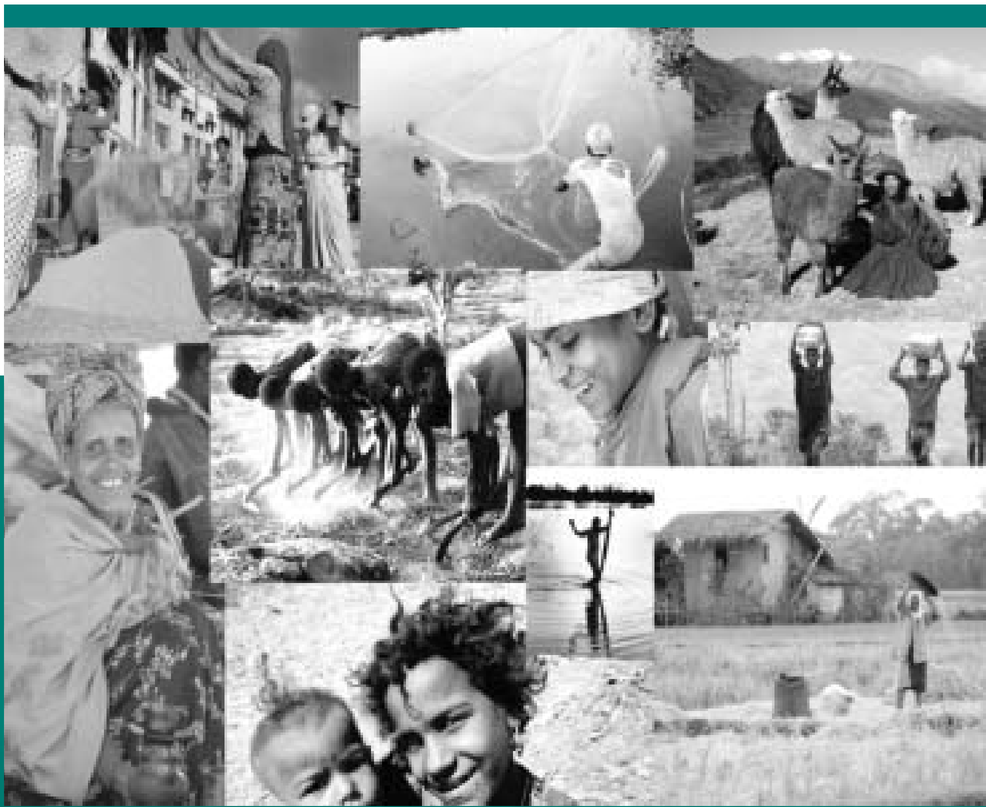
The World Bank's Strategy on Governance and Anticorruption

– a civil society perspective



A CIDSE Background Paper

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ACTION, NOT WORDS
MILLENNIUM DEVELOPMENT GOALS
RÉDUIRE DE MOITIÉ LA PAUVRETÉ DANS LE MONDE D'ICI 2015
HALVING WORLD POVERTY BY 2015

CIDSE
Coopération Internationale pour le Développement et la Solidarité

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This document has been endorsed by the following CIDSE partner organisations:
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Catholic Economic Justice Network / AMECEA, Kenya
Christian Aid, Burundi
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CIDSE (International Cooperation for Development and Solidarity) is a coalition of 15 Catholic development agencies in Europe and North America which share a common vision on poverty eradication and social justice and a common strategy on development programmes, development education and advocacy.

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Acronyms

ADMARC	Agricultural Development and Marketing Corporation
CAS	Country Assistance Strategy
CIDSE	International Cooperation for Development and Solidarity
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DC	District of Columbia (US)
ED	Executive Director
EITI	Extractive Industry Transparency Initiative
EIR	Extractive Industry Review
FLEG	Forest Law Enforcement and Governance
FTAP	Fair and Transparent Arbitration Process
GBS	General Budget Support
GMR	Global Monitoring Report
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IDA	International Development Association
IFIs	International Financial Institutions
IMF	International Monetary Fund
INT	Department of Institutional Integrity
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
PARPA	Strategy Document for the Reduction of Poverty and Promotion of Economic Growth (translated from Portuguese)
PEFA	Public Expenditure and Financial Accountability
PIU	Project Implementation Unit
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
PWYP	Publish What You Pay
UNCAC	UN Convention Against Corruption
WBI	World Bank Institute

Executive Summary

Governance has become central to development discourse in the past decade or more. This is largely founded on the recognition that strong and accountable institutions, political commitment to effective management of the state, and a vibrant and organized civil society are fundamental to equitable development. There is also an intensified donor focus on improving governance and combating corruption, which is linked to an increase in aid and in public scrutiny of aid in donor countries. President Wolfowitz has made anticorruption a signal issue for the World Bank and the Bank has recently undertaken to lay out a broad strategy for helping its member countries strengthen governance and deepen the fight against corruption.

However, for civil society, the Bank suffers from an overwhelming lack of legitimacy and credibility when dealing with governance. This is because of: the lack of transparency and accountability in the Bank's own governance structures and in the way the Bank does business; the Bank's overriding focus on economic liberalization; and the level of corruption found in Bank projects. The Bank has a narrow operational conception of governance and anticorruption, based largely on its economic policy agenda. However, governance challenges are deeply embedded in the social fabric and political structures of the state. Local stakeholders, including civil society, appreciate these political fundamentals in ways in which external actors rarely can.

As the Bank develops its new Governance and Anticorruption Strategy, we believe that it needs to change its way of working, reducing the imposition of policy based on external analysis, increasing its responsiveness to local stakeholders and increasing its own transparency and accountability. We believe that the Bank has a limited and specific role to fulfil in supporting governance and anticorruption work. It should not take on a role as central arbiter of standards of governance or corruption, or be seen to take on such a role.

We in CIDSE believe that Bank management, staff and shareholders need to rethink the Bank's role in supporting better governance:

- They need to recognize the political nature of governance, but limit the Bank's own interventions to a few specific areas of its competence.
- They need to be willing to allow state and non-state actors to come to political compromises on how a country and its resources are to be managed on the basis of national consensus, rather than through donor-driven initiatives.
- They also need to significantly step up their response to the supply side of corruption, where Northern corporations and banks are complicit in the illicit draining of resources from Southern countries.

Other key points are made under the following headings:

The Bank's Approach to Governance and Anticorruption

- Corruption must be seen as part of a complex set of governance challenges and not only a threat to Bank resources and reputation.
- The Bank needs to recognise and better understand the political nature of governance, while clearly limiting the scope of its own work on governance to a few areas of its core competence, such as citizen-oriented public financial management.
- There should be a presumption of continued lending with the exception

of situations where serious human rights abuses are identified by specialized international agencies. Bank criteria and processes leading to ‘no-lending’ decisions must be manifest, consistent and transparent.

The CAS and Assessing Governance

- The Bank needs to base its governance assessment on independent analysis, carried out in a transparent manner, with maximum local input.
- Wherever possible, this should be carried out jointly by the government, the Bank and other donors.
- In all cases the process and results of the governance assessment, and their impact on Bank policy and programming, should be subject to wide stakeholder scrutiny and should be made public.
- The Bank should work with other donors to support capacity building for independent local governance analysis.
- The Bank should not take on a role as central arbiter of standards of governance or corruption at a general or country-specific level.

Conditionality

- The Bank should not put externally-imposed conditions on its loans. Rather, mutually-acceptable agreements should be reached between the Bank and Government on each party’s obligations to ensure that resources are transferred and used in a transparent and accountable manner, for the purposes intended.
- Such agreements should be subject to ex-ante scrutiny by local stakeholders, including parliament and civil society.

The Role of the Bank with Respect to Civil Society

- The Bank should not assume a leadership role among donors in supporting civil society. Any finance should be provided through arms-length mechanisms.
- While the Bank may have a role in participating in dialogue on high-level policy it must not displace citizens and other local stakeholders, even in relatively weak democracies, by intruding in political processes or determining policy bilaterally.
- The Bank should not use conditionality to increase participation.

Corruption in Bank Projects

- The Bank should consistently work to ensure it strengthens country systems. It should avoid ring fencing of projects and establishment of Project Implementation Units.
- Ex-ante, independent Poverty and Social Impact Assessments (PSIA) should be carried out on all proposals for Bank–supported projects.
- The Bank should strengthen the IFC Standards on Social and Environmental Sustainability, IFC Disclosure Policy and the Equator Principles, and implement fully the recommendations of the recent Extractive Industry Review (EIR).

Global Partnerships

- The Bank should promote full ratification of the UN Convention Against Corruption (UNCAC) by all countries and an effective monitoring system for UNCAC built around transparency and public participation.
- The Bank should vigorously support restitution of stolen assets.
- The Bank should support independent

auditing of all debts which could be illegitimate and cancel debts accordingly. It should support a Fair and Transparent Arbitration Process to deal with such cases going forward.

- The Bank should develop a coherent strategy to enable civil society to participate effectively and meaningfully in EITI projects in which it is involved.
- The Bank should promote broader application of EITI to address transparency of the contractual and fiscal arrangements which determine revenue flows

Internal Reform

- The governance structure of the Bank should be radically revised to give fair representation and voice to developing countries.
- The Bank should undertake an overhaul of disclosure policy, prioritising public access to information on Bank operations, policies, strategies and Board discussions and decisions.
- The Bank should comprehensively revise incentive structures for staff, prioritising incentives for preparing and implementing projects and programmes founded on meaningful participation, understanding of the governance context and transparency.
- The role of the Bank's Department of Institutional Integrity (INT) should be clarified, and systems for INT accountability put in place.

