepted interpretation of governance as the capacity, legitimacy and authority of the state, including some notion of how *accountable* is the state in its use of its power.

71. **These differences led to a lack of clarity over GAC priorities.** Sectors that have taken a narrower, more management-oriented definition of governance, have made less progress in recognizing how the use of a real governance lens can improve development effectiveness. GAC-sensitive sector strategies, supporting tools, guidelines, training, and knowledge

management must play an important part in supporting front-line staff take a GAC view of their operational work. An early priority for the implementation plan will be the preparation of guidance for GAC-responsive sector strategies. This will include a menu of issues to be considered, appropriate analytical and diagnostic tools, potential indicators and resources for staff training and development. An illustrative framework, which would need to be adapted to sector specifics, is provided in Annex 3. Additional trust fund resources would enable this work to be accelerated.

ANCHORING GAC AT COUNTRY, PROJECT AND SECTOR LEVEL

72. **The Bank will seek to anchor a stronger and more consistent focus on governance and anti-corruption issues at country, project, and sector levels in two ways:** by a more robust and rigorous results framework, and by deepening and consolidating the Bank's use of political economy diagnostics (see paragraphs 98-110 and Annex 4, and paragraphs 159-160 respectively.)

III. STRENGTHENING COUNTRY INSTITUTIONS AND USING COUNTRY SYSTEMS

73. **In assessing the Bank's performance on governance and anti-corruption, various reviews conclude that the major strategic priority for updating GAC should be a much greater focus on strengthening country institutions.** The Bank must match its legitimate concern for clean transactions within projects with a greater emphasis on long-term strengthening and development of country institutions.

74. **Institutions and systems are not synonymous.** An institution is often imprecise: it includes formal and informal rules and norms. A system is precise and can be mapped. A country's financial management system is nested within a hierarchy of institutions, often at decreasing levels of specificity. If the narrowly defined public financial management system is to work effectively, then the wider institutional environment needs to be supportive.

A MORE STRATEGIC APPROACH TO DEMAND-SIDE INSTITUTIONS

75. **Country institutions lie at the heart of the GAC results chain** (see Figure 1 in section IV). It is the quality of a country's institutions that determine how effectively and efficiently inputs are translated into outcomes. Poor institutions result in weak or failed service delivery, wasted public monies, demoralized civil servants, and a disaffected public. Poor, weak, or ineffective institutions allow corruption and malfeasance to prosper. Poor institutions fail to reflect or record citizen views and aspirations, and are an obstacle to achieving gender equality. Institutions lie at the heart of development.

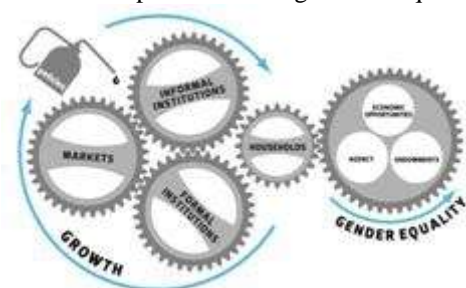
76. **Bringing state and society together: an enhanced role for demand-side approaches.**¹⁵ The demand-side agenda is shorthand for the extent and capability of citizens (including civil

¹⁵ For the Bank's updated approach to DFGG, see 'Strengthening the World Bank's Engagement on Demand for Good Governance (DFGG)'. Social Development Department, World Bank, August 2011.

society groups) to hold the state accountable and make it responsive to their needs. Strengthening this aspect of governance is a core element of the Updated Strategy and Implementation Plan, and will contribute to improving governance, transparency, accountability, and participation in client countries. In light of the 2012 World Development Report, increased attention will be given to the disparity between men’s and women’s voices in society (see Box 8). While there has been good progress to date in some aspects of this agenda, its overall impact has been limited by the absence of an integrated view of how to systematically support and identify opportunities for a stronger and more strategic engagement. Often, the DFGG agenda was equated solely with supporting civil society, rather than taking a wider view of the role of non-executive institutions of accountability (*e.g.*, ombudsmen, parliaments, third-party monitoring arrangements) in bringing the state and the citizen more closely together.

Box 8: Institutional Quality Affects Gender Equality, Driving Better Outcomes

The WDR 2012 presents a framework that underlines how gender outcomes are the results of the interaction among market-based and formal and informal institutions. Institutional constraints and market failures, if not addressed, can lead to the persistence of gender inequalities, even in the presence of economic growth. Trends in excess female mortality, for example, do not seem to correlate with growth, but are rather linked to the existence of appropriate service delivery (including water, sanitation, and maternal health services), which in turn require well-functioning and accountable institutions. For example, evidence suggests that increased access to clean water and sanitation is linked to a drop in excess female mortality in infancy and childhood. Expanding access to clean water, however, requires a well-designed institutional framework, ensuring that both policymakers and providers are accountable to users.



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Fostering women’s voice in society not only benefits women but also the overall community. For example, in India, greater female involvement at the local level led to an increase in demand for the provision of public goods, such as water and sanitation, and reduced corruption. Similarly, there is evidence that “bribes paid by men and women in villages with a female leader were 2.7-to-3.2 percentage points less than in villages with a male leader” (WDR 2012, page 6).

To respond to these challenges, countries are increasingly adopting measures to increase female representation in the political system and in other societal institutions, such as trade unions, and corporations. Examples in this area include the establishment of quotas, mentoring schemes, training to foster female leadership, and the support of women’s networks and associations.

Source: World Bank 2012 World Development Report ‘Gender equality and development’.

77. Recent world events continue to highlight the importance of addressing issues of open government. Transparency, accountability, voice, and participation are critical to ensuring that development is socially and politically sustainable. The very visible push for open government signals a shift in the governance paradigm from privilege, secrecy, and control to one of collaboration and information-sharing. It implies that the business of government and state administration should be open at all levels to public scrutiny and oversight. Governance is not only about governments; it is about the ways in which governments and their constituents interact and share information.

78. In the Updated Strategy and Implementation Plan, one critical way of achieving the strategic objective of helping build more accountable states will be through more open government. The Bank will support strengthening both the executive and non-executive

institutions of government in order to make them more transparent, participatory, and accountable. The Bank's approach to improving the demand side will have six priorities:

- **Identifying a broader range of credible country-level entry points.** Entry points can include Bank Development Policy Loans (DPLs) and forums for multi-stakeholder policy dialogue;
- **Enhancing the Bank's operational work** by integrating the demand side of transparency, accountability, and participation in sector strategies and projects;
- **Expanding support to social intermediaries and independent accountability institutions.** This support will become part of the overall package of technical assistance provided to client countries and would be articulated in CASs and Country Partnership Strategies (CPSs). To help expand this support, the Bank is currently designing a new Global Partnership for Social Accountability to strengthen the capacity and sustainability of CSOs constructively to engage with governments on social accountability (see paragraph 169);
- **Leveraging information communications technology (ICT) for DFGG.** A crosscutting priority for GAC will be the more effective use of new ICT approaches in support of DFGG efforts. This will involve recognizing and expanding successful examples of using ICT for DFGG, supporting social intermediaries in becoming 'infomediaries', and leveraging the Bank's access to information policy for promoting transparency;
- **Developing the knowledge and evidence on DFGG.** The Bank will expand its knowledge base on DFGG by developing the monitoring and evaluation of DFGG initiatives across the current portfolio and investing in rigorous evaluations. Specific attention will be given to studying how to handle DFGG in fragile and conflict-affected situations, and at the local level. The program of skills building and staff training on DFGG approaches would be expanded using the insights from these knowledge products; and
- **Broadening partnerships with other development partners, third parties and CSOs engaged in DFGG work locally and globally.**

AN UPDATED APPROACH TO INSTITUTIONS IN FOUR KEY AREAS

79. **The Bank has updated its approach to institutional development in four critical areas: the public sector, procurement, judicial reform and the private sector.** In each of these areas the updated approach will reflect a more empirically-based, pragmatic, and realistic approach, involving:

- Focusing on 'binding constraints' in designing programs of support, rather than on a presumed solution based on institutional and organizational forms elsewhere;
- Ensuring the Bank identifies the same problem as the client;
- Engaging flexibly and systematically with stakeholders over an extended period of time to identify both the problem and the likely solution;
- Using empirical evidence to review the likelihood that a given reform will actually solve the problem;
- Developing better empirical evidence about what works, especially in public sector management reform; and
- Leveraging opportunities for hands-on capacity building by doing joint work, particularly in integrity areas.

80. **In Public Sector Management (PSM), strengthening and reform is concerned with improving public sector results by changing the way governments work.** It is an extremely challenging area for development. Sustainable institutional change often requires that thousands of public agents alter their behavior, and political incentives may be at odds with improving public sector performance. Establishing what works in PSM reform is highly context-dependent, and convincing evidence is scarce.

81. **The Bank's updated approach to PSM emphasizes that public sector reform is a pragmatic, problem-solving activity, which seeks to improve results** by identifying sustainable improvements to the public sector results chain. The approach reflects continuing evolution in the Bank's PSM work and responds to changing demands from client countries, as well as changes in the Bank's own operating environment including opportunities presented by results-based lending and risk management strategies. It puts into practice the lessons learned from significant research progress made in recent years in unpacking the nature of institutional reform. Overall, it seeks to achieve improved results by better adapting the way in which the Bank supports client countries in the distinctive nature of PSM reform. The updated approach identifies three strategic directions that will enhance the Bank's ability to support PSM reforms (Box 9).

Box 9: Objectives for Public Sector Management

As a development actor, the Bank will strive for greater agility in operational and analytic work; this means adjusting to client needs. A more continuous engagement – rather than periodic discussions – will enable the client and the Bank to build trust and allow a deeper understanding of the client's long-term reform trajectory. As ensuring continuity is costly and the Bank's budget envelope is tight, the Bank will discuss with partners how to ensure a more continuous level of engagement.

As a knowledge generator, the Bank will balance tacit with explicit knowledge to achieve results. The evidence base for understanding what works, and why, in public sector reform remains limited. The PSM approach proposes: deepening and broadening the scope of indicators that measure the strength of country institutions; a path for asserting Bank leadership in stimulating a multi-agency research agenda, including more rigorous qualitative and quantitative research on reform impacts; and a mechanism for more ready lesson-learning from projects. It adopts an open-source approach to sharing data to stimulate external research and internal learning.

As an integrator, the Bank will deploy staff and use structures to foster collaboration. Focusing on results and better managing risks in client countries has implications for how the Bank itself works. Clients expect the Bank to provide integrated solutions to their problems backed up by deep technical skills. The approach seeks to bridge gaps within the Bank between units working on public sector reforms by promoting integrated teamwork and by harnessing the corporate move towards more robust technical competencies for staff.

82. **Procurement is one of the priority areas for strengthening in most governments, and is a key barometer for institutional quality.** Public procurement can be particularly vulnerable to waste, fraud, and corruption due to its complexity, the size of the financial flows it generates, and the close interaction between the public and the private sectors. Poor governance and corruption in procurement invariably reduce development outcomes and are likely to discourage foreign direct investment. The effects of corruption in procurement were addressed in a 1998 International Monetary Fund (IMF) report¹⁶ that stated: "A corrupt country is likely to achieve aggregate investment levels of almost five percent less than a relatively uncorrupted country"

¹⁶ Vito Tanzi and Hamid Davoodi. IMF 1998 'Roads to Nowhere'.

and "an increase in the corruption index by a single point reduces the inflow of foreign direct investment by about 11 percent."

83. This creates a major challenge for the Bank. Finding ways better to address the twin objectives of protecting IDA, IBRD, and trust fund resources while at the same time strengthening country institutions will require a fundamental update in the Bank's approach to procurement. Traditional approaches have been based on the notion of best practice procedures. Such approaches overwhelmingly focus on regulations covering the selection and evaluation procedures of suppliers, contractors, and service providers. Evidence shows that such a focus on procedures in the absence of a clear definition of procurement performance objectives can lead to reduced accountability and possibly poor results. They also carry a broader governance risk, in that officials who are required only to follow procedures cannot be held accountable for outcomes, especially with respect to the more complex—and increasingly important—concepts of value for money and best fit.

84. A more effective approach is to regulate principles and adherence to standards rather than procedures to guide implementation. Such models address core issues of governance and drive behavior toward the achievement of results. The ongoing review of the Bank's procurement policy will reflect the directions highlighted in this Updated Strategy and Implementation Plan, including a greater reliance on principles, performance, and outcomes. The challenge is to consider new approaches that best fit the Updated Strategy while at the same time meeting stakeholder expectations. Box 10 shows how procurement reform made a significant difference in one region in Brazil.

Box 10: Strengthening Procurement Arrangements in Minas Gerais, Brazil

Following the fiscal crisis in Brazil at the end of the 1990s the state of Minas Gerais embarked on a major overhaul of its public sector management processes. A new administration took office in 2003 and launched a public sector reform program focused on improving the efficiency of public expenditure. The centerpiece of the public sector reform program was the introduction of performance assessments and results agreements for all major programs. State Secretaries and managers were held accountable for the delivery of the expected outputs and outcomes of their programs. Significant development outcomes were achieved as a result. An important element in the reform program was strengthening of public procurement. The specific goals of the procurement reform were to increase transparency and efficiency of government contracting and improving the effectiveness of controls.

Procurement was a vehicle to improve service delivery to the community while allowing transparent access to information which could allow taxpayers to monitor the use of public resources. Since then there have been significant innovations in procurement performance, including the introduction of a fully integrated e-government system that allows interface of all key government databases.

The Bank maintained a close partnership with the state throughout the public sector reform process, contributing its global knowledge analytical work and lending products, including a programmatic SWAp loan that disbursed against results. Using performance indicators both for supervision and to drill down in underperforming areas, the Bank worked with counterparts to improve procurement efficiency by addressing specific bottlenecks.

Minas now provides a convincing example of the gains through more efficient procurement:

- Increased competition resulted in annual savings of US\$77 million and US\$25 million through better contract management;
- Details were publically available for US\$11.7 billion worth of civil works contracts in 2009;
- Non-competitive contracts decreased from 12,904 in 2004 to 1,117 in 2009;
- The cost of carrying out a procurement process was reduced by 33 percent;
- The cost to the private sector for preparing bids for a government contract was reduced on average by 81 percent;
- Adoption, in 2010, of standard bidding documents and contracts, made available through the state's procurement internet portal; and
- Piloting of procurement planning system in 22 Government entities (2011); its use is set to become mandatory across the whole Government (except state-owned enterprises) in 2012.

85. **Strengthening the Bank’s work in judicial reform** is critical for strengthening country institutions, given a lack of access to justice is itself a central dimension of poverty, and because a functioning justice system¹⁷ is an important part of the GAC definition of a state’s “capacity, legitimacy, and authority.” Judicial systems have been identified as having the following important developmental and governance functions: (i) preventing and mitigating conflict, crime, and violence, (ii) ensuring executive accountability, and (iii) fostering private sector growth.

86. **The Bank to date has not had an institution-wide approach to judicial reform; the Bank’s work in this sector has therefore been somewhat *ad hoc* and needs to be more integrated and strategic.** The Bank’s updated approach to judicial reform represents the first such institution-wide approach. It does not recommend an expansion of current efforts; rather, it proposes a series of new directions with a commitment to supporting country systems to deliver “actual realizations and accomplishments”¹⁸ in the advancement of justice. Box 11 summarizes justice priorities.

