

Poverty Reduction and Economic Management (PREM) Network

Operational Core Services (OCS)

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Progress at the  
World Bank  
Since 1997

# Corruption

Helping Countries Combat

June 2000

21571

The World Bank







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World Bank  
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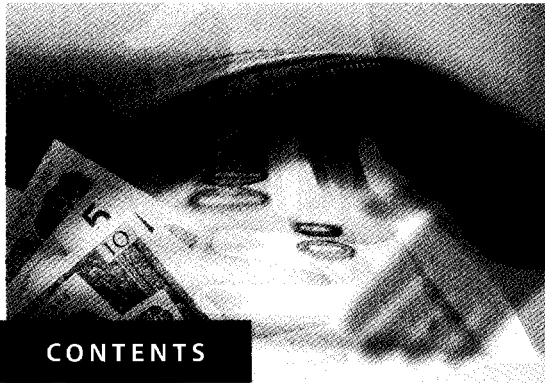


This report was produced as a joint effort of the Poverty Reduction and Economic Management (PREM) Network and the Operational Core Services (OCS) Network at the World Bank, under the general direction of Katherine Sierra, with Cheryl Gray and Caroline Harper leading the inputs from each network. Further information about the Bank's work in this area can be obtained by contacting staff of the PREM and OCS Networks. The report details the progress made to date by the World Bank Group on its anticorruption and governance initiative. The initiative was launched by Mr. James D. Wolfensohn in September 1996.

#### List of Acronyms and Abbreviations

AfDB	African Development Bank	IMF	International Monetary Fund
AFR	Africa Region	INTOSAI	International Organization of Supreme Audit Institutions
AsDB	Asian Development Bank	LACI	Loan Administration Change Initiative
AU	Antibribery Undertaking	LCR	Latin America and Caribbean Region
BEI	Business Ethics and Integrity Department	MDB	Multilateral Development Bank
CAS	Country Assistance Strategy	MNA	Middle East and North Africa Region
CDF	Comprehensive Development Framework	NGO	Nongovernmental Organization
CFAA	Country Financial Accountability Assessment	OAS	Organization of American States
COSO	Committee of Sponsoring Organizations	OCS	Operational Core Services
CPAR	Country Procurement Assessment Review	OECD	Organization for Economic Cooperation and Development
CPFA	Country Profile of Financial Accountability	PER	Public Expenditure Review
CPIA	Country Policy and Institutional Assessment	PIP	Project Implementation Plan
CRD	Urban and Rural Commune	PMR	Project Management Report
CSA	Control Self-Assessment	PREM	Poverty Reduction and Economic Management
DAC	Development Assistance Committee	PRSP	Poverty Reduction Strategy Paper
EAP	East Asia and Pacific Region	PSAL	Programmatic Structural Adjustment Loan
EBRD	European Bank for Reconstruction and Development	QAG	Quality Assurance Group
ECA	Europe and Central Asia Region	SAR	South Asia Region
ESW	Economic and Sector Work	SIGMA	Support for Improvement in Governance and Management in Central and Eastern European Countries
FATF	Financial Action Task Force	SOE	Statement of Expenditure
FINMI	Financial Management Initiative	SSR	Social and Structural Review
FY	Fiscal Year	TI	Transparency International
GAO	U.S. General Accounting Office	TIR	Transition Impact Review
IAD	Internal Auditing Department	UNDP	United Nations Development Program
IADB	Inter-American Development Bank	WBES	World Business Environment Survey
IDA	International Development Association	WBI	World Bank Institute
IDF	Institutional Development Facility	WTO	World Trade Organization
IFAD	International Forum on Accountancy Development		
IGR	Institutional and Governance Review		





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## EXECUTIVE SUMMARY

# The World Bank's Approaches to Combating Corruption

In 1996, President James D. Wolfensohn committed the World Bank to “fight the cancer of corruption.”

This public commitment intensified the strategy the Bank has long pursued to ensure internal probity and to encourage the development of new approaches to fighting corruption in its borrowing countries. It also helped catalyze a truly global response to the problem, which is essential if we are to make enduring progress. The purpose of this report is to identify the progress the Bank has made to date in this difficult arena and to point out the many challenges still facing the Bank.

The Bank is committed to ensuring that Bank-financed projects are free from corruption and to helping countries build transparent and accountable government institutions. The reasons why the Bank has taken a leading role in the fight against corruption are clear:

- Corruption hurts the poor most severely: it diverts public services from those who need them most and strangles private sector growth.
- Corruption undermines public support for development assistance by creating an erroneous perception that all assistance is affected by corruption.

### BOX 1.1

#### Corruption Is a Problem Common to Businesses and Public Enterprises of all Kinds

- A recent report published by the Association of Certified Fraud Examiners finds that organizations—public and private—lose 6 percent of annual revenue to fraud and corruption each year. In the United States alone, fraud and corruption claim \$400 billion per year.
- Ernst and Young, in a survey of certified fraud examiners, found that one out of four businesses loses more than \$1 million annually to fraud and corruption and that 67 percent of those polled believe that fraud is getting worse. More than three-quarters of respondents believe that the worst of the fraud could be prevented through the use of adequate policies and controls.

- Corruption can impede developing countries' access to increasingly discriminating private capital.
- The Bank has a fiduciary duty to its member countries to ensure that financial support reaches its intended targets.
- The Bank would mainstream its concern for corruption directly into its country analysis and lending decisions.
- The Bank would contribute to the international effort to fight corruption.

## Progress on the Four Pillars of the Bank's Anticorruption Strategy

For most of its history—like other development agencies—the Bank did not explicitly address corruption in its development strategies but rather chose to raise the issue in discreet ways with individual governments. In the mid-1980s, however, the Bank shifted its business emphasis toward policy reform and began to help countries eliminate rent-seeking behavior through a broader reform of trade regimes, financial sectors, and public sector institutions. Good governance became an important theme and was addressed in landmark documents such as the 1983 *World Development Report on Public Management* and the 1989 *Africa Long-Term Perspectives Study*, as well as in subsequent reports in the 1990s.

The Bank's longstanding efforts to build a framework of integrity around its operations reached a watershed in September 1996, when President Wolfensohn announced that the Bank would do everything within its power to fight “the cancer of corruption.” In September 1997, the Bank's Board of Executive Directors endorsed an anticorruption strategy that laid out actions in four key areas:

- The Bank would make every effort to prevent fraud and corruption in the projects and programs it finances.
- The Bank would assist countries that ask for help in curbing corruption.

The report *Helping Countries Combat Corruption: The Role of the World Bank*<sup>1</sup> put into motion a chain of events that fundamentally reformed the way the Bank thinks about and acts against corruption. Addressing corruption is politically very difficult and technically complex; it is a long-term task requiring enormous domestic leadership. Committed to working simultaneously on many fronts, the Bank realized that it needed to have realistic expectations. To bolster its efforts, it therefore developed a broad Fiscal Year 1999 (FY99) Anticorruption Action Plan that was distributed to all Bank staff in January 1999 (Annex I). The FY99 Action Plan aimed to strengthen Bank fiduciary activities, to broaden and deepen in-country work, to extend productive relationships with Bank partners, and to address questions of staff incentives and personal security.

The following year, the Anticorruption Action Plan for FY 2000 builds upon the experience acquired since 1997 and continues to reflect the Bank's view that corruption is a symptom of underlying weaknesses in public sector institutions. (The FY00 Plan and an indication of the progress made to date in each of the Plan's dimensions can be found in Annex I.) The Plan calls for a further broadening and deepening of the approach initiated in 1997 and a heightened focus on implementation and on-the-ground results. We are now working with more than 95 countries that have requested assistance for broadly defined public sector institutional reform and with more than two dozen countries that have requested assistance to deal specifically with corruption. Consistent with the Comprehensive Development Framework,<sup>2</sup> the FY00 Plan calls for further outreach and collaboration with donors

and other partners and for better integration of the anticorruption agenda with other capacity-building efforts of the Bank.

## **Minimizing Fraud and Corruption in Bank-Supported Projects**

While the Bank's concern about corruption is not new, the emphasis it places on this problem has grown dramatically over the last few years. The Bank has always had a strong internal integrity framework. Its Articles of Agreement require that the Bank make arrangements to ensure that the proceeds of its loans are used only for the purposes for which the loans were granted and that due attention is given to considerations of economy and efficiency, without regard to political or other non-economic influences or considerations.<sup>3</sup> Procurement, financial management, and audit procedures in Bank-financed projects focus on these goals, and the Bank has a set of established protocols aimed at ensuring that it takes only reasonable risks throughout project development and implementation. (Annex II describes the fiduciary framework under Bank-financed projects.)

In order to strengthen its financial control capacity, in 1997 the Bank adopted the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on internal financial controls, a state-of-the-art approach to internal controls now used widely by leading financial institutions. In the same year, the Bank evaluated its fiduciary controls of Bank-financed projects, thereby identifying the need to strengthen its ability to supervise the fiduciary aspects of Bank loans and to help clients strengthen their own capacities. As part of the loan approval process, the Bank began to improve the way it assessed borrower<sup>4</sup> procurement and financial management capacity and corruption risks. It also moved to intensify supervision of smaller procurement contracts through special ex-

post audits conducted by specialized firms on behalf of the Bank. New anticorruption provisions were added to the Bank's procurement guidelines and the Bank significantly increased its financial management and procurement staff. A Loan Administration Change Initiative (LACI) was introduced to help borrowers build capacity for strong financial management at the project level. Finally, the Bank also began to work with its clients on the broader issue of building country capacity for financial management and procurement, introducing new diagnostic assessments and following these up with technical assistance to clients.

These and other changes have led to a Bank that is more client-oriented, with improved quality of services and portfolio. Lending operations are better prepared and supervised, with 89 percent of new operations judged satisfactory in calendar year 1999 compared to 82 percent at the start of the reform initiatives, and 82 percent of operations receiving satisfactory supervision in FY99 compared to 76 percent in FY98.

Although the Bank had been investigating allegations of fraud and corruption whenever these were brought to the attention of management, in May 1998 an Oversight Committee on Fraud and Corruption was established with responsibility for investigating allegations of corruption involving Bank staff. In October 1998, the Committee's responsibility was broadened to include supervision of all investigations of fraud and corruption within the Bank or in connection with Bank-financed contracts. This Committee is supported by a Secretariat that reviews and screens the allegations or complaints involving fraud or corruption and by a team of professional investigators dedicated solely to conducting investigations of these allegations. In addition, a 24-hour international hotline was established to enable the report of fraudulent or corrupt practices within the Bank or in connection with Bank-financed contracts. Over the past three years, 44 companies and 10 individuals have been debarred from Bank contracts.<sup>5</sup>

Dealing with corruption requires a culture of openness in the Bank, a willingness to discuss difficult issues, and a strong emphasis on professional ethics. Accordingly, more candor has been encouraged, and the Bank's professional ethics program was strengthened as part of the Anticorruption Action Plan.

The improvements that the Bank has made over the past three years to its system of management controls over investment lending were recently the subject of an independent external review by the national audit office of the United States government, the U.S. General Accounting Office (GAO).<sup>6</sup> It is encouraging to note that two of the key findings of the GAO are that the "Bank has undertaken an ambitious and systematic effort to identify and correct key weaknesses in its system of management controls" and that "significant progress has been achieved." The GAO further notes the many steps that the Bank has taken to strengthen its internal control activities, including those covering financial management, procurement, and supervision. However, the report is very clear in its message that the Bank still faces many challenges as it continues to implement reforms aimed at strengthening the system of internal controls. The report makes a number of specific recommendations that are very much in line with the program of reforms under way in the Bank since 1997.

The report cautions that full implementation of the changes to the Bank's system of internal controls faces further challenges ahead. The report's generally supportive findings will nonetheless enable the Bank to move forward with even more confidence that it is headed in the right direction.

## Helping Countries That Request Assistance

The Bank views corruption as a symptom of underlying institutional dysfunction, and thus employs a proactive and holistic approach that attempts to help clients strengthen governance and public sector man-

agement, to improve economic policies and legal/judicial systems, and to develop and implement specific anticorruption measures. The Bank has made strengthening borrower capacity a priority through increased lending,<sup>7</sup> enhanced country-level advisory services, and the inclusion of "good and clean governance" as one of the central pillars of the Comprehensive Development Framework.

Many countries—including Albania, Argentina, Bangladesh, Benin, Bolivia, Bosnia, Colombia, Ecuador, Ethiopia, Georgia, Guatemala, Honduras, Indonesia, Jordan, Latvia, Mauritius, Morocco, Nicaragua, Paraguay, the Philippines, Russia, Slovakia, Tanzania, Thailand, Uganda, Ukraine, and Yemen—have come to the Bank with explicit requests for assistance. Annex III provides a detailed listing by country of some of the Bank's many and varied programs to fight corruption.

Fighting corruption is a complex, long-term problem, and it is important to maintain realistic expectations. The first step is to ensure high-level political support, without which an anticorruption effort is unlikely to succeed. To achieve this, our in-country operational work often starts with in-depth empirical survey work to help diagnose the extent and nature of the problems and raise public awareness. The Bank conducts workshops to disseminate this analysis, bringing together public officials (including parliamentarians), the private sector, and civil society to develop anticorruption strategies. The strategies may then be supported by Bank-supported interventions. Projects aimed at addressing corruption concerns have included, for example, tax administration in Latvia; judicial reform in Albania, Guatemala, and Morocco; administrative and civil service reform in Bolivia and Tanzania; and regulatory reform in Georgia.

Knowledge sharing is a vital component of the Bank's assistance to countries in fighting corruption. By conducting seminars in more than 35 countries, the World Bank Institute (WBI) has been helping expand participatory dialogue among all segments of society,



including parliamentarians, government officials, judges, auditors general, the media, and local non-governmental organizations (NGOs). WBI has also conducted more than 40 training courses and workshops in investigative journalism and parliamentary oversight—including, in some instances, the role of the auditor general.

Particularly noteworthy is the innovative “core course” in controlling corruption that was piloted in FY99 with officials and representatives from seven African countries. Using traditional and distance learning techniques, this course resulted in the development or revision of national anticorruption strategies in the countries concerned. Building on this success, the core course will be replicated in Latin America and francophone Africa in FY01. The Internal Auditing Department (IAD) has additionally conducted workshops with staff from the national audit offices of various countries to help strengthen their financial control capacities. The Bank shares its knowledge with other partners through an external anticorruption web site; by partnering with international organizations such as the Organization for Economic Cooperation and Development (OECD), the United Nations Development Program (UNDP), the regional Multilateral Development Banks (MDBs), and the Commonwealth Parliamentary Association; by partnering with NGOs such as Transparency International (TI); and through contributions to relevant international conferences and workshops.

## **Mainstreaming Corruption Considerations into the Bank’s Operational Work**

In an important shift from previous practice, the Bank now explicitly considers in its lending decisions the extent to which the quality of governance and the magnitude of corruption affect a borrowing country’s economy. As of January 1999, every Bank Country Assistance Strategy (CAS) is expected to examine gov-

ernance issues, including the extent of corruption. This is a crucial development because it illuminates not only the problems but also what governments and the Bank are doing to address those problems. It should be noted, of course, that International Development Association (IDA) lending levels have been influenced by governance criteria for some time.

A recent CAS retrospective found that the Bank has made significant progress in addressing governance and corruption concerns over the last two years. Of the CASs reviewed for this retrospective, 78 percent discuss governance and corruption and about two-thirds attempt to mainstream governance concerns explicitly in country programs. Despite this progress, the retrospective found that we need to continue to improve our diagnosis of the causes of corruption, in firmly establishing CAS strategy in institutional realities, and in explicitly assessing the risks of corruption to Bank-financed projects and proposing remedial measures where needed. Several recent CASs have made major strides in all of these areas and are clearly examples of best practice in governance.

The Bank’s Development Research Group has devoted significant resources to research on corruption issues and has added to a growing body of analytic work worldwide that clearly shows the strong links between governance and poverty (see Annex IV for an annotated bibliography). The Bank’s policy advice and its contribution to international discussions on corruption reflect the Group’s findings.

## **Supporting International Efforts to Address Corruption**

Mr. Wolfensohn’s 1996 speech helped to focus global attention on the problem of corruption. This attention has resulted in better coordination among the international financial institutions and more sharing of information on all aspects of corruption. The five largest

MDBs have established a joint working group to help coordinate policies and share information and the Bank has also strengthened its working relationships with the UNDP and bilateral donors. The Bank strongly supports the OECD Antibribery Convention (and is an observer in the Working Group that developed and is monitoring it); contributed to the 1998 annual conference of the International Organization of Supreme Audit Institutions (INTOSAI), which focused on the role of national audit offices in combating corruption; and played an important role in the founding of the International Forum on Accountancy Development (IFAD), which facilitates the development of accounting and auditing practices in developing and emerging market countries. The Bank also works closely with a number of NGOs, including important human rights groups, to develop a better understanding of how corruption undermines development and to improve our strategy of fighting corruption at its source.

## Conclusion: The Road Ahead

It is two and one-half years since the Board of the World Bank endorsed the Anticorruption Strategy, and the Bank is just over two years into implementation of its Anticorruption Action Plan. In that short time, the attention given to governance issues inside and outside the Bank has increased dramatically, the Bank's dialogue with its client countries on these issues has become notably more open, and more than 600 specific anticorruption programs and governance initiatives have been undertaken in almost 100 borrower countries (see Annex III). This is a substantial achievement. The Bank is proud that it has been able to play such a leading role within the development community in this area.

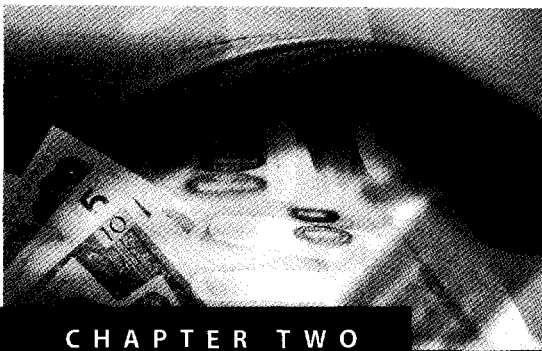
Corruption, by its very nature, will persist as a complex and difficult problem, and the Bank and its clients

have to be prepared for a long, hard struggle. In accordance with its role as a development institution working in poor countries that have weak controls and capacities, the Bank can help and has helped to bring corruption to the forefront of international attention and is helping to confront the challenge corruption represents. But fighting the cancer of corruption is a challenge not just for the Bank, it is a challenge for the entire development community—international financial institutions and development agencies, civil society, the private sector, and the public sector. If we all move forward with momentum, we have a real chance to make a difference.

Mr. Wolfensohn reinforced this point in October 1999, when he addressed the Ninth International Anti-corruption Conference in Durban, South Africa, where more than 1,500 representatives of governments, the private sector, and international organizations shared country experiences and sought opportunities for further collaboration. In his address, Mr. Wolfensohn referred to the issue of corruption as key to the Bank's work:

So far as our institution is concerned, there is nothing more important than the issue of corruption. . . . At the core of the incidence of poverty is the issue of equity, and at the core of the issue of equity is the issue of corruption. . . . Corruption has to be dealt with by a combination of forces within a country. It can be assisted from outside. The Bank and other organizations can help, but the real motive, the real engine, has to come from the inside. . . . There must be partnerships; there must be coalitions for change; and so, we felt that, as an institution the best we could do was to try and assist in the building of the coalitions and in the forging of that interest in the issue of corruption and inequity, and get it out there.

The chapters that follow detail the progress that the Bank has made building each of the four pillars of its anticorruption strategy.



## CHAPTER TWO

# Minimizing Fraud and Corruption in Bank-Financed Projects

**T**he World Bank has always had a strong integrity framework to ensure that loan funds are used for their intended purposes with economy and efficiency. Within this framework the borrower is responsible for project implementation, including the procurement of goods, works, and services in a manner consistent with the Bank's policies, and for maintaining suitable financial management systems. The framework is outlined in Box 2.1. The Bank supervises borrower performance. These arrangements aim at ensuring that the Bank takes only reasonable risks with respect to the use of loan funds given the capacities found in the countries that the Bank assists. Annex II provides a more detailed explanation of the Bank's integrity framework.

### Strategic Compact

As with any framework, the Bank recognized that the effectiveness of its integrity framework needs to be constantly evaluated. In early 1997, in response to growing concerns that the Bank needed to pay greater attention

to development results and internal efficiency, Bank management presented to the Board a Strategic Compact in which management vowed to renew the Bank's effectiveness in fighting poverty. Under the Strategic Compact and a related cost-effectiveness review, the Bank identified the need to reform a number of key systems and processes, among them the Bank's fiduciary system.

Endorsed by the Board on March 31, 1997, the Strategic Compact was an action plan to reorganize and reallocate the Bank's resources to correct identified weaknesses in its operations and to improve product quality and service to clients. The Compact provided \$250 million over a 30-month period to implement changes aimed at strengthening the Bank's ability to fight poverty.

Procurement and financial management were two key areas where improvements in processes were needed and to which Strategic Compact funds could be directed. This was because:

- The impact of the change in the Bank's business over the last decade had been substantial. The Bank

## Management, Procurement, and Financial Controls in Bank-Financed Investment Projects

The Bank works with its borrowers from project design through completion to ensure that necessary management, procurement, and financial controls are in place in projects that it finances.

### 1. Project Preparation, Appraisal, and Approval

- During project preparation the Bank assists its borrowers to develop and establish necessary measures for management, procurement, and financial controls in projects for which Bank financing is sought.
- In appraising a project, the Bank independently assesses the adequacy of the proposed arrangements for project implementation, including the procurement and financial management arrangements, focusing in particular on the institutional capacity to carry out these arrangements, on the risks involved, and on action plans to address any deficiencies.
- The Bank proceeds to loan negotiation when *inter alia* the procurement and financial management arrangements, including actions to enhance procurement and/or financial management capacity, are agreed between the Bank and the borrower. For procurement, the Loan Agreement refers to the Bank's Procurement Guidelines, and specifies how they are to govern procurement procedures for the different categories and sizes of contracts for goods, works, and related services. For financial management, the Loan Agreement sets out the agreed arrangements for disbursing the loan and the financial

management, accounting, audit, and reporting requirements.

### 2. Implementation and Supervision

#### • Procurement

The responsibility for project implementation, including the execution of the agreed procurement arrangements, rests with the borrower. However, the Bank monitors and supervises the implementation of these arrangements on a continuing basis until project completion and has established procurement guidelines to ensure transparent and competitive procurement practices. In addition, the Bank has recently introduced specialized procurement audits by external firms to review a sample of procurement contracts for compliance with the Bank's procurement guidelines.

#### • Financial Management

Under Bank-financed projects, the Bank requires the borrower and the project implementing entities to maintain financial management systems—including accounting, financial reporting, and auditing systems—sufficient to ensure that they can provide accurate and timely information on project resources and expenditures. Accounting information submitted to the Bank must adhere to accounting standards acceptable to the Bank. In addition, the borrower and the project implementing entities must provide to the Bank annual audited financial statements of the project.

## BOX 2.1, continued

- **Disbursement**

The responsibility for project implementation, including the execution of the agreed disbursement arrangements, rests with the borrower. However, the Bank monitors and supervises the implementation of these arrangements on a continuing basis until project completion, including reviewing the relevant documentation in support of disbursement. The borrower is required to hold any Special Accounts in banks acceptable to the Bank.

- **Field Supervision**

Bank staff conduct field supervision missions about twice per year. In the conduct of these missions, the Bank staff perform sample post reviews of documentation supporting withdrawals against Statements of Expenditures (SOEs) and Project Management Reports (PMRs), review the control environment that supports the preparation of SOEs and PMRs, and perform post reviews of procurement contracts and the procurement process that was followed.

### 3. Other Oversight Functions

Many other units throughout the Bank also provide an additional level of control and oversight over the use of Bank funds on investment projects. These include the Internal Auditing, Loan, and Legal Departments; the Quality Assurance Group; the Procurement Policy and Services Group; the OCS Network; and the Oversight Committee on Fraud and Corruption.

was no longer operating only in a world of large infrastructure projects, with large contracts in which oversight was relatively easy to exercise. Instead, it had moved increasingly to social, environmental, and other new types of lending that, unlike the projects of the earlier era, typically required numerous small contracts. The Bank needed to find new models that would allow it to cope better with the thousands of small contracts that could not be cost-effectively supervised within its current way of doing business.

- The Bank's internal capacity to deal with procurement and financial management was eroding as experienced and knowledgeable staff retired. The trend toward assigning generalists to specialized work threatened to compromise quality in these areas.
- The Bank needed to move more aggressively in assisting its clients to improve capacity—not just to ensure the observance of controls in Bank-financed projects, but as part of an overall improvement in governance and public sector management.

Over the term of the Strategic Compact, the Bank has significantly increased the resources devoted to procurement, financial management, supervision, and other key, core business processes necessary to maintain a high standard of quality in project implementation. Specifically, the Strategic Compact provided more than \$30 million over a three-year period to increase the number of procurement and financial management staff, increase the frequency and effectiveness of Country Procurement Assessment Reviews (CPAR), finance intensive post reviews of procurement contracts not subject to prior review by the Bank, and support the financial management reform program. It also allowed the Bank to spend more than \$6 million in FY99 to investigate allegations of corruption, and has further increased this funding to \$6.9 million for FY00. After two full years of operation, the Strategic Compact's ini-

tiatives are being integrated and mainstreamed into the Bank's normal business, thereby helping the Bank to carry out its mission of poverty reduction.

## **Creation of the OCS Network to Ensure Quality in Business Processes**

The Operational Core Services Network (OCS) was established in July 1997 to bring together those staff responsible for overseeing core business functions within the Bank, including the procurement, financial management (in cooperation with the Controller of the Bank), and quality aspects of Bank-financed projects; and to implement new processes in the areas of financial management and procurement. Working within the OCS Network structure, fiduciary and procurement controls were strengthened and boards were established for the oversight and review of financial management<sup>8</sup> and procurement<sup>9</sup> issues.

Acknowledging the importance of a strong system of controls and the assimilation of key business processes into the project cycle, Bank management elevated the head of the OCS Network to the rank of vice president, effective February 1, 1999. This helped emphasize to staff the importance that management was placing on an integrated system of financial management, procurement, and supervision oversight, and on the quality assurance processes developed by OCS.

Further, recognizing that corruption issues potentially involve all facets of the Bank's core business processes—procurement, financial management, and supervision—in June 1999 OCS added two staff members to serve as a focal point in the Bank for sharing knowledge on the design of projects to help prevent or detect instances of corruption.

OCS works closely with the Poverty Reduction and Economic Management (PREM) Network on issues relating to the anticorruption agenda. It is also working to reform the Bank's training program to include more

material on anticorruption and the adequacy of controls in Bank-financed projects. Last, OCS is beginning to disseminate lessons learned from past corrupt activities within Bank-financed projects, in order to raise the awareness of operational staff to the risks associated with the work of the Bank.

## **Financial Management Reform**

As noted earlier, project financial management was identified in the Strategic Compact as one of the core functions in need of extensive improvement. Bank management recognized that more emphasis needed to be placed on borrower capacity building by strengthening financial management. The changing mix of the nature of Bank-financed projects was making it more and more difficult to adequately control the potential for corruption in Bank-financed projects. The trend in lending had been for the Bank to move away from its traditional large infrastructure projects toward more decentralized, social sector projects involving hundreds of small contracts and requiring that disbursements be made increasingly on the basis of Statements of Expenditures.

To help compensate for the increased risks from the changing nature of Bank-financed projects, Bank management revised its policy on financial management<sup>10</sup> in August 1997 to reestablish the importance of strong financial management, with particular emphasis on accountability and safeguards at the project level. Subsequently, LACI was endorsed by the Board in July 1998 to further strengthen financial management, principally through assessments of project financial management systems. Those assessments include reaching agreements with the borrower on measures to ensure that adequate financial management systems are in place for project implementation.<sup>11</sup> LACI introduced a new integrated project monitoring system that brought together project financial

management, disbursement, procurement and contract management, and physical progress through the use of Project Management Reports (PMRs). It also introduced a forecast-based method of disbursing funds by periodic advances to a project special account based on PMRs.

The financial management strategy called for a balanced approach emphasizing both the Bank's fiduciary and developmental responsibilities, and comprised the following core principles. It specified that:

- The Bank would collaborate with borrowers and support their efforts to strengthen financial management capacity at the project as well as at the country level.
- Borrowers were to ensure that appropriate financial management systems are in place to effectively implement projects.
- Borrowers would be able to request disbursement against loans on a quarterly basis for eligible expenditures on the basis of borrower PMRs.

The plan for implementing these adjustments called for action in three areas:

**Improving the Financial Management Process.** This has involved major shifts at several levels:

- Shifting project financial management work upstream, with in-depth assessment of borrower capacities at the preparation stage to ensure that the borrower will have the required capacity in place to manage and report on the use of project funds.
- Rationalizing disbursement mechanisms through the use of PMR-based disbursement.
- Requiring regular PMRs by the borrower on the use of the project funds, regardless of the disbursement method.

**Strengthening the Bank's Internal Governance Structure.** This has focused on:

- Defining the roles and responsibilities of all Bank units involved in project financial management. Financial Management Specialists must evaluate the status and acceptability of project financial management systems as part of the appraisal process, and must monitor the continuing adequate functioning of the system throughout project implementation.
- Ensuring that the financial management function is undertaken and managed by a sufficient number of qualified staff, that there is clear accountability, and that financial management staff are adequately trained and operate in an environment of cross-functional teamwork. As a result of the Strategic Compact, the Bank increased the number of financial management staff from a low of 25 to 78 in FY99.<sup>12</sup>

**Augmenting Client Capacity.** This constitutes a major thrust in the financial management strategy at the project and country levels:

- Assessments carried out as part of the preparation of each new project identify specific needs, such as development of borrower internal control and accounting systems, training of financial management staff, and computerization of financial management systems. Technical assistance is usually offered to the borrowers as part of project preparation to ensure that basic financial management systems are in place prior to the loan becoming effective.
- At the country level, new diagnostic instruments have been piloted. Country Financial Accountability Assessments (CFAAs) and the abridged format of Country Profiles of Financial Accountability (CPFAs) are being carried out to diagnose problems in the private and public sector financial management systems of the country and regulatory frame-

work. In addition to their role as fiduciary diagnostic tools at the country level, CFAAs and CPFAs also serve to identify a country's financial management development needs, with the objective of supporting such needs through the use of Bank assistance. The CFAAs and CPFAs are discussed in greater detail in Chapter 3.