1. Introduction

Governance has become central to development discourse in the past decade or more. This is largely founded on the recognition that strong and accountable institutions, political commitment to effective management of the state, and a vibrant and organised civil society are fundamental to development. There is also an intensified donor focus on improving governance and combating corruption, which is linked to the increase in aid resources promised at the UN Financing for Development Conference in 2002 and during the 2005 G8 Summit in Gleneagles, Scotland.

However, in seeking to contribute to improved governance, it is all too easy for donors to miss the fundamentals. Governance challenges are deeply embedded in the social fabric and political structures of the state. Deep social inequality and élite capture of power and state resources perpetuate grand corruption and unaccountable governance. Powerful political and economic interests resist change and indeed are often abetted by the economic policy work of donors (e.g. creating an investment climate conducive to foreign investors but from which only the élite gain locally, further entrenching their power). Neo-patrimonial politics, usually with roots in colonial power structures, institutionalise corruption and poor governance.

Local stakeholders, including civil society, appreciate these political fundamentals in ways in which external actors rarely can. As we will discuss in this paper, the implications for the Bank are complex and imply a change in its way of working to reduce the imposition of policy based on external analysis, increase its responsiveness to local stakeholders and to increase its own transparency and accountability.

While the World Bank President, Paul Wolfowitz, has recently made anticorruption a highly public issue for the Bank this emphasis on governance and anticorruption in Bank policy and programming is not new. A clear indicator of the Bank's focus on governance is the weight given to governance indicators in its Country Policy and Institutional Assessment (CPIA). A country's CPIA score determines the amount of IDA funding for which it is eligible. Out of 16 criteria which constitute the CPIA, 5 are concerned with governance. A 'governance factor' gives additional weight (by 1.5) to the governance criteria in the final calculation of the country score. The increase in governance-related diagnostic tools (see Section 3.1) and governance conditionality in policy-based loans (see Section 3.2) further illustrates the growth in this area.

Nonetheless, President Wolfowitz has further increased the attention paid to governance and anticorruption in the Bank. He has ordered a halt on hundreds of millions of dollars in Bank lending to countries across the globe in a manner which has been criticised – internally and externally – as inconsistent, untransparent and unpredictable. In response, the Governors of the Bank have asked Bank management and staff to *'lay out a broad strategy, to be discussed at our next meeting, for helping member countries strengthen governance and deepen the fight against corruption … This strategy should lead to clear guidelines for operations'.*[1]

This paper is intended to contribute to the debate on the World Bank's new Governance and Anticorruption Strategy. It draws upon the results of a survey of 56 of CIDSE's partner organizations in 24 countries, carried out in June / July 2006. The survey asked CIDSE partners to share their perspectives on the governance issues affecting development and social justice in their countries, and on the role of the donor community, in particular the World Bank, in relation to governance reform.[2]

[1] Development Committee Communiqué, IMF/World Bank, Washington, DC, April 23, 2006 http://siteresources.worldbank.org/DEVCOMMINT/NewsAndEvents/20898432/Apr_2006_DC_Communique_E.pdf
[2] See Annex 2 for Participants in CIDSE Survey on Governance.

2. The Bank's Approach to Governance and Anticorruption

It is evident from the debate on the development of the new Bank strategy on governance and anticorruption that there are several key tensions at play in terms of the scope and focus of the Bank's work in this area. A focus on corruption for its own sake, the overlap between governance and economic policy, the need to limit the Bank's governance agenda, the role of needs-based lending and addressing human rights are some of the issues in this debate.

• Corruption for corruption's sake?

There is a concern that the Bank may develop a strategy which is about tackling corruption 'for corruption's sake' or to protect its own resources and reputation. Corruption has come to dominate the Bank's governance agenda, in public at least, yet as expressed in the World Bank and IMF's latest Global Monitoring Report (GMR), this can be very dangerous:

> *'Governance and corruption are often used synonymously. But they are quite different concepts – and conflating them can be very damaging ... An exclusive focus on this outcome of a governance system has caused some countries to emphasise simple-minded (and largely failed) anticorruption initiatives – to the neglect of the complex challenge of strengthening national governance systems themselves'.*[3]

Indeed, while respondents to the CIDSE survey recognized corruption as a major hindrance to development in their countries, they stressed that it was not, in most cases, the primary hindrance, but one of a number of key governance issues their countries must tackle. Some respondents pointed to donor 'hysteria' over corruption, and felt that donors failed to understand the nature and extent of corruption in their countries.

A focus on the risk to the Bank's reputation and resources has created a situation where there is some momentum behind a narrow, corruption-focused agenda for the Bank. However, the Bank strategy needs to recognize that corruption is only one element of governance. It needs to take into account the fact that governance challenges, including corruption, are deeply embedded in the social fabric and political structures of the state. It needs to acknowledge that 'governance is about politics'.[4] However, this does not mean that the Bank should intervene in all areas related to governance, as outlined below.

• Overlap between governance and economic policy

The Bank's current approach to governance is technocratic in principle. It is focused on the 'efficiency' and 'effectiveness' of the state, for example, as opposed to its legitimacy. The Bank works, through its public sector governance programme, on institutional reform. However, in focusing on institutional reform and economic governance issues, the Bank does in fact merge the political with the technocratic. The Bank's conception of 'good governance' is rooted in its conception of 'good economic policies' where market reform is a precondition for institutional reform. Sustaining economic reform is the objective of the Bank's governance work, in large part. In a report for Trócaire

[3] World Bank and IMF, *Global Monitoring Report: Millennium Development Goals and Strengthening Mutual Accountability, Aid, Trade and Governance,* 2006, p. 124.
[4] Department for International Development, *Eliminating World Poverty: making governance work for the poor,* 2006, p. 18.

which examined the governance content of 20 Poverty Reduction Support Credits (PRSCs), Wood found that:

> *'A close examination of the Bank's PRSC matrices reveals that some of the features of 'good' public sector governance are also considered 'good' macroeconomic policy and 'good' private sector development. This particularly concerns budget management policies, taxation policies and the Bank's anticorruption agenda, which supports private enterprise, privatization and public-private partnerships'.*[5]

The question this raises is whether the Bank can conceptualise governance separately from its policy agenda on economic liberalisation? For example, the Bank's characterisation of a good taxation system, as represented through its CPIA criteria, places at least as much emphasis on 'non-distorting', business friendly taxes as on ensuring the efficiency of mechanisms for collecting taxes and who has authority for setting tax policies and rates and collecting taxes.[6]

Furthermore, the Bank has an implicit orientation towards privatisation of state-owned enterprises and utilities. Under a governance agenda, this appears to be based on the tacit assumption that the market is better at self-regulating than the state, thus that there is less room for corruption in the private sector. While excessive state regulation can create opportunities for graft, excessive deregulation and market liberalization can merely wipe out the prospects for development of private sector capacity among the weaker sectors of society. In its 2000 Governance Strategy, the Bank lists liberalisation of markets, sale and liquidation of public enterprises and private sector reforms that relax government controls as examples of reforms that have an impact on levels of corruption and quality of governance.[7]

However, an automatic assumption that a better governed state is one in which government's scope to regulate is reduced, markets are liberalised and public services are contracted out to private providers is both deeply problematic and profoundly political.

• Limit the scope of Bank governance work

CIDSE's partners are vehemently opposed to all donor interventions which represent intrusions into domestic policy-making and which displace the legitimate forces for accountability and governance – e.g. the legislature, citizenry and oversight institutions. They see the Bank as a very intrusive player, bringing its ideological policy agenda to bear with little understanding or concern for the impact on poverty and social justice, or the political reality of how things happen.

CIDSE believes that the Bank needs to limit the scope of its own work to key areas of technical expertise, while recognising the political complexity of governance. The Bank needs to identify a reduced number of areas where it can invest in its own expertise and offer support to low-income member countries, without imposing an economic policy agenda. It should prioritise those areas which are known to tackle the fundamentals of corruption and poor governance, while increasing accountability to citizens.

The 2000 World Bank Strategy paper on 'Reforming Public Institutions and Strengthening Governance'[8] lays out the core areas where it was considered that the Bank had a track record or comparative advantage. These included: (a) public economics (economic analysis of the role and functioning of the public sector); (b) decentralisation and intergovernmental fiscal relations; (c) core system-wide administrative and civil service reforms; (d) public expenditure analysis and management (including

[5] Wood, A. for Trócaire, *Demystifying 'Good Governance': an overview of World Bank Governance Reforms and Conditions,* 2005, p. 23.
[6] Ibid. p. 23.
[7] World Bank, 2000, *Reforming Public Institutions and Strengthening Governance,* 2000, p. 187.
[8] Ibid, p. 62.

financial management and procurement), and (e) sectoral institution-building, particularly in social sectors and infrastructure (including regulation of private service delivery). While these were outlined as core areas, the Bank aimed to be an expert in other areas, along with other partner organisations: (a) revenue policy and administration; (b) legal and judicial reform; (c) other accountability institutions.

Public financial management is one sector where the Bank does have the competence and ability to make a contribution, provided that its work is firmly anchored in increasing accountability to citizens. Indeed, a recent evaluation of general budget support (GBS) found that accountability and transparency in public financial management can be more effective than 'traditional' anticorruption work such as bringing in anti-graft legislation.[9] However, in working on public financial management the Bank's ideological approach, evidenced in wage caps and limits on public sector deficits, needs to be removed.

Outside of public financial management, which already dominates the Bank's governance work[10], the Bank should strictly limit its governance agenda. The Bank's work on decentralisation and fiscal management can have benefits if closely integrated with an approach which makes budget processes more transparent and accessible to the poor. However, the opposite is the case when it is allied to an agenda which seeks to reduce the public sector wage bill without considering sustainability and quality of services. Overall, the Bank's work on revenue, legal and judicial reform, civil service reform and sectoral institution-building is excessively influenced by its economic policy agenda and should be strictly limited, or responsibility given to other donors for support in these areas. Any residual Bank work in these sectors should be fully transparent and open to prior public scrutiny and poverty and social impact analysis.

