Integrating Anti-corruption and Governance Elements in Country Assistance Strategies

A Suggested Framework for Use by Staff

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Public Sector Governance Unit
Poverty Reduction and Economic Management Network
The World Bank
Integrating Anti-corruption and Governance Elements in Country Assistance Strategies

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List of Reference Websites:

Public Sector Governance website: http://www1.worldbank.org/publicsector/index.cfm
Anticorruption: http://www1.worldbank.org/publicsector/anticorrupt/
Administrative Civil Service Reform: http://www1.worldbank.org/publicsector/civilservice/
Decentralization: http://www1.worldbank.org/publicsector/decentralization/
Egovernment: http://www1.worldbank.org/publicsector/egov/
Governance & Anticorruption Publications (e.g., anticorruption strategy, bibliographies) http://www1.worldbank.org/publicsector/anticorrupt/publications.htm
Department of Institutional Integrity: http://egln0002.worldbank.org/public/adm/int/inthome.nsf
 http://www1.worldbank.org/publicsector/indicators.htm
1. Introduction:

1.1 Governance and anti-corruption (GAC) are increasingly an area of focus in CASs. During FY98 to FY01 about 75% of the CASs recognized corruption concerns explicitly or implicitly. This percentage had grown to 100% during the FY02-FY04 period. Now that the issue is in the mainstream, more attention needs to be devoted to improving effectiveness and results.

1.2 The increasing importance of, and focus on, GAC issues in the CAS is driven by two broad factors. First, research over the past ten years indicates that corruption imposes huge costs on societies and has adverse consequences on growth, investment, fiscal stability, the environment, poverty reduction, income inequality, the effectiveness of aid, and ultimately the legitimacy of state. Because of its impact on poverty reduction and on the achievement of the associated MDGs, governance has become a required pillar of PRSPs and the governance rating of a country is now a major factor in the Performance Based Allocation System for IDA funding. Second, lending to countries and sectors where corruption is pervasive creates significant fiduciary and reputational risks for the Bank and donors, with potentially damaging consequences.

1.3 The Bank has contributed significantly to the above research and over the years has developed an impressive arsenal of diagnostic tools. But, as the recently completed OED Review of “Mainstreaming Anti-Corruption Activities in World Bank Assistance” (Report No. 29620, July 14, 2004) points out “as the Bank moves on to a more mature phase of its anti-corruption work, it will need to be even more creative in its choice of instruments, the nurturing of partnerships, and the sequencing of operations. Highly differentiated strategies are required to find adequate entry points and address the most important causes of corruption.”

1.4 This Suggested framework is intended to help the operational staff of the World Bank move more confidently into a more mature phase of the Bank’s GAC work by providing guidelines for more systematically incorporating, if not integrating, governance and anti-corruption (GAC) elements into Country Assistance Strategies (CAS). It is primarily aimed at country teams for countries perceived to be afflicted with relatively high corruption.

1.5 There are some special GAC situations which are beyond the scope of this Suggested framework. These arise when:

1.5.1 a Transitional Support Strategy (see OP/BP 2.30 Development Cooperation and Conflict) is warranted instead of a CAS;

1.5.2 lending for extractive industries sector is contemplated. See the Board/Management discussion on the IFC website which describes specific governance pre-requisites for lending; and

1.5.3 fraud and corruption involving Bank staff and/or in Bank-assisted activities are alleged. In this situation, all such cases should be referred to the Department of Institutional Integrity (INT).
2. Bank Guidelines for addressing anti-corruption and governance issues in CAS

2.1 All Country Team members working on a CAS should familiarize themselves with CAS/CASPR Guidelines. These documents offer specific guidance on addressing corruption and governance issues at the two important stages in the CAS process: (a) the Upstream Review; and (b) the Downstream CAS Preparation and Review. The relevant sections are summarized below for ready reference.

2.2 CAS Upstream Review – occurs following Country Team/Regional concept discussions, but before external consultations. This is a crucial stage for bringing management’s attention to:

- the operational and reputational risks to the Bank in engaging with countries with poor governance and consequent weak control of corruption
- the opportunities, i.e. entry points, (identified by the Country Team) for mitigating these risks, including in particular safeguard and fiduciary risks.

For this purpose one should outline the proposed approach on calibrating levels of lending as well as the mix of lending vs. non-lending assistance to the nature and extent of the risks and the associated performance benchmarks.

2.3 Downstream CAS Preparation – Normally the body of a CAS has four key components: Vision, Diagnosis, Assistance Programs, and Results. The CAS Guidelines relating to coverage of GAC issues in each of these components are summarized below:

2.3.1 Vision – The CAS should contain a summary of the country’s own vision of its development goals and its strategy for achieving them. These are normally set out in Poverty Reduction Strategy Paper (PRSP) for IDA-eligible borrowers or a national development strategy for non-IDA eligible borrowers. All PRSPs are expected to include a section focused on improvements in governance and public sector management;

2.3.2 Diagnosis – Governance is one of the seven topics which must be included in the diagnosis section of a CAS. Diagnosis should address corruption and public financial accountability issues, their impact on the country strategy and the risks they pose to Bank Group activities;

2.3.3 Assistance Program – The Guidelines state that in determining the choice of lending and non-lending instruments, the CAS should take into account, among other things, fiduciary arrangements, corruption, institutional capacity, lessons from previous CAS, and partner programs. For IDA-eligible borrowers, a discussion of IDA allocation scenarios (base, high, low) relative to country performance assessments (including governance) should be included. In countries, particularly IDA-eligible borrowers, where poor governance and weak control over corruption is a significant development constraint, improved performance in this area should be included in the triggers for switching between scenarios. CASs should highlight the most significant risks –

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6 Currently there are four different types of country strategy documents to present the Bank Group’s plan of assistance to a borrowing member country: (a) Country Assistance Strategy (CAS) which is the Bank’s business plan for supporting a country’s growth and poverty reduction strategy. It is prepared in consultation with country authorities, development partners, and other stakeholders (NGOs etc); (b) CAS Progress Report – prepared around mid-point of the normal 4-year CAS cycle; (c) Transitional Support Strategy (TSS) - prepared for countries in transition from conflict; and (d) Country Re-Engagement Note (CRN) – prepared for low-income countries under stress. This note is primarily geared to address ACG issues in a CAS; mention is made of special circumstances (cases but providing guidance to those cases is beyond the scope of this paper.

