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PSP - Governance - Correspondence

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file 2
governance

A L L - I N - 1 N O T E

DATE: 26-Jan-1996 01:48pm

TO: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption

Jane,

You will recall that during the Oct retreat of the PSM Unit, I raised the question of the Bank's strategy for controlling corruption, and whether we should be doing work in this area. The view that you and Ishrat took at that time was that, though the subject was important, we didn't have spare resources, and we should anyway wait until there were stronger signals from management.

This may now be imminent. The following developments are relevant:

- 1). Jules Muis' report on corruption (put together by Myla Williams with extensive use of my boxes on corruption and TI and briefings from me) went directly to Mr Wolfensohn on a confidential basis, copied to MDs, Shihata and Malloch-Brown, but no one else. In December, when I heard of this I tried to get a copy, but was rebuffed. I understand it covers both the fiduciary responsibilities of the Bank - Muis' direct responsibility - and broader policy questions
- 2). Following complaints from Shihata both about the content of the report and the manner of it reaching the President, the latter, reportedly, has formed a small group (Shihata and Kaji, I believe) to follow up and assess the report and the Bank's policy. I have not heard that anything has yet happened.
- 3). Transparency International's renewed request for core budget funding went before the Special Grants Program committee just before Christmas. The Committee delayed a decision, pending guidance.
- 4). Peter Eigen, chairman of TI, succeeded in meeting with Mr Wolfensohn early January. Reports are it went well.
- 5). EDI made a presentation to Mr Wolfensohn on its workprogram, featuring the "integrity" workshops it has done in Tanzania and Uganda jointly with TI, and the "Sourcebook" it has commissioned TI to write. Reportedly, Mr Wolfensohn was much taken with this, and suggested EDI might see its budget

increased.

6). The US Business Roundtable wrote Mr Wolfensohn in Dec calling on the Bank to take leadership in the struggle to control international bribery and corruption. Specifically, it proposed: research on the economic effects of corruption on development, a discussion of governance and corruption in transition countries in the forthcoming WDR, strengthening anti-bribery provisions in the Bank's model contracts, follow-up work on the Bank's foreign investment guidelines, to see the extent to which guidelines on bidding processes are being followed up, Bank encouragement for the implementation of the OECD recommendation on bribery in international transactions (June 94).

I should learn more on Mr Wolfensohn's meeting with Peter Eigen on Monday, when I join Jeremy Pope (TI's MD, brought here by EDI) in a session at Wye on corruption at the EXT seminar for the media. In Paris at the DAC meetings I will take time to see Rainer Geiger what is happening on the OECD front.

Given our governance mandate, we have a dog in the anti corruption race. The question is - how should we run it, given our limited capacity? My recommendation is that we should, though Armeane, find out what the MDs plan to do, and then ensure that PSP gets tied in to whatever process ensures. We are not in the position to do new work. But we have followed the issue as closely as anyone else in the Bank, and have a contribution to make. We'll also have to include, I believe, something on corruption in the CODE briefing on governance.

Mike

CC: ISHRAT HUSAIN
CC: Malcolm Holmes
CC: BARBARA NUNBERG

(ISHRAT HUSAIN@A1@WBWASH)
(MALCOLM HOLMES@A1@WBHQB)
(BARBARA NUNBERG@A1@WBWASH)

THE WORLD BANK GROUP

JAN 19 1996

File copy

ROUTING SLIP		DATE: January 18, 1996	
NAME		ROOM. NO.	
Mr. Armeane Choksi, HCDVP		S13-161	
URGENT		PER YOUR REQUEST	
FOR COMMENT		PER OUR CONVERSATION	
FOR ACTION		NOTE AND FILE	
FOR APPROVAL/CLEARANCE		FOR INFORMATION	
FOR SIGNATURE		PREPARE REPLY	
NOTE AND CIRCULATE		NOTE AND RETURN	
		REF HCD-969	
RE: HCD's paper: "Bank's Financing of Severance Pay"			
REMARKS: Attached is a draft response to Mr. Caio Koch-Weser on Mr. Ibrahim Shihata's comments on HCD's paper: "Bank's Financing of Severance Pay" - <i>along with a cover memo</i>			
FROM Ishrat Husain, PSP		ROOM NO. S10-051	EXTENSION 8-1415

OFFICE MEMORANDUM

DATE: January 16, 1996

TO: Mr. Caio K. Koch-Weser, Managing Director, EXC

FROM: Armeane M. Choksi, Vice President, HCD

EXTENSION: 31811

SUBJECT: **Severance Pay**

1. Sven Sandstrom has passed on the Chief Counsel's memorandum of January 2 on HCD's paper "Bank Financing of Severance Pay," requesting that I discuss the next steps with you.
2. Mr. Shihata does not support the recommendations of the paper on both policy and legal grounds. However, we believe that a policy debate by the Operations Policy Committee (OPC) on the paper's recommendations is important for two reasons. First, because the topic of direct severance pay financing is one on which the Regions feel strongly. Second, in both PSP and OPR, we believe that a change in policy is needed if the Bank is to respond to our Borrowers' requirements for assistance in restructuring their public sectors to meet the challenges of a more competitive global economy. We therefore request that the paper be placed on the OPC's agenda. Thereafter, as suggested by Mr. Shihata, it may be necessary to get the views of the Executive Directors as to whether the proposed policies are consistent with the Bank's Articles.
3. Mr. Shihata's reluctance to endorse the recommendations contained in the paper is not unexpected. In preparing the paper, staff of HCO (as it then was) consulted with the Legal Department, and the final draft benefited from the clarification of existing policy and Legal's constructive comments. At the same time, it became clear that the policy we were proposing on the financing of severance pay for state enterprises under investment loans went beyond what the Chief Counsel felt comfortable with.
4. The cover memorandum (Choksi to Sandstrom, December 12, 1995) is explicit about the divergence of views. The immediate issue is the share of severance pay in an investment loan. Behind this lies markedly different perspectives on the risks and benefits of severance pay financing, the circumstances in which the Bank should undertake it, and the nature of productive investment. In addition, as is clear from the Chief Counsel's memorandum, misunderstandings have arisen on what the paper "Bank Financing of Severance Pay," is actually proposing. A detailed response to the points made in the memorandum is attached.
5. We believe that the case for Bank financing of severance pay is a powerful one. A well-functioning public sector is essential for sustained economic and social development. In many of our borrowers, the public sector has become overextended. Bringing the commitments into balance with resources and governance capacity requires fundamental reform of both the state enterprise sector and government itself. Scaling back activities that

are best done by the private sector to concentrate resources on necessary public functions means restructuring, which in most countries implies retrenchment. Reforms will stall if dismissed workers are not compensated. The most efficient (and often legally mandated) way is severance payments. While retrenchment has a high pay off in wage bill savings, many governments and enterprises need assistance with severance pay financing. The Bank can provide this in some cases, but not all. The proposals in the paper are intended to fill the gaps in the Bank's array of instruments.

6. Specifically, adjustment lending can be used, indirectly, for severance payments when the government has a sector-wide parastatal reform program. But adjustment lending is generally not justified for enterprise-specific operations. Many governments lack the political strength for broad programs and must proceed an enterprise at a time. And individual enterprises can be very large. This points to investment lending. In the case of retrenchment in government itself, adjustment lending, as currently practiced is operationally an unsatisfactory financing vehicle. We believe (and the view is shared by DEC) there needs to be developed a slower disbursing budgetary support adjustment lending instrument. The present paper does not make specific recommendations, but budgetary support lending, as we see it, is an instrument the Bank needs if it is to help governments in this area.

7. The regions, the CVPs and OPR believe that with its present array of lending instruments, the Bank is underequipped to assist governments to meet the challenge of reorienting the state. The paper "Bank Financing of Severance Pay" is the first in a two-part strategy to equip the Bank with an adequate array of instruments. The second paper, which is still under preparation, will address budgetary support lending and civil service reform. We believe that it is vital that the recommendations in the paper, and in due course, the one on civil service reform, be considered by the OPC.

cc: Messrs./Mmes. I. Husain, J. Armitage, M. Stevens, B. Nunberg, M. Holmes (PSP);
M. Alexander, R. Mosse (OPR).

Attachments

Response to the Chief Counsel's Memorandum of January 2 on Severance Pay

(i) Closure or Reform? It is not accurate to depict the paper as advocating Bank financing of closure of public enterprises (page 1, para 2). The over-fixation on plant closure per-se is not justified. In the majority of enterprise reform projects, the aim is precisely the opposite -- to maintain what can be salvaged from a poorly performing state enterprise, by changing ownership, thereby providing the management, governance and investment capital that the government hitherto has been unable to provide. The Bank is therefore being requested to help finance the restructuring costs prior to privatization. Typically, this entails clearing the balance sheet of certain debts and credits, and meeting the severance pay costs of shedding excess staff.

That some parts of an enterprise might have to be closed during restructuring prior to privatization is not denied. But closure is not the principal aim of enterprise reform. Rather it is more productive use of the assets. Experience shows that ownership change, in the vast majority of cases, is a precondition for this to occur, accompanied by competition-enhancing measures and regulatory reform, where needed.

(ii) Severance Pay as a component of an Enterprise Investment Project. Allowing severance pay as a component of a larger project comprised predominantly of investment in, say, plant upgrading, new capacity and better input systems, as Mr. Shihata suggests, would be a step forward, but an insufficient one. The experience of many decades of financing public enterprise capacity expansion, all too often, has been a story of throwing good money after bad. While we may still be financing such projects in certain countries and in some sectors, the bulk of public enterprise reform projects now involve privatization. In cases of successful privatization, productivity-enhancing investment follows, but under new ownership, making Bank financing beyond the point of sale redundant.

(iii) Adequacy of Adjustment Lending. While severance pay can always be financed indirectly by local counterpart funds, this presupposes that the entity being reformed is a suitable candidate for adjustment lending. In some instances, the problem may be limited to only a few enterprises for which a sector-wide adjustment operation may not be justified. Enterprises that are not part of a sector-wide reform program will not be able to draw funds provided under adjustment lending. In some cases, they may be owned by a provincial rather than national government.

(iv) Past Experience with Adjustment Lending for CSR. The point made in footnote 1 we fully agree with. Taken with footnote 7 in the paper "Bank Financing of Severance Pay," it is an argument for either investment lending financing of severance pay, or for the evolution of a new form of budgetary support adjustment lending, calibrated to fiscal targets, and not necessarily quick disbursing.

(v) The Productive Purposes Test. The Articles are clear on the purposes of the Bank. On our reading, they do not rule out the use of investment loan proceeds for severance payments -- even where the latter is the predominant use of loan proceeds. Footnote 11 of the paper defines: "In economic terms, "productive investment" is an outlay of resources which lifts the productivity of existing factors of production to a higher level. This includes both the output of workers retained by the enterprises and the output of those displaced."

The experience of state enterprise reform in both industrialized and developing countries shows that when ownership is successfully transferred, investment in new technology, management systems and plant capacity typically follow. If transfer of a state enterprise to new ownership requires prior outlays on retrenchment, we do not see how this can be inconsistent with "facilitating the investment of capital for productive purposes" (Article I, section (i)).

Where parts of an enterprise are closed during restructuring, or the entire enterprise is liquidated because it has been a persistent loss-maker under government ownership and no private buyer can be found, in economic terms, the factors of production -- land, labor and capital -- are not lost to the economy, only the particular form in which they were organized. Liquidating a persistently loss-making state enterprise frees the factors of production for combination in new organizational forms. If these are disciplined by competitive markets, they will be intrinsically more efficient. This seems to us not "Orwellian" but entirely consistent with "the encouragement of the development of productive facilities and resources in less developed countries" (Articles, Ibid.). Loss-making state enterprises drain foreign exchange and destroy more jobs elsewhere in the economy than they preserve in value-subtraction activities.

(vi) Estimating the Financial and Economic Rates of Return of Retrenchment Projects. Estimating rates of return on assets put to better uses and employees retrenched is no more "speculative" than calculating rates of return on other, more conventional Bank investment projects. In both cases, it is a matter of relating costs to expected benefits, based on a set of assumptions about the future. In the case of severance payments, such costs can often be estimated more accurately, being contractually mandated, than categories like construction, which must be bid after loan approval. A notable feature of recent proposals for severance pay financing projects (e.g., Brazil Railways Restructuring Project) has been their willingness to quantify expected costs and benefits and estimate rates of return. By contrast, less than half of the projects submitted for Board approval estimate rates of return. Following extensive research work by the Bank and testing in sectors such as infrastructure (see footnotes 10 and 12) a framework for estimating both the financing and economic costs and benefits of severance pay schemes has been established. The short payback periods that have been calculated for both state enterprise and civil service reform severance payments indicated that, far from being speculative, intrinsically, these are some of the highest payoff public investments borrowing countries can make.

(vii) Retrenchment and Unemployment. That retrenchment schemes may yield economic benefits in borrowing countries “where unemployment rates typically range between 10 and 30 percent” is not “an illusion.” Without entering into debate on the nature, causes and measurement of unemployment in developing countries, suffice it to say that the persistence of overstuffed, rent-seeking bureaucracies and loss-making subsidy-absorbing state enterprises is a heavy drag on the private sector’s ability to grow and absorb existing and new entrants to the labour force.

(viii) Retrenchment: Wasteful and Counterproductive? We completely agree that retrenchment that is “not part of a well thought out scheme for enhancing efficiency through restructuring” will be wasteful and counter productive. In the case of state enterprises, the paper continually emphasizes the need to pay attention to macro-economic policy preconditions, financial sector reforms, hard budget constraints, competitive policy and management auditing and accountability. In the case of civil service reform (CSR), we will be specifying best practice criteria against which Bank funding of CSRP retrenchment costs should be assessed. A central theme of the paper is the need to define clearly the preconditions for severance pay financing, so that the desired outcomes are achieved.

(ix) Risks of Adverse Publicity. We acknowledge there is a risk of adverse publicity associated with Bank financing of severance pay. The answer, in our view, is not to retreat from a desired course of action, but to minimize the risks (the course followed with adjustment lending). Limiting Bank financing of total severance pay normally to 50% is aimed at spreading the risk to avoid the Bank being singled out. It is not aimed at “sharing half the blame” (a negative view) but reinforcing government commitment. Making a virtue out of severance pay financing is about presentation, not project rationale. (Without Bank intervention, workers might well be kept in value-subtracting activities to the cost of the rest of the economy, a truly “Orwellian” situation).

(x) Privatization: End or Means? The paper does not view privatization as an end in itself, but a means of enhancing productivity. It acknowledges, however, that efforts in many countries to improve enterprise performance within state ownership may have run their course. Governments are increasingly realizing this, but seek assistance in reorienting the state.

(xi) Severance Pay and Foreign Debt. That severance pay financing must add to foreign indebtedness is not an issue, per se. As footnote 12 of the paper notes, “the cost of closing uneconomic and loss-making plants or shedding redundant labour etc. are a legitimate part of the broad public sector deficit” which can be financed by domestic or foreign borrowing or both. The critical issue is whether the debt is financeable. This depends on the ex post rates of return of the project. Studies done on realized savings from retrenchment schemes in state enterprises in the transport sector by INURD, cited in the paper, show that severance pay is one of the highest return investments that the Bank can assist countries make. This debt, domestic or foreign, arising from borrowing for severance payments that are part of well designed and executed retrenchment schemes are eminently financeable.

The current account liberalization and guaranteed currency convertibility arrangements reached with the IMF make this distinction between domestic and foreign indebtedness redundant.

(xii) When Enterprises Cannot Be Sold. The key phrase in footnote 17 is "assuming informed buyers." Enterprises which failed initially to sell generally lacked such buyers, for example, because of short notice (as Mr. Shihata notes), because the government based the selling price on past costs, or because the government's commitment to a policy of divestiture lacked initial credibility.

JAN 11 1990

HUMAN CAPITAL DEVELOPMENT
and
OPERATIONS POLICY
Vice Presidency

Assigned to: <u>I.H.</u>	
Copied to:	
1. <u>Mike Stevens</u>	
2. <u>Ruben</u>	
3. _____	
Action required:	
1. URGENT	
2. Please prepare a reply for Mr. Choksi's signature.	✓
3. Please prepare a reply for JDW's signature.	
4. Please respond/handle.	
5. For information.	
6. Other (see comments below).	✓
Reassigned to:	
Due to HCOVP by:	
Reference number:	<u>969</u>
File under:	
Comments: <u>Ms. Pappas</u> <u>request for memo to</u> <u>Ch.</u>	

Sure,
This is the Shikata memo, for
that it should appear the paper
recommendation was made
the form of his work, but
expected.

I have given Ruben's note a
copy, and, under penalty,
will discuss it with him
tomorrow.

Otherwise, I saw my reaction
by EM from home.

Mk.

5:20 pm. Thurs.

The World Bank
Washington, D.C. 20433
U.S.A.

SVEN SANDSTRÖM
Managing Director

1-5-96

Mr. Choksi

Armeane,

I received the attached
memo from Ibrahim. I'm
also giving a copy to Caio.

Please discuss next steps
with Caio.

/Sven



Record Removal Notice

File Title PSP - Governance - Correspondence		Barcode No. 1458345		
Document Date 01/02/1996	Document Type Memorandum			
Correspondents / Participants From: Ibrahim Shihata To: Mr. Sven Sandstrom, Acting President				
Subject / Title Severance Pay				
Exception(s) Attorney-Client Privilege				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada El Azizi</td><td>Date July 31, 2025</td></tr></table>	Withdrawn by Salma Berrada El Azizi	Date July 31, 2025
Withdrawn by Salma Berrada El Azizi	Date July 31, 2025			

OFFICE MEMORANDUM

DATE: December 12, 1995

TO: Mr. Sven Sandstrom, EXC

FROM: Armeane M. Choksi, HCOVP *Amc*

EXTENSION: 31811

SUBJECT: **Severance Pay**

1. Attached is a paper we have drafted on Bank financing of severance pay, for your consideration, with a view to placing it on the agenda of the next Policy Review Committee.

2. It proposes a change of policy to permit the direct financing of severance pay under Bank investment loans and IDA Credits for public enterprise reform. Severance pay financing under investment loans would be allowed for enterprises which are being restructured, either prior to sale or in circumstances when the enterprise is likely to be retained in public ownership for the foreseeable future.

3. Where governments are embarking on a sector-wide program of public enterprise reforms, counterpart funds generated by adjustment lending will continue to be the preferred way of financing severance pay (perhaps by requiring the government to set up a severance fund, and linking disbursements to it-as in Argentina). The justification for investment loan financing is that in many countries, governments cannot take a sector-wide approach to public enterprise reform, either because of lack of political support or because an enterprise is large, or country circumstances otherwise require a case-by-case approach.

4. As a general rule, Bank investment financing of severance pay would be restricted to not more than 50 percent of total severance payments. This is to encourage co-financing by governments and other external sources, and to reduce the risk of the Bank being accused of financing unemployment. However, in special circumstances, Bank staff would be allowed to propose projects which exceed the limits.

5. To ensure the new policy is fully understood by staff, guidelines will be prepared by HCO and issued in the usual OP format. They will cover:

- (i) Macroeconomic and sector policy conditions to be satisfied;
- (ii) Design of severance pay schemes;
- (iii) Disbursement procedures;
- (iv) Limitations on the share of loan proceeds allocated to severance payments and the share of Bank financing;
- (v) Economic analysis to ensure severance pay financing is a productive investment.

6. The paper has been drafted by PSP and OPR staff, following consultations over a long period with the Regions and with the Legal Department. The draft has been reviewed with the Legal Department, and comments have been incorporated. There is full agreement on the use of SALs for programs of enterprise reform, and on the scope for creating a new instrument for budgetary support. There is, however, an unresolved issue which concerns the financing of severance pay in investment loans, where HCO seeks to go beyond the position taken in 1992 when severance pay was last considered by the MDs. This should be brought to the PRC's attention. It centers on the share of severance pay in the project. This is a key issue for the Regions, and the considerations that have led Legal and HCO to take different positions can be grouped under three headings.

Components of a Severance Pay Project

7. The Legal Department is of the view that the Bank should not finance severance pay through an investment loan where the principal activity of the project is financing severance pay. Rather, severance pay should be one element in a package whose other elements might comprise conventional investment in plant, equipment and management systems, etc. so that project could be considered a productive investment. It furthermore argues that where there is a need to finance a project of severance pay alone, this should be done through adjustment lending.

8. HCO believes this would limit direct severance pay financing to retained enterprises. This would effectively prevent lending to enterprises being prepared for privatization, where the Bank's policy is not to support public investment in additional plant capacity but to enable the government to offer an unencumbered asset for sale. Adjustment lending is suitable for when governments embark on sector or economy-wide enterprise reform programs. But in many cases, they lack the political support to do this and must proceed one enterprise at a time. Also, there may be large enterprises that require an individual approach.

The Nature of "Productive Investment"

9. The Legal Department is doubtful whether the "productive investment" test would be met if the bulk of the loan was used for the less tangible purpose of severance payments, and also whether it would be met if sale led to closure of the enterprise.

10. HCO argues that in economic terms, a "productive investment" is an outlay of resources which lifts the productivity of existing factors of production to a higher level. The latter includes both the output of workers retained by the enterprise and the output of those displaced. If the financing of severance pay is the key action which causes these productivity gains to materialize and the discounted stream of productivity benefits exceeded the severance costs, a Bank project that financed solely severance pay would meet the productive investment test. The test could even be met in circumstances of plant closure if the assets were disposed to entrepreneurs who would use them more productively, and the displaced workers moved to higher value-added activities.

Operational Risks

11. Legal's final argument is an operational one. The Department is concerned about the risks of policy reversal in enterprise reform projects. It fears that if projects are permitted that finance severance pay alone, in some countries the Bank might have nothing to show for its resources. HCO appreciates these concerns, but argues that the best way to counter this risk is to provide

clear guidance to staff on the country preconditions for severance pay financing. If the latter approach is accepted by the PRC, the onus falls on staff to make the case that the preconditions will be met and to demonstrate an acceptable rate of return. There is now sufficient research and experience in the Bank to define best practice for both enterprise reform policy and the economic evaluation of severance pay schemes, and we would emphasize this in the guidelines.

12. When senior management has considered severance pay financing in the past, there has been a concern that the Bank would be criticized for financing unemployment. The paper argues that this could be countered by ensuring the Bank is not normally the sole source of severance pay financing, and by arguing that the Bank's intervention is guaranteeing equitable treatment of workers who anyway will lose their jobs.

13. The paper at several points refers to "budgetary support lending." A separate paper will be produced for review by the PRC on such an instrument. We recommend this should be prepared by OPR in association with DEC and Legal.

14. Although the paper discusses severance pay in the context of civil service reform, it does not suggest a change in policy. I would like to defer addressing civil service severance pay until a paper HCO is preparing reviewing the Bank's experience with civil service reform is ready for senior management.

cc: Messrs./Mmes. I. Shihata, A. Rigo (LEGVP); M. Baird, A. Ray (DECVP); I. Husain, J. Armitage, M. Stevens (PSP); M. Alexander, R. Mosse (OPR); O. Kalantzopoulos, J. Saadat (EXC).

Attachment

BANK FINANCING OF SEVERANCE PAY

INTRODUCTION

Background and Scope of Paper

1. The Bank has never directly financed severance pay for employees laid off as part of public sector reform programs. In recent years proposals have been made to adapt existing policy to permit this. Operational staff have argued that present policy, which rules out the direct financing of severance payments, stands in the way of the Bank assisting its borrowers implement both public enterprise and civil service reform.¹ On the other hand, a critical issue with respect to the Bank's mandate is whether and in what circumstances severance pay is "productive investment." There are also nagging doubts about adverse selection, over-generous payments, re-hiring and policy reversal—a fear that the Bank might finance a "revolving door" to other parts of the public sector and there would be little to show for the outlays. As a consequence, Bank policy on severance pay financing has remained restrictive.

2. This paper takes a fresh look at the issue. It summarizes existing policy, and reviews the economic, social, public management and operational arguments for Bank financing of severance payments. It examines how severance pay could be financed under existing lending instruments. It also discusses risks and how they might be managed. Public sector overstaffing occurs across a spectrum of different organizational forms – wholly budget-dependent central and local government departments, autonomous but budget-dependent agencies, self-funding departments and agencies, monopoly public corporations operating under statute, and government-business enterprises operating in competitive markets. From the perspective of operational staff, the most pressing category is public enterprises. The paper recommends a change in Bank policy for financing public enterprise reform. However, since severance pay financing is an issue encountered when reforming all parts of the public sector, the paper touches on severance pay financing in civil service reform. Here the issues are conceptually very similar, and we will take them up and make operational recommendations in a later paper.

Conclusions and Recommendations

3. The paper concludes that direct financing of severance payments is desirable for public enterprise reform projects under tightly defined circumstances. It argues that severance pay in the right circumstances can have a high economic rate of return. If the Bank is to respond to country

¹ The term "civil service" is used in the broad sense, covering all regular employees of central government, other than the armed forces. Increasingly, Bank supported civil service reform projects (CSRPs) are embracing actions that are wider than changes in personnel practices, and go to the heart of how governments function. Their aim is to improve government performance.

requirements, it needs to be able to use a broader range of policies and instruments than presently available for severance pay financing. It therefore recommends:

- (i) Continued use of adjustment lending for indirect severance pay financing where governments adopt sector-wide programs of state enterprise reform.
- (ii) Development of a lending instrument that could enable the Bank, without a prior balance of payments justification, as in the case of SAL, to support the budgetary costs of reform programs, thereby providing an additional means of financing severance payments.
- (iii) Authorization of the disbursement of Bank and IDA investment lending against documentary evidence of severance payments, for justified projects with respect to state enterprises across the sequence of reform, from corporatization to restructuring prior to divestiture.²
- (iv) Issue of guidelines to staff by HCO, covering methodologies and standards of economic evaluation, macro-economic and enterprise policy conditions, and mechanisms for ensuring Bank funds are disbursed against actual separations, and re-hiring is avoided.

4. In the case of civil services the present paper recommends that a decision on severance pay financing be deferred until HCO's paper reviewing the Bank's experience with civil service reform is discussed.³ At that point we should be in a better position to specify the conditions under which severance pay might be financed by the Bank, and to provide guidance to staff on the design of efficient and durable severance pay schemes.

CURRENT BANK POLICY ON FINANCING SEVERANCE PAY

5. The issue whether the Bank can directly finance severance pay has a long history. One of the first occasions severance pay financing was proposed was in connection with the closure of an iron ore mine in Liberia in 1985. At that time it was considered that financing compensation to

² This would involve modification of the present policy set forth in OP 1.00, which requires Board approval after the PRC has authorized this proposal.

³ Concurrently, HCO is preparing an issues paper on civil service reform (Barbara Nunberg: "Rethinking Civil Service Reform," November 1995). This reviews the Bank's experience with CSRs and argues for a more ambitious, broader view of civil service reform, with deeper reforms over a longer period, aimed at a fundamental reorientation of government towards performance.

dismissed workers could not be undertaken, since with the mine's closure, the proposed project could not pass the "productive investment" test of the Bank's Articles.⁴

6. Under current Bank and IDA lending rules, the scope for financing severance payments for retrenched public sector employees is limited. The position may be summarized as follows:

(a) Adjustment Lending

The counterpart funds generated by the sale of foreign exchange to private importers may be used to finance budgetary expenditure within an agreed fiscal framework. Counterpart funds can thus be applied to severance payments. In this way, the Bank indirectly finances the separation costs of retrenchment programs.

(b) Investment Loans

Bank financing of severance pay within investment projects hitherto has been ruled out, principally on the grounds that severance pay for closure of enterprises does not pass the Bank's productive investment test but also because of broader concerns about the effectiveness of retrenchment schemes and the vulnerability of the Bank to accusations of financing unemployment.

7. The question of severance pay financing was reviewed in 1992 and it was proposed by OPR with the clearance of the Legal Department that severance payments might be permitted under investment lending if their financing were part of a broader package of actions that in toto could be seen as an investment in higher productivity.

8. One issue that has been central in the debate is the circumstances in which severance pay could be considered a "productive investment." At one level passing this test depends on satisfactorily demonstrating in each case that (i) the package of severance pay and associated measures has a high economic rate of return, and (ii) it is robustly designed to ensure surplus staff are not rehired, and efficiency gains are realized. At another level, there is the issue whether the Bank should finance a project that consists primarily (or even entirely) of severance payments, or whether severance payments should be only one element and not the dominant one in a package of investment components aimed at raising enterprise efficiency.

9. A subsidiary issue is local cost financing. Severance pay is entirely a local cost, and the Bank's rules permit local cost financing on an exceptional case basis only. The paper argues that severance pay financing can be accommodated under existing local cost sharing rules. Care must be taken, however, to assess the macro-economic implication of large severance payments.

⁴ See memo from Ibrahim Shihata to Frank Potter, "Severance Pay and Salary Supplements," July 24, 1991. Also relevant are: (a) memo from Hans Wyss to Sven Sandstrom, Bank Financing of Severance Pay, July 13, 1992; (b) memo from James Adams to Attila Karaosmanoglu, Severance Pay, June 10, 1993; (c) a consultant's report (Andrew Hamilton's Background Paper on Bank Financing of Severance Pay, Draft) completed in September 1993.

THE CASE FOR A FRESH LOOK AT SEVERANCE PAY

10. It is time for the Bank to consider direct financing of severance pay in specific circumstances. This is because on the one hand, the demand for severance pay financing is growing, as increasing numbers of borrowers confront the need for shedding redundant and unproductive labor in the context of public sector reorganization and privatization. On the other, existing means of financing it are seen to be inadequate. The following paragraphs explain from where this demand is coming and why existing policies and instruments prevent the Bank from fully responding.

Demand for Severance Pay Financing

11. In many borrowing countries, there is a growing requirement for state enterprise reform. Where enterprises are intended for divestiture, restructuring may be needed prior to sale to clean balance sheets of debt and to shed surplus staff. Without such prior actions, buyers might not be forthcoming. Sale locks in the dismissal of redundant employees. Shedding surplus labor entails very large up-front costs, while benefits in terms of reduced wage bills, enhanced public sector productivity, or the proceeds from privatization come later. An inability to finance the large one-time costs of labor shedding can effectively block timely restructuring and prevent governments from realizing the benefits of more productive use of labor and financial resources.

12. In both transition and other countries, after the first rush of readily privatizable enterprises, there remain undertakings where massive layoffs are required if productivity is to be raised, but where there is no immediate prospect of divestiture.⁵ Furthermore, there are large scale state enterprises with serious overstaffing problems which governments intend to retain in the public sector for strategic reasons. Even in the most reform minded countries, some enterprises have been retained by the public sector. If the Bank is to assist borrowers raise the efficiency of enterprises, the issue is not whether a line should be drawn between retained and divested enterprises, but how to address the restructuring needs of both in ways that ensure the desired outcomes. In both cases, the state is the proper agent to handle personnel downsizing. The larger the company and the greater the number of employees to be dismissed, the more it is desirable that the state undertake the onerous political process of handling dismissals and ensuring severance payment obligations are met.

13. There is also a demand for severance pay financing for civil service reform. The number of countries in which the Bank is engaged in civil service reform has expanded (47 countries). While there have been few, if any, clear successes, lessons have been learned from this experience. Overstaffing is pervasive and must be addressed if civil services are to become well motivated, professional and productive institutions, capable of creating an enabling environment for economic and social development. Fair and equitable compensation for those losing their public sector jobs is an intrinsic part of a well designed and implemented civil service reform program. In many CSRPs, the separation arrangements have not been credible to participants, whose resistance has blocked reform.

⁵ For example, state enterprises in transition countries (e.g., coal mines in Poland and Russia).

14. There is a growing awareness within the Bank that re-orienting the public sector in borrowing countries is one of the greatest challenges for the institution in the years ahead. Work currently being done in the Poverty and Social Policy Department (PSP) on the Bank's experience with civil service reform suggests that in many countries, more radical restructuring than has so far occurred in Bank supported CSRPs is needed. Implementation depends crucially on changing the incentives of stakeholders, and programs require a longer time horizon than is currently the practice.

Sources of Severance Pay Financing

15. With regard to the supply of resources for severance pay financing, the limitations of existing avenues for severance pay financing have become more apparent. While governments may be able to finance severance payments on an individual basis from their own resources, typically the scale of compensation payments called for by large enterprise restructuring and divestiture programs lies beyond what can be afforded from local revenues, especially for poor countries.⁶ The obligation to control domestic credit creation and reduce fiscal deficits under macroeconomic stabilization programs further limits the degree of freedom in many instances.

16. Governments simultaneously may be making provision for the budgetary costs of "cleaning" enterprise balance sheets of bad debts, prior to sale as well as meeting the separation costs of redundant staff. Only in a small minority of cases do enterprises have surplus assets like real estate which can be disposed of to offset severance payments. Although the proceeds of privatization may generate resources for subsequent divestiture, severance pay is required ahead of divestiture, if arrangements are to be credible. A program of enterprise divestiture could build up a severance fund from sales proceeds but this would take time and require a significant initial injection of money from another source. A commercial bridging loan might be possible in some countries, but will not be feasible if severance pay exceeds expected sales proceeds. Furthermore, there may be competing creditor claims on sales proceeds and before assets can be disposed of, inventory, valuation, titling and judicial problems may need to be resolved. What is needed is the provision of resources for severance payments at a given point in time to remove a financial constraint to enterprise reform.

17. It has never been easy to persuade bilateral donors to step in and co-finance severance pay, particularly if the Bank insists on financing more attractive foreign exchange elements such as consultants and equipment. The resources that can be drawn for this purpose from bilateral donors have often proved inadequate for funding the obligations of poorer countries with weak public finances. In case of middle income countries, this avenue is not available. Insufficiently financed severance payments undermine the reform in the eyes of participants. Constraints on the Bank's ability to finance severance pay raise doubt about the credibility of the Bank as a committed partner of governments. With a credible plan based on Bank participation, the case for attracting bilateral donor financing can be more persuasive. If Bank policy on severance pay financing were changed, it would be easier to get bilateral donors to contribute to a severance fund, and the Bank would become a far more effective catalyst for public sector reform.

⁶ Severance payments in the Argentina public enterprise privatization program were close to 0.5% of GDP. This ratio could easily be exceeded if deep cuts were made in civil service staffing in low income countries.

18. Public sector reform increasingly is seen as a complex process requiring staged implementation over several years while adjustment loans are normally quick disbursing.⁷ For employees facing retrenchment, a severance package financed by a Bank investment loan may be more credible than the counterpart funds from a SAL.

19. Finally, the Bank's refusal to finance severance pay directly creates a bias towards other, demonstrably less efficient, non-monetary compensation schemes. The evidence from all the regions is that severance pay, rather than retraining, special credit terms, or public works programs, is the critical determinant in securing voluntary transition from public to private sector employment. Cash compensation, if provided in a timely way, mitigates the social cost of retrenchment and may stimulate entrepreneurial activity more effectively than other forms of compensation. It is also the easiest to administer.⁸ Governments of countries where the public sector has become overextended, typically have little capacity to offer meaningful retraining programs or to organize public works. Special credit schemes have a poor repayment record (recipients treat loans as grants) and are subject to abuse (such as favoritism in the allocation of loans).

20. The following section explores ways in which the current policy could be developed to meet these challenges, and how the arguments that hitherto held the Bank back from direct severance pay financing can be addressed.

PROPOSALS FOR A NEW POLICY ON SEVERANCE PAY FINANCING

21. Operational experience suggests that if the Bank is to respond effectively to its borrowers, it needs flexibility in the instruments it can deploy to meet a range of country circumstances in which public sector workforces are being reduced. In some cases the adjustment lending instrument will be appropriate, in others investment lending will be a more suitable choice.

22. The paper therefore proposes:

- (i) The continued use of adjustment lending to indirectly finance public enterprise retrenchment costs in countries where the government is embarking on a broad program of state enterprise reform. The adjustment lending instrument may be either a SAL or a SECAL, depending on country circumstances. The latter would be used when the

⁷ An adjustment loan must inevitably take a broad brush approach to an issue like civil service or enterprise reform, incorporating tranche release retrenchment targets that, in some cases, are subsequently seen to have been hastily set. An investment loan permits fine tuning of targets and much closer monitoring of performance over a longer period. A review of severance pay financing under adjustment loans suggests that several programs failed because Bank staff were unable to supervise implementation closely and control the use of funds (e.g., Central African Republic, Mali, Papua New Guinea).

⁸ In this way public sector reform programs require a different compensation approach to re-settlement schemes, where agricultural inputs rather than cash is the preferred form. But public sector reform programs deal mostly with an urbanized and better educated work force.

enterprises to be reformed are grouped within a single sector, or where state enterprises are the main focus of the economic reform program. There are no restrictions on the use of counterpart funds for severance pay, and the creation and replenishment of a severance pay fund by the government may be a condition of tranche release.⁹

(ii) For countries where there is no evident balance of payments justification for adjustment lending, and governments face the costs of reform, consideration is being given within the Bank to budgetary support lending. If a policy decision is made to create such an instrument, which would retain some features of a SAL, state enterprise (and civil service) severance pay would be a strong contender for financing. Shorn of the balance of payments link, disbursement could be calibrated more easily to the rate of institutional reform.

(iii) Where governments seek financing for the reform of a single enterprise (either because the enterprise is large, or because the government lacks the political support to embark on a broad program of reform and must proceed one enterprise at a time) the Bank should be able to finance severance pay directly through an investment loan, subject to limitations, normally 50 percent, on the Bank's share of total severance pay funding. Obviously, direct financing of severance pay would be limited to cases where labor retrenchment is proven essential for enterprise reform, be this through the retention of public ownership or through divestiture.