Box 11: Priorities in Judicial Reform

Develop a problem-solving and empirically-based approach to judicial reform. Practitioners and scholars recognize a serious knowledge gap in judicial reform. A move toward an evidence-based approach to justice reform means research will inform interventions by enhancing understanding of the way a justice system actually functions, and of the political economy of reform and risk. A problem-solving approach means reform strategies set out to solve concrete functional problems of most concern to citizens, rather than proceeding from assumptions about the ideal form a judicial system should take.

Identify ‘flagship’ judicial reform initiatives as vehicles of learning and innovation, focusing particularly on human resources within judicial institutions, and incorporating institutions at a local level, bringing core public sector management expertise to judicial institutions, and refocusing assistance towards equity, inclusion, and accountability.

Integrate judicial reform into targeted sector operations. The Bank can bring expertise in enforcement against illegal logging to forestry projects, on dispute resolution to land reforms, and on faster resolution of commercial disputes to private sector reform. It can strengthen administrative law institutions, which are crucial to dealing with disputes over service delivery in sectors such as health, education, or infrastructure.

Develop a focus on judicial reform in fragile and conflict-affected states. The Bank will combine leading-edge thinking on conflict, justice, and development, carry out case studies that provide an empirical basis for policy and operational recommendations, and apply these to hands-on work with operational teams.

87. **The private and financial sectors.** Recent developments—in particular the 2007-2008 global financial crisis, the Arab Spring, and the growing public and private sector demand for open and more accountable governance—have shown how critical these areas are for the private and financial sectors. Events in the Middle East and North Africa demonstrate how lack of transparency and rent-seeking can discourage private investment and entrepreneurship, while anti-competitive practices encourage cronyism and allow firms to exercise influence to reduce competition, with negative spillover effects on innovation and productivity.

¹⁷ For the purposes of the GAC Update a justice system can be thought of in terms of the formal and informal institutions that perform a series of governance functions; namely those of addressing breaches of law and facilitating peaceful contests over rights and obligations.

¹⁸ Amartya Sen 2009 ‘*The Idea of Justice*’, Harvard University Press, p.9.

88. **Poor corporate governance and broader regulatory governance failures undermine financial stability and the ability of financial sectors to catalyze growth and job creation.** Corruption increases the cost of doing business, especially for micro- and small firms that pay larger shares of their sales in bribes, and it may lead firms to exit. Corruption is a particular risk in the financial sector, especially where there can be an improper relationship between the supervisor and financial sector entities, or, for example, where financial institutions controlled by criminals represent a systemic risk.

89. **The updated approach to the private sector identifies five strategic priorities across the country, industry, and enterprise levels at which the private sector operates.** All five priorities contribute to strengthening the institutional framework in which the private and financial sectors operate and which connect the three key levels:

- **At the country level**, which focuses on the government’s role in creating a supportive institutional environment for private and financial sectors: (i) the Bank and IFC will make GAC more explicit in its investment climate work through its core regulatory reform work aimed at streamlining regulations and making them more efficient and through greater attention to across-the-board interventions in the areas of competition policy, access to information, and private sector voice. It will also carry out a pilot exercise to identify and measure more explicitly the impacts of investment climate reforms on corruption in one or two main investment climate areas such as trade logistics and business regulations. In this regard it will develop relevant indicators, pilot the indicators in selected projects, and assess the findings of the pilot before extending the pilot to other IC areas; and (ii) the Bank will apply anti-money laundering tools to prevent criminal capture of critical sectors of the economy through proper screening of market entrants, using “fit and proper” procedures, through strengthening of basic licensing procedures, and through improvement of skills to identify and evaluate conflicts of interest;
- **At the industry level**, which represents a new initiative at the interface between country and firm levels, the Bank will (iii) minimize capture risk in industry solutions by developing appropriate competition policies and creating public-private dialogue mechanisms to broaden participation, create a level playing field, and ensure transparency; and
- **At the enterprise level**, (iv) the Bank will integrate good corporate governance practices supported by the development of sound legal and regulatory frameworks for improving corporate governance in listed companies, state-owned enterprises, and financial institutions in client countries and in World Bank Group operations; and (v) IFC will develop corporate governance and integrity tools for clients, consistent with internal due diligence procedures.

USING COUNTRY SYSTEMS

90. **The use and strengthening of developing countries’ systems is central to efforts to build effective country institutions.** Use of country procurement and public financial management systems in Bank-supported operations has increased steadily, exceeding international and internal Bank targets. The Bank’s use of country procurement systems grew from 40 percent in 2005 to 55 percent in 2010, matching the Bank’s Corporate Scorecard target. The Bank’s use of country public financial management systems also increased from 42 percent

in 2005 to 71 percent in 2010, exceeding the Bank's target of 65 percent. Further action is required, however, to address significant constraints to faster progress in the Bank's use of country systems in investment lending operations.

91. **There is a need to increase the attention paid to country systems issues in country-level engagement, both in the strategic dialogue with partners and in wider public sector reform efforts.** Revised guidance for staff on preparing CASs and related products will help focus more attention on country systems issues; since October 2010, CASs are required to outline strategies to strengthen and expand the use of country systems for public financial management (PFM) and procurement, social, and environmental safeguards, project management, and statistics. The application of this guidance will be tracked and the results used to inform and promote better practice.

92. **There is a need to step up capacity building efforts directed to strengthening public financial management and public procurement systems.** Better-integrated reporting is required concerning the level and effectiveness of Bank capacity building in public financial management and public procurement. Bank staff competencies will be strengthened, including through partnerships among procurement, PFM and staff in the Poverty Reduction and Economic Management (PREM) unit. Diagnostic tools will be updated and refined to focus more on systems performance. The Bank will also work closely with other multilateral development banks and bilateral donors to harmonize technical guidance and to mobilize and coordinate capacity building support to country clients.

93. **Progressive action to expand the use of country systems needs to be supported by appropriate incentives.** Using country systems is usually a riskier option than ring-fencing a project behind Bank procedures. The Bank's operational policy framework and corporate culture are important incentives in determining project implementation arrangements (see the separate discussion on managing risk). High-level management and external reporting on the Bank's use of country systems is also an important incentive. Both the Corporate Scorecard and the IDA results framework incorporate the Paris Declaration measures on the use of country financial management and procurement systems. Following the Busan High Level Forum in December 2011 and the 2011 Paris Declaration monitoring survey, it is necessary to revisit both the definitions and measurement of these indicators.

94. **It will remain important to take a long view:** improving the performance and capacity of country systems requires multi-year programs of support, and sustained commitment from clients. Objectives for Bank efforts to strengthen and expand the use of country systems during the next three-to-five years should be realistic: to improve the assessment of country systems using mutually-agreed diagnostic tools; to develop a dialogue with partners on what is required (*e.g.*, assistance, policy reforms) to increase use; to address the use and strengthening of country systems as part of national capacity building strategies; and to develop reporting arrangements that will enable the use of country systems to be accurately monitored.

III. COUNTRY INSTITUTIONS AND COUNTRY SYSTEMS: THE ROLE OF INT

95. **In parallel with enhancing its investigative work, over the past four years INT has also focused on improving the capacity of borrower institutions to prevent, detect, and investigate fraud and corruption.** In term of greater preventive capacity, INT in collaboration

with PREM has provided targeted technical assistance upon request to anti-corruption agencies to strengthen their effectiveness and to improve accountability. In term of investigation and detection, and at the request of client countries, INT piloted a training program to strengthen national capacity in forensic auditing for auditors, prosecutors, and anti-corruption officials in countries in East Asia and the Middle East and North Africa. Operationally, INT's forensic auditors have provided hands-on training, working alongside national audit institutions to conduct joint audits of Bank-funded activities in the Africa region. INT also works with fiduciary colleagues to build the capacity of project implementing agencies in identifying and mitigating integrity risks. While much of this initial capacity building has been opportunistic, INT is focusing more strategically on specific sectors and looking to expand its training to more clients. Building the capacity of borrower's audit, prosecutorial, implementing, and anti-corruption institutions serves to increase the efficacy and impact of INT's investigative and preventive work.

96. **As the impact of corruption on global development has become more evident, the Bank has responded by focusing on promoting knowledge sharing among practitioners and innovation.** On one side, INT has led the Bank's efforts to create and strengthen international networks of anti-corruption investigators and prosecutors. In December 2010, the Bank convened the initial meeting of the International Corruption Hunters Alliance (ICHA) bringing together prosecution and anti-corruption enforcement officials from 134 countries. Building on the momentum from this initial meeting, INT, in collaboration with PREM and the StAR Secretariat, will seek to follow through on the participants' commitments to increase cooperation in transnational bribery, improve information sharing and use more rigorous measures for evaluating the impact of their efforts. This will be done through the expansion of INT's network of bilateral agreements with national anti-corruption institutions and international agencies, as well as an active engagement with the ICHA participants through an online platform and future biennial meetings. On the other side, PREM has created and launched a web portal for anti-corruption authorities, open to practitioners, civil society, academics and international organizations. The portal allows users to articulate new ideas, collaborate with other practitioners, and collectively address common challenges. The portal currently provides information on over 60 anti-corruption authorities worldwide and has a number of useful tools: i) users can explore and export the survey data collected through interviews of staff in anti-corruption authorities; ii) a compendium of publications and articles; and iii) news and events.

97. **In addition, the Bank, through the anti-money laundering and countering the financing of terrorism program as well as more recently through the Stolen Assets Recovery (StAR) initiative, is also contributing to strengthening laws, regulations and institutions that increase transparency and foster financial integrity.** Engagement with international bodies and networks such as the Financial Action Task Force (FATF) has increased the focus on "following the money" tools to investigate the proceeds of corruption.

IV. MEASURING RESULTS AND MANAGING RISKS

MEASURING RESULTS: THE NATURE OF THE CHALLENGE

98. **Defining and measuring results present some of the toughest challenges in development today.** In order to assess effectiveness and value for money, the Bank must be able to find a coherent and convincing way to measure the impact of its GAC effort. The IEG

Evaluation called attention to weaknesses in this regard in the original GAC Strategy. The Updated Strategy and Implementation Plan addresses this challenge of results measurement head-on. The Bank recognizes the difficulty of this challenge, and the program of work that is outlined below presents no certainty of success. Governance outcomes – a more capable and accountable state, for example - are not easily amenable to indicators, targets, and quantification. Accordingly, indicators development and results assessments will constitute a work in progress. In so doing the Bank will seek to collaborate actively with development partners and clients wherever possible.

99. **This represents a significant shift from the original GAC Strategy, which focused mainly on Bank inputs and outputs rather than governance outcomes and impact at the country level.** Input indicators covered actions under the country-, sector-, and project-level pillars, such as the provision of guidance, organization of conferences, establishment of GAC teams, as well as internal resourcing and staffing efforts. Other inputs, such as the number of operations that focus on the demand side of governance or sector capacity building, were also included. Intermediate outcomes relating to country governance performance, however, were omitted, as were indicators of progress on global GAC efforts. While the next phase of implementation will continue to focus on strengthening the quality of Bank inputs and outputs, the Updated Implementation Plan also focuses on starting the work needed to eventually be able to better track institutional strengthening in countries, governance improvements, and development results and impacts in client countries within a well defined results framework.

100. **Demonstrating results is not possible without understanding the links in the results chain and identifying robust indicators at each step in that chain.** In itself this presents some formidable challenges:

- The results chain – from project activities and inputs, through outputs to development outcomes – is a long one, and drawing conclusions about unambiguous cause and effect is fraught with conceptual and empirical difficulties;
- At the project level, there are few, if any, consistent indicators to enable aggregation and comparison across countries;
- Indicators are also scarce for the strength of country and sector level institutions, with the possible exception of financial management¹⁹ (Box 12);
- Institutions emerge and are consolidated over the medium-to-long term (the 2011 WDR indicated a minimum of 15-20 years); and
- The precise nature of the links among institutional quality and service delivery outcomes are not well understood and empirically established.

¹⁹ PEFA indicators (Public Expenditure and Financial Accountability)

Box 12: Actionable Governance Indicators

With few exceptions, such as for example public expenditure and financial accountability, there are no agreed sets of indicators that measure progress in building country systems. The Actionable Governance Indicators (AGIs) initiative has attempted to address this issue, and while some limited progress has been made in civil service, procurement, inter-governmental arrangements, and revenue administration, no major data collection has taken place. Without such data, it will be hard to achieve the kind of progress as has been made in the field of public financial management reform, both in the quality of reform approaches by governments and donors and in research and our understanding of “what works” in these areas.

While access to, and information about, AGIs has increased dramatically, their use in Bank projects and programs remains limited, despite extensive outreach efforts. Since 2007 the Bank has improved access to those AGI data that are available in order to facilitate and foster their use in Bank operations. This has led to the creation and launch of the AGI Data Portal (<http://www.agidata.info/Site/Default.aspx>), a one-stop-shop platform that currently hosts more than 1,200 AGIs from 18 different sources. The portal provides access to data from Global Integrity, Public Accountability Mechanisms and the Open Budget Initiative, and allows users to navigate these indicators and their documents, and offers customized tools for data management, analysis, and display. Renewed efforts are currently underway to identify additional indicators of the strength of country public management systems that will complement the existing AGIs and will provide Bank practitioners with a more systematic and comprehensive coverage of countries and topics for monitoring purposes. A subset of these indicators will also be used to measure progress on institutions and governance under Tier II of the Corporate Scorecard. Without progress on this agenda, it is hard to see how the development community can add the maximum value to governments' own reform efforts, and donors themselves cannot be held to account for delivering assistance that makes a lasting difference to country systems.

101. **The next section of this chapter proposes a four-step results chain** designed to link, at the beginning of the chain, Bank internal analytical and design work, and broad governance outcomes at the other end. This is followed by a short summary of the sorts of indicators now being tracked and the range of data that already exists that could be used to form the basis of a more robust results framework. The final section then summarizes the work program proposed.

MEASURING RESULTS: A GOVERNANCE RESULTS CHAIN

102. **The results chain from initial interventions to final governance outcomes is long and complex. Final outcomes are subject to many factors that are beyond the scope of Bank influence—so attribution is problematic and success cannot be guaranteed.** The link between upstream public sector management systems, accountability mechanisms, and service delivery outcomes is not well understood. Usually, a minimum of five-to-six years is required for the effects of most upstream reforms to pass through the system. In spite of these challenges, the Bank needs to move the discourse beyond the inward results measurement focus of the first phase.