7 To access the Guidelines please see the OPCS website on the Bank’s Intranet.
including safeguard and fiduciary risks – and recommend measures to mitigate them.

2.3.4 Results – CASs should include clear targets and indicators to monitor the Bank group and country performance in achieving stated objectives/outcomes. In countries with substantial to high corruption, the CAS should establish indicators and targets that can adequately reflect progress or lack thereof in addressing GAC issues/problems.

3. Anatomy of Two Governance-focused CASs: Ghana and Indonesia

3.1 Let us look at two recent CASs -- for Ghana and Indonesia⁸ -- which followed these guidelines admirably, to illustrate how GAC elements might be operationally integrated into the body of the CAS. Both countries face significant challenges in addressing corruption and governance. Ghana is an IDA-only country with a "substantial" incidence of corruption (2003 CPIA Rating of 3.0 for Q20). Indonesia is an IDA-IBRD blend country with a "High" incidence of corruption (2003 CPIA Rating of 2.5 for Q20). Both CASs are governance-focused. However, the assistance strategies adapted to address the ACG issues differ according to the respective country team’s risk and opportunity assessments (see para. 3.6.1). In this regard, the two CASs provide a good illustration of the “differentiated strategies” concept recommended by OED (para. 1.3).

3.2 Upstream Review Note:

- For Indonesia (submitted to the Operations Committee) the Note highlights “Addressing Corruption” as one of the six issues for OC guidance. It candidly states that Indonesia is perceived as one of the most corrupt countries and risks remain high – “substantively, and reputationally.” It then states that the country team has and will continue to “set the standard within the Bank for addressing corruption head-on.”⁹ The Review Note lays out the proposed CAS approach for addressing the core issues of governance, accountability, and corruption, and asks the OC: “Is the approach sketched out in the document adequate in dealing with the serious issues of corruption in Indonesia?” The approach comprises actions for: integrating ACG elements into all parts of the assistance program; creating demand for good governance; preventing and fighting corruption in the Bank-financed projects; and enhancing the capacity to measure and report results and thus enhance accountability. The OC discussion focused on this issue (and endorsed the country team’s approach)

- For Ghana (Ghana to be added)

3.3 Downstream CAS Preparation. Both CASs contain good descriptions of the on-going and planned efforts by the governments of the two countries to address the corruption and governance issues. But their approaches differ, with the Ghana CAS using the results of the PRSP as the basis and the Indonesia CAS the twin goals of improving the investment climate and service delivery.

3.3.1 Country-led Vision: Ensuring good governance through accountability and transparency is one of the pillars of Ghana’s Poverty Reduction Strategy, which sets out the medium term goals of the country. (See CAS – Chapter III on Ghana’s Development Program and Prospects). The Indonesian government’s vision and program is reflected in the package of policy actions (see Section B of the Country Context Section of CAS).

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⁸ See Ghana and Indonesia CASs including CAS annexes B3, B4 and B9 in the Suggested framework.
⁹ See Upstream Review Note for Indonesia
3.3.2. Diagnosis. As suggested in the Guidelines, both CASs discuss corruption and governance as distinct topics in the Country Context section of the CAS and outline the risks these issues pose to the country development outcomes. The Ghana CAS highlights governance and corruption as major structural issues, discusses what the government is doing, and concludes that corruption should be kept in focus.\(^\text{10}\) It also discusses the key constraints and problem areas, as well as the areas where progress is being made. The Indonesia CAS is candid in recognizing the “widespread concerns about governance and corruption across Indonesian society,” and discusses the problem of “money politics.”\(^\text{11}\) The CAS is also noteworthy in the explicit way it discusses “the Special Problem of Corruption” and its centrality to the Bank’s operations and reputation. Neither of the two CASs is explicit about the root causes or drivers of the corruption in the country, although there is a good stock of the Bank’s AAA work covering this area.

3.3.3. Lessons Learned. Both CASs review the lessons learned from programs under the last CAS, OED work, portfolio review and client surveys. In the case of Ghana, no corruption and governance-related lessons are cited. The Indonesia CAS draws specific lessons from: a) reputational damage to the Bank from failing to take a stand against corruption under the Suharto regime; b) corruption remaining a triple threat (to country development, to effectiveness of the Bank’s assistance program, and to public credibility of development assistance from the Bank and others) after more than 5 years after Suharto’s fall; and c) OED recommendations to strengthen assistance for improving governance. The CAS explicitly discusses how these lessons have influenced the governance-focused design of the new CAS.