(iv) In the case of civil service reform, the paper envisages the use of budget support lending, for the costs of civil service downsizing. However, in view of the mixed record of Bank financed civil service reform programs to date, and the methodological difficulties of measuring productivity improvement, no specific proposals for financing the severance pay costs of civil service reform are proposed in this paper. Any recommendations for Bank policy in this area should await the consideration of HCO's paper evaluating the Bank's experience with civil service reform, which should reach the PRC shortly, and the further development of the concept of budgetary support lending.

(v) The preparation by HCO of guidelines to staff on severance pay financing in public enterprise reform (and, in due course, for civil service reform). The guidelines will provide advice both on the design of retrenchment programs and severance pay schemes, methodologies for economic analysis, the policy framework for improved enterprise governance, and macroeconomic pre-requisites. They will also specify the conditions that must be met in cases where severance pay is the primary use of a Bank loan.

The next sections address the practical issues that arise in the design and implementation of state enterprise retrenchment and severance pay schemes, and how the risks of severance pay financing could be managed.

⁹ As was the case in Argentina where disbursements were linked specifically to the replenishment of severance payments by the government.

IMPLEMENTING A NEW POLICY

Economic Analysis of State Enterprise Reform Projects with Severance Pay

23. Given the doubts expressed in the past whether severance pay is a productive investment in the sense understood by the Bank, operational staff will need to pay particular attention to justifying the project in economic terms.
24. Staff should carry out both financial and economic analyses of the costs and benefits of public enterprise retrenchment programs. A financial analysis is needed to assess the impact of the reforms on enterprise performance and, in turn, on the government budget, the original rationale for many reforms.
25. The economic analysis, encompassing economy-wide costs and benefits would determine whether the severance package passed the "productive investment" test. It would require setting severance and related costs against both the resulting gains in government or enterprise efficiency and any gains in the productivity of displaced workers.¹⁰
26. Demonstrating that displaced employees will find more gainful employment outside the public enterprise would also have to be done on a case-by-case basis in which local labor market conditions would be assessed. However, it would be reasonable to expect that most displaced employees, over time, would find more productive employment in the private sector. By definition, surplus labor is labor whose value added is less than the cost to the firm of its employment. In many state enterprises, the marginal productivity of staff is extremely low, negative in some cases. Even if displaced staff suffered a reduction in pay, or if only half the displaced workers found alternative employment, in economic terms the productivity balance would still be strongly positive. This is likely to be the case even when employment opportunities in the formal economy are contracting (as may happen with sharp fiscal tightening or in the one-

¹⁰ Although the request for exceptional treatment on severance pay financing for the proposed *Brazil: Federal Railway Restructuring and Privatization Project* (memo from Gobind Nankani to Richard Frank, October 18, 1995) was not approved, the proposal illustrates how the economic costs and benefits of a retrenchment program might be estimated. Staff envisaged a sector investment and maintenance project with a total cost of \$500 million, of which the Bank would finance \$300 million. The largest component would be the "staff adjustment program" (SAP) of \$350 million, principally for severance payments and associated costs. Under the SAP, federal railways (RFFSA) staff would be reduced from 42,000 to about 22,000 over three years, by a combination of voluntary and mandatory separation, prior to the privatization of RFFSA through six regional concessions.

An analysis of the economic costs and benefits of the project suggested an average rate of return of 45.5% across regions. Costs were estimated for: (i) marginal productivity value of redundant employees in RFFSA (assumed zero); (ii) amount of severance payments; (iii) early retirement pensions; and (iv) training costs. Benefits are estimated in respect of: (i) marginal productivity value of laid-off employees elsewhere in the economy; and (ii) marginal productivity value of the foregone labor costs of RFFSA.

The calculations were based on a general framework outlined in J. Svejnar and K. Terrell (1991), "Reducing Labor Redundancy in State-Owned Enterprises," PRE Working Paper, No. 792.

company towns and limited labor mobility circumstances of transition economies). Where the marginal productivity of state enterprise employment is so low, even part-time informal employment will be economically more productive.

27. Provided the discounted stream of benefits for enterprises and displaced employees exceeded capital costs, the productive investment test could be met.¹¹ Indeed, there is now a substantial body of Bank research which demonstrates how labor retrenchment programs in enterprises can have remarkably high economic rates of returns.¹² Guidelines to staff on methodologies will be prepared.

Local Cost Financing

28. Adjustment lending finances imports, and there are no local cost restrictions on how the counterpart proceeds accruing to government can be used. Local cost financing in investment projects is required by the Articles to be limited to exceptional circumstances. Over time, however, it has become customary for the Bank to finance a broad range of local cost items. In addition, the Bank's operational policies recognize the case for local cost financing where the foreign exchange costs of a project are low and the Bank otherwise would not be able to achieve its objectives.¹³ There is no reason *per se* that severance payments which satisfied the productive investment test could not be included for local cost financing.

¹¹ In economic terms a "productive investment" is an outlay of resources which lifts the productivity of existing factors of production to a higher level. This includes both the output of workers retained by the enterprise and the output of those displaced.

¹² The economic studies are summarized in: The Productive Impact of Severance Pay, a note prepared by Alice Galenson, INUTD, March 3, 1992. Rates of return in the cases cited ranged from 50% to 500%, and payback periods on wage bill savings from four months to five years. Rates of return were highest when labor redundancy programs were carried out in the context of more general enterprise reform. A longer paper by the same author Proposal for Bank Financing of Severance Pay, December 23, 1991, reviewed the experience of Bank lending for employment reform and cites many examples of enterprise and civil service reform projects where retrenchment stalled because of inadequate severance pay financing. INUTD's "Sustainable Transport: A Sector Policy Paper," reviewed earlier this year by the PRC, gives further examples of redundancy schemes with high economic rates of return.

Stating the case in its broadest terms - the costs of closing uneconomic and loss-making plants or shedding redundant labor, etc., are a legitimate part of the broad public sector deficit. This deficit, after it has been reduced to the extent feasible by tax and expenditure measures, has to be financed by either foreign or domestic borrowing: in general both would be involved. Thus, other things being the same, a program of restructuring state enterprises would lead to more foreign borrowing, which would be financiable if the program's economic returns are satisfactory.

¹³ See OP 6.3 para 2b (Sept. 1993): "If, on the basis of a careful appraisal of a country's overall development program, the Bank judges that the financial requirements of the program will exceed the limits of available local savings and expected foreign exchange resources, financing of local costs in certain high-priority projects may also be provided",and...."local cost financing may be considered...if a specific project has too little foreign exchange cost to permit the Bank to achieve its project objectives by foreign exchange financing alone..."

29. The main constraint is the proportion of total project costs which could be considered eligible for local cost financing. The Bank's policy has been to set cost sharing limits country by country for the lending program as a whole, favoring low income countries whose domestic savings capacity is weak. Thus the Bank may finance up to 90% of a lending program's aggregate project costs in low income countries, but only 50% in upper middle income countries. This leaves country directors the flexibility to vary the proportion of cost sharing in accordance with specific project needs.

Share of Severance Pay Financing in the Loan

30. A related consideration is whether the Bank should finance projects where bulk of loan proceeds are allocated to severance pay. This is a less critical issue for retained enterprises where typically there will be parallel investment in new plant and management systems. However, a ceiling on how much of the loan can be used for severance payments would be a barrier to Bank participation in projects where enterprises are being restructured prior to sale, and is therefore not proposed. Increasingly, it is the latter type of project for which severance pay financing is being sought. If the view is taken that severance pay, in its own right, can be a productive investment, there should be no a priori limitation on the proportion of the loan applied to severance pay -- other than that implied by country program-wide constraints on local cost financing.

31. As an operational matter, however, it may be desirable to limit the share of Bank financing of total severance payments, to encourage co-financing by other external agencies, to maximize the local contribution, and to reduce the Bank's exposure to criticism that it is financing unemployment. Ideally, the Bank should be able to contribute, with bilateral donors and government, to a pool of resources which could be used to finance severance payments for public enterprise reform. In this way a severance fund for enterprise reform could be established which would be replenished by divestiture proceeds.

32. While the Bank should make every effort to ensure there is the maximum possible cofinancing of total severance pay costs by other external agencies and by the government, there should be flexibility in the policy to allow the Bank to finance the bulk of severance payments if circumstances merit.

33. Guidelines will be prepared for staff on how far the Bank should go in financing severance pay in investment loans where the major use of funds is severance pay. The policy suggested in this paper is to restrict the Bank's lending to normally not more than 50 percent of total severance payments but to allow staff to propose projects beyond this level, which is an arbitrary figure based on judgment, in carefully defined circumstances. The Bank's objective is by acting as a catalyst, to overcome a hurdle in the strategic reform of the public sector. If this results in the Bank being accused of financing unemployment (a concern of senior management in the past), a virtue could be made out of severance pay financing by arguing that the Bank is guaranteeing equitable treatment of workers who anyway will lose their jobs. Severance pay, thus construed, would be simply another way of financing the social costs of adjustment.

Disbursement

34. Loan proceeds are normally disbursed against documentary evidence of the delivery of goods or services. There is no issue of disbursement *per se* when the policy issue of financing severance payments is taken care of.

35. Technically, disbursement would be against certified proof of severance payments made, backed up by supporting information on changes in aggregate employment by the enterprise. To increase transparency, the Bank might require the government to establish a severance pay fund replenished with sales proceeds through the budget, but with its own accounting identity.

Duration of Loan

36. In most circumstances, the duration of the loan or credit will be the same as normally extended to the borrower. In the case of IBRD investment loans (and, in due course, fiscal support adjustment loans) to countries where privatization proceeds build up to finance the severance costs of subsequent enterprise divestiture, the duration might be shorter. IBRD lending, in effect, would become short to medium term bridging finance.

Macro-economic Policy Pre-Conditions

37. Essential to effective public enterprise reform programs are macro-economic policies that both discipline the financial environment in which enterprises and government operate, and ensure that the cost structures they face are determined by market rather than administrative mechanisms. The Bank should not contemplate severance pay financing in the absence of satisfactory fiscal, monetary, exchange rate and trade policies. The latter are essential to ensure that the wage savings to the enterprise are used productively, and that retrenched employees find gainful employment elsewhere in the economy. Conditionality to ensure the maintenance of such policies may need to be incorporated in loan agreements.

38. It will be necessary also for staff to assess the macro-economic impact of severance pay financing. As a local cost, severance pay financing could cause an increase in domestic consumption. If the program is large, there could be inflationary pressures which might indicate a staged approach. If a significant proportion of severance pay is financed locally, government borrowing could upset domestic credit markets. This would be an additional justification for external borrowing, unless foreign exchange reserves are unusually high in which case the argument would have to be made for a Bank loan.

39. However, even if sound macro-economic policies are in place and staff have assessed the macro-economic implications of severance pay financing, there is a second level of policies and actions that are relevant to each category of risk. These have to do with the specific policies governments adopt towards enterprises.

Enterprise Performance

40. When privatization is not the objective, there should be a persuasive market failure reason for continued state ownership. To ensure that enterprise performance does, in fact, improve after

excess staff are laid off, severance pay financing must not be an isolated action. It should take place within a broader framework of reforms that foster a competitive environment for the enterprise in which production decisions are market, not government driven. Severance pay financing would become available only if complementary actions (conditional if necessary) are implemented and the progress is satisfactory. These include: elimination of enterprise access to soft credit, subsidies and transfers,¹⁴ competitive markets for enterprises that produce tradeables, and an appropriate regulatory regime for those which produce non-tradeables, the replacement of bureaucratic civil service administration with commercial management, and governance frameworks which create incentives for performance and hold managers accountable for results. Management itself may be put out to contract. Managers should be rewarded for entrepreneurial risk-taking, but sanctioned for non-fulfillment of specified objectives. Transparent, unambiguous financial and operational targets should be in place, and, if not already done, commercial accounting procedures should be installed. The role of the state as owner of productive capital should be separated from the role of the state as the arbiter of conflicting interests in society. In short, severance pay financing proposals should be assessed against a checklist of the adequacy of policies and actions in the areas of: macro-economic conditions, financial sector reform, hard budget constraints, competition policy, regulatory regime, and management autonomy and accountability. The design of the project should incorporate performance monitoring indicators in key areas such as labor employment and productivity.¹⁵

The Risks of Delayed Privatization

41. Where severance pay is financed as part of divestiture preparations, the key determinant is whether privatization actually occurs. The Bank cannot require a buyer to purchase the enterprise. Typically, the loan documents will obligate the government to bring it to sale.¹⁶ In the event of a buyer not being forthcoming, and a decision is made to retain the enterprise in the public sector, it will be critical for the government to maintain as competitive an environment as possible. This underlines the importance of including such reforms in divestiture preparations, if they have not already taken place. In the case of privatized monopolies, such as power and water utilities, the regulatory framework will be vital, since experience shows that the most over-staffed firms are usually those producing non-tradeable goods and services.

42. In the case of a privatization program of multiple enterprise sales, the failure to sell one or two should not derail the program. The unsold enterprise can be retained in public ownership and offered for sale again when market conditions improve. In the meantime, management itself might be privatized, through a management contract with performance incentives.

¹⁴ Soft credits, subsidies and transfers are aspects of the "soft-budget" of state enterprises. Other characteristics are: tax and customs exemptions and non-collection, tolerance of inter-enterprise arrears and non-repayment of debt to government, and non-payment to suppliers.

¹⁵ See: Mary Shirley, "The Reform of State-Owned Enterprises - Lessons from World Bank Lending," 1989; Sunita Kikeris, John Nellis, Mary Shirley, "Privatization - The Lessons of Experience," World Bank, 1992; and Ahmad Galal, Mary Shirley, "Bureaucrats in Business," World Bank, 1995.

¹⁶ In the case of Argentina's public enterprise reform program, the Bank went further and required the government to "sell or close" the enterprises whose downsizing was being supported by adjustment lending.

43. When a single enterprise is being divested under an investment loan, inserting a closure condition if there is no sale raises problems for severance pay financing, insofar as closure might imply, retrospectively, failure to pass the productive investment test. Although this can be disputed,¹⁷ staff preparing such projects will be advised to avoid the investment lending route if there are doubts that significant parts of the enterprise can be sold as a going concern.

Avoiding Adverse Selection and Over-Generous Severance Packages

44. The specific design of a severance pay package will vary from case to case depending on a myriad of legal, social, economic, institutional and political factors. Nevertheless, there is scope for varying the design of severance schemes and the terms of service for those who remain to minimize costs and loss of talented staff. Ongoing Bank research and lessons of experience point to some general principles which can help reduce the problems of overpayment (paying more than is really needed to 'buy' voluntary departure) and adverse selection (where the best workers leave and the "lemons" remain) which have plagued retrenchment episodes.¹⁸

45. Retrenchment schemes can be voluntary or compulsory. Voluntary departure in government (for example, by giving inducements to early retirement) minimizes employee and union obstruction. However, it tends to be costly, and by itself is suitable only when the required downsizing is small, and the organization has sufficient residual skills and experience to make good the departure of staff who elect to leave. There may also be pension cost factors which constrain the size of a voluntary departure scheme (early retirement accelerates pension liabilities

¹⁷ Failure to achieve a sale, assuming informed buyers, suggests even the restructured enterprise has no value as a going concern. In turn this implies that prior to restructuring and dismissal of staff, the enterprise operated at marked negative value added. Under such circumstances, an economic cost/benefit analysis might still show severance pay as a "productive investment," if it were instrumental in unlocking the disposal of assets to owners who would use them more productively, and helping retrenched workers find higher value-added employment.

¹⁸ See current PRDPH research project: "Public Sector Retrenchment and Efficient Compensation Schemes," April 1994, managed by Martin Rama and Ishac Diwan, which reviews Bank involvement in 40-50 retrenchment schemes and evaluates their success or failure. It also examines the optimum design of severance programs, and how severance pay might be linked to the rents of public sector workers. Different workers are characterized by different rents associated with holding on to their jobs in the public sector. Overpayment could be avoided, if severance pay offers could be tailored to the specific rents of each worker. While in practice the rents of each worker cannot be observed with precision, taking advantage of workers' observable characteristics such as age, education, experience, etc. in the design of severance pay packages can help reduce overpayment. To minimize the loss of talented staff and to encourage the departure of mediocre performers, a menu of options rather than a single "take-it-or-leave-it" package might be offered to workers so that workers with different unobservable characteristics such as work ethic or talent pick up different options. Here it is useful to design the severance package simultaneously with changes in the terms and conditions of those who remain. Thus for staff who select to stay in an enterprise or government department, the "deal" might be higher pay but greater accountability and less secure tenure. This would tend to encourage the talented to stay and the mediocre to leave. See also: J. Svejnar and K. Terrell, "Reducing Labor Redundancy in State-Owned Enterprises," WPS 792, October 1991; Ishac Diwan: "Severance Pay Schemes" in "Managing the Social Cost of Adjustment" (Draft); and Ishac Diwan: "Public Sector Retrenchment and Severance Pay: Nine Positions," in S. Chaudhry, G. Reid and W. Malik, editors, "Civil Service Reform in Latin America and the Caribbean," World Bank 1994.

and if pensions are funded on a pay-as-you-go basis, the contributory base is reduced). Eligibility rules for voluntary departure schemes have to be tightly drawn, tied as far as possible to local market conditions, and with the right of management to block the departure of key personnel. Voluntary departure schemes in enterprises reduce the risk of discrimination law suits, but are unsuitable where restructuring is extensive, and involves plant closures in different locations.

46. Compulsory retrenchment is more suited for larger scale enterprise restructuring (and for major civil service downsizing). In the case of enterprise restructuring, the depth and geographic distribution of plant rationalizations and closures will determine the pattern of retrenchment. If labor codes make it very difficult to fire staff, voluntary schemes should be considered. But they can be very costly, and it may be preferable to require governments to change labor codes as a condition of lending.

47. In assisting governments calibrate severance payments, task managers will need to be aware of:

- Contractual obligation towards employees;
- Labor codes;
- Prevailing labor market conditions;
- The attitudes and power of public service trade unions;
- The need to provide a social safety net for unskilled, low-income employees;
- Anticipated political costs (and benefits) of downsizing;
- Affordability of the package, and its replicability.

48. The impact of these factors on the design of severance packages can be determined only on a case-by-case basis. In many cases, the result will be the outcome of a negotiating process with unions. The Bank should be prepared to accept such a process, while at the same time ensuring the government and enterprise management keep a firm grip on overall affordability, value for money, minimizing slippage and maximizing effective implementation. Fortunately, there is now Bank research underway and lessons of experience emerging on how severance pay packages should be designed and implemented for operational staff to draw upon. This will be reflected in the guidelines on designing retrenchment schemes which HCO will prepare.

Stopping the Revolving Door

49. An important concern for the Bank is making sure that dismissed workers are not re-hired in another part of the public sector, in a "revolving door" effect.¹⁹ In many countries where the

¹⁹ As happened in Ghana and Senegal under the Bank supported CSRP, when retrenched civil servants were rehired by subvented agencies, and more recently in Kenya. There has been a similar experience in Sri Lanka where retrenched officials were hired back as consultants (this has also been an issue in New Zealand). The lessons to be drawn from these experiences are not a blanket prohibition against retrenched staff ever working again in the public sector, but: (i) the need to impose a hard budget constraint on subvented agencies and to strengthen their accountability for results; (ii) the importance of establishing clear rules on the engagement of retrenched staff as consultants (but never again as permanent civil servants), and a willingness to enforce

Bank has supported public enterprise or civil service reform, retrenched staff have either been re-hired by the same department or enterprise, or have found employment elsewhere in the public sector. This can come about through lax establishment controls in government, through the absence of a hard fiscal constraint for budget dependent agencies and enterprises, or through the deliberate use of the public sector as an instrument of political patronage. The Bank's large portfolio of public sector reform projects provides plenty of examples of such recidivist tendencies.

50. Countering the "revolving door" in state enterprise reform requires action at several levels. How the severance package is designed is important. A badly designed voluntary scheme which encourages good staff to leave and mediocre staff to stay may leave managers no option but to re-hire competent former staff. Careful attention should be paid in the design of projects to the reinstatement of payroll controls, and other steps which improve personnel management.²⁰ And it also means the hardening of fiscal discipline for state enterprises, appropriate competition and regulatory policy, making managers accountable for results, and an appropriate set of macro-economic policies. Once an enterprise has been privatized, the re-hiring of previously retrenched workers should not be a concern, since all hiring decisions should be disciplined by market forces. However, re-hiring by privatized enterprises does suggest that the retrenchment program may have been poorly designed, and over-generous payments made. In such circumstances, rather than forbid all re-hiring (which may infringe on workers' rights) the government may require the firm or employer repay the separation package.

13 December, 1995

them; (iii) the desirability of framing budgets within an agreed medium-term framework which both government and donors adhere to.

²⁰ In the case of governments, there are three interdependent systems to evaluate. The first is whether a satisfactory system of position (establishment, post or complement) control is operating. This requires the prior existence of departmental organizational structures and approved staffing levels, reviewed annually at the time of budget preparation. A tell tale of an over-expanded civil service is a broken down position control system. The second system is the government payroll, by which temporary and permanent staff (but not daily) are paid their salaries and allowances, typically, at the middle and end of each month. There should be built-in checks to ensure the position against which salary is to be paid is an authorized one, and the recipient is a bona fide civil servant. The third system is expenditure control, which determines whether government resources are used in the way specified in the budget. This is particularly critical if departments are given the freedom to move resources between personnel and supporting expenses votes. For daily paid workers, who are not part of the civil service, the basic control mechanism, in many countries, is a budgetary one, for which monthly pay sheets should be compiled and reconciled with departmental votes.

Governance

A L L - I N - 1 N O T E

DATE: 24-Aug-1995 09:41pm

TO: Myla Williams

(MYLA WILLIAMS@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: RE: Governance

Myla,

Unless Ishrat has thoughts to the contrary, your re-wording seems fine to us. A briefing is more flexible than an interim report (which I am not sure I know what this implies content-wise), and tallies with the record of the meeting.

Thanks.

Mike

CC: Ishrat Husain

(ISHRAT HUSAIN@A1@WBWASH)

CC: JAIME M. BIDERMAN

(JAIME M. BIDERMAN@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 24-Aug-1995 05:51pm

TO: Ishrat Husain (ISHRAT HUSAIN)

FROM: Myla Williams, CTRVP (MYLA WILLIAMS)

EXT.: 36997

SUBJECT: Governance

The following was included in the minutes of the Board's Steering Committee meeting of July 10, 1995:

"Governance. Mr. Gerber noted that Governance is not on the schedule until FY99, which is too long for such an important topic; Ms. Herfkens agreed. He proposed that CODE handle this through an interim report or discussion. Mr. Sandstrom responded that CODE is looking at this, and that Mr. Choksi will brief that Committee."

Here is what SEC's draft "Status Report on Promises of Action" currently says:

"A progress report is planned for FY99, and an interim report is included in CODE's CY95 work program."

And here is the revised wording I plan to send to SEC, in light of the above minutes:

"A progress report is planned for FY99, and in the interim, CODE will be given a briefing."

If I don't hear from you to the contrary by noon tomorrow, I'll assume this is ok to send to SEC.

CC: JAIME M. BIDERMAN

(JAIME M. BIDERMAN @A1@WBHQB)

CC: MIKE STEVENS

(MIKE STEVENS @A1@WBHQB)

**GOVERNANCE FOR THE 21st CENTURY:
MANAGEMENT OF DEVELOPMENT POLICY
THE SINDH CASE STUDY (SSDP)**

Neil Boyle, Rashid Ahmad, and Susan Silsby

June 12, 1995

Preliminary draft. Not for quotation, or citation. The views expressed are the author's and should not be attributed to the World Bank, its Board of Directors, or countries they represent.

With development funds shrinking¹ and the world changing rapidly, the stakes are high, and the countries that don't keep up may be left behind.

Abstract

This essay seeks to communicate best practices for institutional development based on the Sindh Special Development Project in Pakistan. Research has been on-going for eight years in one location and enriched by the theoretical robustness afforded by institutional economics. SSDP has been particularly valuable as it has helped to foster client ownership; reduce transaction costs; generate a higher level of interlocution between the Bank and the Government; and introduce a high degree of transparency in the policy formulation process of provincial government.

¹ Mr. Summers noted that while net transfers to developing countries have been significantly negative in recent years, no restoration of earlier levels seemed likely. 'Between 1975 and 1980, the Bank Group achieved net transfers of \$9 a person in the developing world; in the coming years net transfers will be just over \$2 a person. As for the many countries that do not qualify for IDA credits, the net flow of money will be to the World Bank. Lawrence Summers, "Knowledge for Effective Action," Proceeding of the World Bank Annual Conference on Development Economics, 1991" (Washington, D.C.: World Bank Publication, 1991): 7-8. Also, please see Lawrence Summers and Vinod Thomas, "Recent Lessons of Development," The World Bank Research Observer (July 1993): 241-254.

*"Vision without reality is illusion...
It is failure of imagination not skill."
Robert Picciotto (April 1995)*

I. Introduction

1. On December 16, 1993, the Board of Directors of the International Development Association (IDA) approved a credit to Pakistan to finance the Sindh Special Development Project (SSDP). Within a relatively short period of time, SSDP gained attention in several quarters of the World Bank as well as within the Pakistan Government.² According to several Bank reports, the project design contained important innovative features and as a whole, emerged several generations beyond other project designs in the Bank.

2. **Analytical Framework.** Three major analytical frameworks served as sources of inspiration during the preparation of the SSDP project. The principal frameworks are: **participant observation and action-based research in Pakistan; institutional economics derived from Douglass North's¹ work among others; and a social action (intersubjectivist) perspective to social practice that deals with subjective meanings and the sociology of knowledge, akin to the work of Berger and Luckmann.²** Since the focus is on **institutional** capacity building in low income countries, where there is a dearth of mature institutions amidst increasingly problematic demographic, economic and environmental trends,

² Although SSDP has only been in operation a short time, the project has already been marked as ground-breaking for urban infrastructure. In 1993, it was one of six case studies of projects that were identified by CFSOC worldwide as exemplars of exceptional innovation in project design, and implementation in their "Operational Review of Japanese Trust Funds Managed by the World Bank," November 1993. It has served as a case study in the Bank's Participation Source Book (publication forthcoming in 1995). It has also served as the major case study for a paper entitled "Public Sector Management and Participation: Institutional Support for Sustainable Development," presently under preparation by the Public Sector Management (PSM) complex in the Bank, and slated for publication by the Bank. Professors from the Maxwell School of Government in Syracuse University selected the project as the basis for one of three case studies concerning the new field of institutional economics in the design, and presentation of a seminar on institutional economics at the Bank. It was also selected by TWURD as a case study for a presentation in a Bank seminar on Poverty Alleviation, and Social Policy. It was selected by the Energy, and Infrastructure Division of Department III in the South Asia Region (formerly SA3EI now SA1IN), as the leading model for participatory institutional development in infrastructure, with expectations that it could become a new lending product type for the Bank. The task manager has also been asked to give several presentations to Bank audiences such as the: March 8 to 9, 1995 seminar sponsored by the Public Sector Management Division; Quality Network; Environment and Social Policy Division; the seminars mentioned above; and several brown bag presentations on participation within the TWURD Urban Forum context; and the SA3 Department.

there is no attempt to discuss the structure and function of government and formal systems, generally, as they are perceived to be too far down stream to be relevant to the present discussion.³

3. As we perceived it under SSDP, a robust analytical framework for ID represents a critical departure from the existing paradigms that have guided development work in general and the ID work in the Bank, in particular. This framework as forged under SSDP departs from neoclassical economic assumptions, which North claims are "the fundamental stumbling block preventing an understanding of the existence, formation, and evolution of institutions."⁴ It fills a gap in the institutional economics approach to ID which emphasizes the pivotal role of institutions in market economies. Its unique feature centers on appreciating the social nature of institutions. As such, it engages in a process of substantial institutional change because it goes beyond incentives and markets, to deal with the "black box", that is, with the challenging complexity that underlies real institutional change. In this vein in the SSDP project, ID became a governance issue and required a redefinition of the Bank's client.

4. **Objective.** The objective of this essay concerning the SSDP case study is to stimulate debate on some of the questions related to the issue of ID. Since SSDP conceived of institutional development (ID) as a subset of social action, it promoted a paradigm for project design that is grounded in social action theory and practice. Through the following essay, we will attempt to answer the following questions: Why was this approach used as the basis for project preparation and design? What were the assumptions underlying the practices that were adopted? Can these assumptions and approaches be generalized to other sectors and countries? Why is it important to do so? What are some of the early perceptions of the benefits and costs of the SSDP project design?

5. **Impact of SSDP.** Although SSDP has only been underway for eleven months, it is already evident that, although the cost of preparing the project was twice the average cost in the Bank for the sector,⁵ long-term unit cost reductions and improvements have already begun due to SSDP's improvements in the governance system and in the Government of Sindh's (GOS's) public sector management performance, in particular.⁶ Overall, unit transaction costs have begun to decline; learning effects have begun to be observable; coordination effects have begun to improve synergy and the quality of public policy in GOS; supervisory capacity for project implementation has improved; and economies are beginning to emerge in the preparation of new pipeline projects covered under the SSDP policy and institutional reform framework.⁷ Given the improved performance under SSDP, both the Governments of Pakistan, and Sindh have officially expressed interest in replicating the SSDP in other provinces, including replication of the Executive Policy Action Coordination Organization (EXPACO) in other sectors. Among specific impacts of SSDP on improved performance are the following:

- a. **Achievement of more rapid and high quality public policy formation** for the urban sector through the establishment of a three tier mediating structure for policy making (no comparable structure existed in the past) in GOS during the preparation of SSDP's policy reform program. Policy formulation and implementation now occurs within a more transparent and cooperative environment at the technical level through ad-hoc working departmental groups; at the administrative, legal and regulatory level through a Secretaries Committee; and at the political level through a Cabinet Committee.⁸
- b. **Reduction of GOS transaction costs for coordination of public policy making.** Transaction costs have been reduced as follows: (a) average review and approval time for preparation and execution of executive summaries⁹ reduced from six months to 5 to 10

days; (b) the elapsed time for implementation of the executive orders for these policies has also been reduced by several months; and (c) the quality of these policies has improved substantially because of a higher level of interlocution and policy dialogue between the Bank and the Government.

- c. **Reduction in GOS departmental transaction costs through outsourcing of public functions to private sector.** Through the creation of EXPACO, executive summaries prepared by EXPACO for the Chief Minister's approval take on average a fraction of the time (a week to ten days compared to six months) it normally takes when submitted through normal channels (what is referred to as the "stovepipe"). EXPACO was designed as a secretariat to the Cabinet Committee to exclusively coordinate public policy-making and implementation. EXPACO operates fully within the direct administrative powers of provincial government. Four high ranking civil servants manage EXPACO. All support and technical services and staff have been outsourced to the private sector. EXPACO is preparing to outsource all of the institutional development work under the SSDP project. This outsourcing experience has had a positive effect on GOS as an example of how institutional change can be low risk and high return by working in partnership with the private sector.
- d. **Elimination of project start-up delays.** Although start-up delays are in decline in the South Asia region, typical start-up delays are about 12 to 18 months. The SSDP has had no start-up delay. (Although it took six months for the Federal Government to give its final approval, the delay was beyond anything the GOS could have influenced.)
- e. **Reduction in elapsed times in GOS's procurement cycle, with corresponding reduction in transaction costs and more rapid realization of benefits.** Although coefficients are beginning to decline for the typical procurement cycle (defined as not including preparation of final designs), it still takes about 15 to 24 months for large civil works projects. Under SSDP, the procurement cycle has been reduced to about 10 to 12 months, as a result: (a) unit costs for procurement of large civil works declined substantially; and (b) the intended benefits of the civil works are expected to come on-stream sooner.
- f. **Reduction in Bank transaction costs through indigenization of improved management systems in EXPACO** resulting in EXPACO fully adopting Bank procurement, project monitoring procedures, and project accounting and budgetary control with a minimum of Bank supervision. EXPACO has also begun to employ international consultants directly. The institutional development objective of EXPACO is to transfer the knowhow for each of these systems to GOS administrative departments and specialized agencies once these systems have been adapted (indigenized) for use within the GOS organizational culture.

II. Background of SSDP

- 6. **The Political Economy of Sindh.** SSDP's concern about capacity building centered upon improving the governance system in GOS. In 1988, representative government was being introduced after decades of authoritarianism and the country was clearly in need of improved systems of

decentralized governance. In urban, the challenges had become increasingly acute.¹⁰ Breakdown in government fiscal and administrative performance was evident relative to the increasing costs and complexity of urban. As we perceived public sector reform, no amount of discreet tinkering with an organization here or there, or simple resort to financial leverage or changes in the law was capable of generating the degree of critical reform needed for an improved municipal and provincial system of governance.

7. **Misdiagnosing ID Within Public Sector Management.** In low-income countries such as Pakistan, a **pre-civil, patron-client framework** of governance prevails. There is little consensus and trust within a prevailing informal society both in and out of government; a lack of credibility exists between the public and private sectors. Public sector institutions lack the capacity to mediate the "multiplicity of meanings;" they lack the institutional capacity for critically needed **leadership, visioning, and consensus building.**¹¹

8. Unless the **prevailing societal context is understood as essentially pre-modern,**¹² the dominant reality could be overlooked; public sector management problems can be misdiagnosed and solutions rendered impotent. For example, one could be misguided by the official mandates of public sector organizations and assume organizational and institutional maturity. One could simply presume that low income countries had modern public service departments, bureaus and systems despite the complex, contradictory reality of a predominantly pre-modern, pre-social, and pre-civil context. Despite external (official) appearances, pre-modern patterns of values, attitudes, and behaviors remain the prime factors influencing the character and formation of institutions ("underlying rules of the game"). Since the **overwhelming reality in the developing world (of low-income countries) is only superficially modern,** the dominant system of values and patterns of behavior within organizations and institutions, e.g., in the public sector, no less than in the society at large is **essentially undocumented; hence, informal.**¹³ To the extent that closed systems result in inverse modernization,¹⁴ the process has likely generated an inefficient byzantine complexity that constrains high performance, let alone genuine public service.

9. **The TRIAD.** Although development work has acknowledged that a distinction exists between organization and institutional development, and discussion has come to center on the need to deal with issues of governance,¹⁵ conceptualization of governance has largely evaded the above perception of reality.¹⁶ Since governance literature has largely **misdiagnosed the sociopolitical reality,** the change process fails to appreciate that the process of ID in public sector management is a social change process. As perceived under SSDP, sustainable ID in low income countries cannot proceed linearly or superficially. It requires an approach that deals with whole systems. Under SSDP, the whole system, defined as the Bank's client was termed the TRIAD. The TRIAD, aka the Bank's client, includes three major stakeholders: the bureaucracy, elected officials, and the general public comprised of the many "publics," all of whom must be engaged for effective ID change.¹⁷

10. Given the weak system of governance in Pakistan, the working relationships among the three stakeholders of the TRIAD are poor, and lack transparency and accountability. In summary, the **TRIAD is characterized by:** high levels of fragmentation, divisiveness, and helplessness; lack of capacity to be creative, take risks, master circumstances, and engage in long-term problem solving; lack of shared meaning concerning the "social¹⁸ or the public good"; and by a general culture of impoverishment, and cycle of poverty where relationships inhibit the generation of new ideas, and organization that would contribute to sustained socioeconomic development.¹⁹ Some of these characteristics are more or less predominant among different parts of the three major stakeholders of the TRIAD. (Please see page 13

for **diagram** depicting the authors observations of the quality of each of the three legs of the TRIAD in Sindh today.) The choice of the development community is either to engage in the creation of a healthy TRIAD through institutional capacity building, or stand apart and witness increasing degeneration and breakdown of urban societies (e.g., Karachi) in particular.

11. **The Challenge of a Changing Environment.** At times when urban space might have been more analogous to townships with small, relatively homogenous populations, and simple, and few urban functions, an ineffective governance system and lack of civil society was less problematic. Superficially functioning civil service is no longer sustainable. As urban space has expanded, with migration, and increased heterogeneity, today systems of governance require new capacity to manage complexity in increasingly turbulent urban environments.²⁰

III. **Working Hypotheses of SSDP**

12. **Policy Based Structural Adjustment.** What SSDP has done is place policy, and institutional reform ahead of physical investments, and it has done this within a coherent, and borrower-friendly reform package. Bank support for physical investments in the Sindh now only occurs when there is sufficient progress made on the pace, and quality of policy and institutional reforms. As such, SSDP which is more of a program than a project, has been called **policy-based structural adjustment investment lending** for provincial governments, without the fast disbursement characteristic of a Bank balance of payments structural adjustment loan (SAL), and hence without some of its negative features. A key feature of the SSDP is a long-term fiscal, and administrative policy, and institutional reform program that was agreed "up-front" as part of project negotiations. The policy reform program will take about a decade, and a half to two decades to implement, and serves as the main driving force for all future Bank lending in the Province of Sindh in infrastructure. Future lending operations are designed to support the agreed policy and institutional reforms.