Implementation of LACI (recently renamed the Financial Management Initiative, or FINMI) is currently under way. An assessment of LACI's first year of experience identified areas both of success and of difficulty. The first year of implementation of the initiative has in fact been marked by important successes: building up a critical mass of financial management professionals in the Bank; putting in place procedures to ensure fiduciary requirements are met on new projects; assisting borrowers to build their institutional capacity; and mainstreaming financial management work as an integral part of the Bank's development objectives. In particular, significant progress has been made in ensuring compliance with the operational policies covering financial management.

There have also been some important areas where difficulties were encountered; for example, the roll-out of the new financial management assessment procedures came late in the project cycle for many projects, leading to many which required additional work before loan effectiveness could trigger loan disbursement. Also, because some clients were not convinced of the value of the new PMR-based disbursement, application of this has been slower than anticipated. The review of first-year progress concluded that the Bank will need to be diligent if it is to ensure that financial management and accountability issues remain a priority. Important next steps are enhancing procedures and tools, strengthening implementation monitoring, and outreach to borrowers and Bank staff. In particular, the format and content of the PMR will be reviewed with a view toward achieving a balance between standardization and flexibility.

Supervision of the financial management systems during project implementation is another important element of the overall project financial oversight mechanisms. This matter has been given significant attention, particularly since the Regions<sup>13</sup> now employ core financial specialists to oversee the appointment of project auditors and to review and follow up on audit reports. In a typical year the Bank receives more than 2,000 audit reports. Although not all audit reports are received on time and the quality of audits and of audit reports varies considerably, the wide coverage of audits, the messages contained in audit reports, and the general deterrent effect resulting from audits provide a line of defense against corruption. Future action includes improvements to internal audit tracking systems to ensure appropriate follow-up.

## Procurement Reform

As part of the Strategic Compact, the OCS Procurement Board conducted an assessment of the Bank's performance in the area of procurement, leading to an assessment of emerging needs in the implementation of procurement reforms. The assessment provided a candid analysis of weaknesses in the Bank's capacity, and of opportunities and challenges posed by changing external demands. It proposed a balanced strategy that would emphasize both the Bank's fiduciary and developmental responsibilities. Actions were planned in four areas:

- Strengthening of the Bank's internal capacity through hiring and training.
- Improving processes and instruments, including (a) providing clarity on the handling of investigations of corruption and (b) publishing sanctions against bidders who have engaged in fraud, misrepresentation, or corrupt practices under Bank-financed projects.



- Augmenting client capacity.
- Enhancing partnerships.

This section covers the first two areas. The last two are covered in Chapters 3 and 5, respectively.

**Strengthening the Bank's Internal Capacity.** Internal capacity to carry out procurement has been strengthened through recruitment and through the training of existing staff in new skills. In procurement, 36 additional specialists and 11 analysts and assistants have been hired since 1997. In addition, task team leaders and technical specialists now must go through an accreditation process to qualify for procurement work: to date, some 200 staff have been accredited as procurement proficient.<sup>14</sup> While the initial target of 50 additional specialists to be hired under the Compact has not been met, the most recent estimates of gross staff needs, taking into account the 200 accredited staff, indicate that the Bank has made good progress toward achieving the coverage anticipated under the Compact. The challenge now is to focus on hiring staff who can bring in new skills, such as procurement institutional capacity analysis.

Staff training, for both specialists and non-specialists, has been overhauled and modernized with the assistance of the WBI. The number of staff trained annually since the Compact started has more than doubled.

Another important procurement reform has been the decentralizing of procurement staff to key field offices. Delegation of fiduciary responsibilities to some field offices has taken place gradually in accordance with a framework that reduces risks by ensuring that the right levels of skills, among other criteria, are in place. Partial delegation of fiduciary responsibilities has been approved for Argentina, Bangladesh, Brazil, Bolivia, Bosnia and Herzegovina, Hungary, India, Indonesia, Mexico, Pakistan, Russia, Turkey, and Ukraine. Reviews of requests for delegation are being

processed for Burkina Faso, China, Côte d'Ivoire, Ghana, Kenya, Thailand, and Vietnam. Under preparation are the Arab Republic of Egypt, Senegal, the West Bank and Gaza, and Yemen. Due consideration is given to the professional procurement capacity available in the local office, the general procurement environment in the country, and the past performance of procurement under Bank-financed contracts. Reviews that need clearance by the Regional Procurement Advisors have not been delegated. The delegation of these fiduciary responsibilities will be reassessed annually and can be revised upward or downward in accordance with results and the performance of the field offices.

Decentralizing procurement staff has also improved response time and dialogue with borrowers and the business community. Furthermore, the availability of staff in the field permits closer supervision and increases the opportunities to address procurement issues before they become major problems.

It is essential that efforts to help countries reduce corruption be complemented by internal efforts to maintain the highest ethical approach to procurement. Accordingly, a special *Code of Ethics for Procurement Staff* was issued in April 1998 to reiterate to staff handling procurement in Bank-financed projects the importance of the Bank's Code of Professional Ethics and to provide a motivating spirit or force in the day-to-day ethical behavior of the staff. In addition, the Bank's accountability framework was tightened, and now includes clear escalation rules for decisions in instances when Country Directors disagree with the technical opinion of financial or procurement specialists.

**Streamlined Processes and Instruments.** Over the last three years, the Bank has put into place new procurement guidelines to improve its ability to ensure that loan funds are used for their intended purposes, with economy, efficiency, and transparency. First, in 1997 the Board of Directors approved amendments to the operational policies that govern borrower procurement

to make explicit the actions the Bank will take to deal with allegations of fraud and corruption against bidders, suppliers, and contractors.<sup>15</sup> These guidelines also require that borrowers include specific anticorruption undertakings in their contracts with suppliers and contractors. In addition, Bank management issued instructions in January 1998, subsequently amended in November 1999, that set out internal procedures for handling allegations of corrupt or fraudulent practices. The revised guidelines state that it is the Bank's policy to require that borrowers, as well as bidders, suppliers, and contractors under Bank-financed contracts, observe the highest ethical standards during the procurement and execution of such contracts.

As part of the new strategy, the Bank focuses on improving the diagnosis of borrower procurement

capacity at the project and country level. At the project level, a new methodology for capacity assessment and determination of project design (including the setting of thresholds for prior and post reviews based on risk) was developed. This was introduced in FY99, and staff have made good progress in the use of this new tool. The Procurement Board periodically reviews experiences so as to share best practices and to amend the tool based on experience. At the Country level, a new-style CPAR was developed to help guide borrower procurement reform programs. This is discussed more fully in Chapter 3.

To help improve staff understanding of procurement requirements, the Bank has issued several key procurement guidance documents. Table 2.1 identifies the key procurement instructions issued as of June 2000.

**TABLE 2.1 Procurement Instructions Issued as of June 2000**

<b>Title</b>	<b>Date Issued</b>	<b>Description</b>
New CPAR Procedure	06/01/98	Methodology to carry out country procurement work; diagnosis of national and subnational procurement systems; evaluation of risks and formulation of reform plans.
Assessment of Agency's Capacity to Implement Procurement; Setting of Prior Review Thresholds; and Procurement Supervision Plan	08/11/98	Instructions and methodology to carry out implementation of agency procurement capacity reviews; to assess risks; to prepare risk reduction plan and supervision plan, including setting of prior review thresholds, based on risks.
Interim Instruction on Staff Review and Clearance Procedures for Procurement	03/18/99	Instructions resetting the responsibilities and accountabilities of staff and managers on procurement.
Decentralization of Procurement Work	09/16/98	Instructions and criteria on how and under which circumstances delegation is possible and how to process it.
Accreditation and Decentralization	03/10/99	Instructions and criteria to be used to accredit unlisted Task Team Leaders and/or technical specialists to perform procurement work.
Hiring Government-Owned Universities, Research Institutes, Government Officials and Academic/Research Staff as Consultants in Bank-Financed Operations	8/19/99	Instructions on hiring of government-owned universities and research institutes, and hiring of government officials in the borrower's country as consultants in Bank-financed contracts.
Selection and Employment of Consultants for PHRD Technical Assistance Grants	11/16/99	Reminders to Bank staff about the policies and procedures related to the selection and employment of consulting firms and individual consultants for PHRD grants and specifications related to the use of Bank Policy AMS 15.00.
Guidance Procurement Note on Handling Procurement Under Shopping Method	6/8/00	Guidance Procurement Note on Handling Procurement Under Shopping Method elaborates on Paras 3.5 and 3.6 of the Guidelines with a view to provide for required transparency and record keeping for verification and audit of transactions.

As noted earlier, the Bank supervises borrower procurement contracting at different levels of intensity, depending on the risks involved. The largest contracts are subject to prior review by the Bank. This means that the Bank is consulted at key points in the bidding process to ensure that the borrower is carrying out the contracting in accordance with the Bank's guidelines, and in particular with due reference to economy, efficiency, fairness, and transparency. Depending on the nature and size of the bid, the Bank may review the procurement process at up to three points, and the borrower cannot go ahead with the contract until the Bank formally issues a "no-objection opinion" on the contract. Bidders have the opportunity to complain during this process, and these complaints often serve to alert the Bank of problems that may be related to corrupt practices. The Bank seeks to address these problems before the contract is let, thereby helping avoid corruption or inappropriate practices through up-front detection. As part of its prior review program, in FY98 the Bank reviewed 10,430 contracts, with a total value of \$9.5 billion.

Increasingly, the nature of the Bank's business has turned to smaller, decentralized contracts that are not cost-effectively handled through prior review. These are usually small contracts subject to local competitive bidding processes, often in the local language. The Bank's practice calls for these to be reviewed on a sample basis by Bank staff through ex-post review. Poor compliance by Bank staff with this requirement was addressed under the Compact: first, the requirement to have a procurement-accredited staff member on the project team has enhanced accountability for this task; second, the creation of capacity in large country-based offices has helped systematize these reviews; and third, the Bank has intensified post review of procurement since FY98 through ex-post procurement audits carried out by firms or other specialists retained by the Bank. This is a major improvement over the situation before FY98, when only a few post reviews took place every year.

Additional work is under way to further improve the compliance of Bank teams with the requirement for post reviews. Table 2.2 summarizes where these specialized audits have been conducted.

TABLE 2.2  
Summary of Special Procurement Audits in FY99

Region	Number of Audits	Countries
AFR	30	Angola, Cameroon, Chad, Ghana, Malawi, Tanzania
EAP	8	China, Thailand, Indonesia
ECA	6	Romania, Russia, Turkey
LCR	14	Argentina, Brazil, Colombia, Mexico, Paraguay, Peru, Venezuela
MNA	3	Yemen, the West Bank and Gaza, Egypt
SAR	4	Bangladesh, India, Pakistan

Twenty-six specialized audits were completed in FY99. As a result of these audits, 22 instances of misprocurement were identified, with a total contract value of \$37 million. The Bank finances annually an estimated 45,000 contracts, totaling approximately \$25 billion to \$40 billion. The audits have provided detailed knowledge on some weaknesses or poor procurement practices of borrowers that has been used to take corrective action, to refocus supervision of post review contracts more selectively, and in several cases to declare misprocurement. The audits also provided certain information pointing to potential fraudulent or corrupt practices that were subsequently investigated.

## Monitoring and Evaluation

Bank management has been working in close collaboration with the Audit Committee of the Board on the quality of the Bank's procurement policies and financial management. Since FY98, Bank management has

provided an annual report to the Audit Committee on the status of the Bank's progress toward improving procurement and financial management. Bank management has also turned to its oversight units for additional review of its compliance with procurement and financial management procedures. In FY99, reviews were conducted to verify compliance with policies and procedures and to assess how well operational staff and managers were discharging their procurement responsibilities. The reviews concluded that at the corporate level there had been progress on all fronts in meeting objectives, but that although internal controls had improved, one needed to improve performance with ex-post audit requirements. This check triggered corrective action, and is leading to reviews by all of the Bank's Regional Vice Presidencies of their compliance record.

The Quality Assurance Group (QAG) has also noted an improvement in the overall quality of the Bank's portfolio. In its FY99 Annual Report on Portfolio Performance, QAG noted improvements in the strengthening of operational core services, especially of financial management and procurement. Specifically, the quality of the Bank's overall supervision had improved from 76 percent satisfactory in FY98 to 82 percent satisfactory in FY99. Among the Regions, all had made major improvements in supervision quality since FY97, with the East Asia and Pacific Region achieving and the Middle East and North Africa and South Asia Regions surpassing the objective of 85 percent satisfactory supervision in FY99. QAG also noted that older projects are now supervised as well as more recent projects, and that there has been important progress in carrying out satisfactory supervision of projects at risk. Table 2.3 shows this improvement. In fiduciary areas, progress was also noted in the supervision of financial management, rising from 68 percent satisfactory in FY98 to 81 percent satisfactory in FY99, mainly due to greater awareness of this area and to an increase in the number of financial manage-

ment specialists in the Bank. Support by sector boards for quality enhancement of supervision had also improved.

TABLE 2.3 QAG Rapid Supervision Assessment

Supervision	FY97	FY98	FY99
Procurement	88%	90%	94%
Financial Management	77%	68%	81%
Overall Bank-wide Rating	63%	76%	82%

### Dealing with Allegations of Corruption in Bank-Financed Projects

Bribery and extortion are consensual offenses in public procurement, and corruption cannot always be detected by normal preventive controls over procurement and financial management operations. In order to strengthen the Bank's overall control framework, in May 1998 an Oversight Committee on Fraud and Corruption (Oversight Committee) was established, with responsibility for ensuring a thorough, prompt, and responsible investigation of allegations of corruption involving Bank staff. In October 1998, this responsibility was broadened to include the supervision of all investigations of fraud and corruption within the Bank Group or in connection with Bank Group-financed contracts. Fraudulent or corrupt practices include the solicitation, payment, or receipt of bribes, gratuities, or kickbacks or the manipulation of loans or Bank-financed contracts through any form of misrepresentation. Fraudulent or corrupt practices also include any situation in which staff members have abused their positions or misused Bank funds or other public funds for private gain. The Oversight Committee includes representation from IAD, the Legal Department, and the Business Ethics and Integrity Department (BEI), and is chaired by a Managing Director.

A Secretariat supports the work of the Oversight Committee and ensures appropriate follow-up on all matters reported to the committee. The Bank hired a former U.S. federal prosecutor to act as Secretary to the Oversight Committee and the investigations function has been strengthened with the recent hire of two additional investigators and three attorneys, all with considerable experience in investigating fraud. Specialist forensic auditors and a legal counsel are also retained as needed to assist in complex cases.

To help ensure that allegations of fraud and corruption are reported, the Bank established in October 1998 an international telephone hotline with multilingual capabilities, which operates 24 hours a day seven days a week. It is available to Bank staff and the public.<sup>16</sup> In response to limitations identified in the course of an external review conducted by the GAO in September 1999, the hotline was improved with the addition of a collect-call number for areas where the AT&T number did not work.<sup>17</sup> The hotline is operated under contract with the Pinkerton Company,<sup>18</sup> using the strictest standards of confidentiality to allow callers the option of remaining anonymous. All hotline reports are turned over to the Oversight Committee. As of March 14, 2000, the Bank had received 156 calls through the hotline. The Bank is working to make the hotline better known throughout the development community in order to enhance its effectiveness.

The Bank has also established several additional mechanisms to allow Bank staff or the general public to report allegations of fraud and corruption. These include an e-mail hotline address,<sup>19</sup> an electronic form to submit complaints directly to the Bank via the Internet,<sup>20</sup> a telephone number at the Bank staffed during working hours,<sup>21</sup> a system of pagers to contact investigators directly,<sup>22</sup> and, for those individuals who do not have access to a telephone or do not wish to communicate by telephone, a drop-box to mail in allegations.<sup>23</sup> In all cases, this network for reporting allegations has been designed to enable callers to remain anonymous

or to request that their names be kept confidential.

Given the importance of this function, the Bank hired the firm of a former U.S. Attorney General and Deputy Under Secretary to the United Nations to conduct a review of these arrangements for detecting, investigating, and sanctioning corruption in the Bank. The review is expected to lead to further improvements in the organizational arrangements of the Investigative Unit and its governance.

## Sanctioning

In 1996, the Bank approved new measures intended to fight fraud and corruption in Bank-financed projects. Subsequently, in November 1998, the President appointed the members of the Sanctions Committee, who at present are as follows: two Managing Directors, two Vice Presidents (including the Vice President, Operational Core Services), and the General Counsel. The Sanctions Committee has met on a number of occasions and is now developing a consistent body of decisions (recommendations to the President) pertaining to the debarment of firms and individuals found to have engaged in corrupt or fraudulent activities. In order to ensure consistency with Bank procurement policies and practices, the Sanctions Committee's Secretariat is located in the Legal Department, Legal Procurement Adviser's office. Where the evidence has shown fraud or corruption, following the recommendation of the Sanctions Committee, the President has declared firms ineligible from being awarded Bank-financed contracts.

The Bank's investigations have yielded results in several different areas. For example:

- The Bank has declared 44 firms and 10 individuals ineligible for the award of Bank-financed contracts, for varying periods of time. One other firm has been issued a letter of reprimand but remains eligible for

Bank contracts. In all, as of June 1, 2000, of the 54 firms and individuals declared ineligible for Bank-financed contracts, 48 are debarred permanently from future Bank-financed contracts.

- October 1997, the Bank filed a civil lawsuit against a former Bank staff member and an outside contractor for fraud, conspiracy, and breach of contract. The Bank obtained judgments against all of the defendants in February 1999.
- In September 1998, two staff members were terminated for the misuse of approximately \$110,000 of trust funds.

The Bank is the first regional multilateral development bank to have made it policy to publish on its external web page the names of firms and individuals found to have committed some form of fraud or corruption. This is done both for information purposes, i.e., to allow borrowers to update the list of ineligible bidders that should be denied Bank-financed contract awards, and as a strong and effective deterrent on the business community. In addition, management has used the Bank's internal kiosk communications system to regularly update all staff on the status of various investigative initiatives.

## Business Ethics and Integrity

The BEI contributes to the successful implementation of the World Bank's anticorruption plan by promoting high standards of performance and conduct of Bank staff. It is an important component of the Bank's anti-corruption strategy, embracing clear, workable policies and procedures and a set of desired behaviors and attitudes. Underpinning the Bank's strategy is the principle of transparency and the promotion of an open, positive work environment.

In November 1998, the Bank appointed a new manager for BEI, bringing long-term experience of the private sector and ethics programs to the position. In addition, BEI was enlarged and its professional capacity strengthened during FY99 through the hiring of professional investigators and an Outreach Coordinator for communications and training. The objective governing these changes has been to bring the BEI into line with the latest thinking about organizational ethics and the best practices of the world's leading institutions. BEI reports directly of the Office of the President, thus ensuring independence and unfiltered access to the President. It also participates in the Oversight Committee. In 1999, BEI conducted more than 290 investigations of alleged staff misconduct.

The specific elements of BEI's program that help combat corruption include:

- Ensuring that the Bank's Guiding Principles, Values, and Code of Professional Ethics are clearly communicated to provide broad and specific guidance for staff. *Living our Values*,<sup>24</sup> the Bank's Code of Professional Ethics, was updated and launched on December 8, 1999, and has been translated into seven additional languages and dialects (French, Spanish, Russian, Chinese, Arabic, and two Portuguese dialects). The Code addresses conflicts of interest, outside activities, use of assets, handling of private data, bribery, kickbacks, gifts, fair treatment of staff, and other issues. It has been distributed to all Bank staff at Headquarters and in country offices.
- Ensuring that supervisors and managers have the skills, knowledge, and competencies to make decisions that are sound and legally grounded. In 1998, the Bank launched a program of Integrity Awareness Seminars to increase awareness of the need to observe high standards of personal integrity. By March 2000, 48 seminars had been conducted, comprising 34 in Washington, D.C., for about 1,000

staff, and 14 in country offices, including Beijing, Manila, Jakarta, Bangkok, and Hanoi; in Johannesburg for staff from 45 resident missions in Africa; and for staff in Paris, Sarajevo, and Budapest. Plans are under way to conduct seminars in Latin America and Eastern Europe.

- Ensuring that formal communications mechanisms such as helplines and hotlines are available to report suspected instances of improper conduct, that staff are encouraged to make such reports, and that disciplinary and corrective actions are taken in response to improper conduct. To enhance access by field-based staff and other staff outside Bank headquarters in Washington, D.C., in 1999 BEI launched its Ethics HelpLine.<sup>25</sup> An ethics web page, also unveiled in 1999, includes frequently asked questions (FAQs) on conflicts of interest, outside activities, computer usage, and private data, and provides two ways for staff to ask questions and to report allegations of misconduct through a secure e-mail address.<sup>26</sup>
- Ensuring that Bank policies and procedures governing the general obligations of Bank staff and disciplinary measures when misconduct occurs meet the highest standards of the profession. In November 1996, the Bank's staff rules were strengthened to include mandatory termination for staff who engage in the misuse of Bank funds or who misuse their position for financial gain. A new section was added on the reporting of fraud and corruption that addresses confidentiality and anonymity. In addition, sections on conflicts of interest were revised. The new Harassment Guidelines put out by BEI include sections on retaliation and confidentiality.<sup>27</sup> A new grievance process that emphasizes the role of informal dispute resolution has been developed and was implemented in FY00. The new process emphasizes the use of dialogue and mediation, reserving

adjudication as a last resort. The proposed system aims to prevent conflicts from escalating into serious situations and to address those conflicts that do become serious with greater transparency, speed, and due process for all parties.

## External Independent Review

The improvements that the Bank has made over the past three years to its system of management controls over investment lending activities was recently the subject of an independent external review by the GAO. It was encouraging to note that two of the GAO's key findings were that the "Bank has undertaken an ambitious and systematic effort to identify and correct key weaknesses in its system of management controls" and that "significant progress has been achieved." The GAO further noted the many steps that the Bank has taken to strengthen its internal control activities, including those covering financial management, procurement, and supervision. The report made a number of specific recommendations that are very much in line with the program of reforms under way in the Bank since 1997.

The report also points to the remaining challenges facing implementation of the changes that have been introduced over the last three years to strengthen controls. In this context and in line with the GAO's recommendations, the Bank is acting to:

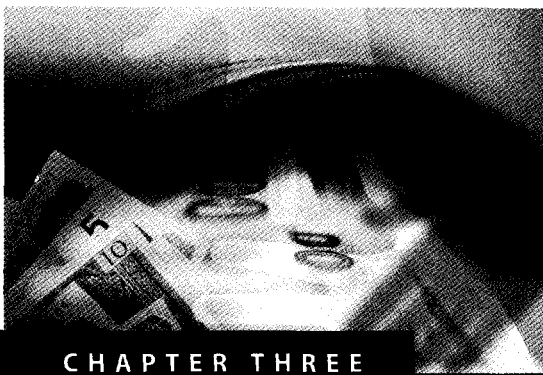
- Examine ways to strengthen the independence of the investigative functions.
- Make the reporting of risks more explicit in project documents and CASs, and to adjust supervision intensity to be commensurate with risks.
- Take steps to better allocate anticorruption assistance on the basis of risk using existing processes, in particular through monitoring closely the requirement that every CAS discuss governance issues.

- Take measures to improve monitoring tools.
- Put together an even more focused and cohesive communication program on anticorruption efforts.

In addition, and in line with the report's recommendation, the Bank is taking the initiative to introduce regular progress reports on anticorruption activities and to make those reports public—this was a constructive

suggestion from GAO and this report is in fact a first step in response to that recommendation. It is also worth noting that the Bank already has a public web site that contains an extensive array of information on the anticorruption activities of the Bank. The generally supportive findings of GAO will enable the Bank to move forward with even more confidence that it is headed in the right direction.





## CHAPTER THREE

# Helping Countries That Request Assistance

**T**he Bank's primary goal is poverty alleviation and economic development, and addressing the problem of corruption in client countries is increasingly seen to be at the heart of the development challenge. Corruption leads to misguided resource allocation, excessive government intervention, and inadequate service delivery. High levels of corruption deter private sector investment, slow growth, and can hamper poverty reduction efforts in numerous settings. Just as it became evident in the 1980s that potentially good projects often fail in poor policy environments, so it has become evident in the 1990s that policy reforms are less likely to succeed when public institutions and governance are weak. For these reasons, an important part of the Bank's anticorruption strategy is its commitment to help countries that request assistance in combating corruption.

Figure 3.1 outlines the Bank's multipronged strategy for combating corruption, illustrating the range of Bank work and providing examples of activity areas under each of five broad headings. The Bank views corruption as a symptom of dysfunctional public sec-

tor institutions, and thus focuses on underlying economic and institutional reform:

- **Economic policy reform** remains an important pillar in this effort: policy reforms that simplify rules and regulations, eliminate monopoly power, reduce the discretionary authority of public officials, and/or increase the transparency and accountability of public processes and institutions will also help to reduce corrupt practices.
- **Administrative and civil service reform** is a second critical pillar of the strategy: government structures and pay and employment policies need to provide the incentives to promote honest and accountable behavior on the part of civil servants. Decentralizing government to move government closer to citizens and thereby to empower citizens is now a major component of the administrative reform agenda in many developing countries. Of course decentralization, in and of itself, is not necessarily empowering; careful consideration is needed in the design of decentralization programs to ensure that govern-

ment accountability is enhanced as part of the process.

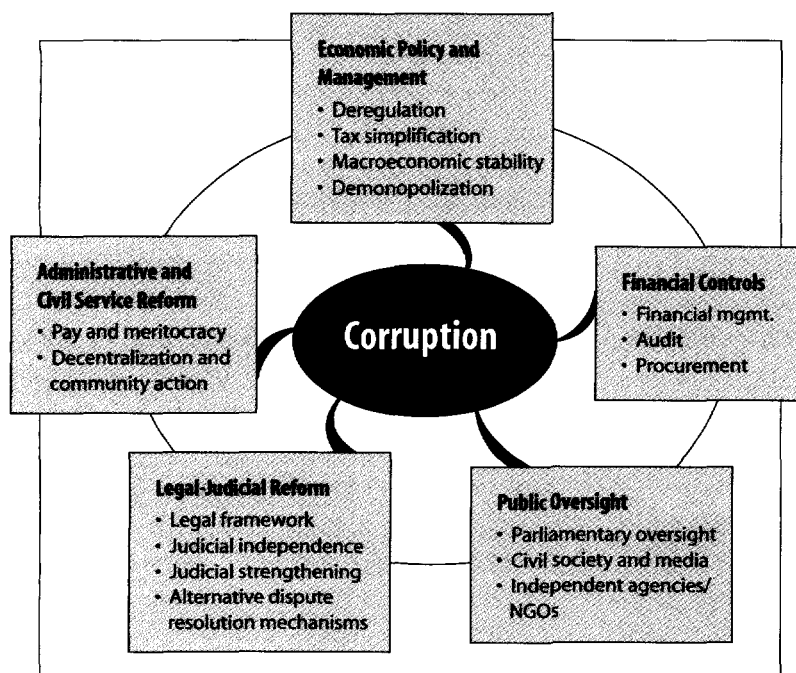
- Improving the functioning of **legal and judicial systems** is a third pillar of the multipronged strategy, because well-functioning legal institutions are critical to enforcing the rule of law and providing redress to aggrieved citizens.
- Improving **public expenditure and financial management** in government is a fourth pillar. Efficient, accountable, and transparent revenue raising, budgeting, accounting, expenditure management, and auditing processes are essential for effective government.
- Finally, strengthening **public oversight and other external accountability mechanisms** (including oversight between branches of the public sector)

and increasing the availability of data for monitoring government performance is a fifth pillar of the strategy. New and innovative uses of the internet and other forms of information technology to disseminate information on public spending and procurement, judicial decisions, regulatory activities, and data on service delivery can also help to foster external monitoring and improve accountability and performance.

Institutional reform and capacity building in the public sector will succeed only when it is “owned” within the country and driven by a country’s leaders, with participation and input from the legislature, the private sector, and civil society. The Bank’s role is to support our clients—both committed leaders and their citizenry—and provide assistance and advice to help them succeed. It is important, however, for the

Bank to understand the political economy of a country, to recognize where efforts at reforms might have a chance and where they do not, and to allocate resources accordingly. In countries with strong domestic leadership and substantial capacity, the Bank’s main contribution to public sector reform may well be through policy advice and technical assistance for further capacity building in public sector management. In other settings more of a “demand-side” approach may be appropriate, focusing on activities that help build transparency and momentum and consensus for change. Determining the best

**FIGURE 3.1 Multipronged Strategy for Combating Corruption**



strategy in any particular setting inevitably requires working with our clients on a case-by-case basis to understand the situation on the ground, consider alternatives, and come to a balanced and informed judgment.

The Bank's toolkit for assisting clients who request help consists of several interrelated elements. Diagnostic tools help raise public awareness about the nature and extent of corruption and thus help set priorities. Workshops and other collaborative processes aim to build coalitions of civil society, government, parliament, the private sector, and the media to provide the basis to improve the institutional environment. Finally, investment and adjustment loans and Institutional Development Grants provide organizational and financial support for the design and implementation of reform programs, often in partnership with other donors. Annex III provides an inventory of governance, anticorruption, and public sector institutional reform activities undertaken in the two and one-half years since the adoption of the strategy. The growth in the number of governance components in our loans and the 600-plus entries in the inventory demonstrate the major expansion in anticorruption activity that has occurred in the Bank in the past three years.

All Networks and Regions in the Bank are active in implementing the governance and anticorruption agenda on the ground, but responsibility for overseeing the second, third, and fourth levels of the Bank's strategy lies primarily with the Public Sector Board in the PREM Network. The Board is chaired by a Director and comprises representatives from each of the Bank's six Regions, the WBI, and the Development Research Group. By including representation from each of these different vice-presidential units, the Board is able to take a cohesive Bank-wide approach and to ensure extensive cross-regional collaboration and knowledge sharing.

## Diagnostic Tools

One of the key contributions of the Bank in the anti-corruption and governance area has been the development and application of a constellation of diagnostic and analytical tools designed to illuminate the actual workings of government institutions and processes; to diagnose the causes, nature, and extent of corruption, and to help with the design of programs of intervention and assistance. While these instruments have somewhat different purposes, each is an important tool to help the Bank and client countries deepen their knowledge of governance settings and the constraints and opportunities that these settings provide for development in general and Bank work in particular.

**Institutional and Governance Reviews (IGRs)** are a family of analytic instruments now being developed and piloted. They are designed to bring a greater focus on and understanding of governance arrangements in the public sector and their link to public sector performance. In-depth IGRs have been completed for Armenia (see Box 3.1), Bangladesh, Bolivia, and Indonesia, and between five and seven others are under way in various Regions. In addition, numerous other initiatives in this family of products—including diagnostic anticorruption surveys of citizens, firms, and/or policymakers—are being undertaken in several other countries (see below). These efforts differ significantly from each other because each is designed around specific country circumstances and the needs of country teams and client countries. They nonetheless share the common goals of (1) focusing on performance by beginning with a problem (such as poor service delivery, corruption, or bad economic policies) and tracing its governance roots; (2) working with clients to use empirical methods and diagnostic toolkits (including analysis of political economy issues) to understand current governance realities in the country concerned; and (3) using this deeper understanding to help shape feasible and effective

programs of institution building for client countries and the Bank.