3.3.4. Assistance Program. Both CASs make governance one of the key objectives in the CAS. Ghana CAS does it by stating that the CAS is designed to support the three results pillars of the PRSP, of which “Governance for Empowerment” is the third pillar. The Indonesia CAS does it by stating that it will “address the objectives of strengthening the investment climate and service delivery, including, critically, the key issue of governance.” In Indonesia’s case the thrust and design of the entire country assistance program is driven by the assessment that “our entire success will be judged by the contribution that our programs are seen to make towards greater transparency and accountability and by the standards of integrity with which we implement these programs.”\(^\text{12}\)

- **Strategy and Entry Points.** Both CASs select specific entry points for GAC-related intervention, keeping in view opportunities to help improve governance and to produce demonstrable results (see Tables 1 and 2). However, the approaches are different. The Ghana CAS gives primacy to the PRSP and regards the Bank’s entry points as a derivative of the PRSP actions (see Table 1). The Indonesia CAS, on the other hand, aims to “systematically increase standards of governance at each level of government the Bank engages” and “to integrate governance and issues through the entire Indonesia program, shaping how projects are selected, designed, implemented and monitored.” These differing approaches are good examples of how to develop differentiated strategies geared to the specific country circumstances, and the assessment of risks the ACG issues pose to the country and the Bank. In case of Ghana the PRSP provides a framework for all donor operations and the corruption problem is not regarded as serious an issue as in case of Indonesia. In case of Indonesia the CAS was prepared in the context of an impending change of government and relatively (to Ghana) weak country-led governance program. Furthermore, the risks corruption and governance pose to the country and the Bank were judged to be significantly higher in Indonesia than in Ghana.

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\(^{10}\) See Ghana CAS Chapter III, Section D on Structural Issues.

\(^{11}\) See Section A under Country Context and Development Challenges Chapter of Indonesia CAS

\(^{12}\) See Indonesia CAS Section B of the World Bank in Indonesia Chapter.
• **Choice of Assistance Instruments.** To achieve the governance-related objectives, both CASs employ the full array of lending and non-lending instruments (see Tables 1 and 2), i.e. governance-focused loans, ESW and TA; including ACG-related components in other loans and technical assistance projects; core diagnostics; partnerships with other donors and civil society organizations; capacity-building of governance institutions through grants and WBI; targeted AAA activities to inform public debate and policy dialogue. The Indonesian CAS adopts the unique approach of mainstreaming anti-corruption dimension in all lending instruments by requiring that all Bank-assisted projects devise an Anti-corruption Plan, assessing risks of corruption inherent in the project and proposing design and supervision mechanisms to mitigate those risks.

**Table 1: Ghana CAS: Anti-corruption and Governance Assistance Program**

<table>
<thead>
<tr>
<th>Areas of Assistance (Entry Points)</th>
<th>Assistance Instruments</th>
<th>Expected Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the ability of Parliament and other accountability institutions to perform oversight of the executive.</td>
<td>Annual PRSCs.</td>
<td>Regular Parliamentary Committee meetings.</td>
</tr>
<tr>
<td>Improving the capacity of civil society groups.</td>
<td>Citizen report cards program under Education Sector project.</td>
<td>Publication of government information on-line.</td>
</tr>
<tr>
<td>Strengthen transparency and accountability mechanisms.</td>
<td>WBI training programs for parliamentarians; anti-corruption; and judicial reforms.</td>
<td>Citizen report cards for 40 districts.</td>
</tr>
<tr>
<td>Improve public financial management system.</td>
<td>Communications program to engage stakeholders.</td>
<td>Two corruption tracking surveys.</td>
</tr>
<tr>
<td>Improve monitoring and evaluate capacity.</td>
<td>M&amp;E capacity-building programs under sector loans.</td>
<td>Comprehensive human resources management policy.</td>
</tr>
<tr>
<td>Improve local government and public expenditure management.</td>
<td>M&amp;E Readiness Assessment.</td>
<td>Set up an effective payroll system.</td>
</tr>
<tr>
<td></td>
<td>OED support for sustainable evaluation capacity.</td>
<td>70% of public servants trained in M&amp;E.</td>
</tr>
<tr>
<td></td>
<td>CPAR, PER, CFAA, investment climate assessment.</td>
<td>Functioning sub-district structures increased from 300 in 2004 to 700 by 2007.</td>
</tr>
<tr>
<td></td>
<td>Community empowerment study.</td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from Ghana CAS.
Table 2: Indonesia CAS: Anti-corruption and Governance Assistance Programs

<table>
<thead>
<tr>
<th>Four Key Principles Applied to the Entire Assistance Program</th>
<th>Selectivity in Areas of Assistance (Entry Points)</th>
<th>Assistance Instruments (lending and non-lending)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A clear and consistent Bank voice raising corruption concerns and promoting feasible responses across all sectors of Bank operations.</td>
<td>• Decision on where and how much to lend driven by scope for governance improvement.</td>
<td>• Expanded lending for CDD programs.</td>
</tr>
<tr>
<td>• Bank-assisted projects chosen to open up multiple anti-corruption entry points at different levels of government and across different sectors.</td>
<td>• Creating demand for good governance at local level through public participation and monitoring.</td>
<td>• Local governance projects to support districts based on clear standards of governance reform.</td>
</tr>
<tr>
<td>• All projects are required to devise an anti-corruption plan to mitigate corruption risks through design and supervision mechanisms.</td>
<td>• Collaboration with a full range of organizations within civil society to promote governance reforms.</td>
<td>• Capacity-building of media and civil society as project components.</td>
</tr>
<tr>
<td>• Pre-emptive audits, vigorous investigation and follow-up to allegations of corruption in the Bank projects and public disclosure of results.</td>
<td>• Developing institutions of good governance, e.g. financial management; civil service; legal system; judiciary.</td>
<td>• Lending to water and energy utilities willing to improve governance.</td>
</tr>
<tr>
<td></td>
<td>• Expanding programs to measure and report corruption and progress in controlling corruption and improving governance.</td>
<td>• Lending for governance reform of customs, tax, and public financial management.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• AAA – Investment climate surveys; WBI corporate responsibility project; expenditure tracking reports; governance surveys; local parliament TA; High Court TA; Justice for the Poor.</td>
</tr>
<tr>
<td></td>
<td>• Strengthening corporate governance.</td>
<td>• Core diagnostics – CFIAA, PER, CPAR.</td>
</tr>
<tr>
<td></td>
<td>• Implementation of anti-money laundering legislation.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from the Indonesia CAS, 2004.