13. **Demand Led Policy Dialogue.** Two related, but somewhat different changes in borrower incentive structure have occurred as a result of this reversal where **policy reform precedes Bank lending under SSDP**. First, by placing policy and institutional reform ahead of physical investments, the borrower has shown greater interest in policy dialogue as a necessary prerequisite to obtaining financial support to an agreed investment program (agreed as part of the SSDP project). We assume this interest will continue as long as political gains outweigh the political costs of reform. Given GOS's new willingness to engage in policy dialogue with the Bank, we have given it a name, "**demand-led policy dialogue.**"²¹ Second, a long-term coherent, and borrower friendly dialogue has begun (we feel the evidence justifies using the past tense even though the SSDP project has been in implementation for only eleven months) because of an approach to policy reform which empowered the borrower by allowing the creation of the reform program to be based on their **own or "indigenized" knowledge** (as opposed to external or exogenous knowledge) as the basis for reform.²²

14. **Hypotheses.** It is our principal hypothesis under SSDP that sustainable development requires (a) **changes in the rules of the games** (i.e., in the institutions), as well as **changes in the way the game is played** (i.e., in the organizations that are supposed to play within the rules set up by the institutions); and (b) that these changes necessarily occur in context **within a TRIAD**.

15. It is our thesis that past development work that has been based almost exclusively on "the way the game is played" by imposing solutions derived from external sources, or that has simply focused on

procedures, and the training of human resources has not been sustainable. Only when the underlying, deeply entrenched **power, and accountability relationships** (the rules of the game) are aligned to the satisfaction of the stakeholders (i.e., the rules are socially constructed); are **transparent**; accepted as **everyday knowledge** (institutionalized); **brought into a strategic balance of power by the stakeholders in the TRIAD**; and **locked-in through mediating structures** can sustainable institutional development really occur. Tactical interventions combined with strategic interventions can modify the quality of relations, and reduce transaction costs in the TRIAD, and thus the locus, and distribution of power, and accountability.

16. These hypotheses correspond to the work of Brian Arthur, and others (whom North later interpreted to include institutions) regarding self-reinforcing mechanisms in economics. For Arthur and North, **these self-reinforcing mechanisms create a dynamic structure that enables institutions to break historically derived limitations (i.e., break the closed system of which they are a part), learn by doing, and thus improve their performance.** As such, the structure provides an algorithm for determining the course that institutions would follow when they are undergoing change and development. The expectation is that as this algorithm succeeds, there would be "massive increasing returns" ²³ to institutional competence, ergo sustainable development. According to Arthur, the self-reinforcing mechanisms are: "(1) large setup or fixed costs [As was the case with SSDP which took four years to prepare.] which give the advantage of falling unit costs as output increases [This is increasingly evident under SSDP.]; (2) learning effects, which improve products or lower their costs as their prevalence increases; (3) coordination effects, which confer advantages to cooperation with other economic agents taking similar action [cooperation effects already evident in relations EXPACO has established with other GOS agencies not previously known for their cooperation]; and (4) adaptive expectations, where increased prevalence on the markets enhances beliefs of further prevalence." ²⁴ All of the above effects under SSDP have begun to emerge.

IV. Operationalizing Institutional Development Under SSDP

17. A New Approach. Under SSDP, beginning in 1989, the Task Manager, and two Bank consultants embarked on a program design wherein all physical investment projects, e.g., a water or transport project, were considered to be foremost institutional development projects to which certain physical investments have been included.²⁵ Work on ID was to be operationalized within the context of the TRIAD, that is, within a new dynamic that engaged all stakeholders in the realization of shared vision, and structural change.²⁶ Since institutional development was viewed as a dynamic and interactive process, not a static one, institutional development was best understood by taking into account the concerns of the client - defined as the TRIAD - and not by existing studies or literature research.²⁷

18. Over time, as the task manager, and consultants placed themselves as researchers within the context of study, their understanding of phenomena changed meaning as their own "**phenomenological stance**"²⁸ matured. Of particular significance through this long-term **participant observation and process facilitation approach under SSDP**,²⁹ a relationship emerged between the Bank and the client that no quick in and out Bank mission could hope to achieve. The stance was not antagonistic, but collaborative, and helped to improve participatory institutional capacity for improved performance.

19. New Game Rules and the Social Construction of a New Reality. Under SSDP, achieving genuinely modern, self-governing institutions was understood to require new "rules of the game" through a new "social construction of reality" that promotes new, but indigenized knowledge that fits

local circumstances, and ownership aptitude. Acknowledging the prevailing pre-modern world, ID could only proceed **through the collective engagement, work, and empowerment of local energies, and potentials existing among the major stakeholders, that is, through the TRIAD.** The reality of dealing with social forces, and society as a whole in the formation of good governance is critical to the developing world. In a world in which the rules, and norms lack legitimization by the people who are expected to abide by them, governance has to be addressed within the social context of a TRIAD.³⁰

20. **Multiplicity of Meanings.** Under SSDP, **empowering a client** to identify and resolve their development problems requires the indigenization of institutional strengthening.³¹ Indigenization requires a generation of new knowledge for the purpose of achieving shared meaning (consensus) about the problems and their resolution.³² The process of empowerment (e.g., of previously disempowered organizations) can be tracked through a **learning cycle** (A cycle which future research aims to document.).³³ For example, before any genuine and sustained receptivity to change emerges, **the complex reality of a multiplicity of meanings, generally existing within local institutions, must first be discovered, and distilled down to manageable differences by the local actors themselves.** Readiness to tackle any external inputs from outside actors such as the Bank at this point, best occurs when local actors are empowered to work from their own experiences, and knowledge rather than be subjected to premature imposition of externally derived (usually not understood) solutions. Ideally, consultants trained in the art of participant observation, and process facilitation can help to empower the client to proceed beyond **a multiplicity of meanings and objective/subjective stances towards increasing consensus and shared meaning.**³⁴

21. **Organization as Epistemology.** To understand and put into practice the concept of a multiplicity of meanings, it is helpful to understand organization as epistemology. In the context of **social practice,**³⁵ organization represents a community or communities of subjective meanings; of people's stories about their role(s) in the "lives" of a particular organization (or subcommunity in the organization). Ideally, organizational decisions are arrived at through the intersubjective agreements of individuals who have responsibility for making these decisions. According to Lewin,³⁶ these individuals (or their surrogates) will act on these decisions when they have experienced involvement in the decision-making process such that they mutually share in "understanding the nature of the problem," thus "unfreezing" or unlocking previous conceptions and broadening their thinking and "considering other alternatives." In low income countries, intersubjective agreement is highly constrained, hence, the challenge to break historically inherited patterns through empowerment of the TRIAD.

22. **Technical Assistance and the Indigenization of Knowledge.** Failure of development specialists to understand the premodern world and the subjective world of meaning within organizations and institutions of low income countries has resulted in unsustainable projects and ineffective ID. By presuming indigenous knowledge (subjective meaning) as either meaningless or inferior, they could not proceed to effectively mediate between the client and the Bank.³⁷ Far from facilitating a partnership that helped to unleash creative capacity for improved performance, the relationship between the client and the development community has typically been conflict ridden and costly. Persons skilled in mediation of multiple meanings, e.g., between the subjective/objective stances of the client and the Bank are a rare breed.³⁸

23. **Governance and The TRIAD.** Ideally, **political will**³⁹ represents a high degree of intersubjective agreement regarding choices to be made, and can result in high quality peak performance developed within the context of a TRIAD. At its best, political will requires instrumentalities of

knowledge, and organizational mediation that can help inform policy formulation,⁴⁰ and improve interaction among the various actors in the TRIAD.⁴¹ Ideally, **policy is formulated and established within a framework of meaning⁴² that is common to the three parts of the TRIAD**; and meaning is jointly shared among the organizations of the TRIAD when effective social interaction takes place, that is, when: (a) stakeholder experiences, and intentionality are shared; (b) relations among them are based on principles of interaction, accessibility, and inclusive diversity;⁴³ and (c) appropriate mediating structures⁴⁴ have been created, and made operationally relevant to the stakeholders in the TRIAD.

24. Inadequate understanding of "**ownership**" often underlies some of the present difficulty in attaining client ownership. Less attention should be paid to "ownership", and more to "**ownership rights**." The right to convey "ownership" of any good or service or future obligation is conferred in only a few, and they are generally not the people the Bank typically engages. The concept of ownership is often construed to be adequate because of a particular person's commitment, and dedication to the aims of a project, but under such circumstances there is no guarantee that the same person will be in authority in future.⁴⁵ Only some people in government (surprisingly few) have the so called right to convey ownership to anyone, including the Bank. Most officials involved in Bank projects do not have ownership rights, and cannot convey them even if they say they can.

25. **Mediating Structures.** Under SSDP, the first try at **empowering the client** occurred during the preparation of the project with satisfactory results. Further work will be required in the creation of mediating structures to improve the relationships among the three principal stakeholders in the TRIAD to a level that can be sustainable. Mediating structures serve the client and help to enhance public accountability, transparency, and public interest. Mediating structures can help connect isolated departments of the bureaucracy to act on agreed principles (for example, longer term interests of the parties involved can be a principle around which agreement can be reached) that foster improved relations with other government departments, public and private entities, and NGOs. Mediating structures empower the numerous community groups, and NGOs into forming **issue-oriented coalitions** for dialogue with the bureaucracy. These coalitions have the potential to help introduce new social forces, and relations leading to improved relations (characterized by improved public accountability, and public interest within the TRIAD), policy formulation, and implementation.⁴⁶

26. **Indigenizing Public Decision-Making.** To introduce a change in the current structure of deliberations on public policy issues and the knowledge base for decision-making, new and indigenous institutional channels can be introduced to improve **indigenous public decision-making**. As an example in Pakistan, **tribal juries** (the jirga) in Baluchistan, and the Northwest Frontier Provinces function as the law of the land in these tribal areas. These juries engage in public deliberations which rely upon the selection of jurors from the community to advance diverse viewpoints in order to identify and conquer prejudices, and craft a resolution within the microcosm of self-rule. Resulting decisions are transparent, and publicly shared by the community. Other examples include the East Asian **deliberative councils**. These councils, composed of elected officials, government bureaucrats, and representatives of concerned "publics," enrich public policy discussion in open forum during policy preparation so that relevant changes are introduced prior to seeking official approval through the command structure. Under SSDP an **appellate tribunal** is being created to resolve taxation disputes. These tribunals are comprised of specially appointed citizens with public officials serving as staff. An idea being considered under SSDP includes **neighborhood land-titling cooperatives** (these cooperatives comprised of about 250 households, or about four blocks of houses) would help mediate housing finance for low income groups and thus reduce the uncertainty of community representation and accountability to manageable levels.

27. **Strategic Balance.** Sustaining high quality performance, power, and accountability of each stakeholder in the TRIAD requires the creation of principled relationships, and **strategic balance**. Strategic balance represents the "**social construction of knowledge**" derived from the TRIAD's transformation of an incoherent multiplicity of meanings into a coherent body of commonly shared meaning where power relationships are aligned to the satisfaction of the stakeholders. With appropriate combinations of incentives and social practice interventions, such shared meaning can ideally include a new understanding of what **public accountability, civic responsiveness, and societal competence** means among the actors.

28. **Locking-in Mediating Structures.** With regard to **cost effective participation: locking-in mediating structures**, the strategic balance or perceived power possessed by any of the stakeholders in the TRIAD will be determined by the issue or the project at-hand. And in the creation of the TRIAD, that is, in the strengthening of the three governance units and their interaction, there will be many sometimes simple, sometimes quite complex and lengthy ways to mediate, and engage the appropriate actors. The challenge is to build in cost-effective participation through the development of strategic mediating mechanisms which enable the functioning of the TRIAD and improve governance. For example, in newly democratizing situations where the relationship between bureaucrats, and elected officials may be very poor in that they resist working together, the mediating mechanism could take the form of one individual bridging a "**mediation gap**" as was the case during the preparation of the SSDP project.⁴⁷ The lock-in, however, is attained because the specific mediation meets the true demand (demand here is interpreted in the "willingness to pay" economic sense, where the term pay is interpreted more generally) of the parties involved.

29. **Institutionalization.** According to Berger and Luckmann, intersubjective agreements become institutionalized when meaning and action become "habitualized," and embedded in "[the] general stock of knowledge" ⁴⁸ when likeminded individuals begin to share a framework of meaning and action to the extent that the meanings and actions become routine or institutionalized. All institutions introduce a degree of control over the behavior of the actors involved in the shared framework.⁴⁹ For example under SSDP, there is evidence of institutionalization of Bank procurement procedures by EXPACO.⁵⁰ Under the Second Karachi Water Supply and Sanitation Project (Cr. 1987-PAK), there is evidence of institutionalization of higher quality financial accounting and reporting, and management information systems in KWSB as a result of Bank involvement.⁵¹

30. The process of institutionalization takes time. "Built up in the course of a shared history," of meaning and action, the process of institutionalization represents a history in which the institution is the product. Institutions cannot be fully understood without understanding the historical process that produced them.⁵² A measure of the time it takes for institutionalization to become sustainable can be obtained by estimating the time it might take to transform multiple meanings into shared meanings, shared meanings into intersubjective agreements, these agreements into the desired actions, and finally, the desired actions into habitualized patterns of behavior. These measurements must take into account the time it will take for the project as "demonstration effect" to impact on the broader institutional context of which the project is a part.

31. **Developing Learning Organizations.** In low income countries that have lacked democratic systems, ossified patterns of authoritarianism have so denied participation that the voiceless are as much in government as out of government. As perceived under SSDP, breaking with the past requires a **phenomenological interpretation of empowerment** that includes a generic interpretation of participation

that focuses on "**listening to everyone.**" This broad-based vision of interaction and accessibility that embraces everyone aims ultimately at the creation of new, indigenized, more innovative, problem-oriented, high performance-based systems of governance. Unless the understanding of social goes beyond non-governmental, the concept of participation as institutional capacity building is skewed, and the solutions become prescriptive and reductionist, i.e., bottom-up or top-down.⁵³ As such, we have named the process of designing governance interventions under SSDP **participatory-institutional capacity building.**

32. **Sustainability.** As we perceived it under SSDP, institutional development is made sustainable when: (i) the three stakeholders of the TRIAD are held in **strategic balance**, i.e., when the cohesive relational forces exceed divisive ones, and a system of checks and balances is created which introduces the dynamics of public accountability, civic responsiveness, and societal competence; (ii) the **mediating structures** are locked-in by public demand for the services provided by them; and (iii) the organizations of the TRIAD recognize the value of becoming **learning organizations**, and take steps to initiate actions leading toward this objective.⁵⁴

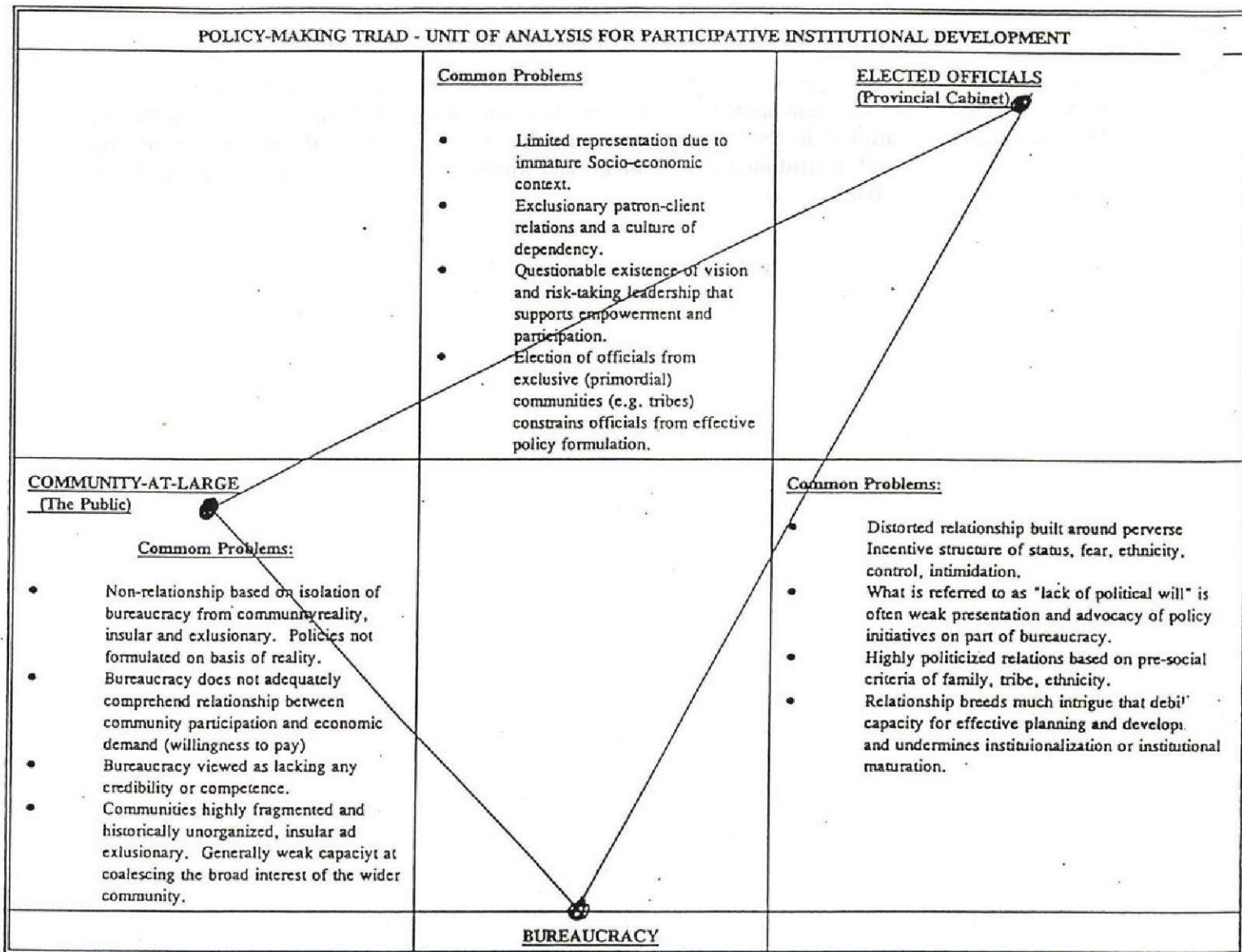
33. **Institutional Challenge.** Development projects are composed of many interconnected organizations, many of which operate under different sets of rules and procedures such that interconnections are generally problematic. For a development project to achieve its objectives, these different sets of rules and procedures must be aligned sufficiently so that economy of means can occur and transaction costs reduced. Much of these interconnections cut across sectors, functions, rules, procedures, and even the ethos of the myriad of institutions and organizations that need to be involved. In GOS, for example, a large urban transport project might engage a half dozen sectoral government departments (e.g., Transport, Environment, Town Planning, etc.) and core government departments (e.g., Finance, Excise and Taxation, and Board of Revenue); it could also include numerous engineering management and construction firms, public interest groups (e.g., NGOs, and citizen neighborhood associations), and private business associations. The challenge here is not simply to achieve a mass representation of interests, but rather to mediate for high performance among the actors. Mediation takes on real significance and value when one discovers (as we so often do in Bank projects) that each of these organizations have their own approach to solving problems of a particular city. Nevertheless, there cannot be more than one solution at a time to a city's transport problems. If more than one approach were actually implemented, chaos would occur as it does presently in many low income mega cities of the developing world. Such a challenge requires working beyond the rigid formal and impersonal procedures of the past towards a more social construction of procedures and means to achieve new meaningful consensus and working relationships.

34. **Public Interest Calculus.** In conclusion, the advantage of the TRIAD is that it averts the simple reduction of issues, projects, and problems to the conflict ridden level of government versus the people or to a process of change that is so narrowly rational that it rejects indigenization. Strategic ends are met by assembling, and engaging concerned actors in the TRIAD for resolution of problems in the realization of a common good, what we have termed a "**public interest calculus.**" **In infrastructure, public compliance may have more to do with the legitimacy of the executing agency;** a legitimacy derived more from its relationship, and quality of interaction with its external environment, than from its administrative, and legal capacities. Concentrating only on enhancing the internal powers of an organization has proved in the past to be disappointing. The solution must lie elsewhere--in the redefinition of the ethos, nature, and beliefs of these organizations in a manner that enables them to enter into a new **socially constructed relationship** with the stakeholders of the TRIAD for an improved system

of governance. The principal source of a strategic balance of forces, and levers that can sustain transformation, and development has to be indigenously built into the context of the TRIAD. **Connecting the organizational entities⁵⁵ in the TRIAD represents the "public interest calculus" which we feel is the key to policy, and institutional development, and which we believe can best be leveraged by an external force like the Bank.⁵⁶**

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June 12, 1995



Characteristics of Triad:

- Fragmentation, division and divisiveness
- Passive Agents (unempowered) not mastering circumstances
- Uncreative, lack capacity to take risk and engage in long-term problem solving
- All lack sense of the "social or the public good" (unable to go beyond their own interest)
- All locked into culture of impoverishment and cycle of poverty. Relationship inhibit generation of new ideas and organization that would contribute to sustain socio-economic development.

Need:

Strategic intervention to build capacity for creative alternatives

ENDNOTES

1. Douglass C. North, Institutions, Institutional Change and Economic Performance: The Political Economy of Institutions and Decisions, (Cambridge: Cambridge University Press, 1990); 1992 Evaluation Results (Washington, D.C.: The World Bank, 1994):123-5.

2. Peter L. Berger and Thomas Luckmann, The Social Construction of Reality: A Treatise in the Sociology of Knowledge (New York: Anchor Books, 1967).

3. SSDP also benefited from an understanding of isomorphism. Institutional behavior is generally examined from a multi-disciplinary perspective. The multi-disciplinary approach, however, is limited as it does not deal with understanding the "boundaries" or interfaces among disciplines. To understand boundary problems one can turn to the concept of isomorphism from general systems theory. From Websters Collegiate Dictionary, Tenth Edition, isomorphism means "the quality or state of being isomorphic, i.e., being of identical or similar form, shape, or structure" such that all systems' morphologies are essentially interchangeable and the morphology of one system can be used to explain another. An example is the analogy between quantum mechanics where particle action occurs as a result of an exchange of information, and Bion's work on group behavior (flight-fight theory) where human action occurs because information is exchanged between two or more people.

4. Regrettably, there is little knowledge about the institutions we need to deal with. According to North, "...neoclassical theory has been a major contribution to knowledge and works well in the analysis of markets in developed countries. At the other end of the scale, however, it does not provide much insight into such organizations as the medieval manor, the Champagne fairs, or the suq (the bazaar market that characterizes much of the Middle East and North Africa)." "...and it does not explain the persistence [of the contrast between the logical implications of neoclassical theory and the performance of economies] for millennia of what appear to be inefficient forms of exchange." Again to the extent that past analysis, research, and work pertaining to institutional development was grounded in a neoclassical paradigm, institutions were never perceived beyond being exogenous variables in the change process. As such, institutional development in the Bank (as elsewhere) was reduced to a technical issue mainly of procedures and training and never fully integrated with development economics. While improving discreet functions of a client organization is necessary, such technical assistance is insufficient by itself to understand, let alone develop sustainable institutional incentives to lastingly improve the overall quality of institutional and organizational performance.

5. To a large extent, the high average cost of preparation was due to the fact that many of the proposed reforms were actually beginning to be adopted (implemented) during the course of project preparation. These early reforms which occurred during preparation were akin to "market testing" reforms, the success of which was measured by the Cabinet ministers who experienced the positive results. Had the reforms not succeeded, the project would have failed. An example of reform is the work that was accomplished by the Finance Department to mobilize resources.

6. According to Arthur, large setup or fixed costs typically occur when institutions undergo change and development. Through increasing returns to institutional competence (through self-reinforcing mechanisms Arthur describes), these high initial costs decline as output increases. W. Brian Arthur, "Self-Reinforcing Mechanisms in Economics," The Economy as an Evolving Complex System, Philip W. Anderson, Kenneth J. Arrow, David Pines (eds.) (Reading, MA.:Addison-Wesley, 1988): 10.

7. It should be noted that these changes are still at a very early stage and that it is important to continue to strengthen EXPACO's technical capacity in order to achieve sustainability and the long-term benefits of the approach to policy-based sector investment structural adjustment lending operations for provincial governments.

8. The **Sindh Cabinet Committee** for the SSDP includes the Chief Minister as chairperson, and the ministers from the following departments: Planning and Development; Finance; Excise and Taxation; Member Board of Revenue; Local Government and Rural Development; Housing, Town Planning and Environment; Transport; General Administration and Services; Health; and Education. The **Secretaries Committee** under the SSDP includes the Chief Secretary as chairperson, and the secretaries of the departments listed above. The ad-hoc technical working committees are made up of senior level civil servants, including additional secretaries, deputy secretaries, and section chiefs, from relevant departments who came together with external experts when needed to do policy analysis and prepare reform programs to technically feasible levels.

9. In general, executive summaries are policy briefs prepared by administrative departments for review by the Chief Minister. All initiatives that impact on the budget are executive summaries. Many executive summaries are essentially needless "paper work" under the centralized system of budgetary management in the Pakistan public sector.

10. This was particularly problematic because Karachi is Pakistan's industrial and financial center, and only port. It generates a greater share of GDP than any other city and, in growth terms, more than agriculture: Agriculture contribute 26% of GDP, but as a sector it is growing at 3-4%; industry and manufacturing are growing at 7-8%. Any breakdown of this urban center would have national repercussions.

11. Beginning in 1991, just after Bank consultants issued a critical analysis of government administration weaknesses in Sindh, a series of similar articles followed: Sultan Ahmed, "Soaring Cost of Bureaucracy Arrests Social Growth," Dawn (June 8, 1991); Tasneen Ahmad Siddiqui, "The Dynamics of Bureaucratic Rule," Dawn (November 22, 1991); Karamat Ali and B. M. Kutty, "In the Lap of Bureaucracy," Dawn (February 14, 1992); Akhter Hameed Khan, "What is the True State of Affairs: Something to Write Home About," Dawn (February 21, 1992); Mubarak Ali, "Our Feudal Democracy," Dawn (February 21, 1992); N. H. Jafarey, "End Bureaucrat Bashing: What is the True State of Affairs?" Dawn (February 28, 1992); Arif Hasan, "What is the True State of Affairs?: The Unresolved Conflict," Dawn (March 13, 1992); Ali Jawad, "The Other Face of Bureaucracy," Dawn (March 20, 1992); Anjum Niaz, "Today Society Wants a Man With Money," Dawn (March 20, 1992). For critical discussions regarding the machinery of government in Pakistan, please also see the following articles in The Globe (December 1991): Zafar Iqbal, "Pakistani Bureaucracy," pp.12-14; A Globe Report, "Wanted-A New Mental Approach," p.15; Prof. Dr. M.A. Hussein Mullick, "The Bureaucrats Can No More Deliver the Goods: Professionals Must Take Over the Task Of Development," pp.16-25; Inayatullah, "Pakistan Administration: Need For Reorganization and New Orientation," pp.26-31; Ikram Sehgal, "The Philosophy and Problems of Privatization," pp.32-34. In addition, please see Sultan Ahmed, "Forceful Civic Government: Solution to Karachi's Problems..II," Dawn (January 27, 1987); Kunwar Idris, "Man-Made Woes of Karachi," Dawn (April 22, 1994); Dr. Mohammad Waseem,

"Breaking the Logjam," Dawn (April 25, 1994); Dr. Mehtab Karim, "Prescriptions for Karachi: More Money, Better Managers," The Friday Times (August 25-31, 1994). Charles H. Kennedy, Bureaucracy in Pakistan (New York: Oxford University Press, 1987).

12. The term premodern can best be understood in terms of Sharabi's articulation of neopatriarchy. Please see Hisham Sharabi, Neopatriarchy: A Theory of Distorted Change in Arab Society (New York: Oxford University Press, 1988). In the process of development, Samir Khalaf offers a critical articulation of adaptive modernization (see endnote 14). Similarly, SSDP reveals a theory base and development model for the creative generation of indigenized development for a shift from the premodern towards creative and effective indigenized modernization in low-income countries. In summary, becoming modern is a process that: involves the will and capacity of a society to achieve sustainable growth and absorb and generate change or innovation; transcends fight flight response to change with a sustained "learning-by-doing" approach that copes with the imbalances and discontinuities of change; and emerges as a non-ending dialectical process aimed at perpetual improvement of performance.

13. Little of documentation has been formally published, although a great deal of material has already been culled by the task manager, and his consultants over the last several years. For reference, please see Neil Boyle and Albert Wight, "Economic Growth and the Informal Sector," Infrastructure Notes (Washington, D.C.: The World Bank, September 1992); Neil Boyle and Ajay Kumar, "Municipal Development: The Role of Provincial Governments as Intermediaries," Infrastructure Notes (Washington, D.C.: The World Bank, September 1993); and Neil Boyle, "Strategic Intervention in the TRIAD," Presentation to the Bank Quality Network on SSDP work in Sindh, rec. James Kearns (Washington, D.C.: The World Bank, unpublished, [1994]).

14. Samir Khalaf, "On Loyalties and Social Change," The Modern Economic and Social History of the Middle East in its World Context, ed. Georges Sabagh (Cambridge: Cambridge University Press, 1989): 92-8.

15. The World Bank definition of Governance refers to a country's use of power in the management of its resources for the social and economic development of its people. Governance: The World Bank's Experience. (Washington, D.C.: World Bank Publication, 1994). The Bank mandate allows its engagement in the realm of governance to the extent that it promotes sustainable economic and social development and avoid internal political affairs. SSDP has offered a framework for effective and sustainable development of improved governance which it has further clarified as the TRIAD. Relative to the Bank Mandate, SSDP focused on improving capacity for effective, sustainable socioeconomic development through an approach to institutional development that offered unprecedented improvement in the policy making and implementation framework. The fact that SSDP was sustained despite eight changes in government is a reflection of how it remained outside the political arena, concentrating on the crucial issue of improving sustainable capacity for longterm socioeconomic development.

16. The reductionist approach equates governance with government. Ethnocentrism is visible in the emphasis placed on legal structures, among other items. For a critique of current literature on the governance issue, please see the work of Mick Moore, "Declining to Learn from the East? The World Bank on Governance and Development," IDS Bulletin, XXIV, 1 (1993): 39-47. And for elaboration on the issue of adaptive modernization and political economy in urban, please see Silsby, "Political Economy and Urban Middle Class Formation".

17. Elected representatives and government bureaucracy are treated as separate stakeholders in the Pakistan sociopolitical context. During years of authoritarian rule, the bureaucracy effectively functioned both as policy maker and policy implementer, and now encounters difficulty in adjusting to elected representatives on the scene. Lacking pre-existing institutions that are informed by a public service ethos (i.e., by the social construction of public policy), and longstanding frameworks for effective checks, and balances, the typically European emphasis on legal systems, and the dualistic relationship of people versus government are insufficient to break with the past and help to usher in a new era of improved development administration.

18. The term "social" as used in this proposal, represents a culture of values that set standards and introduces ideas, and patterns of behavior that support the concept of inclusive diversity.

19. Arif Hasan, "Karachi and the Global Nature of Urban Violence," The Urban Age (Summer 1993).

20. As Hobsbawm has written "ultra-rapid, fundamental and unprecedented socio-economic transformations so characteristic of the third quarter of our century" have fueled fear and insecurity and often strengthened primordial networks which themselves reflect a concern, to wit, the "economics of shortage" and weak integration in a disintegrating society. It is in this vein, that when we witness ethnic or tribal strife, they are essentially symptoms of a greater absence of mediating mechanisms without which society flounders, and civil society has little sustainability. E.J. Hobsbawm, Nations and Nationalism Since 1780: Programme, Myth, Reality. (Cambridge: Cambridge University Press, 1990):173-4.

21. Emiel Wegelin who at the time was the Director of Urban Projects at the Netherlands Economic Institute in Rotterdam was the economist who helped prepare and appraise the SSDP project. He first used this term in 1993 in a discussion with Neil Boyle on replicating the project in other provinces in Pakistan and in other countries.

22. This was in keeping with Kurt Lewin's findings from a study for the U.S. Government, namely: "when people become involved in the problem, they become significantly and sincerely committed to coming up with solutions to the problem." As he discovered, "people resisted change until they started meeting together and gaining an understanding of the nature of the problem...[after which] they gradually loosened up, 'unfroze' their perceptions, broadened their thinking, and seriously considered alternatives...[A]s they expressed themselves fully - without fear of being censured, embarrassed, or ridiculed... - many actually changed their...habits." Stephen R. Covey, Principle Centered Leadership (New York: Simon and Schuster, 1991): 220-221. Kurt Lewin, a professor at MIT Sloan School of Management in the 1940s and '50s is often cited as the father of group dynamics. Lewin's work forms a good part of the intellectual underpinning of Neil Boyle's work in Pakistan, as first evidenced during a discussion of the unseen organizational dynamics (the iceberg phenomenon) perceived during the Second Karachi Water Supply and Sanitation Project (Cr. 1987-PAK) that Boyle first worked on in Pakistan. Neil Boyle presentation to World Bank Urban Forum (Washington, D.C.: unpublished, [February 1990]).

23. North, op.cit., 95.

24. W. Brian Arthur, "Self-Reinforcing Mechanisms in Economics," The Economy as an Evolving Complex System, Philip W. Anderson, Kenneth J. Arrow, David Pines (eds.) (Reading, MA.:Addison-Wesley, 1988): 10.

25. With regards to the separation of the physical system from its subjective meaning, normally we separate a water supply system from its subjective meaning or its institutional meaning; in fact, we rarely associate meaning with a physical thing. This says something about the way we view the Bank's clients. For example, when we say, "we need to keep the pressure up on the water authority," we are effectively referring to the provision of water supply as a mechanical phenomenon that is devoid of any reference to serving a customer that has particular preferences, tastes, budgets, and so forth. It also raises questions of cultural sensitivity. As a mechanical system, water supply systems do not have to be adapted to the cultural contexts of specific countries. This metaphor and its explication came out of a written commentary by Rashid Ahmad in 1993 and was further elaborated on in subsequent discussions with Neil Boyle in 1994.

26. To label all development projects as institutional development projects was in keeping with the 1990 Evaluation Results from the Bank's Operations Evaluation Department (OED) where for the first time the Bank acknowledged that economic development entailed more than just physical and financial capital, but also the other softer forms of development capital such as human, cultural, institutional, and natural resource.

27. Edward Said, the eminent Middle East scholar on Orientalism, once referred to the practice of identifying the truths of a "real place" on the basis of texts that seem to draw on other texts for their authority as the "citationary" nature of defining Orientalism [read reality]. His message was to highlight how removed the study of Orientalism has become from any reality on the ground. Abu-Lughod, "Anthropology's Orient: The Boundaries of Theory on the Arab World," Theory, Politics and the Arab World: Critical Responses, ed. Hisham Sharabi (New York: Routledge, Chapman and Hall, Inc., 1990): 81-132.

28. The idea behind the term "phenomenological stance" came from the term "epistemological stance" used by Neil Boyle in a July 21, 1994 memo that was addressed to Peter Richardson and also circulated by Jim Kearns to all members of the Bank Quality Network as an "interesting commentary of quality development [in the Bank]." The particular subject discussed dealt with shifting from the "expert" to a "participative" model of technical assistance, and with the perception that this shift "involves no less than being clear about where 'we' are located vis a vis the system or phenomenon identified for change, about our epistemological stance."

29. One person served as participant observer and process facilitator. As both observer and facilitator, the consultant was better able to move between the objective and subjective stances thus facilitating the engagement of the client in mediating more effective indigenized outcomes, as well as providing a basis for experiencing the actions of others, and thus the interpretation of their subjective meanings.

30. Peter L. Berger and Thomas Luckmann, The Social Construction of Reality: A Treatise in the Sociology of Knowledge (New York: Anchor Books, 1967); Gibson Burrell and Gareth Morgan, Sociological Paradigms and Organizational Analysis (London: Heinemann Educational Books, Ltd., 1982); Gareth Morgan, Images of Organization (Newbury Park: Sage Publications, Inc., 1986); Karl E. Weick, The Social Psychology of Organizing (Massachusetts: Addison-Wesley Publishing Co., 1969); Vincent Ostrom, The Intellectual Crisis in American Public Administration (Alabama: The University of Alabama Press, 1974); Lila Abu-Lughod, "Anthropology's Orient: The Boundaries of Theory on the Arab World," Theory, Politics and the Arab World: Critical Responses, ed. Hisham Sharabi (New York: Routledge, Chapman and Hall, Inc., 1990).

31. For valuable contribution to literature on the topic of "commitment," please see J. M. Kearns, "Generating and Sustaining Commitment to Bank Projects," World Bank Discussion Paper for Wapenhan's Task Force on Portfolio Management (Washington, D.C.: The World Bank, unpublished, [May 13, 1992]).

32. It is assumed that since consensus or agreement does not exist, the knowledge generated is "new."

33. The learning process under the course of indigenization described above is quite likely one which can be perceived as evolving through passages representing increasing enrichment of the mind, that is, increasing capacity for learning-to-learn and problem-solving. As Bateson has noted, " 'learning to learn' is a synonym for the acquisition of that class of abstract habits of thought" and thought can be distinguished between simple learning (proto-learning and single-loop learning) and more complex learning modes (deutero-learning and double-loop learning). Gregory Bateson, Steps to an Ecology of Mind: The New Information Sciences Can Lead to A New Understanding of Man (New York, Ballantine Books, Inc., 1972): 166-7. The process is one of modelling the unfamiliar on the familiar, of proceeding with generative metaphors during the preanalytical detection of similarity, and then constructing the model that reflect on perceived similarity. Donald Schon, The Reflective Practitioner: How Professionals Think in Action (New York: Basic Books, 1983): 186. Please also see Morgan, op.cit.