The pilot IGRs focus on major problems of government performance in one or more of three arenas:

- **Policymaking.** How can governments reform their policymaking institutions in order to generate policies that are more conducive to robust and equitable economic growth?
- **Service delivery.** What governance problems underlie poor service delivery? How can governments reform institutions to improve public service delivery?
- **Accountability.** How can the accountability of public officials be enhanced and corruption reduced?

**Anticorruption Surveys** of citizens, private firms, and policymakers—sometimes carried out in tandem with in-depth IGRs—have grown rapidly as a tool for governance analysis. The aim of such surveys has been to measure the economic and social costs of corruption, the quality of public service delivery and of the business environment, and to identify public sector vulnerabilities. This sort of empirical approach focuses the policy debate on institutions rather than on individuals, identifies reform priorities, and establishes benchmarks for measuring the effectiveness of future reforms. WBI and Europe and Central Asia Poverty Reduction and Economic Management pioneered the use of anticorruption surveys in the ECA Region in FY98, and anticorruption surveys have been or are being undertaken in numerous other countries (over 20 in total as of December 1999) and Regions in FY99 and FY00 and have helped generate a momentum in client countries to act on the specific patterns of corruption; they are contributing to a worldwide data set that complements such worldwide surveys as the World Business Environment Survey (WBES).

### BOX 3.1

#### A Pilot Institutional and Governance Review: Armenia

Armenia is the first country in the Europe and Central Asia Region to undertake an Institutional and Governance Review (IGR). Newly independent from the former Soviet Union, Armenia was immediately confronted with acute macroeconomic instability and a severely deteriorating fiscal position.

While the IGR draws on already published and available data, it has also commissioned background papers from local academicians and journalists and is undertaking surveys of public officials and households. The survey of public officials focuses on practices related to public administration, budget management, and accountability. The survey of households focuses on their use of and satisfaction with key public services. This broad data collection enables the IGR to consider cross-cutting issues such as the relationship between agency characteristics and poor service delivery performance, the impact on policymaking of fragile budgetary institutions and a poorly supported cabinet system, and the efficacy of horizontal and vertical accountability mechanisms.

The IGR focuses on four areas: public expenditure management, civil service reform, policymaking institutions, and regulations within the public sector. It has concentrated on service delivery in the health sector as its primary example. Information and analysis from the IGR will improve the Country Assistance Strategy by helping it to address institutional concerns. The methodology developed for institutional diagnosis will also be applicable to other countries in the region facing similar challenges to institutional development.

**FIGURE 3.2: Examples of Results of Surveys of Citizens and Public Officials**

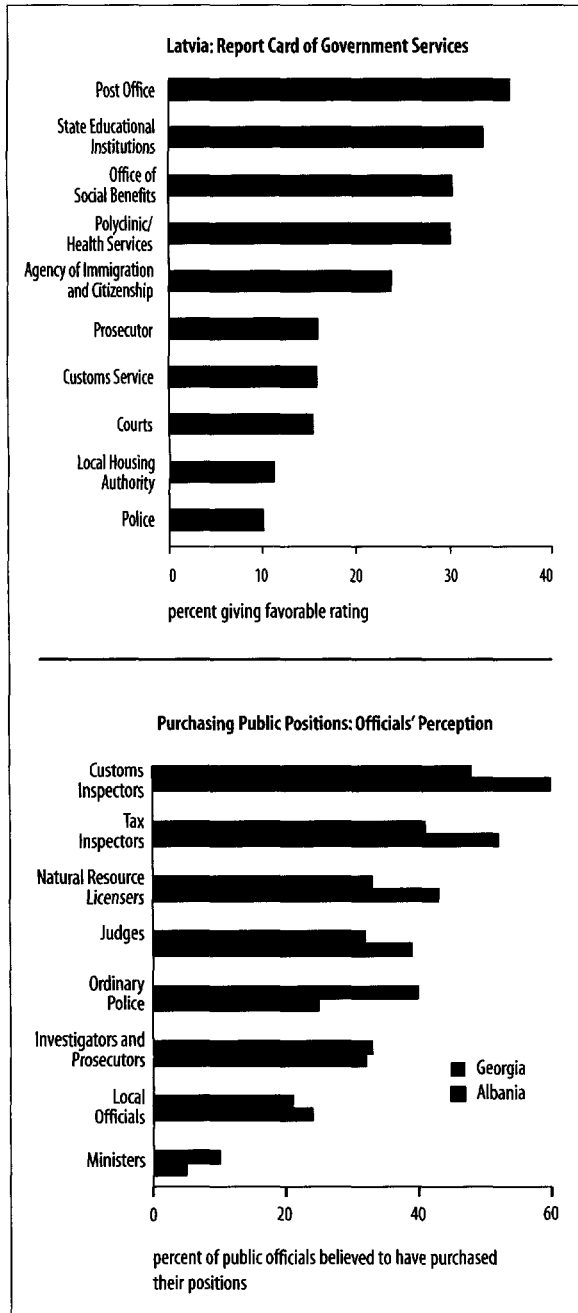


Figure 3.2 shows two examples of recent survey results, the first example showing citizen ratings of public services and the second showing the percentage of public servants who are believed to have “purchased” their positions. Results of these types of surveys inform a policy dialogue that aims to design effective anticorruption strategies. They help to give concrete substance to the rhetoric of anticorruption. Furthermore, they can encourage greater participation of civil society in governance and anticorruption efforts, as representatives from government, civil society, and the private sector are invited to workshops to discuss survey results and help formulate action plans to address any problems identified by the survey. Surveys and workshops can thus raise awareness of governance issues, build consensus, and identify priorities regarding reform programs.

**Public Expenditure Reviews (PERs)** have traditionally been the most common analytic instrument for economic and sector work in the area of public sector reform. PERs vary significantly from country to country, but in general their focus has been primarily on budget structure and composition and on processes of public expenditure management, with some attention additionally paid to more general public sector issues. Over the last 10 years PERs have increasingly focused on institutional issues such as budget management and incentives in the public service, and many recent PERs directly address issues of accountability and corruption. For example, the 1998 PER for China focused heavily on the institutional setup for public expenditure management, including issues of decentralization, and the ongoing PER for Indonesia focuses primarily on institutional issues. A recent PER for Cambodia (which won an award for excellence in Bank Economic and Sector Work) focused extensively on public expenditure management and corruption issues. Table 3.1 shows the number of countries in which PERs have been conducted.

TABLE 3.1  
Public Expenditure Reviews Conducted by Region<sup>1</sup>

Region	Number of Countries	Public Expenditure Reviews	
		Number of Countries	Percentage
AFR	32	22	69
EAP	12	10	83
ECA	25	10	40
LCR	22	6	27
MNA	9	4	44
SAR	5	4	80
TOTAL	105	56	53

<sup>1</sup> Completed in FY98 and FY99 or planned in FY00.

An important innovation in PERs in recent years has been an attempt to look beyond budget allocations to see how money is actually spent on the ground. Budget-tracking surveys were pioneered in Uganda in the mid-1990s. These surveys compare budgetary allocations with actual expenditures in the health and education sectors by measuring the level of budget disbursements that actually reach the schools and health clinics they are supposed to reach. The Uganda survey found that only one-third of intended non-salary expenditure actually reached the relevant schools and health clinics. In response to the survey results, the Ugandan government changed the way it disburses funds by instituting new mechanisms that make actual disbursements more transparent (including publication in the local press and posting directly in schools) and that improve the capacity for citizen monitoring. The tracking survey was also able to compare official data on school enrollments to actual school attendance over time (the latter turning out to be significantly greater), and this led to an improvement in the database and thus a more accurate basis on which to base policies and budgets.

The **Country Procurement Assessment Review (CPAR)** endeavors to describe and diagnose the health of the existing procurement system in a country. In the process it generates a dialogue with the government, focused on needed reforms that should be set out in a

concrete action plan. To accomplish this, the primary objectives of CPARs are to:

- Provide a comprehensive description and analysis of the country's public sector procurement structure, including the existing legal framework, organizational responsibilities and capabilities, and present procedures and practices, including how these may differ from the formal rules and procedures.
- Perform a general assessment of the institutional, organizational, and other risks associated with the procurement process.
- Establish the basis for dialogue between the country and the Bank on how to streamline and improve the economy, efficiency, and transparency of public sector procurement.
- Develop a detailed action plan to achieve institutional improvements, including interim modifications to existing practices in the country, so that contracts being financed under current projects will meet the Bank's procurement standards pending completion of the broader reform program.
- Encourage better commercial practices in the private sector.

The CPAR has also served the important purpose of ensuring that national procurement procedures are suitable for Bank financing. It has provided a sound basis for decisions on the level of intensity and approach for supervision in Bank operations, including whether or not and to what extent the Bank's fiduciary responsibility for procurement can be delegated to field offices.

New-style CPARs, which concentrate on overall institutional procurement capacity, were piloted in FY98. They have been completed in 16 countries, with seven more nearing completion. Another 28 are planned to be initiated in FY00, though experience shows that not all will be completed in that fiscal year. Governments and the private sector have been actively

involved in the reviews. A dialogue with the concerned governments on the findings of the CPARs has started to incorporate appropriate strengthening actions in the respective country assistance strategies. Governments have responded quite positively to the new CPAR exercise and have taken ownership of the diagnosis and recommendations. Table 3.2 shows the CPARs completed in FY99 and planned for FY00.

The Bank's tool for assessing financial management issues is the **Country Financial Accountability Assessment** (CFAA). The CFAA describes and analyzes a country's public financial management system and its overall financial accounting environment for public and private sector operations. Borrowers can request that the Bank undertake a CFAA to identify major issues affecting public and private sector financial management in the country and, where necessary, help make current practice consistent with international standards. The CFAA recommendations then become part of the dialogue with the borrower on the CAS and are used to identify and develop specific operations and project components to strengthen the borrower's financial management capacity.

Financial management specialists have accelerated the program of producing CFAAs and their junior relation, the short-form CPFA. The Africa Region has produced 28 of these short-form assessments and South Asia has achieved 100 percent coverage, but the focus is now shifting to the fuller CFAAs. At the end of FY99, 16 CFAAs had been completed (see Table 3.3). A further 26 CFAAs are planned for FY00, 13 of which will be for countries chosen as pilots for the CDF. CFAAs analyze country-specific financial management risks and therefore indicate the Bank's vulnerability, including vulnerability to corruption, in the many environments in which it operates. CFAAs help us to gauge the significance of each vulnerability and to take appropriate financial management and risk minimization action.

The effect of a CPAR or CFAA can be enhanced when its planning and execution is coordinated with other institutional development and accountability diagnostic tools as well as with other CPARs and CFAAs. Other planned reviews (such as a PER, IGR, or fiscal transparency review with the IMF) will therefore affect the scope, timing, approach, and staffing of CFAAs and CPARs. Taking the CFAA and CPAR

TABLE 3.2. Summary of CPARs in FY99 and Plans for FY00

Region	Number Planned in FY99	Number Started in FY99	Number Completed in FY99	Number Planned for FY00
AFR	5	5	5 completed (Mali, Niger, Benin, Guinea, Mauritania)	6 (Nigeria, Uganda, Mozambique, Burkina Faso, Zambia, Tanzania)
EAP	1	1	1 completed (Vietnam)	2 (Philippines, Indonesia)
ECA	3	3	3 completed (Croatia, Bulgaria, Romania)	6 (Latvia, Russia, Albania, Slovakia, Poland, Kazakhstan)
LCR	3	8	5 completed (Guyana, Dominican Republic [draft], Uruguay, Haiti [draft], Guatemala [draft])	7 (Honduras, Panama, Peru, Ecuador, Colombia, Bolivia, Trinidad and Tobago)
MNA	2	2	2 completed (Jordan, Morocco)	3 (Lebanon, Yemen, Egypt)
SAR	2	3	none completed; Bangladesh, India, and Pakistan started	4 (Bangladesh, India, Nepal, Pakistan)
TOTAL	16	22	16	28

TABLE 3.3 Country Financial Accountability Assessments (CFAAs) and Country Profiles of Financial Accountability (CPFAs)

	FY97	FY98	FY99
AFR	CPFA (19): Benin, Botswana, Burkina Faso, Burundi, Ghana, Kenya, Lesotho, Malawi, Mali, Mozambique, Namibia, Niger, Senegal, Sierra Leone, Swaziland, Tanzania, Togo, Zambia, and Zimbabwe	CPFA (5): Angola, Eritrea, Ethiopia, South Africa, and Uganda	CPFA (5): Côte d'Ivoire, Guinea, Madagascar, Mauritius, and Rwanda
EAP	CPFA (1): China	CPFA (1): Cambodia	CFAA (2): Korea and Thailand
ECA	CFAA (2): Armenia and Latvia CPFA (1): Kazakhstan		CFAA (2): Croatia and Moldova
LCR			CFAA (2): Argentina and Colombia
MNA	CFAA (2): Egypt and Yemen		CPFA (3): Jordan, Lebanon, and the West Bank and Gaza
SAR		CPFA (5): Bangladesh, Bhutan, Maldives, Nepal, and Pakistan	CPFA (2): India and Sri Lanka

together with these tools, the aim should be to provide complete diagnostic coverage. The range of tools is expanding through the use of more participatory surveys and workshops. Within the Bank, this will normally involve close coordination among PREM, OCS, and WBI staff. There are benefits from carrying out both reviews at the same time by a single team in which the right skills (financial management and procurement, public and private sector) are represented.

### Country Assistance Programs

**A Growing Program.** Most of the Bank's early work in 1998 (i.e., the first year after the adoption of the Bank's anticorruption strategy) focused on about a dozen countries, mostly in two Regions—ECA and Africa (AFR). The ECA Region and WBI carried out innovative work in Albania, Georgia, and Latvia in 1998, working at the request of each country's top leadership to diagnose the extent and nature of corruption, to bring stakeholders together for intensive dialogue, and to design action plans and follow-up projects to address specific problem areas.

The Africa Region's early initiatives focused on six countries—Benin, Ethiopia, Malawi, Mali, Tanzania, and Uganda—whose Presidents approached the Bank to request help, including help with Antibribery Undertakings (AUs) in Bank-financed project documents. The Bank undertook to work with the governments of each of the six countries, with the goal of developing a comprehensive understanding of the nature of corruption in each setting. Each mission tried to determine whether or not AUs were appropriate to the setting, to explore those settings, and to identify what other anticorruption initiatives might be feasible and worthwhile.<sup>28</sup>

The Bank's assistance to countries has expanded rapidly since 1998 and now extends to all Regions. A partial list of our activities is available in Annex III. Additionally, Box 3.2 lists those countries with which the Bank has developed a substantial program of public sector and governance reform. It is important to note that this is not a list of countries that the Bank has singled out in which to investigate corruption, and that the occurrence of a country on the list is in no way indicative of the presence or absence of corruption in that country. Rather, this is a list of countries in which



the Bank is working with governments and/or civil society, at their invitation, to help understand and systematically address problems of public sector performance and corruption. This work is conducted sometimes under the rubric of a specific anticorruption program and sometimes under the more general umbrella of public sector institutional reform. Our

work with client countries is continually expanding, and this list is thus not meant to be exhaustive.

**Size and Distribution of Lending Portfolio, FY97–99.** The Bank's portfolio of lending in support of public sector governance and institutional reform, broadly defined to include both adjustment lending (providing general budgetary support with conditions relating to public sector reform) and investment lending (financing specific technical assistance activities to improve public sector performance), is very significant. It rose from \$4 billion to \$7.5 billion during FY97–99. Lending for technical assistance, including stand-alone technical assistance projects and technical assistance embedded in other projects, totaled approximately \$2 billion to \$2.5 billion per year—equivalent to about 9 percent of total Bank lending (see Figures 3.3 and 3.4).

The number of components in the lending program has increased in each of the following core areas of the Bank's work (see Figure 3.5):

- Public Expenditure and Financial Management (FM)
- Public Enterprise Reform (PE)
- Tax Policy and Administration (TP&A)
- Civil Service Reform (CSR)
- Legal/Judicial Reform (LEG)
- Regulation of the Private Sector (REG PRIV)
- Decentralization (DEC)
- Multisector (more than one of the above).

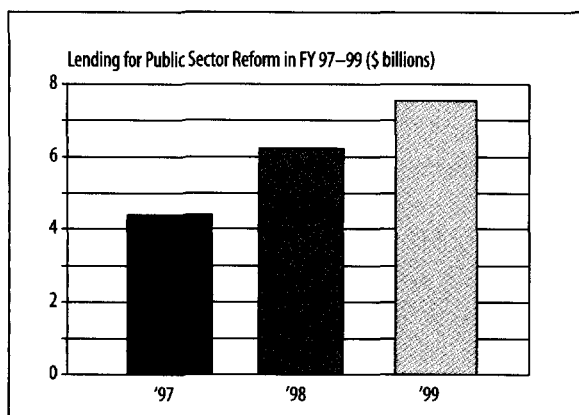
**The Bank's Evolving Governance and Public Sector Strategy.** The Bank is now rethinking its strategy for the direction of future operational work on governance and institutional reform. The Public Sector Board (PREM Network) has prepared a new strategy document, *Reforming Public Sector Institutions and Strengthening Governance: A World Bank Strategy*. The

### BOX 3.2

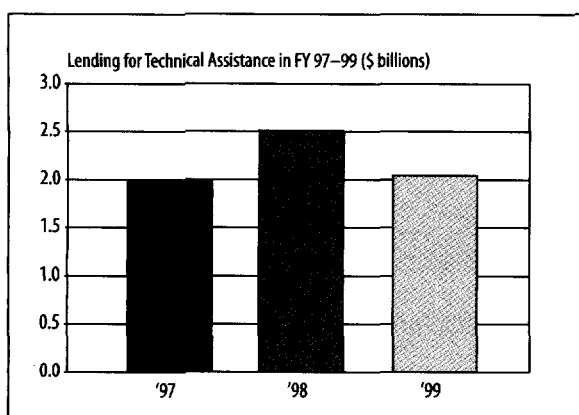
#### Some Countries with Bank Involvement in Anticorruption and Governance Issues

Albania	Latvia
Argentina	Lebanon
Armenia	Malawi
Azerbaijan	Mali
Balkans Stability Pact	Mauritius
Bangladesh	Moldova
Benin	Morocco
Bolivia	Mozambique
Bosnia	Nepal
Bulgaria	Nicaragua
Burkina Faso	Nigeria
Cambodia	Pakistan
Cameroon	Papua New Guinea
Chad	Paraguay
China	Philippines
Colombia	Poland
Dominican Republic	Romania
Ecuador	Russia
Ethiopia	Slovakia
Georgia	Sri Lanka
Ghana	Tanzania
Guatemala	Thailand
Guinea	Uganda
India (some states)	Ukraine
Indonesia	Venezuela
Kazakhstan	Vietnam
Kenya	Yemen
Korea, Rep. of	Zambia

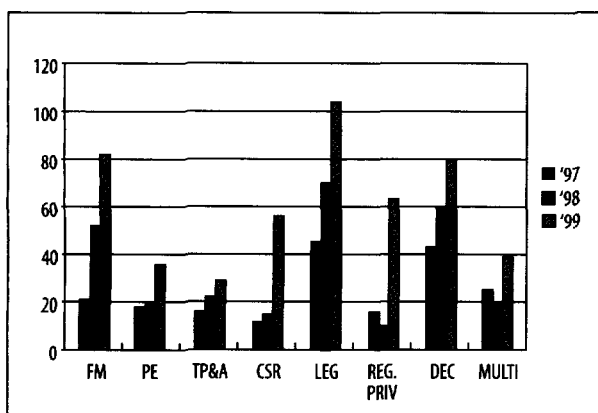
**FIGURE 3.3 Lending for Public Sector Reform in FY97–99**



**FIGURE 3.4 Lending for Technical Assistance in FY97–99**



**FIGURE 3.5 Number of Public Sector Components in FY97–99**



strategy takes a careful look at the lessons of Bank experience and suggests four broad directions of change:

- We are *broadening our approach*, emphasizing “bottom-up” empowerment, transparency, and competition in public service delivery (where feasible), as well as “top-down” reforms inside government. As part of this broadening effort, we are increasing the number of community-based development projects and programs, to help empower local communities so that they are able to influence development activities and the allocation and implementation of public spending.
- We are working closely with clients to understand the situation on the ground and to design approaches that are feasible given institutional realities. This connects closely with our push for *better, deeper, and more participatory learning work* (both analysis and participatory learning activities), as discussed earlier in this chapter.
- We are taking a *longer-term approach in our lending*, where possible, to provide time and space for institutional reform. We are now pursuing both longer-term programmatic adjustment loans (for example, a three-year adjustment loan to Thailand for public sector reform, discussed below) and longer-term investment loans (for example, 10- to 12-year governance-related investment loans in Bolivia and Ghana).
- We are *strengthening our in-house skills and our partnerships*. We are working hard, through the matrix structure, to strengthen our staffing and management and to forge collaborative arrangements with UNDP, other MDBs, bilateral donors, and NGOs. Table 3.4 lists some of our partners in key substantive areas.

**TABLE 3.4 Some of the Bank's Key Partners in Governance and Institution Building**

<b>Thematic Area</b>	<b>International Organizations and Associations</b>	<b>International Financial Institutions</b>	<b>Bilateral Donors and IIN Agencies</b>	<b>Other</b>
Anticorruption and Governance	Council of Europe, Financial Action Task Force on Money Laundering, Global Coalition for Africa, Interpol, OECD, Organization of American States	Asian Development Bank (AsDB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), IMF	Canadian International Development Agency (CIDA), Department for International Development (DFID), Development Assistance Committee (OECD DAC), UNDP, Swedish International Development Agency (SIDA), Danish International Development Agency (DANIDA), USAID, NORAD/Min. of For. Affairs (Norway), Min. of For. Affairs (Netherlands)	Transparency International (TI), International Chamber of Commerce, Institutional Chamber of Commerce, Institutional Reform and the Informal Sector (IRIS at U. Maryland), Centro Latinoamericano de Administracion para el Desarrollo (CLAD), Carter Center, Asia Foundation
Civil Service Reform	Commonwealth Secretariat, Commonwealth Association for Public Management (CAPAM), Public Management Committee and Public Management Service (OECD PUMA), Support for Improvement in Governance and Management in Central and Eastern Europe (OECD SIGMA)	AsDB, AfDB, IADB, IMF	UNDP	Civil Service College (UK), International Institute for Administrative Sciences, International Personnel Management, Tinker Foundation
Decentralization	OECD (Fiscal Affairs)	IADB	UNDP; many bilaterals, including the United States, Canada, Switzerland, Denmark, Italy, Netherlands, Belgium	IRIS (at U. Maryland), Georgia State University, One World, University of Toronto, Wharton School, British Know How, Open Society Institute Eurasia Foundation, Escola de Administracao Fazendaria (Brazil), Instituti de Estudios Superiores en Administracion (Venezuela)
Legal/Judicial Reform	European Network on Justice, International Development Law Institute, Inter-American Institute for Human Rights (Costa Rica)	AsDB, AfDB, EBRD, IADB	Caisse Centrale de Co-operation Economique (CCCE), CIDA, DANIDA, DFID, Deutsche Gessellschaft fur Technische Zusammenarbeit (GTZ), Japan International Cooperation Agency, SIDA, UNDP, USAID	Asia Foundation, Ford Foundation, Lawyers Committee for Human Rights, National Center for State Courts, U.S. Department of Justice, Singapore Supreme Court, Federal Judicial Center (U.S.), Danish Center for Human Rights
Tax Policy and Administration	Inter-American Center of Tax Administrations (CIAT), OECD (Fiscal Affairs)	IADB, IMF	United Nations Conference on Trade and Development (UNCTAD)	Arthur Andersen, Barents Group, Crown Agents, CRC-Sogema, Data Torque Ltd., Group Systems Corporation, Intertek Testing Services, KPMG, TransSenda International, WM-Data, Western Australian State Revenue Department

*continued on next page*

TABLE 3.4 Some of the Bank's Key Partners in Governance and Institution Building, continued

Thematic Area	International Organizations and Associations	International Financial Institutions	Bilateral Donors and UN Agencies	Other
Public Expenditure Analysis and Management	Commonwealth Secretariat, CAPAM, International Federation of Accountants, INTOSAI, OECD PUMA and SIGMA	AsDB, IMF	CIDA, DFID, Ministry of Foreign Affairs (France)	Center for Budget Policies and Priorities, Institute for Democracy in South Africa
Parliaments	International Parliamentary Union, Commonwealth Parliamentary Association		UNDP, CIDA, DFID, Min. of For. Affairs (Norway), Min. of Foreign Affairs (Netherlands)	Canadian Parliamentary Centre, National Democratic Institute, Institute for Democracy and Electoral Assistance (Sweden)
Media	Commonwealth Press Union, Commonwealth Broadcasting Association, Commonwealth Journalists Association, International Federation of Journalists, OECD, OAS (Trust of the Americas)		CIDA, Ireland, Ministry of Foreign Affairs, (France) Ministry of Foreign Affairs (Norway)	TI, Centre Quest-Africain des Media et du Developpement (WANAD), Association of Journalists (Tanzania), Uganda Management Institute, Radio Nederland, Groupe de Recherche et d'Echanges Technologiques

**Innovative Approaches to Lending.** The Bank has been actively developing a variety of new and innovative approaches to lending and nonlending services. Some examples from various Regions include the following:

- The Bank is helping Guatemala build institutional capacity in its judiciary to support the fight against corruption, improve access to justice, and build social communication programs in indigenous languages. The program has adopted a participatory methodology for judicial assessment and implementation that has helped identify real issues, that has promoted ownership of the reform, and that has added to the peace and reconciliation process. Also in Guatemala, an Integrated Financial Management Project is accelerating the flow of funds to social sectors and is improving efficiency, transparency, and accountability in government financial operations.
- The Civil Service Reform Project recently implemented in Tanzania targeted large-scale retrenchment in public employment and greater private participation in public service delivery, setting the stage for longer-term public sector reform. In accordance

with a recommendation in the Bank's anticorruption report, the Government has established a broadly representative anticorruption working group under the Minister of State for Good Governance. The working group presented its initial report to the Consultative Group in May 1999. In addition, the Financial and Legal Management Upgrading Project (FILMUP) has strengthened the Office of the Auditor General, the Institute of Financial Management, the Institute of Accountants, and the National Board of Accountants and Auditors. Following through on the above, the country team has initiated work on an accountability and transparency program that will focus on legal and procurement reform, the strengthening of public accounting and auditing practices, and improved service delivery.

- In Indonesia, anticorruption measures were introduced in January 1998 under the joint Bank/IMF reform program for Indonesia and were included in the Bank's Policy Reform Support Loan, approved in July 1998. Actions included the phase-out of cartels and the lifting of intraregional trade distortions;

the transparent integration of extra-budgetary funds in the government budget; the development of a legal framework for transparent, competitive bidding for public infrastructure projects; and the auditing of banks. Follow-up activities are deepening this agenda by supporting institutional reforms, including administrative and fiscal decentralization, civil service reform, and legal and judicial reform. Together with UNDP and the Asian Development Bank, the Bank is hoping to sponsor the creation of a new Governance Partnership that will provide independent analysis and advice.

- The Bank is sponsoring a public sector reform loan to help the Government of Thailand build performance-based government institutions. The recently approved \$400 million loan to strengthen public financial management in Thailand is expected to take several years to complete. The program is supporting measures to improve revenue and expenditure management, strengthen accountability and transparency, and develop human resources (see Box 3.3).
- In Latvia, the Bank has prepared a Governance Programmatic Structural Adjustment Loan (PSAL) to support the reform process. The PSAL considers a three-year reform horizon, emphasizing the design of the reform program in the first year and its implementation in subsequent years. It also sets a series of benchmarks requiring achievements in anticorruption at the legislative and executive levels and in the judiciary, including specific actions to target conflicts of interest and to support the separation of power. Other benchmarks measure improved efficiency and transparency in the public sector. These include (a) strengthening the institutions that coordinate and monitor public sector and anticorruption reform; (b) supporting the development of instruments for multiyear planning and control, including budget management and performance monitoring; (c) reforming the institutional structure of the public

### BOX 3.3

#### **Longer-Term Lending for Governance and Institutional Reform: The Thai Example**

Thailand's public sector reforms will be supported by the first Programmatic Structural Adjustment Loan (PSAL) approved by the Bank's Board. The PSAL model enables objectives to be laid out over a longer time horizon but allows "multiple paths to get there," accommodating the fact that reforms of various agencies and institutions are likely to proceed at different paces. The Public Sector Reform Loan I is the first of three annual loans that together will constitute the PSAL program. This first loan will disburse in a single tranche to support the initial steps of reform in five areas of the government's reform program: public expenditure management, human resources management, revenue management, decentralization, and accountability and transparency. The subsequent loans (depending on future financing needs) are contingent on the continuing strong commitment of the government to reform and on the satisfactory progress of reform in four of five areas. Progress in reform will be measured against semiannual benchmarks that the Thai government has set for itself.

sector; (d) strengthening the incentives and accountability of public sector employees; (e) rationalizing the interaction between the public and private sectors by streamlining the system of regulation and fostering privatization; (f) introducing mechanisms for the public to provide feedback on the performance of the public sector as well as to litigate against

the state; and (g) increasing the access of the public to public sector information.

- In Guinea, the Bank is supporting a major program of decentralization to give local citizens a say in budget allocation and in monitoring the delivery of public services. The move to strengthen citizen voice and participation is a clear example of the broader approach envisioned in the public sector strategy (see Box 3.4 for further elaboration).

Consistent with and in addition to its innovative program of lending and nonlending services, the Bank is making the reporting of risks in project documents and CASs more explicit, and is adjusting supervision intensity to be commensurate with risks. In addition, the Bank is using existing processes to better allocate its anticorruption assistance on the basis of risk, in particular through monitoring closely the requirement that every CAS discuss governance issues. This is discussed more fully in the next section on main-

#### BOX 3.4

### Bringing Government Closer to the Guinean People

For the quarter century following independence in 1958, Guinea was governed by a top-down, centralized, bureaucratic “command and control” state. The country experienced economic stagnation, deterioration of basic infrastructure, and reduced availability and quality of social services, especially in rural areas, where more than 70 percent of the population lived. In 1984, a new government committed itself to a new institutional framework with much greater emphasis on decentralization: the new legal framework for decentralization established 33 urban and 303 rural communes (CRDs). Yet despite these changes in the formal rules, participation by rural citizens and the provision of services to rural areas remained low.