103. **The results chain presented in Figure 1 divides the space between interventions and development outcomes into three segments:**

- The Bank’s organizational effectiveness concerns its ability to implement its projects successfully, including the quality of project inputs such as diagnostic work and the quality of the outputs measured against the original aspirations. Improvements here reflect the internal transformation agenda initiated in the first phase of GAC. It is the process whereby the Country Assistance Strategy is translated into specific investment proposals for funding, and which, taken together, constitute the Bank’s portfolio. If the CAS is ‘GAC-responsive’ and program and project designs reflect GAC issues, then the outcome at this first step of the results chain should be a better performing portfolio;

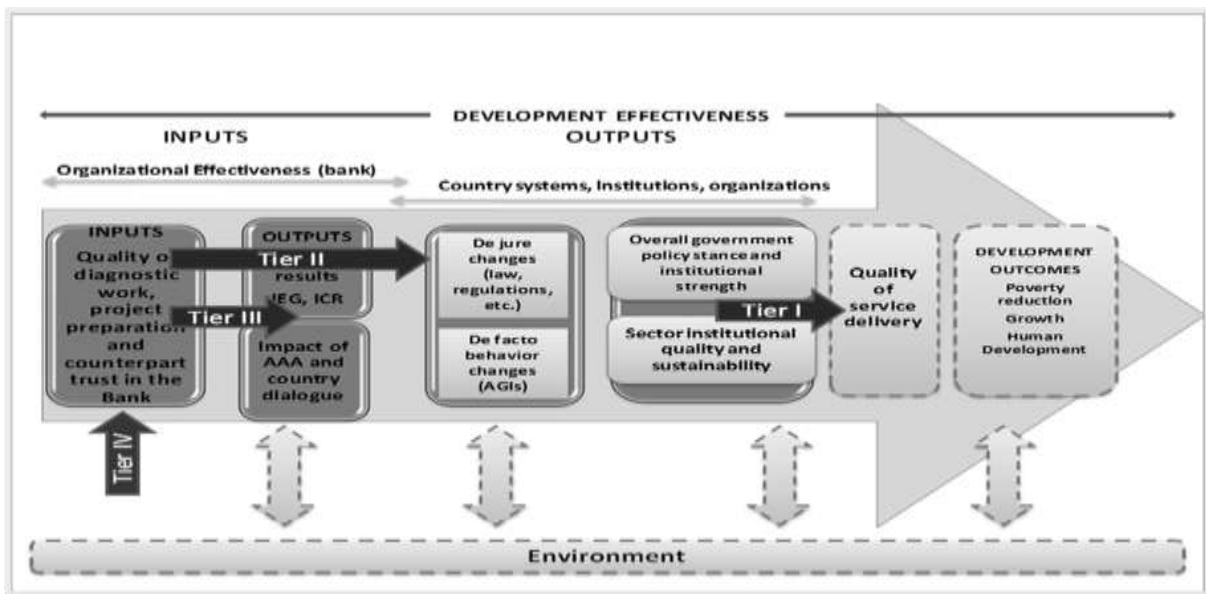
- The second link in the chain is the institutional environment in the country, comprising the formal rules and regulations that govern accountability and the use of public resources, the actual behaviors of officials, and the lasting institutional arrangements. This link captures the institutions that are to be influenced by Bank interventions (while also being subject to other influences) but which are on the critical path to better service delivery and—ultimately—improved development outcomes. Changes in performance of these institutions can be considered as ‘final’ for work in the public sector and governance, and many lie on the critical path for overall development effectiveness; and
- The final link in the chain is from country institutions to final service delivery and development outcomes.

104. The metrics selected for tracking the Bank’s value-added to this results chain will illuminate four key connections:

- Between the GAC Strategy , this update, and project inputs such as the quality of its diagnostic work (Tier IV in Figure 1²⁰);
- Between project design elements and better outputs from Bank-supported initiatives (Tier III);
- Between project design elements and improvements in the quality of laws, regulations, and public official behaviors (Tier II); and
- Between country institutions and improved service delivery and other public sector outputs (Tier I).

The Bank’s Corporate Scorecard and the Results Measurement System for IDA 16 are two Bank-wide frameworks for measuring and tracking results.

Figure 1: The GAC Results Chain



²⁰ These ‘Tiers’ are broadly consistent with the language and structure of the Bank’s Corporate Scorecard.

MEASURING RESULTS: WHAT DATA EXIST?

105. **As Figure 1 highlights, indicators of the strength of country level public management systems and institutions are metrics of medium-term progress in public sector management reform.** This is important because research timetables and data availability will not readily allow testing of the impact of governance reforms on final development outcomes. If the indicators are to credibly and usefully demonstrate progress towards longer-term institution-building, then they must be action-worthy, actionable, behavioral, and replicable. To be action-worthy, they must answer the question “which direction is better?” and show the scope of improvement in aspects of government management systems that are relevant for achieving broader development outcomes. This makes them suitable for stimulating a debate within government on what the problem is and how it can be addressed. The indicators must be actionable, being specific enough to point governments towards policy actions that they can take to address the problem. They should be behavioral, capturing the functioning or performance of public institutions, to avoid the ‘fashion trap’ of best practices that encourage mimicry of specific legal, organizational, or institutional forms. Finally, they must be replicable, so that the values of the indicators are independent of the actors who are using them to measure the strength of country systems.

106. **While there is undoubtedly scope for greater standardization and for the development of new indicators of the strength of country level public management systems and institutional quality, a variety of indicators of governance and institutional strengthening are already being used** by the Bank at the country and project levels both for core government and sector institutions.

107. **Individual projects are developing robust measures of progress.** Institutional strengthening and capacity building projects use a variety of indicators that measure inputs, outputs, and outcomes related to institutional quality and governance and a 2011 review²¹ showed that the vast majority measured the actual performance of upstream or core government institutions.

108. **Country strategies also use a variety of indicators based on the elements of governance and institutional strengthening targeted by the Strategy.** Often, the country strategies draw their milestones and indicators from the related project interventions. Box 13 provides examples from Tajikistan and Nigeria. In addition, there is a significant number of existing indicators which can, with care, be mined to provide insights into country system and institutional strength.

²¹ As part of preparatory work for the new Public Sector Management approach.

Box 13: Indicators Currently Used in CASs

The Tajikistan Country Partnership Strategy (CPS) (2010 – 2013) commits the Bank to supporting the country in tackling three key governance challenges: (a) strengthening transparency and accountability; (b) developing capacity; and (c) fostering demand for good governance. An innovative element of the Strategy is the development and adoption of a Governance Checklist - a project-level tool - to ensure proper attention to the governance challenges at all stages of the project cycle in all new and reviewed operations.

GAC related indicators in the Tajikistan Country Partnership include indicators such as (i) reduction in the time and cost of acquiring permits; (ii) reduction in the time and compliance costs of paying taxes; (iii) improvements in the efficiency of the management of education; (iv) increase in merit-based recruitment for the public service; (v) budget comprehensiveness and transparency; and (vi) timely completion and submission to parliament of audits.

The Nigeria CPS (2009), while noting improvements over the previous period, continued to emphasize the implications of weak governance posed for Nigeria's development aspirations. The CPS specifically notes that "states and local governments were characterized by particularly weak institutional capacities". While previous CASs had made governance a central pillar of the Nigeria program, the 2009 Strategy went beyond this to make governance both a pillar (one of three) and a crosscutting theme. Key activities and results were in the areas of public sector reform, improved accounting and auditing, and procurement.

Relevant indicators in the Nigeria CPS included; (i) improved effectiveness of anti-corruption institutions measured by an increase in recoveries; (ii) wider implementation of the performance management system in the federal civil service; (iii) timely completion of government's annual financial statements and audit reports; and (iv) increase in competitive tendering and transparency in procurement.

MEASURING RESULTS: A WORK PROGRAM

109. **The work program within these four results areas will focus on systematic and regular tracking and monitoring, learning, and research.**

- **Tier IV- GAC responsiveness:** (i) In order to maximize learning, an exercise similar to the one carried out by the Quality Assurance Group in 2009 and IEG 2010 will be repeated, subject to additional resources being forthcoming; (ii) Selected new CASs and CAS completion reports will be monitored annually based on the five criteria used by the IEG evaluation; (iii) This will be further institutionalized by including these criteria in Implementation Status Reports and Implementation Completion Reports.
- **Tier III-GAC Impact:** A set of projects will be evaluated to understand better how GAC responsiveness leads to better projects and outcomes and an improved portfolio. This will provide management and staff with useful data that can be used to review and revise the approach to GAC implementation. Of the 180 projects reviewed by the Quality Assurance Group in 2009, 45 projects have already been closed out of which 23 were Development Policy Loans and 13 were Investment Loans. By 2014, around 90 percent of the 2009 projects sampled by the Quality Assurance Group will have been closed. Once all of the sample projects have exited the portfolio, the quality of exit/performance of the "GAC-responsive" projects will be compared to those that were non-responsive.
- **Tier II – Institutional Quality:** (i) At the sector level, building on the initiative taken in this regard by its Human Development sector, each sector Anchor in the Bank will undertake work, over time, to better measure and track the quality of sector institutions. (ii) At the country level, the Bank will explore—with other partners—the feasibility of developing indicators of the strength of country public management systems by following an approach similar to that used for developing the PEFA indicators.
- **Tier I – Institutions and Service Delivery:** The aim is to begin to establish baselines and promote research to test and understand the links between institutional quality and service delivery. Work is ongoing for measuring governance and the quality of service delivery in the human development sectors and a framework has been developed for the selection and

measurement of a set of health and education indicators.²² The framework focuses on the role of governance and the quality of service delivery in driving outcomes. In this framework governance influences the quality of service delivery, which in turn affects human development outcomes. External factors and other inputs contribute along the way. The framework distinguishes between two dimensions of governance. First, there is the set of policies that influence the ways that service providers function. These are the incentive and accountability arrangements. Second, governance is described in terms of de facto performance – the ways in which policies actually influence the behaviors of providers. In the interim, results monitoring under GAC will track the Institutions and Governance indicators under Tier I of the Corporate Scorecard.

110. This approach provides a framework for, over time, being able to better track progress on GAC implementation, as well as a learning and research agenda. However, in view of the different needs and approaches across sectors, regions, and countries, tracking, monitoring and learning will need to be carried out at these levels using a suitably adapted version of the framework. For instance, in some cases the final output may be global public goods; service outcomes may not be on the critical path to achieving this objective. This is a large and demanding agenda, and not one that the Bank can deliver alone. It will be critical here therefore to work with other interested partners. While the Bank's PREM unit will work on developing indicators of the strength of upstream government institutions, similar indicators of the strength of sector institutions will be developed by sector units (mirroring work already ongoing in the Human Development sector). The availability of additional Trust Fund resources would accelerate progress. Annex 4 presents the framework associated with Implementation commitments. Outputs include:

- Development of indicators of the strength of public management systems;
- Tracking of indicators of the strength of public management systems;
- Tracking and measurement of GAC responsiveness of CASs at entry and implementation; and
- Tracking and measurement of GAC responsiveness of projects

MANAGING RISKS

111. Risk is an inherent part of development. In attempting complex, ambitious projects in challenging environments the Bank accepts a certain degree of operational risk, including those deriving from weak capacity, the quality of governance, fiduciary activities (procurement, financial management and disbursement), as well as fraud and corruption, in order to achieve a range of desired development impacts. But how much risk is acceptable? How can we compare operational risks and rewards between instruments and across different sectors and countries? How can we ensure that our decision-making processes strike an appropriate balance between risks and developmental benefits? Such questions need to be addressed as part of any strategy to build capable and accountable states.

112. The Updated Strategy and Implementation Plan will seek a more effective approach to operational risk, emphasizing risk management rather than risk avoidance, built on a

²² World Bank, December 2009. *Making Services Work: Indicators, Assessments, and Benchmarking of the Quality and Governance of Public Service Delivery in the Human Development Sectors*. Ariel Fiszbien, Dena Ringold and Halsey Rogers.

corporate culture that values and promotes both candor in the discussion of risks, and controlled operational risk-taking for increased development impact. Implementing this revised approach will require work to: (i) better understand how we are currently managing operational risks; (ii) progressively extend arrangements for systematic risk-based decision-making across all Bank operations; (iii) integrate analysis of risks and results in our operational practices; and (iv) move beyond a focus on GAC risks associated with individual transactions to manage risks more effectively at a portfolio level. Efforts to seek a more effective approach to the management of risk in development activities through the Updated Strategy will be informed by, and inform, work to enhance the Bank's corporate framework for the management and reporting of operational risk, under the leadership of the Bank's Chief Risk Officer.

113. Taking stock of current approaches to operational risk. Reaching a better understanding of how the Bank is currently handling operational risk is an important first step in designing arrangements for more effective risk management. This will involve identifying those operational risks that the Bank is currently assessing and mitigating, examining information on the incidence of events relating to significant operational risks, and attempting to draw conclusions about the effectiveness of the Bank's management of operational risks. The Bank's Operational Policy and Country Services (OPCS) Network will lead this review, which will focus initially on investment lending.

114. Improving and extending the use of risk-based assessment in Bank operations. Experience with the implementation of a risk-based approach to investment lending will be kept under review, with annual reports on compliance and quality issues (*e.g.*, quality of risk analysis, quality of risk mitigation, analysis of other governance risks beyond fiduciary risk, including capacity risks.) The Bank will undertake a progressive extension of risk-based approaches to other Bank financing operations, starting with Program-for-Results. This will facilitate measurement of aggregate risks across the Bank's lending portfolio.

115. In the drive for more effective risk management, the Bank will draw on the experience of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), both of which strive to be at the forefront of promoting business integrity and preventing fraud and corruption. Both organizations have specific risk management procedures for their investment and guarantee operations; in addition, IFC also provides guidance to clients and businesses through its advisory product designed to enhance corporate governance performance of companies, and through its focus on instilling integrity in small and medium sized enterprises. As part of their approach to risk management, IFC and MIGA apply their own integrity due diligence frameworks to identify and assess potential risks associated with unethical behaviors or illegal activities, such as corruption, fraud, and money laundering. Accordingly, MIGA and IFC conduct due diligence by examining a project's structure, assessing their client or partner's reputation, and looking into any concessions and government licensing related to the project. IFC also applies a corporate governance assessment or review, depending on the risk profile of a project. The corporate governance due diligence framework methodology adopted by IFC is widely used by development finance institutions around the world. Both IFC and MIGA conduct heightened due diligence for all investment transactions involving an intermediate jurisdiction, to satisfy themselves that the structure of the transaction is legitimate and not designed to be used for tax evasion, tax abuse, or other illegitimate purposes.

116. **IFC and MIGA's projects and engagements are subject to the World Bank Group's policies regarding sanctionable practices and the Group's administrative debarment process.** IFC and MIGA both maintain a close working relationship with the Integrity Vice-Presidency of the Bank. In addition, IFC and MIGA also utilize contractual remedies to address instances of corruption, fraud, or other sanctionable practices in their activities. Staff are trained on the Group's sanctions process, and have a duty to report any suspected fraud or corruption. IFC is active in providing advice to clients and companies through its advisory program on corporate governance, and through its ongoing contribution to the Corporate Governance Forum. Mindful of the integrity challenges faced by small and medium enterprise (SME), IFC will prepare practical guidance through its SME Integrity Tool Project, following multi-country consultation workshops with a diverse group of stakeholders.

117. **Integrating analysis of risk and results.** Economic evaluation of proposed new operations during design and appraisal will integrate results and risk assessments - through sensitivity analysis around expected impacts - geared to the nature and depth of identified risks. Implementation Status Reports and Implementation Completion and Results Reports will also review outcomes against expected impacts, the evolution of project risk analysis, and the results of risk mitigating measures. These requirements will be clarified in the forthcoming consolidation of investment lending policies and procedures. This also provides an opportunity to more clearly articulate the need to balance risks and results through exceptional arrangements in crises and emergencies, and situations of fragility. Corporate quality monitoring will also consolidate information on risks (*e.g.*, on compliance with requirements for risk assessment and the quality of risk mitigation) with results reporting.