- **Performance and Results Indicators.** Both CASs are noteworthy for setting out clear and measurable targets (see Tables 1 and 3) for achieving results in the ACG areas. They also specify the result that the Bank’s CAS expects to influence (see Annex B9 in Ghana CAS).

Table 3: Indonesia: Targeted Results

<table>
<thead>
<tr>
<th>Strategic, Longer Term Country Outcomes</th>
<th>Illustrative Indicators of Indonesia’s Success which this CAS Aims to Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development planning made more responsive to constituents</td>
<td>• Core group of 40 regions participating in local services platform records significant improvements in governance outcomes.</td>
</tr>
<tr>
<td></td>
<td>• One-third of all villages in Indonesia engage in a participatory approach to development planning, execution, and oversight.</td>
</tr>
<tr>
<td>Well-regulated and transparent system of public financial management at all government levels</td>
<td>• Improved performance of tax and customs collection (e.g., increased revenue to GDP, increase in registered tax payers, reduced tax arrears, and reduced clearance time in customs).</td>
</tr>
<tr>
<td></td>
<td>• Reduced leakage in expenditure flows to end-users.</td>
</tr>
<tr>
<td>More effective implementation of decentralization</td>
<td>• Clarification of functions for each level of government through implementing regulations for Laws 22 and 25.</td>
</tr>
<tr>
<td></td>
<td>• Increased transparency of finances, laws, and regulations at the district level through establishment of an accessible regional financial information system and a mechanism for cataloguing, reviewing, and publishing PERDAS.</td>
</tr>
<tr>
<td>Establishment of a credible and impartial justice sector</td>
<td>• Significant improvement in corruption perception measures, and improved public satisfaction with the judiciary in project-assisted areas as measured by public opinion surveys.</td>
</tr>
<tr>
<td></td>
<td>• Full compliance with wealth declarations by public officials as established by law.</td>
</tr>
<tr>
<td></td>
<td>• Doubling of the share of cases investigated as a result of irregularities revealed in BPK audits.</td>
</tr>
<tr>
<td></td>
<td>• Increased percentage of poorer households and SMEs using legal, paralegal, and alternative dispute mechanisms in at least 40 districts.</td>
</tr>
</tbody>
</table>

Source: Indonesia CAS

- **Scenarios and Triggers.** Given the centrality of governance in both the CASs performance in governance area is among the triggers for staying with the base case or moving to low or high cases. In the case of Ghana, the triggers to stay in Base case include 15 points of the HIPC accountability assessment.
which cover progress in public sector reforms. In case of Indonesia CAS performance in governance reforms is among the triggers for staying in Base case as well as moving to Low or High case. In case of Indonesia, actual lending amounts in the Base Case will depend upon governance reforms among other things. Both CASs include CAS trigger matrix in which governance-related performance measures are indicated.

3.4 Risks. In the “Risks” section of the Ghana CAS (Chapter V) there is no mention of risks corruption and governance weaknesses pose to the country or the Bank. However, in the “Concluding Remarks” importance of governance for the sustainability of country outcomes is highlighted. It may be inferred that the country team does not assess the corruption and governance-related risks to the Bank to be sufficiently high to warrant an explicit mention in the Risks section, therefore it makes no explicit mention of mitigation measures to manage the risk to the Bank. On the other hand, the Indonesian country team regards the risks to the Bank’s programs and reputation to be an overriding concern to everything the Bank does and outlines a mitigation program which pervades the whole assistance program of the Bank in Indonesia. In the “Managing Risks” section, the Indonesia CAS explicitly discusses the risks to development outcomes in case the political will to address the issues of governance is not forthcoming as well as the risks to the Bank’s credibility and effectiveness that the issues of corruption and governance pose to the Bank. Keeping up the best practice it then links the CAS approach of facing the challenge head-on and points out that transparency and accountability measures are built into the CAS triggers and program.

4. Conceptual Framework for Designing GAC Programs

4.1 A key lesson from combating corruption in the 1980s is that GAC interventions must be tailored to each country’s specific pattern of corruption and governance environment taking into account political economy factors. Understanding the country-specific governance conditions should be the beginning point for designing an effective anti-corruption strategy. Considerable amount of information about governance conditions at national or sub-national level is usually available through:

   (a) the Bank’s AAA program, e.g. Investment Climate Assessment, CPAR, CFAA, IGR, and most importantly, the country team members’ experiences;
   (b) competitive cross-country surveys of governance (See KK governance matters);
   (c) research and analysis by national experts and development partners; and
   (d) media analysis and client surveys.

   It is strongly recommend that the CAS preparation be fully informed by a quick stock-taking of information available from the above mentioned sources regarding evidence (albeit mostly indirect) of corruption and, more generally, the quality of governance.

4.2 Categorizing countries on basis of level and pattern of corruption. Recent research is showing that categorizing a country’s governance environment on the basis of the (perceived) level and pattern of corruption is helpful in designing specific policy recommendations, deciding on the sequence of reforms, and targeting anti-corruption efforts. We cite below two approaches to categorizing countries and to setting priorities for GAC efforts based on the categories. The first approach uses the CPIA system whereas the second uses a state capture and administrative corruption approach. These two approaches are not mutually exclusive and have many common elements.