34. This process of indigenization compares to the process of **adaptive modernization** where seemingly antithetical elements (e.g., tradition and modernity) converge for peak development performance. In this vein, the change process grounded in a course of indigenization and adaptive modernization allows for complex and different worlds to converge in the creation of new social worlds of meaning. For among the best discussions of adaptive modernization, please see Khalaf, "On Loyalties and Social Change," 89-112. For an important perspective on the question of modernity and the process of modernization, please see Hisham Sharabi, Neopatriarchy: A Theory of Distorted Change in Arab Society (New York: Oxford University Press, 1988).

35. To incorporate the full meaning of the term "social practice" in the proposed framework, several questions having to do with analytical adequacy must be addressed in order to make the framework operational. Since the purpose of this essay is limited, we dwell on the questions that were the most useful in the design and preparation of the SSDP project. These questions are not meant for the purpose of intellectual debate. They are fundamental to understanding social phenomena and to a more effective practice of ID. They speak to the questions of: explanation of human behavior; sources of motivation; focus of description; epistemology; primary unit of analysis; and the ontological nature of the self. The risk of not addressing these questions is failure to take social phenomena seriously, thus rendering institutions barren of any complexity.

36. Covey, op. cit., 220-221.

37. For critical review of technical assistance in the Bank, please see Steve Berkman, "Technical Assistance in Africa: How it Works and Doesn't Work," (Washington, D.C.: AFTED, unpublished, [October 19, 1990]); and Beatrice Buyck, The Bank's Use of Technical Assistance for Institutional Development, WPS 578 (Washington, D.C.: World Bank, 1991).

38. Gareth Morgan describes a useful method of organizational analysis that he refers to as "reading as theory-in-practice," or "reading a situation," by using metaphor to understand, manage, and design organizations. By using metaphors in this manner, one is "not required to memorize complex theories or long lists of abstract concepts. We are simply encouraged to learn how to think about

situations from different standpoints. We are invited to do what we do naturally, but to do so more consciously and broadly." Morgan further explains that, "the trick is to engage in a kind of conversation with the situation one is trying to understand." And that, "rather than impose a view point..., one should allow the situation to reveal how it can be understood from other vantage points...that a situation 'has its own opinion' in that it invites understanding through a frame of reference other than the one being applied." Through this reading process, "one is able to move gradually to some judgement or critical evaluation of the situation. Balanced judgements are possible by letting this kind of inquiry take its course. As with any other skill, one learns the art of reading a situation and critical analysis and evaluation become easier to achieve." Gareth Morgan, Images of Organization (Newbury Park: Sage Publications, Inc., 1986): 336-337.

39. The development community often uses the lack of "political will" to describe a policy failure by government where no other explanation is perceived to exist. The term appears to mean a highly informed consensus by key decision-makers. While this domain typically has been outside Bank scrutiny, it has also been misunderstood. We have often failed to appreciate that, at its worst, political will represents a high level of rigid formality and ill-informed policy formulation, the results of which benefit exclusive patronage networks and fail to improve the socioeconomic conditions of the country. Also refer to footnote 30 for reference to J.M. Kearns work on commitment.

40. Examples of this include: **competent presentation, and advocacy by bureaucracy** of policy proposals to elected officials; creation of a three-tier institutional arrangement for policy formulation similar to the arrangement created under SSDP; and **creation of a research and analysis facility** exclusively for the use of members of the Provincial Assembly, a facility capable of informing the policy formation process. In this vein, political will is a variable, one among many, that could be improved through effective institutional development, and not simply some abstract achievement of will power.

41. This essay's view of the TRIAD conceptualizes the change process beyond a dualistic and dichotomous framework. As presented in his own work, Samir Khalaf, writes: "The basic argument of this essay departs from the tradition of dichotomous schemes, a tempting and powerful tradition, which still occupies a peculiar place in the folklore of Western sociological theory. Indeed, we cannot begin to understand what is involved in the processes of social change in the Arab world unless we abandon the tendency to view transformation as an inevitable, directional, and unilinear movement from one polar end of the scheme to the other. Despite their rich insights, all such polarized dichotomies obscure and mystify the inherently dialectical character of the relationship between traditional and rational loyalties." Samir Khalaf, "On Loyalties and Social Change," The Modern Economic and Social History of the Middle East in Its World Context, ed. Georges Sabagh (Cambridge: Cambridge University Press, 1989): 107.

42. For the purposes of this work, the words "meaning and knowledge" are interpreted and used in their phenomenological sense. We take all "meaning" to be subjective which emerges from human action. "Knowledge" is meaning that is institutionalized. According to Vrmeeer meaning comes out of interaction between an individual's consciousness and that which he/she is conscious of, i.e., an object. "Consciousness and 'object' constitute a whole in which each is an aspect of that transaction rather than a duality." It is this whole that leads to the creation of a "unique reality." The meaning generated by this transaction is composed of one's "immediate purpose or 'intentionality'" to use one's "past experience as assumptions being brought to the situation as [personal] meaning," [and] "future expectations in terms of behavioral possibilities realizable within the subjective reality definition..." "During any transaction, [one] never knows more of the external world than provided by the cues that are apprehended as relevant to achieving one's purposes within a defined situation." Therefore,

perception is unique to the person and the situation. Common perceptions are possible as experience and intentionality are shared among people. What is perceived is "inseparable from the process of perceiving and both reflecting reality by virtue of the active participation of the perceiver." Richard Vrmeer, Phenomenology in the Radical Reconstruction of the Study of Public Administration: An Overview (California State College, Hayward, California: unpublished, [March 1970]): 11-12.

43. Such an approach relative to our work in Pakistan was first articulated by Susan P. Silsby, with reference to Georgetown University Professor Desain's philosophy of "inclusive diversity" and anthropologist Franz Boas conception of "interaction and accessibility." For reference, please see Susan P. Silsby, "Global Trends, 1500-present" (George Mason University, Virginia: unpublished lecture notes, [1989-90]); Susan P. Silsby, "Political Economy and Urban Middle Class Formation: Egypt, Saudi Arabia, Algeria, and Syria, 1960-1990" (Washington, D.C.: unpublished, [1994]).

44. For other discussions concerning participation, please see Robert Picciotto, Participatory Development: Myths and Dilemmas, Policy Research Working Paper (Washington, D.C.: World Bank, July 1992); and Robert Picciotto, "The Quality Dimensions of Bank Operations" (Washington, D.C.: unpublished discussion paper, [January 26, 1994]). For reference to a leading Bank Discussion Paper on Participation, please also see Participatory Development in the World Bank: Potential Directions for Change, ed. Bhuvan Bhatnagar and Aubrey C. Williams, World Bank Discussion Paper 183 (Washington, D.C.: The World Bank, 1992).

45. The issue centers on weak institutions. As Masood put it, "During 40 years of our existence as a nation, we have created personalities but not institutions; on the contrary, we have consciously curbed the growth of the latter." Masood, "Operation Sohrab Goth and Aftermath," Readers Weekly (Dec. 24-30, 1986): 17.

46. For reference to linking policy formulation with community participation, please see Neil E. Boyle and Susan P. Silsby, "How SSDP Supports NGOs," Notes to Professor Thomas Carroll, George Washington University (July 8, 1994). With regards to complex issues which need mediation such as may arise under development of a mass transit system, mediation as is being developed under the SSDP and the Karachi Urban Transport Project (appraisal FY96) may offer useful insights. This mediation centers on the establishment of a specific policy-making framework consisting of: (a) a consultative body representing a place for interaction of the broad-based parties such as the private bus-owners association(s), and the riding public (the regulatory consumers), and relevant government departments, and agencies (the regulatory producers) in the mass transit project whose views can be aired in a constructive manner through process facilitation; (b) an urban transport advisory group (UTAG) where a long-term strategic view can be forged within inputs from not only the outputs from the consultative body, but also from experts of various disciplines, e.g., engineers, economists, demographers, policy analysts, resettlement, and environment; (c) a secretaries committee headed by the Chief Secretary of the Province for evaluation of the technical outputs from (a), and (b) for their legal, administrative, and regulatory dimensions, and within a public policy context that then leads to review by a Cabinet Committee (the third tier) headed by the Chief Minister of the Province for political feasibility. The above was developed in the field, and presented in The World Bank Aide Memoire, Supervision Mission of the Sindh Special Development Project (April 8-May 21, 1994).

47. SSDP supported the placement of a technical advisor to serve as "Executive Secretary" to the Minister of Planning and Development in the Government of Sindh to counter the built-in resistance of the Department Secretaries to serve public policy-makers. Decades of authoritarian rule had fostered their dominating the policy formation process, given the absence of elected representatives.

48. In this vein, knowledge is "taken for granted by the [individual] and at hand for his projects into the future;" and these habitualized actions are replicated under specific circumstances by specific ("types of actors") individuals; a process Berger and Luckmann refer to as "reciprocal typifications of actions." Berger and Luckmann, op. cit., 53-55.

49. Since institutions are generally "collectives containing considerable numbers of people," institutions represent "assemblages of typifications," and by their "existence, control human conduct by setting up predefined patterns of conduct, which channel [conduct] in one direction as against the many other directions that would theoretically be possible." According to Berger and Luckmann, control of the sort described above is inherent in institutionalization, prior to or apart from any mechanism of sanctions set up to support the institution. Berger and Luckmann, op. cit., 55.

50. Several examples of procurement by EXPACO point to EXPACO's adoption of Bank procurement guidelines. One could argue correctly that the incentive for following Bank guidelines has been the Bank's close supervision of such activity. Concurrently, one could correctly argue that the really operative incentive has been the fact that EXPACO is a public-private partnership where administrative and technical support services to EXPACO are provided by a well established and influential private Pakistani contracting firm that by its close proximity to EXPACO serves as a form of implicit supervision of procurement activity. EXPACO, almost from the very beginning of its existence the latter half of 1994 started in the right direction, so the evidence of institutionalization of procurement procedures cannot be said to have taken very long. We submit that perhaps other factors besides the current high quality process facilitation in EXPACO are contributing to this institutionalization process of procurement procedures and principles.

51. Improved staff meetings provides an excellent basis for studying the process of institutionalization in Pakistan. Several task managers have been involved in the supervision of this project and its predecessor, the Karachi Water Supply Project (Cr. 1374-PAK) (1983 to the present). Although a longitudinal study of the description, output quality, and intervention process of staff meetings in KWSB has not been made, recent interview and observation data seem to substantiate the finding that the form, structure, and output of staff meetings have changed significantly. It is estimated that the change process took about eighteen months.

52. The historical process refers to the social construction of knowledge of the institution under examination. Understanding how the institution socially constructed its knowledge in the past provides the basis for understanding how it will behave in the future. Berger and Luckmann, op. cit., 54.

53. The long-term, perhaps never fully attainable goal of this capacity building is to construct a society that goes beyond the pre-social, pre-civil, pre-modern, and beyond the simplistic bottom-up or top-down strategies that position the poor and non-government sector as the ones to be empowered. Relying on a Eurocentric approach of bottom-up change could be conflict-ridden, and top-down is absurd for want of incentive, and capacity for high performance analogous to the East Asian functionaries.

54. From our own experience based on decades of field work in low income countries and most recently in Pakistan, institutions are understood to mean the rules of the game relative to the major stakeholders in a broader sociopolitical context that we have termed the TRIAD. Within the TRIAD, the issues of ID and governance converge. Understanding the function of institutions in this context requires understanding the dynamic relationships between and among the stakeholders, how the stakeholders presently create their realities, and thus the knowledge that either binds them together or separates them apart, and how power and accountability relationships come about, change over time, and are influenced. It is in this vein that the TRIAD brings together the components of the proposed analytical framework, and helps the framework take on practical value for practitioners.

55. From discussions with John Love, we learned that the concept of covert nexus (or "hidden connectivity") is useful when analyzing the relationships among organizations in the TRIAD. Organizations that work together are connected in some way. The supply of service, materials, or satisfaction to another organization is an example of connectivity. When the quality of relationship declines or disappears altogether between two or more organizations, it is a sign that what was an overt nexus has been replaced by what Love refers to as a covert nexus. When alienation exists among organizations, one can expect to find covert nexus. Under such circumstances, searching for and explaining covert connectivity is one way of dealing with alienation. Neil Boyle discussions of SSDP and ID with John Love, M.D. and former director of an inner city drug rehabilitation clinic in southeast Washington, D.C. (1995).

56. For an insightful discussion of the problems of public accountability in developing countries and alternative ways to strengthen them, please see Samuel Paul, Accountability and Public Services: Exit, Voice, and Capture, Policy, Research and External Affairs Working Papers (Washington, D.C.: The World Bank, 1991). For further reference, please see Rosabeth Moss Kanter, "Collaborative Advantage: The Art of Alliances," Harvard Business Review (July-August 1994); Benjamin Gomes-Casseres, "Group versus Group: How Alliance Networks Compete," Harvard Business Review (July-August 1994).

World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: March 18, 1996 05:33pm

TO: Patricia G. Sanchez (PATRICIA G. SANCHEZ)

FROM: Vicky Viray, PSP (VICKY VIRAY)

EXT.: 82848

SUBJECT: Governance

Four Dimensions of Governance

1. Institutional Capacity. Institutional capacity of government to making and implementing public policy; effectiveness of public programs; and strength of public institutions. PSM is the means to achieve civil service reform, government budget, public investment program, systems of accounting/auditing/financial management, strategic planning and program evaluation, aid coordination, economic management agencies, cabinet system, and other parts of the machinery of government that are essential to a well-functioning public sector.

2. Accountability

3. Rule of Law

4. Transparency

Governance Issues

1. Policy Dialogue on Governance

2. Participation and Governance

3. Military expenditures

4. Human Rights

5. Corruption

6. Enabling Environment

7. Crime and Human Security

CC: Josephine Carreon

(JOSEPHINE CARREON)

A L L - I N - 1 N O T E

DATE: 19-Mar-1997 08:32am

TO: RICHARD KETLEY (RICHARD KETLEY@A1@JOBURG)

FROM: Mike Stevens, PGP (MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: RE: OECD Milex Conference

Richard,

I missed the second day of the seminar when the Col was due to talk, (the VPs discuss the corruption report this afternoon) however I did manage to talk to him in the coffee break.

He seemed to be saying 2 things: (i) threat analysis was too much dominated by Western (& US in particular) modes of thought, and based on preservation of territorial integrity - not an issue in SA, and (ii) there needed to be a prior debate on the role of the military in society - inclining towards a "development role".

So he may have moved on in his thinking, though I would wonder about the development role - armies are less efficient than contractors in building roads, and probably even less than the PWD. Besides, it wears out their equipment.

Lively fellow. Good to have people like him at OECD seminars.

Mike

CC: ISHRAT HUSAIN (ISHRAT HUSAIN@A1@WBWASH)
CC: RICHARD KETLEY (RICHARD KETLEY@A1@JOBURG)
CC: Malcolm Holmes (MALCOLM HOLMES@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 17-Mar-1997 04:31am

TO: Mike Stevens

(MIKE STEVENS@A1@WBHQB)

FROM: RICHARD KETLEY, AF1ZA

(RICHARD KETLEY@A1@JOBURG)

EXT.: (011) 325-0560

SUBJECT: RE: OECD Milex Conference

Dear Mike

The Col. is an old colleague from the struggle and a very lively spirit! The defence force has received another big cut in this years budget down to 1.7% of GDP from 4% in 1990.

Th defence force has always had a strong model of their needs built around a threat analysis. The important thing in understanding their "threat" analysis is that their view of threat may be greater than everyone elses!

What complicates the analysis in SA is the strong links to the arms manufacturing industry, and the strategic committment to independant arms development. The old defence force has managed to "capture" the former ANC militarists, including Rocky and link up with those that believe in an active industrial policy to make a strong case for maintaining the domestic arms industry. This has made defence cuts more complex. There is a growing concern that SA may become the major defence supplier to SSA. SA weapons are becoming an increasingly common feature of conflicts elsewhere in SSA.

Regards

Richard

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A L L - I N - 1 N O T E

DATE: 26-Feb-1997 07:15pm

TO: JOHN PAGE (JOHN PAGE@A1@WBWASH)

FROM: Mike Stevens, PGP (MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: UN Commission for Human Rights

John,

I hope this reaches you in Egypt.

Jane may already have spoken to you. This is by way of additional background.

We are proposing that, if it can be managed, you advance by a day your return trip through Geneva, and be prepared to talk with the Working Group on Structural Adjustment Policies, established by the UNCHR, which is meeting in Geneva March 3-7.

They are pressing us hard to send a representative who can speak knowledgeably about the Bank's experience with structural adjustment. We have no prior sense of whether this is a group of unreconstructed critics of the Bank, or a body that it would be important to influence.

What we are getting is a message from UNCHR that we should put in an appearance and give the Bank's view (even if you don't want to make a long presentation, you could have a dialogue). UNCHR seeks closer links with the Bank. Last July we organized a small seminar for them about the Bank, and Mr Ayala-Lasso, the High Commissioner, met with JDW and the latter emphasized the desire for a continuing dialogue.

If you can fit this in, we would let UNCHR know and give you an agenda and where to go in Geneva. We would also send you refresher material on the Bank's position on HR - I don't think you need to dwell on the Bank's position on HR, rather it would be helpful from the point of view of framing your remarks on structural adjustment.

Can we persuade you to go? You are very well equipped to address the topic, and we would like to be able to respond. Who knows, we might even change a few minds.

Mike

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CC: LOUIS FORGET
CC: Lisa Pachter

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Governance?

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: November 21, 1996 10:38am

TO: MANUEL PENALVER

(MANUEL PENALVER@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: PER Impact Study - Approach Paper

Manuel,

Here are some comments on the Approach Paper. The decision by OED to evaluate PER/PIRs for impact is welcome.

1). Timeliness: Look critically at planned and actual PER study implementation schedules. I suspect there is huge slippage in most cases. This is relevant, since most study outlines talk optimistically about feeding results into the upcoming budget cycle. I suspect that is wishful thinking.

2). External versus process approach: the latter is current fashion, and may respond to genuine local demand. But does that happen in practice? Traditionally, the PER is driven by what we want to analyse. Do we, in effect, "buy" local staff time to pursue our own agenda, and kid ourselves that this is ownership, or do we genuinely seek to understand what the government worries about, and try to address it?

3). Dissemination: As well as asking government officials what impact the PER has had, inquire about dissemination. The Bank may have dispatched 100 copies, but who in practice has seen and read the PER?

4). Sector priorities: Para 4 has a nice quote from the SPA study about there being only minor shifts to the social sectors (one assumes in the context of PERs which have urged a greater share). But there's an unstated and unsubstantiated prior assumption that governments actually want to shift budget resources to the social sectors - even if Bank studies show the high returns from doing so. In poor countries governments (a) have to balance competing political demands - eg: armed forces, (b) know that donors will anyway fund social sector programs, and (c) don't fund priority law and order functions like the police. In short, is there political naivety on the Bank's part?

5). Political model: Pursuing this line - government expenditure priorities in any country are first and foremost driven by political objectives - rightly so. The role of a PER

is to, hopefully, inform political choices with the costs and benefits of alternative spending choices. How much recognition of this is there in PERs?

6). Aid Incentives: In high aid inflow countries the way aid is made available powerfully influences public spending patterns. Generally this is unrecognized by PERs, which assume aid to be neutral. Thus, how many PERs in the sample adequately acknowledge this and see the status quo as heavily influenced by donor preferences? Governments rationally seek to maintain their own spending preferences through the fungibility of local resources, by shifting money away from sectors that donors seek to support. (A case in point we discovered in the 89 Tanzania PER: Agriculture was the largest sector in the DB, but only the 10th in the RB - the conclusion we drew was that the government making a rational calculation to shift scarce domestic resources away from the MOA's recurrent budget knowing that donor development projects in that sector could be relied upon to make good the deficit). The corollary is that seemingly perverse patterns of domestic resource allocation in high aid inflow countries will continue as long as the bulk of donor aid is project and sector tied. The OED study should be on the look out for this, and bear it in mind when analysing the impact of spending patterns of PERs.

7). Internal consistency: There is a failure of internal dissemination of PER findings, which the OED study should explore. I am struck by how often the conclusions of a PER do not seem to be taken up by project staff. How many times do we read in a PER about the grossly inadequate allocations to non-wage O&M in a sector, and then see for the same country a PR/SAR for a sector project with glib words about the incremental operating costs of the project amounting to no more than a small fraction of the ministry's total budget, and therefore easily accommodated (and the Minister has assured the Bank etc...)? A hard look by OED would be welcome.

8). Budget process: Our impression is that increasingly PERs are addressing budget process. TMs are recognizing, rightly, that it is not enough to point out the high returns to be won by changing expenditure patterns across and within sectors. Budget institutions appear not to work properly, either in reflecting better allocations in budget estimates or in assuring a reliable flow of budget resources to programs and projects through the year. OED should look at both trends in looking at budget process in the sample, and judge how well this is being done. And how recommendations have been received by governments.

9). Aid Coordination: Concerning the impact of PERs on aid coordination note that there is a distinction between aid coordination (efforts by the donor community to align their aid better) and aid management (efforts by governments to channel aid more effectively to their own priorities). Will OED be

asking questions to governments whether PERs have helped them do the latter?

10). Best Practice: Bear in mind when you look for best practice that in the PSM Unit we have become increasingly sceptical of the continuing value of the the classic PIP/dual budget model that underpins Bank PIRs. We view it as inherently expansionary, a product of a time when governments were small and the prevailing paradigm required a rapid expansion of public assets to support a leading role for the state in the economy. Continued advocacy of the PIP/dual budget model, while convenient to the donor community (as a mirror for our own project programming requirements), is, in our view, inconsistent with a need in most countries to bring policy commitments into line with sustainable resources and, in a larger sense, the changing role of the state. The PIP may have a role at the sector level, or for programming government public works, or for aid management - but it is a subordinate one, which should not drive budgetting.

Good luck with the study.

Mike

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Governance

A L L - I N - 1 N O T E

DATE: 20-Nov-1996 12:06pm

TO: See Distribution Below

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Caribbean Development Bank - Training Seminar

Ishrat,

1. I was down in Barbados 18-19 November fulfilling a long standing commitment to be a resource person in a CDB training seminar on "New Approaches to the Management of the PSIP".

2. Participants came from: Cayman, Belize, St Vincent, Montserrat, Barbados, Antigua, Jamaica, Anguilla, Bahamas, British Virgin Islands, St Kitts and Nevis. Mostly experienced middle level from budget, aid coordination and planning units. A good group.

3. I had 3 1 3/4 hour sessions over two days, on: The PSIP and the Policy Framework; Balancing Resource Availability with Demands; Composition and Intersectoral Balance. In practice I used the sessions to present the "classic" approach to the PIP (broadly followed by most islands). I then presented what we in the PSM Unit see as the drawbacks of the "classic" model - principally the dangers of "project driven" budgetting - whereby projects (and their funding) drive policies, rather than the other way round, problems of recurrent costs, and the dangers of fiscal expansion inherent in the PIP model if certain basic rules are not followed. In the final session I set out the framework we use for a well performing planning and budget system, emphasizing a policy rather than a project cycle, and a medium term expenditure framework and forward estimates of the cost of existing policy. The basic message was "first think policy rather than projects". We also talked about the tension between the classic PIP dual budget model (an instrument for managing the expansion of public assets) and current emphasis on the changing role of the state and a greater emphasis on efficiency and effectiveness across all categories of public spending. In this context we also discussed NPM - which is seeping through to several islands. This boiled down to two approaches. If they wanted to stay with the classic PIP dual budget model, they should make sure that projects emerged from a clear view of the government's policies in each sector, not because a particular donor made finance available. Or they could think about moving to a unified budget system, in which there was contestability between policies, and within them, between recurrent and capital components, within a MTEF.

4. On reflection I think I got some of the way sowing new ideas. Antigua and Bahamas seemed to follow me all the way. Some of the others remained wedded to traditional ways of looking at the PIP - arguing that the special features of small island economies required them to manage large lumpy infrastructure investments, best handled within a PIP framework.

5. On Monday afternoon, following up on the conclusion of the heads of MDBs meeting during the Annual Meetings to maintain contact, I visited the CDB and gave a briefing on the Bank's corruption initiative to a group of about 8 staff - mostly from the economics department. There was a great deal of interest, endorsement of the Bank's 4 legged framework for addressing the issue, but some reservations about the political sensitivities among borrowers. There was a belief that corruption was not a problem with CDB projects, but that it was a significant problem in some islands at the political level. This was echoed by informal comments by participants.

6. The CDB paid both transport and accomodation - so there was only a time cost (2 days) to the Bank.

Mike

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A L L - I N - 1 N O T E

DATE: 12-Nov-1996 00:01am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: OECD Working Group on Bribery

Ishrat,

1. Last week I attended meetings at the OECD on Bribery, accompanied by Louis Forget of LEGAL, and Randolph Andersen, en route home from China, for one session.
2. On Wednesday 6 November there was a special session of the Working Group on Bribery to brief and obtain feedback from international business organizations and NGOs on the work of the OECD. The Bank had been invited via a letter from the Deputy Secretary General to Mr Wolfensohn to participate in the special session, and also to attend as an observer the WG meetings the following two days.
3. The special session was opened by Donald Johnston, the Canadian Secretary General. Keynote speakers for the opening section were Mark Pieth (Switzerland - chair of the WG), Maria Livanos Cattai, Secgen of the ICC, Peter Eigen of TI, and myself. I explained, in broad terms how the Bank viewed corruption and how it saw itself assisting countries combat it.
4. Secgen Johnston gave a lunch for the heads of delegations, which I attended.
5. In the afternoon, Louis Forget was a discussant in the section on public procurement, with Mike Wiehen on TI's part.
6. Our comments were received well. Several speakers liked the emphasis we gave to institutions. There was also a lot of interest in the recent changes to the procurement guidelines. And many at the special session spoke approvingly of Mr Wolfensohn's Annual Meetings Speech.
7. The following two days of the WG were on technical subjects: criminalization, public procurement, accounting, internal controls and audit, and civil and commercial law. The WG discussed the conclusions of technical sub-groups in each of these areas.
8. There are interesting issues in each of these areas. Criminalization is important in that once bribing of foreign

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TO: Rest of Distribution Suppressed

officials becomes a crime, chief financial officers and auditors can no longer pass lightly over items like agents' commissions. A tricky taxonomic issue is how to define a foreign official (the public sector may have different responsibilities in a foreign country, local definitions of a public official may not be clear, etc). The UK avoids this problem by having legislation dating back to 1906 that makes bribery a crime regardless of whether the bribee is a government official or anybody else. OECD governments are considering whether a firm determined to have bribed foreign officials henceforth should be debarred from domestic public procurement, or whether some sort of positive screening - white-listing by, for eg, adherence to a code of conduct - might be introduced. Accounting standards, internal controls and audit raise issues such as whether accounting requirements help detect illegal payments, whether there might be an obligation to disclose bribes in annual statements, and the duties of the auditor to report bribes to the authorities. (The Dutch sent a frisson through the meeting by announcing that, as part of their deregulation drive, parliament had abolished the legal requirement on a company to keep books of account - unnecessary since this had been done for hundreds of years and was thoroughly institutionalised. This amazed several delegations, particularly the orderly Germans).

9. The task of the WG is to monitor the implementation of the 1994 OECD Recommendation that each country should take effective measures to combat the bribery of foreign officials, by taking measures in areas like criminal law, tax law, accounting regulations, government procurement etc, and to do special studies of the technical issues involved to assist governments make progress. In Spring 1997 the WG must report on progress.

10. There seems to have been genuine progress made at the technical level, understanding different country legal systems, developing common definitions and possible approaches.

11. One recurring theme throughout the three days was whether the current approach of "soft law" and peer pressure on member governments is the appropriate tactic or whether some sort of convention, possibly under the auspices of the WTO, might be promoted. Here views are polarized. The majority of countries favour the present OECD approach, which does not preclude a convention being developed later. Countries that lean towards a convention (France and Germany) appear to be doing so under the influence of their industry lobbies, who possibly are seeing a convention, with its need for ratification, as a means for postponing effective action against bribery in international business. Our recommendation would be to back firmly the present OECD initiatives, which probably are going to achieve as much as is politically possible in OECD countries.

12. On Thursday afternoon I took time off to brief EXT staff

B. For the New programs to be Financed Out of the Proposed \$250 Million Allocation

The Bank Management will prepare a proposal for each new grant to be financed under the DGF and bring it to the Executive Directors for their consideration and approval. The proposal will set out the justification in terms of the relative priorities, explicit linkage with the objectives of the DGF, the eligibility criteria and the mobilization of other funding. The recipient of each major grant under the DGF will be expected to have its own internal governance structure that is satisfactory to the Manager of the DGF. The CGIAR and CGAP provide models in this respect.

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at the Paris office on the Bank's approachj to corruption, at their request, jointly with Peter Eigen of TI (with Mr Wolfensohn about to visit Germany, there is great interest in understanding the politics of international bribery in Germany.

13. The following day I also called by PUMA, the public management wing of the OECD, and talked with Sally Washington about PUMA's work on public service ethics.

14. Overall, I think it was a useful event to attend. We earned brownie points from the Secgen for attending the special session and contributing the Bank's perspective. I think we make judicious contributions to the discussions of the WG on technical issues. We learned at first hand the issues OECD countries are grappling with on criminalization and tax deductibility. And we were exposed to the politics of the issue.

15. It is likely that there will be further meetings in the New Year, which we believe it would make sense for the Bank to attend. In a modest way, this is an example of how the Bank can lend its weight to the international effort. There was appreciation in the Secretariat of the contributions of Srin and Randolph at the last WG meeting in July, and I think our knowledge of policies and institutions in developing countries is appreciated. Attending is also a good way of understanding which of the many international actions are likely to make progress.

Mike

CC: LOUIS FORGET
CC: MYLA WILLIAMS
CC: Malcolm D. Rowat
CC: Cheryl Gray
CC: ORSALIA KALANTZOPOULOS
CC: SVEN SANDSTROM
CC: BARBARA NUNBERG
CC: Malcolm Holmes
CC: Raghavan Srinivasan
CC: Myrna Alexander
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(LOUIS FORGET@A1@WBWASH)
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(MYRNA ALEXANDER@A1@WBHQB)
(RANDOLPH A. ANDERSEN@A1@WBWASH)

A L L - I N - 1 N O T E

DATE: 21-Oct-1996 12:35pm

TO: STEVEN HOLTZMAN

(STEVEN HOLTZMAN @A1@WBHQB)

FROM: Ishrat Husain, PSP

(ISHRAT HUSAIN)

EXT.: 81415

SUBJECT: EDI seminar

Steve,

I would appreciate if you could prepare some talking points for me for presentation on Thursday morning. Gordon dropped by this morning and thought I should focus on (a) What the bank's experience has been in the past (b) What are we doing at present (c) What is the future direction? You know the issues of inter-agency cooperation better than me and so I would like to raise some of these issues in my talk. If you need any further clarification, please give me a call. Thanks for your help
ishrat

Will send EM
Today

A L L - I N - 1 N O T E

DATE: 24-Oct-1996 09:51am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Abid Hasan, SA1PF

(ABID HASAN@A1@WBHQB)

EXT.: 80405

SUBJECT: Pakistan: Improving Governance in teh Financial Sector.
As discussed attached is a note. Pls call at your convenience.

The World Bank/IFC/MIGA

OFFICE MEMORANDUM

DATE: August 20, 1996 10:20pm

TO: See Distribution Below

FROM: Sharmila Kapur, HRGT4

(SHARMILA KAPUR)

EXT.: 30839

SUBJECT: HCD Transition issues; Interim response from Peter Karp regarding next steps (based on memo from the HCD transition team to him & DB

DISTRIBUTION:

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(LIONEL DEMERY)

TO: Josephine Carreon

(JOSEPHINE CARREON)

CC: Eva Lystad

(EVA LYSTAD)

A L L - I N - 1 N O T E

DATE: 22-Oct-1996 10:36am EST

TO: See Distribution Below

FROM: Abid Hasan, SA1PF (ABID HASAN@A1@WBHQB)

EXT.: 80405

SUBJECT: Finnacial Sector: Some thoughts on Improving Govenance

Marilou/Joe/Rakesh:

I have outlined below my thoughts on improving governance in the financial sector in our client countries.

While incentives/penalties are important, ultimately it is people with decision making authority who are critical to safeguarding public interest as well as institutions against non-commercial/political interference by vested interests. While this is not news, my recent experience dealing with PKSF (Bangladesh) has led me to believe that if the right people manage/oversee institutions, political interference can be minimized and even blocked. Drawing from this experience , I believe that we should use our leverage and attach the highest priority in our upcoming financial sector operations in Pakistan/Bangladesh to ensuring that Boards and management of financial institutions comprise people of integrity and sound/excellent professional caliber. Although we have shied away from this aspect in the past -- lest we are seen as micromanaging and encroaching on sovereignty issues -- if we continue to ignore this and leave it to the highly politicized, discretionary and arbitrary process currently in place regarding such appointments, I believe we will continue to be revisiting financial sector crisis over and over again.

Institutional governance can be substantially improved by adopting the following three pronged approach:

I. Depoliticizing process for selection, appointment and firing of Governor/Board members of the central bank and CEOs/Board members of nationalized financial institutions.

This could be achieved through:

1. One way, and perhaps the only way, is to establish a "Blue Ribbon" Council of eminent people which is given this authority ; the government/MOF , and Zardaris of Pakistan/Bangladesh would have no say in any appointment. We should use our leverage to ensure that such a Council is established and comprises the best the country has to offer of people committed to public interest and who are seen by society as people of integrity. One way of choosing representation on the council , which would make it more acceptable to governments, is to

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: August 21, 1996 04:48pm

TO: See Distribution Below

FROM: Sharmila Kapur, HRGT4

(SHARMILA KAPUR@A1@WBHQB)

EXT.: 30839

SUBJECT: Please include Eva Lystad as a member of the transition Team.
Thanks.

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TO: Lionel Demery

(LIONEL DEMERY@A1@WBHQB)

TO: Josephine Carreon

(JOSEPHINE CARREON@A1@WBHQB)

CC: CECILIA VALDIVIESO

(CECILIA VALDIVIESO@A1@WBWASH)

CC: Eva Lystad

(EVA LYSTAD@A1@WBHQB)

suggest that it comprise current and previous three finance ministers/governors -- fortunately in both Bangladesh/Pakistan this group is in my view a good group, and a few non-governmental types e.g.. Professor Yunus of Grameen, Dean of LUMS, Non-Resident Nationals (Dr. Nurul Islam of IFPRI for Bangladesh, Shahid Aziz? from Pakistan who is CitiBank Board member, Moeen Qureshi). Although we would get embroiled in personality issues we should not shy away from this -- a position we took in case of PKSIF when it was established -- for if the council membership is "right", we would not need to worry about the rest. Having the "right" membership and giving the council the authority for key appointments would be the critical test of government's commitment to governance reforms. If government balks at this, I think this should be enough of an indication that there is inadequate commitment to fundamental change in governance matters and that Zardari types are not willing to give up on appointing people who would work at their behest.

2. Normally in a more transparent and democratic system, the above appointments are subject to legislative (and civil society) review, such that governments are forced(e.g. India) to generally make good choices. Given the absence of these checks on the executive branch in Pakistan/Bangladesh, the above suggested process is meant to overcome the flawed process and inject badly needed transparency and objectivity. Moreover, by spreading around the decision making , including for example having a rule that two-thirds of members have to agree on every appointment, it would make it very difficult for the Zardari-types to influence the Council's decisions.

3. The appointment of the Governor in almost all countries is determined by the executive, with that in New Zealand being based on an open? competitive process. Since it would be difficult to argue otherwise, one could leave the decision to government to pick from a short list of 2-3 provided by the Council.

4. Related to this aspect is need to establish good corporate governance of private financial institutions. There is much to learn from the corporate governance revolution taking place in many OECD countries, particularly USA, with increasing public pressure to appointment of outside directors who have public interest/minority shareholder interest at heart. In both our countries, it is absolutely essential that Boards of private financial institutions comprise eminent outside directors who keep a close check on "inside" directors. We should not take as axiomatic that private financial institutions have better governance or rely on civil/criminal penalties under the law.

II. Making Boards fully responsible for appointments of the CEOs and senior staff of financial institutions and strengthening the Boards

1. The experience from PKSIF clearly points to the advantages of this approach. A good Board will automatically select good CEOs/senior staff. We should insist, at the beginning of the program, that all CEO positions should be advertised so that the new Boards could appoint

TO: David Theis (DAVID THEIS@A1@WBWASH)
TO: Mark Constantine (MARK CONSTANTINE@A1@WBWASH)
CC: Mark Malloch Brown (MARK MALLOCH BROWN@A1@WBWASH)
CC: JANE ARMITAGE (JANE ARMITAGE@A1@WBHQB)
CC: PETER STEPHENS (PETER STEPHENS@A1@WBHQB)
CC: John D. Clark (JOHN D. CLARK@A1@WBHQB)
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CC: John Donaldson (JOHN DONALDSON@A1@WBWASH)
CC: Katherine Bain (KATHERINE BAIN@A1@WBWASH)
CC: Moina Varkie (MOINA VARKIE@A1@WBWASH)
CC: MOHINI MALHOTRA (MOHINI MALHOTRA@A1@WBHQB)
CC: Anita Gordon (ANITA GORDON@A1@WBWASH)
CC: Anthony Gaeta (ANTHONY GAETA@A1@WBWASH)
CC: Lesley Simmons (LESLEY SIMMONS@A1@WBWASH)
CC: Jill Wilkins (JILL WILKINS@A1@WBWASH)
CC: CLARE FLEMING (CLARE FLEMING@A1@WBHQB)
CC: LYN SQUIRE (LYN SQUIRE@A1@WBHQB)
CC: Judith Maguire (JUDITH MAGUIRE@A1@WBWASH)
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the best possible person available in the market (incumbents would ofcourse be eligible to apply). Such a step would enable the Council/new Board to get rid of corrupt and incompetent people staffing these positions currently. For the CEOs, it may be preferable to give the Council the final say by having the Board provide it with a ranked short list of 2-3 .