• Needs-based versus performance-based lending

CIDSE has a fundamental concern that the trend in the Governance Strategy will orient the Bank even more away from programming which is based on the needs of the poor, towards that based on the 'performance' of government according to predetermined Bank standards. CIDSE strongly believes that finance for low-income countries should be based primarily on the needs of the poor and the commitment of governments to respond pro-actively to those needs. Elements of the latter may be captured in a governance approach. However, as outlined above, the Bank's approach to governance emphasises its economic policy priorities above the poverty-reducing priorities of the poor. We urge the Bank and shareholders to revisit performance-based lending in the light of massive and persistent poverty. Bank financing decisions should be based firstly on the needs of people living in poverty. Governance and anticorruption concerns should be a secondary factor in determining the shape of the Bank's response to those needs.

• Human rights and governance

An issue which has been missing from the debate on the Bank's Governance strategy is its own obligations with respect to human rights. The Bank clearly should not be in a position of judging the human rights standards of a country. This is a role for the specialised international agencies of the UN, along with credible independent agencies such as Human Rights Watch and Amnesty International. The Bank should not take on a role as arbiter of standards of human rights in a country, or be seen to take on such a role.

[9] IDD Associates, for Organisation for Economic Cooperation and Development, *Evaluation of General budget Support: synthesis report*, 2006, S64. www.oecd.org/dataoecd/42/38/36685401.pdf
[10] Wood, A. for Trócaire, *Demystifying 'Good Governance': an overview of World Bank Governance Reforms and Conditions,* 2005.

However, the Bank is bound by international conventions to ensure that its own operations do not undermine the fulfilment of human rights. The Governance and Anticorruption Strategy should refer to this fact and to the recent legal opinion by former legal counsel, Roberto Danino.[11]

• No-lending scenarios

The emerging strategy raises the prospect of 'no-lending' to *'the small group of exceptional risk countries where corruption and weak governance are blocking progress and the government and the Bank cannot agree on priorities'*.[12] CIDSE is concerned that the broad parameters identified in the strategy, with regard to a restricted or no-lending scenario, will enable the Bank to continue to pursue an arbitrary approach to lending decisions in such cases. Furthermore it is unclear how small the Bank perceives this high-risk group of countries to be. CIDSE believes that a break in lending support should only occur in extreme circumstances where governments commit serious human rights abuses, as identified by specialized UN and independent human rights agencies. With the exception of these circumstances, the Bank's policy should be a presumption of continued lending. The grave impacts of a no-lending scenario on poverty reduction efforts require the Bank to ensure that its criteria and process leading to such decisions are manifest, consistent and transparent.

Recommendations: Approach to Governance

- Corruption must be seen as part of a complex set of governance challenges and not only a threat to Bank resources and reputation.
- The Bank needs to recognise and better understand the political nature of governance, while clearly limiting the scope of its own work on governance to a few areas of its core competence, such as citizen-oriented public financial management.
- The Bank's work on revenue reform, legal and judicial reform, civil service reform and sectoral institution-building is excessively influenced by its economic policy agenda and should be strictly limited. Any residual Bank work in these sectors should be fully transparent and open to prior public scrutiny and PSIAs.
- Bank financing decisions should be based firstly on the needs of people living in poverty. Governance and anticorruption should be a secondary factor in determining the shape of the Bank's response to those needs.
- The Bank should not be seen as an arbiter of human rights, but it must ensure that it fulfils its own obligations under international human rights conventions.
- There should be a presumption of continued lending with the exception of situations where serious human rights abuses are identified by specialised international agencies.
- Bank criteria and processes leading to no-lending decisions must be manifest, consistent and transparent.

[11] World Bank, *Legal Opinion on Human Rights and the Work of the World Bank,* Roberto Dañino, Senior Vice President and General Counsel, 2006.
[12] World Bank, *Strengthening Bank Group Work in Governance and Anticorruption*, unpublished, 2006, para. 11.

3. Country Level Engagement

3.1 The CAS and Assessing Governance

As noted above, it is necessary that the Bank recognise and understand the complex reality that underlies governance and corruption at country level. However, there is a need for close consideration of what kind of governance assessments the Bank needs and how these are carried out.

While it is envisaged in the emerging Bank strategy that the CPIA will remain as the overarching tool for country allocation of resources, there are proposals to increase governance assessment work and, in particular, to embed governance analysis more deeply in Country Assistance Strategies (CAS). This would guide the overall programming for Bank operations in a country. Furthermore, it is likely that risk assessments at sectoral level would be ramped up in order to more closely identify and respond to vulnerable points in project design, inception and implementation.

- ***The Bank's role and competence in governance assessment***

A core question is what is the role and competence of the Bank in carrying out governance assessments, which of necessity include the broader political context? Southern civil society representatives who responded to CIDSE's survey on governance vehemently rejected the concept of external assessment by the Bank on governance. They also strongly rejected other donors' reliance on such assessments. Their reasoning is that the assessments of the Bank are too narrow, with a focus on economic policy and implementation of Bank-determined financial standards. The Bank's analytic frameworks do not fit specific country contexts as they are based on standards and processes developed externally, according to respondents. They do not pay attention to the specific social and political processes in the country context. Nor do they appreciate the local processes of change which stem from traditional or emerging processes of consultation, influencing and decision-making.

At the level of country governance assessments therefore, many factors affect the Bank's role in carrying out governance analysis:

- the inability of Bank staff to grasp the political and social complexities in a country;
- the tendency for ideology to be present in assessments made;
- the risk that governance assessments translate into increased governance conditionality in development policy lending;
- the risk of overlap - or contradictions - with assessments done by other donors.

The first two points are acknowledged in the 2006 Global Monitoring Report. With reference to the CPIA, the report says:

> *'The assessments are made by World Bank staff. Even if expert in their field and well informed about individual countries, staff sometimes may not be aware of the intimate details as to how things really work in a country'.*[13]

The 2006 GMR also acknowledged the risk of ideological bias in the judgements made under the CPIA, using the example of the assessors' preferences on tariff schemes.[14] On the third point, the governance assessment at a country level will clearly guide development policy lending. Therefore, it opens questions around the conditions that will become attached to loans and how they are aligned to national development

[13] World Bank and IMF, *Global Monitoring Report: Millennium Development Goals and Strengthening Mutual Accountability, Aid, Trade and Governance,* 2006, p. 129.
[14] Ibid.

strategies (see Section 3.2). Meanwhile, many other donors have already developed or have recently announced that they will develop governance assessment tools, e.g. the UK, EU, US etc. However, under the Paris Declaration, donors have committed to *'work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews'*.[15] There are no signs of this happening in the governance field. Indeed the 2006 GMR stated that *'monitoring governance assessments has become a growth industry',* and cites dozens of existing diagnostic tools for governance.[16]

The Bank sees its priority as drawing together the existing tools it uses in order to develop governance assessments for the CAS. The tools the Bank has already include: CPIA, Public Expenditure and Financial Accountability (PEFA), Doing Business, Investment Climate Surveys, World Bank Institute (WBI) Governance and Anticorruption Diagnostic Surveys. Furthermore, the 2006 Global Monitoring Report proposes a framework for monitoring a country's broad pattern of governance.[17] In this framework all but two of the indicators are drawn from the above Bank diagnostic tools. The two other indicators are drawn from Transparency International's Corruption Perceptions Index and University of Maryland's POLITY assessment.

- ***Governance assessment needs to be: independent, transparent, local***

While the Bank, like any donor, is within its rights to carry out an internal assessment using its own tools, CIDSE believes that the resulting analysis will invariably be compromised by the factors mentioned above. Therefore we believe that the Bank needs to base its governance assessment on independent analysis, carried out in a transparent manner, and with maximum local input. Insofar as possible, the Bank should work with the government and other donors to come up with a shared research methodology leading to an agreed governance assessment. However, there are several factors that mitigate against this ideal scenario, including the relationship between donors and government and the extent of local capacity for independent analysis.

Three potential situations present themselves:

- Where local capacity for independent analysis exists, the Bank, government and other donors could contract out governance assessment to local research organisations / analysts, as is currently done by the World Bank Institute for its country-specific governance assessments.
- In the event that local capacity is not sufficient to carry out the entire analysis, the Bank, government and other donors should contract a credible joint consortium of international and national analysts.
- In extreme cases, where local analytic capacity is largely absent and the government is hostile to joint governance assessments, Bank staff could work with other donors and independent analysts to carry out the assessment, subject to wide stakeholder scrutiny of the results.

Other critical points on assessment include the following:

- Every governance assessment should be transparent at all stages of the process and be subject to consultation and debate among stakeholders including government, civil society, the private sector, media and parliament.
- The Bank should make public the results of its governance assessment work and its impact on the Bank's country strategy, sectoral interventions and conditionality attached to policy lending.

[15] Paris High Level Forum, *Paris Declaration on Aid Effectiveness, Ownership, Harmonisation, Alignment, Results and Mutual Accountability*, 2005, para. 32. www.oecd.org/dataoecd/11/41/34428351.pdf
[16] World Bank and IMF, *Global Monitoring Report: Millennium Development Goals and Strengthening Mutual Accountability, Aid, Trade and Governance,* 2006, p. 123.
[17] Ibid, p. 136.