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13 See OED report
14 See OED report
4.3 Cluster D of the Country Policy and Institutional Assessment system contains ratings for the following specific public sector policy/institutional aspects on a scale of 1 to 5 where 5 indicates the most favorable rating:


The above mentioned OED review used the CPIA rating for question 20 to classify countries by level of corruption as follows:

Table 4: Categorizing Countries by Control and Incidence of Corruption

<table>
<thead>
<tr>
<th>CPPA Rating (Q20)</th>
<th>Control of Corruption</th>
<th>Incidence of Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 – 2.0</td>
<td>Lowest</td>
<td>High</td>
</tr>
<tr>
<td>2.5 – 3.0</td>
<td>Middle-low</td>
<td>Substantial</td>
</tr>
<tr>
<td>3.5 – 4.0</td>
<td>Middle-high</td>
<td>Modest</td>
</tr>
<tr>
<td>4.5 – 6.0</td>
<td>Highest</td>
<td>Low</td>
</tr>
</tbody>
</table>

4.4 Table 5 illustrates a framework for differentiating priorities for anti-corruption efforts depending on the incidence (measured by governance indicators) of corruption and quality of governance. This table is adapted from a recent article by Anwar Shah and Mark Schacter.

Table 5: Country Corruption Risk and Anti-corruption Strategies

<table>
<thead>
<tr>
<th>Incidence of corruption</th>
<th>Quality of governance</th>
<th>Priorities of anticorruption efforts</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Poor</td>
<td>Establish rule of law; strengthen institutions of participation and accountability; establish citizens’ charter; limit government intervention; implement economic policy reforms.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decentralize and reform economic policies and public management.</td>
</tr>
<tr>
<td>Low</td>
<td>Good</td>
<td>Establish anticorruption agencies; strengthen financial accountability; raise public and official awareness; encourage anti-bribery pledges; conduct high-level prosecutions.</td>
</tr>
</tbody>
</table>

4.5 A second approach for categorizing country governance environment uses forms of corruption, in this case State Capture and Administrative Corruption, as shown below:

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15 See IDA website
16 An Independent Panel, appointed by the Bank to review CPIA ratings and methodology has made a number of recommendations which will strengthen the CPIA process and methodology, including extending the rating scale to allow for ratings from 1 to 6. The new rating system will apply to 2004 CPIA exercise.
18 State capture “refers to actions of individuals, groups, or firms either in the public and/or private sectors to influence the formation of laws, regulations, decrees and other government policies to their advantage through the illicit and non-transparent provision of private benefits to politicians and/or civil servants.” Administrative corruption “refers to the intentional imposition of distortions in the prescribed implementation of laws, rules, and regulations to provide advantages to individuals resulting from illicit private gains to public officials (World Bank, 2000. Anticorruption in Transition)
Table 6: Categorizing Countries by Level of State Capture and Administrative Corruption

<table>
<thead>
<tr>
<th>State Capture</th>
<th>Administrative Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>High / Medium</td>
<td>(High State Capture/Medium Administrative Corruption)</td>
</tr>
<tr>
<td>High / High</td>
<td>(High State Capture/High Administrative Corruption)</td>
</tr>
<tr>
<td>Medium / Medium</td>
<td>(Medium State Capture/Medium Administrative Corruption)</td>
</tr>
<tr>
<td>Medium / High</td>
<td>(Medium State Capture/High Administrative Corruption)</td>
</tr>
</tbody>
</table>

Administrative Corruption

4.6 Table 7 shows how anti-corruption strategies may be differentiated to suit the level and pattern of corruption in a given country situation. This framework was developed as part of a landmark study covering the transition countries in Central and Eastern Europe but has wider relevance.

Table 7: Forms of Corruption and Anti-corruption Action Priorities

<table>
<thead>
<tr>
<th>Form of Corruption</th>
<th>Governance Challenges</th>
<th>Anti-corruption Policy Reform Priorities</th>
</tr>
</thead>
</table>
| Medium State Capture and Medium Administrative Corruption | • Risk of complacency and backstepping.  
• Close ties between economic interests and political institutions.  
• Cronyism and conflict of interest in public sector appointments. | • Promote further reforms in civil service, public finance, procurement, and judiciary.  
• Introduce greater transparency into political financing.  
• Develop strong partnerships with civil society. |
| Medium State Capture and High Administrative Corruption | • Highly underdeveloped public administration.  
• Lack of control and accountability within the state.  
• Nascent civil society. | • Build the capacity of public administration.  
• Develop instruments for financial management.  
• Encourage civil society development. |
| High State Capture and Medium Administrative Corruption | • High concentration of power by vested interests.  
• Weak structures for monitoring and accountability.  
• Powerful groups block further reforms to preserve their advantages. | • Broaden formal channels of access to the state.  
• Deconcentrate economic power through competition and entry.  
• Enhance oversight through participatory strategies. |
| High State Capture and High Administrative Corruption | • Highly concentrated economic interests.  
• Limited implementation capacity of government.  
• Weak anti-corruption constituencies.  
• Restricted channels of access for countervailing interests. | • Deconcentrate economic interests through restructuring, competition, and enhanced entry.  
• Build accountability and oversight mechanisms.  
• Promote collective action among countervailing interests.  
• Stand-alone technocratic reforms will have limited impact. |

Source: Adapted from “Anti-corruption in Transition: A Contribution to Policy Debate”

4.7 Cross-cutting principles. While the categorization of a country governance environment is essential for designing differentiated anti-corruption programs tailored to specific country circumstances, there are some cross-cutting principles for the design of anti-corruption programs in all country situations. These are discussed in detail on the anti-corruption website maintained by PRMPS (see list of websites under
the Table of Contents). For ready reference the cross-cutting principles are summarized below:

4.7.1 **Credible Leadership** – A serious anti-corruption program requires committed leadership not just from one so-called “champion” but from a cadre of reform-minded individuals from both within and outside the public sector.