2. Presently all Boards comprise part time members who are paid a nominal amount for each board meeting. I believe that this has two serious weaknesses: it puts too much responsibility on the CEO and it reduces the incentives on board members to devote the time to substantive issues. I believe it would be better if the board members are full time , like that in case of the Fed/IBRD, and compensation is market based. An important advantage is that it would improve oversight and, by greater involvement of Board on decision making reduce the ability of politicians to influence decision making-- it is much easier for a CEO to turn down a phone call request if the decision is that of the Board than if it is an individual decision.

3. Another measure to strengthen Boards is to develop "quasi-legal" rules outlining the responsibilities/liabilities of Board members, in particular clearly specifying liability for wrongful decisions or taking decisions under influence.

III. Making central bank and the financial institutions truly independent of the MOF/Government.

This would involve the following measures:

1. In case of the central bank, changing the Acts and various subsidiary regulations to: (i) remove/revise all clauses which require the central bank to seek permission/clearance and/or discussion with government on any matter within the jurisdiction of the central bank; (ii) impose ceilings on government borrowings (and normal lines of credit, e.g. ADBP) from the central bank. This ceiling should be embedded in the law as in case of many countries, e.g US Fed (?). The ceiling could be linked to the central bank's equity. A related issue is the huge amounts of worthless loans on the books of both SBP/BB (e.g. loans to the agricultural banks and distressed banks,e.g. UBL) which need to be written off.

2. In the case of the financial institutions, their Acts/laws should be changed to make their Boards truly independent of MOF.

I believe that the above three pronged approach, or some variant of it, should not only be an essential element of a reform program but should be fully implemented before we agree to support bailing out the banking system. If we could use our leverage to influence the governance aspects and relationships between government and the institutions we would establish the most fundamental building block of a viable banking system.

A L - I N - 1 N O T E

DATE: 27-Sep-1996 08:13am

TO: See Distribution Below

FROM: Stella David, PSP

(STELLA DAVID)

EXT.: 33752

SUBJECT: Please see attached.

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TO: SIMONE SHEPPARD	(SIMONE SHEPPARD)
TO: MALCOLM HOLMES	(MALCOLM HOLMES)
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I suggest we discuss this before our next mission to Pakistan/Bangladesh, and invite a few people knowledgeable about governance arrangements in well performing financial systems.

Abid

DISTRIBUTION:

TO: JOSEPH PERNIA
TO: Rakesh Nangia
TO: Marilou Uy

(JOSEPH PERNIA@A1@WBWASH)
(RAKESH NANGIA@A1@WBHQB)
(MARILOU UY@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 12-Nov-1996 10:47am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Abid Hasan, SA1PF

(ABID HASAN@A1@WBHQB)

EXT.: 80405

SUBJECT: see attached confidential

A L L - I N - 1 N O T E

DATE: 12-Nov-1996 09:30am EST

TO: See Distribution Below

FROM: Abid Hasan, SA1PF

(ABID HASAN@A1@WBHQB)

EXT.: 80405

SUBJECT: Pakistan: Community Development Fund

Mieko:

I have been talking around about the proposed operation . Hopefully in about 10 days or so, I should be able to put together a revised note taking into account design features/implementation experience of similar operations elsewhere and lessons of Pakistan (Anis Dani's EM). If all goes as planned, I will have a brainstorming session with NGOs/GOP official on the idea in Islamabad from December 15-16 , to give you a concept note on December 16 for discussion with GOP if you have the time. I also discussed the operation with Ishrat, given his recent experience of reviewing our global portfolio of Social/Community Funds. He would be in Islamabad around that time and I think he would be of great help to us , given his global experience . If you agree, I would like to request him to help me --infact I would request him to lead the brainstorming sessions.

One of the issues that we would need to dwell on is how this operation would link with the very recent announcement(?) by Javed Burki on establishing a National renewal Fund -- perhaps the two could be combined??? While you are in Islamabad you could explore what Javed had in mind , and accordingly we could reflect that in the concept paper that we would give to you in Islamabad.

Abid

DISTRIBUTION:

TO: Mieko Nishimizu
TO: Fakhruddin Ahmed
TO: Marilou Uy

(MIEKO NISHIMIZU@A1@WBHQB)
(FAKHRUDDIN AHMED@A1@WBHQB)
(MARILOU UY@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 12-Nov-1996 10:17am EST

TO: Abid Hasan

(ABID HASAN@A1@WBHQB)

FROM: Mieko Nishimizu, SA1DR

(MIEKO NISHIMIZU@A1@WBHQB)

EXT.: 80600

SUBJECT: RE: Pakistan: Community Development Fund

Abid,

Thanks.

On the brainstorming in Islamabad, I would like to participate in some capacity (anywhere from a fly on the wall to chairing it), since I will be there. If you feel that I should not chair it, then I suggest Sadiq. I am glad that you are consulting with Ishrat, and he is certainly welcome to attend the brainstorming to share international experiences with all of us if he happens to be there. Donors should be invited, as observers, but seek Sadiq's views on this please.

On the link with Javed's national renewal fund, I suggest you join a meeting at 12:00 in my office, to take stock of where we are on Pakistan and to plan concrete short-term actions. I believe we should now set up a clear focal point in the Department on this, with you as the TM, drawing team support from across all relevant units.

Mieko -.

CC: Fakhruddin Ahmed

(FAKHRUDDIN AHMED@A1@WBHQB)

CC: Marilou Uy

(MARILOU UY@A1@WBHQB)

CC: Olivia Boyd

(OLIVIA BOYD@A1@WBHQB)

OCT 22 1996

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ANNUAL MEETINGS BACKGROUNDER

The World Bank

1818 H Street NW, Washington, DC 20433, USA



THE CORRUPTION ISSUE

Corruption is not a new concern for the World Bank. For decades the Bank has sought to ensure that the funds it lends to countries are used for their intended purposes, and that contracts for goods and services are awarded in a transparent and cost-effective way.

The Bank is undertaking a renewed approach to helping countries prevent corruption and its negative impact on development effectiveness and economic efficiency. We know that corruption and fraud hurt economic efficiency and slow the provision of services and resources to the people—often the poorest—for whom they are intended. Corruption's impact on development is an increasingly important issue in donor countries; with official assistance for development under mounting pressure, greater attention is being paid to how these funds are being used. Moreover, corruption is also an obstacle to foreign investment and is a growing concern for the Bank's partners in the private sector.

The Bank's Approach to Controlling Corruption

The Bank recognizes that corruption needs to be addressed to achieve good governance, and is working to help governments establish safeguards. The Bank's efforts are focused on four broad areas:

- Economic policy reform
- Institutional reform
- Fiduciary control
- Multilateral partnerships

Economic Policy Reform

This relates to the Bank's work in helping governments undertake economic, policy, and regulatory reform.

- **Economic reform:** Through the reform of trade regimes and investment laws and the financial sector, countries can mitigate the effects of "rent-seeking" by replacing administrative mechanisms (for example, export licenses, foreign exchange, and bank credit allocations) with market mechanisms.

- **Tax reform:** By helping countries simplify and strengthen tax systems and strengthen collection capacity, the Bank contributes to the reduction of corruption in customs and tax administration.
- **Regulatory reform:** The Bank helps eliminate price controls, simplify government regulations, and strengthen the regulation of private and state-owned enterprises operating in non-competitive markets.
- **Privatization:** The Bank is helping many developing and transition economies manage the transfer of state-owned assets to private ownership. Because this transition presents corruption risks of its own, the Bank works especially closely with its client governments to help make the process open and transparent.
- **Sector Policies:** How policies are designed in areas like the environment and social services may determine the opportunities for corruption in their implementation, and the Bank can provide a country with best practice experience from others which have improved sector performance.

Institutional Reform

This second area of the Bank's anti-corruption strategy is concerned with building institutional strength inside and outside the public sector.

- **Government financial management reform:** In recent years there has been a rapid increase in the number of countries where the Bank is assisting in the modernization of government budgeting, financial management, accounting, and auditing systems.
- **Civil service reform:** In the past decade the Bank has supported civil service reform in more than 40 countries; emphasis has been on reforming pay and employment conditions, training, and personnel management.
- **Public procurement:** The Bank works with governments toward greater transparency and competition by providing assistance in drafting new procurement laws and regulations, and training officials to implement them.
- **Governance:** On a broader front, the Bank helps countries control corruption through legal, judicial, and regulatory reform. In addition, programs such as EDI's training workshops for journalists help strengthen the ability of the press to scrutinize all fields of public administration.

Fiduciary Control

The third area of the Bank's strategy is the effort made to maintain the highest level of transparency in Bank loans and credits, and ethical standards among Bank staff.

- **Guarding against corruption in Bank projects:** The Bank has long-established procedures for procurement, disbursement, reporting, and auditing, based on principles of

economy, efficiency, and transparency. Financial reporting under Bank loans has recently been strengthened to tighten the time frame for borrower completion of audits.

- **Maintaining the highest ethical standards among bank staff**—Long-standing staff rules on outside interests and disciplinary measures have been and are continually updated and reinforced.

Procurement Guidelines

In recent weeks the Board approved the following important reinforcements to the Bank's loan documents and procurement guidelines.

The new guidelines provide that the Bank:

- may cancel a corresponding amount of a loan if it determines, with respect to any contract to be financed out of the proceeds of the loan, that corrupt or fraudulent practices were engaged in by representatives of the borrower or of a beneficiary of the loan during procurement or during the execution of the contract without the borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation;
- will have the right to inspect accounts and records of suppliers and contractors relating to the performance of the contract, and to perform a complete audit by Bank-appointed auditors; and
- may bar firms from Bank-financed contracts, either indefinitely or for a specified period of time if the Bank determines the firm engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract.

- **Changes in internal Bank procedures:** Greater attention is being given to portfolio management and supervision, and performance measurement. This includes public access to Bank project documents, the creation of the Independent Inspection Panel, and a more participatory approach in the design, preparation, implementation, and appraisal in Bank projects.

Multilateral Partnerships

The fourth area of the Bank's approach to reducing corruption involves coordinating its action with governments, other multilateral institutions, and its partners in the private sector and civil society.

The negative effects of corruption reach across borders and therefore require the concerted attention of the international community. Important international organizations such as the OECD, the Council of Europe, and the OAS are also taking steps toward fighting corruption, including the use of international instruments such as international conventions and formal recommendations to their members. Anti-corruption initiatives are also being undertaken by global business organizations and NGOs. The Bank intends to coordinate its efforts with other bilateral and multilateral initiatives to ensure that the broadest support is given to countries fighting corruption.

Produced by External Affairs, September 24, 1996.

-###-

A L L - I N - 1 N O T E

DATE: 11-Oct-1996 10:23am

TO: Ishrat Husain (ISHRAT HUSAIN)

FROM: Barbara Nunberg, PSP (BARBARA NUNBERG)

EXT.: 37487

SUBJECT: Comments on OED's CSR Approach Paper

Attached are comments I made on OED's Approach Paper on Civil Service Reform. There will be a CODE discussion of the paper on October 16th, and I've agreed to join OPR in commenting on the paper then.

CC: MIKE STEVENS (MIKE STEVENS @A1@WBHQB)

CC: MALCOLM HOLMES (MALCOLM HOLMES @A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 10-Oct-1996 08:47am EST

TO: Manuel Penalver (MANUEL PENALVER)

FROM: Barbara Nunberg, PSP (BARBARA NUNBERG)

EXT.: 37487

SUBJECT: Comments on Civil Service Reform

Manuel,

I read with great interest the approach paper for OED's study on Civil Service Reform. It is an extremely important task that is long overdue and one which, if done well, can potentially contribute much-needed lessons about CSR that are empirically grounded. So it's critical to get the design of the study right at this early stage. The comments that follow are offered on that basis -- to help tighten the approach to ensure the most useful product.

Analytic Framework

The discussion of CSR definition and objectives was unclear. I am sympathetic, as CSR has been something of a moving target, but I don't think the paper has got it quite right yet. Civil service reforms can be defined as those that aim at strengthening core government institutions to carry out governmental functions in an effective (i.e. high-performing) and efficient (i.e. cost to value) manner. Note that these functions are not just the provision of services but also involve (in fact are often dominated by) policymaking tasks. And, though arguably an arbitrary choice dictated more by practicalities than logic, civil service reform deals with central (including deconcentrated) rather than local (i.e. devolved) government.

The Bank has sought to reform civil services through interventions to promote sound fiscal policies through reform of pay and employment practices, to build sound systems for managing civil service cadres (i.e. development of legal, personnel, and institutional frameworks) and, most recently, to support reorientation of business practices and behavioral norms within bureaucracies toward probity, accountability and transparency. These might be seen as three different generations of activities, but, in fact, they overlap considerably. Indeed, pay and employment is still the second most frequent activity in civil service reform. (Surprisingly, the most frequent intervention is none of the above. It's the revamping of governmental organizational structures and functions. This should really be viewed as public administration rather than civil service reform, but it tends to get conflated with the latter in Bank operations and analysis.) In any case, para. 3 seems to suggest that the

changing views on the role of the state during the later period of civil service reforms was what focused CSR on cost-containment. In fact, (despite the generational overlap I've just mentioned) cost containment was stressed more in earlier reforms, so this is misleading.

I was also confused by elements of para. 4 (and the matrix in Table 2) and the conceptualization of CSR objectives and attributes. I don't have too much difficulty with public sector efficiency except that it should really be "government" efficiency since we are not dealing with the whole of the public sector (e.g. including SOEs). I assume that the outcome, "improved reliability of available data" is simply misaligned typographically. In any case, the real point of better data is to maintain ongoing control of staffing numbers and profiles in line with periodically updated requirements. This leads, in principle, to a more affordable CS and an efficient allocation of staff to functions. The goal is not per se a leaner civil service. Also, I don't think you want to look at wage freezes (meaning salary freezes at the individual level) but rather wage bill containment.

Enhancing institutional capacity is, of course, a goal of civil service reform, but this may be too vague to be of much analytic use as a sub-category. Indeed, institutional development can be said to characterize the whole endeavor: government and its civil service need enhanced institutional capacity to be more effective in doing its job. The attributes of this objective laid out in the matrix are unclear, at any rate. One aspect of strengthened capacity is related to the development of appropriate support and oversight institutions and an appropriate legal framework for civil service management. Is this what you had in mind? These are not really objectives, but means to overall effectiveness strengthening. What do well-defined property rights have to do with civil service reform? I'm pretty much lost at this point.

The objective of enhancing "competition" also reads oddly -- or maybe economistically. Much of the work on civil service reform posits that the introduction of merit into civil service practices will enhance the quality of personnel. Notions of the market or competition may or may not be relevant here (See the difference between, say, New Zealand and Korea in various aspects of public personnel management, for example). Moreover, how does private investment as a percentage of GDP get tied to the objectives and policy instruments enumerated here?

Finally, governance issues such as accountability or transparency are certainly relevant to civil service improvements, but better governance is, I think, only an indirect goal of civil service reform. Probity among civil servants ultimately reinforces citizens' confidence in government, leading to a more propitious governance environment. Beyond that, I find the causal relationships tenuous.

If I were you, I would lose the matrix -- which I think only serves to obfuscate a lot of the issues -- and work on developing some if-then propositions to be studied. I think this would help clarify some of the thinking.

The discussion of objectives and scope of the study itself needs more work. The goals set out in para. 5 are fine. But I don't think you've identified the most interesting or the most pressing questions to be posed, and (as I'll get to below in discussing methodology) I doubt you will have the data to answer the questions you do ask. You highlight three issues: corruption, performance indicators, and sequencing of reforms (in reverse order, sorry.) Corruption is all the rage right now, but I don't see it as the central question in civil service reform. Moreover, we have just about zero evidence about where and to what extent it exists, how it affects civil service performance, how much it costs, and how, in fact, it is related to incentives such as pay or political patronage. Having looked through myriad PCRs and ICRs and having worked on many csr operations, I seriously question as to whether you will find any data to add value to this discussion. Certainly, a good piece of tightly researched analytic work needs to be done on corruption in government but I don't think it is best tackled here. Also, the last sentence under this bullet seems to be tying in "commitment and ownership" with corruption. What meaning is intended here?

Performance indicators are also in fashion -- with good reason, I think. I am aware of only one CSR operation (although there may be more) whose design gave any thought to establishing a performance baseline for future comparative evaluation, so what can you expect to produce on this topic, other than, "we need more and better." The only option I can see here is to point to performance measurement and management in well functioning systems and show the gaps between those and the cases you're examining. Even this may be difficult, though, as development of sensible performance measures for central government functions is an achievement that has so far eluded even the most advanced government administrations. Do you intend to do original work in coming up with useful indicators? While I think this would be a major contribution, this is probably beyond the scope of OED's study.

Questions about the sequencing of reforms are interesting to the extent that they can reveal something about (country) reformers' strategies about getting reforms through (as well as about Bank strategies for designing operations. This is mainly a political economy question, so you'll need an analytic framework for looking at the political economy context of reforms -- (actually, I think you will need this to deal with any important questions in civil service reform.) The issue your bullet is raising is actually more about the degree to which fiscal reforms can or should take place in isolation from deeper institutional reforms of incentives, practices and structures. This is not so much a

question about sequencing as it is about linkages. And it is related to the very important question which you have not raised about the appropriateness of adjustment as the main vehicle for csr. Without a view on this question, the study risks irrelevance.

There are two additional questions that I think you'll have to tackle. One is simply, what has happened on the pay and employment front, for which you'll have to assemble available data. You have this in the matrix, but there's not really much analytic discussion of these issues. Have wage bills gone up or down, are wages decompressed, are quit rates up or down, are recruits better or less qualified, etc. etc. John Nellis and I looked at these questions for a range of operations in 1991 for, "Civil Service Reform and the World Bank," but we had enormous data problems. If you could manage to overcome information constraints, this would be an important area to get an empirical fix on. You won't find the data in PCRs or ICRs, so you'll need to do some primary research. The Fund is also trying to work on this issue as are various people in the Bank, but a systematic effort to link changes in pay and employment to csr operations would be a big contribution.

The most important question is, are governments working better as a result of these operations? As I've said above, you have very little baseline data as a point of departure to answer this question. There are, though, lots of ways to analyze this question even without hard performance indicators, and I, for one, would not be uncomfortable with a good qualitative understanding of this. Obviously, though, it is a task mainly to be done in the field, as it deals with issues of institutional impact. Again, having read through PCRs, audits and ICRs, there's amazingly little analysis of this type to be found, and certainly, you cannot rely on the recollections of task managers on this issue.

Methodology

This brings me to methodology. First some specific issues/questions:

Can we have dates of effectiveness, completion and OED evaluation for the 225 operations with CSR content. I was also confused, along with Robert Hindle, about whether you are looking at only completed or also ongoing projects (I assume the former, but it's not clear from para. 9). If you are planning to look at the 1980 to 1996 period, I am assuming you will be looking at loans completed (not ongoing) in 1996. Given the need to understand the impact of CSR, I strongly urge you to look only at completed projects.

How did you identify the CSR-related projects? What key words did you use? My impression is that you have included projects which should not be construed as CSR. I believe Table 1B over- or

mis- identifies CSR in several countries with which I am familiar. What projects are referred to? Are dates inclusive of approval, completion, evaluation or what? Also, in our recent data search here in PSP on CSR between 1987 and 1996, our initial key word search did not yield anything like the 225 you have enumerated. We then had to read individual documents using our own judgment about what constituted civil service reform. I assume you did the same -- but used different criteria. There should be consensus about what constitutes this category. Also, are the 99 loans a subset of the 225? If there have been 123 completed loans, why are you not looking at the whole population? How much and what type of ESW will you look at?

For Table 1A, the first and second columns start and end with 1990. Is the first batch 1980-1989 and the second 1990-1996? Are these dates approvals, completion or evaluation dates?

Another, perhaps more serious methodological question. I have concerns about the reliability and impartiality of the data sources you propose to use. While OED has performed some independent field audits of CSR projects, much of the source material will be ICRs and PCRs (along with in-Bank interviews). Since these are largely (entirely?) prepared by country departments themselves, their neutrality may be seriously questioned. Moreover, since the really useful and interesting questions to be asked about CSR have to do with what has been left on the ground by way of improved institutions and behaviors, it is highly unlikely that anything but field impact studies will yield the kinds of findings we so badly need. Again, my own review of the Bank's internal documents revealed relatively thin information -- but lots of platitudinous rhetoric about "commitment" and "ownership." This reinforces, I think, the need to go look at countries and interview participants and beneficiaries. Since you have limited resources to carry out this study, my suggestion is that you do some aggregate analysis on the total population of projects, but that you concentrate mainly on intensive analysis of a much more limited set (i.e. perhaps six to eight -- not the proposed 31) countries/operations to glean really meaningful lessons. This way you can develop a tighter research framework and produce a higher quality study with more carefully honed questions.

Clearly, any study -- intensive or extensive -- will require skilled analysts with appropriate training and experience in public sector management and civil service reform. Since OED does not, to my knowledge, currently have psm specialists on staff, will you be hiring consultants to carry out this study? Perhaps we could discuss the possibilities at some point.

Pedantry/Semantics

What are "self-evaluation" studies?

Para. 10's allusion to "instruments" should make clear these are

not Bank lending instruments.

I hope some of this is useful to help strengthen the proposal. Again, I want to stress the significance I think this study will have in shaping much of the Bank's future work in civil service reform, and I endorse OED's initiative to undertake this important piece of work.

Sorry to delay in getting these to you. Please give me a call anytime to discuss.

Barbara

CC: Robert E. Hindle
CC: VICKY VIRAY

(ROBERT E. HINDLE)
(VICKY VIRAY @A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 08-Oct-1996 08:47am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: CAPWG

Ishrat,

Here is a summary of where we stand in the corruption action plan working group, which I sent to Sven.

We have the workshop today at the Hay Adams. I will let you know how it turns out.

Mike

A L L - I N - 1 N O T E

DATE: 07-Oct-1996 04:36pm EST

TO: SVEN SANDSTROM

(SVEN SANDSTROM@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption

Sven,

Just to let you know where we are with the CAPWG.

We have our workshop tomorrow all day at the Hay Adams. We are dividing the day up into six sessions:

- 1). Country corruption assessments - Paul Siegelbaum
(Summary of the responses we got from the regions on the eight questions we put to them (as listed in the briefing note for the VPs' meeting back in July)
- 2). Fiduciary - Myla Williams
Issues and recommendations on control of corruption and fraud both internally and in Bank projects.
- 3). Economic Policy - Cheryl Gray
Role of policy reform, both macro and sectoral in the control of corruption.
- 4). Institutions - Malcolm Rowat
What the Bank can do to strengthen institutions in traditional and new areas.
- 5). International - Louis Forget
Where the Bank might lend its weight in the international effort to control corruption.
- 6) Operational issues - Klaud Rohland
Implications for CAS, ESW and other operational issues.
- 7) Training - Ladipo Adamolekun
Skill mix and training implications for the Bank.

Each participant (the whole WG is in excess of 20) has been sent a package of materials - essentially the first reports of the sub-groups. The purpose of the workshop is to:

- Discuss in the full WG where the sub-groups have gotten, and test conclusions

- Identify gaps and cross-cutting issues
- Build consensus and understanding around the emerging main messages.

Peter Eigen and Jeremy Pope will be present throughout the workshop. Caio has agreed to join us for lunch to participate in the operational implications discussions.

I will send you an EM taking stock of the process once the workshop has taken place.

I think we are on track in terms of our original timetable (but I will have a clearer picture after tomorrow).

But it seems to me that, in the aftermath of the annual meetings, we need to think what lies beyond the formal Board paper (which I assume will be discussed December - allowing time for senior management to review the CAPWG report and to prepare the Board paper and to circulate it in sufficient time). There was a lot of interest, for example, in what the Bank is doing with the other MDBs. We may also want to consider some sort of publication - setting out how the Bank sees the issue and how it stands ready to help countries.

Mike

CC: MARVA ANGUS

(MARVA ANGUS@A1@WBWASH)

SH (o/r)
✓ copy to: Mike S.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: September 21, 1996 01:18pm

TO: See Distribution Below

FROM: John Nellis, PSD

(JOHN NELLIS@A1@WBHQB)

EXT.: 37482

SUBJECT: Attached

FYI.

DISTRIBUTION:

TO: ISHRAT HUSAIN

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TO: Mary Shirley

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TO: ROGER SULLIVAN

(ROGER SULLIVAN@A1@WBWASH)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: September 20, 1996 04:47pm EST

TO: See Distribution Below

FROM: John Nellis, PSD (JOHN NELLIS@A1@WBHQB)

EXT.: 37482

SUBJECT: Civil Service and Corruption

Colleagues,

I leave on mission tomorrow. Herewith an attempt to say something of interest and relevance on the subject of Civil Service Reform and Corruption. (With thanks to Meg Garlinghouse for assistance and contributions, and with acknowledgments to the written work of Susan Rose-Ackerman and Barbara Nunberg.) We are trying to construct a table linking extent of corruption with comparative levels of pay; if we succeed, we'll send you copy.

John

Civil Service and Corruption

I- What is the Problem?

1. There is no country in the world lacking either corrupt--or corruptible--officials or corrupt--or corrupting--citizens. In the wealthier OECD countries, for example, the United States, France, Sweden and Australia, one will find at any given moment an allegation, a scandal, a court case, or a conviction pertaining to the illegal use of public office for private gain, thus demonstrating that corruption knows neither a geographical nor an income nor a cultural boundary. No country is corruption-free.

2. But the evidence is widespread that the incidence of corruption is greater in middle and low income countries than in upper income settings. There are always exceptions to this generalization--comparatively wealthy Italy and Spain have relatively high corruption ratings and poor Angola and Zimbabwe relatively low; but overall, the assertion holds.

3. A widely advanced and accepted part of the explanation for this heightened incidence is that civil servants in most developing countries are poorly paid. In most low income countries civil servant salaries are low and continuing to

decline, particularly in countries with high inflation, and are often well below private sector wages. In Jamaica, in the decade 1972-1982, the CPI increased 470% while civil servants' salaries only increased 41-87%. In 1992, Somalian civil servants made about 10% of the wages of similar positions in the private sector. In 1988, the head of the Ugandan civil service was making approximately US\$43/month, a sum which could minimally feed a family of four for 19 days. Ill-paid civil servants are led, if not forced, to seek additional income--and often the most accessible form is bribes. Moreover:

If officials are paid much less than those with similar training elsewhere in the economy, people willing to accept bribes will be disproportionately attracted to the public sector.
(Rose-Ackerman, 1996, 1)

4. To put it more bluntly, if you are a civil servant who cannot live on your wages, then you will be tempted to live on your wits. You will be tempted either to use your position to elicit personal payments for information or services rendered, and/or you will be tempted to accept payments offered by others for these services. If only those who find ways to supplement inadequate official salaries can survive, then low pay of officials is, prima facie, a prime contributor to corrupt practices. Why? Because even the least corruption-prone methods of supplementing income, such as taking on a second job after official hours ("moonlighting"), can easily lead to "daylighting;" that is, taking a second job during official hours. From there, presumably, it is a short step to even less defensible, overtly corrupt practices.

5. There are several other aspects of civil service composition, structure, incentives and behavior in developing countries that cause or contribute to corruption, but they are better viewed through other lenses. The most important is the plethora of regulations, procedures, approvals, licenses and so forth that heavily interventionist and regulatory state structures impose on the citizenry in general and the private sector in particular. The discretionary control over these rules and regulations notoriously provide civil servants with many opportunities for rent-seeking and corrupt practices; but the issue of what to do about this is better dealt with by those looking at economic policy and regulation. The core corruption issue in civil services in most middle and low income countries is middle and low income.

II- What can be done about the problem?

6. If low wages are the prime cause of the problem, then increasing public service wage scales should reduce the perceived need (if not the willingness or the opportunities) for officials to participate in corrupt practices. It is certainly reasonable

to think that boosting wage rates would have some positive effect on reducing corruption. Although there do not seem to be any systematic studies to prove this, a number of case studies support this assertion. For example, in the 1950's, corruption was a recognized way of life in Singapore, pushing government into adopting a two-prong counterattack. The first was to increase wages. In 1972, all civil servants were given a 13 month nonpensionable allowance and salaries were increased again in '73, '79, '82, and '89. The second prong was to increase the penalties for corrupt behavior, and step up enforcement. By 1989, the city's civil servants were among the best paid public officials in the world. And Singapore is currently rated as having one of the lowest corruption indices in the world. Thus, directly raising pay scales helps. But there are a number of other factors at work.

7. First, in many low income countries one sees both very low average civil service wages and very large--unsustainable--aggregate public sector wage bills. From 1975-1988, for example, Ugandan civil service salaries fell drastically. At the same time, the public wage bill actually increased, though reduction of the total sum was the raison d'etre for deep salary slashes in the first place. Indeed, the thrust of most civil service reform supported by the IFIs over the past 15 years has been to find ways to reduce the aggregate wage bill, by:

- * identifying organizational purposes,
- * determining what kind and how many people are needed to achieve those purposes,
- * getting the right people in the right jobs, and
- * using the resulting savings to pay the remaining (and presumably fewer) or new personnel a decent wage.

8. The logic is impeccable, but the fact is that this approach has been tried and tested--and has not produced substantial results. To illustrate, between 1987 and 1996 the World Bank had about 145 operations featuring prominently civil service reforms along the lines indicated above. Four-fifths of these programs were either adjustment or technical assistance operations; 70 % of all these operations were in sub-Saharan Africa. A 1996 World Bank analysis (B. Nunberg, "Rethinking Civil Service Reform") concludes that the main goal of these operations, employment reductions, occurred in "more than half" of the cases, "but reversals were later reported." Moreover, wage bill reduction and salary decompression, two important subsidiary objectives, were achieved in less than half the cases. Even where employment reduction did take place, it was small in scale, as were any fiscal savings produced--"rarely sufficient to finance substantial salary increases for higher level staff." (Nunberg,

4) The point is that even if one thinks one knows part of the answer to the question, "what is to be done?", it would appear that we have considerable difficulty in implementing the answer.

9. Second, providing higher pay is "only a necessary condition, not a sufficient one" to discourage corrupt practices

(Rose-Ackerman, 1996). Higher pay might possibly lead to higher bribes, as officials with more to lose (if they get caught) ask for higher payments to match the potential loss. One can conceive of a situation in which a substantial pay raise for civil servants is put in place, and the total number of corrupt acts decreases--but the economic and financial weight of the remaining corruption increases to a size greater than that of the preceding period. It is evident that governments must simultaneously adopt other reforms to monitor, encourage and reward honest behavior. Concretely, what can one suggest? Five plausible ideas:

10. Increase the prospects of getting caught; increase the prospects of getting punished when caught. Governments need to establish some sticks alongside the carrots. A pay increase accompanied by an increased probability that acts of corruption will be discovered and sanctioned should dissuade many officials from entering into corrupt practices. Societies in which the monitoring authorities are competent and diligent, and in which the penalties for proscribed behavior are severe (drug dealing in Malaysia, for example) do exhibit reduced incidences of the behavior under attack. But a large question is being begged, since the diligence (if not the competence) of authorities is precisely what is questionable, or negotiable, in states with high levels of corruption.

11. Link pay with performance by creating incentives to be and remain honest. For example, by providing more generous pensions to civil servants who retire with an unblemished record. The implementation difficulties are apparent (do unsubstantiated and unproven accusations count against one?), but it is in all likelihood a solveable problem.

12. Increase professional pride by augmenting the noncash portion of the civil servant's utility function. Raising the prestige of civil service positions through recognition, ceremonies, titles and, honors is an often-used, inexpensive method to increase the value of a position. This recognition is a benefit that the private sector cannot generally provide, and is often relied on in monarchies. For example, in Thailand the king has for centuries granted highly coveted awards to individuals, mostly from the public sector but occasionally from the private, who have rendered extraordinary service to the country. As with cash incentives, it will be difficult to construct mechanisms linking these rewards to non-corrupt behavior; some work needs to be done here.

13. Find public-sector surrogates for competition: If no single civil servant or office has monopolistic power over the issuing of a license or an approval, and clients/citizens have choices as to where to obtain what they need, then this competition should drive down or eliminate the corruption premium charged by corrupt officials. The evident problem is that heavy reliance on this concept of overlapping jurisdictions might increase the size of

government and add to the wage bill at times when the government is most fiscally strapped. A somewhat related suggestion is to rotate officials from office to office or from region to region, so that corrupting personal relationships do not grow or flourish. In Spain, for example, the rule is that no member of the national police force can ever be posted to his or her home region. If the assumption is that officials are more likely to bend the rules for, or indulge in corrupt practices with close friends and relations, then posting outside the home region may have some effect.

14. Develop systems of accountability by enshrining transparency of governmental operations and decisions, and permitting and encouraging outside agents--the press, the NGO community, civic organizations--to monitor the actions of government. This is an inexpensive and often quite effective method to attack corrupt officials and practices.

15. All these reforms are sensible, have been tried to some positive effect somewhere in the world, and would appear to have merit. However, most if not all entail additional government expenditures, or assume or require the existence of institutions and practices that are notoriously weak or absent in states exhibiting high rates of corruption. Moreover, institutions and deeply-engrained practices are difficult to create and even more difficult to alter; it takes considerable time for positive change to take place and become routinized.

16. But it can happen: As mentioned earlier, Singapore, rated by Transparency International as one of the least corrupt states (just below Denmark and New Zealand) among all surveyed in 1996, was widely regarded as highly and thoroughly corrupt as recently as 1960. In that year, the government launched a reform program combining dramatic salary increases for civil servants and political figures--Prime Minister Lee Kuan Yew said "leaders should be paid top salaries to ensure a clean and honest government"--with greatly increased supervision of official behavior, and stiff, mandatory sentences for convicted transgressors (typically, 5 years in jail plus a fine equal to the amount taken in bribes).

17. If Singapore's experience is a guide then it would seem clear that most of the impetus for corruption reduction will have to come from within a society or a state, and that the not-so-secret secret is to maintain the push over a sufficiently long-haul to wear down the opposing forces. This does not mean that organizations such as the World Bank have no role in the process; rather, it suggests that external assistance can support and facilitate countries committed to the reduction of corrupt practices by:

- * contributing to the assessment of the incidence and costs of corruption (not only directly in the civil service, but across the board);
- * raising international public consciousness concerning

- corruption, and assisting in devising standard definitions and acceptable norms of behavior, for both the potential bribe-taker (civil servant or not) and the potential bribe-giver;
- * cataloguing what countries are doing to reduce or eliminate corrupt practices, and disseminating this information; and specifically,
 - * revisiting the established World Bank approach to civil service reform to extend the rationale from pure fiscal savings to making the public service a respected and competent--and accountable--body. (See Nunberg, 1996)

DISTRIBUTION:

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A L L - I N - 1 N O T E

DATE: 12-Sep-1996 01:17pm

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Gordon Whyte, HRGST

(GORDON WHYTE@A1@WBHQB)

EXT.: 30819

SUBJECT: PSM Staffing Group Minutes--DRAFT

Attached for your clearance and revisions are draft minutes of yesterday's PSM Staffing Group meeting. Thanks.

MINUTES OF THE PSM STAFFING GROUP MEETING

1. The PSM Staffing Group met on Wednesday, Sept. 11, 1996 at 3:00 pm.

Attendees:

Ishrat Husain (PSP, Chair)
Robert Lacey (LADCN)
Paul Meo (LA1PS)
John Nellis (PSD)
Mary Shirley (PRDFP)
David Steedman (ASTHR)
Michael Stevens (PSP)
Arturo Israel (PSP)
Malcolm Rowat (LATPS)
Oladipupo Adamolekun (HRGLL)
Jasdeep Singh (AFTI1)

PSM in the Network System

2.1 Mr. Hussain briefed the members on proposals in regard to placement of the PSM sector in the Network system. The current proposal is for PSM to be one of four product families under the Economic Management Network.

2.2 The Staffing Group chair will recommend to the Economic Management Network chair that the proposed name of the product family, Public Economics and Management, be changed to the Public Sector Management family, which would, by definition, include Public Economics.

2.3 The EM Network is proposing to form, in addition to its Network, a broader group, a professional association of Economists which would link economists in other sectors, e.g, agriculture, industry, finance. There have also been suggestions for forming a professional association of Social Scientists. The exact form and regulatory powers of professional associations are not yet clear.

2.4 The consensus of the PSM Staffing Group was that the PSM family should maintain control on setting the professional standards within the sector, particularly in regard to selection and clearance for promotion of PSM staff. These functions should not be delegated to broader umbrella groups, such as a professional association.

PSM Symposium

3. The SG agreed that the annual PSM symposium should be held

this year under the auspices of the Learning and Leadership Center with Ladipo Adamolekun spearheading the effort. Draft chapters of the upcoming WDR would be major topics at the symposium.

Arturo Israel's draft report on PSM staffing issues

4. Members noted that this and other reviews of PSM work appear to emphasize the failures. Mary Shirley suggested that a broader analysis be done on the successes and failures of the PSM work now going on. Others noted that the design of the study methodology would not be easy as it would require development of indicies of success or failure, which we do not now have.

Due to time limitations, discussion was not completed on this agenda item.