- A fundamental principle of the Bank's Governance and Anticorruption Strategy should be to support local capacity for developing accountable governance and combating corruption. This can be done through joint donor funding for independent research institutes and civil society capacity building[18], as well as by contracting local rather than international analysts wherever possible.
- The Bank should not become the leader and standard-setter for governance assessment among donors in general or in specific country contexts. The CAS should not be seen as the cornerstone of a joint donor assistance strategy as this gives the Bank disproportionate influence over donor-government policy.

• *The world's governance enforcer?*

There is a concern that in establishing itself as a leading actor working at a global level on governance and corruption, the Bank will become both the arbiter of 'good governance' and the world's policeman on corruption. Both are deeply unacceptable. The Bank's conceptualization of governance is limited, by force of its mandate, to the efficiency and effectiveness of states and in particular to their capacity to deliver economic growth. However, legitimacy of the state and fulfilment of human rights are not considered essential in the Bank's operational understanding of governance. By contrast, for most other stakeholders these factors are paramount in good governance.

Analysis of CIDSE's survey of our Southern civil society partners shows a clear difference between the World Bank and citizens of low-income countries, in relation to their priorities for governance. The vast majority of survey respondents stated that accountability of the state to citizens and participatory policy-making were their governance priorities. By contrast, they said that the World Bank was primarily concerned with macro-economic stability, private sector investment and public financial management.

Clearly therefore, the Bank has a limited role to fulfil in supporting governance and anticorruption work. It should not take on a role as central arbiter of standards of governance or corruption at a general or country-specific level, or be seen to take on such a role.

Recommendations: Assessment

- The Bank needs to base its governance assessment on independent analysis, carried out in a transparent manner, and with maximum local input.
- Ideally, governance assessments would be carried out jointly by the government, Bank and other donors, leading to a common assessment.
- Where local analytic capacity is lacking altogether and the government is hostile to joint governance assessment the Bank should work jointly with other donors and independent analysts to produce a country governance assessment.
- In all cases the process and results of the governance assessment, and their impact on Bank policy and programming, should be subject to wide stakeholder scrutiny and should be made public.
- A fundamental principle of the Bank's Governance and Anticorruption policy should be to work with other donors to support local capacity for developing independent governance analysis.
- The Bank should not take on a role as central arbiter of standards of governance or corruption at a general or country-specific level, or be seen to take on such a role.

[18] Such as ODI's Civil Society Partnership Programme: http://www.odi.org.uk/cspp.

3.2. Conditionality in Development Policy Lending

It is widely acknowledged that conditionality is an ineffective tool to bring about policy change. This is especially true in the area of governance, where complex political trade-offs underpin most reforms. CIDSE is gravely concerned that the new strategy may result in even greater license for the imposition of Bank conditionality, undermining local stakeholders' roles in building accountable governance.

> ***Box 1: Governance conditionality on the increase***
>
> Governance conditionality had experienced rapid growth even before the recent heightened interest in governance. By 2005, 100% of policy-based loans had public sector governance conditions, up from 60% in 1997. Furthermore, the share of conditions going to public sector governance has increased, from around 25 percent of loan conditions in the 1980s and 1990s, to 50% by 2005. In 20 recent PRSCs, public sector governance conditions amounted to 44% of all prior actions, and 38% of total PRSC conditionality.[19]

- ***Conditionality and democratic governance***

The Bank has a fiduciary obligation to ensure that the resources loaned or granted to recipients are used for the purposes for which they were granted. Southern civil society representatives interviewed by CIDSE agree with this, however they distinguish clearly between the contractual obligations of recipients to account for resources received, and conditionality which erodes policy autonomy. CIDSE partners emphasized that while mutually binding commitments between donors and governments in areas such as fiduciary accountability can be reasonable, policy conditionality which involves intrusion by the donor into domestic policy processes and which displaces the legitimate forces for accountability - the parliament, citizenry and oversight institutions - is not acceptable. They emphasise that the primary arbiters of policy priorities must be national stakeholders. Donors may sometimes have a voice in the debate, but in no case may they be seen to be setting the policy agenda.

In this light, CIDSE believes that a radical rethink on conditionality is necessary, where the concept of externally imposed conditions is rejected in favour of mutually binding agreements associated with a loan or grant. In practice, the Bank should agree with a government what each party will do to ensure that resources are transferred and used in a transparent and accountable manner, for the purposes intended.

Clearly, there are difficulties arising from the unequal power relations between donors and government, possibly leading to a situation where mutual agreement is merely externally imposed conditionality in disguise. Transparency is key to helping combat this. Therefore, mutual Bank (or other donor) and government agreements and commitments should be subject to ex-ante scrutiny by local stakeholders, including parliament and civil society.

- ***Fiduciary conditionality***

Most Southern civil society actors agree that mutually agreed standards on financial management of loans or grants are desirable. Tan suggests that there is a set of technical fiduciary reforms typically promoted by the IFIs which are not problematic, because they do not further any substantive economic or political objectives.[20] These include: transparent and accountable public expenditure management systems, including independent audits of budgets and public

[19] Sources: World Bank, *Review of World Bank Conditionality,* 2005, p. 10 – 11; Wood, A. for Trócaire, *Demystifying 'Good Governance': an overview of World Bank Governance Reforms and Conditions,* 2005, p. 15.

[20] Tan, C. for EURODAD, *Responsible Financing or Unwarranted Obligations?* 2006, p. 31.

expenditure; transparent and accountable budgeting; and monitoring of government revenue and tracking of government expenditure.

Respondents to CIDSE's survey agree with the need for accountable management of aid. Their emphasis however, is on the need to ensure that donors support domestic mechanisms for fiduciary management and oversight, and that accountability is oriented primarily towards citizens, rather than donors. CIDSE's partners argue that there is a critical imbalance between the power of donors and national stakeholders in oversight of public financial management.

CIDSE's partners argue that donors need to help strengthen national public financial management processes in a manner which prioritizes accountability to citizens, rather than donors. Furthermore, CIDSE believes that the Bank should not set minimum standards for financial performance unilaterally. Rather, it should assess a government's commitment to achieving better practice in accountable financial management on the basis of its 'direction of travel'. That is, whether improvements illustrate a genuine attempt to deal with the most important issues.

Box 2: Checklist of Questions on PFM Reform

Given that most of the Bank's conditionality in Public Sector Governance relates to Public Financial Management, an important checklist of questions is:

- Does the model of public financial management supported by the Bank meet the needs of citizens and parliaments who are trying to hold the government to account?
- If not, how can the Bank and other donors support the development of processes which prioritize accountability through budget transparency to the public?
- What technical assistance can the Bank (or other donors) offer partner governments to allow them to create citizen-friendly budget processes and information?

- ***Economic policy conditionality***

There are areas of policy lending and conditionality which are inherently controversial, notably those promoting economic policy reform (including restructuring and privatising state owned enterprises, creating an enabling environment for private sector development, changes in tax policy etc.). The Bank's leverage in economic policy reform far outweighs the power of other players in most countries' domestic processes to influence policy determination. The result, according to CIDSE partners, has been economic policies that have been either woefully inadequate in their assessment of national needs or which have been outright disastrous for the poor (see Box 3).

CIDSE believes that the Bank needs to cease its implementation of economic policy conditionality. Public sector governance reforms which may have implications for economic policy (such as procurement policy, tax policy etc.) should be subject to ex-ante, independent poverty and social impact analysis. Such PSIAs should be carried out through a transparent process which facilitates national ownership and policy dialogue. They should ensure that different policy options for reform design are taken into account. PSIAs should optimise use of, and build capacity in, local knowledge and research centres.

Box 3: Malawi: Privatisation of ADMARC

One example of the impact of the Bank's disproportionate policy influence cited by CIDSE partners was the privatisation of ADMARC, the national agricultural marketing board in Malawi. In spite of the existence of a Bank PSIA which clearly showed the social function of ADMARC for vulnerable farmers, the President of Malawi called an emergency session of Parliament between Christmas and New Year 2003 in order to convert ADMARC into a limited company. This was necessary in order to prevent the postponement of negotiations for a Bank credit. The impact of the dismantling of ADMARC on remote smallholders who could not access farm inputs or markets for their produce through commercial channels was devastating, according to CIDSE partners.

The Bank has said that it has learned from this mistake. However, the incentives for Bank staff to lend based on standard economic policy conditionality far outweigh both the Bank's commitment to quality PSIAs and the voices of the myriad legitimate actors in a democratic system.[21]

- ***Ownership, alignment and harmonisation***

The Paris Declaration on Aid Effectiveness[22] includes the stipulation that all donors will:

> *'Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders'.*

CIDSE believes that commitment to adherence to the Paris Declaration position on conditionality should be integrated into the World Bank's Governance and Anticorruption Strategy. Mechanisms to hold the Bank publicly accountable for adherence to this position should be developed.

The Bank sometimes suggests that it can contribute to donor harmonisation by developing joint Country Assistance Strategies with other donors, as has happened in Uganda. However, given the tendency that this creates for donors to fall in behind the Bank's opaque and lengthy conditionality matrix almost automatically, CIDSE believes that the Bank should not push this model. The Bank should aim to achieve a more equal relationship with other donors, government and local stakeholders. The Mozambique experience provides a useful example and some lessons for the Bank (Box 4). (See also Section 3.1).

[21] Sources: EURODAD, *Open on Impact? Slow progress in World Bank and IMF poverty analysis*, 2005; CIDSE Survey on Governance, 2006 (unpublished).
[22] Paris High Level Forum, *Paris Declaration on Aid Effectiveness, Ownership, Harmonisation, Alignment, Results and Mutual Accountability*, 2005, para. 16. www.oecd.org/dataoecd/11/41/34428351.pdf

Box 4: Mutual Performance Assessment in Mozambique

The Mozambican model of joint government / donor performance assessment could be built on in more countries. This model includes an annual review of:

- the Government's implementation of its PARPA (PRSP),
- implementation of an agreed donor-government conditionality matrix (Performance Assessment Framework), and
- implementation of an agreed framework of donor commitments on aid effectiveness (Programme Partners' Performance Assessment Framework).