4.7.2 **Finding appropriate entry points in a Multi-pronged Strategic Framework for anti-corruption work.** It is critical to begin at a point where the goals are feasible and success can be measured within a time frame that builds support for further reforms. Addressing corruption typically requires moving beyond public administration and financial management reforms into areas such as political accountability, civil society participation, etc. Therefore, one must look for entry points in the broad spectrum of governance covering the country’s economic, social, and political institutions. The chart shown below (prepared by PRMPS) provides an excellent summary of areas to look for entry points.

### Multi Pronged Strategic Framework for Improving Governance

#### Institutional Checks & Balances
- Independent, effective judiciary
- Legislative oversight
- Decentralization with accountability
- Global initiatives: OECD Convention, anti-money laundering, WCO

#### Political Accountability
- Political competition, credible political parties
- Transparency in party financing
- Disclosure of parliamentary votes
- Asset declaration, conflict-of-interest rules

#### Civil Society Voice & Participation
- Freedom of information
- Public hearings on draft laws
- Media/NGOs
- Community empowerment
- Report cards, client surveys

#### Competitive Private Sector
- Economic policies
- Restructuring of monopolies
- Effective, streamlined regulation
- Robust financial systems
- Corporate governance
- Collective business associations

#### Public Sector Management
- Meritocratic civil service with adequate pay
- Public expenditure, financial management, procurement
- Tax and customs
- Frontline service delivery (health, education, infrastructure)

4.7.3 **Political Economy of Reform** – Lessons of development experienced in the 1980’s and 1990’s clearly point out that an insufficient understanding of the political economy of reforms has led the Bank (and other donors) to push reforms that stand little chance of success. Therefore, an assessment of political landscape with respect to proposed anti-corruption reforms is essential for designing effective programs. The starting point of such analysis is typically political stakeholder analysis for which tools are currently being developed and tested.19

4.7.4 **Maximizing Leverage Beyond the Entry Point** – Efforts should be made to design “win-win” anti-corruption strategies that promote the interests and reputations of major politicians and business people while delivering positive externalities such as faster growth, reducing poverty and inequality or promoting rule of law.

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19 There is a forthcoming Prem Note on this issue. See also the political economy section of the public sector governance website
4.7.5 **Sequencing** – There is no simple formula for the proper sequence of anti-corruption reforms. One way to sequence is to ensure early tangible results to strengthen the constituency for reform along the way.

4.7.6 **Sustainability** of an anti-corruption program depends on three key dimensions:

(a) a **critical mass of mutually reinforcing reforms** that contain a mix of prevention and enforcement measures (supply side of reforms) with substantial public involvement and information, education and communication (demand side of reforms) to strengthen the constituencies of reform;

(b) building an **effective coalition of supporters** of the anti-corruption movement. The coalition must include “champions” from outside of the executive and political branch e.g. NGOs, professional associations, media, trade associations, labor unions, academics, and businessmen. Donors can play a crucial role in forming and assisting such coalitions;

(c) **assurance of resources and expertise** to cover both short- and medium-term requirements. Often forgotten in the package for instance is a well thought out communications strategy to help generate and sustain broad public support.

4.8 **Strengthening Independent Institutions of Accountability** – The success and sustainability of anti-corruption programs is heavily dependent on the presence and effectiveness of independent (of executive branch) institutions of accountability such as Supreme Audit Institutions, Parliamentary Committee, Election Commissions, Judiciary, Ombudsman, Independent Commissions, etc. The challenge is to identify these institutions that hold the most promise at a specific point of time and supporting them through technical assistance and other resources.

4.9 **Establishing Monitoring, Evaluation and Reporting Mechanisms** – These mechanisms enable a continued supply of information to the public on the state of corruption with a view to generate and sustain public pressure for reform. They are also needed to enable reformers to anticipate the opposition’s location, strength and resources and accordingly, mobilize resources in response. Ideally these mechanisms should be separate from any systems the executive branch may have and they must be credible to the public. A number of examples are cited below:

- The Report Card surveys institutionalized by the Public Affairs Center in Bangalore, India to “grade” state public agencies and indirectly monitor administrative corruption (see brown bag seminar, November, 2003 in see [http://www1.worldbank.org/publicsector/anticorrupt/index.cfm](http://www1.worldbank.org/publicsector/anticorrupt/index.cfm))

- The public expenditure tracking surveys introduced in the education sector in Uganda to monitor the release and receipt of budgetary funds to school districts (see Survey Reports and Data under “Tools and Data” in [http://www1.worldbank.org/publicsector/anticorrupt/index.cfm](http://www1.worldbank.org/publicsector/anticorrupt/index.cfm))

- Life style checks conducted on public officials to assess the consistency of their life styles with their incomes, as for instance conducted by the Philippines Center for Investigative Journalism (see rtsp://streaming2.worldbank.org/PRM/prmps_tess_bacalla.rm).

4.10 **Managing Fiduciary and Reputational Risks to the Bank** – These risks are significant when the Bank is lending in countries with ‘substantial’ to ‘high’ corruption (see para 4.3). While the risk mitigation strategy/program at country level would need to be developed to fit each country risk profile, good case practice is now developing. Table
8 contains examples of measures used by country teams to mitigate fiduciary and reputational risks to the Bank.