118. **Reporting on risk at the portfolio level.** By developing consistent categories for risk assessments across all Bank operations it will be possible to provide management with consolidated reporting on the risk profile of the Bank's lending portfolio. The Operational Risk Assessment Framework (ORAF) already enables reporting on the risk profile of the Bank's Investment Lending portfolio; the accuracy of this profile is improving as ORAFs are completed for all new operations and extended progressively to operations under implementation. Reporting on aggregate levels of risk and the distribution of operational risks between risk categories, countries, and sectors will become more comprehensive as risk assessment frameworks are established for development policy operations and operations under the proposed Program-for-Results. As part of regular risk reporting, The Bank will keep the implementation of the ORAF under review; this will identify opportunities to simplify and streamline the tool and promote more integrated thinking about risks and results.

119. **Managing risk at the portfolio level.** As an initial step, OPCS will work with regions and networks to identify how ORAF data can be customized to support improved portfolio monitoring and management, for example to guide resource allocations for preparation and implementation support, to identify systemic risks and potential problem projects for proactive management, to improve the effectiveness of risk mitigation measures for particular categories of risk, and to support strategy development and country dialogue. The feasibility of correlating data on assessed risks with data on development outcomes and the actual incidence of risk events will also be examined. The objective is to inform the setting of portfolio level tolerances for operational risks, including differentiated risk tolerances for categories of clients (especially low income, low capacity states and fragile and conflict-affected states), sectors or lending instruments. Portfolio-level risk management will not replace the need for careful management

of specific risks associated with individual transactions, but by articulating explicit and differentiated tolerances for risk at the portfolio level, staff will be more clearly empowered by management to engage with difficult development challenges without fearing failure.

120. Consistency in managing risk at the country level. In order to ensure consistency, and as part of its regular monitoring process, senior management of the Bank will undertake stock-takes across countries with specific governance issues or where Country Policy and Institutional Assessment (CPIA) scores have either deteriorated or are consistently low. Box 14 shows the approach to risk management in the Ukraine.

Box 14: Risk Management in the Ukraine

A poor implementation track record and persistent governance challenges have motivated a new comprehensive approach to risk management in Ukraine:

- ‘Corruption value chain’ analysis to identify areas of maximum potential impact;
- Supply side interventions to reduce policy distortions, strengthen country systems and build capacity;
- Scaled up engagement on the demand side to build consensus for critical reforms; and to promote information systems for greater accountability and transparency; and
- More upfront diagnostic work to identify GAC risks, potential entry points and the political economy behind Bank assisted activities.

The new Ukraine Country Partnership Strategy formalizes this enhanced GAC risk management approach through a filter applied to all new lending and analytical work. The filter will be applied at three stages: (i) pre-concept, (ii) design, and (iii) implementation. The purpose of the filter is to ensure GAC issues are given appropriate attention, risks are identified and mitigation measures discussed early on, as well as opportunities to improve Ukraine’s governance record. The filter can be seen as an adaptation of the Operational Risk Assessment Framework to Ukraine’s circumstances. Risks benefit from greater managerial attention early on and high risk-high impact activities can thus receive additional support.

121. Clarifying the Bank’s policy of zero tolerance for fraud and corruption. President Zoellick has made it clear that the Bank recognizes that development is inherently risky; other than not lending at all, there is no way to guarantee the absence of fraud and corruption in Bank-supported operations. The Bank supports borrowers in providing appropriate assurance that funds are used as intended, as required by its fiduciary duty under the Articles, including by making more information widely accessible about the activities the Bank is financing; but the Bank has zero tolerance once fraud or corruption is found. The Bank’s view is clear; it will not tolerate corruption. It has a tolerance for acceptable levels of risk, but zero tolerance when it is shown that fraud, corruption, or other malfeasance has occurred. In such circumstances the Bank will always and everywhere take action to address the problem. The Bank’s deterrence effort centers on prompt investigation by INT into projects in which there are allegations of wrongdoing, public sanction of corrupt entities, facilitation and tracking of follow up national actions, together with clear accountability of project teams.

122. Incentives for more effective management of operational risk. A focus on fiduciary risk at the level of individual investment lending transactions diverts attention from more systemic risk factors, including the effectiveness and long-term sustainability of country partner systems and institutions, and the quality of the Bank’s own support to partners. The proposed GAC implementation plan for managing risk outlined above will promote more effective management of operational risks through better information about a broader range of risks, a more conscious effort to integrate analysis of risks and results, and an approach based on reporting and management of risk at a portfolio level. However, such measures need to be anchored in: (i) an operational policy framework that is less focused on transaction-based

compliance, and (ii) a corporate culture that provides incentives for both candor in the discussion and reporting of risks, and innovation and appropriate risk-taking for long-term development impact. The Bank's Board and senior management have key roles in articulating such a revised operational policy framework and fostering such a corporate culture.

123. **Measurable outputs.** Progress in the above implementation plan for a more effective approach to operational risk should be measured against the following outputs:

- A stock-take of current approaches to managing operational risk;
- Annual reviews of implementation of a risk-based approach to investment lending, including reporting on policy and procedural compliance and quality;
- Progressive extension of arrangements for systematic, risk-based assessment to development policy lending, and the proposed new Program-for-Results lending instrument;
- Updated policy and guidance relating to the integration of risk and results in design and appraisal, implementation support, completion reporting, and corporate quality monitoring, starting with investment lending;
- Agreed arrangements for portfolio level reporting to senior management on operational risks; and
- Agreed arrangements for setting differential risk tolerances for clients, sectors, and instruments to facilitate management of risk at the portfolio level.

V. GAC GLOBAL ACTION

124. **The 2011 World Development Report demonstrates how global threats—transnational organized criminal activity, corruption, the illegal trade in natural resources, the laundering of the proceeds of crime and tax evasion—impact on governance and development outcomes across the developing world.** If they are to be effective, country-level efforts to tackle these threats have to be backed by international cooperation and collective action. The Bank's global GAC agenda stresses and seeks to support this cooperation and mutual accountability. The GAC challenge is shared among governments in developing and industrialized countries, the private sector, civil society, and international investors from industrialized countries, and elsewhere.

125. **The global GAC agenda is an integral part of the Updated Strategy.** The Strategy seeks to embed the GAC perspective into the World Bank's work on global initiatives and develop synergies between the World Bank's work at the global, country, and sector levels. This chapter explains how this will be achieved over the medium-term. It begins with a brief review of the experience of the GAC global agenda, which informs the design of the Updated Strategy and Implementation Plan.

LESSONS LEARNED TO DATE

126. **The 2007 GAC implementation plan identified five areas** for increased World Bank involvement to support global initiatives:

- Intensified support for multi-stakeholder engagement, such as the Extractive Industries Transparency Initiative;

- Improved donor coordination, including the common response principles for donors in high-risk countries developed by the Governance Network-Collective Action Against Corruption offshoot of OECD’s Development Assistance Committee;
- Harmonization of GAC policies and procedures, including investigative practices, with other multilateral development banks, and improved information sharing with national prosecutors, especially with respect to sanctions (as, for example, through the International Corruption Hunters Alliance);
- Support for global and regional conventions, with a special emphasis on asset recovery, notably by encouraging countries to sign and implement the UN Convention Against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and also by the development and promotion of the StAR (Stolen Assets Recovery) Initiative; and
- Working to build consensus on how GAC can improve development effectiveness, including through sponsoring a biannual conference on such linkages, and financial support for research into the impact of GAC issues on development effectiveness.

127. **The results of implementation of global activities have been mixed.** The Global Pillar of the 2007 Strategy presented a series of activities outside of any coherent framework or means to measure effectiveness. Objectives were expressed as broad generalities—“improve global governance to combat corruption”—or at the level of individual activities. Consequently, while the individual activities were implemented successfully and have delivered notable results, there is a sense that the whole is less than the sum of the parts.

128. **Today we have a better understanding of the challenges posed by a global GAC agenda.** Three issues stand out:

- **Coherence and value-added.** The World Bank is engaged in a wide range of global governance issues. A global GAC agenda will have to be selective if it is to be a coherent program with a sense of common purpose that can exploit synergies between the component global initiatives.
- **Relevance.** Global initiatives have to be anchored in issues that are relevant to the Bank’s clients. The integration of global and country-level work is challenging, but this is the purpose of the overarching GAC Strategy, and therein lies the World Bank’s comparative advantage at the global level.
- **Influence and Impact.** The initiatives that the global GAC agenda supports will be shaped and driven by national authorities, the private sector, and non-governmental organizations. The Bank can contribute to this agenda as observer at the key international forums, a source of knowledge and information on global governance issues, by enabling cooperation between national authorities, and by using its convening power to bring diverse parties together. Attribution of outcomes in this context will always be problematic but the Bank can play an important role in ensuring that global initiatives respond to developing countries’ needs and take account of their constraints.

OBJECTIVES, WORK STREAMS, AND CROSS-CUTTING THEMES

129. **The objective for the GAC global agenda is to strengthen mutual accountability to protect national assets and domestic revenues in low-income countries with weak institutions against global threats.** This formulation highlights the development imperative of

the GAC global agenda, focusing on the protection of developing countries' vulnerable assets: their natural resources and the resources managed by the public sector.

130. **A combination of horizontal work streams and crosscutting themes is proposed** as a means of identifying and potentially developing synergies across the World Bank's global initiatives and programs. The four work streams build on existing work programs within the World Bank.

131. **Financial Market Integrity.** The Bank will encourage financial centers to take action in their own countries against the laundering of the proceeds of corruption, the theft of natural resources, tax evasion, and aggressive tax planning, and will monitor progress against these commitments. It will also continue to support developing countries' efforts to tackle illegal financial flows through the effective implementation of international standards and by facilitating their access to operational-level cooperation, in particular on law enforcement and criminal justice. This brings together ongoing World Bank Group work on stolen asset recovery, anti-money laundering, and tax transparency.

132. **Contract Integrity.** Governments increasingly rely on contractual arrangements to achieve social and economic goals. These arrangements can include traditional procurement contracts (e.g., for purchase of pharmaceuticals or to build roads), concessions agreements for the management or extraction of natural resources, and public-private partnerships for provision of large infrastructure projects. However, serious governance challenges remain. These include opaqueness of contract award processes and of contract implementation, secrecy of contracts, susceptibility to corruption, and a general inability to ensure that societies get maximum value from all such arrangements. In response, the Bank supports a range of international initiatives to prevent transnational corruption through its work with international standards, private sector associations, and law enforcement. This includes the promotion of standards and practices for integrity risk mitigation and implementation monitoring in key sectors, such as construction. It will also continue efforts to enhance the integrity of multilateral Bank-financed contracts by sharing information and good practices on prevention, increasing the cost of fraud and corruption through coordinated sanctions and integrity-related requirements and remedies, such as the cross-debarment framework, where a debarment by one participating multi-lateral Bank automatically means debarment by all participating Banks within the parameters of the Agreement for the Mutual Enforcement of Debarment Decisions.

133. **Natural Resources Integrity.** In 2008, resource rents accounted for around seven percent of global gross domestic product. Over 50 Bank clients are resource-rich and many of these nations are also low-income, fragile, or in a post-conflict period. Resource wealth, therefore, provides an opportunity to stimulate economic growth in these countries and could help advance sociopolitical progress and achievement. Yet, there are serious governance risks that contribute to countries experiencing a 'paradox of plenty'—a situation where abundant resource wealth is accompanied by high levels of poverty and poor governance. The Bank's aim is to strengthen mutual accountability for tackling natural resource exploitation in developing countries. This will include continued support for increased coverage and implementation of global governance initiatives that address specific natural resource management issues, such as the Extractive Industries Transparency Initiative (EITI), the Forest Law Enforcement and Governance program (FLEG), and Reducing Emissions from Deforestation and Forest Degradation (REDD). It will also entail efforts to strengthen corporate governance of companies

that are involved in natural resource extraction in foreign countries. Box 15 gives examples of how the Bank is now working in this area.

Box 15: Governance in Extractive Industries

The implementation of the GAC Strategy, building on the momentum generated by the World Bank Group Extractive Industries Review has spurred a sector ‘drill down’ on how best to promote good governance in resource-rich economies, and encourage greater transparency and accountability in the oil, gas, and mining sectors. Activities include:

(i) Analysis of extractive industry governance issues: A 2010 study of engagement on governance issues in extractives industries identified growing demand for greater Bank Group leadership in promoting transparency and accountability in the oil, gas, and mining sectors, as well as the need for improved coordination and knowledge sharing. Two case studies have since been developed on World Bank Group engagement, looking at Ghana and Mongolia. Both illustrate the importance of utilizing different entry points to maintain government attention on and prioritization of a good governance agenda.

More broadly, the Bank launched a new “Rents to Riches” study of political economy aspects of natural resource management, and a new Extractive Industries Source Book, developed by the Sustainable Energy, Oil, Gas, and Mining unit (SEGOM) in the Bank, in partnership with academia, is also now available online (<http://www.eisourcebook.org/>).

(ii) Enhanced coordination: In 2011, an Extractive Industries Task Group was established to better integrate efforts across the World Bank Group on oil, gas and mining. The Group has led convening of the Extractives for Development (E4D) initiative, featuring a series of regional consultations with the objective of facilitating regional collaboration to better inform global knowledge, and learning on extractives. The E4D is working with the Extractive Industries Transparency Initiative and other organizations supporting good practice and better governance in the sector, including the Responsible Mineral Development Initiative of the World Economic Forum, as featured at the 2012 Davos meeting.

(iii) Scaled-up country level engagement: Increasing involvement in governance of extractive industries is best illustrated by application within lending programs on the management of the oil, gas and mining sectors. The Governance Partnership Facility and other financing instruments are providing extensive support to reinforce country, regional and global efforts to combat the “resource curse”. The Governance Partnership Facility alone funds close to US\$20 million for extractive industries-related activities in over a dozen countries. Such activities have helped stimulate and greatly inform World Bank and partner actions to more effectively promote better outcomes from the sector, and greatly informed design of the E4D initiative. In countries like Ghana, Malawi, Mongolia, and Democratic Republic of Congo, the World Bank is working with government, industry, and civil society to promote good governance, using a combination of grants, trust funds, and policy loans to support the work. The ‘Growth with Governance’ project in the DRC, for example, provides a US\$50-million grant to the Democratic Republic of Congo “to increase transparency and accountability in the mining sector so that the income from natural resources will be used for inclusive and sustainable growth” through such innovations as instituting a national accountability platform.

(iv) Guidance: The Bank is also exploring ways better to incorporate good governance of the extractives industries in Country Assistance Strategies for low-income, resource-rich nations. The World Bank Institute is coordinating development of a Guidance Note on the topic. To accompany this, the Social Development Network is leading development of a note primarily for project staff entitled “How to Integrate Demand for Good Governance approaches into Extractive Industry projects.”

134. Public Sector Integrity. The Bank will support international efforts to develop and implement appropriate standards for public sector integrity, and instruments to support the implementation of these standards. Attention will focus on three issues: transparency in public financial management, since this will have a direct impact on susceptibility to other global threats; the integrity of public officials through standards for income and asset disclosure and to counter conflicts of interest; and the development of anti-corruption authorities and institutional arrangements that protect these authorities from undue influence.