A L L - I N - 1 N O T E

DATE: 12-Sep-1996 02:11pm

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: PSM

Ishrat,

Reflecting on our discussion earlier this morning, and chewing it over with Barbara further, could we not arrange a brief meeting with our DEC counterparts to exchange ideas on the strategic issues at stake in the mapping of PSM over to the "Poverty and Country Policy Network"? Specifically, with Mark Baird and Shanta Deverajan (I have an incoming VM from Mark to get back to him - I assume on this matter).

This is not a search for the perfect organizational form or a more apposite term, but to get strategic substance out of organizational change that appears to us more driven by form.

In our view, there's no point in any of the organizational changes proposed if they don't result in staffing and resource changes which enable the Bank to tackle the "fifth challenge" identified in the 50th anniversary paper of two years ago.

Mapping the PSM Unit over to the new CVP/Network, merging it with a rump PRDPE and subordinating it to a PSP&M Family Council of regional representatives might lead to the necessary improvements, but that is far from certain, and would anyway be a lengthy process, and a clear loss of strategic opportunity.

In place of Public Sector Performance and Management (which suggests an unfortunate separation of management and performance), logically there should be a Governance Department. In practice, because the term now has overtones with our borrowers, and because we are using the language of families and networks, the term State Reform is proposed.

In the centre, the organizational form would be three groupings under the State reform product family head (whom one day should revert to the title "director").

- Governance:
Rule of law, human rights, political economy,
participation.
- PSM:

CSR, Budgetting and financial management,
decision-making processes/machinery of govt,
intergovernmental relations,

- Public Economics:
(as at present, inc. current institutional
economics work of SP)

Some issues previously handled under one heading - such as milex - might be shared, so also role of the state. The aim is to get a robust enough structure within the State Reform family to accomodate future work priorities. Participation is included because it needs to be anchored in a broader framework of public management and governance (an alternative title to State reform) - it is more than getting projects to run better, and dangerous to pretend it is only that.

The resourcing of such a structure shoould be addressed now, rather than through the preparation of a strategic plan ad referendum the family council. The latter has the triple drawback of:

- Being composed of regional representatives
, it risks seeing the necessary resource
decisions in trade-off terms;
- We cannot be sure ahead of time that the
necessary professional perspective will be
reflected;
- The process will take time and almost certainly
will be incremental;

In short, we are saying that there is an opportunity for basing organizational change on sound strategic foundations and institutional priorities. Can we therefore not get round a table with our future DEC colleagues and thrash these issues out - as we have already begun, with our comments on Mark Baird's issues paper? There needs to be a quantum change in substance, not just form.

Mike

CC: BARBARA NUNBERG
CC: Malcolm Holmes

(BARBARA NUNBERG@A1@WBWASH)
(MALCOLM HOLMES@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 12-Sep-1996 06:08pm

TO: Mark Baird

(MARK BAIRD@A1@WBHQB)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Reorganization: PSM

Mark,

We have been going backwards and forwards today on VM without making contact.

Assuming we are both about the same topic, here's how I summarized the position as we understand it, after talking about what's currently proposed within the Unit.

In strategic terms, we see a missed opportunity, with governance arrangements for the product family which might have the effect of making it even harder to achieve what we, as the three PSM professionals in the centre, see as institutional objectives.

In short, we seriously doubt the viability of the proposed arrangements for PSM in the centre unless accompanied by an institutional decision to adequately structure and resource the function at the same time. We believe this should be conveyed to senior management.

Could we meet and talk about this with you and Shanta tomorrow morning - as a matter of urgency, given that decisions appear in the process of being taken?

Mike

CC: BARBARA NUNBERG

(BARBARA NUNBERG@A1@WBWASH)

CC: Malcolm Holmes

(MALCOLM HOLMES@A1@WBHQB)

CC: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

CC: Shanta Devarajan

(SHANTA DEVARAJAN@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 12-Sep-1996 02:11pm EST

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: PSM

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(as at present, inc. current institutional
economics work of SP)

Some issues previously handled under one heading - such as milex - might be shared, so also role of the state. The aim is to get a robust enough structure within the State Reform family to accomodate future work priorities. Participation is included because it needs to be anchored in a broader framework of public management and governance (an alternative title to State reform) - it is more than getting projects to run better, and dangerous to pretend it is only that.

The resourcing of such a structure shoould be addressed now, rather than through the preparation of a strategic plan ad referendum the family council. The latter has the triple drawback of:

- Being composed of regional representatives , it risks seeing the necessary resource decisions in trade-off terms;
- We cannot be sure ahead of time that the necessary professional perspective will be reflected;
- The process will take time and almost certainly will be incremental;

In short, we are saying that there is an opportunity for basing organizational change on sound strategic foundations and institutional priorities. Can we therefore not get round a table with our future DEC colleagues and thrash these issues out - as we have already begun, with our comments on Mark Baird's issues paper? There needs to be a quantum change in substance, not just form.

Mike

CC: BARBARA NUNBERG
CC: Malcolm Holmes

(BARBARA NUNBERG@A1@WBWASH)
(MALCOLM HOLMES@A1@WBHQB)

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: September 9, 1996 10:32am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption

Ishrat,

Fyi. Sven sent me an EM exchange with Johannes Linn about Latvia as a possible anti-corruption pilot country, and asked for comments. You will recall that JDW was keen that the Bank should identify some pilot countries. If the concept is to be operationalized, we need to do some hard thinking on criteria and how we would proceed.

Mike

CC: PSP Institutional Archives

(PSP INSTITUTIONAL ARCHIVES@A1@WBHQB)

For Action
to discuss w/ Mike?

Mike,
I think Latvia
may be a good
candidate but I have
doubts about Bangladesh
at this stage.
Lu
9/10

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: September 9, 1996 10:28am EST

TO: Sven Sandstrom (SVEN SANDSTROM@A1@WBWASH)

FROM: Mike Stevens, PSP (MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: RE: Corruption - pilot country in ECA

Sven,

1. I think it would be useful to explore with the Latvian government the idea of being a pilot country in the control of corruption. At the same time we need to think through what we would be looking for in a pilot - given that a fair amount of fanfare might go with the identification of the first few countries, in the wake of the Annual Meetings speech.

2. Paul Siegelbaum, who is the Region's representative on the CAPWG, has just sent the ECA response to the set of questions posed at the VPs' meeting in July. One of the questions asked was: Is there scope in the Region for developing anti-corruption programs with selected countries on a pilot basis?

3. Paul suggests the following criteria:

- strong commitment at the top levels of government;
- reasonably widespread governmental commitment to ending commitment; *Corruption*
- identification of problems for which technical input could make a difference;
- an economy with a fairly open structure at present, so rent seeking opportunities are fairly narrow and easily identified;
- not too large a country (eg: not Russia or Ukraine).

4. I think these are good criteria, and Latvia, from what I hear, comes close to meeting them (more so than Moldova, which was mentioned some time ago). Further, we have done some good ESW on PSM issues in the Baltics.

5. In other regions, Bangladesh has been mooted (by the Resrep and his team). Potentially a candidate, in the sense

that: (i) we have good ESW ("Govt that works"), and (ii) there is a groundswell within the country for better control of corruption. -What still has to be demonstrated is the depth of commitment of the new head of government.

*too large
a country*

6. We need to think through exactly what a pilot program in a Latvia or Bangladesh would entail. Much of it would be about the basics of good government - a serious effort at improving government financial management, taking audit reports seriously, undertaking meaningful CSR, creating an enabling environment for good performance within the public sector, redrawing the limits of the public sector, creating strong regulatory bodies, increasing public sector transparency, watchdog bodies, procurement reform, addressing conflict of interest and other ethical issues in both the public service and ministers and politicians etc.

7. It should be possible to assess fairly quickly what needs to be done in all of these areas, and to lay before senior ministers and officials the steps they would have to take, and thus gauge the degree of buy in. What we want to avoid is premature declaration of pilot status (and I'd prefer another term).

8. We also need to consider what the call on Bank staff resources would be if a country were to become a "pilot". Generally, the Bank is strong in its ability to help countries design good economic policies (which as well as improving performance, reduce scope for rents). On the institutional front, the record is mixed, and there are staff shortages and skill deficiencies. And on specific aspects of an anti-corruption strategy we would have to bring in specialist help.

9. In short, I am in favour of the concept. It naturally follows from JDW's emphasis on fighting corruption. But we need to set the entry hurdle high, and be able to deliver when called upon.

Mike

CC: Orsalia Kalantzopoulos
CC: Gerard Rice
CC: EXCMDC

(ORSALIA KALANTZOPOULOS@A1@WBWASH)
(GERARD RICE@A1@WBWASH)
(EXCMDC@A1@WBWASH)

Governance

A L L - I N - 1 N O T E

DATE: 06-Sep-1996 01:40pm

TO: SVEN SANDSTROM

(SVEN SANDSTROM@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption Action Plan

Sven,

To keep you abreast of where we are:

1). We had a plenary meeting of the CAPWG last week, and agreed to break into 4 sub-groups, each with a leader:

Fiduciary: (myla Williams)

Economic Policy: (Cheryl Gray)

Institutional: (Malcolm Rowat)

International: (Louis Forget).

2). These are starting to meet, identifying the issues and fleshing out a work program in the area. I am attending all groups, to provide the links. The full 20 people in the CAPW are more or less evenly divided between the groups. In turn, sub-group leaders are calling in others from the Bank as needed.

3). Economic policy is relatively straightforward. The undelying theme is how can the Bank help countries to design economic policy which reduces the creation of rents. At the macro level, this is the Bank's structural adjustment policies. But it also means looking at policies at the sectoral level, and what lessons can be drawn from the control of corruption perspective. My belief is that we can develop a good storyline, illustrated with clear examples, good and bad.

4). International is also straightforward. There are a number of initiatives at the international level, which the Bank has followed but not directly supported. We will review them and evaluate where the Bank might best lend its weight. Obviously, the first step is working closely with the Fund. (I have a draft on theiur forthcoming Board paper on governance, and have been asked to comment).

5). Fiduciary and Institutional are the difficult ones, and

there may be tension between the two.

6). Building institutional capacity in countries to better control corruption is essentially about PSM and governance basics (eg: CSR and financial management). Our record on PSM projects is not particularly good, but I think we have enough of an understanding on the directions in which to move to improve.

7). Fiduciary poses two problems. The first is how deep do we get into the control of corruption and fraud within the Bank. This is an area where the Shihata/Muis matrix lists a lot of recommendations. Whether they are the last word I am not sure. At some point we are going to need guidance from you as to how far we should go. In favour of reviewing internal policies is that corruption is seamless, and if the Bank is to tell its borrowers they must control corruption, it needs to be sure its own house is in order - not that all Bank staff are totally free of corruption, but that strong and transparent systems are in place to control it when it occurs. One proposal which TI has suggested is an attitude survey of staff on the issue - the state government of New South Wales recently conducted such a survey, and the replies shattered compacency (staff said they wouldn't trust managers to deal properly with a corruption complaint). I think the idea has merit, and am following up the NSW experience.

8). The second issue is the risk of tension between the fiduciary and institutional legs. The Bank has a clear fiduciary responsibility to ensure proper use of its loans. But the sort of controls we insist on to ensure this - procurement guidelines and financial reporting of projects - impose Bank systems on governments which may be different to country systems, and in some cases undermine them. The temptation for the Bank is to tighten up on its own procurement and reporting rules. This may be justified in the short run, in the long run we should be emphasizing more the adequacy of government procurement and reporting systems. There is a case for reviewing the philosophy that underpins the Bank's procurement policy. How far we should go in the present circumstances, and whether there will be agreement within the group remains to be seen.

TI

9). The arrangements for TI to act in an advisory capacity are agreed with Berlin, and a memo has gone to HRGTC to issue a contract. It provides for: (i) 4 weeks of advisory inputs, on call, to the CAPWG. (ii) Peter Eigen and Jeremy Pope to come to Washington second week in October to participate in an informal workshop with the CAPWG on the emerging AP. (iii) two visits between November and June 97 to brief the Bank on current international and national developments. Total cost, with a

contingency, \$75,000. I am sending a memo to Richard Lynn requesting a transfer.

10). TI is happy with this. They will, of course, be anxious to be involved with implementation of the AP, but that will depend on decentralized decisions of the relevant Bank budget holders, consistent with Bank procurement processes. I am comfortable with the arrangement, and have begun an EM exchange on the issues. I think they have good ideas to offer, and have thought about the issues we are confronting. At the same time, having them on call, and scheduling the workshop in October rather than this month, will give us enough time to develop our own ideas, and regional ownership.

11). I have told TI that they are free to say generally that they are continuing their dialogue with the Bank on control of corruption issues, but that they should regard the details as confidential. (In their Newsletter in the Spring, they reported their meeting with JDW and his offer for a seminar).

Annual Meetings Speech.

12). Geoff Bergen has been attending the plenary meetings of the CAPWG. He is welcome to attend sub-group meetings, but that may be too detailed. I have suggested we meet next week to go over the corruption section of the draft speech.

Regional Corruption Assessments.

13). The answers on the questions posed to the regions at the end of July are slowly coming in. S. Asia and LAC came in August, AFR is expected to be completed this w/e. E. Asia, ECE and MNA are running slower. Environment is also supplying answers. Generally, these are confirming corruption as a serious issue of development effectiveness.

JDW Briefing:

14). We are scheduled to give JDW a briefing 3.30 - 4.30 Thursday Sept 19, with a pre-meeting brief submitted Sept 16. I propose a short note describing the process, the feedback from the regions, the issues we are addressing, and, in a very preliminary way, the conclusions we are coming to. But I don't want to anticipate too much. Will he understand this? He has taken, correctly so, the high ground on the issue. I don't think we have too much difficulty underpinning a moral position with economic arguments that corruption is bad for development (I hear no-one saying there is "good" corruption, which some economists were wont to argue), and we are beginning to get empirical evidence to support this. Operationally, there are many questions to resolve, given the close links between corruption and policies, and the reality that for the majority of our borrowers, corruption is systemic.

Mike

CC: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

Governance

A L L - I N - 1 N O T E

DATE: 14-Aug-1996 09:41am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption Action Plan

Ishrat,

To brief you on an issue that has come up.

TI has been pressing the Bank for a reaction to the proposals it made, at JDW's invitation, for collaboration with the Bank (these were sent shortly after the June TI/WB senior management seminar, and involved collaboration in training, Board seminars, pilot projects, EDI workshops, assisting drafting the Annual Meetings speech etc).

My advice to Sven has been that developing an action program is essentially an internal process, and TI must be patient. Cooperation will develop if justified by country circumstances once policy is clearer to staff. Sven, in response to Peter Eigen, is proposing retaining TI to advise on the emerging action program. This is broadly consistent with JDW suggesting at the seminar that the Bank pay TI to advise us, say on a six monthly basis, on global developments. I don't have a problem with the Bank paying for TI's advice on aspects of the action program, if we feel we need it, and this could be part of a longer term relationship, where we purchase advice and information from TI (though there are limits how far this can be taken - TI is an advocacy NGO, not a consultancy agent like Coopers and Lybrand).

The particular issue is funding. I have signalled to Sven that I will draft TOR for periodic TI advisory services/exchange of views etc, PSP does not have the budget to do this. The implication is that either the retainer for TI will have to be centrally funded, or PSP will have to be given an explicit allocation.

I don't think a large amount of money is at stake, but if it costs \$50,000, that is at least equivalent to the annual cost of a RA for the PSM Unit.

I will keep you posted. I don't think there is any need for action on your part at this point.

Mike



Record Removal Notice

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Document Date 08/08/1996	Document Type Board Record			
Correspondents / Participants From: Vice President and Secretary To: Executive Directors				
Subject / Title Summary of Discussion at the Meeting of the Executive Directors of the Bank and IDA, July 23, 1996				
Exception(s)				
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International Bank for Reconstruction and Development
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**FOR
EXECUTIVE
DIRECTORS'
MEETING**

For consideration on
Tuesday, July 23, 1996

R96-112/1

FROM: Vice President and Secretary

July 11, 1996

Fraud and Corruption - Proposed Amendments
in the Bank's Loan Documents for the Purpose of Making
Them More Effective in the Fight Against Fraud and Corruption

Attached is a revised version of the President's Memorandum, entitled "Fraud and Corruption - Proposed Amendments in the Bank's Loan Documents for the Purpose of Making Them More Effective in the Fight Against Fraud and Corruption", which was earlier submitted under R96-112 and is now re-submitted with additions introduced in the light of earlier discussions, for consideration by the Executive Directors on July 23, 1996, following the seminar on corruption to be held on that date.

Questions on this memorandum should be referred to Mr. Christian Walser (X81590) or Mr. Robert Hunja (X81713) in the Legal Department or to Mr. Shihata.

Distribution:

Executive Directors and Alternates
President's Executive Committee
Senior Management, Bank, IFC and MIGA

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JAMES D. WOLFENSOHN
President

July 10, 1996

Fraud and Corruption - Proposed Amendments in the
Bank's Loan Documents for the Purpose of Making Them
More Effective in the Fight Against Fraud and Corruption

1. This is a revised version of my memorandum on the same subject, dated May 24, 1996 (R96-112; IDA/R96-109), which was discussed in an informal meeting by the Executive Directors on June 20, 1996. On that occasion, some Executive Directors expressed their preference, before taking a decision on the recommendations on matters of corruption in procurement made in my earlier memorandum, to hold a seminar on the problems of corruption in a much broader sense. Executive Directors also asked for additional information with respect to some of the matters raised in the earlier memorandum.
2. In response to the Executive Directors' request, it is now planned to hold a Board seminar on the broader aspects of corruption before the Executive Directors will be asked to take a decision on the present memorandum. In comparison with my earlier memorandum, the present memorandum includes the following material changes or additions: (a) The last sentence of paragraph 7 (previously paragraph 6) was amended as explained by staff during the June 20 meeting, i.e., to cover payment of commissions by a bidder to any agent, local or foreign, relating both to his bid or to contract execution. (b) A number of changes were introduced in the proposed new paragraph 1.15 of the Procurement Guidelines (see paragraph 3(ii) of Appendix I), in particular a definition of the terms "corrupt practice" and "fraudulent practice" for the purposes of the Guidelines. (c) An Appendix II was added showing draft Procedures for Bank staff to deal with allegations of fraud and corruption by bidders/suppliers/contractors. (d) An Appendix III on the question of the no-bribery pledge was added for the Executive Directors' information..
3. The purpose of this memorandum is to obtain the Executive Directors' approval of a number of amendments designed to serve as a deterrent against corruption, which I propose to introduce in the Bank's loan documentation (including the Procurement and the Consultants' Guidelines) with respect to procurement activities for contracts to be financed by the Bank. Some of these proposals (e.g., the exclusion of bidders found by

the Bank to have engaged in corrupt practices) represent a codification of already existing practice. Others represent new approaches. All are a reflection of the Bank's determination to proceed forcefully against any manifestation of corruption in the context of the Bank's operations. This memorandum explains the proposed changes. The wording of the proposed amendments of loan documents is set forth in Appendix I.

Amendments of the General Conditions

4. Section 6.03 of the General Conditions, entitled "Cancellation by the Bank", lists various circumstances which permit the Bank to cancel, by notice to the Borrower, a certain amount of the loan. Among these circumstances is the case of what is commonly called misprocurement, which is described in paragraph (c) as the situation in which "(c) at any time, the Bank determines that the procurement of any item is inconsistent with the procedures set forth or referred to in the Loan Agreement...". This provision is triggered when a contract has been procured in an inconsistent manner, i.e., when an award to the "wrong" bidder has actually occurred. If the Bank should determine that representatives of the Borrower or of a beneficiary of the Bank's loan have engaged in fraudulent or corrupt practices while preparing an award proposal in favor of a certain bidder, the Bank would, of course, refuse to give its "no objection" to the award proposal. However, it could not declare misprocurement at this point because an "inconsistent" procurement has not yet occurred and the Borrower would still be free to recommend the next ranking bidder for award.

5. In order to provide the Bank with a remedy in cases of this kind, and also in case of corruption during contract execution, it is being proposed to amend Section 6.03 of the General Conditions of the Bank by the introduction of a new paragraph (c) which would allow the Bank to cancel the amount of a contract from the Loan Account if it determines at any time that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Bank's loan during procurement activities for a Bank-financed contract or during execution of such a contract, in case the Borrower has not taken timely and appropriate action to remedy the situation to the satisfaction of the Bank. Section 6.03 of the General Conditions of the Association would be amended accordingly. The proposed text of the amended Section 6.03 of the Bank's General Conditions is set forth in paragraph 1 of Appendix I. A corresponding amendment would be introduced in the Procurement and the Consultants' Guidelines as explained in the following paragraph.

Amendment of the Procurement Guidelines and of the Consultants' Guidelines

6. In order to make it abundantly clear that it is the Bank's policy not to tolerate any fraud or corruption in the procurement or the execution of Bank-financed contracts, neither on the part of bidders/suppliers/contractors nor on the part of representatives of Borrowers or beneficiaries of Bank loans, it is proposed to add a new paragraph 1.15 to the Procurement Guidelines entitled "Fraud and Corruption". This new paragraph would consist of five sub-paragraphs, the first of which (sub-paragraph (a)) would define the

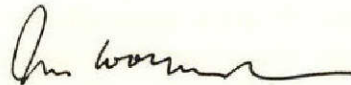
terms "corrupt practice" and "fraudulent practice" in this context. Sub-paragraph (b) would reflect actual practice, namely, that the Bank will reject a proposal for award of a contract if it determines that the bidder proposed for award has engaged in corrupt or fraudulent practices in competing for the contract in question. Another sub-paragraph (sub-paragraph (c)) would repeat what would also be stated in the proposed new paragraph (c) of Section 6.03 of the General Conditions (see paragraph 5 above), namely, that the Bank may cancel a corresponding amount of the loan if it determines, with respect to any contract to be financed out of the proceeds of the loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Bank loan during procurement activities or during contract execution, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation. The fourth sub-paragraph (sub-paragraph (d)) would deal with a situation the Bank has encountered several times in the past when, after an internal investigation, the Bank concluded that consultants under Bank-financed consultants' contracts had acted in a corrupt or fraudulent manner in competing for or in executing these contracts. In these cases, after having given the consultant in question a full and fair hearing, the Bank (usually at senior management level) decided that the consultant would be excluded from competing for Bank-financed contracts for a predetermined period of time (mostly, about two years). While there has been no similar case so far for suppliers or contractors, obviously the same problem could occur under Bank-financed supply or works contracts--yet neither the Procurement Guidelines nor the Consultants' Guidelines include a specific provision under which the Bank would have the right to take action with respect to the offending parties. Sub-paragraph (d) of the proposed new paragraph 1.15 of the Procurement Guidelines would therefore specify that the Bank has the right to declare bidders/contractors/suppliers ineligible for award of Bank-financed contracts, either indefinitely or for a stated period of time, if the Bank determines that they had engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract. (At the Executive Directors' request, Appendix II shows draft Procedures for the Bank to deal with allegations of fraud and corruption by bidders/suppliers/contractors.) Finally, the last sub-paragraph (sub-paragraph (e)) would establish the Bank's right to require, through its Standard Bidding and Contract Documents, that suppliers and contractors permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the Bank. It is expected that the Bank would make use of this right in the form of spot-checks or when the Bank has reason to suspect that corrupt or fraudulent practices may have occurred. The text of the proposed new paragraph 1.15, and of consequential changes in paragraph 1.8 of the Guidelines and in paragraph 3 of Appendix 4 to the Guidelines, is set forth in paragraph 3 of Appendix I. A similar amendment (including the Bank's right to inspect and audit the consultant's accounts and records relating to the performance of the contract) would be included in the Consultants' Guidelines, which are presently being completely revised.

Amendment of the Bank's Standard Bidding and Contract Documents

7. The Bank's Standard Bidding and Contract Documents would be amended to reflect the provisions of the new paragraph 1.15 of the Procurement Guidelines. In addition, the provisions about corruption already existing in some of the Bank's Standard Bidding and Contract Documents would be standardized and included in all of them. In addition, a new item would be added in the Standard Bidding Documents whereby bidders would be required to disclose in their bids commissions and gratuities paid or to be paid to agents relating to their bids or to contract execution.¹

Recommendation

8. I recommend that the proposals in paragraphs 5 and 6 be approved by the Executive Directors of the Bank and IDA.



James D. Wolfensohn

¹ Consideration has been given to a second requirement for bidders to sign a pledge promising not to pay a bribe in connection with the award of the contract and confirming their awareness that, in case of violation, the Bank would exclude them from being awarded future contracts. The usefulness of such a pledge (which can easily be signed by bidders intent to break it) materializes only if the Bank applies the sanctions of excluding the bidder from the present and future Bank-financed contracts. As such exclusion is already proposed in all cases of corrupt or fraudulent practices (with the intention that it be flagged prominently in all Standard Bidding Documents), no particular benefit seems to accrue from the pledge requirement. Appendix III provides a detailed explanation of why the Bank's technical and legal procurement specialists feel that requiring such a pledge would not be helpful in the fight against corruption and may be harmful to the legitimate interests of the Bank's Borrowers.

APPENDIX I

1. Section 6.03 of the Bank's General Conditions Applicable to Loan and Guarantee Agreements, dated January 1, 1985, will be amended to read as follows:

"Section 6.03. **Cancellation by the Bank.** If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or ~~(e)~~ (d) at any time, the Bank determines that the procurement of any ~~item~~ contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such ~~item~~ contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or ~~(d)~~ (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or ~~(e)~~ (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled."

2. The same amendment, *mutatis mutandis*, will be introduced into the Association's General Conditions Applicable to Development Credit Agreements, dated January 1, 1985.
3. The Guidelines for Procurement under IBRD Loans and IDA Credits, dated January 1995, as revised in January 1996, will be amended as follows:
 - (i) The following new sub-paragraph (d) will be added to paragraph 1.8:

"(d) A firm declared ineligible by the Bank in accordance with sub-paragraph (d) of paragraph 1.15 of these Guidelines shall be ineligible to be awarded a Bank-financed contract during the period of time determined by the Bank."

- (ii) The following new paragraph 1.15 will be added:

"Fraud and Corruption"

1.15. It is the Bank's policy to require that Borrowers (including beneficiaries of Bank loans), as well as bidders/suppliers/contractors under Bank-financed contracts, observe the highest standard of ethics during the procurement and the execution of such contracts. In pursuance of this policy, the Bank:

- (a) defines, for the purposes of this provision, the terms set forth below as follows:
 - (i) "corrupt practice" means the offering, giving, receiving or soliciting of any thing of value to influence the action of a public official in the bidding process or in contract execution; and
 - (ii) "fraudulent practice" means a misrepresentation of facts in order to influence a bidding process or the execution of a contract to the detriment of the Borrower, and includes collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the Borrower of the benefits of free and open competition;
- (b) will reject a proposal for award if it determines that the bidder recommended for award has engaged in corrupt or fraudulent activities in competing for the contract in question;
- (c) will cancel the portion of the loan allocated to a contract for goods or works if it at any time determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the loan during the procurement or the execution of that contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation;
- (d) will declare a firm ineligible, either indefinitely or for a stated period of time, to be awarded a Bank-financed contract if it at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract; and

- (e) may require that, in contracts financed by a Bank loan, a provision be included requiring suppliers and contractors to permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the Bank."
- (iii) In consequence of the introduction of the new paragraph 1.15, the last sentence of paragraph 3 of Appendix 4 will be amended by the deletion of the words "or if it is established, by a decision of a court of law, that the contract was awarded on the basis of corrupt practices" and by the addition of the following sentence: "Furthermore, if the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of the bidder, the Bank may impose the applicable sanctions set forth in paragraph 1.15 of the Guidelines."

DRAFT *

APPENDIX II**Draft Procedures to Deal with Allegations of Fraud and Corruption
Under Bank-Financed Contracts**

Internal handling of allegations against bidders/suppliers/contractors/consultants -
Investigations - Imposition of sanctions

The Principle

1. The Bank requires the highest standard of ethical behavior not only from its own staff but also from bidders/suppliers/contractors/consultants under Bank-financed contracts. It is for this reason that Clause 1.15(d) of the Procurement guidelines (entitled "Fraud and Corruption") and the corresponding clause in the consultants' guidelines provide that if the Bank determines that a firm (a term which includes also individual bidders/suppliers/contractors/consultants) has engaged in corrupt or fraudulent practices (as defined in Clause 1.15(a)) in competing for, or in executing a Bank-financed contract, the Bank may, as a sanction, declare that firm ineligible, either indefinitely or for a stated period of time, to be awarded a Bank-financed contract. While occasions for addressing actual cases of alleged corruption have been rare in the Bank's practice, the purpose of this note is to set forth the rules governing the internal handling and initial review, and the outside investigation, if any, of allegations of such fraudulent or corrupt practices (hereunder called "allegations"), as well as the imposition of sanctions, if any, by the Bank. Such procedures are internal to the Bank and must be distinguished from any judicial procedures that may be taken by the appropriate authorities in the countries concerned.

Receipt of allegations; review; investigation

2. Any written allegation that comes to the attention of a staff member, or that is made by a staff member, shall be passed on, together with any supporting evidence, to the Legal Adviser, Procurement and Consultant Services (the Legal Adviser) for an appropriate initial review. In carrying out such a review, the Legal Adviser shall consult with the offices of the Auditor General, the Chief Procurement Adviser and such other Bank staff as may be necessary. If the allegation is alleged to have occurred more than three years earlier, the Legal Adviser shall not pursue the matter. If the Legal Adviser concludes that there is no prima facie evidence to support the allegation, he shall

* To be issued upon approval by the Executive Directors of the amendments to the General Conditions of loans, the Procurement Guidelines and the Standard Bidding Documents proposed in the President's Memorandum.

recommend for approval by the General Counsel that no further steps be taken with respect to the allegation; he shall make the same recommendation if the allegation is anonymous, except if it is supported by substantial evidence. The General Counsel's approval of either recommendation will close the matter.

3. If, by the time of completion of the initial review, the accused firm admits to having engaged in corrupt or fraudulent practices, the Legal Adviser shall recommend to the General Counsel that the matter be submitted to the Committee referred to in paragraph 5 below. The General Counsel shall submit the matter to the Committee, unless he concludes that the matter was a simple error made in good faith.

4. In the absence of admission by the accused firm, if the matter has not been closed under paragraph 2, the Legal Adviser shall submit the result of the initial review to the General Counsel for a decision about how further investigation may be conducted, i.e., by the government concerned, by specialized outside investigators/auditors or, in very simple cases, by Bank staff. The General Counsel shall advise the Operational Managing Director concerned about the appropriate manner of investigation. This advice addresses the procedure to be followed and does not imply any judgment on the substance of the allegation. The Managing Director, in consultation with the General Counsel, shall be responsible for having the investigation carried out. If the investigation is carried out by the government concerned, it will be done according to its applicable legal procedures. Any other investigation shall be conducted in a manner that fairly protects the privacy of the accuser and the rights of the accused firm. In particular, the accused firm shall be allowed to be assisted by legal counsel. If the accuser is willing to submit himself to cross examination, the Bank shall arrange for the accused firm to question the accuser in the presence of Bank staff. The accuser may also be requested to answer under oath questions submitted by the accused.

Imposition of sanctions

5. The General Counsel in the situation mentioned in paragraph 3 above, and the Operational Managing Director concerned in the situation mentioned in paragraph 4 above, shall submit the result of the review or investigation, as the case may be, for a decision by a Committee appointed by the President which will consist of the two Operational Managing Directors, the General Counsel and two other senior staff, or will consist of three persons from outside the Bank staff. If the accused firm admits to having engaged in corrupt or fraudulent practices, or if the Committee finds that the evidence resulting from the investigation is reasonably sufficient to show that the firm has engaged in such practices, the Committee shall recommend to the President that the accused firm (including any firm which owns the majority of the capital of the accused firm, or of which the accused firm owns the majority of the capital) shall be ineligible, either indefinitely or for a stated period of time (depending on the magnitude of the offense), to be awarded a Bank-financed contract. The Committee may seek technical advice from within or outside the Bank, as it deems necessary. It shall submit its recommendation to the President and inform the accused firm and the Executive Directors appointed or

elected (i) by the country of which the accused firm is a national, and (ii) by the borrowing country. The Committee shall also advise on whether any other borrowing country affected by the corrupt or fraudulent activities of the accused firm should be notified about the Bank's decision once it is taken by the President. The President's decision, which is administrative in nature, will be taken after a waiting period of not less than two weeks and will be final and with immediate effect, without prejudice to any action taken by any government under its applicable law.

APPENDIX III

The Requirement of a "No-Bribery Pledge" - Reasons Why the Bank Should Not Accept It

1. As described by some of its proponents, a no-bribery pledge would consist of a separate declaration signed by the Chief Executive Officer of the bidder, in which that person confirms (i) that no bribe will be paid by the bidder to any public official in connection with that bid, and (ii) that the bidder has introduced a corporate compliance program to assure compliance with the pledge. Such a pledge would have to be submitted by every bidder for a Bank-financed contract, as a condition of being eligible to bid. After the contract has been executed, a follow-up certification would have to be submitted by the bidder confirming that no bribe was paid. For the reasons set forth below, the Bank's technical and legal specialists feel that requiring such a pledge would not be helpful in the fight against corruption and may well be harmful to the legitimate interests of the Bank's Borrowers.

2. First, as pointed out correctly in the Rules of Conduct recently published by the International Chamber of Commerce, the basic criminal laws of virtually all countries clearly prohibit extortion and bribery. This being so, it seems logical to assume that any bidder willing to break that law by paying a bribe will be just as willing to sign a pledge promising not to break that law and then to break that pledge as well. (The same is obviously true for the "corporate compliance program certification" and for the "follow-up certification".) After all, what does such a bidder have to risk? He is not more guilty if he breaks the law and the pledge than if he "just" breaks the law. In either case, the country can prosecute him, and the Bank can--and will--blacklist him, as provided in the proposed new paragraph 1.15 of the Procurement Guidelines. It is that risk of being blacklisted which is the essential weapon against corruption and not the requirement of submitting a no-bribery pledge and the various additional certifications.

3. Second, why might the requirement of a no-bribery pledge as a condition of a bidder's eligibility well be harmful to the interests of the Bank's Borrowers? As an example, it would be helpful to recall the bid securities (mostly bank guarantees) which have to be submitted, together with the bid, in the case of major contracts financed by the Bank. As several Executive Directors may be aware from unhappy experiences of bidders from their constituencies in the past, the Bank not infrequently has to request that otherwise advantageous bids be rejected as non-responsive because the bid security is submitted too late or because it includes materially incorrect wording. This is always unfortunate, but then bid securities are very important instruments: they represent "earnest money" designed to protect the borrower against the bidder not standing by his bid. It is therefore felt that in the case of bid securities the Bank must be very strict. On the other hand, an unnecessary no-bribery pledge paper is quite another matter: this

would be yet another document that bidders have to submit on time, in the prescribed form and signed by the appropriate company official. If a bidder should fail to do so, his competitors would no doubt loudly protest and request that the bid in question be rejected as non-responsive, exactly as in the case of the bid securities just described. It is felt that it would be a real disservice to the Bank's Borrowers to require them to reject a low bid merely because a no-bribery pledge happens to be missing, late or incorrectly worded.

4. Finally, the following question should be considered: If one burdens the bidding process with a no-bribery pledge, would it not be logical to require other pledges as well? Why, e.g., not require a pledge that the bidder will respect local labor laws, or relevant Conventions of the International Labor Organization (as indeed has been suggested to the Bank recently by a major international labor federation)? Or why not require a pledge to respect the country's environmental laws? Are not labor rights and the protection of the environment just as important as the fight against corruption? The answer is simple: People doing business in a country are bound to follow the laws of that country, whether or not they have first signed a pledge that they will actually do so.

The Bank intends to highlight the anti-corruption provisions in the Bank's Standard Bidding Documents and the President intends to issue periodical letters emphasizing the Bank's position on bribery and other corrupt or fraudulent practices in the bidding process. This, along with applicable law in the borrowing countries, should make additional pledges by bidders of little practical value.

JUL 24 1996 1751

TH
M. Stevens
file (Pat)

**UN CENTER FOR HUMAN RIGHTS/ WORLD BANK WORKSHOP
ON
ECONOMIC, SOCIAL AND CULTURAL HUMAN RIGHTS -
JULY 24, 1996**

Remarks by Ibrahim F.I. Shihata

The World Bank is proud of its achievements in the field of human rights. The Bank's work has promoted a broad array of economic, social and cultural rights. Its proclaimed overriding objective at present is to enable its borrowing countries to enjoy freedom from poverty, a basic freedom which many researchers find to be required for the full enjoyment of all human rights. The Bank increasingly contributes to the borrowing countries' efforts to develop their human resources, through its lending for education, health and nutrition. It also contributes to these countries' attempts to strengthen their systems of governance and the rule of law, through its lending for legal, regulatory, judicial and civil service reform. It encourages the involvement and participation of affected peoples and local NGOs in the design and implementation of the projects it finances. Along with the Global Environment Facility, of which the Bank is the trustee and the main implementing agency, the Bank currently stands as the multilateral organization with the greatest involvement in the protection of the human environment. The Bank has also integrated the promotion of the role of women in development in its operations. It tries to ensure humane conditions for the resettlement and rehabilitation of the people affected by the projects it finances, insisting that they should be better off, or at least not worse off, as a result of the implementation of these projects. It has adopted a pioneering policy on indigenous and tribal peoples emphasizing the need to protect their rights and distinctive cultures. More broadly, it advocates through its lending operations and policy advice the liberalization of investment and the free flow of services, goods and information. Clearly, these various activities have their effect on the amelioration of a broad spectrum of human rights. Inevitably, supporting education, the openness of economies and the strengthening of the rule of law, do have their effect, indirectly as this may be, on the creation of greater awareness and protection of all human rights in the borrowing countries.

