



MNA Knowledge and Learning

...Fast Brief



DEALING WITH GOVERNANCE AND CORRUPTION RISKS: AN INTRODUCTION TO EMERGING GOOD PRACTICES IN LENDING OPERATIONS

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Introduction: In the twelve years since President Wolfensohn declared war on “the cancer of corruption”, much has been accomplished and learned by the Bank and its borrowers. For most of that period the focus was on country-level governance issues, led by PREM and WBI, and fiduciary issues, led by Procurement and IM. Recently, with the Bank’s GAC strategy, attention shifted to governance and corruption at the sector and project level, with the objective of improving development impact of Bank-supported projects. This Brief is part of the effort to mainstream these concerns in, particularly, specific investment loans (SILs).

Objectives and Caveats: This Brief has three objectives: (a) to provide Task Teams with a common conceptual framework for understanding and dealing with GAC issues; (b) to highlight some of the key lessons learned over the past several years, and provide linkages to emerging “good practice” examples of GAC innovations at the sector and project level; and (c) to indicate areas where further work is required to support Task Teams in this area of emphasis. It is **not** intended to provide a detailed “how to” manual for practitioners - no single source could provide a guide that would be applicable to all sectors/countries. Nor does it

propose new policies or procedures, since the intention is to rely on existing framework for investment projects. It does, however, highlight how additional work on governance and corruption issues fits within that framework.

The Country Context: For the Bank, the starting point lies in a systematic consideration of GAC issues in the preparation of the CAS. Under the CGAC initiative, the intention is to develop a “bottom up” approach that recognizes the uniqueness of country circumstances, and focuses on identifying: (a) the major GAC impediments to sustainable growth and poverty reduction; and (b) the potential entry points for Bank engagement. With limited resources, not every issue can be pursued immediately. The challenge, therefore, is to define a multi-year strategy that is both targeted and selective, reflecting a pragmatic balance between the most serious GAC constraints and where the potential entry points may be. The engagement of the entire country team in this process is critical for mainstreaming GAC issues in sector operations, including the sharing of information across sectors about country-specific risks, as well as “good practices” and “lessons learned” about what works and what doesn’t.

Project Identification and Design: The “good practices” developed by Task Teams over the past several years fall within two broad categories - risk assessment and risk mitigation. While Task Teams have long been required to assess/mitigate risks as part of project identification and design, these “good practices” go beyond traditional approaches -

¹ This Brief is based on the draft Executive Summary of OPCOS’ “Dealing with Governance and Corruption Risks in Project Lending – Emerging Good Practices” - prepared primarily for Investment Lending Task Teams - developed by the Working Group for GAC in Projects, under the direction of Peter Harrold’s Director, OPCOS. A core team comprising Ivor Beazley, Naseer Rana, Steve Burgess, and Anders Agerskov, coordinated the work, with principal author Richard Calkins, consultant.

dealing explicitly with governance and corruption issues, drilling down on the symptoms of poor governance to get at underlying causes, and developing mitigation measures to improve governance and reduce corruption. Examples include:

- *Value Chain Analysis*: creation of a generic model of a sector's "value chain" – the critical points where decisions are taken or "value added" is created.
- *Country-specific assessments of GAC vulnerabilities*: using the generic sector model to identify which points are, in fact, "at risk" in a country.
- *Smart Project Design*: incorporating lessons learned in a country and/or sector on GAC risks into identification and design of Bank projects, including the application of both supply and demand side approaches.
- *Anti-Corruption Action Plans*: going beyond strengthening fiduciary controls, to introducing good governance and risk mitigation measures to increase transparency, accountability participation.

Project Implementation: Lessons from INT:

The premise was that Bank procurement and FM rules were enough to prevent fraud and corruption. The reality, at least in countries with weak governance, is different – evidenced by increasing numbers of INT investigations. In addition, quality and sustainability of project outcomes may be compromised, and none of this may be captured by normal Bank supervision practices. The Bank is committed to improving its performance in this area.

Supervising High Corruption Risk Projects:

The starting point for more effective supervision is in project identification and design. Using "smart project design" should lead to "manageable" projects in terms of the scope and capacity of Bank supervision practices, especially for decentralized projects covering large geographic areas.

Project oversight needs to be built into the project, relying on a combination of government and independent, third party monitoring, as well as feedback mechanisms available to affected communities. Prior to effectiveness, special attention is needed to "readiness for implementation". During implementation a more integrated approach is needed that combines in-depth procurement and FM reviews with on-site inspections. Not all Bank projects face high corruption risks and thus a "risk-based" approach is appropriate at the regional and country level. In principle, higher risk projects would be eligible for higher supervision budgets. This implies a limit on the number of such projects in a given portfolio.

Closing the Loop: M&E and the learning agenda:

The GAC agenda at the sector and project level remains a learning-oriented exercise – for the Bank as well as clients. It is critical, then, to define clear objectives for whatever initiatives are undertaken, and to select meaningful and monitorable indicators for tracking progress. More important will be the extraction of "lessons learned" and of case studies and "good practice notes" so that results can be shared with the growing community of practitioners across the Bank.

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