Table 8: Examples of Measures Used by Country Teams to Mitigate Operational, Outcome and Reputational Risks to the Bank from Corruption

<table>
<thead>
<tr>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening fiduciary controls based on CPAR/CFAR analysis and in some instances portfolio reviews by INT.</td>
</tr>
<tr>
<td>Putting in place a strong measurable results framework since tying the flow of money to concrete and measurable results significantly reduces the chance of misuse of Bank resources.</td>
</tr>
<tr>
<td>Seeking maximum disclosure and transparency especially with regard to public revenues and expenditures.</td>
</tr>
<tr>
<td>Screening all new lending for sector/implementing agency specific corruption risks and integrating project specific preventive measures or, in extreme cases, withholding financial assistance.</td>
</tr>
<tr>
<td>Integrating social accountability mechanisms in design of projects to ensure grass root monitoring of service delivery and results.</td>
</tr>
<tr>
<td>Proactive sanctions enforcement under procurement guidelines, INT reviews, performance triggers and audits. The sanctions should be publicized for maximum effect.</td>
</tr>
<tr>
<td>Using strategic communications targeted at development partners, civil society organizations, general public through media and opinion leaders. The communications is typically two-way to inform and be informed about what the Bank is doing to mitigate risks of corruption seeping into its lending activities and why the Bank is staying engaged. Continuous communication helps the country team put any incidents in perspective.</td>
</tr>
</tbody>
</table>

4.11 Learning from, and sharing with, others – The demand from Bank clients for information on other country experiences (successes and failures) in combating corruption is growing. Our ability to effectively respond depends on initiative and cooperation by country teams to share their own experiences and seek exchange with their peers and encourage such behavior among their country counterparts.

4.12 Assessing potential impact of anti-corruption measures – Corruption prevails when the rewards are high and risks (costs) are low. Anti-corruption measures, therefore, generate impact if they reduce opportunities for corruption while increasing the risks of being caught and punished. One way to assess potential impact of a proposed anti-corruption measure is to ask whether and how effectively is it likely to:

(a) reduce opportunities for corruption;
(b) increase risk of exposure/punishment;
(c) increase severity of penalty;
(d) reduce incentives for corruption;
(e) increase public pressure for reducing corruption;
(f) strengthen accountability of public sector programs.
5. **A recommended Approach for Integrating Anti-corruption and Governance Improvement (ACG) elements in a CAS**

5.1 **In this section, we will outline recommendations on how to integrate GAC elements in a CAS.** The CAS preparation guidelines indicate (Chapter 2 of this Note) that all CASs analyze the GAC issues. In fact, all CASs prepared during FY 02-04 included GAC elements and this trend is expected to continue. This does not mean that all CASs have to be governance focused. However, there is an increasing expectation that CASs for high corruption countries address the GAC issues head-on in the Bank’s assistance program. In Chapter 3 we presented examples of two governance focused CASs to show how the GAC elements have been included in all four of its key parts -- Country Vision, Diagnostics, Bank’s Assistance Program and Results. What the examples do not show is the thinking, selection, and decision-making process that led to the final choices that were made. This is normal as the process of getting to the end product is usually not described in the CAS. The conceptual framework described in Chapter 4 is helpful for carrying out the analysis and thinking and that is required for producing high quality and country specific governance focused CAS and results.

5.2 **There are four key process steps involved in designing the GAC components or aspects for inclusion in a CAS.** One needs to think through all the four steps, in an iterative rather than sequential manner, in order to provide inputs for both the Upstream as well as the Downstream CAS preparation and review. For Upstream Review the presentation is highly condensed and focused on highlighting the issue and options for internal management review and guidance. In contrast, the Downstream review has relatively greater depth and the audiences are both internal and external since the CAS is discussed publicly and disclosed. The four process steps involved are:

(a) **Step 1: Assessment of key country specific knowledge** about the country’s governance environment, the government’s GAC strategy and program (including the likely political support for it), and the risks to the development outcomes;

(b) **Step 2: Formulation of an assistance program covering the GAC aspects for inclusion in a CAS.** The key elements to be covered here are – objectives, strategic approach, entry points, lending and AAA instruments, performance indicators, and any proposed governance related triggers for moving between lending scenarios;

(c) **Step 3: Identification of partnerships and coalitions for coordinated action to combat corruption and improve governance; and**

(d) **Step 4: Analysis of the risks corruption and weak governance in the country pose to the success of Bank activities and to the Bank’s reputation and the formulation of the measures that may be included in the CAS to mitigate/address the risks.**

The details for each of the four steps are discussed below.

5.3 **Step 1: Assessing a country’s governance environment:** We recommend that the CAS team assemble basic knowledge about the country’s GAC landscape using the check list presented in Table 9 and then analyze the collected information to prepare a summary assessment covering, in particular, the following aspects:

(a) state of corruption based on key governance indicators/AAA and categorization of country governance environment (para 4.3);
(b) Stock taking of government and non-government programs, institutions and players.

(c) Commitment; the underlying political economy factors, and the risks to country development outcomes.

TABLE 9: Check list for compiling basic country knowledge on ACG Issues.


- Confidential assessment of political economy of corruption and degrees of freedom of action for the Bank on demand, supply, capacity building and partnership aspects.

- Summary findings of ESW diagnostics (by Bank and others).


- Key anticorruption institutions (executive and non-executive branches).

- Relatively high risk ministries/public enterprises.

- Key anti-corruption champions among civil society and donors.

- Inventory of donor activities.

- Legacy issues: media/civil society concerns; high risk projects; a Check with Portfolio Manager/External Affairs/INT on past incidents; odious debt issues; mis-procurement/suspections by Bank or other donors.

- On-going and recent Bank anti-corruption activities (Last CAS/PR).

- Any OED/QAG findings from recent completions/evaluations.

- The experience under the last CAS and any country specific legacy issues.

5.4 Step 2: Formulating a country assistance program for the GAC aspects. With the check-listed information and summary assessment of the governance environment in hand the team is ready to formulate a preliminary assistance approach. As described in Chapter 4 the menu of actions that may be taken to combat corruption and improve governance is long. Success is possible only in the long-term and depends upon many factors outside the control of the Bank. So the practical question inevitably boils down to choosing a small number of entry points for the Bank’s assistance that offer the best opportunity for producing results over time and then choosing the lending and non-lending instruments to provide the Bank’s assistance for all selected entry points. The following points will help in formulating the Bank’s assistance program:

5.4.1 The breadth and depth of the Bank’s assistance program should be tailored to support the country’s own program and to address the risks to the Bank and the country. In case of high risk countries there is an expectation of a credible Bank-country anti-corruption program (see Indonesia example) and higher degree of selectivity in terms of when, where, how and how much we lend. In some instances stricter conditions for prior actions by a country may be required and linked to lending volumes.