The Mozambican model includes civil society involvement which, while it does need to be improved upon, illustrates that multi-stakeholder approaches are possible.

However, the Bank has recently made interventions bilaterally with the Government of Mozambique which circumvented agreed donor-government processes. Such behaviour was unacceptable to all of the stakeholders involved and illustrated the need for leadership from Bank management in ensuring that Bank staff are incentivised to abide by joint donor-government agreements.

Recommendations: Conditionality

- The Bank should not put externally-imposed conditions on its loans. Rather, mutually-acceptable agreements should be reached between the Bank and Government on each party's obligations to ensure that resources are transferred and used in a transparent and accountable manner, for the purposes intended.
- Such agreements should be subject to ex-ante scrutiny by local stakeholders, including parliament and civil society.
- The Bank and national governments should agree mutually binding commitments on public financial management which are clearly oriented towards making government revenue and expenditure transparent and accountable to the public, and which make Bank resource flows transparent also.
- Conditionality should not be used to achieve reforms which are political in nature, including economic policy reforms.
- Public sector governance reforms which could have implications for economic policy (such as procurement, tax policy etc.) should be subject to ex-ante, independent PSIA.
- The Bank should support models of mutual donor-government agreements and performance assessment rather than promoting its CAS as a vehicle for harmonisation and joint donor conditionality.

3.3 The Role of the Bank with Respect to Civil Society

'Citizen engagement, underpinned by access to high quality information, forms the outermost and possibly the most important, element of a national system of checks and balances'. [23]

Having recognised this crucial pillar of governance the Bank must ensure that this reasoning follow through to its strategy on governance and anticorruption. However, the mechanisms by which the Bank does this are crucial. By no means should the Bank assume a leadership role among donors in supporting civil society. The Bank does not have the competence or credibility to take on such a leadership role. However, facilitating civil society organizations to hold their governments to account is key. The Bank can help with this in a number of important ways, as outlined below.

- ***Don't displace citizens from policy space***

The Bank needs to firstly examine its own behaviour and look at how it displaces civil society from policy dialogue. CIDSE partners recognised that the Bank, and other donors, may have a role in commenting on or participating in dialogue with government on high-level policy. However, they stressed that the Bank must not be in a position to direct policy as this displaces the democratic role of parliaments and citizens. While the Bank may engage in dialogue with government, it has no right or mandate to intrude in political processes or to determine policy bilaterally. Equally, conditionality and the processes surrounding it displace local stakeholders because of the unequal relationship it creates between a government, donors and civil society. Therefore, an overhaul of processes between the Bank and government around mutually agreed commitments, as outlined in Section 3.2, is of paramount importance.

- ***Encourage civil society inclusion in donor-government policy fora***

The Bank has a role in encouraging the institutionalisation of formal spaces for participation by civil society in areas where it is present itself. For example, the Bank should encourage all parties to include civil society formally in policy fora such as: sector working groups, budget and public expenditure review processes, joint assistance strategy and consultative group meetings etc.

However, the Bank should guard against imposing political conditions around participation on a partner government. A salutary tale from Uganda illustrates the risks in doing this (Box 5). While donors can encourage a government to adopt a more open approach to civil society through dialogue, conditionality is unlikely to turn a government which is suspicious and hostile towards civil society into an inclusive one. However, inclusion of mutually agreed transparency and accountability commitments in Bank / government agreements are often legitimate and strengthen civil society's capacity to hold their governments to account.

[23] World Bank and IMF, *Global Monitoring Report: Millennium Development Goals and Strengthening Mutual Accountability, Aid, Trade and Governance,* 2006, p. 160.

Box 5: Unwise Bank Intervention in Uganda

Uganda's Poverty Reduction Support Credit (PRSC) 4 and 5 programmes include benchmark conditions which call for the development of, and agreement on, an NGO policy 'that provides a favourable environment for NGO operations'. Whilst the emphasis is on a 'favourable environment' it is doubtful whether the Bank should be the judge of what this is. Furthermore, the draft policy drawn up by the Ugandan government if implemented would have been more restrictive of NGOs than was already the case. A number of bilateral donors indicated to the Ugandan Government that the new draft policy was not acceptable and encouraged the Bank not to press the Government on this benchmark. This Bank intervention therefore, was not only tactically unwise with respect to supporting civil society, but represented direct Bank intervention in a political sphere which is, and should remain, outside of its mandate.[24]

- ***Support government transparency and accountability towards citizens***

Many of CIDSE's partners play a key role in national accountability structures by monitoring national spending to improve its efficacy. Similarly the Bank has much experience in supporting more robust public financial management systems. CIDSE's partners noted that such donor-supported initiatives must make the government accountable primarily to the ordinary citizens, rather than to donors. At present much of the information that is produced is prepared for donors and IFIs rather than with citizens in mind. Information should be prioritised which allows ordinary citizens to understand the resource flows and policy commitments of government. Transparency should make it easy for citizens, including as a priority the poor and marginalised, to hold government to account for delivery of services and fulfilment of basic human rights. These principles must be at the core of the Bank's public financial management work.

- ***Be transparent in Bank analysis and operations***

Respondents to CIDSE's survey highlighted the immediate need for the Bank and other donors to improve transparency regarding their own resource flow commitments, policy agendas, analytic work and conditionality. Furthermore, civil society respondents are impatient with information after the fact, e.g. once agreements have been made with governments. The Bank must make greater efforts to use communication and media tools which are accessible to civil society. This can include regular summaries of its work and funding in the national press and on local radio stations, to invite citizen dialogue and disseminate information about their work. The Bank must adhere to the criteria outlined in Section 4 on routine disclosure of information on Bank analysis and operations.

- ***Arms length financial support***

As the UK Government notes:

> *'accountability is at the heart of how change happens. […] Beyond the formal structures of state, civil society organisations give citizens power, help poor people get their voices heard, and demand more from politicians and government'.*[25]

Civil society organisations (CSOs) need support to carry out this work. Respondents to CIDSE's survey emphasise the need for donors to support people's movements and organisations, without directing their agendas. They suggest practical, financial support, through arms-length mechanisms so that there is no risk

[24] Wood, A. for Trócaire, *Demystifying 'Good Governance': an overview of World Bank Governance Reforms and Conditions,* 2005.
[25]Department for International Development, *Eliminating World Poverty: making governance work for the poor,* 2006, para. 2.7.

of donors imposing their objectives. The Bank could work with other donors to provide such arms-length support to CSOs. However, its priority should be to remove the obstacles to civil society engagement which it engenders through intrusion in policy space and lack of transparency.

Box 6: Civil Society Monitoring of Local Government: East Timor

In the spring of 2006 staff at a local NGO, Luta Hamutuk, identified within the national budget for 2004/05 the money that had been allocated to a road-building project in Los Palos (a mountainous area to the east of the island). They visited the road and made a video showing the poor quality of the road and featuring interviews with local people about the construction process and what they thought of the end result. After speaking to a construction expert in Indonesia, Luta Hamutuk ascertained that for the money spent the road should have been almost twice the length, and of a much higher quality.

Using the video as evidence, they lobbied the Prime Minister, National Parliament, Infrastructure Commission, Minister of Public Works and also publicised the case in the national media. As a result of this persistent lobbying, the Timorese Government threatened to blacklist the Indonesian company involved from any future construction contracts in East Timor unless it came back and rebuilt the road at no extra cost. Although the local community were initially unwilling to allow the company to come back, they have now been persuaded by Luta Hamutuk to do so. The company is now in the process of redoing the road works.[26]

Recommendations: Civil Society

- The Bank should not assume a leadership role among donors in supporting civil society.
- While the Bank may have a role in participating in dialogue on high-level policy, it must not displace citizens by intruding in political processes or determining policy bilaterally.
- The Bank should encourage institutionalised civil society inclusion in donor-government policy fora where it is present itself.
- The Bank should not use conditionality to increase participation, given that this is a political issue.
- Any Bank support to civil society should be through arms-length mechanisms so that there is no risk of imposing its objectives on civil society.

[26] CAFOD, unpublished trip report, 2006

4. Corruption in Bank Projects

A major concern within the Bank is to protect the Bank from the reputational and fiduciary risk associated with corruption in high-profile projects. However, CIDSE is concerned with a broader set of risks, namely those to the poor and vulnerable, arising from poorly designed Bank projects.

• 'Ring-fencing' projects

Development assistance, like any other form of financial transaction, is at risk to corrupt practices. In response to this risk, the Bank has made efforts to protect its projects by implementing them outside of country systems. In a recent evaluation of GBS, the OECD / DAC Governance Network noted the limitations of a 'ring-fencing' approach to corruption:

> *'There is a growing realisation that protecting donor funds is of limited use unless sustainable changes are made to the system and institutions of partner countries'.*[27]

The challenge for the Bank is to pursue broad anticorruption strategies that focus on long-term improvements to country systems as well as short-term safeguards for donor funds.[28] The OECD / DAC GBS evaluation also found that off-budget funding arrangements and the multiplicity of non-government disbursement and procurement procedures operating in parallel have tended to weaken the government systems at the same time as complicating the fiduciary oversight of aid funds. In focusing on reducing fiduciary and reputational risk, there may be strong motivation for Bank staff to establish Project Implementation Units (PIUs) parallel to government structures. However, the Commission for Africa noted that:

> *'Many donors have supplied assistance in ways which undermine national capacity. Instead of building up the abilities of the ministry, they have insisted on PIUs which often poached the most qualified staff from government'.*[29]

CIDSE believes that the Bank should consistently work to ensure it strengthens country systems. It should avoid ring-fencing of projects and establishment of PIUs, except in the most extreme cases.