In the mid-1990s the newly appointed Prime Minister and reform-minded government, working closely with the World Bank, initiated an intensive process of civic consultation to identify what could be done to more effectively ensure results at the rural front-line of development. As a follow-up to

this consultative process, the Bank prepared two complementary Adaptable Program Loans to support the government’s effort to implement a new approach: a Village Community Support Program, which works directly with local communities, and a Capacity Building for Service Delivery Program, which works to strengthen the ability of the public sector to support communities. Taken together, these programs will help foster the following governance, fiscal, and administrative reforms:

- *Politically*, the representation of the elected CRD councils is being enhanced by broadening their membership to include representatives from a wide range of social, cultural, ethnic, and economic groupings. Further, Prefecture Development Councils (PDCs) are being established, with membership elected by and accountable to CRDs and with the authority to advise on programs and budget trade-offs across CRDs. Increasingly, regional administrations will become accountable to these PDCs, not just to the hierarchies of central government.

streaming corruption considerations into the Bank's operational work.

**Participatory Learning and Workshops.** WBI, which had worked as a partner on regional programs and sponsored numerous corruption surveys and workshops in AFR, ECA, and other Regions, also developed the concept of comprehensive participatory coalitions as a means to identify and strengthen those institutions with a mandate to fight corruption.<sup>29</sup> WBI's approach focuses on a comprehensive, holistic

approach to national anticorruption programming, emphasizing the need for a collaborative partnership between the state (legislature, executive, and judiciary) and civil society (including the media and the private sector). Reforms are more likely to succeed when various stakeholders are involved in the design and implementation of an anticorruption strategy, as these coalitions create a consensus for reform as well as a sense of participation in improving the quality of governance in a country.

#### BOX 3.4, continued

- *Fiscally*, a \$10 million demand-driven Local Investment Fund has already been established to support basic social and infrastructure projects identified by communities. The Fund will furnish matching grants directly to CRDs. Additionally, a pilot initiative is under way that will enable some CRDs to keep head taxes (which now have to be paid to the central government) within their locality, with revenues shared according to a fixed formula between prefectures, subprefectures, and districts. Further, as an initial step in increasing the direct access of rural communities to the national budget, these head tax resources will be matched by direct transfers of budgetary and donor-funded resources from the center.
- *Administratively*, a major initiative is being introduced to realign subnational administrations to reflect the growing shift in accountability to rural communities. This initiative includes a revision of the administrative framework governing roles and responsibilities of different levels of government; the establishment of decen-

tralized delivery and management systems—and, more broadly, capacity building—at the prefecture and CRD levels; improving participatory mechanisms (such as school parent-teachers associations, health center management committees, and farmers groups) at the point of service delivery; and the introduction of a performance incentive system that will reward high-performing CRDs and teams of public officials at the prefecture and central level on the basis of results as measured by the quantity and quality of service delivered to the local population.

The aim is that at the end of a 10–15 year process of reform there will be an overall increase of 80 percent in access to and in the quality of all services delivered to the rural population. Underlying such gains are prospective fiscal reforms: whereas currently close to three-fourths of funds budgeted for sectoral line ministries are spent on administrative activities upstream, the Guinean program aims to ensure that at least 70 percent of all operating funds allocated to sectors reach the service delivery level.

A noteworthy development has been the piloting of the Anticorruption Core Course in the Africa Region. Using a three-phase process and education through distance learning, the course took a proactive approach to reach out to representatives of government, civil society, and the private sector in an engagement to fight corruption and to broadly improve governance. Implemented in Benin, Ethiopia, Ghana, Kenya, Malawi, Tanzania, and Uganda in June 1999, the course culminated in the presentation of action programs at the Ninth International Anticorruption Conference in Durban, South Africa, in October that year. At the Conference, country teams presented a detailed Action Plan of institutional reform in areas in which it has to date proven difficult to realize tangible results. The Core Course demonstrated that an inclusive and participatory approach, together with empirical knowledge and rigorous analysis, can successfully help countries develop strategies to fight corruption.

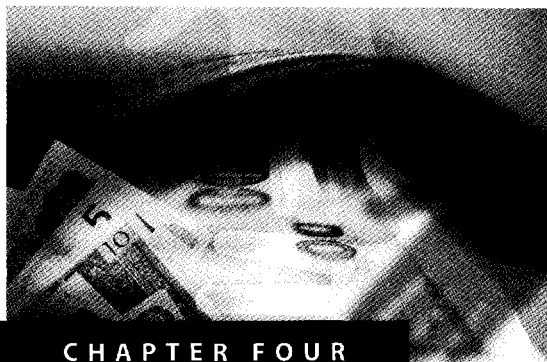
WBI has also been active in training for Parliaments and the media. For example, the WBI-Canadian International Development Agency flagship Parliamentary program, focusing on the critical issue of the "Role of Parliament in Curbing Corruption," was attended by Parliamentarians from Latin America and the Caribbean, Africa, the Middle East, South and East Asia, and Central and Eastern Europe. The seminar has been replicated in Africa and is now planned for South Asia, Southeast Asia, the Middle East and North Africa, and Eastern Europe. The first-generation media workshops focused on raising awareness and discussion of the media role in informing the public about corrup-

tion, in exposing corrupt practices, and in improving professional techniques. This led to advanced, second-generation investigative journalism workshops for journalists and editors, concentrating on the identification of key repositories of public information in the country.

**Institutional Development Grants.** The Bank has also used IDF grants to initiate upstream, non-project work on public sector reforms, including public procurement reform. These grants use indigenous capacity as much as possible and have proven useful in stimulating early work on institutional topics. For example, a \$500,000 IDF Grant recently approved for Peru supports the development of the Ombudsman's office through technical assistance, training, and logistical support (including advisory services, strategic workshops, and evaluation studies). Areas to be covered include (a) institutional image and media relations; (b) internal organization and budget control; (c) assessment of local governments and pension plans; (d) supervision of the provision and regulation of public services; and (e) poverty and senior citizens issues. The grant will also help the office carry out a dissemination campaign, including the preparation and distribution of materials and regional workshops.

The impressive response that the Bank has received from so many countries interested in tackling the problem of corruption highlights the need for the Bank to go beyond an ad hoc response to each request. It points to the need for the Bank to mainstream a concern for corruption into all of its lending operational programs.





## CHAPTER FOUR

# Mainstreaming Corruption Considerations into the Bank's Operational Work

The third pillar of the Bank's anticorruption strategy, as outlined in the 1997 paper *Helping Countries Combat Corruption: The Role of the World Bank*, involves mainstreaming corruption considerations into the Bank's operational work. The paper noted the importance of taking corruption and governance concerns into account in the Bank's lending program. The strategy provides that:

Corruption should be explicitly taken into account in country risk analysis, lending decisions, and portfolio supervision if it affects project or country performance and the government's commitment to deal with it is in question.

The mainstreaming of governance and anticorruption concerns is important for two reasons. First, recent research by the Bank underscores the finding that development aid is unlikely to achieve its goals in settings characterized by dysfunctional economic policies and weak public institutions. The Bank needs to focus

its resources where they are likely to have positive impact if it is to achieve its goal of poverty reduction. Second, fiduciary obligations require the Bank to be concerned about lending in situations where it cannot be sure that its funds will be used to promote economic development and poverty alleviation.

For both of these reasons the Bank has taken a number of important initiatives to broaden and deepen its mainstreaming efforts relating to corruption. The Bank and other donor agencies had come under increasing pressure and criticism in the 1996–98 period for continuing to work in countries in which corruption was perceived to be a significant impediment to development. As a result, the IDA 12 replenishment approved in early 1999 included for the first time explicit governance conditionality.<sup>30</sup> Accountability, transparency, the rule of law, and participation represent four major pillars of governance that are critical to the development process and the effective use of IDA resources.

## Country Assistance Strategies

The Bank's Anticorruption Action Plan for FY99 called for all CASs to include an open and honest discussion of governance issues and the corruption risks facing Bank-financed projects. As noted previously, virtually all CASs now address these issues to varying degrees—a very significant change over the past two years.

A recent retrospective study of CASs prepared from January 1998 through June 1999 found that the Bank had made significant progress in addressing governance and corruption concerns since the previous retrospective. Of the 37 CASs reviewed, 78 percent mentioned governance and corruption and about two-thirds made an effort to mainstream the issues into the Bank's strategy. Despite this remarkable progress, the retrospective found that room for improvement remained in diagnosing the causes of corruption in a particular country, rooting the strategy in institutional realities on the ground, explicitly assessing the risks of corruption to Bank-financed projects, and proposing appropriate remedial measures. Around one-third of CASs integrated anticorruption activities into technical assistance and lending programs; CASs for countries where governance and corruption presented significant risks (defined on the basis of a set of external indicators, as well as on Bank assessments) tended to cover these issues more, but not necessarily better, than CASs as a whole.

We are beginning to see significant government initiatives to address corruption in some of the countries whose CASs have explicitly discussed governance issues. For example, in Kenya, the government has begun to tackle corruption in a number of ways, including setting up a high-level Change Team comprising highly reputable people, making operational an Anticorruption Agency, and drafting new anticorruption legislation.

As a next step, more explicit guidance is being developed to deal with corruption in CASs. For countries where poor governance and corruption pose significant developmental risks, the CAS should outline the country's agenda for improving governance and combating corruption and should include a monitorable program to assess progress. The choice and design of instruments should reflect a good understanding of existing institutions and the best way to reform them. For countries where poor governance and corruption pose a significant risk, the CAS should discuss the conditions under which particular instruments should be used. Progress in improving governance and combating corruption, assessed against monitorable benchmarks, will increasingly be factored into the choice and design of lending instruments.

It should be noted here that governance concerns are also being mainstreamed into the preparation of Poverty Reduction Strategy Papers (PRSPs) by client countries. The Public Sector Board has prepared toolkits to highlight the links between governance and poverty and to help guide analysis in individual country settings, and in-depth efforts are now under way in several countries (including Benin, Cameroon, and Uganda) to mainstream governance concerns into the PRSP process.

## Regional Strategies

With the new importance afforded to the issue of anticorruption, the Bank's Regional vice presidencies have developed strategies outlining their Region's priorities and programs to address governance concerns. The challenges facing each of the Regions are as varied as their countries. Their approaches have nonetheless consistently followed the four pillars of the Bank's strategy—namely, focusing on anticorruption meas-

## Unbundling Corruption in Transition Countries

As the countries of Eastern Europe and the Former Soviet Union continue to make progress in establishing dynamic market economies, corruption in the region has also continued to develop new dimensions and pose new challenges. Media reports throughout the region tell of the ability of powerful firms and individuals to influence (often through bribes) the legal, policy, and regulatory environments in their own interests, and unofficial payments for basic public services have become pervasive in some settings. A new report to be released in September, *Anticorruption in Transition: Confronting the Challenge of State Capture*, approaches the region's problems with corruption and vested interests by examining two related, yet distinct, aspects of corruption: *administrative corruption*, the use of corruption to distort the *implementation* of existing laws, rules, and regulations, and *state capture*, the use of corruption to distort the *formulation* of laws, rules, and regulations. Supported by a 1999 survey of over 3,000 enterprise managers in 22 transition countries, the Report provides empirical proxies for the severity of the problems of administrative corruption and state capture throughout the region. A typology of corruption in the region is derived from the data to provide insights into the causes and consequences of administrative corruption and state capture. On the basis of the typology, the Report recommends ways to target anticorruption efforts, to sequence reforms, and to calibrate realistic expectations in

different contexts. A different focus for each group of countries can be summarized as follows:

- Countries with relatively smaller problems with administrative corruption and state capture should aim to capitalize on favorable conditions for strengthening political accountability and transparency through further institutional reforms.
- The focus on countries with relatively low levels of administrative corruption and relatively high levels of state capture should be to expand political and economic competition to unblock potential for further structural reforms.
- In countries with relatively high levels of administrative corruption and relatively low levels of state capture, stress should be placed on enhancing state capacity to improve the provision of basic public goods.
- Finally, countries with relatively high levels of both administrative corruption and state capture must focus on breaking the hold of vested interests on the policymaking process.

Strengthening the commitment to tackle corruption will not be easy, for the status quo benefits powerful interests. Yet the costs of complacency are extremely high. Managing expectations and underscoring the long-term nature of reform will be key, but should not come at the expense of the decisive actions needed to build credibility.

ures at the project level and at the country level, mainstreaming anticorruption measures into Bank operations, and collaborating at the international level. The ECA Region, facing a particularly visible and daunting challenge in this area (see Box 4.1), has developed a multipronged strategy combining (a) economic policy reforms (for example, liberalization and regulatory/tax simplification); (b) the strengthening of public sector institutions, including civil service reforms, public finance, audit, procurement, and legal-judicial reforms; and (c) raising public awareness and oversight by civil society.

### Research and Knowledge Sharing

The Bank's Development Research Group has devoted significant resources to research on corruption issues, providing useful insight into the problem of corruption. It has added to a growing body of analytic work worldwide that clearly shows the strong links between governance and poverty (see Annex IV for an annotated bibliography). The Group's findings have been reflected in the Bank's policy advice and in its contribution to international discussions on corruption. The Bank's body of knowledge has been additionally expanded through analytic and project work in the Regions, and Bank staff have worked hard to disseminate it through the Bank's external web site and through participation in many external conferences.

A growing number of PREM Notes<sup>31</sup> have been commissioned to summarize good practices and key policy findings on topics relating to poverty reduction, economic management, and governance and public sector reform. The OCS network is also planning to disseminate lessons learned from completed investigations into allegations of corruption on Bank-financed projects.<sup>32</sup>

### Sensitizing Bank Staff to Corruption Issues

One of the key strategies in mainstreaming a concern for corruption in the Bank has been an internal training program to raise staff awareness of the problem. All Bank Regions have held orientation sessions for their staff to raise awareness of the risks of corruption, of the Bank's anticorruption policies, and of their implementation to date. The European and Central Asia Region of the Bank conducts procurement workshops for staff that include the specific topic "Bank Experience of Corruption Issues in Procurement." As noted previously, BEI has engaged in more than 200 outreach events in the last 15 months. Along with the Appeals Committee, BEI also cosponsored in 1999 the first Conference on Ethics and Dispute Resolution for International Organizations, which drew the participation of more than 25 organizations. Since 1998, the PREM Network has sponsored more than 60 brown bag lunches on topics including Combating Corruption: The Role of State-Society Interaction to Governance and Accountability, and Identifying and Assessing Political Will for Anti-corruption Efforts.

OCS has also been working across Bank boundaries to provide training to reinforce staff's commitment to anticorruption in Bank-financed projects. Starting in August 1999, OCS began to partner with BEI in an effort to link staff accountability with the Bank's anticorruption agenda. The annual Procurement Forum, hosted by the OCS Procurement Group, has provided sessions on anticorruption issues. In November 1999, OCS also organized a seminar on the implications for the Bank of public financial accountability in borrower countries.

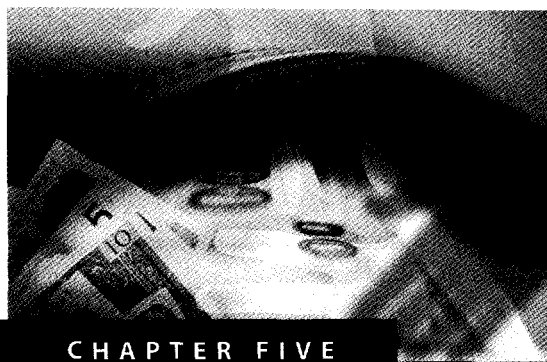
Two Regions—East Asia and Pacific (EAP) and ECA—have formed external advisory groups of experienced individuals to help them sharpen their strategies for combating corruption (see Box 4.2 for the EAP example).

**East Asia and Pacific Region Anticorruption Advisory Group**

The East Asia and Pacific Region has established an advisory group to help it chart an effective and participatory anticorruption strategy. The group includes two former heads of government from East Asia and senior figures from Transparency International, the private sector, and academia. To date, the advisory group has met three times with the EAP regional management team to discuss general strategy, as well as issues such as the appropriate roles for donors, governments, civil society, and the private sector in tackling corruption in the

Region. The most recent meeting, in Bangkok on February 10, 2000, focused on how the World Bank could involve the private sector more actively in combating corruption. While the group has given much practical advice to the Bank, perhaps its most useful function so far has been to provide a forum for the Country Directors and other members of the Region's management team to debate the most effective ways to combat corruption in their client countries.





## CHAPTER FIVE

# Supporting International Efforts to Address Corruption

Corruption is an international as well as a domestic problem, and efforts to curb it have to be taken at the international level as well as at the domestic level. The international dimension complicates any single government's attempts to bring corruption under control: in order to help its borrowing countries deal effectively with all aspects of the issue, the Bank has made it policy to work in partnership with other international actors in pursuing the goal of reducing corruption.

Significant efforts are now under way to improve international cooperation in the prevention, detection, and prosecution of corruption. These efforts involve international organizations, regional organizations, and international business groups, and encompass a range of experience in the international community, with some governments and civil societies starting to openly discuss their problems of corruption. The international organizations also have recently become serious players in this arena, with the World Bank leading among the multilateral development banks.

The measures that international organizations have deployed in addressing the issue of corruption are based

on each organization's comparative advantage and mandate and are mutually supportive. For example, certain international organizations, such as the OECD, the Organization of American States (OAS), and the Council of Europe, have elaborated international conventions that define corruption offenses and provide for cooperation in the investigation and prosecution of these offenses. The convention sponsored by the OECD focuses on the criminalization of bribery of foreign public officials in international transactions, while conventions sponsored by OAS and the Council of Europe deal with a broader set of issues, including internal as well as international corruption. For their part, the MDBs, including the World Bank, have emphasized the importance of preventing fraud and corruption in the award and execution of the contracts they finance, while responding to their members' requests for financial and technical assistance in developing their national strategies to combat corruption. Other international initiatives include efforts to curb international money laundering, which is a serious component of the corruption issue for some governments.

The Bank has supported international anticorruption efforts by:

- helping coordinate both cross-border and in-country anticorruption efforts,
- forming strategic collaboration arrangements with other organizations, and
- deepening its knowledge about corruption and disseminating it internationally.

## Collaborating with Other Multilateral Development Banks

The Bank informs its partners of anticorruption programs in its client countries and regularly undertakes joint or coordinated activities. Together with the other MDBs, the Bank participates in a working group on governance, corruption, and capacity building. This group has identified four areas of cooperation:

- Enhancing an understanding of performance criteria related to governance for allocating concessional finances.
- Improving the governance environment; for example, by supporting IFAC standards, governance assessments, joint surveys, alternatives to project implementing units and salary top-ups, public expenditure management reform, and new lending products.
- Improving project management; for example, by assisting the implementation of fiduciary standards for small countries, standard procurement practices, and reviews of supreme audit institutions.
- Examining specific anticorruption activities and procedures, including, for example, unified approaches to investigation, appeal, and disbarring; cost-effectiveness; and staff liability.

The other MDBs have also initiated their own anticorruption programs. The Inter-American Development Bank, for example, coordinates the Donors' Consultative Group for Central America, which was originally established to coordinate the foreign assistance provided to countries affected by Hurricane Mitch. More specifically, the Group has undertaken to ensure the proper and transparent use of funds provided for reconstruction and transformation activities. In addition, the Asian Development Bank has increased its efforts in the areas of governance and anticorruption and is in the process of recruiting expert staff to investigate fraud and corruption. Following is a brief description of the programs initiated by each of the MDBs to confront the problems that corruption poses to their member governments:

- **African Development Bank (AfDB).** The AfDB's policy on good governance, approved by its Boards in December 1999, focuses on accountability, transparency, combating corruption, participatory governance, and legal and judicial reforms. In concert with other organizations, the AfDB will pursue interventions in these areas through economic and sector work, policy dialogue, and lending and non-lending activities. In the context of its economic and sector work, the AfDB will continue to address issues of good governance in its Country Strategy Papers and Public Expenditure Reviews. Governance is a key criterion for rating country performance, as reflected in the fact that six out of the 20 questions on the AfDB's 1999 Country Policy and Institutional Assessment questionnaire related to governance. The possibility of the AfDB collaborating with the World Bank in conducting governance and corruption surveys has been discussed, and a bilateral donor has offered financial support to facilitate this approach.
- **Asian Development Bank (AsDB).** As a major multilateral development institution and one of the



leading sources of development funding in Asia, the AsDB has included combating corruption as part of its broader work on issues of governance and capacity building. The AsDB recognizes the importance of accountability for public officials and transparency and predictability in government operations—critical principles in the fight against corruption. The emphasis of the AsDB's anticorruption policy upon strengthening the essential prerequisites for effective public administration is intended to ensure that the fundamental building blocks for transparent, predictable, and accountable administration are in place. These building blocks include an appropriate legal framework and effective enforcement mechanisms; a professional, competent, motivated, and meritocratic civil service; transparent procurement practices; effective internal control systems; and a well-functioning, independent audit office. Participation, a major principle in the World Bank's governance policy, is also relevant to the work of the AsDB. Experiences in Hong Kong (China) and Singapore have demonstrated that public support is a critical asset in the long-term struggle against corruption.

- **European Bank for Reconstruction and Development (EBRD).** The EBRD has a legal mandate to address political issues in its country assessment documents. This mandate requires that it operate in countries that are moving toward the holding of free elections and pluralist, multiparty democracy. The EBRD thus openly addresses political issues, especially in the context of its biennial country strategies. Each project proposed to the EBRD is submitted to a Transition Impact Review (TIR) that assesses the project's potential effects on the country's transition toward a market economy. The TIRs thus contribute to an analysis of the impact of projects on a wider private sector. EBRD is also working to set up Foreign Investment Advisory Councils in

each country, modeled on the one in Russia. The EBRD's Legal Transition Team is working in several countries on the laws and regulations necessary for the establishment and efficient operation of national stock exchanges and security exchange commissions.

- **Inter-American Development Bank (IADB).** The IADB has been involved in funding state modernization programs and governance programs for the last nine years, and has mounted specific operations to address corruption on a regional and national basis since 1998. Within the IADB, a task force has been established to review the IADB's experience and to prepare an integrated anticorruption policy that will deal with (a) ensuring internal standards for IADB staff; (b) ensuring that IADB-funded projects are properly designed, executed, and evaluated and that IADB funds are properly disbursed and utilized; and (c) ensuring that issues of anticorruption and governance form part of the IADB's dialogue with its borrowing members. In addition, issues of modernization of the state and governance are being mainstreamed within the regional departments of the IADB. For example, in the region that includes Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay, five operations dealing with state reform were approved in 1999, for a total of \$318 million. The project pipeline for these countries also includes operations to support reform of legislatures and expansion in the judicial area. Concern for preventing opportunities for corruption is also addressed in projects not specifically related to state reform, such as social projects (health, housing, education) within which local communities are increasingly undertaking the responsibility of monitoring the delivery of social services. The IADB has also encouraged research work on the effects of corruption, especially in the area of public health.

## Supporting the Efforts of Other International Organizations

- **Organization for Economic Cooperation and Development.** Through its participation in the OECD Working Group on Bribery in International Business Transactions, the Bank has supported the OECD initiative to outlaw the bribery of foreign public officials and end the tax deductibility of foreign bribes. On December 17, 1997, the OECD member countries and five nonmember countries—Argentina, Brazil, Bulgaria, Chile, and the Slovak Republic—signed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Convention is in force among 20 countries, including four countries eligible to borrow from the Bank (Bulgaria, Hungary, Mexico, and the Czech Republic). The Convention requires parties to it to make it a crime under their domestic law to bribe a foreign public official. The OECD Working Group monitors each party's progress in implementing the Convention. In Phase I the domestic legislation of each country is put before the group for comment and critique. In Phase II, due to begin in the latter part of 2000, on-site visits will be made to review how the legislation is being enforced. The Bank participates in the meetings of the Working Group as an observer.
- **Support for Improvement in Governance and Management in Central and Eastern European Countries (SIGMA) and Development Assistance Committee (DAC).** Two other OECD initiatives related to governance include the technical assistance work of SIGMA and the governance work of DAC. SIGMA is a joint initiative of the OECD and the European Union, supporting public administration reform efforts in 13 countries in transition. DAC is coordinating a joint effort by numerous donors, with in-depth participation by the Bank, to put together rigorous indicators of governance.
- **Financial Action Task Force (FATF).** FATF is the leading international initiative in fighting money laundering. Housed at the OECD, FATF brings together bilateral and multilateral donors concerned with the problem of international money laundering. Participating as an observer first in 1997, the Bank continues to attend some FATF meetings.
- **Organization of American States (OAS).** The Inter-American Convention Against Corruption, which was adopted in 1996 under the aegis of the OAS, is now in force among 18 countries in the Latin America and Caribbean Region. The parties to the Convention agree on common definitions of corruption offenses and on the means to cooperate in the investigation and prosecution of these offenses. In 1997, the OAS Assembly adopted the Inter-American Program for Cooperation in the Fight Against Corruption, which, among other things, calls for cooperation with other international organizations, including the Bank, with the goals of enhancing the understanding of each organization as it fights corruption, avoiding duplication of effort, and assessing the prospects for joint projects. Together with Radio Nederland and other parties, WBI is collaborating with the Trust of the Americas to raise public awareness about corruption in Latin America and train journalists in investigative journalism.
- **Council of Europe.** Since it established its Multidisciplinary Group on Corruption in 1994, the Council of Europe has opened for signature two conventions on corruption, one dealing with the criminal law aspects and the other with the civil law aspects of corruption. It has also established a follow-up mechanism to monitor the implementation of these conventions. The Multidisciplinary Group is currently discussing a Model Code of Conduct for Pub-

lic Officials. The Bank has observer status in the Multidisciplinary Group and has participated in a number of its activities.

- **United Nations Development Program.** The Bank is collaborating with the UNDP on a growing number of initiatives. In 1997, the UNDP developed the Program for Accountability and Transparency to address corruption as a problem of poor governance in selected countries. This program fits into a growing inventory of anticorruption-related programs and projects to improve accountability and transparency through financial management reforms and integrity improvement initiatives. The UNDP has established anticorruption partnerships with Transparency International (TI) and the Global Coalition for Africa.
- **World Trade Organization (WTO).** The Bank has been working with the WTO in the area of public procurement by supporting the WTO's initiative to draft an international agreement on transparency in government procurement and encouraging Bank borrowers to adopt its principles.
- **Interpol.** The Bank has participated as an observer at quarterly meetings on corruption at Interpol. These meetings have focused on issues such as auditing, money laundering, and international crime. The Bank has a seat on a semipermanent committee, the International Group of Experts on Corruption, based at Interpol.

## The Continuing Partnership with the IMF

In growing recognition of the adverse impact of poor governance and corruption on economic stability and growth, the IMF has increased its attention to governance issues in the programs it supports. This shift is reflected in the guidelines issued by the IMF's Executive

Board in mid-1997 on *The Role of the IMF in Governance Issues*. These guidelines seek to enhance the IMF's role in this area, in particular by developing the following:

- A more proactive approach in advocating policies and the development of institutions and administrative systems that eliminate the opportunity for bribery, corruption, and fraudulent activity in the management of public resources.
- Enhanced collaboration with other multilateral institutions, in particular the World Bank, to make better use of complementary areas of expertise.

The Bank works closely with the IMF in designing and implementing much of its in-country anticorruption and governance agenda, especially with regard to economic policy and public reform.

## Consulting both the Business Community and NGOs

The Bank has made special efforts to coordinate closely with NGOs that have first-hand knowledge and experience with corruption in the Bank's client countries. Transparency International (TI), which has more than 70 national chapters that fight corruption at the national level, has contributed significantly to making corruption a public issue in the press and elsewhere and is cooperating with international organizations, including the World Bank, in taking action against corruption. TI aims to curb corruption through international and national coalitions that (a) encourage governments to establish and implement effective laws, policies, and anticorruption programs; (b) build public support for anticorruption programs and enhance public transparency and accountability in international business transactions and public procurement; and (c) encourage all parties to international business transactions to operate at the highest levels of integrity.

In addition, the Bank has worked with the Global Coalition for Africa to support country efforts to address governance issues and develop sustainable approaches to the control of corruption. In October 1997, the Global Coalition for Africa hosted the Non-governmental Organizations meeting in Nairobi, Kenya, consisting of delegates from various regions of Africa who endorsed the principles of the Lima Declaration Against Corruption.

## **Communicating the Bank's Anticorruption Strategy to the World**

The Bank has been very active over the past two years in explaining its anticorruption strategy to outside audiences in many different forums, including international conferences, university workshops, media briefings, and interviews.

- **Using the Media to Explain the Need to Control Fraud and Corruption in Bank-Financed Projects.** The Bank uses the media to explain the importance of controlling fraud and corruption. To provide concrete examples of its own policy at work and as a deterrent to others, the Bank has, as a matter of policy, published the results of internal investigations when they have resulted in the sanctioning of companies involved in Bank-related procurement.

This message is reinforced through WBI's various journalism programs in Africa, Latin America, and Eastern Europe.

- **Increasing Participation and Role in International Conferences.** In 1998, the Bank participated as an observer at the 12th Triannual Conference of Supreme Audit Institutions, held in Montevideo, Uruguay. The conference focused on the role of these institutions in combating corruption and on their limitations in effecting change. Indeed, one of the problems repeatedly identified was that, in countries where bribery is not a crime and where anticorruption laws do not exist, the auditors are limited in their abilities to address this problem. This has a direct effect on how the Bank and its client countries can prevent and detect corruption in projects.
- In October 1999, Mr. Wolfensohn addressed the Ninth International Anticorruption Conference<sup>33</sup> in Durban, South Africa, where more than 1,500 representatives of governments, the private sector, and international organizations shared country experiences and sought opportunities for further collaboration. The Bank was both a cosponsor of the conference and an active participant, hosting several workshops, including the final segment of the WBI core course, *The Challenge of Building Coalitions in the Fight Against Corruption in Africa*.



## CHAPTER SIX

# The Road Ahead

In a little more than two years, the Bank and the international community have taken enormous strides in the global fight against corruption. For the Bank, the strategy continues to be one of consolidation and change: strengthening systems the Bank established during its first 50 years and undertaking new initiatives and approaches to attack corruption closer to its source.

This approach is illustrated in the Bank's overall development strategies. From the governance reports in the early 1990s to the 1997 World Development Report, *The Changing Role of the State*, and the World Bank's Policy Research Report of 1998, *Assessing Aid*, the Bank has underscored the centrality of good governance to long-term development.

Good governance is also underlined forcefully as the first pillar in the CDF. The Bank believes that poverty reduction is about more than economic policies; it is about long-term social and structural development. Corruption will be reduced only through the commitment of leaders and the continued opening of economic decision-making. Improving public sector performance by helping build borrower capacity is a key component of the Bank's strategy in going forward.