135. There are potentially important synergies across these four work streams that would lead Bank Group engagement to make up more than the sum of its parts. Coordination across work streams can promote linkages between global initiatives and the Bank’s work at national level. This is particularly important for the Bank’s work on anti-money laundering, illegal trade in natural resources, corruption and tax evasion, where the global dimension provides an entry point to engage with national authorities on enforcement issues that might otherwise be seen as too sensitive for Bank involvement. Coordination across work streams

will help frame a common Bank position on policy issues that cross the four integrity agendas, such as standards for contract disclosure, approaches to beneficial ownership and approaches to profit shifting and multi-national enterprise transparency. Coordination across work streams will also strengthen the Bank's engagement in international forums, including the G20, G24, and the bodies supporting the various international agreements. It will also help align efforts in support of specific objectives. The Strategy focuses on developing these kinds of synergies around four cross-cutting themes:

136. **International Standards.** As observer at the key standard-setting bodies – the United Nations Convention against Corruption, the Organisation for Economic Co-operation and Development, and the Financial Action Task Force among others - the Bank serves as a voice for developing countries' concerns and promotes standards that help balance their needs with the constraints they face. It can also support BRIC + engagement in international standard-setting bodies. The Bank will continue to participate in reviews of country progress against standards where appropriate, notably in the case of anti-money laundering. It will also assist developing countries in their efforts to implement international standards, taking into account the gaps identified in country assessments. The Bank will integrate work on standards into country programs raising the profile of these instruments within the Bank and in its work with clients.

137. **Multi-stakeholder Initiatives.** The Bank will help bring together national authorities, the private sector, and civil society at a global level. Global multi-stakeholder initiatives are particularly important where risks arise from international transfers of resources. The Bank will continue to play an active role in the EITI, and will encourage the further development of the Construction Sector Transparency Initiative (CoST). The Bank will also encourage the application of these principles to other contexts - such as fiscal transparency - taking into account the World Bank's experience in dealing with multi-stakeholder initiatives.

138. **International Cooperation.** The Bank will facilitate developing countries' access to international cooperation in support of their domestic efforts to tackle corruption, money-laundering, illegal exploitation of natural resources, tax evasion, and aggressive tax planning. The Bank cannot substitute for cooperation between states but it can enable states to cooperate more effectively: firstly, by promoting inclusive networks that respond to the needs and constraints of developing countries; and secondly, by enabling cooperation between national authorities at an operational level, such as by providing information, facilitating contacts, or playing an honest broker role. The Bank can also play a valuable role in helping bring together international organizations to tackle issues of common concern and supporting concerted action, such as collaboration with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the World Customs Organization, Interpol and the United Nations Office on Drugs and Crime (UNODC) in the International Consortium to Combat Wildlife Crime.

139. **Knowledge and Advocacy.** The Bank will raise awareness on global threats and global initiatives through a program of research, the consolidation of data, and monitoring the international community's progress against commitments. By these means, the Bank will encourage industrialized countries, financial centers, emerging economies and the broader international community to take action against global threats in their own countries. As part of this program, the Bank will continue to generate comparable international data on a broad range of governance indicators and challenges. Equally important is our work in consolidating global

knowledge on these issues, using our convening power and through collaboration with international organizations and civil society in research.

MEETING THE CHALLENGE OF EFFECTIVENESS

140. **The track record of efforts to tackle global threats suggests that progress is made through collective action in a virtuous spiral.** Non-governmental organizations, private sector stakeholders, and governments can spur one another into action. Norms can shift: while bribery was once an accepted practice of multinational enterprises, it is now seen as unacceptable and is a crime in most jurisdictions. Similarly, an expectation of transparency in extractive industries, international contracting, and taxation is gaining momentum. Success generates momentum for further change. The GAC global agenda will play a role in promoting this process.

141. **In order to maintain coherence across the GAC global agenda, the GAC Secretariat will convene periodic meetings of the GAC global programs and initiatives.** The purpose of these arrangements is primarily to encourage global programs to develop synergies, adopt consistent approaches to common issues and develop a coherent strategy for engagement in the principal international forums. The GAC Secretariat will also step up its efforts to support coordination between global initiatives and the GAC agenda at country level. Global initiatives consistently point to the importance of linking their activities to work of national institutions, Bank Group country dialogue, analytical work, and operations. Part of this is a matter of raising awareness; something that the GAC Secretariat will support by improving internal communication on global issues, and by updating country teams on developments. Part of this is also a matter of appropriate resourcing. Governance Partnership Facility (GPF) financing (see paragraphs 166-168) could make a contribution in this direction by giving greater prominence to the integration of global initiatives and country work in any future GPF funding round.

142. **Progress will be monitored and assessed at two levels:** first, progress in the implementation of specific actions that will be undertaken in each of the GAC global work-streams; second, the operational impact of GAC global activities. Key indicators of operational impact relate to GAC Global successes in exploiting synergies and developing common approaches to policy issues across work-streams, and the integration of GAC global work-streams in Bank country programs and operations.

VI. ORGANIZING FOR DELIVERY

143. **This section presents how the Bank will organize itself to deliver the Updated Strategy and Implementation Plan.** It will consider management and oversight arrangements, knowledge and learning, tools, instruments, resources, and staffing.

REVISED GAC MANAGEMENT AND OVERSIGHT ARRANGEMENTS

144. **The current structure for the corporate oversight of GAC planning and implementation was put in place in 2007.** In creating and putting in place such a new organizational structure – the first to have a Bank-wide remit – three elements were considered necessary:

- **A high-level advisory body.** A high level body was considered critical if the new GAC Strategy was to be implemented successfully. The GAC Council was designed as that body, with chairing responsibilities rotating among the three Bank Managing Directors to ensure ultimate commitment and ownership across the whole body of the Bank;
- **Vice-Presidency implementation structures.** Given the emerging nature of the agenda and the differing priorities and understandings across the Bank, it was considered appropriate for each Vice-Presidency to identify their own specific organizational arrangements for implementation. This has worked reasonably well and there is no reason to impose one centralized model ; and
- **A Secretariat.** A small secretariat was established with three main functions: to report on annual implementation progress; to support the deliberations of the Council; and to coordinate with the range of other governance interventions in the Bank.

145. **These arrangements now need revision.** The wider environment for the Updated Strategy and Implementation Plan is very different to that of 2006–2007. Four concerns have emerged regarding current arrangements:

- The GAC Council has no executive authority, being only an advisory body. It was not until mid-2010 that a single managing director was charged with overall Bank-wide responsibility for the GAC agenda. The Council had no terms of reference, although this is now being addressed (see Annex 5);
- As a result of the GAC Council being an advisory body, there is no formal accountability structure in place for GAC implementation;
- In order to generate Bank-wide interest and commitment, it was agreed that the chairing of the Council should rotate among Managing Directors. With GAC now widely embedded across the Bank, and given the importance of continuity in leadership, this also needs to be changed; and
- The External Advisory Group proved a partial success. Its independent scrutiny and advice were valued in the early stages of the program, but as implementation proceeded and experience of the Strategy grew, the Group found it difficult to find appropriate ways in which it could add value.

146. **A revised and strengthened role for the GAC Council.** In order to empower the GAC Council, some few but important changes to current practices will be put in place. The Council will meet quarterly - or more frequently if, and when, required - under the sole chairing of the responsible managing director. Membership will remain as presently configured (Vice Presidents, with Operations Directors as alternates), and the PREM Public Sector unit (PRMPS) will continue to house the Secretariat. The Council will set the agenda, and it will have strategic and decision-making authority. It will be accountable for implementation, results, and impact. It will have a formal Terms of Reference (see Annex 5) and will report to the Bank President twice a year. As implementation of GAC proceeds, where appropriate, some (or all) responsibilities of the Council may shift to existing Bank oversight and reporting bodies, such as the regular meeting of the Managing Directors and the Chief Financial Officer, and Scorecard Day.

147. **Cascading job descriptions.** To ensure GAC is implemented throughout the organization, Vice-Presidencies shall be required to demonstrate that they have cascaded GAC objectives down to operational level, including Country Directors, Country Managers, and Sector

Directors and Managers. It will remain the responsibility of Vice Presidents to identify which posts should include a specific GAC objective.

148. **GAC Secretariat.** The GAC Secretariat, while remaining in PREM Public Sector Governance unit, will continue to include representation from INT and OPCS. The Governance Partnership Facility will report to the GAC Secretariat.

149. **The External Advisory Group.** This group performed a useful function in guiding the strategic direction of GAC in its formative years, but the shift to implementation at the country level means it had less of a clear role to play. As was seen with the IEG Evaluation, in-depth independent assessments demand full-time and dedicated resources. External advice will, however, continue to be a key input, but via inputs on specific activities/initiatives. Early in the implementation period the Bank will consider the best way to make such external advice available.

150. **Progress report for GAC.** The Updated Implementation Plan seeks to establish a robust monitoring framework to be able to track the extent to which the use of a GAC lens has been mainstreamed in country programs and the supportive sector strategies, and that the training, knowledge, and tools needed by staff are available. It is anticipated that sufficient progress will be made on this front to allow GAC monitoring to be woven into regular management tools. A progress report will be undertaken in three years in order to identify any remedial actions that may be needed to ensure this target is realized.

151. **Regional and Network GAC priorities.** The GAC Council will continue to monitor and oversee GAC implementation. As part of this responsibility each network and anchor Vice President will prepare a short statement of annual high-level GAC priorities and action items for the coming year, and on which they will report. While the organizational form for delivery shall remain at the discretion of each Vice-Presidency, a stocktaking of the experiences of different regional arrangements will be undertaken to better learn and share lessons about what organizational features have worked well (and less well) across regions and networks.

THE UPDATED GAC KNOWLEDGE AND LEARNING FRAMEWORK

152. **To date there has been remarkable progress in GAC-related knowledge generation and in staff learning.** While the majority of Bank staff is aware (and highly supportive) of the GAC agenda, the job of fully-equipping operational staff to deal with GAC issues effectively at the country, sector, and project levels is far from complete. The GAC knowledge and learning framework has therefore been updated²³ and its aim is to move the Bank closer to the vision of fully mainstreaming the GAC agenda. The framework builds on what has been achieved so far, as well as incorporating the unfinished agenda of GAC, and the strategic directions and operational priorities of the Updated Strategy and Implementation Plan.

153. **The framework will be grounded in the principles, concepts, and approaches outlined in the Bank's new Knowledge Management Strategy, and the Bank's new Learning Strategy.** Knowledge is one of the keys to development effectiveness, for the Bank and for its borrowers. Clients look to the Bank as a source of development knowledge more than

²³ GAC Secretariat, 'Strengthening Governance, Tackling Corruption: Improving Development Outcomes through Knowledge and Learning'. November 30th, 2011

ever before. In response, the new Knowledge Management Strategy focuses on the Bank's three key roles as a producer, customizer, and connector. It notes that knowledge can take many forms and it categorizes the Bank's explicit knowledge - based on its objectives and audience - as: knowledge as a public good (research, World Development Reports); knowledge for country clients (Economic and Sector Work, Technical Assistance); and knowledge for internal use ('good practice' guidance notes for staff). It also makes clear the need to strengthen the governance of knowledge management within the Bank in order to set the right priorities, provide funding, and ensure accountability for results. All of these points are relevant to the GAC agenda.

154. Knowledge about governance and corruption issues, in terms of both diagnostics and mitigation measures, will be increasingly relevant for the development community in the years ahead, and the Bank has a wealth of cross country and cross-sector experience in more than 120 countries upon which it can draw. At the operational level, one challenge will be to tailor the Bank's GAC knowledge more effectively to different country circumstances. At the sector level, the main challenge will be to customize what has been learned about the common points of GAC risks and vulnerability, and the corresponding mitigation measures for each of those points, to the circumstances and possibilities of the sector as it operates in a given country. The Bank also needs to strengthen its knowledge partnerships by connecting with external networks, with an expanding role for knowledge and learning portals that serve as electronic platforms for connecting knowledge, learning, and global communities of practice.

Knowledge and Learning in GAC to Date

155. Within the GAC knowledge and learning agenda, much has already been accomplished. The Governance Partnership facility (GPF) supported work on GAC issues at the country level, while the Networks focused on governance and corruption issues at the sector level. INT established a Preventive Services Unit to provide advice to task teams in project design and supervision, and collaborated with the Procurement and Financial Management Groups in developing new guidelines for fiduciary staff. Thematic groups played a major role in advancing the GAC agenda, including the Public Sector and Governance Group, the Anti-Corruption Thematic Group, the Political Economy Analysis CoP, the Demand for Good Governance CoP, the ICT Group, and the Communications for Governance and Accountability Program. The Regions also worked to mainstream GAC issues in their operational activities, though with significant differences in approach and in organizational structures.

156. Despite the progress achieved, more must be learned and challenges need to be overcome in translating it into improved CASs, better advice for clients, and more effective lending operations. According to various staff surveys, quality reviews and evaluations, only 63 percent of staff are fully familiar with the GAC Strategy. Most Bank staff are highly committed to GAC issues, but do not feel they have the skills needed to identify and mitigate risks at the sector and project level, or to supervise high-risk projects. In fiscal year 2008, only 46 percent of Bank projects reviewed were 'GAC responsive', and even prior to the launch of the 2007 GAC Strategy, virtually all Bank CASs supported GAC pillars, but the depth of analysis, and the linking of GAC issues and opportunities at the country, sector, and project levels, was often not there.

Knowledge and Learning in the Updated Strategy and Implementation Plan

157. **Mainstreaming GAC will require attention to the main strategic objectives of the Updated Strategy and Implementation Plan:** strengthening country institutions; more effective management of risks; and a robust approach to results. The updated GAC Knowledge Agenda focuses on the three main groups responsible for each of these three areas. The priorities in each case are based on a combination of their past contributions, their current plans, and the objectives of the Updated Strategy:

- **GAC-related Thematic Groups/CoPs will:** (i) become more specific about how their tools and approaches apply in different sectors and under different country circumstances; (ii) define more clearly the results chain, indicators, and benchmarks for assessing the impact of those tools and approaches; (iii) further develop their guidance to staff on how to apply those tools and approaches (including core skills training for their own staff and introductory level training for staff in other sectors); and (iv) ensure the availability of experts able to meet the demand from Task Teams in those other sectors (and their clients) for direct implementation support;
- **Networks and Sector Boards will:** (i) incorporate into their own analytical work, and into their sector strategies, the advances in knowledge being generated by the GAC-related Thematic Groups/CoPs; (ii) ensure that those sector strategies support Updated Strategy priorities (shifting from transactions to institutions, strengthening the management of risks, and focusing on results); and (iii) develop a knowledge and learning program for their staff that equips them not just to understand and deal with GAC issues at the sector and project level, but also to engage effectively with clients, development partners, and other stakeholders on those issues;
- **Regions and Country Management Units will:** (i) work on strengthening GAC diagnostic work at the country, sector, and project level to produce more GAC responsive CASs and corresponding country assistance programs; (ii) engage the entire Bank country team to fully exploit linkages between country, sector, and project level GAC issues; and (iii) deal more effectively with incentives for staff, and constraints to both diagnostic work, and implementation of results.

158. **The primary objective of the GAC updated Learning Framework is to equip Bank staff with the knowledge and skills needed to deal with GAC issues and concerns at the country, sector, and project levels.** It focuses on two sets of core GAC competencies: (a) the cross-cutting knowledge and skills generated by various GAC-related thematic groups or CoPs that are applicable across Bank sectors; and (b) sector-specific knowledge about the common points of GAC risks and vulnerability, and the menu of options for mitigating those risks, that represent the core GAC competencies for staff working in that sector. To promote GAC literacy, the Framework proposes to revise and update the e-learning version of “GAC 101” and strengthen the GAC component of the “Fundamentals of Bank Operations” part of the staff orientation program. To support Operational Core Skills, the Framework proposes a continuation of the GAC in Project’s course, and a new “GAC in CASs” course. To support professional/technical training, thematic groups and CoPs would continue to offer training for members of their practice group, and would develop introductory level modules for use by other sectors, while Sector Boards would offer training for their practice groups that would equip them

with cutting edge GAC-related training, focusing on improved management of risks and results, and a focus on institutions.