The Bank's extensive role in the numerous fields I have just mentioned may not be widely known. More often than not, it is clouded by demands to the effect that the Bank should play a direct role in the promotion of political rights. The fact is the Bank has been giving a substantive content and a practical meaning to most of the human rights other UN agencies are, codifying, promoting and monitoring.

A question which is often raised in this context is whether the Bank's Articles of Agreement may be interpreted so as to allow the Bank to perform a direct role for the protection and promotion of political rights, such as the freedom of belief and expression and the right to vote or to run for political offices. Certain academic writings have suggested this possibility on the ground that human rights are indivisible, and that

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political rights are essential for maintaining or sustaining economic development. They suggest that the construction of the Bank's Articles of Agreement should be subject to the overriding human values and policies inherent in the concept of development and that, in any event, human rights law should prevail over the Articles of Agreement. As these arguments are often mentioned in recent writings about the Bank, I would like to focus the rest of my remarks on them, speaking of course from my vantage viewpoint as the person responsible for the Bank's legal work.

The indivisibility of human rights and their relevance to human development are not questioned here. By themselves, they cannot mean, however, that the Bank should ignore its specialized mandate and the limitations of its Articles. What is at issue is the specialization of each international organization and the requirements of its respective charter. Earlier this month, the World Court emphasized the importance of this principle in its decision declining to issue an advisory opinion at the request of the World Health Organization on the legality of the use of nuclear weapons. In any event, nothing in the Bank's Articles of Agreement contravenes human rights law in order to call for the argument that the latter prevails over the former. The Bank was not established as the World's Czar for political rights that uses its operations to reward countries which respect these rights or to punish those which do not. Such a criterion is not only alien to the Bank's Articles of Agreement which are the legal source of the Bank's mandate and capacity; it runs counter to the provisions of these Articles which explicitly enjoin the Bank from interference in the political affairs of its members and require it to take "only economic considerations" into account in its decisions.

While I believe, therefore, that the promotion of individual political rights does not *per se* fall within the Bank's mandate under its Articles of Agreement, there are certain situations where violations of such rights may become legitimate concerns for the Bank:

First, the Bank, benefiting from its experience in development finance, seeks participation of affected people in the design and implementation of many types of the projects it finances and requires consultation with local communities and local NGOs in the preparation of the "environmental impact assessment" of projects with significant impact on the environment. Such participation and consultation, to be useful at all, require a reasonable measure of free expression and assembly. The Bank would, in my view, be acting within proper limits if it asked that this freedom be insured when needed for the above purposes. Its denial of lending for a given project in the absence of this requirement where it applies cannot be reasonably described as an illegitimate interference in the political affairs of the country concerned, just because the rights to free expression and assembly in general are normally listed among political rights.

In addition, direct and obvious economic effects of political events or factors can be taken into account by the Bank. An extensive violation of political rights which takes

pervasive proportions could therefore impose itself as an issue in the Bank's decisions. This would be the case if the violation had significant economic effects.

Third, the Bank pays due regard to the binding decisions of the UN Security Council taken under Articles 41 and 42 of the UN Charter. This is provided for in the 1947 Relationship Agreement between the Bank and the UN and can only be expected from an organization of the UN system. The Bank cannot put its members in a position whereby they would be violating their obligations under the UN Charter through their actions in the Bank.

My conclusion on the Bank's position on political human rights has no bearing on the question of whether the Articles of Agreement should be amended to limit the Bank's assistance to countries which extend adequate protection to political rights. This latter question is a matter of policy left for the Bank's members. The Articles' amendment requires their formal approval through a process which ultimately needs a majority of 60 percent of the members having 85 percent of the total voting power (80 percent in the case of IDA). An amendment would inevitably raise questions as to the fairness of depriving the people plagued by a despotic government of Bank assistance rather than targeting such assistance to help improve their standard of living and their education while working with their government on liberalizing the economy and improving the system of governance. Drawing the Bank directly into politically charged areas, with their typical vagaries and double standards, may politicize the Bank's work and jeopardize its credibility, both in the financial markets where it borrows and in the member countries where it lends. Even if possible and desirable, an amendment to deny Bank lending to countries with records of human rights violations may also be superfluous. The Bank's Board of Executive Directors which represent its members approves all Bank loans. Such approval would not be obtained if the loan does not receive majority support.

In the final analysis, the purposes of the world community may be better served if political reform is pursued by political organizations, and political human rights are monitored by the relevant UN organizations, regional agencies, courts, commissions and the NGOs established for this purpose. These institutions are not only in a better position to weigh political considerations; their representation and voting structure are not tied to financial contributions, as is the case in the Bank. If these institutions are not effective, or are under-resourced, the answer should be to strengthen them, not to ask other organizations with no mandate and no competency in the field to substitute for them. The creation of the office of the UN High Commissioner for Human Rights is a clear recognition of an appropriate allocation of roles in this field. The role of the High Commissioner should be supported by all UN members and by all UN specialized agencies, including the Bank. Conversely, pushing institutional elasticity beyond reasonable limits is no service to the future of international organizations. And further politicization of the Bank's work, even for a moral purpose, could undermine its ability to

- 4 -

play the roles for which it was created and for which no other institution is nearly so well qualified.

Thank you.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: July 21, 1996 07:21pm

TO: MIKE STEVENS (MIKE STEVENS @A1@WBHQB)

FROM: Sven Sandstrom, EXC (SVEN SANDSTROM)

EXT.: 81138

SUBJECT: Board meeting 7/23 on Corruption - *Governance*
Brief for President

Mike,

Thanks for draft 2 paras on Friday. A few suggestions, as we discussed in part:

Para 1: the meeting on Tuesday is not only in response to "EDs' call". Jim had told them earlier that he planned such an informal discussion.

I suggest you add after para 2 an outline of what's happening, just to remind and organize, including: discussion with VPs two weeks ago, working group organized and meets this week, 3-year action plan to be prepared, some work by Ibrahim and Jules initiated (one example: the revised documents which are to be considered after the informal meeting) and will be integrated into the action plan, Annual Meetings speech, back to the Board later in the fall, etc.

Could we have a revised version by say 1600 tomorrow?

Sven

CC: JANE ARMITAGE (JANE ARMITAGE @A1@WBHQB)
CC: Ishrat Husain (ISHRAT HUSAIN)
CC: Orsalia Kalantzopoulos (ORSALIA KALANTZOPOULOS)
CC: EXCMDC (EXCMDC)

Index of Read Folder

11:26

(Selections: 0)

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No.	Folder	Title	Sender	Received
1	READ	Regional Work on Poverty and Soc	Polly Jones	07-Jun-1996
2	READ	Minutes of the Networks Steering	Zafer Ecevit	07-Jun-1996
3	READ	RE: While we are in Nicaragua: B	Juliana Weissma	07-Jun-1996
4	READ	CONGO: Initiating Memorandum fo	Cecilia Valdivi	07-Jun-1996
5	READ	comment from Mark MB	John D. Clark	07-Jun-1996
6	READ	Task Group Report	Robert Ayres	07-Jun-1996
7	READ	HR Reminders for PSP (692-05)	cappointments	07-Jun-1996
8	READ	NGO paper for the Board	John D. Clark	07-Jun-1996
9	READ	CAM time for Indonesia	John D. Clark	07-Jun-1996
10	READ	Your Comments on the Draft Repor	Michael Cernea	06-Jun-1996
11	READ	JDW request - for your info	John D. Clark	06-Jun-1996
12	READ	RE: Memo to Messrs. Koch-Weser a	John D. Clark	06-Jun-1996
13	READ	RE: Carmen Malena	John D. Clark	06-Jun-1996
14	READ	NGO-Bank adjustment review	John D. Clark	06-Jun-1996

Move to item, and enter option (press GOLD MENU to see options, or HELP for more information)

~~HH~~
~~MS~~
File (Pat)

SecM96-760

FROM: Vice President and Secretary

July 11, 1996

NOTICE OF INFORMAL MEETING

Background Note on Fraud and Corruption

An informal meeting of the Executive Directors will be held on Tuesday, July 23, 1996 at 10:00 a.m. in the Board Room.

A background note on the subject is attached. Questions should be referred to Mr. Stevens (ext. 37493).

Distribution:

Executive Directors and Alternates
President's Executive Committee
Senior Management, Bank, IFC and MIGA

INFORMAL BOARD MEETING

July 23, 1996

Background Note on Fraud and Corruption

Introduction

1. On June 20th the paper "Fraud and Corruption," prepared by the Legal Department, was presented to the Board. It proposed changes to the Bank's loan documentation to strengthen the control of corruption in Bank projects. In reviewing this paper, Executive Directors postponed approval and it was agreed that an informal Board meeting would be held as soon as possible, on the broader issue of corruption and development, and the implications for the Bank.

2. This background note has been written to facilitate the Board's discussion of corruption. It lists, first, reasons for the heightened interest inside and outside the Bank in corruption as an issue of development effectiveness. Next, it sets forth the Bank's present approach to assisting countries control corruption. Thirdly, it suggests, in general terms, how the Bank's approach might evolve in the future. Taking account of Executive Directors' comments, management intends to develop a comprehensive paper for presentation to the Board in the Fall. Meanwhile, management will submit a revised paper on changes to the Bank's procurement documentation for Board consideration on July 23, the same day as the informal discussion for which this paper has been written.

Corruption as an Issue of Development Effectiveness

3. Corruption is not a new issue for the Bank. For many decades the Bank has sought to ensure that the funds it lends to countries are used for their intended purposes, and that contracts for goods and services are awarded in a transparent and cost-effective way. However, in recent years heightened attention has been given in many quarters to corruption and its impact on social and economic development.

- Corruption has become an issue of aid effectiveness in donor countries, in turn affecting IDA replenishment. The IDA 10 report records deputies calling for greater transparency to improve "effectiveness of resource use and to reduce corruption and waste." The IDA 11 report, building on the policy framework for IDA 10, stresses good governance.
- Corruption is no longer being referred to obliquely in Consultative Group meetings (CGs). In 16 out of 72 CGs chaired by the Bank between January 1993 and April 1996 the theme of corruption was explicitly raised by participants.

- The Bank's External Affairs Department's surveys revealed how attitudes to aid in rich countries have been adversely affected by perceptions of corruption in poor countries and the misuse of taxpayers' aid funds.
- Corruption has become an electoral issue in many developing and transition countries. New governments have come to power with a mandate for cleaner government. In others, it remains a sensitive issue.
- A range of initiatives to address corruption at the international level are being taken, such as disallowing in OECD countries tax deduction of bribes to foreign officials. Conventions and rules of conduct concerning corruption have recently been drafted by the Council of Europe, the European Union, the OAS and the International Chamber of Commerce. The BIS, the UN and the G7's Financial Action Task Force have taken parallel initiatives on money laundering.
- In the past five years, there has been an explosion of media coverage of corruption in both industrialized, developing and transition countries.
- The recent G7 summit flagged combating corruption as a major task for multilateral development banks to tackle.

Against this background, management has begun reviewing the Bank's actions in this area and its capacity to respond to country requests. In addition, there is a continuing need to ensure the effectiveness of measures to curb misuse of Bank resources.

World Bank's Approach to Controlling Corruption

4. While the Bank has always sought to minimize the misuse of funds within the projects it finances, it has never had an explicit "strategy" to control corruption. But the Bank has recognized for many years that corruption is an integral issue of governance, and has sought to help governments control it, both directly and indirectly. This has occurred in the context of Bank actions in three broad areas: economic policy reform, institutional reform, and the control of corruption within Bank financed projects. In addition, surveys and research directed primarily at other problems are yielding insights into corruption, as a by-product. Combined, these areas of action constitute the Bank's present "strategy" to control corruption.

Economic Policy Reforms

5. The first "leg" of the Bank's approach comprises, in effect, the Bank's structural adjustment agenda, though the latter is aimed, in the first instance not at governance but at improved economic performance.

- *Liberalization of trade and investment and financial sector reforms:* Structural adjustment programs, which the Bank has supported for nearly two decades, reduce the scope for “rent-seeking” by replacing administrative mechanisms (e.g., import licenses, foreign exchange and bank credit allocations) with market mechanisms.
- *Tax reform:* Both by helping countries simplify their tax structures (reducing scope for administrative discretion, increasing transparency) and by strengthening tax administration (reducing evasion and improving financial controls), the Bank helps tackle corruption in customs and tax administration. In countries where civil service capacity has collapsed, the Bank has supported the “enclaving” of revenue departments as a short term measure.
- *Regulatory reform:* Eliminating price controls, simplifying government regulations through sector policy reforms and strengthening the regulation of private and state-owned enterprises operating in non-competitive markets further limits the scope for rents.
- *Privatization:* Likewise, the shifting of activities from the public to the private sector, operating in a competitive environment, eliminates rent sharing between government departments and their captive enterprises. More broadly, the scale of the public sector at risk is diminished.

Institutional Reforms

6. The second leg of a Bank “anti-corruption strategy” comprises institutional reform. Although slower in achieving results, institutional reform is about building capacity inside and outside the public sector to combat corruption.

- *Government Financial Management reform:* In recent years, there has been a rapid increase in the number of countries where the Bank is assisting in the modernization of government budgeting, financial management, accounting, and auditing systems. Examples are the integrated financial management projects in LAC, and accounting and auditing reform in Africa and Asia. Mostly, these projects have been financed by TA or sector loans and credits. There has also been creative use of Institutional Development Fund (IDF) grants.
- *Civil Service Reform:* In the past decade, the Bank has supported civil service reform (CSR) in more than 40 countries. The emphasis has been on reforming pay and employment conditions, training, and personnel management. These have long been recognized as preconditions for controlling corruption in the public service. Most recently, professional standards, ethics and values have been stressed, to reduce corruption in the bureaucracy – further elements which need to be in place to create or restore an “enabling environment” within the public sector.

- *Public Procurement:* How government departments and agencies procure goods and services is, ultimately, an aspect of public sector management. Through CPARs – Country Procurement Assessment Reviews – and through IDF grants for the preparation of new procurement legislation and associated training, the Bank seeks to strengthen institutional capacity within countries to procure goods and services in a transparent and competitive manner.
- *Governance:* Finally, on a broader governance front, the Bank assists countries control corruption through actions such as :
 - Legal and regulatory framework reform;
 - Judicial reform;
 - Encouraging greater transparency in government budgets and financial statements;
 - “Integrity workshops” conducted by EDI;
 - EDI’s training workshops for economic journalists;
 - Support for professional bodies in the accounting field;
 - More participatory approaches to the design and implementation of policies, programs and projects.

Fiduciary

7. The third leg in what might be seen as the Bank’s strategy to control corruption is the efforts made to guard against corruption in Bank loans and credits, and among Bank staff.

- *Controlling Corruption in Bank Projects:* Periodically updated, the Bank has long established procedures for procurement, disbursement, reporting, and auditing in Bank projects. These procedures are based on the principles of economy, efficiency, and transparency in public procurement. A set of amendments to loan documentation designed to facilitate action against any manifestation of corruption was discussed informally by the Board on June 20th and is being submitted for Board consideration on July 25th.

Financial reporting under Bank loans is being strengthened by the revision of Operational Policies on Financial Management. OP10.02 (draft) tightens the time

frame for borrower completion of audits of project expenditures, and for suspension of disbursements in the event of non-compliance.

Regular auditing of procurement on a country basis has been introduced; and clearer procedures for dealing with allegations of corrupt conduct by external suppliers, contractors or consulting firms with respect to procurement under Bank-financed contracts are being proposed.

- *Changes in Bank internal procedures:* Greater emphasis is being given to portfolio management and supervision, and performance measurement. Public availability of Bank project documents, the creation of the independent Inspection Panel, and more participatory approaches to project design indirectly improve the accountability of government agencies implementing Bank-financed projects through NGOs and other civil society action;
- *Guarding against corruption by Bank staff:* Long standing staff rules on outside interests and disciplinary measures (e.g., Staff Rule 3.01 and 8.01) have been strengthened by the issue of a "Code of Professional Ethics" in September 1994 and annually thereafter. The Bank's Ethics Officer has been charged with investigating cases of corruption involving Bank staff should they arise, and to report regularly. In addition, staff rule 8.01 is being amended to make termination mandatory where there is misuse of Bank funds.

Bank Research

8. Corruption has not been researched systematically as a free-standing topic by the Bank. However, in a number of areas, Economic and Sector Work (ESW) and research are providing useful insights.

- The Bank's two governance reports have both addressed corruption as a key issue of governance.
- Public expenditure reviews and other forms of ESW for many years have drawn attention to the lack of transparency in government accounts. A few are now beginning to address combating corruption directly.
- Private Sector Assessments (PSA) which survey the policy and institutional environment confronting firms, now routinely ask questions about bribery.
- Service Delivery Surveys (SDS), financed mostly by IDF grants, are opinion surveys of beneficiaries of government services, holding, in effect, a mirror up to government performance. These are yielding information on petty corruption – whether beneficiaries have to bribe officials to obtain services the latter are mandated to deliver.

- Surveys of manufacturing enterprises in transition economies, which identify crime and corruption as costs imposed on firms.
- The issue of corruption has started to be included in Country Assistance Strategy (CAS) papers.
- The World Development Report 1997 on "The State in a Changing World" will include a discussion of corruption and its implications for the effectiveness of the state.

Next Steps

9. For the reasons listed at the beginning of this Note, management believes that the Bank needs to review the existing approach, building on it where necessary. As noted, proposals to strengthen anti-corruption provisions in Bank loan documents have already been presented to the Board, and other steps have been taken on the fiduciary front to ensure misuse of Bank loan funds is minimized, and that Bank staff adhere to the highest ethical and professional standards.

10. It is management's intention to submit to the Board a more substantive paper on corruption as an issue of development and the role of the Bank, which may include detailed proposals, for approval in the Fall.

11. The specifics still need to be worked out, but they are likely to be developed along the following lines:

- (i) The Bank's view is that corruption is a phenomenon that all countries, rich and poor, and public organizations (including international ones) have to confront. Ultimately, it is up to countries to find ways of controlling corruption, while the Bank's role is a facilitating one.
- (ii) The Bank acknowledges that corruption is a complex phenomenon, not obviously related to form of regime or stage of development. It may adversely affect economic growth, public finances, private sector development, the poor and the environment in varying degrees, according to country circumstances and the strength of formal and informal institutions to keep it in check.
- (iii) In borrower countries, the Bank will raise with governments' corruption as an issue of development effectiveness when the Bank perceives it having negative effects on development objectives, both in the sectors we support and generally.

- (iv) Consistent with its fiduciary responsibilities, the Bank will take all necessary measures to ensure misuse of loan funds is minimized. However, it recognizes that the best safeguard in the long run is increased borrower accountability.
- (v) In raising corruption with borrower governments, the Bank's stance will be cooperative rather than confrontational, indicating how public policy is affected and offering assistance in controlling its costs, through policy reform, and improved public management systems.
- (vi) Where corruption appears to be systemic, undermines both the government's development objectives and Bank projects, and governments are reluctant to act, the Bank will reconsider the level of lending.
- (vii) The Bank will use international fora, to speak out on corruption as an issue of aid and development effectiveness. The Bank will lend its weight to international efforts to control it, through actions by both industrialized and developing countries, as appropriate. In doing so, it will work closely with the IMF and other international financial institutions.

12. The views of Executive Directors in the informal session on July 23 will be a timely contribution to this process.

Public Sector Management Unit
Poverty and Social Policy Department
Human Capital Development



Governance

A L L - I N - 1 N O T E

DATE: 11-Jul-1996 10:43am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Commonwealth Secretariat

Ishrat,

Fyi and to keep you abreast of Comsec relations, I met with Dr Bishaka Mukherjee yesterday, accompanied by a local consultant (former Bank staff) R. Chander. She is chief economics officer in the Economic Affairs Division of the Commonwealth Secretariat.

Each year at about this time I have been asked to meet with Comsec people charged with writing background material for the Comsec finance ministers' meeting, ahead of the Bank's AGM. They want to know the latest developments on the governance front at the Bank. They asked about corruption, and I told them in very general terms that the Bank was looking at the issue, the existing three legged approach, and that Mr Wolfensohn was directly interested in the topic as a development effectiveness issue.

Mike

CC: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

This record contains a warning. Unless economic growth is restored for countries in decline, their gains in human development may be ever more difficult to sustain—and present disparities will grow. At present rates of progress, it will take a century or more for the low human development countries to reach high human development.

There are striking contrasts in today's relationship between human development and per capita income.

- *Rankings by the human development index do not always match income rankings*—For 37 countries in 1993 their ranking by the HDI is more than 20 places higher or lower than their ranking by per capita income, highlighting the far from perfect correlation between income and human development in many countries.
- *Higher human development at lower income*—Some countries fall in the category of high human development despite modest per capita incomes. These include Colombia, with a per capita income of \$1,400, and Thailand, with \$2,100.
- *Lower human development at higher income*—Other countries have remained at medium levels of human development despite the advantage of greater incomes. These include South Africa, with a per capita income of nearly \$3,000, and Gabon, with nearly \$5,000.
- *Striking contrasts within countries*—In Mexico the HDI for indigenous people is only 0.700, compared with 0.890 for the rest of the population.
- *Human development weaknesses in OECD countries*—Despite high per capita incomes (\$20,000), more than 100 million people in OECD countries live below national poverty lines, and more than 5 million are homeless.

These and numerous other indicators in this Report spotlight the dangers of complacency. Many policy-makers assume that a rapidly expanding economy will sweep poverty and deprivation away. They are wrong. The challenge is broader and deeper—and demands close attention to a

range of policy actions. This Report examines these actions in detail and reaches the following main conclusions.

Short-term advances in human development are possible—but they will not be sustainable without further growth. Conversely, economic growth is not sustainable without human development.

Improvements in human development have clearly been possible even in times of economic setback. But such advances can be sustained over a long time only if supported by economic growth. At the same time, for economic growth to be sustained, it must be constantly nourished by human development. Human development and economic growth should move together, strongly linked.

The record of economic growth and human development over the past 30 years shows that no country can follow a course of lopsided development for such a long time—where economic growth is not matched by advances in human development, or vice versa. Lopsided development can last for a decade or so, but it then shifts to rapid rises in both incomes and human development, or falls into slow improvements in both human development and incomes. Countries follow one of four patterns:

- *Slow economic growth and fast human development*. Countries achieving human development with only slow economic growth in one decade either increased economic growth in the next (the Republic of Korea in the 1960s and China and Indonesia in the 1970s) or slipped back into poor economic growth and slow human development (Cameroon, Sierra Leone and others in the 1980s).
- *Fast economic growth and slow human development*. Lopsided development tilted against human development is a dead end, with economic growth petering out after a decade or so of fast growth (such as Brazil and Egypt in the 1980s). No country with fast growth and slow human development maintained fast growth and accelerated human development.

Human development and economic growth should move together, strongly linked

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

JUL 19 1996

July 5, 1996

Mr. Jose Ayala-Lasso
High Commissioner for Human Rights
Centre for Human Rights
United Nations Office at Geneva
Palais des Nations
CH-1211, Geneva 10
Switzerland

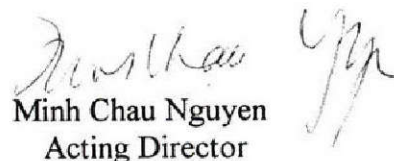
Dear Mr. Ayala-Lasso,

This is in reply to your letter of June 3rd inviting the World Bank to send a representative to the forty-eighth session of the Sub-Commission on Prevention of Discrimination and Protection of Minorities to be held in Geneva August 5-30, 1996.

Thank you for the invitation. The World Bank, however, does not plan to send an observer at this time.

In this connection, let me add that I hope we will have the opportunity to meet later this month when you and your colleagues will be visiting Washington for a dialogue on human rights and development with the Bank. This department has policy responsibilities in areas like poverty, gender, labor markets and governance, and several of the department's staff will be involved in the dialogue.

Yours sincerely,


Minh Chau Nguyen
Acting Director

Poverty and Social Policy Department

Mr. Jose Ayala-Lasso

-2-

July 5, 1996

bcc: Mr. Malloch Brown, Mmes: Maguire (EXTVP); Brown (EXTIM); Pachter (UNAVP),
Husain (PSPDR), Armitage, Nguyen, Stevens (PSP); Correspondence Unit (EXC)

EXC Ref. No: EXC-09866

EXT Ref. No: EXT 960620002

MStevens:mmh

PSP
N:\MAUREEN\LASSOMS.DOC
July 5, 1996 2:01 PM

THE WORLD BANK GROUP

ROUTING SLIP		DATE: July 5, 1996	
NAME			ROOM. NO.
Ms. Minh Chau Nguyen, Acting Director, PSP			
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☒	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Sub-Commission on Prevention of Discrimination			
REMARKS: For Signature			
FROM		ROOM NO.	EXTENSION
Mike Stevens, PSP 		S10-043	37493

ROUTING SLIP Lisa Pachter INTERNATIONAL RELATIONS OFFICER UNITED NATIONS AFFAIRS (UNAVP)		Date: June 24, 1996	
NAME		ROOM NO.	
Mr. Mike Stevens, PSP		S 10-043	
	URGENT	☒	For action/comment
	Per your request	☐	Appropriate disposition
	Information/discard	☐	Returned
	Approval/clearance	☐	Note and return
	See my E-mail	☐	Per our conversation
	Signature/initial	☐	File
SUBJECT: SUB-COMMISSION ON PREVENTION OF DISCRIMINATION			
A simple "we are not able to identify a staff member to attend this meeting" should do. Please provide me with a copy of your repsonse. Many thanks.			
Lisa Pachter		Rm. U 11-013	Ext. 31775

WORLD BANK OFFICE TRACKING SYSTEM
EXTVP - OFFICE OF THE VICE PRESIDENT
Routing and Action Transmittal Sheet

TO:

Lisa Pachter

DATE:

6/20/96

cc: Judith Maguire, EXTVP

SUBJECT DOCUMENT:

From: Jose Ayala-Lasso, United Nations, Geneva

To: Mr. Wolfensohn

Dated: 6/03/96

Reference No.: EXT960620002

Topic: Invitation to attend meeting in Geneva, August 5-30, 1996

Incoming Reference Number: EXC-09866

Incoming Action Requested: TO HANDLE

Requested Due Date: 7/04/96

ACTION INSTRUCTIONS:

DUE DATE:

___XXX___ HANDLE
___ REVIEW AND RECOMMEND
___ FOR YOUR INFORMATION
___ DISCUSS WITH _____
___ AS WE DISCUSSED
___ PREPARE RESPONSE FOR _____ SIGNATURE
___ FOR YOUR FILES
___ RETURN TO _____
___ OTHER: _____

7/04/96

Remarks: Please handle/respond on behalf of Mr. Wolfensohn and cc:
Mr. Malloch Brown, Mmes: Maguire (EXTVP); Brown (EXTIM);
Correspondence Unit (EXC)



No.: EXC-09866

CORRESPONDENCE MANAGEMENT FOR THE PRESIDENT'S OFFICE
CHORUS
External Correspondence Profile

FOR ACTION: Mark Malloch-Brown

STATUS: Open

VPU: EXT Room #: U 11-185 Telephone: 85914	Log Date: 06/19/96 02:15:07 PM Logged in by: Reba Godo Response Date:
---	---

CORRESPONDENCE DESCRIPTION:

From:	Jose Ayala-Lasso
Organization:	United Nations at Geneva
To:	Mr. Wolfensohn
Dated:	06/03/96
Topic:	Inviting the WB to be represented at the forty-eighth session of the Sub-Commission on Prevention of Discrimination and Protection of Minorities in Geneva from 5 to 30 August, 1996.

ACTION INSTRUCTIONS:

Due Date: 07/04/96

2. PLEASE HANDLE AND PROVIDE ONE COPY OF THE REPLY TO THE CORRESPONDENCE UNIT WITH THE EXC REFERENCE NUMBER MARKED UNDER THE BANK COPY RECIPIENTS.

If the action marked is incorrect, or an item of correspondence has been overtaken by events, please send an E-Mail to the "Correspondence Unit" All-in-One account.

Thank you.

SPECIAL INSTRUCTIONS:

None

INFORMATION COPIES:

Please return to:
Correspondence Unit, Room E1247 (Ext. 82441)

4866

OFFICE DES NATIONS UNIES A GENÈVE



UNITED NATIONS OFFICE AT GENEVA

CENTRE POUR LES DROITS DE L'HOMME

CENTRE FOR HUMAN RIGHTS

Télégramme : UNATIONS, GENÈVE
Télex : 41 29 62
Téléphone : 917 1234 - 907 1234
Téléfax : (22) 917 0123

Palais des Nations
CH-1211 Genève 10



Réf. N° : G/SO 232/24 (48th)
(à rappeler dans la réponse)

3 June 1996

Dear Mr. Wolfensohn,

On behalf of the Secretary-General, I have the honour to invite your organization to be represented at the forty-eighth session of the Sub-Commission on Prevention of Discrimination and Protection of Minorities, which will be held at the United Nations Office at Geneva from 5 to 30 August 1996.

Enclosed you will find the provisional agenda for the forty-eighth session of the Sub-Commission. JUN 23 35

I would be grateful to receive, as soon as possible, the name of the person designated as the observer for your organization.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'José Ayala-Lasso'.

José Ayala-Lasso
High Commissioner
for Human Rights

Mr. James D. Wolfensohn
President
World Bank - International Bank for
Reconstruction and Development
1818 H. Street, N.W.
Washington D.C. 20433
U.S.A.



Economic and Social
Council

Distr.
GENERAL

E/CN.4/Sub.2/1996/1
9 May 1996

Original: ENGLISH

COMMISSION ON HUMAN RIGHTS
Sub-Commission on Prevention of
Discrimination and Protection
of Minorities
Forty-eighth session

PROVISIONAL AGENDA

Note by the Secretary-General

Duration and venue of the session

1. The forty-eighth session of the Sub-Commission on Prevention of Discrimination and Protection of Minorities will be held at the United Nations Office at Geneva from 5 to 30 August 1996. The first meeting will be convened at 10.30 a.m. on Monday, 5 August 1996.

Provisional agenda

2. The provisional agenda, prepared in accordance with rule 5 of the rules of procedure of the functional commissions of the Economic and Social Council, is reproduced below.

Inter-sessional and pre-sessional working groups

3. In accordance with previous decisions, the forty-eighth session of the Sub-Commission will be preceded by meetings of four working groups as follows:

(a) Working Group on Communications, established pursuant to paragraph 1 of Economic and Social Council resolution 1503 (XLVIII) of 27 May 1970. This Working Group of five members of the Sub-Commission will meet for two weeks prior to the forty-eighth session of the Sub-Commission, from 22 July to 2 August 1996;

(b) Working Group on Contemporary Forms of Slavery, established pursuant to Economic and Social Council decision 16 (LVI) of 17 May 1974. In accordance with the arrangements endorsed by the Commission on Human Rights in its resolution 1993/27 of 5 March 1993, this Working Group of five members of the Sub-Commission will meet for eight working days prior to the forty-eighth session of the Sub-Commission, from 17 to 26 June 1996;

(c) Working Group on Indigenous Populations, established pursuant to Economic and Social Council resolution 1982/34 of 7 May 1982. This Working Group of five members of the Sub-Commission will meet for one week prior to the forty-eighth session of the Sub-Commission, from 29 July to 2 August 1996;

(d) Working Group on Minorities, established pursuant to Economic and Social Council resolution 1995/31 of 25 July 1995. This Working Group of five members of the Sub-Commission met twice for five working days: from 28 August to 1 September 1995 and from 29 April to 3 May 1996.

In-session working groups

4. Since its thirty-fourth session in 1981, the Sub-Commission has established a sessional working group to assist it in relation to its annual review of developments concerning the human rights of persons subjected to any form of detention or imprisonment. At its forty-sixth session in 1994, the Sub-Commission established a sessional working group on the administration of justice and the question of compensation in place of a sessional working group on detention.

5. The Sub-Commission may wish to consider establishing such a sessional working group at its forty-eighth session.

6. The annotations to the items listed in the provisional agenda will be issued as an addendum to the present document.

Provisional agenda

1. Election of officers.
2. Adoption of the agenda.
3. Review of the work of the Sub-Commission.
4. Review of further developments in fields with which the Sub-Commission has been concerned.
5. Elimination of racial discrimination:
 - (a) Measures to combat racism and racial discrimination and the role of the Sub-Commission.
6. Question of the violation of human rights and fundamental freedoms, including policies of racial discrimination and segregation and of apartheid, in all countries, with particular reference to colonial and other dependent countries and territories: report of the Sub-Commission under Commission on Human Rights resolution 8 (XXIII).
7. The new international economic order and the promotion of human rights:
 - (a) The role and equal participation of women in development.
8. The realization of economic, social and cultural rights.
9. Communications concerning human rights: report of the Working Group established under Sub-Commission resolution 2 (XXIV) in accordance with Economic and Social Council resolution 1503 (XLVIII).
10. The administration of justice and the human rights of detainees:
 - (a) Question of human rights and states of emergency;
 - (b) Individualization of prosecution and penalties, and repercussions of violations of human rights on families;
 - (c) Independence and impartiality of the judiciary, jurors and assessors and the independence of lawyers.
11. The implementation of the human rights of women.
12. Human rights and scientific and technological developments.
13. International peace and security as an essential condition for the enjoyment of human rights, above all the right to life.
14. Discrimination against indigenous peoples.
15. Contemporary forms of slavery.

16. Promotion, protection and restoration of human rights at national, regional and international levels:
 - (a) Prevention of discrimination and protection of children: human rights and youth;
 - (b) Human rights and disability.
17. Protection of minorities.
18. Freedom of movement:
 - (a) Situation of migrant workers and members of their families;
 - (b) Population displacements.
19. Implications of humanitarian activities for the enjoyment of human rights.
20. Comprehensive examination of thematic issues relating to racism, xenophobia, minorities and migrant workers.
21. Consideration of the future work of the Sub-Commission and of the draft provisional agenda for the forty-ninth session of the Sub-Commission.
22. Adoption of the report of the forty-eighth session.

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

JUL 16 1996

Dept File
Governance (w/
(202) 477-1234 background
Cable Address: INTBAFRAD docs
Cable Address: INDEVAS

July 5, 1996

Mr. John Syson
Special Adviser
Commonwealth Secretariat
Political Affairs Division
Marlborough House, Pall Mall
London, SW1Y 5HX

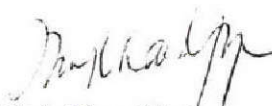
Dear Mr. Syson:

This is in reply to your fax of May 17, inviting the representation of this Department to a Commonwealth workshop on human rights and development from July 10-12, 1996.

As Mike Stevens has already indicated, it will not be possible for a representative of the Department to attend. The key staff dealing with poverty, gender, labor markets and other human rights related matters are either constrained by existing work commitments in Washington or in the field, and their travel plans do not lend themselves to passing through London at the time of the workshop. Nevertheless, thank you for the invitation.

The workshop will be dealing with issues that relate closely with the Bank's mandate. Thus, I hope it will be possible to let us have a copy of the workshop paper in due course.

Yours sincerely,



Minh Chau Nguyen
Acting Director
Poverty and Social Poverty Department

cc: Husain (PSPDR), Stevens (PSP)

MStevens:mmh

PSP
N:\MAUREEN\MIKES.DOC
July 5, 1996 2:18 PM

APR 25 1996 (997)

April 3, 1996

Ishrat Husain
Director
Poverty and Social Policy Department
World Bank
1818 H Street, N.W.
Room S10-051
Washington, D.C. 20433

MS
Can I have a
draft reply please?
Thanks
JH
4/30



IRIS

Dear Mr. Husain:

The IRIS Center's interest in the structure of legal systems, the organization of bureaucracies, and the role of civil society in supporting a market democratic system has consistently led us to the vexing and complicated issue of corruption. This is one of the most pressing problems challenging economic growth which requires a comprehensive reform effort across government, legal, economic and social institutions. This challenge is intensified by the sensitivity of the topic which makes it difficult to confront directly.

In an effort to address these problems concretely, IRIS, with the sponsorship of USAID/Senegal, recently held a workshop in Dakar addressing the question of governance and economic growth with the underlying theme of corruption. This gathering, the first of its kind in the region, attracted government policy makers, parliamentarians, judges, economists, sociologists, lawyers, journalists and other representatives of civil society from all across Francophone Africa. The participants considered both the effect of corruption on the economy and ways to remedy this problem from multi-disciplinary perspectives. IRIS' primary goal was to delineate concrete approaches which government officials and non-governmental actors can implement in their own societies. The conferees considered lessons learned from both the developing and industrialized worlds and developed case studies relevant to their home countries.

Given its effect on governance and economic growth in every region of the world, I am sure that this topic is of concern to you. If you would like to discuss the issues raised in this meeting or in our other work on corruption, please feel free to contact me. For your information, I enclose a brief description of the conference and some other material which should give you an idea of our approach. I look forward to communicating with you about this challenging issue.

Yours sincerely,

Mancur Olson

INSTITUTIONAL REFORM AND THE INFORMAL SECTOR
AT THE UNIVERSITY OF MARYLAND AT COLLEGE PARK

2105 Morrill Hall, College Park, Maryland 20742, Phone: (301) 405-3110, Fax: (301) 405-3020
IRIS CENTER OF UNIVERSITY RESEARCH CORPORATION, INTERNATIONAL

Successful Transmission Report

Page 1

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The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

July 5, 1996

Mr. Jose Ayala-Lasso
High Commissioner for Human Rights
Centre for Human Rights
United Nations Office at Geneva
Palais des Nations
CH-1211, Geneva 10
Switzerland

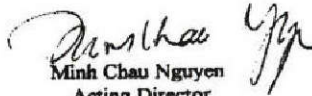
Dear Mr. Ayala-Lasso,

This is in reply to your letter of June 3rd inviting the World Bank to send a representative to the forty-eighth session of the Sub-Commission on Prevention of Discrimination and Protection of Minorities to be held in Geneva August 5-30, 1996.