The Bank will continue to push forward in its efforts to address the problem of corruption over the next year. The significant resources allocated to detecting and preventing fraud on Bank-financed projects demonstrates the Bank's commitment to resolving the problem of corruption. On the internal front the Bank is continuing to build up its procurement and financial management systems. We are also reinforcing the Bank's commitment to the highest standards of ethical behavior by strengthening our investigative capabilities in order to be as effective as possible in detecting and preventing corruption in Bank-financed projects, and by rolling out an ambitious program of integrity awareness aimed at Bank staff.

We will also expand and deepen our efforts to help countries fight corruption over the coming year. We will continue with a substantial lending program in support of public sector reform and governance, focusing on improving incentives and capacity in the public sector, enhancing transparency and accountability, and empowering citizens to monitor the quality of government services and be sure their voices are heard and taken into account in decision making on resource allocation. We will also continue to use our various

diagnostic tools—including in-depth institutional and governance reviews, corruption surveys, and public expenditure and financial management assessments—to assess the performance of institutions and help in designing feasible strategies for improvement. A series of analytic toolkits we are currently piloting with our clients and development partners will help us all work together more systematically to this end (including helping countries in the preparation of Poverty Reduction Strategies). We will also make a special effort over the coming year to draw initial lessons of experience from our work so far. As part of this effort, we are undertaking a major initiative with OECD DAC and other partners to develop a robust set of governance indicators that can be useful in understanding corruption trends, measuring performance in particular countries, and tracking changes over time.

On the mainstreaming side, all CASs will continue to be expected to diagnose the state of governance and the risk that corruption poses to Bank-financed projects in the countries concerned. We will make further efforts to mainstream the issue in country programs and in sector strategies and projects across the Bank, and we will continue to enhance staff training and knowledge-sharing opportunities to this end.

Our support of international efforts will also continue. We have significantly deepened our partnerships over the past two years, and we will continue to work closely with the other multilateral development banks, UNDP, OECD, NGOs (including TI), and our bilateral partners to share experience, undertake joint analytic work, and press forward with important cross-boundary initiatives such as the implementation of the OECD anti-bribery convention. We also hope to increase our partnerships with private sector firms, many of whom have shown significant interest in joining the effort to address the problem of corruption.

Although much progress has been made in implementing the Bank's anticorruption agenda, many arduous battles still lie ahead. Corruption, by its very nature, will persist as a difficult and elusive problem. Many corruption issues are deeply rooted in political and institutional power structures. It will take years before some of the Bank-supported reforms become sustainable, both within the Bank and among its borrower countries. This fact is reiterated in the GAO's recent report on the integrity of the Bank's system of controls, which points to the many challenges facing the Bank as it implements reforms aimed at strengthening its internal controls. Reforms such as LACI may require revision as the Bank adjusts to the capacity constraints facing its clients. Furthermore, as we begin the evaluation process, it may also take years before the effects of these initiatives can be measured in a reliable way.

Nevertheless, we remain cautiously optimistic, reassured by the knowledge that governance issues are being confronted openly and directly. There are no quick or simple solutions to such issues, but the Bank's efforts over the past two years represent a quantum leap in recognizing and dealing with the problem. The Bank must continue to set an example of integrity internally and to seek new avenues for partnership with governments, civil society, and the private sector. Work in these areas is well under way. In fact, we must be even more aggressive in our capacity-building efforts—and that is the essence of our anticorruption strategy. We have to be prepared for a long, hard struggle, and we have to work together. Fighting the cancer of corruption is a challenge not just for the Bank, but for the entire development community, including international financial institutions and development agencies, civil society, the private sector, and the public sector. We must continue to move forward. We have a real chance to make a difference.

1. *Helping Countries Combat Corruption, The Role of the World Bank*, September 1997.
2. The Comprehensive Development Framework (CDF) is a holistic approach to the challenges of development that draws on the community's collective experience and learning. It integrates the macroeconomic and financial side of development with the structural, social, and human side. The CDF embodies the premise that equitable and sustainable development cannot take place if either side of the developmental equation is considered in isolation from the other.
3. International Bank for Reconstruction and Development, Articles of Agreement (as amended effective February 16, 1989), Article III, Section 5(b).
4. Borrowers are the Bank's client countries who are recipients of Bank loans.
5. A full listing of the companies and individuals debarred can be found on the Bank's web page at <http://www.worldbank.org/html/opr/procure/debarr.html>.
6. The U.S. GAO report entitled *WORLD BANK: Management Controls Stronger, but Challenges in Fighting Corruption Remain*, GAO/NSIAD-00-73, April 2000.
7. The number of projects with public expenditure and financial reform components increased from 21 (9 percent of total projects approved) in FY97 to 52 (18 percent) in FY98 and 82 (28 percent) in FY99. The proportion of adjustment loans with anticorruption or fiscal transparency components increased from 8 percent in FY98 to 27 percent in FY99 and 50 percent to date in FY00.
8. The Financial Management Board comprises a chairman; the Regional Financial Management Advisors for all six of the Bank's Regions; two representatives from the Loan Department, one of whom is its Director; two at-large members (currently a sector leader from the Private and Financial Sectors Development Group); and the Director of the Support Services and Quality Assurance Group for the Europe and Central Asia Region. The Board also includes observers from the OCS Procurement and Operational Services Groups.
9. The Procurement Board comprises the Director of the OCS Procurement Group, the Regional Procurement Advisors of all six of the Bank's regions, the Legal Advisor for Procurement and Consulting Services, the Director of the Bank's Institutional Procurement Department, and two at-large members (a representative from the Public Sector Group of the Poverty Reduction and Economic Management Network and the sector manager for the Rural Development Department), and observers from the Financial Management Board and the Operational Services Group.
10. OP/BP 10.02 *Financial Management* (August 1997).
11. No project funds are disbursed until the loan becomes effective.
12. Financial management staff includes full-time equivalent financial management specialists and financial management officers, who are dispersed between headquarters and country offices. The Operational Core Services-Financial Management Sector Board establishes accreditation criteria and approves staff requests for accreditation.
13. The Bank is organized into six regions—Africa (AFR), East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LCR), Middle East and North Africa (MNA), and South Asia (SAR).
14. This formal accreditation process reduces the risk of procurement work being carried out by staff not competent to do it and sharpens accountability, as accreditation can be revoked for poor performance of procurement duties.
15. Bank's Procurement Guidelines, Section 1.15 *Fraud and Corruption*; and Bank's Consultant Guidelines Section 1.25 *Fraud and Corruption*. Most recent edition in force, January 1999.

16. The telephone number in the United States and Canada is 1-800-831-0463.
17. The telephone number to use to contact the World Bank from anywhere in the world at no expense to the caller is 704-556-7046.
18. Pinkerton has 250-plus offices in the United States, Latin America, Canada, Europe, and Asia—more than 20 countries worldwide, with a network of trusted partners in other regions.
19. The address is [investigations\\_hotline@worldbank.org](mailto:investigations_hotline@worldbank.org).
20. Contact <http://wbln0018.worldbank.org/acfiu/acfiuweb.nsf>.
21. The Secretariat can be reached between the hours of 9:00 a.m. and 5:30 p.m., Monday through Friday, at 202-458-7677.
22. The pager number is 1-800-915-7820.
23. The drop-box address is: PMB 137, 4736 Sharon Road, Suite W, Charlotte, NC 28210, USA
24. *Living Our Values: Code of Professional Ethics*, December 1999.
25. The Ethics HelpLine, which is in addition to the Hotline for Fraud and Corruption, can be accessed by dialing 202-458-7000. Collect calls accepted.
26. The Ethics Web Page will be accessible to the general public in the fall of 2000.
27. World Bank Harassment Policy, March 1, 2000.
28. There was already a history of World Bank involvement in anticorruption activities in some of these countries—most notably Uganda, where the WBI had already sponsored several service delivery surveys and “integrity workshops” to raise awareness of the corruption problem and promote domestic dialogue on how to address it, and the AFR developed “budget-tracking” to compare budgetary allocations with actual expenditures.
29. The pillars of integrity include the executive branch, watchdog agencies, parliament, civil society, the media, the judiciary, police and prosecution, and the private sector.
30. *Additions to IDA Resources: 12th Replenishment*, December 1998 and March 1999.
31. These include, among others, *Corruption and Development*, PREM Note 4, May 1998; *New Frontiers in Diagnosing and Combating Corruption*, PREM Note 7, October 1998; *Using an Ombudsman to Oversee Public Officials*, PREM Note 19, April 1999; *Fostering Institutions to Contain Corruption*, PREM Note 24, June 1999; *The Law and Economics of Judicial Systems*, PREM Note 26, July 1999; *Assessing Political Commitment to Fighting Corruption*, PREM Note 29, September 1999; *Mobilizing Civil Society to Fight Corruption in Bangladesh*, PREM Note 30, October 1999; *Rethinking Civil Service Reform*, PREM Note 31, October 1999; *An Anti-Corruption Strategy for Revenue Administration*, PREM Note 33, October 1999; *Reforming Tax Systems: Lessons from the 1990s*, PREM Note 37, April 2000. All are available through the Bank’s external website: [www.worldbank.org/publicsector/anticorrupt/premnotes.htm](http://www.worldbank.org/publicsector/anticorrupt/premnotes.htm).
32. In collaboration with the Oversight Committee on Fraud and Corruption, OCS has begun to gather closed cases involving allegations of corruption on Bank projects to develop case study training materials.
33. Transparency International co-hosted and co-organized the conference.
34. “Bank” means both IBRD and IDA; “loan” includes “credit”; “Loan Agreement” includes “Development Credit Agreement.”
35. The *International Accounting Standards*, published annually by the International Accounting Standards Committee and widely adopted by the accounting profession, is an example of accounting standards that are acceptable to the Bank.





# Annexes

# Anticorruption Action Plan: FY99

(Progress as of July 1999)

## The World Bank Anticorruption Action Plan for FY99 (Updated July 1999)

TOPIC	START DATE	ACTION	STATUS
<b>Knowledge and Awareness</b>			
1. Staff training	10/98	Region-specific orientation sessions for all staff (including resident missions); specialist training.	<p>Anticorruption orientation workshops for regional staff were held in five Regions:</p> <p>AFR 6/9/99 EAP 7/1/99 ECA 7/8/99 LCR 2/23–2/24/99 MNA 5/24–5/25/99</p> <p>Anticorruption module was included in procurement training course. Two workshops for procurement specialists were held on capacity assessments and the new CPARs.</p> <p>Seminars and workshops included "Anticorruption Diagnostic Tools," 2/99; "Mainstreaming Anticorruption in the CAS," 4/99; "Reducing Corruption: A Search for Lessons of Experience," 5/99.</p> <p>Twelve Integrity Awareness Seminars were conducted for over 300 supervisors and managers at headquarters, and six seminars for 127 staff at four resident missions (RMs) in Southeast Asia—Beijing, Hanoi, Bangkok, and Manila. (4/99)</p> <p>New Employee Ethics Orientation: Over 25 twenty-minute sessions on the Code of Professional Ethics, policies, and procedures were conducted. Video for country offices was prepared in Spring 1999; it is currently being distributed to all country offices.</p> <p>Numerous brown bag lunches on corruption and governance were organized.</p>
2. External relations strategy	8/98	Updating of external relations strategy, key messages for for Annual Meetings, and briefing materials	Briefing notes were prepared for Annual Meetings; Updated briefing note for managers and staff was prepared in January.
3. Briefing for Executive Directors	11/98	Briefing to the Board on implementation of the anticorruption initiative to date.	Done 11/17/98

**The World Bank Anticorruption Action Plan for FY99 (Updated July 1999), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Knowledge and Awareness</b>			
4. PREM Notes: Anticorruption series	4/98	A series of PREM notes providing practical guidance to operational staff on corruption diagnosis and public sector reform approaches.	Completed PREM Notes include: <i>Corruption and Development, New Frontiers in Diagnosing and Combating Corruption, Using an Ombudsman to Oversee Public Officials, Using Surveys for Public Sector Reform, Fostering Institutions to Contain Corruption, and Assessing Borrower Ownership Using Reform Readiness Analysis</i>
5. Knowledge Management System (KMS) anticorruption site	7/98	The KMS will progressively document country experience.	External and internal websites were established.
6. Workshop on corruption	5/99	Workshop to review and take stock of the Bank's experience and draw lessons.	The workshop "Reducing Corruption: A Search for Lessons of Experience" was attended by about 50 staff from across the Bank and some representatives of the EBRD and the IDB—5/99.
7. Outline for possible Policy and Research Report (PRR) on corruption	10/98	A PRR would be a major publication, including empirical work on types and causes of corruption, and reform strategies and examples.	Outline for possible World Development Report on institutions (including corruption) in 2001 submitted in 1/99.
<b>Controlling Corruption in Bank-Financed Projects</b>			
8. Support to teams on project design	10/98	1) Creation of focal point in OCS for links between project design and corruption. 2) Production of a series of notes documenting approaches to project design that reduce opportunities for corruption.	1) Done 5/99.  2) Identification and collection of good practice in project design to assist anticorruption commenced.
9. Reporting fraud and corruption proposal to senior management	9/98	Presentation of proposal to clarify the rules for reporting and handling internal and external allegations of fraud and corruption in Bank projects (including the immediate reporting of allegations, wherever received in the organization, to a central reference point).	In 10/98, the jurisdiction of the Oversight Committee was expanded to include review of all allegations of fraud and corruption in Bank-financed projects, and the hotline was launched. In 3/99, the committee hired a permanent secretary. In 6/99, the Investigation Unit of IAD merged with the secretariat to form a single investigative unit. In 11/98, a Sanctions Committee was established to review the results of investigations and to make recommendations to the president with respect to declaring contractors ineligible to be awarded Bank-financed contracts. In FY99, the Sanctions Committee recommended the debarment of seven firms and two individuals. These recommendations were accepted by the president and are posted on the Bank's external website.

**The World Bank Anticorruption Action Plan for FY99 (Updated July 1999), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Controlling Corruption in Bank-Financed Projects, continued</b>			
10. Procurement capacity building and risk analysis	7/98	Completion of scheduled CPARs in high-risk countries. Procurement Board to provide assistance to teams in implementing new procedures for project capacity/risk analysis and in evaluating experience.	All of the 21 planned CPARs were started and 18 were completed during the year. A major program of upgrading Bank procurement capacity was launched, including recruitment of additional staff, provision of new tools to staff, and workshops. Procurement capacity assessments have been included in all projects appraised after 11/1/98.
11. Financial management of Bank projects	7/98	1) Implementation of Loan Administration Change Initiative, and  2) Increased use of Country Financial Accountability Assessments (CFAAs) by Regions.	1) Assessment of the financial capacity of all implementing agencies and steps to strengthen financial management in project design have been included in all projects appraised from 7/98.  2) Nine CFAAs initiated in FY99. Several CPFAs (a shorter form of the CFAA) are also being carried out.
12. Workshop on procurement practices	4/99	Workshop with Bank and external experts on modern procurement practices to generate ideas that might be useful for the Bank.	Done 10/99.
<b>Assistance to Countries</b>			
13. Country requests for assistance	7/98	Continuation of ongoing work in cases of clear commitment. To date over two dozen countries have requested Bank assistance. Typical first steps are mounting of surveys and conducting of workshops. Next steps may include an IGR (see 18 below) and/or other policy and institutional reform work.	A complete inventory of activities in FY99 has been compiled and is available upon request. Some highlights from this inventory include: <ul style="list-style-type: none"> <li>• anticorruption workshops in over 21 countries across all regions,</li> <li>• anticorruption diagnostic missions to 7 countries,</li> <li>• over 24 country-specific corruption related studies and reports, and</li> <li>• corruption diagnostic and service delivery surveys in about 9 countries.</li> </ul>

**The World Bank Anticorruption Action Plan for FY99 (Updated July 1999), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Assistance to Countries, continued</b>			
14. Research, training, and dissemination of best practice	7/98	WBI core course on country experience in curbing corruption; workshops to strengthen media, parliament, and other institutions; regional integrity workshops; careful consideration of expanded research program for DEC.	<p>Some highlights from the inventory (see 13 above) include:</p> <ul style="list-style-type: none"> <li>• The "Core Course on Corruption," which has been developed and is being piloted in the Africa Region. Seven countries (Benin, Ethiopia, Ghana, Kenya, Malawi, Uganda, and Tanzania) are participating in the pilot, the first phase of which took place 6/14–6/18/99. The second phase began on 6/18/99 and was conducted over a four-week period via distance learning technology. The third phase took place in 10/99 at the 9th International Anticorruption Conference in Durban, South Africa (WBI).</li> <li>• Over 30 training workshops held for policymakers, parliamentarians, , auditors and members of the media and of the judiciary, at both regional and country levels (WBI).</li> <li>• Numerous research reports prepared including, among many others, <i>Aggregating Governance Indicators</i> (DRG, WBI), <i>Assessing Political Will and Opportunity for Anticorruption</i> (DRG), <i>Corruption and Political Finance in Africa</i> (AFR, PREM), <i>Corruption, Public Finances and the Unofficial Economy</i> (DRG), <i>Making Voice Work: The Report Card on Bangalore's Public Service</i> (DRG), <i>Moral Hazard and Optimal Corruption</i> (DRG), <i>Regulatory Discretion, Corruption and the Unofficial Economy</i> (DRG)</li> </ul> <p>World Bank Enterprise Survey: survey instrument completed. (DRG)</p> <p>Diagnostic tools and survey instruments to assess the extent of corruption have been developed, and are currently being used in several countries. (WBI and ECA-PREM)</p>
<b>Mainstreaming</b>			
15. Accountability within regions	9/98	Designation of a unit/group with clear accountability and resources to develop and mainstream the anticorruption agenda in each Region.	Completed in five of six regions.
16. Diagnosis of governance conditions in every CAS	9/98	Explicit attention in every CAS to the state of governance and corruption in the country and its impact on both country strategy and financial risks to Bank projects	The coverage of governance issues in CASs increased markedly in FY99. Notable CASs include those for Albania, Bangladesh, Bolivia, Bulgaria, Colombia, Gabon, Indonesia, Kenya, Papua New Guinea, the Philippines, and Thailand.
17. High-risk countries	9/98	Special attention to corruption in CASs, ESW, and project design in countries with high indicators of corruption.	Ongoing, with more intensive attention in FY00: PREM/OCS will work together to identify high-risk countries/operations, developing frameworks for providing advice and actually providing advice in some high-profile countries.

**The World Bank Anticorruption Action Plan for FY99 (Updated July 1999), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Mainstreaming, continued</b>			
18. Institutional and Governance Reviews (IGRs)	10/98	Four to five pilot IGRs in FY99. They will include diagnostic work on the state of governance and public sector performance and will provide input for country strategy formulation and project design. Possible pilot countries include Armenia, Bolivia, Bangladesh, Ethiopia, and/or Indonesia.	IGRs undertaken in Armenia, Bangladesh, Bolivia, Ethiopia, and Indonesia, including the development of diagnostic toolkits. Missions were undertaken to all five countries during FY99. Expected completion times: Armenia: end '99; Bangladesh: end '99; Ethiopia: to be determined; Bolivia: July '99; Indonesia: end '99. A workshop to assess these pilots will be held in the fall of FY00.
<b>Supporting International Efforts and Partnerships</b>			
19. Annual Meetings	10/98	Seminar on corruption (co-sponsored with IMF) and booth with Transparency International (TI) and ADB.	Done 10/98.
20. MDBs and bilateral donors	12/98	Second meeting of MDBs' working group to share information and coordinate approaches; expanded interaction with bilateral donors.	PRMPS (PREM Public Sector Group) participated in the second meeting of the MDB Working Group on Governance, Corruption, and Capacity Building to share information and coordinate approaches. 12/14/98  Anticorruption seminar of 5/18/99 drew upon the experiences of the EBRD and IDB. Representatives of the two institutions participated.  Regions and PRMPS have developed relationships with many partner organizations such as Canadian International Development Agency (CIDA) and Danish International Development Agency (DANIDA).
21. NGOs	7/98	Continued collaboration with TI and other NGOs working on anticorruption.	There have been ongoing contacts and collaboration at central and regional level, including, among others, regular interactions with TI.
22. OECD	7/98	Continued participation in Working Group on Bribery. Assisting OECD in explaining the anti-bribery convention to non-OECD countries and encouraging its ratification.	PRMPS maintains observer status on the OECD Working Group and continues to attend sessions. The Bank participates in outreach activities of the OECD to explain the convention to nonmember countries.
23. Professional bodies and associations	7/98	Continued enhancement of working relationships with International Organization of Supreme Audit Institutions, International Federation of Consulting Engineers, International Chamber of Commerce, and others.	In place for the financial management and procurement families.

**The World Bank Anticorruption Action Plan for FY99 (Updated July 1999), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Supporting International Efforts and Partnerships, continued</b>			
24. Crime and money laundering	7/98	Participation in UN and Interpol meetings on international crime and continued participation in the OECD's Financial Action Task Force.	Interpol conference attended in Lyon, 10/98.
<b>Staff Incentives</b>			
25. Projects and program evaluation	7/98	Selective review of projects and programs to assess how effectively corruption risks have been addressed.	Ongoing with more intensive attention planned in FY00.
26. Staff Survey	3/99	Inclusion of questions on Bank culture and willingness of staff to report corruption in next Staff Survey.	The 1999 Staff Survey included questions associated with ethics and corruption for the first time. Favorable responses were provided by 73% of staff on their willingness to use the Hotline, 78% on being pressured to compromise ethics, and 63% on observing violations of ethics. A relatively low proportion (36%) provided a favorable response on having discussed the Bank's anticorruption agenda in work groups. Ethics had the second highest favorable rating institutionally after Technology.
<b>Internal Controls and Security Concerns</b>			
27. Security plan	9/98	Preparation of action plan to increase security for Bank staff (local and HQ staff).	Done; measures were announced 12/2/98.
28. Ethics program	10/98	Development of a modern ethics management program to define and support the professional values of the Bank.	<ul style="list-style-type: none"> <li>• Efforts are under way to update the Code of Professional Ethics and to define a communications strategy.</li> <li>• Extensive integrity awareness training for staff is ongoing (see 1 above).</li> <li>• In FY99, BEI closed 437 investigations into allegations of misconduct by staff. In 337 of these cases the allegations were substantiated and disciplinary action was taken.</li> <li>• Investigative capacity is being enhanced: in FY99 two trained investigators were hired and a training program, "How to Conduct Investigations" was conducted for 30 staff from IAD, LEG, HR, OCSPP, and BEI.</li> </ul>

**The World Bank Anticorruption Action Plan for FY99 (Updated July 1999), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Internal Controls and Security Concerns, continued</b>			
29. COSO and internal controls	7/98	<ul style="list-style-type: none"> <li>• Review of adequacy of internal controls.</li> <li>• Continuation of Control Self Assessments (CSAs) in Bank units.</li> <li>• Quarterly reporting to Audit Committee.</li> <li>• Annual Attestation through letters of representation by VPs.</li> <li>• Auditing of major risk areas of the Bank.</li> </ul>	<p>Review of overall internal control was carried out by IAD and reported to the Audit Committee for FY98 (FY99 is in progress).</p> <p>CSA workshops were carried out by Controllers and some business units in FY98 and FY99. CSA workshops include instructions on the proper use of funds, and although the primary focus of the workshops is not on corruption and fraud, they provide a setting where participants can give indications of concern in these areas. In these cases participants are referred to the proper authorities in the Bank for follow-up and resolution.</p> <p>Semiannually, internal control issues are identified, and the status of previously identified issues is updated and reported to the Audit Committee. (CTR)</p> <p>Managing Directors and Vice Presidents are required to comment on the adequacy of internal controls in their areas of responsibility by submitting an annual letter of representation on the adequacy of internal controls, identifying any significant control breakdowns. Representation letters were signed by VPs in FY98 and FY99.</p> <p>IAD carried out audits of high-risk Bank activities during FY98 and FY99.</p> <p>Business units are taking actions to address control issues raised in the CSA workshops. In the Finance area, business units are required to document key risks, identify the mitigating controls, and test key transactions to verify the adequacy of controls. All the above documentation is reviewed by Controllers in preparation of the annual assertion by management, and by the external auditors in their attestation, that the Bank's system of internal control over financial reporting meets the <i>COSO Internal Control—Integrated Framework</i> criteria.</p>
30. Hotline	10/98	Launching of hotline for reporting internal fraud and corruption.	The hotline was established by the Oversight Committee in 10/98. It is available toll-free in the U.S. and in most countries where the Bank has offices.



# Anticorruption Action Plan: FY00

## (Progress as of June 2000)

### The World Bank Anticorruption Action Plan for FY00 (Updated June 2000)

TOPIC	START DATE	ACTION	STATUS
<b>Strategy Setting, Knowledge, and Awareness</b>			
1. Strategy setting and dissemination	11/99	Public Sector Strategy Paper and Governance Update—presentation to Board.	Strategy Paper sent to CODE in 1/00. To be discussed by Board on 6/15/00.
2. Anticorruption web sites	Ongoing	Expansion of internal and external web sites to progressively document country experience.	Ongoing. External website upgraded in 4/00 for Spring Meetings.
3. Staff and client training; staff awareness	Ongoing	Continuation of staff and client training programs, with emphasis on active, hands-on training. Addressing issues coming out of the March 1999 Staff Survey, including awareness of and willingness to use hotline.	WBI core course for seven AFR countries concluded, with the third and final phase taking place at the 9th International Anticorruption Conference in Durban, South Africa, in 10/99. Core course planned for LAC in 2000. SAR staff regional orientation workshop held on 5/2/00. Public sector group rethinking staff training priorities and modalities in light of WB Staff Survey.
4. PREM Notes	Ongoing	Continuation of anticorruption series (with at least 10 more PREM notes on various anticorruption topics).	Eight additional PREM Notes published to date in FY00: <ul style="list-style-type: none"> <li>• <i>Assessing Political Commitment to Fighting Corruption</i></li> <li>• <i>The Law and Economics of Judicial Systems</i></li> <li>• <i>Mobilizing Civil Society to Fight Corruption in Bangladesh</i></li> <li>• <i>Rethinking Civil Service Reform</i></li> <li>• <i>An Anticorruption Strategy for Revenue Administration</i></li> <li>• <i>Court Delay: Lessons of Experience</i></li> <li>• <i>Reforming Tax Systems: Lessons from the 1990s</i></li> <li>• <i>Reducing Corruption: Lessons from Venezuela</i></li> </ul>
5. Anticorruption conference	Spring, '00	Conference on analytic developments of operational relevance.	Postponed to FY01.
6. Anticorruption in Transition Economies	Spring, '00	Preparation of ECA anticorruption report for Prague 2000.	Draft completed. ECA External Advisory Group met in 4/00 to discuss the draft. Report to be finalized in 6/00.

**The World Bank Anticorruption Action Plan for FY00 (Updated June 2000), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Controlling Corruption in Bank-Financed Projects</b>			
7. Implementation of financial management and procurement reforms	Q2 FY00	Assessment and reporting to management and the Board on experience with the implementation of the first year's reforms in financial management and procurement. Adapting implementation of the reforms in light of the findings.	Report completed and presented to the Board in Q3 FY00.
8. Project design	Ongoing	Provision of assistance to operational staff, through best practice dissemination and advice, in project design features that can contribute to reduced corruption in Bank-financed projects.	Ongoing
9. Procurement capacity building and risk analysis	Ongoing	Twenty-six CPARs in FY00, with a focus on higher-risk and priority countries. Review of first-year experience.	Ongoing. Review of first-year experience completed in 2/00.
10. Procurement audits at the project level	Ongoing	Procurement audits in FY00 across all regions. Documentation and communication to staff of lessons from audits and investigations.	Continuation of procurement audits on selected projects in countries with large lending portfolios or risky operational environment.
11. Financial management of Bank projects	Ongoing	At least 21 CFAAs and 5 Profiles in FY00 with a focus on higher-risk and priority countries. Review of first-year experience.	Ongoing. Review of first-year experience completed in 2/00.
<b>Helping Countries That Request Bank Support</b>			
12. Implementation of institutional reforms	Ongoing	Intensive implementation of credible, concrete reforms in countries that have a clear commitment and request assistance.	Ongoing assistance in about 95 client countries (list of some countries posted on external website 11/99).
13. Impact evaluation	Ongoing	Heightened emphasis on measuring the impact and evaluating the results of the Bank's anticorruption assistance on the ground (including OED review); second-generation anti-corruption surveys.	Ongoing review and evaluation of projects and programs. Quality plan formulated and being implemented for monitoring portfolio. OED review scheduled for FY00-FY01. Surveys ongoing (see 18 below).

**The World Bank Anticorruption Action Plan for FY00 (Updated June 2000), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Helping Countries That Request Bank Support, continued</b>			
14. Special topics	3/00	Political finance and corruption: Investigation of the boundaries of Bank involvement in this area, to inform a possible policy note in the following fiscal year; distilling results from anticorruption surveys on this and related political economy variables.	Ongoing
<b>Mainstreaming Anticorruption in Bank Operations</b>			
15. CAS mainstreaming	Ongoing	Continuation of governance diagnosis in every CAS; closer linking of governance and corruption diagnoses to the lending program. Particular attention to high-risk countries.	Work under way to develop guidance for handling governance in CASs (as part of 16 below). Ongoing review and evaluation of projects and programs. Quality plan formulated and being implemented for monitoring portfolio.
16. Anticorruption and lending	12/99	Finalization of Bank policy note on anticorruption and lending—including adjustment lending—in high-risk countries (from both fiduciary and mainstreaming perspectives).	Cross-Bank working group established to review Bank's fiduciary responsibilities in adjustment lending and to establish clearer guidelines to link governance and country assistance strategies. Policy note "Fiduciary Framework for Adjustment Lending" to be discussed with CODE and Audit Committee in 5/17/00. Incorporates previous work on high-risk countries.
17. Governance indicators; Principles/ Code of Good Governance	Ongoing	Refinement, evaluation, and internal dissemination of existing governance indicators; preparation of draft "principles [or code] of good governance."	The Bank has led a discussion with OECD-Development Assistance Committee (OECD DAC) and is working in partnership with Department for International Development, United Kingdom (DFID, UK), to develop an appropriate "governance scorecard." DFID-financed secondment planned for FY01.
18. Diagnostic work: IGRs; Anticorruption Surveys; SSRs	Ongoing	Evaluation of Institutional and Governance Review (IGR) pilots and anticorruption surveys, and expansion of work into other countries; linking IGR toolkits and methodology with Structural and Social Reviews (SSRs).	Pilot IGRs completed in Armenia, Bangladesh, Bolivia, and Indonesia. Workshop on lessons learned held 12/14/99. Ongoing/new work planned or under way for Argentina, Balkans, Benin, Caribbean, Ethiopia, Jordan, Kenya, and Morocco. Public officials and/or corruption surveys planned, under way, or completed in Albania, Argentina, Armenia, Bangladesh, Bolivia, Cameroon, Ghana, Guinea, Guyana, Indonesia, Kenya, Macedonia, Paraguay, Russia, and Thailand.
19. CPAR and CFAA mainstreaming	Ongoing	Development and dissemination of guidelines for best practice and sequencing of CPARs and CFAAs, in order to link them to IGRs and incorporate them into key operational work.	Draft guidelines for CFAAs prepared. Pilot under way in ECA to coordinate IGR and CPAR/CFAA work. One-day workshop held in 11/99 to discuss coordination issues in preparing guidelines for CPAR.