GAC TOOLS: POLITICAL ECONOMY ANALYSIS

159. **Despite the progress made in using political economy analysis, there remain issues to be addressed if the current analytical dynamic is to be sustained.** First, there is the challenge of ensuring that political economy analysis includes clear and unambiguous operational implications. Second, there is a perception among some staff that this type of analysis is optional and only undertaken with additional resources. Third, there is the question of how to handle potential country level sensitivities.

160. **Wherever appropriate, the Bank will incorporate political economy analysis into its Economic and Sector Work, and unless there overriding sensitivities, make public its findings and reports.** Where appropriate, the Bank will seek to take the lead in addressing difficult political economy issues at country level in order to sharpen the quality of the policy debate. The priorities for the next two years are to:

- Provide support and guidance on quality, drawing on lessons learned as experience accumulates;
- Capture lessons in a central database and drawing on this for lesson learning efforts;
- Develop more sector, thematic, and situation-specific guidance (e.g. infrastructure, environment, fragile states);
- Develop greater clarity on (i) good practices and ways of managing sensitivity at the country level and (ii) managing potential tensions between implications of political economy analysis and Bank operational incentives (in collaboration with and from management);
- Continue to ensure funding of political economy analytic work and processes for taking these issues into account when preparing and implementing operations and strategies; such funding will include Bank budget as well as trust fund resources;
- Continue to build and expand the pool of consultants and staff able to supervise and carry out applied problem-focused political economy analysis within tight resource envelopes;
- Build a cross-country research agenda of what works. This also includes contributing to other sector efforts in this regards (e.g., feeding a political economy perspective into analysis of what works in public sector reforms, procurement, or urban water sector development);
- Continue the learning agenda for political economy analysis and related processes to improve development effectiveness. Learning efforts will also be integrated with point (ii) (building sector specific guidance). Learning offerings will take a variety of forms (e.g., e-learning, face to face trainings, tailored clinics, just-in-time advice); and
- Continue working with other donor agencies in this area which will support learning, as well as developing impact of this agenda.

UTILIZING EXISTING INSTRUMENTS AND EXPLORING NEW ONES

161. **The Bank must continue to ensure that its full set of instruments are GAC-responsive.** Underpinned by solid analytic and advisory work, Development Policy Lending and Investment Lending have both been important instruments to support governance reforms. As

part of a continuously evolving institution, the Bank will also continue to explore how new instruments and approaches can support GAC objectives.

162. **For example, the Program for Results financing instrument, approved in January 2012, will provide a powerful entry point for the Bank to support improvements in governance.** Many sector projects already take a results-based approach, and these experiences are helping to inform the design of the new instrument. The focus on ‘whole-of-government’ programs (as opposed to ring-fenced Bank projects) creates an enabling environment to build stronger governance systems and institutions. By linking disbursements to results (outputs and outcomes) the nature of the relationship between the Bank and the client moves away from individual transactions and focuses on the behavioral and institutional changes that are required to achieve those results. An essential implication of the new instrument is the development of stronger and more credible means of monitoring the achievement of results, including by enhancing the role of users and civil society organizations, without sacrificing integrity due diligence. This will greatly contribute to improved accountability and legitimacy.

163. **Making this promise a reality will require significant efforts, including enhanced and streamlined internal processes, new skills, and a stronger focus on upstream analytical work.** Three priorities stand out:

- The new instrument requires closer collaboration across ‘silos’ within country teams. Supporting sector reforms at a systemic level requires understanding and coordination within the broader context of public sector management. This will require intensive integration among Bank staff. Training and support to teams working across institutional boundaries will be needed as well as support for more integrated dialogue with clients (*e.g.*, working across ministries);
- New approaches to sector analysis and monitoring and evaluation will be needed. The shift to financing results instead of specific transactions suggests that projects will be appraised differently. Rather than costing inputs, Bank teams will assess the quality, efficiency, and cost-effectiveness of the government program that will be supported. This requires an enhanced focus on public expenditure and service delivery analysis through investments in upstream analytical work. It will also require more effective monitoring and evaluation systems in place for measuring service delivery performance and results; and
- The opportunity for a broader range of actors, including citizens and civil society organizations, to be involved in monitoring programs through social accountability. The Program for Results, by definition, requires new models of supervision and implementation support. Citizens and CSOs can play important roles in monitoring and evaluation, to ensure that the results of the program are achieved. This can include the use of social accountability tools such as social audits and scorecards for third-party verification that services have been delivered, and grievance redress mechanisms. Technology can facilitate these processes. While experience with these approaches in certain sectors – notably human development - is emerging, evidence on their effectiveness remains limited, so building a knowledge base and support for task teams on when and how to integrate citizen involvement in monitoring will be critical.

164. **Engagement: creating opportunities for governance reforms.** One of the lessons to date has been that unless non-lending opportunities exist for engagement at the sector level the Bank will tend to remain limited in its ability to support stronger institutions and better

governance. Going forward, the Bank's analytical work can be further exploited as an entry point for engagement at the sector level. This includes a range of options, and should not be interpreted only (or even mainly) as the production of reports responding to specific demands from government counterparts. A more flexible range of approaches will be required, from generating data on service delivery performance to inform debates, to reports done in partnership with local think tanks, to technical assistance for the design of innovations or impact evaluations to measure the results of those innovations. While many human development teams are already working in these ways, there is opportunity to do more in two areas:

- Programmatic engagement through analytical work and non-lending technical assistance can open space for listening to a broader range of stakeholders, as well as support ongoing analysis. It can help position the Bank to support challenging governance related reforms; and
- Partnerships with non-government actors, such as think-tanks, academia, and CSOs around analytical work can broaden the scope of the policy dialogue and help identify entry points beyond the mandate of a single government administration. It can also facilitate civil society involvement in the types of social accountability approaches mentioned above.

FINANCING

165. Ensuring that the Bank uses a governance lens in designing and implementing its programs is a corporate priority and needs to be implemented through the mainstream of Bank resources. Using a governance lens is not always about doing something additional but is often about doing business differently. These different approaches may, or may not, be more costly. Given the corporate position that a GAC lens is essential to development effectiveness, where additional resources are needed within a country program to approach a challenge from a GAC perspective, these resources will be prioritized within the available resource envelope, recognizing that this envelope can draw from Bank budget, trust funds, service fees, and/or analysis or activities supported by other development partners.

166. Trust funds can accelerate the pace of change and fund innovative cutting edge initiatives. The Governance Partnership Facility (GPF) was established in 2008 to help GAC implementation. The GPF is supported through a Multi-Donor Trust Fund with US\$74 million in contributions from the UK (US\$50 million), the Netherlands (US\$15 million), and Norway (US\$9 million). To date, the GPF provided grants through three thematic windows (country programs, innovative governance initiatives in sectors, and governance knowledge and learning). A fourth donor, Australia, has recently joined.

167. If donor resources are available, the Bank considers that the GPF would remain an important tool in the Updated Strategy in order to help:

- Learn more systematically about the application of governance in sectors;
- Address the important conceptual, methodological and empirical questions concerning the governance results chain;
- Further customize GAC tools, instruments and training to specific country and sector contexts; and
- Support Bank engagement on governance and anti-corruption issues with institutions outside the executive branch of government, with civil society, and with the private sector.

168. **GPF achievements:** Collectively with these partners, the Bank undertook three competitive rounds to select 86 highly promising GAC activities. A full report of the interim results of the GPFs support to country programs was released recently.²⁴ While it is clear from internal consultations that significant volumes of Bank budget are being used to fund governance activities, the GPF gives additional flexibility to fund both innovative activities in governance-responsive environments, as well as more mainstream governance initiatives in less-conducive environments.

169. **The Bank is currently consulting with partners regarding the establishment of a Global Partnership for Social Accountability to strengthen the capacity and sustainability of civil society organizations (CSOs)** constructively to engage with governments on social accountability. Formal consultations were launched in January 2012, with presentation to the Board in April. Two priority areas for the Partnership are emerging: first, to serve as a knowledge platform for information creation, exchange and dissemination; and second, to provide resources that strengthen CSO capacity, particularly core financing. Wherever possible, the Partnership will leverage existing initiatives rather than starting them anew, and foster partnerships and networks that support this work. The intention is to start small, and expand incrementally, based on evidence and lessons of experience. Initial seed capital of US\$20 million over four years will be requested from the Bank's Board, with the aim of leveraging support from other partners, including foundations and other donors. It is envisioned that the Partnership will have a multi-stakeholder governance structure.

STAFFING

170. **As GAC implementation proceeds, a systematic effort will be made in defining governance competencies**, and in developing a robust training program associated with that competency. Initially the competency will be incorporated into the public sector management and governance stream. A pilot effort will follow to export this competency—with some customization—to another job family. This experience will be assessed, and a decision taken on the extent to which a governance competency can be successfully developed among a cadre of diverse sector specialists. This assessment will need to also include an examination of the incentives that will be required to encourage staff to develop this competency. This could, for example, include accreditation or requirements for having a governance competency to be eligible for certain positions, such sector and country management. Governance specialists will remain important, however. A small and specialist cadre will continue to play an important function in the Bank, providing advice at critical points in the country and project cycle, as well as playing a central policy advisory role.

VII. CONCLUSION

171. **The Bank's work on governance and anti-corruption represents work in progress.** Adopting a governance lens to all Bank work is a continuing transformational objective, while its approach to maintaining exacting fiduciary standards remains non-negotiable. It is critical

²⁴ John Lobsinger September 2011 'Implementing Country Level Governance Programs: A Review of Window 1 Country Programs'.

therefore that the Bank's GAC work be absorbed into the Bank's 'DNA'. For this reason, the Updated Strategy and Implementation Plan has set out how the Bank will seek to embed GAC in its routine operations. It will do this through:

- Incorporating GAC measures and indicators into its regular corporate reporting systems (the Corporate Scorecard, monitoring systems for supporting the international aid effectiveness agenda, etc.);
- Incorporating a GAC lens in upstream analytical work, notably at the country level, and in Bank sector strategies, and in downstream project design and implementation;
- Incorporating governance risk assessment and mitigation measures in the Bank's standard risk management tools;
- Providing tools, guidance, training, and learning materials customized by sector and country context;
- Embedding accountabilities for GAC deliverables at the highest levels in the Bank, and cascading them through the Vice-Presidencies; and
- Revising the role of the GAC Council to ensure effective management and senior level oversight.

172. **The underlying philosophy of the Updated Strategy and Implementation Plan is, in essence, to work its way out of existence.** Once governance and anti-corruption issues become routine in Bank systems, policies, and procedures, and a governance and anti-corruption perspective becomes second nature among Bank staff, the need for a stand-alone strategic document will fall away. This will be a key question for the proposed review of the Updated Strategy and Implementation Plan.

ANNEXES

Annex 1

Governance Partnership Facility (GPF)

Overview

The GPF was established in 2008 to help GAC implementation. The GPF is supported through a Multi Donor Trust Fund (MDTF) with US\$70 million in contributions from the UK, the Netherlands, and Norway. Currently GPF provides grants through three thematic windows (Window 1 - country programs, Window 2 - innovative governance initiatives in sectors, and Window 3 - governance knowledge and learning). Australia joined the GPF in late 2011 with a contribution of US\$10 million. Also an additional Window 4 has been created to support innovative work in Public Sector Management.

The GPF will remain an important tool to assist the Bank in GAC implementation. It will help:

- Create a *critical mass of countries* where governance is central to Bank operations;
- *Learn more systematically* about the application of governance in sectors; and
- Support the Bank's *engagement on governance with institutions outside the executive branch* of government, with civil society and with the private sector.

GPF Implementation

Collectively with the partners, the Bank undertook three competitive rounds in 2009-2010 to select 86 highly promising GAC activities. The initial program resources are now fully committed to these projects, which are under implementation until 2013. The additional funding from Australia is initially used to fund public financial management activities.

GPF Achievements: Delivering Transformative Results for GAC implementation

GAC emphasized innovation and change management, and the GPF has provided resources to undertake activities that enable Bank teams to explore approaches to governance in Bank operations and to learn lessons from these efforts.

The 2011 Annual Review finds that GPF funded activities are starting to show results:

- GPF's strategic funding is yielding tangible governance outputs and outcomes at the country level and at project level. GPF has facilitated the integration of governance priorities in various forms of Country Assistance Strategies (CAS), as well as in Development Policy Operations (DPOs) and in Investment Lending.
- The increase of staff dedicated to governance work has impact. In the past 2 years GPF funded 42 full time staff positions. The Bank's capacity to integrate governance in projects and upstream work has improved and governance staff in fragile states has had particular impact.
- World Bank counterpart funding for governance has increased between FY2009 and FY2011 despite a decline in overall budget
- Collaboration between the World Bank and donor partners to integrate governance in country strategies, sectors, and projects and in knowledge and learning is growing. Increasingly

partners are interested in scaling up or replicating pilot approaches developed by GPF projects.

- Innovations have been introduced in multi-stakeholder engagement, use of political economy analysis and in organizing country teams for GAC implementation.
- GPF has been instrumental in developing political economy analysis in at least seven sectors. The majority of these analyses are sector-focused: agriculture, energy, extractive industries, fiscal decentralization, health, social development, and water. Others identified governance constraints in community-driven development, demand for good governance (DFGG), decentralization, private sector development, procurement, public financial management (PFM), social protection and tax administration. Political economy analysis has been a powerful tool for initiating dialogue between donors and governments, particularly in fragile states.
- A large portion of GPF grants support transparency and accountability by:
 - ✓ Building capacity for better information management;
 - ✓ Enhancing financial management capacity in sectors; developing sector capacity for monitoring and evaluation, and developing Actionable Governance Indicators (AGIs);
 - ✓ Better integration of non-executive institutions of accountability in public expenditure monitoring and regulatory oversight; and
 - ✓ Enhancing the role and capacity of demand side actors to advocate for quality service delivery, monitor and report on the use of public resources.
- Governance-related Communities of Practice (CoPs) have been instrumental in harvesting and validating knowledge and innovations for mainstreaming GAC in sectors. GPF provides funding for 10 governance Communities of Practice. The CoPs are also increasingly playing a role in strengthening partnerships between the World Bank and development partners in strategic areas of governance.
- The GPF sponsored GAC Portal is contributing towards increased coordination, knowledge sharing and collaboration amongst the various GAC CoPs. The Portal is now accessible to the donor partners.

From August 2011 all Regional Vice Presidents report to one Managing Director. This new alignment, coupled with the Updated Strategy and Implementation Plan has provided a real opportunity to leverage GAC mainstreaming in Bank country programs. Emerging ideas include:

- Using the GPF to support a results-based compact between the Managing Director responsible for GAC and Regional Vice-Presidencies (i.e., additional resources on the basis of results delivered);
- Use of Bank resources and GPF funds to supplement and scale up the most promising governance activities; and
- To support growing global demand for governance engagement on the part of clients, with the potential for scaled-up engagement between the World Bank and a wide range of stakeholders.