5.4.2 The Bank assistance program should look beyond helping the executive branch of the government with its GAC efforts to also help many of the independent (of the executive branch) institutions of accountability and other
non-government GAC champions (e.g. civil society organizations and media). This is particularly important for demand side measures and capacity building for sustainable long-term GAC improvements and accountability.

5.4.3  It is critical to choose entry points where the goals are feasible in a given country circumstances and success can be measured within a time frame that builds support for further reforms. In Chapter 4 we have presented a framework for prioritization and selection of the entry points keeping in view the cross-cutting principles, the level, form and patterns of corruption in a given country and the likelihood of success.

5.4.4  A review of GAC assistance programs in all FY02-04 CASs shows that the measures selected by the country teams to support the country’s efforts fall into one or more of the following broad entry points:

(a) Strengthen the demand for anti-corruption/ governance reforms.
(b) Enhance the supply of anti-corruption/ governance reforms.
(c) Build the capacity of the formal institutions of accountability. I
(d) Institutionalize results framework and reporting systems.
(e) Form coalitions and partnerships to promote good governance.
(f) Use communications as an anti-corruption and risk management tool

5.4.5  For almost any selected entry point the Bank can assist by one or more of the following assistance instrument. The key is to propose an appropriate mix of Lending and Non-Lending instruments (to the country situation).

(a) Undertaking and disseminating ESW
(b) Grants for capacity building of, and analytical work by, locals
(c) WBI capacity building programs
(d) Sponsoring in-country dialogue events with opinion leaders and media
(e) GAC components in investment as well as development policy lending
(f) Free standing lending operations in support of governance improvement

5.4.6  Choosing performance indicators and triggers. The task here is to recommend corruption/governance related quantitative and qualitative policy performance indicators/triggers that may be used for results based CAS and for moving to/from low case and high case CAS scenarios. For IDA-eligible countries this is a requirement.

5.5  Step 3: Identifying partnerships and coalitions. Increasingly, for aid effectiveness, cooperation among donors within the framework of a country led strategy is the desired mode of operation for the Bank. In fact all CASs are required to prepare a table that shows the role of each donor in different sectors or thematic areas. Given the magnitude and complexity of the tackling GAC reforms, it is particularly important to identify partners and coalitions whom the Bank can join for collective actions. The CAS table on donor activities as well as the country knowledge assessment (Step 1) are good starting points for identifying potential partners and coalitions that the Bank could join.

5.6  Step 4: Risk Analysis and Mitigation. The Bank is recognized as a leader among the multilateral development banks in combating corruption. At the same time, it is still being perceived by many in the international community as not sufficiently recognizing and addressing the developmental, fiduciary and reputational risks associated with the Bank’s assistance programs in countries that are perceived to have relatively high levels of corruption. The work being done by the Department of Institutional Integrity also suggest that the Bank country teams may be underestimating the operational and reputational risks. In this context this step in the CAS preparation requires special attention by the country team. The following are suggestions for consideration:
5.6.1 Start with a self-assessment by country team members in which they are asked to rate the extent (on a scale of 1 to 5, with 5 being highest risk situation) to which the state of corruption and governance in the country/sector can:

(a) Undermine results/ effectiveness of Bank assistance programs;
(b) Reduce the ability of the Bank, and the country, to mobilize resources for development;
(c) Be perceived by the public as increasing opportunities for corrupt officials rather than be seen as solution to the problem;
(d) Result in corruption seeping into Bank financed projects; and
(e) Pose personal security risks to Bank staff and counterparts, particularly when staff encounter/expose specific instances of corruption.

5.6.2 The self-assessment results should be validated by the results, if any, of client surveys as well as part of the CAS consultation process. In high risk countries we recommend consulting widely with other donors, anti-corruption champions, business leaders, sovereign risk rating agencies, EXT staff, NGOs, INT, well informed members of the media and audit and prosecutorial agencies in country.

5.6.3 The team should cross check this assessment with the information in CPIA and the WBI governance indicators and write down the conclusions of the assessment of risks to the Bank. In cases where the conclusions indicate high risks for the Bank proceed to the next step of formulating a risk mitigation plan.

5.6.4 A review of all CASs prepared during the FY 02-04 period indicate that the country teams have used the following strategies for mitigating the operational, fiduciary and reputational risks to the Bank:

(a) Strengthening fiduciary (procurement and financial management) controls for all Bank financed activities;
(b) Organizing portfolio review by INT to assess vulnerabilities and do forensic audit and implementing recommended actions;
(c) Integrating social accounting mechanisms into lending operations;
(d) Embedding procurement and financial management skills in each Task Team;
(e) Agreeing with the implementing agencies on strong results monitoring framework and disclosure of information;
(f) Increasing transparency (disclosure, hotline) of Bank activities;
(g) Proactive sanctions enforcement;
(h) Setting up internal procedures for screening of new lending operations for corruption risk and requiring a risk mitigation plan for each operation;
(i) Using strategic communication as a risk management tool.

5.6.5 The formulation of a strategic communications plan is highly recommended to be a part of the GAC assistance program. It is a useful risk management tool for boosting demand for good governance through use of mass media/dialogue; for raising public awareness and support for the Bank’s anti-corruption initiatives; and for developing third party allies by keeping them informed about what and why of the Bank operations on an on-going basis. EXT staff are available to help in preparing and implementing a strategic communication plan. A typical plan describes: objectives, key stakeholders, proposed activities and channels, timeline and responsibilities.