**The World Bank Anticorruption Action Plan for FY00 (Updated June 2000), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Mainstreaming Anticorruption in Bank Operations, continued</b>			
20. IDA 12	12/99	Assistance in defining governance criteria for IDA12.	Ongoing (see 17).
21. Sector strategy papers	Ongoing	Mainstreaming of anticorruption concerns in key sector strategy papers.	Ongoing
<b>Supporting International Efforts and Partnerships</b>			
22. Annual Meetings	9/99	Kiosk on Governance and Public Sector Reform, with UNDP, Support for Improvement in Governance and Management in Central and Eastern European Countries (SIGMA), Public Management Committee and Public Management Service (PUMA), and the Commonwealth Secretariat.	Done 9/25/99–9/29/99
23. MDBs and Bilateral donors	Fall, '99	Third meeting of MDBs' working group to share information and coordinate approaches; expanded interaction with bilateral donors.	MDB meeting on 1/13/00–1/14/00, in videoconference between Washington, D.C., and Manila. Follow-up working group video conference took place on 4/12/00. Meeting of bilaterals in Maastricht, Netherlands, 4/25/00–4/26/00.
24. NGOs	Ongoing	Partnering with NGOs at the regional and country level in a systematic way.	Ongoing; IGRs, surveys, and workshops provide good mechanisms for deepening our relationships with in-country NGOs.
25. OECD	Ongoing	Participation in the OECD Working Group on Bribery to monitor and assess the implementation of the anti-bribery convention.	Ongoing; meetings held 10/99, 12/99, and 2/00 in Paris.
26. Professional bodies and associations	Ongoing	Continued enhancement of working relationships with International Organization of Supreme Audit Institutions (INTOSAI), International Federation of Consulting Engineers (FIDIC), International Chamber of Commerce (ICC), Commonwealth Parliamentary Association, Commonwealth Press Union, Commonwealth Journalists Association, and other professional bodies.	Ongoing; meeting held with INTOSAI representative in Durban, South Africa, 10/99. Various collaborative conferences and seminars, including "Parliaments and the Media: Building an Effective Relationship," hosted by the Parliament of India, 2/00.

**The World Bank Anticorruption Action Plan for FY00 (Updated June 2000), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Supporting International Efforts and Partnerships, continued</b>			
27. Crime and money laundering	Ongoing	Participation in UN and Interpol meetings on international crime and continued participation in the OECD's Financial Action Task Force (FATF).	Meeting with Interpol in Durban, South Africa, 10/99; meeting of FATF in Portugal 9/99.
<b>Internal Controls and Security Concerns</b>			
28. Ethics program	10/99	<p>Presentation to senior management of updated Code of Professional Ethics, ethics helpline, and ethics web page; distribution of updated code for signature by all employees. Continuation of new employee orientation. Delivery of manual of standards and procedures for the operations of the BEI, including information on conducting investigations and the operations of the ethics helpline.</p> <p>Mandatory integrity training for supervisory staff: Over 28 integrity awareness seminars scheduled; integrity awareness training for resident mission in Jakarta (9/99).</p> <p>Addition of language concerning whistle blowing to Staff Rule 8.01.</p>	<p>Revised Code of Ethics, ethics website, and ethics helpline launched 12/08/99. Code, Orientation Guide, videotape, brochure, calendar, tear-off wallet card—each advertising fraud hotline, ethics helpline—distributed in 2/00 to all managers for dissemination to all staff before 7/01/00. Code translated into seven languages. <i>Operating Standards and Procedures for Inquiries and Investigation</i> and <i>Guidelines for HelpLine Operations</i> delivered 12/99. Poster with hotline and helpline information to be displayed permanently in all WBG facilities to be delivered by 6/00.</p> <p>Integrity awareness: As of 5/01/00, 52 four-hour seminars for over 1,000 staff conducted in Washington, D.C., Beijing, Hanoi, Manila, Jakarta, Bangkok, Budapest, Paris, and Johannesburg. Over 40 sets of training materials sent to Africa and Latin America Regions.</p> <p>Staff Rule 8.01 revised in 1/00 to include new sections on "Reporting of Fraud and Corruption—Confidentiality and Anonymity." Staff Rule 3.01 to be distributed to all staff by 7/01/00.</p>

**The World Bank Anticorruption Action Plan for FY00 (Updated June 2000), continued**

TOPIC	START DATE	ACTION	STATUS
<b>Internal Controls and Security Concerns</b>			
29. COSO and internal controls	7/99	<p>Continuation of Control Self-Assessment (CSA) process, completion of initial rollout, and handover of implementation and maintenance activities of COSO and CSA process to the business units. Identification of internal control issues and update of status of previously identified issues, with semi-annual report to the Audit Committee.</p> <p>MDs and VPs to comment on the adequacy of internal controls in their areas of responsibility through annual letter of representation, identifying any significant control breakdowns.</p> <p>Annual assertion of adequacy of internal controls for financial reporting by the President to Audit Committee.</p>	<p>CSA workshops currently being carried out by Controller's and business unit partners. Rollout to be completed in Q2 FY01. Internal control issues identified semi-annually; "Internal Controls at the Bank—FY2000, COSO, Mid-Year Progress Report" published and discussed with the Audit Committee in 2/00. Next report due in 7/00. IAD's internal control report for FY99 issued in Q2 of FY00.</p> <p>Scheduled for 7/00.</p> <p>Scheduled for 7/00.</p>
30. Investigations	Ongoing	<p>Increase in internal capacity to conduct investigations.</p> <p>Development of database to facilitate the tracking of cases.</p> <p>Use of lessons of investigations to educate Bank staff on how to prevent and detect fraud in their projects.</p>	<p>The Secretariat to Oversight Committee, currently comprising 16 staff (2 co-managers, 8 investigators, 2 investigative analysts, 2 research analysts, and 2 program assistants) aims to increase staff to include 10 to 15 full-time investigators within six months.</p> <p>BEI developing a case-tracking database, to be operational in the next few months. Working Group formed by Oversight Committee, the Legal Advisor for Procurement, and OCS to prepare case studies for distribution to Bank staff. Several "fraud alerts" and other advisories already posted on Secretariat's internal website.</p>

# Management, Procurement, and Financial Controls in Bank-Financed Investment Projects

The Bank<sup>34</sup> works with its borrowers from project design through completion to ensure that necessary management, procurement and financial controls are in place in projects that it finances.

## Project Preparation, Appraisal, and Approval

During *project preparation* the Bank assists its borrowers develop and establish the arrangements that are necessary to assure adequate management, procurement and financial controls in projects for which Bank financing is sought. The arrangements are reflected in project documents including a Project Implementation Plan (PIP), which sets out detailed arrangements for managing and implementing the various activities required to achieve the project objectives, including the arrangements for procurement and financial management.

In *appraising* a project, the Bank independently assesses the adequacy of the proposed arrangements for project implementation, including the procurement and financial management arrangements, focusing in particular on the institutional capacity to carry out these arrangements, risks involved, and action plans to address any deficiencies.

The Bank proceeds to *loan negotiation* when, inter alia, the procurement and financial management arrangements, including remedial action plans, are agreed between the Bank and the borrower. These are

summarized in the Project Appraisal Document. The specific agreements with the borrower on these arrangements for a particular project are specified in the legal agreements (including the General Conditions).

For procurement, the Loan Agreement refers to the Bank's Procurement Guidelines, and specifies how they are to govern procurement procedures for the different categories and sizes of contracts for goods, works and related services and the rules for prior and post review of individual procurement procedures (including thresholds that take into account perceived risks as identified through the Bank's assessment of the Borrower's procurement capacity). A Procurement Schedule to the Loan Agreement sets out the criteria for packaging the contracts, the various methods of procurement that may be used, the thresholds within which those methods apply, and any other arrangements that may be specific to the project.

For financial management, the Loan Agreement sets out the agreed arrangements for disbursing the loan, and the financial management, accounting, audit and reporting requirements. Financial covenants in the loan agreement require the borrower to (i) maintain a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the project; (ii) have the records, accounts and financial statements for each year audited by independent auditors; and (iii) furnish the audited financial statements to the Bank by

an agreed date. The Loan Agreement sets out the requirements for the use of a Special Account (a dedicated borrower account to which loan funds are advanced), Statement of Expenditures (a disbursement procedure for reimbursing the borrower based on a description of expenditure incurred) and/or Project Management Reports (a disbursement procedure for reimbursing the borrower based on reports that link expenditures with physical implementation) if they are permitted under the loan. Such procedures are permitted in accordance with perceived risks as identified through the Bank's assessment of the borrower's financial management capacity.

## Implementation and Supervision

### Procurement

The responsibility for project implementation, including the execution of the agreed procurement arrangements, rests with the borrower. The Bank monitors and supervises the implementation of these arrangements on a continuing basis until project completion.

To ensure transparent and competitive procurement practices, the Bank has established procurement guidelines. The Bank has found that *International Competitive Bidding*, in most cases, is the most economic and efficient method of procurement. In other cases, other methods such as National Competitive Bidding, Limited International Bidding, Shopping (International and National), Direct Contracting may be preferred, all of which are governed by procurement policies and procedures.

For major contracts above the threshold specified in the Loan Agreement, and also for significant transactions, the Bank normally reviews the bidding documents, the borrower's bid evaluation and the award recommendation in advance of the contract's being awarded. For contracts subject to *prior review*, the Bank

reviews and issues a "no objection" for the initial advertisements, the bidding documents and the borrower's bid evaluation report and recommendation for award. The Bank normally conducts ex-post reviews on a sample of the remaining contracts.

In addition, the Bank has recently introduced specialized *procurement audits* by external firms to review a sample of procurement contracts for compliance with the Bank's procurement guidelines.

The Bank requires that borrowers (including beneficiaries of Bank loans), as well as bidders/suppliers/contractors under Bank-financed contracts, observe the highest standard of ethics during the procurement and execution of such contracts. In pursuance of this policy, the Bank:

- will reject a proposal for award if it determines that the bidder recommended for award has engaged in corrupt or fraudulent practices in competing for the contract in question;
- will cancel the portion of the loan allocated to a contract for goods or works if it determines that representatives of the borrower or of a beneficiary of the loan were engaging in corrupt or fraudulent practices during the procurement or the execution of that contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation;
- will declare a firm ineligible, either indefinitely or for a stated period of time, to be awarded a Bank-financed contract if it at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract. Further, the Bank can require, in contracts financed by a Bank loan, a provision requiring suppliers and contractors to permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the Bank.



## Financial Management

Under Bank-financed projects, the Bank requires the borrower and the project implementing entities to maintain financial management systems—including accounting, financial reporting, and auditing systems—sufficient to ensure that they can provide accurate and timely information on project resources and expenditures.

- **Accounting.** Accounting information submitted to the Bank must adhere to accounting standards acceptable to the Bank.<sup>35</sup> When project implementation begins, the borrower and the project implementing entities must have in place accounting and internal control systems that accord with such accounting standards and both (a) reliably record and report all assets and liabilities and financial transactions of the project, and (b) provide sufficient financial information for managing and monitoring project activities.
- **Financial Reporting.** The borrower and the project implementing entities provide to the Bank annual audited financial statements of the project, which include (a) an assessment of the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safe custody of project-financed assets; (b) a determination as to whether the borrower and project implementing entities have maintained adequate documentation on all relevant transactions; and (c) verification that expenditures submitted to the Bank are eligible for financing, and identification of any ineligible expenditures.
- **Auditing.** The borrower is required to have the project financial statements for each year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank. The borrower is also required to have the auditor review the financial

management system at the beginning of project implementation and periodically thereafter. The Bank reviews the auditor's independence, qualifications, experience, and terms of reference and informs the borrower and project implementing entities whether the auditor is acceptable. If (a) the required audited financial statements are not received by the due date, (b) the auditor's opinion indicates deficiencies in the accounting and internal controls (including ineligible expenditures) or in the reliability of the financial statements, or (c) the Bank considers the scope or quality of the audit to be unacceptable, the Bank may refuse to extend the closing date of the loan and normally delays negotiations or Board presentation of any new loans benefiting the defaulting entity.

The Bank may suspend disbursements on a loan if it does not receive audited financial statements. If the audited financial statements reveal major deficiencies in internal controls the Bank may suspend disbursements on that loan until it is satisfied that the borrower and the project implementing entities have taken adequate remedial action.

## Disbursement

The responsibility for project implementation, including the execution of the agreed disbursement arrangements, rests with the borrower. The Bank monitors and supervises the implementation of these arrangements on a continuing basis until project completion.

Bank staff also review the relevant documentation in support of disbursement. After loan signing, the Loan Department sends the borrower written instructions on the procedures for withdrawing loan funds. The borrower is required to hold any Special Accounts in banks acceptable to the Bank. If the Special Account bank is a commercial bank, a letter from that bank stating that funds will not be set off, attached or seized is required.

Borrowers submit withdrawal applications to the Loan Department to request loan disbursement. On each application, the borrower certifies that

- it has not previously withdrawn from the loan for the expenditures;
- the goods and services covered by the application are purchased in accordance with the loan agreement;
- the expenditures are from eligible sources; and
- for Statements of Expenditures and Project Management Reports, all documentation authenticating the expenditures will be made available upon request.

Loan Department staff examine each applications to confirm that

- it was signed by an authorized borrower signatory;
- the expenditures claimed were incurred and are eligible under the loan; and
- the supporting documentation submitted with the application is adequate.

For Project Management Reports, the task team in the region also reviews and signs off on the disbursement.

## Field Supervision

Bank staff conduct field supervision missions about two times per year. In the conduct of these missions, the Bank staff perform sample post reviews of documentation supporting withdrawals against Statements of Expenditures(SOEs) and Project Management Reports (PMRs) and review the control environment that supports the preparation of SOEs and PMRs, and perform post reviews of procurement contracts and the procurement process which was followed. Supervision reports that Bank staff are required to submit upon their return indicate the continuing acceptability of the borrower's and the project implementing entities' accounting, financial reporting, and auditing arrange-

ments; the acceptability of audited financial statements received; the status of audited financial statements outstanding; unsatisfactory matters requiring follow-up; and remedial actions under way or to be undertaken.

## Other Oversight Functions

Many other units throughout the Bank provide an additional level of control and oversight over the use of Bank funds on investment projects:

- **Loan Department**—Reviews and signs off on the financial management and disbursement aspects of loan agreements.
- **Legal Department**—Drafts loan agreements; reviews and clears compliance with legal aspects of Bank policies; reviews the adequacy of the legal framework for project implementation.
- **Quality Assurance Group**—Conducts interim assessments of the quality of the project portfolio, including supervision, financial management and monitoring & evaluation.
- **Procurement Policy and Services Group**—Provides expert advice and support in the area of procurement, and follows up on allegations of non-compliance with Bank procurement guidelines, and reviews all large contracts.
- **OCS Network (Procurement/Financial Management/Resource Management/Quality Group)**—Provides input and advice to the design of projects to limit opportunities for misuse of Bank funds.
- **Internal Auditing Department**—Performs audits to assess the integrity of the internal controls of business processes, including those associated with the project cycle.
- **Oversight Committee**—Follows up allegations of misuse of Bank funds.

## Partial Inventory of the Bank's Governance and Institutional Reform Programs FY98, FY99, and FY00 (1st half)

Since 1996, the Bank has launched numerous operations pursuant to its anticorruption agenda. While the decision to target corruption is relatively new, the Bank has had a long history of promoting reforms that effectively improve the management of public resources and reduce opportunities for corruption. Examples of reforms that have an impact on levels of corruption and the quality of governance include:

- Structural adjustment programs that support the liberalization of markets, prices, trade and exchange regimes, countries with programs to strengthen governance
- Public enterprise sector reforms that result in the sale and liquidation of public enterprises
- Private sector reforms that relax governments controls and cut off rent-seeking opportunities
- Reforms in service delivery and infrastructure programs to give greater voice and decisionmaking power to local communities (i.e. community action programs).

Since most, if not all, Bank operations contain some components that could be expected to have a positive anticorruption impact, a complete list of Bank operations that are likely to contribute to the reduction of corruption would be unwieldy.

To keep the list manageable and targeted, only those programs targeted explicitly at anticorruption, improvements in governance, and/or institutional reform in the public sector have been included in the inventory. The list is organized by region and country, with cross-cutting Bank-wide initiatives included at the end. Programs are organized according to the following categories:

- Grant-based assistance to reduce corruption
- ESW and Mission Reports on corruption
- In-country workshops and surveys on corruption
- Governance-related lending.

This list focuses on governance programs under implementation or active preparation in FY98, FY99, and the first half of FY00. The extent of Bank activity in this area is increasing rapidly, and thus more recent initiatives may not be reflected in the inventory.

## Countries with Programs to Strengthen Governance

Grant-Based Technical Assistance		ESW and Mission Reports
AFRICA		
Regional programs		(FY99) Research program on determinants of corruption in Africa. (FY99) Study on Corruption and the Financing of Politics in Africa. (FY00) Sourcebook for community-driven development
Angola		(FY98) CPFA
Benin	(FY99) IDF Grant. Reinforcement of Anticorruption Unit in Presidency.	(FY99) CPAR (FY99) Pilot IGR to assess areas of weak governance and poor public sector performance (FY00-01) CFAA
Burkina Faso		(FY00) CPAR (FY00) Study on the governance underpinnings of service delivery.
Cameroon		(FY98-FY00): Consultant reports on public expenditure and public investment. (FY00) Development of good governance and anti-corruption action plan. (FY01) CFAA (FY01) CPAR
Cape Verde		
Chad	(FY00) IDF Grant to support National Assembly	(FY00) Development of good governance and anti-corruption action plan. (FY00) CFAA (FY00) CPAR (FY01) PER
Côte d'Ivoire		(FY98) CPFA (FY99) Country regulatory framework paper. (FY00-01) CFAA

<p>(FY98) Corruption Workshop for Bank Staff and Clients (WBI).  (FY98-00) Regional Investigative Journalism Workshops—print and radio journalists (West and East Africa—WBI).  (FY99) Role of African Parliaments in Curbing Corruption (WBI).  (FY99) Anticorruption Core Course for seven African countries (WBI).  (FY99) Workshop: The Media's Role in Curbing Corruption (WBI).  (FY99) Information for Accountability Workshops: Supporting Accountability and Anticorruption Strategies in Sub-Saharan Africa (International Records Management Trust/Danish Governance Trust Fund).  (FY99-00) Support to the African Parliamentarians Network against Corruption (WBI).  (FY00) Presentations at Ninth International Anticorruption Conference in Durban, South Africa.  (FY00) Investigative Journalism Teleseminar Series: Anglophone and Francophone Africa (WBI)</p>	<p>(FY00-01) Preparation of a regional project to reform the public procurement systems of member countries of the Union Économique et Monétaire Ouest-Africaine in West Africa.</p>
<p>(FY98) Anticorruption seminar (WBI).  (FY98) Anticorruption seminar as part of IDF Grant to Anticorruption unit.  (FY99-00) Participant in WBI Core Course on Anticorruption.  (FY00) Participant in Investigative Journalism Teleseminar Series (WBI).</p>	<p>(FY99) Private sector development and judicial reform project.  (FY99) Transport Sector Investment program.  (FY00-01) Preparation of Public Expenditure Reform Credit with financial accountability components  (FY00-01) Preparation of Legal and Judicial Reform Project.</p>
	<p>(Approved FY92) Public Institutional Development project.</p>
<p>(FY00) Participant in Investigative Journalism Teleseminar Series (WBI).</p>	<p>(FY00-01) Strong transparency components dominate the overall Chad-Cameroon Pipeline package.</p>
	<p>(Approved FY94) Public Sector Reform and Capacity Building project.  (FY98) Economic Reforms Support project.  (FY99) Privatization and Regulatory Capacity Building project.</p>
<p>Participatory process linked to PRSP</p>	<p>(Approved FY96) Capacity Building project.  (FY99) Structural Adjustment Credit III.  (FY00) Technical Assistance Credit on Management of Oil Revenue  (FY00-01) Strong transparency components dominate the overall Chad-Cameroon Pipeline package.</p>
<p>(FY00) Conference on Good Governance, focusing on corruption (22-24 November 1999).  (FY00) Participant in Investigative Journalism Teleseminar Series (WBI).</p>	<p>(Approved FY93) Economic Management Technical Assistance . project</p>

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
AFRICA, continued		
Eritrea		(FY99) CPFA (FY00-01) CFAA (FY00-01) CPAR
Ethiopia (New operations are on hold owing to the war with Eritrea)	(FY99) IDF Grant. Civil Service Reform and Capacity Building.	(FY98) Anticorruption mission and report; Follow-up work is based on decision to designate Ethiopia as the pilot country in Africa for introducing the Anti-corruption Clause in Bank procurement. (FY98) CPFA (FY98-01) PER, conducted annually in Ethiopia (FY98) CPAR (FY99-00) Pilot IGR to assess areas of weak governance and poor public performance. (FY00-01) CFAA
Gambia, The		
Ghana		(FY00) CFAA and CPAR under way. (FY00-01) Participatory CAS and CDF process consulting government, donors and civil society. (FY00-01) Study to develop a consistent, cross-sectoral decentralization strategy, following through on anti-corruption survey, the institutional reform of ministries, and the development of measures to monitor and evaluate government performance.
Guinea		(FY98) CPFA (FY99) Mission to respond to request from President for assistance to fight corruption (FY99-00) CPAR (FY00) Follow-up to Mission—assistance to develop anticorruption strategy and action plan
Guinea-Bissau	(FY98) IDF Grant. Notary and Registration Service.	(FY98) Strengthening Customs Administration.
Kenya	(FY00-01) Preparation and implementation of IDF Grant for support to the Kenyan Anticorruption Authority.	(FY98) CAS. Best practice. (FY99) CAS. Addressed problem of corruption and public sector management.
Lesotho		(FY99) Policy dialogue on Civil Service Reform is part of Policy Framework Paper process.

<p>(FY98) Anticorruption Seminar for Parliamentarians (WBI)  (FY99) Three Introductory Investigative Journalism Seminars including Radio and Television journalists (WBI).  (FY99-00) Governance and Corruption Survey (WBI/Danish Governance Trust Fund).  (FY99-00) Participant in WBI Core Course on Anticorruption.  (FY00) Participant in Investigative Journalism Teleseminar Series (WBI).  (FY00) Support to GOE/CSR Program, development of Investigative Journalism curricula (WBI).</p>	
<p>(FY98) Improving Cabinet decisions on public expenditure management (WBI).</p>	
<p>(FY98-00) Seminar for Public Accounts and Finance Committees (WBI).  (FY99) Seminar for Economic and Financial Journalists on Transparency and Integrity (WBI and African Virtual University).  (FY99-00) Participant in WBI Core Course on Anticorruption.  (FY00-01) Governance and Corruption Survey.  (FY00) Participant in Investigative Journalism Teleseminar series (WBI).</p>	<p>(FY98/FY99) Economic Reform Support Operation project I/II.  (FY99) Adaptable Program Loan Public Sector Management program.</p>
<p>(FY00-01) Governance and Corruption Survey.</p>	<p>(FY99) Adaptable Program Loan. Capacity Building for Service Delivery.</p>
<p>(FY99-00) WBI Core Course on Anticorruption.  (FY00-01) Governance and Corruption Survey.</p>	<p>(Approved FY93) Parastatal Reform and Privatization Technical Assistance project.  (Approved FY95) Institutional Development and Civil Service Reform project.  (FY99) Institutional Development and Civil Service Reform project.  (FY01) Proposed Public Sector Adjustment Credit will focus on accountability and transparency in the use of public resources.</p>

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
AFRICA, continued		
Liberia		(FY00) Collaborating with IMF to remove monopolies on petroleum products and rice imports.
Madagascar		(FY98) CPFA
Malawi	(FY00-01) IDF Grant. Reinforcement of Anticorruption Bureau	(FY98) Anticorruption mission and report.
Mali		(FY99) Anticorruption mission and report. (FY99) CPAR
Mauritius		(FY98) CPFA
Mauritania		
Mozambique	(FY00) IDF Grant. Supporting the Technical Group for Public Sector Reform	(FY00-01) CPAR (FY00-01) Governance central to CAS. (FY00-01) Report on accountability and transparency in the delivery of public services.
Niger		(FY99) CPAR (FY00-01) CFAA
Nigeria		(FY00) Missions to develop comprehensive approach to anticorruption. (FY00) CFAA and CPAR



	(Approved FY97) Public Management Capacity Building project. (FY99) Structural Adjustment Credit II.
(FY99-00) Participant in WBI Core Course on Anticorruption. (FY00-01) Governance and Corruption Survey	(Approved FY94) Institutional Development project II. The five major components include: (i) improving civil service policy and information framework; (ii) strengthening capacity of department of personnel management; (iii) strengthening institutional capacity of the Ministry of Finance; (iv) support the Department of Statutory Bodies; and (v) strengthen the Malawi Institute of Management. (Approved FY96) Fiscal Restructuring and Deregulation Program project (FRDP). (FY99) FRDP II. (FY00) Structural Adjustment Credit will support financial management reform, the office of Auditor General, judicial and legal reform, and decentralization of the administration of the civil service.
(FY98) Seminar for Public Accounts and Finance Committees (WBI). (FY99) Seminar for Economic and Financial Journalists on Transparency and Integrity (WBI and African Virtual University). (FY99) Seminar for Public Accounts and Finance Committees of Parliament (WBI).	(Approved FY96) Economic Management Credit.
(FY98) Household and Private Sector Corruption Surveys (WBI). (FY98) National Integrity Meeting (WBI). (FY98) Support for Anticorruption Legislation (WBI). (FY98) Introductory and Advanced Investigative Journalism Seminars (WBI).	
	(Approved FY96) Public Resource Management Credit.
	Approved FY93) Legal and Public Sector Capacity project. (FY00-01) Preparation of multi-faceted public-sector reform project.
	(FY99) Public Finance Reform Credit.
(FY00) Preparation of governance and corruption surveys. (FY00) Initiation of training program for parliamentarians and journalists (WBI).	(FY00) Preparation of Economic Management Capacity-Building Project which will have components for strengthening economic and financial management.

## Countries with Programs to Strengthen Governance, continued

	Grant-Based Technical Assistance	ESW and Mission Reports
AFRICA, continued		
Rwanda		(FY98) CPFA
Sierra Leone		
Senegal	(FY98) IDF Grant. National Consultation on Civil Service Reform.	
South Africa	(FY99) IDF Grant. Setting up Institute for Public Finance and Auditing.	(FY98) CPFA
Tanzania		(FY98-00) Anticorruption mission and report—follow-up to the mission is the initiation of an accountability and transparency program. (FY00) CPAR
Uganda	(FY00) IDF Grant. Strengthening the capacity of the Ministry of Ethics and Integrity	(FY98) CPFA (FY99) Anticorruption mission and report. (FY99) Study on corruption and the financing of politics. (FY99) Anticorruption report on the agenda of the Consultative Group Meeting and of February meeting of Global Coalition for Africa. (FY00) CPAR
Zambia		(FY99) CAS. Strong anticorruption components.
Zimbabwe		

	(FY99) Economic Recovery Credit.
	(Approved FY93) Public Sector Management Support project: to strengthen capacity to implement adjustment program and longer-term growth strategy, focusing on fiscal management. (FY00) Governance and anticorruption component included in the new Economic Rehabilitation and Recovery Credit.
(FY00) Regional Johannesburg police to improve security and governance.	
(FY98) Introductory and Advanced Investigative Journalism Seminars—Business Journalists (WBI). (FY98) Integrity Workshop for Parliament (WBI). (FY99) Introductory and Advanced Investigative Journalism including Radio and Television (WBI). (FY99) Strengthening of Parliamentary Oversight (WBI) (FY99-00) Participant in WBI Core Course on Anticorruption. (FY00) Participant in Investigative Journalism Teleseminar series (WBI).	(Approved FY93) Financial and Legal Management Upgrading project. (Approved FY93) Private and Public Sector Management project. (Approved FY97) Structural Adjustment Credit I. (FY99) Tax Administration Program project. (FY00) Public Sector Reform Project focuses on service delivery, meritocratic public service, performance management and budgeting, pay reform, and ethics.
(FY98) National Integrity Meeting III (WBI). (FY98) 3 Investigative Journalism workshops (WBI). (FY98) National Integrity Survey (WBI). (FY98) Integrity Meeting and Workshops for Parliament and Judiciary (WBI). (FY99) National Integrity Meeting IV, (WBI). (FY99) National and District Media Training Investigative Journalism—TV & Radio (WBI). (FY99) 10 District Integrity Meetings (WBI). (FY99-00) Participant in WBI Core Course on Anticorruption. (FY00) Participant in Investigative Journalism Teleseminar series (WBI).	(Approved FY95) Institutional Capacity Building project. Includes (i) central government capacity building; (ii) local government capacity-building; (iii) legal sector reform; (iv) accountancy profession; and (v) training funds. (Approved FY97) Structural Adjustment Credit III. (FY99) Education Adjustment Credit allocates funds directly to communities. (FY00) Preparation of Public Expenditure Reform Credit (PERC) with components to strengthen governance and accountability.
	(FY99) Public Sector Reform and Export Promotion Credit. (FY00) Public Sector Capacity-Building Project to make public service delivery more effective and efficient, facilitate economic growth and thence reduce poverty.
(FY98) Workshop on Training of Trainers for Development of Local Integrity (WBI).	