The GPF has given Bank teams flexibility to fund both innovative activities in governance-responsive environments, as well as more mainstream governance initiatives in less conducive environments.

Annex 2

IEG Recommendations

S = Updated Strategy

IP= Updated Implementation Plan

IEG Recommendation 1	Management Response	Paragraphs
<p>Focus on helping countries make tangible and time-bound governance improvements, while acknowledging and seeking to resolve trade-offs between:</p>	<p>Agreed: Management notes that the first recommendation is fundamentally challenging; the 2011 WDR stresses a 20 year time horizon for institution building, while recognizing that citizens have immediate needs. Decisions regarding trade-offs can be made only at country level and congruent with Bank comparative advantage. The final three recommendations may not entail trade-offs; the alternatives in each case may be complementary.</p> <p>Management cannot commit to time-bound actions by countries.</p> <p>Management does commit to support countries that have country-owned time-bound strategies to improve governance and will report on that support as part of GAC monitoring.</p>	S 36-39, 52
<p>Committing Bank support for institution building over the long term <i>and</i> ensuring accountability for results (for example, in-service delivery) in the short term.</p>	<p>Management commits to: Articulate its approach to upstream public sector reforms (those focused on core government functions and systems) and downstream reforms (which focus on service delivery) in the context of GACII, to be discussed with Executive Directors in the second Quarter of FY 2012.</p>	S 40-47, IP 75-89
<p>Supporting system-wide public sector reforms <i>and</i> supporting selective public management improvements in priority service delivery sectors.</p>	(see above)	IP 75-89
<p>Helping governments respond to demand-side pressures <i>and</i> directly engaging non state actors in order to motivate demand side pressures.</p>	<p>Management commits to: A strengthened approach to supporting demand side measures will be set out in an annex to the GACII strategy.</p>	S 12, 43-44, IP 75-78
<p>Upgrading of country systems through their deliberate use <i>and</i> safeguarding Bank funds from abuse.</p>	<p>Management commits to: Continue and deepen work on supporting strengthening of country systems and continue to monitor and report periodically to Executive Directors on progress in use of country systems in procurement, financial management, and project management implementation.</p>	S 43, IP 90-94

IEG Recommendation 2	Management Response	Paragraphs
<p>Update the Bank’s approach to institutional strengthening:</p>	<p>Partially Agreed. Management is developing a new results-based lending instrument that will finance the delivery of results in many of the critical areas listed by IEG. Management also endorses the call for strengthening country dialogue through the more widespread use of political economy analysis at country, sector and project level. However, Management believes that country context is critical, and whether or not to ‘integrate’ PEA into ESW is a decision that should be taken at country level. Management agrees that actionable governance indicators should be used more systematically in results frameworks.</p>	<p>IP 159-164</p>
<p>Leveraging innovations in financial instruments and building on lessons learned to strengthen business lines that warrant more immediate attention—civil service pay reform (particularly in fragile states); public management support for basic service delivery and the investment climate; public financial management of natural resource rents; and civil society capacity building.</p>	<p>Management commits to: Seek Board approval for new results-based lending instrument (the ‘Program for Results’) in FY 2012.</p>	<p>IP 161-164</p>
<p>Strengthening Bank-country dialogue primarily through better integration of political economy analysis into standard Bank economic and sector work (and less through the creation of confidential, freestanding political economy analysis products).</p>	<p>Management commits to: Building on guidelines contained in “Problem Driven Governance and Political Economy Analysis,” published in September 2009, Management will develop further tools as necessary but will leave the decision on whether or how to use the tools and guidance to Regional staff, who have the relevant country knowledge. The guidance on using PEA in fragile and conflict affected states will be issued in the first half of GACII.</p>	<p>IP 159-160</p>
<p>Adapting actionable governance indicators more systematically to project results frameworks.</p>	<p>Management commits to: Develop and disseminate guidance on using actionable governance indicators in project results frameworks, and monitor their usefulness and modify as necessary in the context of regular GAC reporting. Management will disseminate guidance in the first half of GACII.</p>	<p>IP 98-110</p>
IEG Recommendation 3	Management Response	Paragraphs
<p>Clarify the Bank’s “zero tolerance” stance on corruption and improve operational controls by:</p>	<p>Partially agreed. Management has a clear position vis a vis ‘zero tolerance’ and will make efforts to ensure it is widely understood. In summary, Management’s position is that while we have no appetite for corruption, we have an ex-ante tolerance for risk (in that it is</p>	<p>IP 121</p>

	<p>recognized that such efforts in developing countries are more likely to encounter such challenges which the Bank seeks to manage to as close to zero as possible), combined with an ex-post zero tolerance when it is shown that fraud, corruption or other malfeasance has occurred. In such circumstances the Bank will always and everywhere take action to address the problem.</p> <p>Management commits to: Clarify its position on “zero tolerance,” explaining again to staff that development support is a risky business and there is no way, other than not lending at all, to guarantee the absence of fraud and corruption in Bank-supported operations; the Bank supports borrowers in providing reasonable assurance that funds are used as intended; but the Bank has zero tolerance once fraud or corruption is found. Management will set out its internal communications plan, involving the World Bank Group’s Chief Risk Officer, in the context of the GACII discussions.</p> <p>What is missing from IEG’s recommendation is the concept of reward versus risk. Management analyzes risk against expected operational development outcomes and has already differentiated across country contexts in this regard by setting a target of 70 percent Marginal Satisfactory (MS) or better average IEG ratings for operations in Fragile States (where risks are, of course, high but the returns to successful operations tend to be especially high), 75 percent or better in other IDA countries, and 80 percent in IDA countries.</p>	
<p>Developing a <i>harmonized</i> approach to reviewing and managing systems-level fiduciary and GAC risks across instruments— and not simply transaction-level risks in investment projects. The approach should provide for additional due diligence on operations with <i>specialized</i> risks.</p>	<p>Management agrees that the attention to systemic risk be increased while continuing to pay attention to ‘transactions’ risk. However, Management notes that a ‘harmonized approach’ to assessing and managing risk should not mean that responses must always and everywhere be the same. Country context matters fundamentally and explicit decisions must be based on the specifics of country circumstances. Management commits to: Review the experience with ORAF after two years (notably its use as intended in differentiating the management of operations by risk) and make adjustments as needed.</p>	<p>IP 111-123</p>

Providing guidance to operational teams on the appropriate use of different Bank financial instruments in different governance settings, consistent with the institution's overall risk appetite.	Management commits to: Continue to develop its comprehensive approach to risk management related to operational support to client countries, reporting progress regularly to the Board, via the Audit Committee, on the ongoing efforts to define risk appetites and the tolerances via which Management uses to ensure that risk is kept within permitted levels, and through the annual Integrated Risk Monitoring Report from the World Bank Group's Chief Risk Officer	IP 111-123
Consistently defining risk tolerances for the levels and composition of lending as well as the use of country systems in different settings (for example, through lending scenarios) so that expectations of governance performance are clearly understood by country stakeholders and the Bank's shareholders.	(see above)	IP 118-120
IEG Recommendation 4	Management Response	Paragraphs
Clarify roles and accountabilities for setting GAC strategic priorities:	Partially agreed.	
At the country level, Bank country strategies should continue to serve as the primary mechanisms for reflecting the priorities and needs of clients on GAC issues. Donor-funded initiatives need to be appropriately aligned.	Management concurs with the view that CASs and ISNs be the primary means by which client governance issues are raised and addressed. The Bank is committed to the Paris and Accra agendas on alignment.	S 37-39, IP 63-64
At the VPU level, GAC work plans should be informed by demand in partner countries and should set priorities for overall resources use—both Bank budgets and trust funds. In keeping with Bank policies on the integration of trust fund allocations with the budget process, decisions on allocations of trust funds to GAC activities should involve line management in VPUs.	Management is unconvinced of the need to create additional GAC work plans at the VPU level. There is a danger that these would create an additional task that would be of limited additional value.	IP 165-167
At the corporate level, the GAC Council should focus on institution-wide issues and risks, and on benchmarking the GAC responsiveness of Bank operations.	Management agrees that the GAC Council should focus on strategic and institution-wide issues. Management commits to restructure the GAC Council, with a further increased focus on strategic and institution-wide issues, in the context of GACII and will report in the context of a mid-term GAC update.	IP 144-151

IEG Recommendation 5	Management Response	Paragraphs
Align GAC implementation arrangements with Bank administrative and operational processes by:	Partially agreed.	
Consolidating current fragmented financing arrangements (that is, separate Bank budget and trust fund allocations) while improving monitoring of GAC activities.	Management is of the view that the competitive process for allocating GAC Trust Fund monies was effective and appropriate.	IP 165-168
Rather than creating a separate cadre of GAC specialists, applying GAC competencies across existing Bank networks and career streams, and allow transferability of GAC-competent staff across networks.	Management agrees on the importance of applying GAC competencies across sectors. Management commits to: Finish ongoing work on “GAC competencies” and an associated training program and put them into use by FY13.	IP 170
Streamlining specialized GAC institutional arrangements with a view to empowering line managers in VPU to achieve GAC objectives.	Management is of the view that line managers are already empowered to achieve GAC objectives. As noted above, the oversight and management arrangements for GACII will be revised.	IP 147, Annex 5
Supporting increased applied research on what works in various GAC areas.	Management agrees on the importance of applied research to support learning and knowledge management. Management commits to: Set out priorities for research in the context of GACII,	IP 152-156

Annex 3

GAC in Sectors: An Illustrative Framework

Poor, weak, or ineffective governance, corruption and malfeasance undermine efforts to reduce poverty. The GAC update puts sectors centre stage in the Bank's efforts to strengthen governance and tackle corruption. The principal purpose of heightened attention to sectors in the GAC update is to help country programs better support poverty reduction, by helping clarify:

- How GAC weaknesses at sector level inhibit the achievement of a country's poverty reduction and development goals;
- How Bank operations in sectors might be designed to achieve their objectives in the face of GAC limitations; and
- Which initiatives may help strengthen governance and tackle corruption over time.

A secondary purpose is to assure that the attention in any sector operation is commensurate with the reputational and fiduciary risks it poses to the Bank, as well as to poverty reduction.

The aim of this illustrative framework is to suggest how – given the extent of engagement – the Bank might design governance-responsive sector strategies. It is important to underscore upfront that a variety of approaches all potentially are viable.

Diagnosing GAC Challenges in Sectors

Experience to date has highlighted the importance of upstream governance diagnostic work. The Bank already has many formal products which can serve as vehicles for governance diagnostic work. But the point is not that teams should 'check the box' that diagnostic work has been done. The intention is for diagnostic work to add value for sector strategy design. Key questions include:

- How severe are the governance and corruption challenges in the sector; in their implications for development effectiveness, and in their reputational and fiduciary risks for the Bank Group (and other donors)?
- What are the prospects for significant governance and anti-corruption reform within the sector?
- How, specifically, might governance constraints inhibit effective implementation of the sector strategy?
- What are the potential entry points in the sector for improving governance and reducing corruption; either directly or as an indirect, joint product, as part of poverty-reducing interventions?

Incorporating Governance and Anti-Corruption into Sector Strategy Design

Sector strategies can build on diagnostic results to incorporate governance more systematically into program design in a variety of ways including:

- **Aligning sector activities with core governance reforms:** the agenda of core governance reform is potentially vast – encompassing both supply-side efforts to strengthen public sector capability, and demand-side efforts to build the capacity of state oversight institutions, plus other efforts to empower civil society at national level. Engaging effectively continues to be a major challenge. Most low-income countries have serious weaknesses across all these

dimensions. Given the size of the agenda, limited capacities, and limited political absorptive capacity in an often contentious arena for reform, the challenge is to be selective in a way which aligns priorities with country conditions;

- **Strengthening public sector capability.** After two decades of supporting public administrative and financial management reforms, some lessons are becoming clear as to how to tailor an agenda of reforms to improve public sector capability. These are discussed at length in the Bank's updated approach to public sector management;
- **Strengthening state oversight and enforcement institutions.** Formal oversight and enforcement institutions can provide important pressures for improving sector performance, and tackling corruption. Where judiciaries are independent, competent and accountable and where public accounts committees, supreme audit institutions, and ombudsmen have sufficient capacity, they often can hold the executive to account;
- **Strengthening the demand-side.** It is increasingly apparent that a focus on the supply-side of sector capacity is likely to be insufficient for state-building. Gains are also needed in the 'demand-side' – that is, the arrangements that foster accountability for public performance. The evidence is quite strong that greater transparency and participation (e.g. via the use of service provision scorecards, community participation in local investment, parents committees in schools) can help improve development performance even in settings where state capabilities are quite weak.

In countries with significant governance challenges, micro-level quantitative and qualitative diagnostic work is sure to reveal a variety of specific governance and corruption problems at the sector-level, and can help clarify which groups in society are likely to support (or oppose) sector-specific reform. Though the operational design choices to navigate this governance environment are country and-sector specific, experience over the past decade has yielded some general pointers as to the kinds of interventions at the sector level which can help address governance shortfalls, reduce corruption, and build support for reform. These include:

- **Transparency initiatives** which provide citizens, firms and communities with information as to service standard commitments, budget flows, results – and which solicit feedback as to perceived performance;
- **Participatory initiatives** which involve users (via, for example, parents in school committees, or farmers in water users associations) in the delivery and oversight of service provision at the front-line, including participation and oversight of procurement;
- **Pro-competition initiatives** which foster institutionally pluralistic arrangements for service provision (via, for example, contracting-out and other arrangements for private participation, or community provision), thereby providing users with choice, and pressuring poor performers to improve or exit; and
- **Targeted anti-corruption** initiatives, using an emerging operational approach to identify and address vulnerabilities within specific sectors, by preparing a detailed “road map” at the beginning of a program with indicators along the way to signal possible corruption risks that might arise at various points in the program cycle.

Benchmarking and Monitoring Progress in GAC Reform

Benchmarking and monitoring has two broad purposes. The first purpose is to assess the overall extent and patterning of governance dysfunction. For this purpose, broad/aggregate governance indicators are useful to:

- Provide a first approximation of the patterns of variation in governance performance;
- Help reveal some systematic patterns underlying the complexity and diversity of governance performance— although given margins of error, the interpretation cannot be too rigid;
- Provide some basis for monitoring overall, longer-run trends over time, although they cannot pick up with precision the modest, short-run changes in governance which specific, time-bound governance reforms are intended to foster.

The second purpose of governance benchmarking and monitoring is to help identify very specific governance weaknesses – and thereby guide the reform agenda, and provide a basis for monitoring progress of reform efforts. This requires a more directly ‘actionable’ approach to measurement -- monitoring at a disaggregated level, using specific measures of the quality of key governance subsystems, usually at the sector level. Narrow measures of the quality of specific governance subsystems are important complements to aggregate governance indicators.

Annex 4

Towards A Results Framework and Implementation Actions

TIER I: DEVELOPMENT CONTEXT

	Baseline		Current	
	Value	Year	Value	Year
Institutions and governance				
<i>GAC Tier I goals: Bank continues to gain knowledge about links between institutional quality and governance improvements – and on fitting operations to the governance climate</i>				
State institutions w/adequately established/differentiated and power structure* (scale 0-10)	4.80	2006	4.80	2010
Effective and accountable government* (scale 0-7)	2.79	2006-07	3.12	2009
Public access to information* (scale 0-100)	50.01	2006-07	49.85	2008-09
CPIA cluster D for IDA countries	3.08	2007	3.11	2010

* From the Corporate Scorecard.