• Project inception and design

The new Governance and Anticorruption Strategy articulates a top-down approach to project inception and design. It exhibits a narrow focus on vulnerability to corruption, as if this were the only determinant of how to design a project, or indeed whether a project should proceed or not. There is a need to include in the strategy a more fundamental assessment of the development risks, including social and environmental risks, associated with any project. Of paramount importance is the need to review the upstream mechanisms which are used to identify projects, to ensure that these meet needs articulated by the local community and do not increase the vulnerability of the poor and marginalised.

The emerging Bank strategy emphasises participatory approaches to project implementation, without stressing the importance of carrying out assessments in a participatory manner at project inception and design. Yet local analysis of most appropriate project solutions and potential risks to projects is informed by long term, detailed knowledge of the local political economy and can be more

[27] IDD Associates, for Organisation for Economic Cooperation and Development, *Evaluation of General budget Support: synthesis report*, 2006, quoted 2003 a. www.oecd.org/dataoecd/42/38/36685401.pdf
[28] IDD Associates, for Organisation for Economic Cooperation and Development, Evaluation of General budget Support: synthesis report, 2006, S14. www.oecd.org/dataoecd/42/38/36685401.pdf
[29] Commission for Africa, *Our Common Interest*, 2005, Ch 4, para 15.

alert to project risks and appropriate solutions. The Bank should recognise the importance of this local knowledge and analysis, and ensure that its project cycle systems support its full integration. Ex-ante, independent Poverty and Social Impact Assessment should be carried out on all proposed Bank–supported projects.

Time and again respondents to the CIDSE survey made reference to development of project models which are 'developed in DC' or 'photocopied from another country'. As one respondent to the survey put it: 'if you wear someone else's shoe it will pinch'. Project design imposed from outside will almost invariably fail to recognise local poverty and political dynamics, often resulting in outcomes which hurt the poor (see Box 7).

Box 7: Perverse Outcomes in Pakistan

In Pakistan's Indus Valley, the Bank fostered the development of a large hydroelectric scheme. Electricity supplied through this system is ten times more expensive than in neighbouring India, and beyond the reach of many poor Pakistani people. This has created an environment ripe for corruption, where the only means for many to access electricity is to pay 'baksheesh' to the local electricity supplier.[30]

• Engaging with civil society on projects

The Bank has a poor track record on engagement with civil society with respect to its own projects. Therefore the Bank Strategy on Governance and Anti-corruption has to commit to dramatic improvements in its practice with respect to civil society participation. Currently, Bank attempts to involve civil society reflect top-down thinking about a limited role for civil society. For example, the use of the EITI Trust Fund allocates money for civil society capacity building. But in practice, the experience in countries such as Congo-Brazzaville has shown that the management of the Trust Fund has not allowed civil society full participation or space to develop and exercise their own agenda. Indeed, Bank thinking often results in an instrumentalist approach to civil society. CSOs are seen and treated as 'watchdogs' who will reduce the fiduciary and reputational risk to the Bank. This must be firmly rejected in the Governance and Anti-corruption Strategy. Local citizens should be seen as a primary stakeholder, not a mechanism to meet Bank ends.

Box 8: Chad / Cameroon Lessons: Listen to Civil Society

In 1999 the Chad / Cameroon pipeline project was funded by the World Bank with Chad's agreement that the oil export revenues would support poverty reduction programs, such as schools and hospitals. At that time, local civil society organisations and international groups working in Chad recommended that the Bank put the pipeline project on hold until Chad's government had addressed corruption concerns and improved their capacity to manage such a large-scale project. Many civil society groups feared that once the oil revenues accrued, bank leverage would wane and corruption and conflict would increase. In January 2006, the World Bank suspended all loans to Chad because of the Chadian government's intention to funnel oil revenues to the military.[31]

[30] Source: Interview with Jeremy Carver, Transparency International, July 2006.
[31] Oxfam press release ' World Bank suspends loans to Chad – "Model" oil project on the rocks', 6 Jan 2006

• Strengthen existing standards for projects

The Bank has several existing standards for projects, including the IFC Standards on Social and Environmental Sustainability, IFC Disclosure Policy and the Equator Principles.[32] However, all of these sets of principles have serious shortcomings which the Bank should commit to addressing in its Governance and Anticorruption Strategy.[33] For example:

> *'IFC's new (social and environmental) standards do not specify when consultation with local populations affected by its operations will take place, do not adequately protect the rights of indigenous peoples to their lands and natural resources — including their right to prior informed consent, undermine existing World Bank policy with respect to resettlement, and do not require independent assessment and verification of project impacts, relying heavily instead on companies' self-reporting'.*[34]

• High Risk Sectors – Extractives

Natural resources can be major sources of jobs and income in poor countries.

But, poorly managed, these sectors can fuel corruption, poor governance and conflict. In its Extractives Industries Review (EIR), the Bank recognised the challenges which are faced in creating an appropriate governance framework for projects in such sectors. CIDSE partners concur with the EIR's recommendation for Bank engagement in extractives:

> *'the criteria of governance adequacy should be developed transparently and with the involvement of all stakeholders. It should include minimum core and sectoral governance criteria'.*[35]

At a sectoral level therefore, the Bank should work with local civil society and other stakeholders to identify the criteria which govern, firstly, whether a project should go ahead, and secondly, how it should be managed and implemented. However, a recent NGO report by US-based Bank Information Center and Environmental Defense illustrates that the World Bank Group has done little to effectively and transparently factor governance considerations into the selection and sequencing of its support for extractive industry projects and strategies.[36]

The Bank should restrict its involvement in extractive industries, given their often adverse impact on social and environmental rights. However, If the Bank is to continue working in this sector it must commit in the Governance and Anticorruption Strategy to implement the EIR recommendations in full and consider their application to other high-risk sectors. It also needs to commit to help strengthen the EITI (see Section 5).

[32] The Equator Principles, a set of norms adopted by private banks in 2003, were modelled on the IFC Standards on Social and Environmental Sustainability. The IFC is helping to train banks that have subscribed to the Equator principles in their implementation. See www.ifc.org/equatorprinciples

[33] The Publish What You Pay (PWYP) Coalition of 300 NGOs has detailed proposals for improving these standards, e.g. PWYP Coalition Statement on Revision of Equator Principles; PWYP submission to the IFC Disclosure Policy consultation. See: www.publishwhatyoupay.org.

[34] Statement by NGOs (Bank Information Center, Bretton Woods Project, BothEnds, Environmental Defense, Forest Peoples Programme, Friends of the Earth-US, Indian Law Resource Center, International Accountability Project), Feb. 21 2005. See www.bicusa.org.

[35] World Bank Group, Striking a Better Balance: The Extractive Industries Review, 2005, Executive Summary P.2. http://bankwatch.ecn.cz/eir/reports/es_eng.pdf

[36] Bank Information Centre and Environmental Defense, *The World Bank Group, The Extractives Industries Review (EIR) and Governance: Evaluating the Bank Group's implementation of its commitments, 2006,* www.bicusa.org/bicusa/issues/ED_BIC%20WBEIR%20governance%20(Jan06).pdf

Recommendations: Bank Projects

- The Bank should consistently work to ensure it strengthens country systems. It should avoid ring fencing of projects and establishment of PIUs, except in the most extreme cases.
- Ex-ante, independent PSIAs should be carried out on all proposals for Bank–supported projects.
- All stages of project cycle management must provide for meaningful participation of civil society.
- The Bank needs to include a commitment in its Governance and Anticorruption Strategy to strengthen the IFC Standards on Social and Environmental Sustainability, IFC Disclosure Policy and the Equator Principles.
- The Bank needs to include a commitment in its Governance and Anticorruption Strategy to implement in full the recommendations of the EIR.

5. Global Partnership

The World Bank has an important role to play in supporting global partnerships which combat the pernicious corruption that draws resources away from development in poor countries and undermines accountable governance.

• United Nations Convention Against Corruption (UNCAC)

The UNCAC is the central international convention on combating corruption and recovering the proceeds of corrupt activities. Evidence given to the US Senate put the scale of flow of corrupt money from transition and developing countries into Western Banks at between $20 and $40 billion annually.[37] Disappointingly only three G8 countries have ratified the Convention.[38] The Bank should show leadership at the First Conference of the States Parties to the UNCAC and beyond, and promote firm commitments by all countries, and particularly its larger shareholders, to ratify UNCAC as soon as possible. It should work to promote an effective monitoring system for UNCAC built around the pillars of transparency and public participation. The Bank should provide financial support for national and international institutions involved in its implementation.

The Bank must also increase its support to other international compacts and conventions. It must ensure that its projects, programmes and policy dialogue are all aligned with instruments such as the African Union Convention on Corruption, the OECD Convention on Bribery and other region-specific anti-Corruption conventions.

• Restitution of assets

The Bank has an important role to play in addressing the harbouring of stolen assets in tax havens and private financial institutions and in facilitating the restitution of stolen assets. It can do this in part by exercising its influence with countries where such assets are held. The Bank can also help prevent the diversion of public resources to private bank accounts by supporting parliamentary, media and civil society oversight of public financial management and Bank-supported projects.

• Shared responsibility for illegitimate debt

In many countries, poor people continue to pay for irresponsible lending to corrupt regimes in the past. In some, this risk continues for the future. Official creditors, including the Bank, have been complicit in lending to governments which lacked democratic legitimacy and were known for corrupt practices.