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
EAST ASIA AND PACIFIC		
Regional programs		(FY98) Regional strategy review and issues note (Klitgaard) (FY99) Regional Strategy & Action Plan. (FY99-00) East Asia Anticorruption Advisory Group. Meetings held with Regional Management Team and Advisory Group (6/99 Washington DC; Singapore 9/99; Bangkok, 2/2000). (FY00) Handbook for Fighting Corruption. (FY00) East Asia: Regional Study 2000 (chapter 6) (EAPVPC/EASPR) (FY00-01) Study: constraints on the media to help curb corruption.
Cambodia	(FY99-00) IDF-financed TA for financial accountability development.	(FY99) Preliminary survey on "the business environment and governance in Cambodia" (Danish Trust Fund) (FY99) PER—Governance, corruption issues discussed up front in the context of estimating the extent of revenue loss (especially from illegal logging) and expenditure leakages/diversions. (FY99-00) IDF grant: has surveyed public officials and private citizens as input for upcoming Action Plan for Enhancing Governance and Fighting Corruption. (FY00) Translation of "Parliamentarians Guide to Curbing Corruption" (WBI)
China	(FY99) Assistance to develop bidding law, procurement regulations, and a National Audit Office with an audit Management Information System. (FY99) IDF Grant. Strengthening of Enabling Environment for China's NGO Development.	(FY98) Accounting Reform and Development Project.
Indonesia	(FY98) IDF Grant. Legal Reform. (FY99-00) Asia-Europe Meeting (ASEM) Grant. Improving Local Government Expenditure Transparency. (FY99-00) ASEM Grants. Social Safety Net Monitoring with Civil Society and NGOs. (FY00) UNDP/WB Partnership on Governance.	(FY99) Anticorruption Strategy Missions. (FY99) Anticorruption Action Plan for Internal Bank Activities. (FY99) Strong anticorruption focus in CAS-PR. (FY99-00) Anticorruption Handbook. (FY99) Civil Service Review (draft). (FY99) PER – focus on budget management. (FY99) Governance Baseline (under purview of Partnership). (FY00) Translation of "Parliamentarians Guide to Curbing Corruption" (WBI).

<p>(FY99) Democracy and Governance Conference; Seoul, Korea (WBI)</p> <p>(FY00) Manila Social Forum, November 1999, highlighted session on governance and issues linking poverty and corruption.</p> <p>(FY99) Regional Seminar on parliaments role in curbing corruption (WBI).</p> <p>(FY00) Combating Corruption in Asia-Pacific (WBI, AsDB)</p>	
<p>(FY00) Parliamentarians Workshop</p>	
<p>(FY99) Program on Corporate Governance and Enterprise Restructuring with State Economic and Trade Commission (WBI)</p>	<p>(Approved FY95) Fiscal Technical Assistance project.</p> <p>(FY93-00) Reform, Institutional Support and Pre-investment Project (feasibility of introducing tax police).</p> <p>(FY95-99) Economic Law Reform Project.</p> <p>(FY95-99) Fiscal TA for improving tax administration.</p> <p>(FY99) Accounting Reform and Development Project to strengthen financial Management for state enterprises and government bodies.</p> <p>(FY99) State-Owned Enterprise Reform Project.</p> <p>(FY99) Technical Cooperation Credit 4 subcomponent supporting the National School of Administration in exploring adequate anticorruption measures and mechanisms.</p>
<p>(FY99) Regular Meetings with Indonesia Corruption Watch, International NGO Forum on Indonesian Development and other NGOs.</p> <p>(FY99) Procurement Complaint Monitoring System. Wide distribution to the Country Team in FY00.</p> <p>(FY99) Seminar series on Public Sector Reforms.</p> <p>(FY00) CFAA</p> <p>(FY00) Integrity Awareness Seminar.</p> <p>(FY00) Parliamentary Workshop (WBI).</p>	<p>(FY99) Policy Reform and Social Safety Net Structural Adjustment Loans including transparency and other anticorruption and collusion conditions.</p>

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
<b>EAST ASIA AND PACIFIC, continued</b>		
<b>Korea, Rep. of</b>	(FY99-00) IDF Grant. Financial Accountability & Good Governance. (FY00) Policy and Human Resource Development (PHRD) Grant. Financial Accounting Standards Board. (FY00) PHRD Grant. Transparency of Regulatory Environment.	(FY99) Comprehensive anticorruption program and report. (FY00) Country Economic Memorandum (CEM) with governance component.
<b>Lao PDR</b>	(FY99) IDF Grant. Civil Service Reform.	
<b>Malaysia</b>		(FY99) Structural Policy Review (FY99) PER. Analyzes public expenditure/public sector management issues. (FY00) CAS. Includes governance and transparency.
<b>Mongolia</b>		
<b>Papua New Guinea</b>	(FY98-99) IDF Grant. Independent Commission Against Corruption (ICAC). Draft legislation for establishment of ICAC. (FY99) Financial Management Improvement project. (FY00) Informal assistance to TI (funded by Swedish Governance Grant) in proposal to monitor Government's privatization program using the "islands of integrity approach". (FY00) Consultant Trust Fund established to support structural reform related activities, with a small portion of these funds earmarked to support TI in anticorruption activities.	(FY98) CAS. Strong governance focus. (FY99) CEM focused on improving governance (both public sector and corporate) and included an anti-corruption strategy. (FY00) PER included strategies to combat fraud and waste and improve governance.
<b>Philippines</b>	(FY97) IDF Grant. Results monitoring. (FY98) IDF Grant. Assistance to government accounting system—Public Expenditure Management Improvement. (FY99) Special PHRD Grant. Upgrading the financial framework. (FY99) ASEM Grants. Poverty monitoring, strengthening for financial infrastructure and financial monitoring and reform (FY00) PHRD Grant. Social and environmental assessments.	(FY98) Transparency study. (FY99) PER (FY99-01) CAS. Includes governance and anticorruption agenda. (FY00) Judicial Assessment. (FY00) SSR looks at medium-term challenges in public sector management, judicial system, and corporate governance. (FY00) Rural Development Trends and Study. (FY00) Client Feedback Survey on Special Zone of Peace and Development Social Fund. (FY00) Anticorruption Report and recommendations submitted to government.

<p>(FY99) Anticorruption seminar (ROK).                  (FY00) Establishment of the Korean Financial Accounting Standards Board.                  (FY00) Comprehensive Package of Anticorruption Measures announced by ROK, Anticorruption Legislation pending before National Assembly. Government target of raising TI ranking from 43 to 20 by 2003 as part of goal to reach "transparent state."                  (FY00) International Conference on Combating Corruption, Seoul.                  (FY00) Seminar on the role of audit committees.</p>	<p>(FY99) SAL II Corporate Governance.</p>
	<p>(FY98) Fiscal Technical Assistance project.</p>
	<p>(Approved FY91) Public Sector Training project.                  (FY00) SAL (under preparation, anticipated Board date FY00—governance focused operation, including public sector reform and institutional support, focus on oversight entities, privatization, and specific elements to combat corruption and support the rule of law.</p>
<p>(FY98) Draft Terms of Reference for Asian Institute of Management.                  (FY98) Workshop on financial management.                  (FY99) Policymaker workshops to bring together policymakers concerned with corruption.                  (FY99) Identification and development of an integrated program of procurement training and TA to prevent/detect fraud and corruption and incorporate program into FY00 projects.                  (FY00) Integrated TA in financial management to prevent/detect fraud and corruption.                  (FY99-00) Judicial Assessment: Judicial System Performance in the Philippines. (PRMPS/Danish Governance TF).                  (FY00) World Bank anticorruption training for Manila based staff.</p>	<p>(FY99) Banking System Reform Loan                  (FY00) Social Expenditure Management Project, Housing Finance TA, National Roads Improvement Management program.                  (FY00) Governance component of SSR.</p>

## Countries with Programs to Strengthen Governance, continued

	Grant-Based Technical Assistance	ESW and Mission Reports
<p><b>Thailand</b></p>	<p>(FY98) IDF Grant. Financial Accountability and Good Governance.            (FY00) PHRD Grant. Financial Accounting Standards Board.            (FY00) ASEM Grant. Institute of Directors.            (FY99-00) PHRD Grant. Legal Reform. Economic laws and civil society participation.            (FY98-00) PHRD Grant. Preparing Public Sector Reform I.            (FY99) IDF Grant. Strengthening the National Decentralization Committee.            (FY99-00) Australian Trust Fund Grant. Support of Budget Reform.            (FY99-00) Danish Trust Fund Grant. Anti-corruption Surveys of Households and Businesses.            (FY00) PHRD Grant. Preparing Public Sector Reform II.</p>	<p>(FY99) CAS. Analyzes corruption risks.            (FY99-00) Economic Management Assistance Project (technical assistance on civil service reform/public expenditure management /customs reform).            (FY99-00) Public Finance Review renamed: Selected Topics in Public Finance (including public expenditure management, fiscal transparency, and decentralization).            (FY99-00) Various reports on accounting and auditing program.            (FY99) Anticorruption Strategy.            (FY99) Anticorruption Staff Handbook.            (FY00) Translation of "Parliamentarians' Guide to Curbing Corruption" (WBI).</p>
<p><b>Vietnam</b></p>	<p>(FY98) IDF Grant. Improve government accounting system.            (FY00) The Bank has been providing TA on strengthening procurement since 1996. An IDF in FY00 will extend this, specifically to assist government formulate and implement a public procurement ordinance. The objective is to match standards required for entry to WTO.</p>	<p>(FY99) Fiscal Transparency Study (jointly with IMF); to increase budgetary transparency (at National, Provincial, and Commune levels)            (FY00) PER will address transparency issues further—reviewing progress on fiscal transparency.            (FY00) A Bank paper on Anticorruption will be finalized in FY00, and will contribute to a donor paper on governance—to be discussed with Government.</p>



<p>(FY99) Policymakers' workshop series on public sector reform (including fiscal transparency and corruption).                  (FY99-00) Workshops for accountants and auditors.                  (FY00) Establishment of the Thailand Financial Accounting Standards Board.                  (FY00) Training for auditors in public sector.                  (FY00) Corruption surveys and review of regulations. Corruption surveys include public officials, business sector and households. Results of the surveys will be used to organize anticorruption workshop with WBI.                  (FY99-00) Procurement training for Project Implementation Units. Training workshops have been organized regularly by World Bank Office Bangkok procurement cluster.                  (FY99-00) Workshop series on economic law and civil society participation law reform that have some aspects of corporate good governance and transparency and public participation in policy formulation.                  (FY00) Establishment of the Institute of Directors.                  (FY00) Training for directors of listed companies.                  (FY00) Parliamentary Workshop (WBI)</p>	<p>(FY99) Economic and Financial Adjustment Loan (corporate governance).                  (FY99-00) Sector Investment Program (NGO governance)                  (FY00) Public Sector Reform Loan (PSAL) with large transparency and accountability component.                  (FY00) Public sector reform and debt management chapters of SSR.                  (FY00) Economic and Financial Adjustment Loan III (corporate governance).</p>
<p>(FY99-00) CDF pilot governance/anticorruption workshops.                  (FY00) The Bank is strengthening monitoring of Bank-financed contracts. In addition to ex-post reviews for all large Bank-financed contracts, a selection of small contracts is being surveyed.                  (FY00) Active in donor working group on governance. The Government and National Assembly have identified public administration reform and anticorruption as key themes.                  (FY00) Technical advice and back-up to Swedish-funded diagnostic survey of corruption (WBI).                  (FY99) Workshop on fiscal transparency for government officials (with IMF).                  (FY00) Two workshops on Analytical Framework and Methodology of the PER for central and local government officials.                  (FY00) Conference on Project Management and Implementation with session on transparency and anticorruption.</p>	<p>(FY00) Structural Adjustment Credit II (SAC II) includes measures on governance, including expanding budgetary transparency (at local and central levels) and providing an enabling environment for civil society organizations.</p>

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
EUROPE AND CENTRAL ASIA		
Regional programs		(FY99) PREM Note on new frontiers in diagnosing and combating corruption in ECA. (FY98/99) ECA Regional Anticorruption Study. (FY00) Chapter on Parliamentary Oversight in ECA Region* (WBI).
Albania	(FY99) TA. Conduct a Unit Cost Comparison Study, donor coordination, tax/customs, and needs assessment to strengthen Judicial Inspection Panel. (FY99) TA. Unit Cost Comparison Study, donor co-ordination, tax/customs mission. (FY99) TA. Judicial Inspection Panel, consolidate Central Budget Office for courts, advance Alternative Dispute Resolution, plan dissemination of published laws and judicial decisions. (FY99) IDF Grant. Public procurement recommendations of A/C program, including private sector outreach. (FY99) TA. Support for small grants to NGOs. Government/civil society roundtables on corruption.	(FY98) CAS. Considerable discussion of corruption risks. (FY99) Anticorruption mission, report and dissemination. (FY99) Dissemination and monitoring of Government Action Plan, promotion of civil society participation, health services. (FY99) Publication and dissemination of anticorruption conference Report (including Government Action Plan and Survey Results). (FY99) Tax/customs assessment. (FY00) Preparation of anticorruption strategy. (FY00) CAS. Update continues emphasis on governance and anticorruption.
Armenia	(FY00) IDF on governance. (FY97) IDF on public procurement.	(FY99-00) Pilot IGR.
Azerbaijan		(FY99) CAS. Notable attention to governance and corruption.
Bosnia-Herzegovina		

<p>(FY98) Multi-country surveys of public officials, enterprises, and households and other instruments to diagnose patterns of corruption.</p> <p>(FY99) OECD/Organization for Security and Cooperation in Europe Workshop on Anticorruption in Transition Economies (WBI).</p> <p>(FY99) Council of Europe Workshop on Corruption and Crime.</p> <p>(FY99) USAID/OECD Workshop on Anticorruption in CIS and CEE Countries.</p> <p>(FY98) Joint Bank/EU Seminar on Anticorruption Strategy and Collaboration.</p> <p>(FY99) Anticorruption Monitoring by Civil Society in Latvia, Albania and Georgia (WBI/Danish Governance TF).</p> <p>(FY00) Regional Seminar for Parliamentarians (WBI).</p> <p>(FY00) 2 Investigative Journalism Workshops (WBI, OECD).</p>	
<p>(FY98) Anticorruption seminar (WBI).</p> <p>(FY98) Co-finance diagnostic surveys, support government-NGO working groups, incremental work on administration and judicial reform.</p> <p>(FY98) Diagnostic surveys on education and health.</p> <p>(FY99) Donor/Government Co-ordination Meetings (every three months).</p>	<p>(FY98) Structural Adjustment Credit to improve public administration, de-politicize civil service, improve competence of judiciary (required testing of judges), and strengthen Judicial Inspection Office.</p> <p>(FY99) Judicial Reform &amp; Public Administration Credit to improve (financial, personnel and performance) accountability; increase professionalism of judiciary and access to up-to-date legal information; improve court administration.</p> <p>(FY99) Support for the Center for Educational Assessment and Evaluation (to reduce corruption in higher education sector).</p>
<p>(FY99) New diagnostic tools to analyze institutional causes of corruption (IGR).</p> <p>(FY99) Measuring Public Sector Performance in Armenia (Danish Governance Trust Fund).</p>	<p>(FY96) Institution-building Technical Assistance Project.</p> <p>(FY01) Public Sector Reform Credit.</p>
<p>(FY00) Survey on businesses and households.</p>	<p>(FY00) Public Sector Reform Adjustment Loan: policy conditions on judicial reform, public administration, civil service reform, licensing and expenditure management and auditing to improve accountability and governance.</p> <p>(FY00) Institutional Building Technical Assistance II: support of the Public Sector Reform Adjustment Loan</p>
	<p>(FY99) Public Finance Structural Adjustment Credit.</p>

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
EUROPE AND CENTRAL ASIA, continued		
Bulgaria		(FY99) CAS. Pays attention to corruption risks. (FY99) CPAR (FY00) Identification mission on public administration reform, governance, anticorruption, and legal and judicial reform.
Croatia		(FY99) CPAR
Georgia	(FY98) IDF Grant. Public Procurement Reform. (FY99) IDF Grant. Approved for Strengthening State Chancellery and Public Service Bureau. (FY99) TA to finance short-term Institutional Reform Adviser for Ministry of Finance to, inter alia, tackle governance-related issues. (FY00) PHRD Grant. Approved for licensing reform for institutional strengthening of the licensing and regulatory framework, analysis of intergovernmental finance, and strengthening the tax administration. (FY00) CFAA proposed to be conducted.	(FY99) Anticorruption mission and report. (FY99) Public Sector Reform Missions report progress in implementing public service reform-related recommendations from June 1998 Workshop. (FY99) Public Sector Reform missions provided technical assistance to simplify licensing regime (new law on licensing passed April 1999), institutional strengthening of tax administration, and civil service reform.
Hungary		
Kazakhstan	(FY00) IDF Grant. Public procurement.	(FY00) Review of Government's anticorruption program.
Latvia	(FY98) IDF Grant. State Audit Office. (FY98/99) IDF Grant. Public-Sector Reform. (FY98) TA. Assess corruption vulnerability in tax administration. (FY98) TA. Review system of income and asset declarations. (FY98) TA. Review anticorruption law. (FY99) Foreign Investment Advisory Service "Red Tape" study. (FY99) TA. Regulatory reform. (FY99) TA. Judicial reform. (FY99) TA. Review amendments to anticorruption law. (FY00) TA. Improve regulatory drafting.	(FY98) Preparation of tax administration project. (FY98) CAS. Highlighting governance and anticorruption issues. (FY99) Corruption diagnostic surveys and report. (FY99) Anticorruption mission and report. (FY99) Report on regulatory reform. (FY99) Report on judicial reform. (FY00) Procurement cost study.
Macedonia		(FY00) CAS. Highlighting governance and anticorruption.

<p>(FY98) Anticorruption seminars run by WBI.</p> <p>(FY98) Diagnostic work on de-licensing, procurement, and state audit, co-financed diagnostic survey, public workshop.</p> <p>(FY99) Civil Service Reform Workshop.</p> <p>(FY00) Dissemination of Corruption Survey Report.</p>	<p>(FY99) Judicial Reform Program project.</p> <p>(FY99) Transport Ministry Restructuring project.</p> <p>(FY99) Structural Adjustment Credit III addresses licensing and public procurement reform, and action plans for fiscal institutional reform.</p> <p>(FY99) Structural Reform Support project provides for TA to support Structural Adjustment Credit.</p> <p>(FY02) Public Sector Reform Credit (PSRC) in lending program.</p>
	<p>(Approved FY93) Pensions Administration and Health Insurance project.</p> <p>(Approved FY97) Public Financial Management project.</p>
<p>(FY00) Diagnostic work on corruption and delicensing.</p>	<p>(Approved FY94) Technical Assistance loan.</p> <p>Approved FY97) Treasury Modernization project.</p> <p>(FY98) Public Sector Resource Management Adjustment Loan (PSRMAL).</p> <p>(FY99) Legal Reform project.</p> <p>(FY01) PSRMAL II</p>
<p>(FY98) High-level workshop to create Government's anticorruption program, run by School of Public Administration and WB.</p> <p>(FY98) Public conference to discuss Corruption Prevention Council strategy adopted by Cabinet.</p> <p>(FY99) Public conference to disseminate Corruption Diagnostic Report and develop recommendations on 5 most vulnerable areas.</p> <p>(FY00) Competitive Assessment of energy sector and workshop.</p>	<p>(FY99) State Revenue Service Modernization project.</p> <p>(FY00) Governance Structural Adjustment Loan.</p>

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
EUROPE AND CENTRAL ASIA, continued		
Moldova		
Poland	(FY00) IDF Grant. Monitoring subnational government performance.	(FY00) Diagnostic research and report, "Corruption in Poland: Review of Priority Areas and Proposals for Action." (FY00) CAS Update. Noting governance and anticorruption issues. (FY00) Country Public Procurement Assessment mission and report. (FY00) Informal Payments in Healthcare, report. (FY00) Participation in KERM (Council of Economic Ministers) Anticorruption Team. (FY00) Assistance to high-level Anticorruption Group.
Romania		(FY99) CPAR (FY00) Corruption surveys continue with USAID funding.
Russia	(FY98) IDF Grant. Legal and Institutional Framework for Development of Public Procurement.	(FY99) Evaluating and strengthening expenditure controls for greater fiscal accountability. (FY98) Introducing "Case-by-Case privatization methods and use of independent, competitively chosen financial advisors to prepare and sell state assets (published as Bank monograph). (FY99/00) Corruption Diagnostic. (FY00) Procurement Cost Study. (FY02) Preparation of Tax Administration Modernization Project II.
Slovakia		(FY00) Public administration assessment.
Tajikistan	(FY98) IDF Grant. Public Procurement System.	
Turkey		
Ukraine	(FY98/99) CIDA/USAID/TACIS (Technical Assistance for Commonwealth of Independent States) TA project to support economic reform and integrity. (FY99) TA. Project for public feedback on municipal services. (FY99) IDF Grant. Improving public procurement. (FY00) TA. Civil service reform and deregulation.	(FY99) Study on informal economy.
Uzbekistan		

	(FY98) Structural Adjustment Loan II. (FY01) PRSC I.
(FY00) Diagnostics and workshop in Krakow City council. (FY00) Parliamentary conference on corruption and politics. (FY00) Public conference on public procurement (jointly with the Institute for Public Affairs), where CPAR was launched.	(FY00) Rural Development Project component on strengthening subnational government administration.
	(FY00) Anticorruption/ governance/public administration/legal & judicial reform mission with a \$50M lending program.
(FY98) Workshop on Enterprise Reform, to foster rules-based competition, greater financial transparency, an independent regulatory regime, and reduced administrative discretion in licensing. (FY00) Diagnostics and workshop in 6 Oblasts.	(Approved FY95) Tax Administration project. (Approved FY96) Legal Reform project. (Approved FY96) Standards Development project. (FY99) State Statistical System project. (FY98/FY99) Structural Adjustment Loans (SAL2 and SAL3) contain conditionality regarding competitive restructuring of infrastructure monopolies, reducing barriers to entry, implementing international accounting and auditing standards for greater transparency. Also contain conditionality in terms of production by Russian Government of strategy for public administration reform/civil service reform.
(FY00) Diagnostics and workshop.	
	(Approved FY96/FY99) Institution Building Technical Assistance I/II.
	(Approved FY92) Technical Assistance for Treasury Data Systems. (Approved FY96) Public Financial Management Project.
(FY98) Anticorruption seminar (WBI). (FY98) National Integrity Survey (WBI). (FY98) Deregulation, public administration reform workshop. (FY99) Parliamentary workshop on Anticorruption (WBI). (FY99) 4 Regional investigative journalist workshops (WBI). (FY99) Integrity component in the Ministry of Justice judicial training program (MOJ/WBI/ERIS). (FY99) Two service delivery surveys/corruption workshops at Oblast level (WBI). (FY99) People's Voice Conference.	(FY98) Treasury Systems project. (FY99) Public Administration Reform Loan with conditionality regarding transparency and accountability in the civil service and streamlining licensing, registration, business inspections, and customs operations.
	(Approved FY94) Institution Building Technical Assistance.

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
<b>LATIN AMERICA AND THE CARRIBEAN</b>		
<b>Regional programs</b>	<p>(FY99/00) Fighting Corruption in Bank-financed projects—Guide for Task Managers. Publication and Dissemination.</p> <p>(FY99) Workshop for senior staff on mainstreaming anticorruption work in LCR.</p>	<p>(FY98) Work with Latin American Center for Development Administration (CLAD)/OAS/IDB to promote networks and information exchange.</p> <p>(FY99) Paper for the Consultative Group for the Reconstruction of Central America: "The Fight Against Corruption: A World Bank Perspective."</p> <p>(FY99-00) Public Sector Modernization Projects in Latin America and the Caribbean: An Analysis of the Portfolio and Lessons Learned (Danish Governance TF—work under way).</p>
<b>Argentina</b>	<p>(FY99) IDF Grant. Support implementation of the Ethics Code by the Oficina Nacional de Etica Publica.</p> <p>(FY99) Assistance to the Oficina Nacional de Etica Publica in organization of anticorruption conference.</p>	<p>(FY99) CFAA</p> <p>(FY00) Report on various aspects of governance and anti-corruption, based on three consultants' studies.</p>
<b>Brazil</b>		<p>(FY00) Background note on governance and anti-corruption for CAS.</p>



<p>(FY98) Participation in the Eighth International Anticorruption Conference (Lima, Peru).</p> <p>(FY98) International Anticorruption Forum (WBI). Held in Miami with participants from Bolivia, Chile, Colombia, Dominican Republic, Ecuador, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, San Salvador.</p> <p>(FY99) Participation in Central America Regional Integrity Workshop (WBI).</p> <p>(FY99) Participation in III Congreso Internacional del CLAD sobre la Reforma del Estado (Madrid, Spain).</p> <p>(FY99) Participation in Symposium on Enhancement of Probity in the Hemisphere (Santiago, Chile).</p> <p>(FY00) Participation in Central America: Fiscal Transparency and Anticorruption Workshop (Tegucigalpa, Honduras).</p> <p>(FY00) Participation in IV Congreso Internacional del CLAD Sobre la Reforma del Estado (Mexico City).</p> <p>(FY00) Participation in Ninth International Anti-Corruption Conference (Durban, South Africa).</p> <p>(FY00) Participation in IX OLACEFs conference in Asuncion, Paraguay, on collaboration between the World Bank and Supreme Audit Institutions.</p> <p>(FY00) Participation at 14th Annual New Developments in Financial Management Conference in Miami, FL, with 350 participants from 50 countries between MDBs and Supreme Audit Institutions.</p> <p>(FY00-03) Regional Program to raise awareness and promote investigative journalism (WBI, OAS)</p>	
	<p>(Approved FY95) Provincial Development Loan II.</p> <p>(Approved FY96) Public Investment Strengthening Technical Assistance loan.</p> <p>(Approved FY97) Pension Administration Technical Assistance loan.</p> <p>(FY98) Provincial Reform Adjustment loans (Rio Negro, Salta, San Juan, and Tucuman).</p> <p>(FY99) Argentina Year 2000 project.</p> <p>(FY98) Model Court Development project.</p> <p>(FY99) Social and Fiscal National Identification System Program project.</p> <p>(FY99) Special SAL.</p>
	<p>(Approved FY97) Mato Grosso State Privatization project.</p> <p>(FY98) Minas Gerais State Privatization project.</p> <p>(FY98) Pension Reform Learning and Innovation Loan.</p>

## Countries with Programs to Strengthen Governance, continued

	Grant-Based Technical Assistance	ESW and Mission Reports
<b>LATIN AMERICA AND THE CARRIBEAN, continued</b>		
<b>Bolivia</b>	(FY99) IDF Grant. Strengthen institutional capacity of the Ministry of Finance's Internal Auditing Department. (FY99) Institutional Reform Project.	(FY99) CAS. Best practice. (FY00) IGR (FY00) CFAA (FY00) CPAR
<b>Colombia</b>	(FY98) Anticorruption component of IDF Grant. (FY00) Technical support for anticorruption amendments to national procurement law.	(FY99) CFAA (FY00) Anticorruption component of Cali city development strategy study. (FY00) CPAR
<b>Dominican Republic</b>		(FY99) CAS. Best practice. (FY99-00) CPAR (FY00) CFAA
<b>Ecuador</b>	(FY00) Preparation of IDF proposal for Commission for Civic Control of Corruption.	(FY99) Contributed to publication of <i>Ética y Corrupción: Estudio de Casos</i> by Napoleon Saltos Galarza. (FY00) CPAR
<b>El Salvador</b>		
<b>Guatemala</b>		(FY99-00) CPAR
<b>Guyana</b>		(FY99) CPAR
<b>Haiti</b>		(FY99-00) CPAR
<b>Honduras</b>		(FY99-00) CPAR
<b>Jamaica</b>		(FY00) Background note on governance and anticorruption for CAS.
<b>Mexico</b>		(FY99) Background note on governance and anticorruption. (FY99) Government seminar on public sector reform and anticorruption. (FY99) Anticorruption seminar for state comptrollers (Mazatlan).
<b>Nicaragua</b>		

**In-country workshops, Surveys**

**Governance-related lending (active projects)**

(FY98) Ministerial Integrity Workshop (WBI). (FY98) Establish a National Integrity Committee and Unit (WBI). (FY98) Household Service Delivery Survey (WBI). (FY98) Private Sector Service Delivery Survey (WBI). (FY99) National Integrity Workshop (WBI).	(Approved FY95) Judicial Reform project. (FY98) Financial Decentralization and Accountability project. (FY99) APL Institutional Reform.
FY00 Help Government in Anti-Corruption Initiative	(FY99) Public Financial Management Project. Corruption vulnerability study of tax and customs administration with preparation of Risk Maps.
(FY99) Survey: A New Approach to Judicial Reform Policy-making: Stakeholders' Views vs. Court Statistics (Danish Governance TF)	
(FY99) Corruption surveys of households, businesses and public servants (WBI). (FY99) Technical Assistance for the preparation of Anticorruption Action Plan (WBI). (FY99) Anticorruption surveys (WBI)	(Approved FY95) Technical Assistance for Modernization of the State. (Approved FY97) Judicial Reform project.
	(Approved FY97) Public Sector Modernization project.
(FY98) Legal Reform Workshop (WBI).	(FY98) Integrated Financial Management II. (FY98) Tax Administration Technical Assistance Loan. (FY99) Judicial Reform project.
	(Approved FY93) Public Administration project.
	(Approved FY96) Public Sector Modernization Structural Adjustment Credit. (Approved FY96) Public Sector Modernization Technical Assistance Credit.
	(Approved FY94) Tax Administration Reform project. (Approved FY97) Public Sector Modernization project.
(FY98-99) Two National Integrity Workshops (WBI). (FY98) Household Service Delivery Survey (WBI). (FY99) Disaster Relief Integrity Project (WBI).	(Approved FY95) Institutional Development Credit. (FY98) Financial Sector Adjustment Credit (FY00) Preparation of anticorruption component of Economic Management Technical Assistance Credit.

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESW and Mission Reports
<b>LATIN AMERICA AND THE CARRIBEAN, continued</b>		
Panama		(FY00) CPAR
Peru		(FY00) CPAR
Uruguay	(FY99) IDF Grant. Improve government auditing and financial management.	(FY99-00) CPAR
Venezuela		
<b>MIDDLE EAST AND NORTH AFRICA</b>		
Regional Programs		(FY00) Anticorruption strategy note. (FY00) MNA Good Governance
Algeria		
Djibouti		
Egypt, Arab Rep.		(FY00) Preparatory work for note on Public Sector— Private Business relationship.
Jordan	(FY99) Public Procurement Modernization.	(FY99) Public Sector Review (FY99) CPAR (FY99) CPFA (FY00) CFAA
Lebanon	(FY98) Procurement Legislation Reform.	(FY99) Public Expenditure notes (sectoral and overview). (FY99) CPFA
Morocco	(FY99) Public Procurement Reform.	(FY99) Informal background paper on corruption in Morocco. (FY99-00) CPAR (FY00) CDF Governance and Public Sector Reform— draft under discussion. (FY00) CAS. Gives attention to public sector reform and governance issues.
West Bank/Gaza	(FY99) Government Financial Management Information System.	(FY99) Public Sector Review. (FY99) CPFA (FY00) CDF Governance and Public Sector Reform— draft under discussion. (FY00) PER. Publication and dissemination.
Tunisia		(FY99) Social and Structural Review— focus on public sector performance.