TIER II: COUNTRY RESULTS SUPPORTED BY THE BANK

	Baseline		Current	
	Value	Year	Value	Year
Impact on strength of country systems				
<i>GAC Tier II Goals: GAC responsive programs and projects lead to improvements in institutional quality in countries where the Bank has adequate leverage.</i>				
Number of countries in which the Bank made a contribution to measurable progress towards strengthening of Budgetary and Financial Management Systems			*	
Number of countries in which the Bank made a contribution to measurable progress towards strengthening of Procurement Systems			*	
Number of countries in which the Bank made a contribution to measurable progress towards strengthening of Revenue Mobilization Systems			*	
Number of countries in which the Bank made a contribution to measurable progress towards strengthening of Public Administration Systems			*	
Sector measures			**	

* These measures are under development for the corporate scorecard. Initially, they will capture Bank work through Investment Lending.

** These measures will be found in sector strategies and will vary sector by sector.

TIER III: OPERATIONAL EFFECTIVENESS

	Baseline		Current	
	Value	Year	Value	Year
Impact on portfolio				
<i>GAC Tier III Goals: Projects and country programs that are GAC responsive have better outcomes – and more projects and country programs are GAC responsive</i>				
Measure GAC responsiveness of CASs at entry/implementation: Informed by governance diagnostics The impact of fraud and corruption on Bank supported activities in high-risk countries Strategies to strengthen/expand use of country institutions/systems			*	
Measure GAC responsiveness of projects: Governance risk assessed in project preparation Risk of Fraud and Corruption assessed as part of governance risk Projects designed in ways that address, minimize or mitigate governance risks Risk assessments updated during project implementation			*	

* Tracking system under development.

TIER IV: ORGANIZATIONAL EFFECTIVENESS AND MODERNIZATION

MEASURING RESULTS AND DRIVING IMPROVEMENTS

Action area	Initial actions	Success measures	Responsibility
<i>(i) Driving GAC Tier III results: ensuring that projects and country programs that are GAC responsive have better outcomes – and ensuring that more projects and country programs are GAC responsive</i>			
<ul style="list-style-type: none"> CAS Progress reports, CAS Completion Reports, Implementation Status Reports and Implementation Completion Reports reflect good practice on GAC issues GAC responsiveness of projects Measure impact of GAC on the Bank's portfolio 	<p>Review coverage of current CAS practice to ensure it continues to be GAC responsive</p> <p>Repeat the 2009 'QAG' review, subject to availability of funds (cost anticipated at \$500,000)</p> <p>A set of projects will be evaluated to understand better how GAC responsiveness leads to better project outcomes and an improved portfolio</p>	<p>Periodic updates, if needed, to reflect evolving good practice</p> <p>Increase in GAC responsiveness</p> <p>GAC responsive projects perform better than those that are not identified as GAC responsive</p>	<p>OPCS / GAC Secretariat</p> <p>OPCS / GAC Secretariat</p> <p>GAC Secretariat</p>
<i>(ii) Driving GAC Tier II Results: ensuring that GAC responsive programs and projects lead to improvements in institutional quality in countries where the Bank has adequate leverage*</i>			
<ul style="list-style-type: none"> Develop indicators of strength of core government systems** Develop indicators of strength of sector institutions for sector strategies** Develop indicators strength of demand-side institutions and accountability systems ** 	<p>Analytical work to develop and get recognition around indicators for core systems launched</p> <p>Work plan drafted for analytical work to generate recognition around indicators for sector systems</p> <p>Work plan drafted to generate recognition around indicators for demand side systems</p>	<p>Dimensions and metrics agreed for a set of core government systems (budgetary and FM; procurement; revenue mobilization; public administration; public information; oversight and enforcement bodies)</p> <p>Widely accepted indicators developed for use in sectors</p> <p>Accepted indicators developed for use in demand side work</p>	<p>PRMPS / OPCS</p> <p>Sectors</p> <p>SDV</p>
<i>(iii) Learning to drive Tier I results: improving knowledge about links between institutional quality and governance improvements – and about adapting operations to the governance climate</i>			
<ul style="list-style-type: none"> Better understand the link between institutional quality and service delivery Develop more standardized diagnostic protocols 	<p>HDN pilots applied research on link between institutional quality and service delivery</p> <p>Initial piloting of diagnostic protocols underway</p>	<p>Robust links established between institutional quality and service delivery</p> <p>Staff have ready access to tools and techniques that improve the quality of assessments of the governance environment at reasonable cost and which lead to practical improvements in project and CAS design</p>	<p>Bank, researchers, partners</p> <p>Various</p>

* This is a most challenging agenda. Given the scale of difficulty and the time frame, the Bank will seek active collaboration with other interested parties.

** Number of indicators that are widely recognized with arrangements for repeated data collection across a number of countries.

MANAGING INTEGRITY RISKS

Action area	Initial actions	Success measures	Responsibility
<i>(i) Zero tolerance component 1: identifying the likely degree of risks ex ante and planning for their mitigation as fully as possible</i>			
<ul style="list-style-type: none"> Ensure the effective use of ORAF across the investment lending portfolio, and work with front-line units and managers to improve the realism and accuracy of risk assessments Undertake a progressive extension of the risk-based approaches to other Bank financing operations, starting with Program-for-Results Include GAC issues in the development of a framework for the management of all Bank operational risks Develop arrangements for portfolio level reporting to senior management on operational risks Develop a framework to articulate and manage risk tolerances consistent with overall risk management framework developed by the WBG Chief Risk Officer 	<p>Expand the use of ORAF (and its risk ratings of governance and F&C) to cover, over time, the entire IL portfolio. Regular reviews of the IL instrument as well as other portfolio measure will include a review of risk indicators</p> <p>Working group formed and a plan agreed</p> <p>Working group formed and a plan agreed</p> <p>Working group formed and a plan agreed</p> <p>Working group formed and a plan agreed</p>	<p>28% of portfolio covered by end FY11. Target 60% by end FY12, 85% by FY13, and 100% by FY14.</p> <p>Appropriate risk-based approaches applied to other instruments from FY 2014</p> <p>Country teams find guidance useful and incorporate into operational work</p> <p>Risk reporting system systematized and of use to senior management</p> <p>Risk tolerances increasingly understood and acted on by operational staff</p>	<p>OPCS and Regions</p> <p>OPCS</p> <p>OPCS</p> <p>OPCS</p> <p>OPCS / Chief Risk Officer</p>
<i>(ii) Zero tolerance component 2: ex-post zero tolerance in response to findings that fraud, corruption or other malfeasance has occurred</i>			
<ul style="list-style-type: none"> Number of investigations leading to substantiated findings or other results Number of entities sanctioned Number of projects assessed to have high risk of fraud and corruption with appropriate prevention measures included Assist national authorities with their enforcement actions Number of debarred firms working on improved integrity compliance programs 	<p>FY11 INT substantiated sanctionable practices in and finalized 38 cases</p> <p>FY11 the Bank sanctioned 50 entities*</p> <p>FY11 support risk identification and design of preventive measures in 48 operations</p> <p>FY10-11 INT made 59 referrals**</p> <p>FY1011 – INT established the Integrity Compliance function and issued Integrity Compliance Guidelines for companies</p>	<p>Maintain consistent rate of case substantiation</p> <p>Maintain an effective sanctions system</p> <p>Maintain consistent PSU support to high-risk operations</p> <p>Issue timely referrals to client authorities and track actions by national authorities</p> <p>Monitor debarred firms that are actively engaged with the Integrity and Compliance Officer on developing / improving integrity compliance programs</p>	<p>INT</p> <p>INT, Office of Evaluation and Suspensions and Sanctions Board</p> <p>Regions / INT</p> <p>INT</p> <p>INT</p>

* Sanctioned entities include 16 entities cross-debarred and 2 entities given non-debarment letters of reprimand as sanctions.

** Certain referrals are not included in this figure in order not to compromise ongoing investigations.

ACTING GLOBALLY

Action area	Initial actions	Success measures	Responsibility
<ul style="list-style-type: none"> • Implement a more coordinated approach on global GAC programs • Extend international cooperation on anti-corruption 	<p>Periodic meetings of the GAC Global programs and initiatives,</p> <p>As of FY11 INT has signed 17 MOUs with national anticorruption authorities and international agencies International Corruption Hunter's Alliance (ICHA) convened in December 2010 with participants from 134 countries and international agencies. Follow up meeting planned for June 2012 StAR partnership with Interpol to develop 'focal points' on asset recovery</p>	<p>Global programs develop synergies, adopt consistent approaches to common issues and develop a coherent strategy for engagement in the principal international Fora</p> <p>Expand INT's network of bilateral MOUs with national anti-corruption institutions and international agencies as well as an active engagement with the International Corruption Hunter's Alliance (ICHA) participants through an online platform and future biennial meeting</p> <p>INT will seek to operationalize participants' commitments to increase cooperation in transnational bribery, improve information sharing and use more rigorous measures for evaluating the impact of their efforts</p> <p>Continued assistance to client countries to help them join international networks of practitioners on corruption (e.g. Egmont, Focal Points, Camden Asset Recovery Inter-agency Network, Asset Recovery Inter-Agency Network of Southern Africa, Red de la Recuperación de Activos de GAFISUD)</p>	<p>Bank-wide</p> <p>INT /StAR / FPD</p>

ORGANIZING FOR DELIVERY

Action area	Initial actions	Success measure	Responsibility
<i>(i) Sharing knowledge</i>			
<ul style="list-style-type: none"> Continue to ensure that CAS guidance and good practice notes are GAC-sensitive, and update as lessons learned Continue and expand the work of the 'GAC in Operations' Community of Practice Sectors to prepare sector specific GAC guidance, toolkits and other knowledge products Extend knowledge management and learning 	<p>Review / update of existing corporate country strategy guidance to identify gaps, if any, in coverage of GAC issues</p> <p>Forward work plan under preparation. CoP restructured to includes sector staff</p> <p>Further development of Annex 3 template "GAC in Sectors" Each sector prepares work plan</p> <p>GAC Council meets to consider draft Updated Knowledge and Learning Plan and assigns responsibilities and accountabilities</p>	<p>Corporate country strategy guidance and good practice notes adequately cover GAC issues, and operational staff find them useful</p> <p>Attendance at meetings. Knowledge generated by GAC in Operations groups reflected in work Bank-wide</p> <p>Sector staff reflect guidance materials in operations</p> <p>Review / evaluation of Knowledge and Learning Plan in FY 2014 / 15</p>	<p>OPCS with GAC Secretariat</p> <p>Chair / convenor of GAC in Operations group</p> <p>Sector staff</p> <p>GAC Council</p>
<i>(ii) Developing staff skills</i>			
<ul style="list-style-type: none"> All new staff to receive basic training on GAC Training to be made available to develop core GAC competency Preventive training to be enhanced 	<p>Revise induction training, as appropriate</p> <p>A GAC competency, supported by a distance training program will be piloted in PREM</p> <p>Building on the Integrity Clinics and similar initiatives</p>	<p>Induction training includes GAC elements and materials</p> <p>A GAC competency exists, that can be applied across sectors, that is supported by a distance training program</p> <p>Training on identifying integrity risks and developing mitigation measures provided to operational and fiduciary staff on a continuous basis.</p>	<p>OPCS, GAC Secretariat</p> <p>Pilot-PREM</p> <p>INT (with Regions and Networks)</p>
<i>(iii) Improving GAC management and Oversight</i>			
<ul style="list-style-type: none"> Management structures to be made more accountable for GAC improvements Corporate oversight and management of GAC strategy to be strengthened 	<p>GAC Council convened to reconsider its role and adopt new Terms of Reference (Annex 5)</p> <p>GAC indicators proposed for Corporate Scorecard</p>	<p>Terms of Reference for for County Director / Country Manager / Sector Director / Sector Manager include GAC accountabilities</p> <p>GAC competency included in management competencies</p> <p>GAC issues increasingly embedded in routine Bank procedures, systems, monitoring and reporting</p>	<p>GAC Secretariat with OPCS and HR</p> <p>Managing Director in charge of GAC</p>

Annex 5

GAC Council Draft Terms of Reference

The GAC Council was set up to oversee and guide implementation, and to highlight to senior World Bank management challenges faced during implementation. Thus it was designed deliberately as a discussion forum and knowledge-sharing body, rather than as a decision making body. Given that GAC was seen primarily as a Bank-wide program of change management, fixed implementation structures for each Region and Network were not considered appropriate.

However, as the Bank now updates its strategy and implementation plan, it is now appropriate to give increased executive authority to the GAC Council. Going forward the GAC Council will take formal responsibility for Bank-wide GAC strategy, for GAC external communications, and for reporting progress and responding to issues faced in implementation as they arise.

Functions of the Council

The functions of the GAC Council will be:

- Set broad Bank Group strategic direction on matters of governance and anti-corruption;
- Consider annual Vice-Presidential Unit (VPU) GAC objectives and reflect on progress;
- Review progress on key dimensions of GAC implementation, especially on targets identified in the Results framework;
- Identify obstacles and challenges in the achievements of the results targets and endorse specific activities to address these;
- Make recommendations as needed to OPCS regarding Bank policies or practices that may be necessary for achievement of GAC results;
- Review human resources and budgeting arrangements for GAC implementation, and endorse actions to strengthen these areas as needed;
- Periodically review progress reports on GAC implementation for reporting to the President and the Board; and
- Ensure cohesion between the prevention and enforcement agenda, and policy making and operations functions.

Membership

Membership of the Council is limited to Vice Presidents from all operational and other relevant VPUs. Each Vice President will also identify an Alternate Member from among VPU Director staff. Member Vice Presidents include:

AFR (Africa)

EAP (East Asia and the Pacific)

ECA (Europe and Central Asia)

LCR (Latin America and the Caribbean)

MNA (Middle East and North Africa)

SAR (South Asia)

WBI (World Bank Institute)

CFP (Concessional Finance and Global Partnerships)

EXC (Office of the President)

EXT (External Affairs)

IEG (Independent Evaluation Group)

INT (Integrity Vice Presidency)

DEC (Development Economics)	IFC (International Finance Corporation)
FPD (Financial and Private Sector Development)	LEG (Legal)
HDN (Human Development Network)	OPCS (Operational Policy and Country Services)
MIGA (Multilateral Investment Guarantee Agency)	SEC (Corporate Secretariat)
PREM (Poverty Reduction and Economic Management)	Head of GAC Secretariat
SDN (Social Development Network)	

Chair

The Managing Director responsible for the GAC agenda will assume the sole responsibility for chairing the meetings. The Chair will periodically provide briefing to MD-CFO.

Meetings

The Council will meet quarterly (with additional meetings as needed). The GAC Secretariat, in discussion with the GAC Chair, will set each meeting agenda. Papers will be circulated five working days prior to the meeting; comments are required from members in advance of deliberative and decision meetings.

Secretariat

The Council will be supported by the GAC Secretariat, as currently. The Secretariat will continue to be located in PRMPS, and include staff from INT and OPCS.

Attendance

Participation by the principal or director level alternate is expected. Meetings will be open to staff by invitation and prior request to the Secretariat.

Role

Early in the period the GAC Council and Bank senior management will reflect on whether to incorporate some or all of current GAC Council functions into permanent Bank committees and structures.

Annex 6

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