The World Bank must shoulder its responsibility and support independent investigation and auditing of the legitimacy of its credit claims wherever the legitimacy of debt is questioned and cancel all debts that are found to be illegitimate. The Bank, with other multilateral and bilateral donors as well as governments, parliaments and civil society, should also explore and develop the necessary tools and procedures to prevent such irresponsible lending in future and to protect the population of indebted countries, especially the poor, against its negative impacts. An independent Fair and Transparent Arbitration Procedure (FTAP) for cases of public debt default would deal with this concern and help contain 'moral hazard' for both creditors and debtors.[39]

[37] Sue Hawley, citing Raymond Baker, Evidence to Permanent Subcommittee on investigations of the Committee on Governmental Affairs, US Senate, November 1999.
[38] As of July 2006.
[39] CIDSE / Caritas Internationalis, *Sustainability and Justice, A Comprehensive Debt Workout for Poor Countries with an International Fair and Transparent Arbitration Process (FTAP),* 2004.

• EITI

The Commission for Africa found that:

> *'International Financial Institutions (IFIs) can play an invaluable role in promoting good governance in natural resource revenue management. They can set an example through maintaining high standards of governance and transparency in their own activities. But they are also in a strong position to persuade developing country governments, and the companies that operate in their territories, to adopt similar high standards'.*[40]

The Bank should continue to support the Extractive Industries Transparency Initiative. While EITI should be a minimum standard of lending in resource-rich countries, the Bank should promote a broader application of the EITI beyond revenue flows to address transparency of the contractual and fiscal arrangements which determine these revenue flows.

Specifically, the Bank should ensure its country offices assist with EITI implementation, and integrate EITI implementation into its Country Assistance Strategies for all countries where revenues from the extractive sector are significant. The Bank should develop a coherent strategy to enable civil society to participate effectively and meaningfully in EITI projects in which it is involved. Civil society capacity building should be integrated into the national-level action plan drawn up by the stakeholder committee. To date, capacity building has been limited and this has affected the ability of independent civil society to participate in the EITI process (see Section 4).

The Bank should also be ready to speak out in defence of the right of citizens in these countries to publicly discuss matters related to energy revenues. Recently, the Bank has done so in support of civil society activists who have been intimidated for their work on anticorruption in the Republic of Congo. In cases like these, we would like to see the Bank take a visible stand in defence of freedom of speech, particularly in the context of EITI implementation.

• Applying transparency principles in other sectors

Transparency partnerships have been developed for other natural resource sectors. The Bank should continue to support the Forest Law Enforcement and Governance (FLEG) processes. In its efforts to ensure that FLEG commitments are met at a national level, the Bank should prioritise transparency measures that increase the capacity of ordinary citizens to hold governments to account over forest management policies and practices.

Public procurement processes are highly vulnerable to corruption. The UK Government suggests that using EITI principles in areas of public procurement prone to corruption will help governments manage their finances better.[41] The Bank should work with other EITI partners to develop EITI-style principles for public procurement.

[40] Commission for Africa, *Our Common Interest*, 2005, Ch 4, para 86.
[41] Department for International Development, *Eliminating World Poverty: making governance work for the poor,* 2006, para. 3.18.

Recommendations: Global Partnerships

- The Bank must work to promote full ratification of the UNCAC by all countries, particularly its largest shareholders.
- The Bank should promote an effective monitoring system for UNCAC built around the pillars of transparency and public participation.
- The Bank should vigorously support restitution of stolen assets.
- The Bank should support independent auditing of all debts which could be illegitimate and cancel debts accordingly. It should support a Fair and Transparent Arbitration Process to deal with such cases going forward.
- The Bank should develop a coherent strategy to enable civil society to participate effectively and meaningfully in EITI projects in which it is involved.
- The Bank should promote broader application of EITI to address transparency of the contractual and fiscal arrangements which determine revenue flows.

6. Internal Reform and Transparency in the World Bank

The Bank suffers from an overwhelming crisis of legitimacy and credibility when dealing with governance in its operational programmes. According to CIDSE partners, this is because of the level of corruption found in Bank projects; the lack of transparent and accountable governance in the way the Bank does business; and the Bank's overriding focus on economic liberalization. Furthermore, Bank staff are not incentivised by the institution to behave in a transparent, responsive and inclusive manner towards the stakeholders most affected by their policy advice and programmes. These issues must be addressed in the Bank's Governance and Anticorruption strategy.

• Governance within the Bank

A fundamental factor undermining the Bank's credibility in governance work is the way the organisation itself is governed. The UN Secretary General has emphasised that:

> *'significant steps are needed to overcome the perception among developing countries that they are underrepresented in both bodies (IMF and World Bank), which tends to put their (IFI's) legitimacy in doubt'.*[42]

It is particularly notable that just two African Executive Directors (EDs) represent the 42 countries on that continent, while five of the richest countries have their own ED.

Furthermore, voting power is heavily skewed towards industrialised countries. EDs belonging to developing countries command only 26% of the vote.[43] Each member country receives an equal number of 'basic votes', but this forms only part of the vote structure. The remainder is formed by a country's 'quota', which represents the size of the country's financial contribution to the institution. As quotas have increased over time, the relative weight of basic votes has decreased from 11% at the inception of the IFIs to just 2.1% today.[44]

While it has been argued that the voting power does not matter as decisions are made by consensus, in reality voting power does have a strong impact on the 'consensus' that is understood to have emerged from a meeting. This is because in formulating the 'sense of the meeting' the Chairman allocates relative weighting according to voting power to the views of different EDs.[45]

Finally, one of the most galling characteristics of IFI governance is the selection process for the IMF Managing Director and World Bank President, with the US traditionally selecting the Bank President and the EU selecting the IMF Managing Director.

• Transparency

Promoting freedom of information is included in the World Bank's Public Sector Governance work, notably through the area dealing with legal institutions and judicial reform. For example, Ghana's most recent PRSC includes a benchmark on submitting a Freedom of Information Bill to Parliament. However, transparency should apply to the Bank also.

> *'The right to access information is a fundamental human right, playing a role in promoting a range of social values. It is a key tool in controlling corruption and is central to democratic accountability. It has been described as the 'oxygen of democracy' and plays a central role in underpinning effective participation'.*[46]

[42] Cited in CIDSE / Caritas Internationalis, *The IMF, the World Bank and Global Economic Governance 60 Years Later,* p.1.
[43] CIDSE / Caritas Internationalis, *The IMF, the World Bank and Global Economic Governance 60 Years Later,* 2005, p. 3.
[44] Ibid, p. 3.
[45] Ibid, p. 4.
[46] Global Transparency Initiative Transparency Charter (draft), p. 2: http://ifitransparency.org/doc/charter_en.pdf

The Bank is a dominant actor in many low-income countries yet accessible information about its policies and operations is hard to obtain. The first step in the Bank's role in supporting transparency should be to abide by the highest standards of openness itself. CIDSE believes that an overhaul of disclosure policy is required at the Bank.

The following are some of the standards that need to be adopted:[47]

- The Bank should move towards a 'presumption of disclosure' system that allows for information to be publicly available. Exceptions should be narrowly defined and restricted to circumstances where disclosure would cause serious harm, and that this harm outweighs the public good of disclosure of information.
- The following categories of information should be subject to routine disclosure:
  - Information about the structure of the World Bank and its decision-making processes;
  - Information necessary for participation in decisions relating to: institution-wide policies, strategies, operations, evaluations and audits; country-specific analysis and strategies; and lending, grant and guarantee operations;
  - Organisational procedures, rules and directives, institutional policies, strategies and guidelines, and financial information;
  - Information relating to the health, safety, security, environmental, social and human rights implications of World Bank operations.
- Board papers should be disclosed at the same time that they are circulated to the Board for approval.
- The meetings of the Board of Directors should be a matter of public record. All written statements of Executive Directors, all written inputs by members of multi-country constituencies, as well as summaries and transcripts of Board meetings should be disclosed.

• Staff incentives

While Bank rhetoric has absorbed the principles of participation and country ownership to some degree, the incentives staff face have not received the same overhaul. Commentators internally and externally consistently point to the incentive structure as a fundamental problem. Staff are currently rewarded for designing loans and policies which are in line with standard practice, as opposed to best practice, in Bank operations and which privilege high levels of lending over quality and sustainability.

By contrast, CIDSE believes that:

- Staff need to be incentivised and supported by their managers to make meaningful participation and consultation with all stakeholders daily practice in their operations at country and organisational level;
- Staff need to be given incentives to design programmes with host governments and other stakeholders which reflect a mature and realistic grasp of the governance situation;
- Staff need incentives to refrain from introducing ideological policy slants into policy frameworks and conditionality;
- Staff and managers need support, including adequate resources, to fulfil these standards;
- Staff and their managers need to be held to account on such standards.

The Independent Evaluation Group (IEG) clearly has a role to play in monitoring the implementation of such standards. However, public disclosure of policies and

[47] A full set of principles and policies are set out in the draft Global Transparency Initiative Transparency Charter: http://ifitransparency.org/doc/charter_en.pdf

operations, as outlined above, is a critical means by which to achieve improved standards over time.

• The role of the Department of Institutional Integrity

The Department of Institutional Integrity (INT) was established in 2001 in response to serious concerns about the level of corruption and fraud in Bank-financed projects. The INT investigates allegations of fraud and corruption in Bank-financed projects, as well as allegations of possible staff misconduct, and refers its findings to decision makers such as the Bank's Sanctions Committee for action. It reports directly to the President.