		(FY99) Urban Property Rights project.
(FY99) Municipal Integrity Systems in Latin America (WBI).		(Approved FY90) Technical Assistance project for Pre-investment and Institutional Development. (Approved FY93) Judicial Infrastructure Development project. (FY98) Supreme Court Modernization project. (FY98) Public Sector Modernization project.
(FY99) Tunis workshop on Cabinet-Level Decision-making (WBI).		
		(FY01) Budget Systems Modernization Project.
		(Approved FY97) Technical Assistance project. Supports Government decision-making related to macroeconomic reforms and the associated policy and programming framework.
		(FY01) Public Sector Reform Loan (in preparation). (FY00) Accountability and Transparency component of Civil Service Reform under preparation.
(FY99) Procurement Financial Management Training		(FY94) Technical Assistance for Revenue Enhancement.
(FY99) Anticorruption Workshop for government, private sector and civil society to initiate a joint strategy regarding anticorruption activities. (FY00) Follow-up to Workshop, including support to secretariat of steering committee, preparation of action plans and background briefs.		(FY99) Policy Reform Support Loan. (Expenditure management, Procurement, Judicial Reform). (FY00) Preparation of legal and judicial development projects.
(FY98/99) Service Delivery Survey and workshops (WBI). (FY99) Procurement Financial Management Training.		(FY99/00) Preparation of legal and judicial development projects.

## Countries with Programs to Strengthen Governance, continued

Grant-Based Technical Assistance		ESM and Mission Reports
<b>MIDDLE EAST AND NORTH AFRICA, continued</b>		
<b>Yemen</b>		(FY99) CAS. Pays particular attention to corruption and civil service reform. (FY00/01) PER
<b>SOUTH ASIA</b>		
<b>Regional programs</b>		(FY99) Corruption issues in South Asia—paper. (FY99) Supervision and Procurement best practices paper. (FY00/01) Staff training on corruption.
<b>Bangladesh</b>	(FY99) IDF Grant. Improve government auditing and financial management. (FY99) TA. Assist Controller and Auditor General to develop ability to conduct project audits.	(FY98) CAS. Strong discussion of governance issues. (FY98) CPFA (FY99) Diagnostic case studies on corruption in government. (FY99) Bangladesh Procurement Assessment Study. (FY99-00) CPAR (FY00) Country paper on Corruption. (FY00) IGR (FY00) CFAA
<b>Bhutan</b>		(FY98) CPFA
<b>India</b>	(FY99) IDF Grant. Upgrade institutional capacity of Auditor General of India.	(FY99) Corruption issues—Country paper. (FY99) Governance issues addressed in state studies. (FY00) CDR (FY99) CPFA (FY00) Economic reports with substantial governance component (Rajasthan, Andhra Pradesh)
<b>Maldives</b>		(FY98) CPFA
<b>Nepal</b>	(FY99) IDF Grant. Third IDF Grant to upgrade institutional capacity of Auditor General.	(FY98) CPFA (FY99) Corruption Issues—Country paper (FY99) CPAR
<b>Pakistan</b>		(FY98) CPFA (FY99) Corruption Issues—Background paper. (FY99) PER (FY99) Governance paper for Pakistan 2010. (FY99/00) CPAR
<b>Sri Lanka</b>		(FY99) Corruption issues—Country paper. (FY99) CPFA (FY00) Governance and Accountability report. (FY00) Report on the media (WBI)

**In-country workshops, Surveys**

**Governance-related lending (active projects)**

	(FY99) Procurement and Financial Management Training.	(FY99) Legal and Judicial Development. (FY99) Public Sector Management Adjustment Credit. (FY00) Civil Service Modernization.
	(FY99) Anticorruption seminar for parliamentarians (WBI, Canada, TI-Bangladesh). (FY00) Regional Workshop for Editors (WBI).	
	(FY98) Anticorruption seminar (WBI). (FY99) Survey on corruption by TI-Bangladesh.	(FY01) Legal and Judicial Reform Project.
	(FY98) Anticorruption seminar (WBI).	(FY99/00) Governance and anticorruption components under preparation for Uttar Pradesh Program Loan 1
	(FY00-01) Pakistan Tripartite Baseline Survey.	(Approved FY96) Improvement to Financial Reporting and Auditing project.
	(FY00) Anticorruption workshop and Action Plan.	

## BANKWIDE ACTIVITIES

(FY99-00) Public Sector Strategy Paper: "The World Bank: Addressing the Challenge of Reforming Public Institutions and Strengthening Governance."

## PREM Notes:

- (FY98) PREM Note 4: "Corruption and development"
- (FY99) PREM Note 7: "New frontiers in diagnosing and combating corruption"
- (FY99) PREM Note 19: "Using an ombudsman to oversee public officials"
- (FY99) PREM Note 23: "Using surveys for public sector reform"
- (FY99) PREM Note 24: "Fostering institutions to contain corruption"
- (FY99) PREM Note 25: "Assessing borrower ownership using reform readiness analysis"
- (FY00) PREM Note 26: "The law and economics of judicial reform"
- (FY00) PREM Note 29: "Assessing political commitment to fighting corruption"
- (FY00) PREM Note 30: "Mobilizing civil society to fight corruption in Bangladesh"
- (FY00) PREM Note 31: "Rethinking civil service reform"
- (FY00) PREM Note 33: "An anticorruption strategy for revenue administration"
- (FY00) PREM Note 34: "Reducing court delays: Five lessons from the United States"

## WBI Books and Working Papers:

- (FY98) "Curbing Corruption" (WBI Development Series)
- (FY98) The Importance of Supreme Audit Institutions in Curbing Corruption
- (FY98) Social Marketing Strategies to Curb Corruption
- (FY99) New Perspectives in Curbing Corruption (WBI with TI)
- (FY00) The Role of Media in Curbing Corruption

## (FY99-00) DRG and other research (papers in final or draft form):

- "Aggregating Governance Indicators"
- "Governance Matters"
- Review paper on the consequences of corruption.
- "Assessing Political Will and Opportunity for Anti-Corruption"
- "Corruption and Political Finance in Africa"
- "Corruption, Public Finances and the Unofficial Economy"
- "Making Voice Work: The Report Card on Bangalore's Public Service"
- "Moral Hazard and Optimal Corruption"
- "Regulatory Discretion, Corruption and the Unofficial Economy"
- "Decentralization Data Project" (Danish Governance TF)
- "Does 'Grease' Payment Speed Up the Wheels of Commerce?"
- "Corruption, Composition of Capital Flows and Currency Crisis"
- "Rotten Bureaucracy and Endogenous Capital Controls"
- "Who Must Pay Bribes and How Much?"; draft—under review for publication
- "The effects of corruption and taxation on growth: Firm level evidence"; draft—under review for publication. Joint with Ray Fisman, Columbia University
- "The cost of doing business: Ugandan firms' experiences with corruption"—Africa Region Working Paper Series No. 6 (forthcoming)

"Special Governance Zone" concept development in transition and developing economies



<p>Training Workshops:                  (FY98) 48 Integrity Awareness Seminars at headquarters and resident missions.                  (FY99) Anticorruption Diagnostic Tools (PRMPS, WBI).                  (FY99) Mainstreaming Anticorruption in the CAS (PRMPS, WBI).                  (FY99) Reducing Corruption: A Search for Lessons of Experience (PRMPS, WBI).                  (FY99) Regional Orientation Workshops in AFR, EAP, ECA, LAC, MNA (Regions, WBI). Preparation for SAR (FY00).                  (FY99) New Employee Orientation: Ethics component (OPE).</p>	<p>(FY98-99-00) Observer status at</p> <ul style="list-style-type: none"> <li>• OECD Working Group on Bribery,</li> <li>• International Chamber of Commerce Standing Committee on Extortion and Bribery,</li> <li>• DAC Experts Group on Monitoring Performance in Good Governance,</li> <li>• United Nations Office of Drug Control, and</li> <li>• Interpol International Groups of Experts on Corruption.</li> </ul> <p>(FY98-99-00) Participation on MDB Working Group on Governance, Anticorruption and Capacity Building.</p>
<p>(FY99-00) Procurement Innovations Workshop (Danish Governance TF)</p>	



# Empirical Studies of Governance and Development:

## An Annotated Bibliography

Authors	Methodology	Main Findings
Ades, Alberto and Rafael di Tella. 1996. "The Causes and Consequences of Corruption: A Review of Recent Empirical Contributions." <i>IDS Bulletin</i> 27(2).	Review of empirical contributions of causes and effects of corruption.	Corruption negatively affects investment, and corruption is associated with the lack of competition in the product market and with less independent judicial systems.
Ades, Alberto and Rafael di Tella. 1997. "National Champions and Corruption: Some Unpleasant Interventionist Arithmetic." <i>Economic Journal</i> , 107, 1023-1042.	Cross-country regressions using 32 countries, with subjective indicators of corruption and industrial policy from the <i>World Competitiveness Yearbook</i> .	Active industrial policy is associated with increased corruption, which offsets part of the effects of an active industrial policy in increasing investment rates.
Alesina, Alberto and Beatrice Weder. 1999. "Do Corrupt Governments Receive Less Foreign Aid?" <i>NBER Working Paper No. 7108</i> .	Cross-country regressions for up to 90 countries, exploring the relationships between aid, foreign direct investment, and corruption.	Foreign direct investment over the 1970-95 period is reduced by host-country corruption levels, using one corruption indicator, but no relationship is found when using any of six other corruption indicators.
Alesina, Alberto; Sule Ozler, Nouriel Roubini and Phillip Swagel. 1996. "Political Instability and Economic Growth." <i>Journal of Economic Growth</i> , 1(2): 189-211.	Cross-country regressions for 113 countries for the 1950-82 period using annual data.	In countries and time periods with more changes in government (peaceful or otherwise), growth is lower. Slow growth in turn increases the likelihood of coups, but not of peaceful changes in government.
Barro, Robert. 1991. "Economic Growth in a Cross Section of Countries." <i>Quarterly Journal of Economics</i> , 106, 407-433.	Cross-country growth and investment regressions for 98 countries for the 1960-85 period.	Coups, revolutions, and political assassinations are associated with slower growth and lower investment rates.
Barro, Robert. 1996. "Democracy and Growth." <i>Journal of Economic Growth</i> , 1(1): 1-27.	Cross-country growth regressions, examining the impact of democracy (as measured by the Freedom House indexes) on growth.	Democracy is positively related to growth through factor accumulation: democracy is not significant when education and investment are included in the regression. A curvilinear relationship best fits the data, with partly democratic countries exhibiting the fastest growth rates.

Authors	Methodology	Main Findings
Brunetti, Aymo, Gregory Kisunko, and Weder. 1997. "Institutional Obstacles to Doing Business: Region-by-Region Results from a Worldwide Survey of the Private Sector." <i>Policy Research Working Paper No. 1759</i> . World Bank, Washington, DC.	Conduct a survey of business establishments around the world to construct an index of the "credibility of rules," composed of "the predictability of rule-making, subjective perceptions of political instability, security of persons and property, predictability of judicial enforcement, and corruption." Cross-firm and cross-country regressions as used to test the relationship between the credibility index and economic growth.	Credibility promotes investment and economic growth.
Burkhart, Ross and Michael Lewis-Beck. 1994. "Comparative Democracy: The Economic Development Thesis." <i>American Political Science Review</i> , 88: 903-910.	Time-series cross-sectional regressions analyzing the relationship between income levels and democracy, as measured by the Freedom House indexes.	The positive relationship between per capita income levels and democracy is mostly attributable to the effects of income on democratization; democracy has little effect on income levels.
Burnside, Craig and David Dollar. 1997. "Aid, Policies, and Growth." <i>Policy Research Working Paper No. 1777</i> . World Bank, Washington, DC.	Panel regressions measuring the relationships between aid, policies, and growth for 56 countries over six four-year time periods.	Aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies. Aid does not appear to affect policies systematically either positively or negatively.
Burnside, Craig and David Dollar. 1998. "Aid, the Incentive Regime, and Poverty Reduction." <i>Policy Research Working Paper No. 1937</i> . World Bank, Washington, DC.	Panel regressions explaining the impact of aid on growth in developing countries.	Aid spurs growth and poverty reduction only in a good policy environment. In developing countries with weak economic management, there is no relationship between aid and change in infant mortality. Where economic management is stronger, there is a relationship between aid and the change in infant mortality.
Chong, Alberto and Cesar Calderón. 2000. "Empirical Tests on the Causality and Feedback Between Institutional Measures and Economic Growth." <i>Economics and Politics</i> (forthcoming).	Geweke decomposition is used to test the causality and feedback between institutional measures from BERI and ICRG* (such as contract enforceability, nationalization potential, infrastructure quality, bureaucratic delays, and a composite index of the above four) and economic growth.	Improving institutional development promotes economic growth in developing countries. Causality also operates in the other direction, with growth leading to higher ratings on the ICRG and BERI indexes.
Chong, Alberto and Cesar Calderón. 1997. "Institutional Change and Poverty, or Why is it Worth it to Reform the State?" Mimeograph. World Bank, Washington, DC.	Cross-country regressions using measures of risk of expropriation, risk of contract repudiation, law and order, corruption in government and quality of bureaucracy for institutional development, and measures proposed by Foster-Greer-Thorbecke (1984) for poverty.	Improvements in institutional efficiency reduce the degree, severity, and incidence of poverty.
Chong, Alberto and Cesar Calderón. 1998. "Institutional Efficiency and Income Inequality: Cross Country Empirical Evidence." Mimeograph. World Bank, Washington, DC.	Cross-country regressions using a composite index of institutional efficiency based on measures of corruption of government, quality of bureaucracy, law and order tradition, risk of expropriation, and risk of contract repudiation.	For poor countries, institutional efficiency is positively linked with income inequality, and for rich countries it is negatively linked with income inequality.

\*BERI stands for Business Environmental Risk Intelligence; ICRG stands for International Country Risk Guide.

Authors	Methodology	Main Findings
Clague, Christopher, Philip Keefer, Stephen Knack, and Mancur Olson. 1996. "Property and Contract Rights in Autocracies and Democracies." <i>Journal of Economic Growth</i> , 1(2): 243-276.	Cross-country regressions using time-series cross-section data, testing the impact of autocrats' time horizons, and the duration of democracy, on several measures of property and contract rights.	Property and contract rights are significantly associated with a proxy for the time horizons of autocrats (the log of years in power), and, in democracies, with the duration of democratic government.
Clague, Christopher, Philip Keefer, Stephen Knack, and Mancur Olson. 1999. "Contract-Intensive Money." <i>Journal of Economic Growth</i> , 4(2): 185-212.	Cross-country regressions testing an objective indicator of contract enforceability: "contract-intensive money" is the share of M2 not held in the form of currency outside banks.	"Contract-intensive money" is significantly related to growth, to investment, and to the size of contract-dependent sectors such as insurance.
Cukierman, Alex, Steven Webb, and Bilin Neyapti. 1994. "Measuring Central Bank Independence and Its Effect on Policy Outcomes." <i>International Center for Economic Growth Occasional Paper No. 58</i> :1-62.	Cross-country regressions used to develop four different rankings of central bank: legal independence, governors' turnover rates, responses of specialists to questionnaire on central bank independence, and an aggregation of the first two.	Legal independence is a statistically significant determinant of price stability among industrial countries, but not developing countries. The rate of governors' turnover contributes significantly to explaining inflation in developing countries and in explaining variations in inflation across the overall sample of countries. An inflation-based index of overall central bank independence, combining legal and turnover information, helps explain cross-country variations in the inflation rate.
Cull, Robert. 1998. "How Deposit Insurance Affects Financial Depth." <i>Policy Research Working Paper No. 1875</i> . World Bank, Washington, DC.	Cross-country regressions in levels and differences.	Explicit deposit insurance is positively correlated with subsequent increases in financial depth if adopted when government credibility and institutional development are high.
Demircuc-Kunt, Asli and Enrica Detragiache. 1998. "Financial Liberalization and Financial Fragility." Development Research Group. World Bank, Washington, DC.	Panel logit regressions using rule of law, corruption, and contract enforcement as measures for institutional development as determinants of the probability of financial crisis after interest-rate liberalizations.	Banking crises are more likely to occur after financial liberalization. However, the effect of financial liberalization on the fragility of the banking sector is weaker when the institutions are more developed.
Dollar, David and Lant Pritchett. <i>Assessing Aid: What Works, What Doesn't, and Why</i> . 1998. Oxford University Press for the World Bank, Washington, DC.	Qualitative and quantitative analysis explaining the interaction of government policies and the quality of governance.	The impact of aid on growth and infant mortality depends on "sound economic management," as measured by an index of economic policies and institutional quality.
Evans, Peter B. and James E. Rauch (2000). "Bureaucratic and Growth: A Cross-National Analysis of the Effects of "Weberian" State Structures on Economic Growth." <i>American Sociological Review</i> , forthcoming.	Cross-country growth regressions, testing the impact of bureaucratic structure and meritocracy, as measured by a "Weberian State Scale" constructed from expert opinions for 35 developing nations.	Growth is strongly associated with higher values of the Weberian State Scale.
Fischer, Stanley. 1993. "The Role of Macroeconomic Factors in Growth." <i>Journal of Monetary Economics</i> . 32:485-512.	Regression analog of growth accounting used to present cross-sectional and panel regressions showing relationship between growth and macroeconomic factors.	Growth is negatively associated with inflation, large budget deficits, and distorted foreign exchange markets. Hence good policies are conducive to faster growth.

Authors	Methodology	Main Findings
Friedman, Eric, Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobaton. 1999. "Dodging the Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries." Forthcoming in <i>Journal of Public Economics</i> .	Across 69 countries, higher tax rates are associated with less unofficial activity as a percentage of GDP, but corruption is associated with more unofficial activity. Entrepreneurs go underground not to avoid official taxes but to reduce the burden of bureaucracy and corruption. Dodging the "grabbing hand" in this way reduces tax revenues as a percentage of both official and total GDP.	Corrupt governments become small governments and only relatively uncorrupt governments can sustain high taxes.
Grier, Kevin and Gordon Tullock (1989). "An Empirical Analysis of Cross-National Economic Growth: 1951-80," <i>Journal of Monetary Economics</i> , 24: 259-276.	Growth regressions for regional groups of countries, using the Freedom House civil liberties index as "a proxy for the political infrastructure" of nations.	Nations with fewer civil liberties grow more slowly in the African and Latin American samples; no relationship is found for the Asian sample.
Hall, Robert and Charles Jones. 1999. "Why Do Some Countries Produce So Much More Output Per Worker Than Others?" <i>Quarterly Journal of Economics</i> , 114: 83-116.	Cross-country regressions using two indexes: one of government anti-diversion policies (GADP) constructed by Knack and Keefer (1995) with data from the ICRG, and one from Sachs and Warner (1995) on trade openness.	Differences in capital accumulation, productivity, and therefore output per worker are driven by differences in institutions and government policies.
Helliwell, John. 1994. "Empirical Linkages Between Democracy and Economic Growth." <i>British Journal of Political Science</i> , 24: 225-248.	Cross-country regressions exploring the relationships between income levels, democracy, and income growth.	Higher income levels encourage democratization. Any effects of democracy on income growth appear to be through increasing education and investment rates.
Huther, Jeff and Anwar Shah. 1998. "Applying a Simple Measure of Good Governance to the Debate on Fiscal Decentralization." <i>World Bank Operations Evaluation Department Policy Research Working Paper No. 1894</i> . World Bank, Washington, DC.	Construction of an index of governance quality. Index includes citizen participation, government orientation, social development, and economic management.	A positive relationship exists between fiscal decentralization and quality of governance.
Isham, Jonathan, Daniel Kaufmann and Lant Pritchett. 1997. "Civil Liberties, Democracy, and the Performance of Government Projects." <i>The World Bank Economic Review</i> . 11(2): 219-42.	Cross-national dataset used on the performance of government investment projects financed by the World Bank to examine the link between government efficacy and governance.	Controlling for other determinants of performance, economic rates of return on projects in countries with the strongest civil liberties average 8 to 22 percentage points higher than countries with the weakest civil liberties.
Johnson, Simon, Daniel Kaufmann, and Pablo Zoido-Lobaton. 1998. "Regulatory Discretion and the Unofficial Economy." <i>American Economic Review</i> . 88(2): 387-392.	Cross-country regressions from Heritage Foundation, Global Competitiveness Survey, ICRG, Freedom House to explain the size of the unofficial economy in three regions: Latin America, OECD, and the former Soviet bloc.	Countries with more regulation tend to have a higher share of the unofficial economy in total GDP. Higher tax burden leads to more unofficial activity. Countries with more corruption tend to have a larger unofficial economy.
Johnson, Simon, Daniel Kaufmann, John McMillan, and Christopher Woodruff. 1999. Forthcoming. <i>Journal of Public Economics</i> .	Firm-level regressions using "unofficial" activity of private manufacturing firms in Eastern European countries: Russia, Ukraine, Poland, Slovakia, and Romania.	A comparison of cross-country averages shows that managers in Russia and Ukraine face higher effective tax rates, worse official corruption, greater incidence of criminal protection, and have less faith in court system. The firm-level regressions for three Eastern European countries find that official corruption is significantly associated with hiding output.

Authors	Methodology	Main Findings
Kaufman, Daniel and Aart Kraay and Pablo Zoido-Lobaton. (1999a). "Governance Matters." <i>World Bank Policy Working Paper No. 2196</i> .	Simultaneous model used to isolate the direct effects of differences in governance on three measures of development outcomes: GDP per capita, infant mortality, and adult literacy. They use a very large set of indicators drawn from commercial sources and investor surveys. They allocate these indicators to six clusters and use a latent variable model to estimate a common element in each cluster.	A strong causal relation exists between governance and development outcomes for all six aggregate indicators. They find that their results hold whether or not OECD countries are included in their sample.
Kaufmann, Daniel, Aart Kraay, and Pablo Zoido-Lobaton. (1999b). "Aggregating Governance Indicators." <i>World Bank Policy Working Paper No. 2195</i> .	Simple variant of an unobserved components model used on a sample of 160 countries to combine information from different sources into aggregate governance indicators. These include rule of law, graft, and voice and accountability.	Aggregate governance indicators are more informative about the level of governance than any individual indicator, but the standard errors associated with estimates of governance are still large relative to the units in which governance is measured.
Kaufmann, Daniel and Shang-Jin Wei. "Does 'Grease Money' Speed Up the Wheels of Commerce?" 1999. <i>NBER Working Paper No 7093</i> .	In a general equilibrium model in which regulatory burden and delay can be endogenously chosen by rent-seeking bureaucrats, red tape and bribery may be positively correlated across firms. Using data from three worldwide firm-level surveys, the relationship is examined between bribe payment, management time wasted with bureaucrats, and cost of capital.	Firms that pay more bribes are also likely to spend more, not less, management time with bureaucrats negotiating regulations, and face higher, not lower, cost of capital.
Knack, Stephen and Gary Anderson. 1999. "Is 'Good Governance' Progressive?" Unpublished manuscript.	Cross-country regressions examining changes in income growth for different income quintiles, and changes in Gini coefficients over time.	Income growth for the poorer quintiles is more sensitive to the quality of governance (measured by ICRG and BERI indexes) than is income growth for richer quintiles. Gini coefficients decline more where the (initial) quality of governance is higher.
Knack, Stephen and Philip Keefer. 1995. "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures." <i>Economics and Politics</i> . 7(3): 207-227.	Cross-country regressions using two subjective indexes of institutional development from ICRG and BERI. The ICRG index combines quality of the bureaucracy, corruption in government, rule of law, expropriation risk, and repudiation of contracts by government. The BERI index combines bureaucratic delays, nationalization potential, contract enforceability, and infrastructure quality.	Institutions that protect property rights are crucial for economic growth and rates of investment as a share of GDP. The institutional indexes explain economic performance much better than do the Freedom House indexes, or frequencies of coups, revolutions, and assassinations.
Knack, Stephen. 1996. "Institutions and the Convergence Hypothesis: The Cross-National Evidence." <i>Public Choice</i> , 87: 207-228.	Cross-country growth regressions testing for convergence effects.	Unconditional convergence in per capita incomes is not found in broad cross-country samples. It is found however for a sample of nations with high-quality institutions as measured by indexes from ICRG and BERI.

Authors	Methodology	Main Findings
Knack, Stephen and Philip Keefer. 1997a. "Why Don't Poor Countries Catch Up? A Cross-National Test of an Institutional Explanation." <i>Economic Inquiry</i> . 35:590-602.	Institutional indexes from BERI and ICRG are interacted with initial per capita income in cross-country growth regressions.	Institutions are important determinants of "convergence"—weak institutions prevent poor countries from exploiting "catch up" opportunities.
Knack, Stephen and Philip Keefer. 1997b. "Does Social Capital Have an Economic Payoff? A Cross-Country Investigation." <i>Quarterly Journal of Economics</i> . 112: 1251-1288.	Cross-country regressions using indicators from the World Values Surveys on interpersonal trust, civic cooperation, and memberships in groups.	Trust and civic cooperation have significant impacts on economic performance. Group memberships, hypothesized to have positive effects by Putnam (1993) and negative effects by Olson (1982), have no relation to economic performance.
Kormendi, Roger C. and Philip G. Meguire. 1985. "Macroeconomic Determinants of Growth." <i>Journal of Monetary Economics</i> , 16: 141-163.	Cross-country growth regressions with 47 countries for the 1950-77 period. Independent variables include the Freedom House civil liberties index, a proxy for "economic rights, such as freedom from expropriation or the enforceability of property rights and private contracts."	Growth and investment rates are higher, other things equal, in countries with greater civil liberties. The effect on growth appears to be entirely through increasing investment.
La Porta, et. al. 1997a. "Legal Determinants of External Finance." <i>Journal of Finance</i> . 52(3):1131-1150.	Cross-country regressions using measures of legal rules protecting investors and the quality of their enforcement (measures include rule of law, shareholder rights, one-share = one-vote, creditor rights). The data on these qualitative, but objective (except for rule of law), variables are presented in La Porta et. al. (1998 [1996]).	Countries with better investor protections have bigger and broader equity and debt markets.
La Porta, et. al. 1997b. "Trust in Large Organizations." <i>AEA Papers and Proceedings</i> . 87(2):333-338.	Cross-country regressions using measures of trust from the World Values Surveys.	Trust has important effects on economic performance.
Levine, Ross. 1997. "Law, Finance, and Economic Growth." Mimeograph. World Bank, Washington, DC.	Panel regressions using institutional variables (such as creditor rights, enforcement of contracts, and accounting standards) as instrumental variables.	Countries with more developed institutions (legal and regulatory systems) have better-developed financial intermediaries, and consequently grow faster.
Loayza, Norman. 1996. "The Economics of the Informal Sector: A Simple Model and Some Empirical Evidence from Latin America." <i>Carnegie-Rochester Conference Series on Public Policy</i> . 45:129-162.	Endogenous growth model with data on Latin American countries in the early 1990s. Causal variables include corporate income tax rate, labor market restrictions, strength of the enforcement system.	The size of the informal sector is negatively correlated with the rate of economic growth in countries where the statutory tax burden is larger than optimal and the enforcement system is weak.
Mauro, Paolo. 1995. "Corruption and Growth." <i>Quarterly Journal of Economics</i> 110(3): 681-712.	Cross-country regressions using subjective indices of corruption, the amount of red tape, the efficiency of the judicial system, and various categories of political stability.	Corruption is negatively linked with economic growth.
Rauch, James E. and Peter B. Evans (2000). "Bureaucratic Structure and Economic Performance." <i>Journal of Public Economics</i> , 74, 49-71.	Cross-country regressions of bureaucratic quality and corruption on indexes of bureaucratic structure and meritocracy, constructed from expert opinions for 35 developing nations.	Subjective ratings of bureaucratic quality and corruption from ICRG and other sources are positively related to the meritocratic hiring index, but are unrelated to indexes of compensation and internal promotion and career stability.



Authors	Methodology	Main Findings
Rodrik, Dani. 1997. "TFPG Controversies, Institutions, and Economic Performance in East Asia." <i>NBER Working Paper No. W5914</i> .	Cross-country regressions and correlations using index constructed by Easterly and Levine (1996) using data from Knack and Keefer (1995).	Institutional quality, initial income, and initial education do well in rank ordering East Asian countries according to their growth performance.
Scully, Gerald. 1988. "The Institutional Framework and Economic Development." <i>Journal of Political Economy</i> , 96(3): 652-662.	Cross-country regressions of income growth for 1960-80 for 115 nations, using the Freedom House indicators as proxies for property rights and the rule of law.	Controlling for changes in the K/L ratio, income growth is higher where countries are rated more highly on the Freedom House indexes.
Tanzi, Vito and Hamid Davoodi. 1997. "Corruption, Public Investment, and Growth." <i>IMF Working Paper WP/97/139</i> .	Cross-country regressions using measures of corruption, government revenue, O&M expenditures, and quality of public investment.	The presence of corruption tends to increase public investment while lowering its productivity.
Wei, Shang-Jin. 1997. "How Taxing Is Corruption on International Investors?" <i>NBER Working Paper No. 6030</i> .	Cross-country regressions using measures of two year bilateral flows of FDI as explanatory variable, tax rates, corruption, GDP, population, distance, wage, and linguistic ties.	Increases in either tax rate on multinational firms or corruption levels in host government reduces inward FDI and corruption is not treated differently in different parts of the world.
World Development Report. 1997. <i>The State in a Changing World</i> , Oxford University Press for the World Bank, Washington, DC.	Survey of the importance of the role of the state in development. A specially commissioned survey of 3,600 firms in 69 countries for the publication reported on perceptions of the stability of laws and policies, adequacy of infrastructure, taxes and regulations, and crime and corruption.	The survey showed that entrepreneurs in some parts of the world live in constant fear of policy surprises and that the institutional framework was not well enough entrenched to withstand changes in government without serious disruption. Sound policies by themselves can improve results. Benefits are magnified where institutional capability is also higher.
Zak, Paul and Stephen Knack. 1998. "Trust and Growth." <i>IRIS Center Working Paper No. 219</i> .	Cross-country regressions for 40 market economies, using survey measures of interpersonal trust.	Trust is strongly related to growth rates. With data on 11 countries beyond those analyzed by Knack and Keefer (1997), this relationship is found to be robust to variations in specification or period examined, and to the use of religious composition variables as exogenous instruments for trust. Trust is higher in nations with less income inequality and ethnic heterogeneity, and with more reliable legal mechanisms for enforcing contracts.







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