However, there are concerns about the way the INT operates and the recent growth in its areas of work, for example into areas of policy and programme design. Its independence is an asset but it is also 'judge and jury', working on oversight design, fraud detection and sanction recommendation, with few checks and balances in terms of its own operations. Its record on debarment of companies engaging in corrupt practices is poor. Canadian engineering firm Acres International was allowed to continue bidding on Bank projects for two years after it had been indicted for bribery over its involvement in the Lesotho Highlands Water Project.

The role of the INT must be reviewed and clarified before decisions according it with any new or heightened responsibilities are taken. The principles of transparency mentioned above should apply equally to INT operations.

Recommendations: Internal Reform

- The governance structure of the Bank should be radically revised to give fair representation and voice to developing countries.
- The Bank should undertake an overhaul of disclosure policy, prioritising public access to information on Bank operations, policies, strategies and Board discussions and decisions.
- The Bank should comprehensively revise incentive structures for staff, prioritising incentives for preparing and implementing projects and programmes founded on meaningful participation, understanding of the governance context and transparency.
- The role of the INT must be reviewed and clarified before decisions according it with any new or heightened responsibilities are taken.

7.

Conclusions and Recommendations

As the Bank develops its Governance and Anticorruption Strategy, there is much pressure to achieve aims around reducing fiduciary and reputational risk to the Bank itself. However, we believe that the Bank should have a more fundamental purpose at the heart of its Governance and Anticorruption Strategy. That is, to support citizens and other local stakeholders in their efforts to build accountable governance in their own country.

We believe that Bank management, staff and shareholders need to rethink the Bank's role in supporting better governance. They need to:

- recognise the political nature of governance, but limit the Bank's own interventions to a few specific areas of its competence;
- be willing to allow state and non-state actors to come to political compromises on how a country and its resources are to be managed on the basis of national consensus, rather than through donor-driven initiatives; and
- significantly step up their response to the supply side of corruption, where Northern corporations and banks are complicit in the illicit draining of resources from Southern countries.

The Bank's risk assessment should include the risks associated with:

- the displacement by the Bank of local stakeholders from their role in holding government to account, when it intervenes directly and untransparently with government;
- Bank programmes which are based on external analysis of the politics of social change; and
- Bank-supported economic reforms which are not based on sound poverty, social and political analysis.

In sum, the Bank needs to put accountable, sovereign governance above narrow fiduciary and reputational risk management. Every element of its Governance and Anticorruption Strategy should be tested against the following principle: will it enhance or reduce the capacity of the poorest and most marginalised people to hold the government effectively to account for the use of public resources and political power?

Recommendations

The Bank's Approach to Governance and Anticorruption

- Corruption must be seen as part of a complex set of governance challenges and not only a threat to Bank resources and reputation.
- The Bank needs to recognise and better understand the political nature of governance, while limiting the scope of its own work on governance to a few areas of its core competence, such as citizen-oriented public financial management.
- The Bank's work on revenue reform, legal and judicial reform, civil service reform and sectoral institution-building is excessively influenced by its economic policy agenda and should be strictly limited. Any residual Bank work in these sectors should be fully transparent and open to prior public scrutiny and PSIAs.
- Bank financing decisions should be based firstly on the needs of people living in poverty. Governance and

anticorruption should be a secondary factor in determining the shape of the Bank's response to those needs.

- The Bank should not be seen as an arbiter of human rights, but it must ensure that it fulfils its own obligations under international human rights conventions.
- There should be a presumption of continued lending with the exception of situations where serious human rights abuses are identified by specialised international agencies. Bank criteria and processes leading to no-lending decisions must be manifest, consistent and transparent.

The CAS and Assessing Governance

- The Bank needs to base its governance assessment on independent analysis, carried out in a transparent manner, and with maximum local input.
- Ideally, governance assessments would be carried out jointly by the government, Bank and other donors, leading to a common assessment.
- Where local analytic capacity is lacking altogether and the government is hostile to joint governance assessment, the Bank should work jointly with other donors and independent analysts to produce a country governance assessment.
- In all cases the process and results of the governance assessment, and their impact on Bank policy and programming, should be subject to wide stakeholder scrutiny and should be made public.
- The Bank should support local capacity for developing independent governance analysis.
- The Bank should not take on a role as central arbiter of standards of governance or corruption at a general or country-specific level, or be seen to take on such a role.

Conditionality

- The Bank should not put externally-imposed conditions on its loans. Rather, mutually-acceptable agreements should be reached between the Bank and Government on each party's obligations to ensure that resources are transferred and used in a transparent and accountable manner, for the purposes intended.
- Such agreements should be subject to ex-ante scrutiny by local stakeholders, including parliament and civil society.
- Conditionality should not be used to achieve reforms which are political in nature, including economic policy reforms.
- Public sector governance reforms which could have implications for economic policy should be subject to ex-ante, independent Poverty and Social Impact Analysis.
- The Bank should support models of mutual donor-government performance assessment, rather than promoting its CAS as a vehicle for harmonisation and joint donor conditionality.

The Role of the Bank with Respect to Civil Society

- The Bank should not assume a leadership role among donors in supporting civil society.
- The Bank must not displace citizens by intruding in political processes or determining policy bilaterally.
- The Bank should encourage institutionalised civil society inclusion in donor-government policy fora where it is present itself.
- The Bank should not use conditionality to increase participation.
- Any Bank support to civil society should be through arms-length mechanisms so that there is no risk of imposing its objectives on civil society.

Corruption in Bank Projects

- The Bank should consistently work to ensure it strengthens country systems. It should avoid ring fencing of projects and establishment of Project Implementation Units, except in the most extreme cases.
- Ex-ante, independent Poverty and Social Impact Assessments should be carried out on all proposals for Bank–supported projects.
- All stages of project cycle management must provide for meaningful participation of civil society.
- The Bank needs to include a commitment in its Governance and Anticorruption Strategy to strengthen the IFC Standards on Social and Environmental Sustainability, IFC Disclosure Policy and the Equator Principles and to implement fully the recommendations of the Extractive Industry Review.

Global Partnerships

- The Bank must work to promote full ratification of the UN Convention Against Corruption (UNCAC) by all countries, particularly its largest shareholders.
- The Bank should promote an effective monitoring system for UNCAC built around the pillars of transparency and public participation.
- The Bank should vigorously support restitution of stolen assets.
- The Bank should support independent auditing of all debts which could be illegitimate and cancel debts accordingly. It should support a Fair and Transparent Arbitration Process to deal with such cases going forward.
- The Bank should develop a coherent strategy to enable civil society to participate effectively and meaningfully in EITI projects in which it is involved.
- The Bank should promote a broader application of EITI to address transparency of the contractual and fiscal arrangements which determine revenue flows.

Internal Reform

- The governance structure of the Bank should be radically revised to give fair representation and voice to developing countries.
- The Bank should undertake an overhaul of disclosure policy, prioritising public access to information on Bank operations, policies, strategies and Board discussions and decisions.
- The Bank should comprehensively revise incentive structures for staff, prioritising incentives for preparing and implementing projects and programmes founded on meaningful participation, understanding of the governance context and transparency.
- The role of the INT should be clarified, and systems for INT accountability put in place, before any heightened responsibilities are given to it.

Annex 1. Participants in CIDSE Survey on Governance

Country	Organization interviewed
AFRICA	
Angola	Slaves
Burundi	Christian Aid
Cameroon	Commission Justice & Peace
	Caritas Cameroon
Côte d'Ivoire	Forum National Dette et Pauvreté
DRC	PRSP working group in DSRP "Peace consolidation and good governance" cluster
Ethiopia	Bishop of Adigrat Eparchy
	PANE (Poverty Action network)
Kenya	AFRICOG (African Centre for Open Governance)
	Catholic Economic Justice Network / AMECEA
	Institute of Economic Affairs
	KARA (Kenya Alliance of Residents Association)
	Kendren (Kenyan Debt Relief Network)
	Transparency International
Liberia	CEDE (Center for Democratic Empowerment)
Malawi	MEJN (Malawi Economic Justice Network)
Mozambique	Instituto Comboniano
	Salesian Delegation of Mozambique
Nigeria	African Network for Environment and Economic Justice
	Benson Idahosa University
	CJDP (Criminal Justice Development Project)
Rwanda	ADTS (Association pour le Développement et la transformation sociale)
	Dynamique des Sociétés Civiles du Burundi, de la Rép. Dém. du Congo et du Rwanda
	YES Country network Rwanda
Senegal	CPAS (Centre de Promotion Agricole du Sénégal)
	RADI (Réseau Africain pour le Développement Intégré)
South Africa	Transparency International
Tanzania	Hakikazi Catalyst
	TANGO (Tanzania Association of NGOs)
	TEDG (Tanzania Ecumenical Dialogue Group)
Uganda	Kituo Cha Katiba
	Makerere University
	UDN (Uganda Debt Network)
Zambia	CSPR (Civil Society for Poverty Reduction)
	JCTR (Jesuit Centre for Theological Reflection)
African networks	AFRODAD
ASIA	
East Timor	La'o Hamutuk
	Luta Hamutuk
India	Institute for Social Sciences
Nepal	RRN (Rural Reconstruction Nepal)
Philippines	Asian Social Institute
	IPDI (Integrated Pastoral Development Initiative)
	Jubilee South / Freedom from Debt Coalition
LATIN AMERICA	
Bolivia	FOCAPACI & Red de Participacion Ciudadana y Control Social
	Fundacion Jubileo
Honduras	CCERP (Consejo Consultivo de la Estrategia para la Reducción de la Pobreza)
	CIPRODEH (Centro de Investigación y Promoción de los Derechos Humanos)
	FOSDEH (Foro Social de Deuda Externa y Desarrollo de Honduras)
Nicaragua	Envio
	Instituto de Estudios Nicaragüenses (IEN)
Peru	CEAS (Comisión Episcopal de Acción Social)

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