Thank you for the invitation. The World Bank, however, does not plan to send an observer at this time.

In this connection, let me add that I hope we will have the opportunity to meet later this month when you and your colleagues will be visiting Washington for a dialogue on human rights and development with the Bank. This department has policy responsibilities in areas like poverty, gender, labor markets and governance, and several of the department's staff will be involved in the dialogue.

Yours sincerely,


Minh Chau Nguyen
Acting Director
Poverty and Social Policy Department

THE WORLD BANK GROUP

ROUTING SLIP		DATE: July 5, 1996	
NAME		ROOM. NO.	
Ms. Minh Chau Nguyen, Acting Director, PSP			
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
☒	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: Invitation to Commonwealth Workshop on Human Rights			
REMARKS:			
For Signature			
FROM Mike Stevens, PSP		ROOM NO. S10-043	EXTENSION 37493

THE WORLD BANK GROUP
Headquarters: Washington, D.C. 20433 U.S.A.
Tel. No. (202) 477-1234 • Fax (202) 477-6391 • Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE:	July 5, 1996	NO. OF PAGES: 2 (including cover sheet)	MESSAGE NO.:
TO:	Mr. John Syson		FAX NO.: 44-171-930-2189
Title:	Special Adviser		
Organization:	Commonwealth Secretariat		
	Political Affairs Division		
	Marlborough House, Pall Mall		
City/Country:	London, England SW1Y 5HX		
FROM:	Minh Chau Nguyen		FAX NO.: (202)522-3237
Title:	Acting Director		Telephone: (202)458-1415
Dept/Div:	Poverty and Social Policy		Dept./Div. No.: 69205
Room No.:	S10-051		
SUBJECT:	Response to invitation to Commonwealth Workshop on Human Rights and Development		

MESSAGE: See attached response.

Transmission authorized by: authorization

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax no. listed above.

MAY 20 1996 (1202) 0001

1/3 JA/MS
Please advise
an
5/21
T
Lad

COMMONWEALTH SECRETARIAT
POLITICAL AFFAIRS DIVISION
MARLBOROUGH HOUSE, PALL MALL, LONDON SW1Y 5HX

To: Ishrat Husain, Director, Poverty and Social Policy Dept., World Bank

City: Washington, DC

Country: USA

Fax No: 001 202 522 3283

Pages: 3 (including cover)

From: John Syson, Special Adviser

Date: 17 May 1996

Reference: PAD/B8/2/DHRD

Sender's Tel No: 44 (0)171 747 6123 Fax No: 44 (0)171 930 2189

MESSAGE

Advancing Social , Economic and Civil Rights: Learning from Successful Development Experience - Commonwealth Workshop, London 10-12 July 1996

At the suggestion of your colleague, Mike Stevens and my colleague, Rumman Faruqi, I write to invite you or a member of your department to a Commonwealth workshop on human rights and development to be held in London on 10-12 July 1996, which seeks to build on the work of two previous workshops, one regional in Windhoek and one Pan-Commonwealth in Colombo. These workshops, which involved policy dialogue between representatives of government and civil society, recommended a Commonwealth approach to capacity-building and institutional development. The objective would be to use Commonwealth networks to learn from successful development experiences which are gender-inclusive and which seek to advance civil, political, social and economic rights in a mutually reinforcing way.

Detailed objectives for the London workshop and a provisional programme are attached. It is intended to bring together experts from the executive arm of government; from constitutional and regulatory bodies (eg judiciary, human rights, gender equity and equal opportunities commissions); and from civil society, particularly national development NGO's, with representatives of international development agencies to:

consider factors which contribute to successful strategies, programmes and projects, with particular reference to the political and institutional environment;

review methodological issues involved in learning from successful experience in development strategies, programmes and projects which advance civil and political as well as social and economic rights, particularly at community level;

2/3
consider whether there are technical assistance and training needs in these areas which are not being adequately met, and what steps could be taken to fill any gaps which may be identified and;

make recommendations as appropriate to governments, constitutional and regulatory bodies, civil society institutions and international agencies.

In all these matters particular attention will be paid to gender aspects. Factors contributing to success would include the political and institutional environment, the character of programmes or projects, including the extent to which they are gender inclusive, and how they are initiated, structured and managed. Methodological issues would include consideration of quantitative and qualitative indicators of success, and monitoring and evaluation techniques which can be used to determine wider relevance and transferability. Background papers on general issues, methodology and gender aspects will be circulated to participants prior to the workshop. These have been commissioned from Mark Robinson of the Institute of Development Studies, University of Sussex; David Lewis of the London School of Economics (Centre for Voluntary Organisation, Dept. of Social Policy and Administration); and Roberta Clarke a Trinidad-based Barbadian lawyer and expert on human rights, gender and rural development,

If there is relevant World Bank material which you consider would help us in our preparations or which you would wish to make available to workshop participants, we should be very pleased to receive it.

We very much hope to welcome you or one of your colleagues to London and look forward to hearing from you.

Best regards,


John Syson

3/3

Advancing Social , Economic and Civil Rights: Learning from Successful Development Experience - Commonwealth Workshop, London 10-12 July 1996

Objectives

to review methodological issues involved in learning from successful experience in development strategies, programmes and projects which advance civil as well as social and economic rights, particularly at community level;

to determine the extent to which it can be demonstrated that successful examples have been effectively transferred and lessons learned;

to examine how this process takes place, and to recommend any steps that could be taken to facilitate it;

to examine the adequacy of existing networks, channels and methods of information exchange;

to consider factors which contribute to successful strategies, programmes and projects, with particular reference to the political and institutional environment;

to consider whether there are technical assistance and training needs in these areas which are not being adequately met, and what steps could be taken to fill any gaps which may be identified;

to make recommendations as appropriate to governments, constitutional and regulatory bodies, civil society institutions and international agencies.

Methodological issues would include consideration of quantitative and qualitative indicators of success and monitoring and evaluation techniques which can be used to determine wider relevance and transferability. Factors contributing to success would include the political and institutional environment, the character of programmes or projects, and how they are initiated, structured and managed.

Sessions

Currently envisaged as follows.

Rights in Development

Gender Issues

Learning from Experience - Prerequisites and Constraints

Dissemination and Transfer

Factors contributing to an enabling environment

Practical Follow-up and Workshop Evaluation.

May 1996

JUN 6 1996 (1342)

Ajay Chhibber
World Development Report 1997

5 June 1996

Mr. Ishrat Husain

Dear Ishrat:

Subject: *The State in a Changing World*

Attached is a first draft outline for the World Development Report 1997. I'd welcome an opportunity to come and discuss it in your department at your convenience, and please let me know when this is possible.

I look forward to your comments as well.

Warm regards,

Ajay
Ajay

Attachment

ACHhibber:rcs

Min. Secy.
Could you please
sign it in comments.
Thanks

Ju
6/6

Done

DRAFT OUTLINE
NOT FOR CIRCULATION/QUOTATION

June 5, 1996

DECLASSIFIED

AUG 04 2025

WBG ARCHIVES

The State in a Changing World

This is a first draft outline for the World Development Report 1997. Its purpose is to help out seek comments on the issues that should be addressed by the next WDR of the World Bank. It does not reflect the views of the World Bank or any of its affiliated organizations. This document has not yet had internal World Bank review. The authors would be most grateful if this draft were neither cited nor made available to others. Please send comments directly to Ajay Chhibber, fax nos. (202) 522-0056/522-0932, email AChhibber@Worldbank.org.



COMMONWEALTH SECRETARIAT

Direct Tel: 0171 747 6289
Fax: 0171 747 6287
E-Mail: 100676.640@Compuserve.Com

EDD/COMM/HRI

Mr Ishrat Husain
Director
Poverty and Social Policy Development
The World Bank
1818 H Street NW
Washington DC 20433
U S A

Fax No: (202) 522-3283

Dear Mr Husain

Human Resource Development Initiative Workshop Gaborone, Botswana - 24-28 June 1996

I am pleased to know from Ms Mohsin that you were interested in our human resource development interventions. I have the pleasure to invite you to attend the above workshop.

The Commonwealth Working Group on Human Resource Development Strategies prepared a report **Foundation for the Future** and identified five key strategies: professionally managed government; partnerships between government and non-governmental organisations and the private sector; priority for women and girls; new and imaginative schemes for mobilisation of resources; and utilising appropriate science and technology.

The strategies were endorsed by the Commonwealth Heads of Government at Cyprus in 1993. Subsequently at the 12th Commonwealth Conference of Education Ministers in 1994 the report **Foundation for the Future** was endorsed. In this regard it was proposed that the Secretariat should assist member countries on request by organising workshops for promoting practical applications of the recommendations of the report. Consequently the Secretariat held one workshop in Malaysia and one in Hertford, UK in 1995 on the theme of professionally managed government, where permanent secretaries of Education or officers of similar rank participated from thirteen countries.

.../2

MARLBOROUGH HOUSE PALL MALL LONDON SW1Y 5HX

TEL: Switchboard (44) 0171 839 3411 FAX: (44) 0171 930 0827
CABLES: COMSECEN LONDON SW1 TELEX: 27678

like stevens
is handing MAY 3 1996
1062
14 (of)

JA/MS
I met the Comsec people in London. They are doing some interesting work in the area of delivery of basic social services. They want some funds also for NGO inputs if we wish to expand our activities in this area, which to me is of emerging importance. We should leverage and forge partnerships with the institutions. What do you think?

3 May 1996

5/6

2.2.2.2
3.20.28

Mr Ishrat Husain

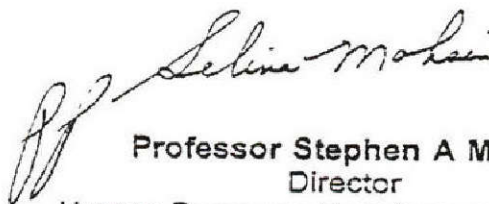
3 May 1996

- 2 -

This year we propose to hold a workshop in Botswana in June 1996 on "Partnership between government and non-government organisations". This is expected to be a pan-Commonwealth workshop whose participants will be senior officials at the policy making level and who play a critical role in the socio-economic development of their respective countries. The Commonwealth Foundation is collaborating with us and is assisting us by funding the participation of leading NGOs in the area of basic education and primary health care from 13 selected countries. Ms Selina Mohsin, who you met in London, is organising this important workshop.

The purpose of this letter is to invite you to participate in this important workshop. Since poverty alleviation and social development are the key areas of interest for the World Bank, we hope that your participation will lead to future collaboration between the World Bank and the Commonwealth Secretariat. I wish you all the best and look forward to your participation.

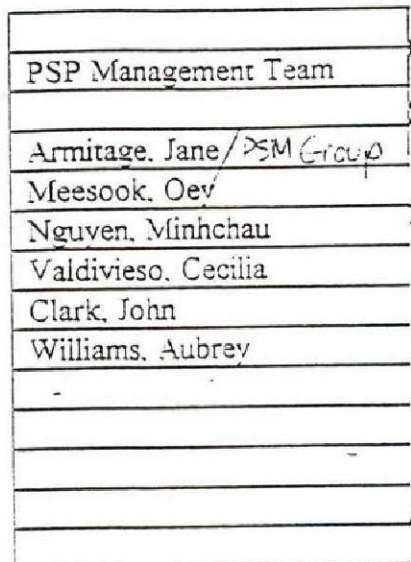
Yours sincerely,



Professor Stephen A Matlin
Director
Human Resource Development Division
(Education and Health Departments)

C:\w\docat\selina\husain

1248



TH Pl Calculate the attached drawing to

- 1) PSP MT
- 2) PSM/NGC Group
- 3) D. diffract/NGC Group

1818 H Street NW
Washington DC 20433
U S A

Fax No: (202) 522-3283

I am pleased to know from Ms Mohsin that you were interested in our human resource development interventions. I have the pleasure to invite you to attend the above workshop.

The Commonwealth Working Group on Human Resource Development Strategies prepared a report **Foundation for the Future** and identified five key strategies: professionally managed government; partnerships between government and non-governmental organisations and the private sector; priority for women and girls; new and imaginative schemes for mobilisation of resources; and utilising appropriate science and technology.

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...12

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SECRETARIAT**

Direct Tel: 0171 747 6289
Fax: 0171 747 6287
E-Mail: 100676.640@Compuserve.Com

(1248)
Pl. Circulate the attached documents to

- 1) PSP MT
- 2) PSM/NGO Group
- 3) D. de feranti/Vander Gaag

EDD/COMM/HRI

3 May 1996

Mr Ishrat Husain
Director
Poverty and Social Policy Development
The World Bank
1818 H Street NW
Washington DC 20433
U S A

Fax No: (202) 522-3283

Human Resource Development Initiative Workshop
Gaborone, Botswana - 24-28 June 1996

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.../2

MARLBOROUGH HOUSE PALL MALL LONDON SW1Y 5HX

TEL: Switchboard (44) 0171 839 3411 FAX: (44) 0171 930 0827
CABLES: COMSECGEN LONDON SW1 TELEX: 27678

MAY 24 1996

MC



With the compliments of

Tamara

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

nt Law ter

Winter 1996

ELOPMENT LAWYERS

The issue of corruption has been generally addressed by the United Nations (UN) in a number of its General Assembly and Economic and Social Council resolutions dealing mainly with international drug trafficking and organized crime (see, e.g., A/RES/49/137 (1994); A/RES/48/161 (1993); A/RES/47/87 (1992); A/RES/S-17/2 (1990); A/RES/45/121 (1990); A/RES/45/113 (1990); A/RES/45/123 (1990); A/RES/43/122 (1988); A/RES/42/113 (1987); ECOSOC Resolution 1994/19; ECOSOC Resolution 1994/12; and ECOSOC Resolution 1992/23). This issue has also been dealt with specifically in the context of development. In dealing with international co-operation for crime prevention and criminal justice in the context of development, the General Assembly (A/RES/45/107) at its 68th plenary meeting on December 14, 1990 noted:

Because the corrupt activities of public officials can destroy the potential effectiveness of all types of governmental programmes, hinder development, and victimize individuals and groups, it is of crucial importance that all nations should (a) review the adequacy of their criminal laws, including procedural legislation, in order to respond to all forms of corruption and related actions designed to assist or to facilitate corrupt activities, and should have recourse to sanctions that will ensure adequate deterrence; (b) devise administrative and regulatory mechanisms for the prevention of corrupt practices or the abuse of power; (c) adopt procedures for the detection, investigation and conviction of corrupt officials; (d) create legal provisions for the forfeiture of funds and property from corrupt practices; and (e) take appropriate measures against enterprises involved in corruption. The Crime Prevention and Criminal Justice Branch of the Centre for Social Development and Humanitarian Affairs of the Secretariat should co-ordinate the elaboration of

Inside This Issue

- 1 Development and Corruption
- 2 The World Bank's Role
- 3 Methods of Combating Corruption
- 4 Policy Advice on Corruption
- 5 Select Bibliography on Corruption
- 6 Law and Development Activities
- 7 Speakers' Corner
- 8 Notice

Development Law Newsletter

Volume 2 Issues 1-3

Winter 1996

INTERNATIONAL ASSOCIATION OF DEVELOPMENT LAWYERS

1. Development and Corruption

The issue of corruption has been generally addressed by the United Nations (UN) in a number of its General Assembly and Economic and Social Council resolutions dealing mainly with international drug trafficking and organized crime (*see, e.g.*, A/RES/49/137 (1994); A/RES/48/161 (1993); A/RES/47/87 (1992); A/RES/S-17/2 (1990); A/RES/45/121 (1990); A/RES/45/113 (1990); A/RES/45/123 (1990); A/RES/43/122 (1988); A/RES/42/113 (1987); ECOSOC Resolution 1994/19; ECOSOC Resolution 1994/12; and ECOSOC Resolution 1992/23). This issue has also been dealt with specifically in the context of development. In dealing with international co-operation for crime prevention and criminal justice in the context of development, the General Assembly (A/RES/45/107) at its 68th plenary meeting on December 14, 1990 noted:

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| 6 | Law and Development Activities |
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| 8 | Notice |
-

ALL - I N - 1 N O T E

DATE: 19-Jun-1996 05:23pm

TO: ISHRAT HUSAIN

FROM: Mike Stevens, PSP

EXT.: 37493

SUBJECT: UNCHR

*Mike,
If it is convenient
to UNHCR people let us
try to accommodate them
on July 24.* *for action*
24/6/20

(ISHRAT HUSAIN@A1@WBWASH)

(MIKE STEVENS@A1@WBHQB)

Ishrat,

You will recall we agreed in principle to a dialogue with the UN High Commission on Human Rights. Louis Forget and Lisa Pachter and I have been working together with people in Ayala-Lasso's office to agree an outline.

We had thought about all of this happening in the Fall.

meanwhile, one of Ayala-Lasso's aides has called asking whether it would be possible to have the dialogue on or around 24 July. This would coincide with the end of ECOSOC, which Ayala-Lasso and advisers are attending, so there is a logic from their side, saving on air fares.

Arguments for doing it in July are divided. In favour would be getting it over (though there might be more to come), and saving the UNCHR side the air fare money. From my inquiries, Mr Wolfensohn will be in town 24th July. Against is the relatively short time, my other governance commitments, and the fact that key people in the potential PSP team (eg: Peter Fallon, Lionel Demery) will be on leave (as I will be from 26 July).

What thoughts do you have, and what is your availability?

*available the week
of July 22*

Mike

CC: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

Successful Transmission Report

Page 1

07-08-96

09:32AM

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Tel. No. (202) 477-1234 • Fax (202) 477-6391 • Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE:	July 5, 1996	NO. OF PAGES: 2 (including cover sheet)	MESSAGE NO.:
TO:	Mr. John Syson		FAX NO.: 44-171-930-2189
Title:	Special Adviser		
Organization:	Commonwealth Secretariat		
	Political Affairs Division		
	Marlborough House, Pall Mall		
City/Country:	London, England SW1Y 5HX		
FROM:	Minh Chau Nguyen		FAX NO.: (202)522-3237
Title:	Acting Director		Telephone: (202)458-1415
Dept/Div:	Poverty and Social Policy		Dept./Div. No.: 69205
Room No.:	S10-051		
SUBJECT:	Response to invitation to Commonwealth Workshop on Human Rights and Development		

MESSAGE: See attached response.

Transmission authorized by: authorization

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax no. listed above.

Governance

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: July 7, 1996 06:24pm

TO: MIKE STEVENS

(MIKE STEVENS @A1@WBHQB)

FROM: Sven Sandstrom, EXC

(SVEN SANDSTROM)

EXT.: 81138

SUBJECT: Corruption - Background note for informal Board meeting on July 23
Your July 5 draft

Mike,

This is a good note.

I agree with Ibrahim's comments. I have also marked up my copy with a few additional comments (on its way to you).

Should WDR97 also be mentioned?

I suggest you include the optional last section.

Could you get me a revised version by cob Monday?

Sven

CC: Ibrahim Shihata

(IBRAHIM SHIHATA)

CC: Jules Muis

(JULES MUIS)

CC: ARMEANE CHOKSI

(ARMEANE CHOKSI @A1@WBHQB)

CC: Ishrat Husain

(ISHRAT HUSAIN)

CC: JANE ARMITAGE

(JANE ARMITAGE @A1@WBHQB)

CC: Orsalia Kalantzopoulos

(ORSALIA KALANTZOPOULOS)

CC: EXCMD C

(EXCMD C)

Governance

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: July 7, 1996 06:58pm

TO: MIKE STEVENS

(MIKE STEVENS @A1@WBHQB)

FROM: Sven Sandstrom, EXC

(SVEN SANDSTROM)

EXT.: 81138

SUBJECT: Corruption - Operational Issues
Your draft note of July 5

Mike,

This is a good start. However, the next draft should focus more on "getting an action plan" and less on "preparing a Board paper".

Instead of the current paras 1-3, you might start with a brief background para on corruption (heightened concern, Wolfensohn's determination to address the issue). Then a brief para on the purpose of the note and the VPs' meeting -- agree on an approach and to launch the working group and its work on an action plan?). Then a factual list of key events, or a rough schedule, would help provide context: 1. June 7 seminar (attach the summary note sent to VPs), 2. planned informal Board meeting July 23 (attach background note), 3. VPs' meeting (July 17?) and formation of Working Group to prepare 3-year Action Plan, 4. draft Action Plan (September xx), 5. Annual Meetings speech, 6. final Action Plan (October xx).

I think your paras 5-9 are fine, but you must then add a section on Actions where you give some indication of the kind of actions that you would like to see in the Plan (we had even talked about a mock-up or framework for an Action Plan, but that may be too ambitious). Selected country "flagships" / pilots as proposed by Johannes, EDI's work, identification and dissemination of best practices, etc

Don't forget IFC and MIGA. And how do you see the role / input of non-operational VPUs? The meeting would be for all VPs I assume. Or? (Your note seems to be focused on a Regional Working Group and a Regional Action Plan.)

Please send the next version to Ibrahim and Jules as well. We should try to get it out to the VPs by Wednesday.

Sven

CC: Ishrat Husain
CC: JANE ARMITAGE

(ISHRAT HUSAIN)
(JANE ARMITAGE @A1@WBHQB)

CC: Orsalia Kalantzopoulos
CC: EXCMDC

(ORSALIA KALANTZOPOULOS)
(EXCMDC)

Governance

A L L - I N - 1 N O T E

DATE: 03-Jul-1996 10:46pm

TO: David de Ferranti

(DAVID DE FERRANTI@A1@WBHQB)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Dialogue with UN Commisison for Human Rights

David,

We spoke briefly last week about whether someone from your shop could participate in the dialogue later this month with staff from the Office of the UN High Commissioner for Human Rights, and make a short presentation on the Bank's approach to education. I promised some background. Here it is.

For some time the UNCHR has been pressing the Bank for a dialogue. Its governing body has been telling it to work with other UN organizations in pursuit of human rights. Its objective for the Bank is to persuade us to promote HR more actively in our dealings with countries, such as reminding governments in the dialogue of their treaty undertakings, reporting on whether countries are meeting HR standards, and more explicitly gearing our assistance to helping countries fulfill their HR obligations.

We don't care too much for this approach, it runs contrary to greater government ownership, and smacks of a new conditionality language. Our line, as articulated by Mr Shihata, is that all our work on poverty, gender, basic education and health etc helps governments achieve HR goals - we are on the side of the angels even if we are not blowing their trumpets.

The dialogue will take place July 24-25. We want to use it to get across to UNCHR that of all the UN agencies we are in practice doing the most to further HR goals, through out lending to areas such as education, gender, resettlement etc. Thus we want to use the dialogue as an opportunity to explain to the other side how the Bank addressed these issues.

Would, therefore, somebody be available for, say, an hour to present briefly the Bank's approach and experience in funding education projects, with particular emphasis on primary education and the poor?

We haven't finalized the agenda yet, but we would need your input in the course of July 24.

Thanks.

Mike

CC: LOUIS FORGET
CC: ISHRAT HUSAIN
CC: Jane Armitage

(LOUIS FORGET@A1@WBWASH)
(ISHRAT HUSAIN@A1@WBWASH)
(JANE ARMITAGE@A1@WBHQB)

Governance

A L L - I N - 1 N O T E

DATE: 03-Jul-1996 11:53pm

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Dialogue with UNCHR on HR

Ishrat,

You will have seen from the EM traffic I am trying to get our side together for the dialogue with the UNCHR team on July 24-25, following the ECOSOC meetings.

What role do you want to play in it? The core team is Louis Forget, Lisa Pachter and myself. Shihata will make a keynote speech. How much time can you spare? Can we persuade you to lead the Bank team?

We also need to give them hospitality. We can have a working lunch with sandwiches one day, but for the other we should have a sit down meal. Would you host it (or Armeane if available?)

Separately, we are trying to get Mr Ayala-Lasso an appointment with Mr Wolfensohn (A-L, after all, is head of a UN agency, even if it has no more than a dozen or so staff). That will mean a brief for JDW. (I will keep it as lean as possible, lest JDW takes up the cause of HR alongside corruption - we can't carry any more unfunded mandates!)

Mike

PS. Vicky - can you pls secure a conference room - for 2 days. S Building preferably. Max 15-20.

CC: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

CC: Vicky Viray

(VICKY VIRAY@A1@WBHQB)

Governance

A L L - I N - 1 N O T E

DATE: 03-Jul-1996 11:17pm

TO: See Distribution Below

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Dialogue with UN High Commissioner for Human Rights

Colleagues,

In recent days I have been buttonholing you to line up your units to participate in the forthcoming Bank-Unchr dialogue on Human Rights.

The background is as follows. For at least the past year the Un High Commissioner, Mr Ayala-Lasso, has been writing to the Bank seeking a dialogue with us. He has a mandate to make the work of the UN agencies more explicitly supportive of HR, and his governing body each year passes resolutions requiring him to report on the progress he has been making.

We have been keeping the UNCHR at polite arms distance for a while, partly because, as first proposed, UNCHR wanted a conference with the Bank with outside participants, and partly because there is a fundamental difference in the two institutions' approaches. UNCHR would want the Bank to make HR an explicit driver of our country lending strategies, we say we do more than any other UN agency to promote HR, indirectly, through our lending to basic social services, programs which assist the poor, and our emphasis on gender issues etc. (Mr Shihata, in various speeches has laid out the framework).

However, in these days of greater partnership with other UN agencies, and in the interest in getting across better what our approach is, we have agreed to a one-on-one dialogue with a select team of about four from UNCHR, led by the High Commissioner, Mr Ayala-Lasso, immediately after the ECOSOC meetings later this month.

We are now organizing the details of the dialogue, which will take place in the Bank on July 24-25. The first day will be spent explaining to our visitors what the Bank's policies are and what we do in areas like poverty, gender, post conflict, labour markets, participation, governance etc.

I will be drawing up a detailed agenda next week. Meanwhile would you think about detailing a small team (or one individual) who might come to the dialogue and give a short presentation on their respective area? Possibly, we may group

you together in panel sessions.

On the Bank's side, the core team will be Louis Forget,
Lisa Pachter and myself.

Thanks.

Mike

DISTRIBUTION:

TO: Oey Astra Meesook	(OEY ASTRA MEESOOK@A1@WBHQB)
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TO: Lionel Demery	(LIONEL DEMERY@A1@WBHQB)
TO: ANN E. ELWAN	(ANN E. ELWAN@A1@WBWASH)
TO: Aubrey Williams	(AUBREY WILLIAMS@A1@WBHQB)
CC: ISHRAT HUSAIN	(ISHRAT HUSAIN@A1@WBWASH)
CC: Jane Armitage	(JANE ARMITAGE@A1@WBHQB)

governance

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: July 2, 1996 09:21am

TO: Mike Stevens

(MIKE STEVENS@A1@WBHQB)

FROM: Myrna Alexander, OPRDR

(MYRNA ALEXANDER@A1@WBHQB)

EXT.: 33262

SUBJECT: Governance and Gender Issues

Yesterday, at the CODE discussion of gender, Mr. Gerber made the point that the coming presentation of governance ought to address, among other things, the issues of gender equality (eg legal rights, pension and other benefits, labor protection). You might want to talk with Minhchau on how to do this.

Many thanks!!!

CC: Jaime Biderman
CC: ROBERT E. HINDLE
CC: ISHRAT HUSAIN
CC: Minhchau Nguyen

(JAIME M. BIDERMAN@A1@WBHQB)
(ROBERT E. HINDLE@A1@WBWASH)
(ISHRAT HUSAIN@A1@WBWASH)
(MINHCHAU NGUYEN@A1@WBHQB)

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

JUN 28 1996

1545

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

File: PSM

28 June, 1996

H.E. Mr John Wood
Ambassador
New Zealand Embassy
37 Observatory Circle NW
Washington DC

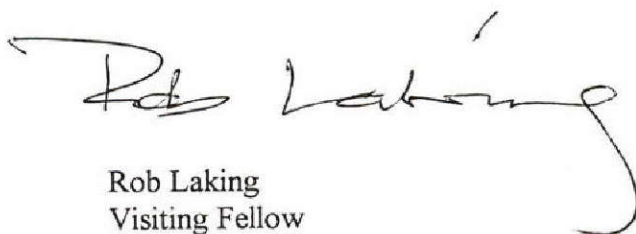
Dear John

Funding for New Zealand experts at the World Bank

The Director of the PSP Division here where I am working, Ishrat Husain, asked whether funding would be available from New Zealand for the engagement of New Zealand experts, particularly in public sector management. I understand that there is a small trust fund at the disposal of the Bank's New Zealand Executive Director to support such initiatives and I have mentioned Mr Husain's interest to Peter Nichol accordingly. However I do recall also that last year at the time of CHOGM the government announced the creation of a special allocation within ODA (I assume) to fund public administration work. I am not sure if this was confined to Commonwealth countries, but I undertook to see if that or any other source of funding might be available for this purpose.

When we spoke you said that you would probably refer this to George Troup. Would he be able to contact Mr Husain at the Bank (458-1415) about it? Regards

Yours ever



Rob Laking
Visiting Fellow



Record Removal Notice

File Title PSP - Governance - Correspondence		Barcode No. 1458345		
Document Date 07/28/1996	Document Type Board Record			
Correspondents / Participants From: Mike Stevens, PSM Unit, PSP To: Myla Williams (CTRVP), Christian Walser (LEGLR)				
Subject / Title Board Discussion				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Salma Berrada El Azizi</td><td>Date July 31, 2025</td></tr></table>	Withdrawn by Salma Berrada El Azizi	Date July 31, 2025
Withdrawn by Salma Berrada El Azizi	Date July 31, 2025			

Governance

A L L - I N - 1 N O T E

DATE: 26-Jun-1996 11:59pm

TO: SVEN SANDSTROM

(SVEN SANDSTROM@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption

Sven.

I had a call yesterday from Hayes Reisenfeld, who works for the Bretton Woods Committee. She had heard that I was helping coordinate the Bank's current work on corruption, from Frank Vogl.

The Bretton Woods Committee is establishing a sub-committee to look at corruption as a development issue. They plan to meet in July and would like to discuss what the bank is doing on corruption. Could I meet with them?

I said I would get back to them. I am happy to give the sort of presentation I gave at the TI seminar, describing what the Bank's traditional approach is, and some of the steps it has taken recently (omitting, of course, the procurement proposals).

Do you agree?

Mike

CC: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

CC: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 20-Jun-1996 12:22pm

TO: Ishrat Husain (ISHRAT HUSAIN)

FROM: Dan Wagner, EXTME (DAN WAGNER)

EXT.: 85522

SUBJECT: L A T E S T VOICE OF AMERICA

Aman Wongibe of Voice of America will call Ishrat Husain on telephone number 458-1415 at 13:30 this afternoon for the telephone interview.

To reach Mr. Wongibe directly, he has supplied us with a better telephone number. He can be reached on 202-619-3085 if needed.

Good luck with the interview !

Dan Wagner
Broadcast Media Officer

CC: SAMUEL RACHLIN (SAMUEL RACHLIN @A1@WBHQB)

Governance

A L L - I N - 1 N O T E

DATE: 26-Jun-1996 11:52pm

TO: SVEN SANDSTROM

(SVEN SANDSTROM@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption

Sven,

Can we discuss as soon as possible where we stand on both the informal Board discussion and a more formal paper, following last Thursday's Board reaction to the procurement proposals?

Heidi Zia of Secretary's called me this afternoon with possible dates. This served to underline the tightness of the deadlines, and made me think about content as well as timing.

The clear message from EDs last week was a unanimous demand for an informal session to discuss the broad corruption canvas before addressing any specific proposals. As chairman, you agreed to an informal session asap, followed by a more formal paper addressing the overall strategy, putting it in a governance perspective.

JDW's instruction is for a Board paper ahead of the annual meetings, so that he has the Board's backing for a strong message on corruption in the annual meetings speech.

Heidi and I reviewed dates and came up with these proposals:

- 1). Informal discussion. July 16 or 23.

On our side, there's a desire to get the Board's views on the larger agenda in July, so that it can feed into the work on the formal paper. The question then arises: should the Board have something in front of them to provide a framework for the discussion, if so, what? Second, how much advance notice and circulation of a paper do they need? I would assume that an informal session does not necessarily require input from their capitals, so the full 15 working days may not be needed. If there is to be a background paper, circulated, say 10 days ahead of the meeting, the only thing feasible is the TI seminar brief, suitably edited to reflect some of the points already mentioned in the Board. The main thrust of such a paper would be the Bank's present actions. Something to consider would be the extent to which we might also make it partly an issues paper - so that we get some focus to the discussion. But that is

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: June 20, 1996 09:09am

TO: Sven Sandstrom

(SVEN SANDSTROM@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: RE: Board today

Sven,

I had already planned to attend. It has now moved up in the agenda to first substantive issue. I have also been asked to attend in case there are questions on severance pay in connection with the Brazilian Railways project, given that the US ED reportedly is objecting to a "change of policy" without the Borad being informed.

Mike

CC: Ishrat Husain

(ISHRAT HUSAIN@A1@WBWASH)

CC: Marva Angus

(MARVA ANGUS@A1@WBWASH)

difficult if we shoot for July 16.

2). Formal Board Paper. September 19.

This is the latest we can go before getting caught in the annual meetings rush. It implies circulation of the paper to EDs by August 28. Allow 2 weeks for management clearance (enough given regional sensitivities?), and we are back at August 14.

In effect this means preparation of the formal board paper alongside the informal discussion, going into the session with a first draft, which can then be adjusted to reflect ED comments.

The next question is what such a paper should contain. There is a dilemma. If we go with an informal session first, backed up with a brief on what the Bank is presently doing, will there be enough additional "meat" on the second paper to make the exercise seem worthwhile to EDs (we could of course fly the procurement proposals past them for the second time). As I see it, the first paper's theme would be "This is what we are doing presently, and this is what we know about its effectiveness". The second paper would be "This is where we intend to go" - stopping well short of an action plan, which would be premature.

The larger question is whether a second paper before the Annual Meetings is necessary. It might make more sense to come to the Board after the Annual Meetings when there has been time to develop a fuller action program, with the required buy in within the Bank. The objective behind JDW's instruction was to get the Board behind the President on the issue, sufficiently to enable him to make a firm statement at the Annual Meetings.

Conceivably, this could emerge from the informal session. At least in terms of sufficient endorsement for JDW's determination to address the issue and talk about general directions for the Bank, and some broad principles (eg: the Bank's role is to assist countries combat corruption themselves).

My guess is that much will depend on the informal session, and the way forward will be clearer once it has occurred. In the meantime, how do these issues strike you?

Mike

CC: ISHRAT HUSAIN
CC: Jane Armitage

(ISHRAT HUSAIN@A1@WBWASH)
(JANE ARMITAGE@A1@WBHQB)

TO: RICHARD H. FRANK	(RICHARD FRANK@a1@WBWASH)
TO: SVEN SANDSTROM	(SVEN SANDSTROM@a1@WBWASH)
TO: FREDERICK WRIGHT	(FRED W. WRIGHT@a1@WBWASH)
TO: ALFRED T. HERON	(ALFRED T. HERON@a1@WBWASH)
TO: Brian Wilson	(BRIAN WILSON@a1@WBHQB)
TO: DONALD CONRAD	(DONALD CONRAD@a1@WBWASH)
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CC: MARIE-CLAUDE HELMAN	(MARIE-CLAUDE HELMAN@a1@WBWASH)
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CC: Leo Paraskevas	(LEO PARASKEVAS@a1@WBHQB)

Governance

A L L - I N - 1 N O T E

DATE: 06-Jun-1996 11:36am

TO: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: TI Seminar Pre-meeting

Jane,

We had the pre-meeting with JDW yesterday. Sven, Shihata and I. Main points:

- 1). JDW wants to raise the profile of the corruption issue and how we are dealing with it. He intends to make a major statement about corruption in his AGM speech. Prior to that he wants a Board paper.
- 2). He is sympathetic to TI, (much more so than Legal) and wants to maintain a dialogue with them, use them as a partner at the country level, and maybe fund them to do some things for us more generally. But no core budget funding, ivo the TI Country Corruption Ranking (latest version out last weekend - Nigeria now bottom). He thinks what TI is doing is excellent, including the Index, but the Bank can't be associated with it.
- 3). No formal instructions to me to write the policy paper, but that's my reading of the expectation. Subsequently I sent Sven an EM saying that in principle I could do it, but that a larger involvement over the longer term meant more resources, and this was a concern to Ishrat and Armeane.
- 4). What is not quite clear is whether JDW wants the Board paper simply to be a description of the current approach, plus what we might do in the future, or something more than that. The first is relatively easy to do (and could be done alongside the CODE governance brief). The second is more difficult. The scope should be clearer after tomorrow's meeting.

Mike

CC: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

THE WORLD BANK GROUP

JUN 5 1996 1333

File Governance

ROUTING SLIP		DATE: June 5, 1996	
NAME		ROOM. NO.	
Armeane Choksi, HCDVP		S13-131	
Ishrat Husain, PSPDR		S10-051	
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: Corruption Seminar with Transparency International			
REMARKS: Here are the materials that have been circulated for the TI seminar scheduled for Friday, June 7. I wrote the brief, and will give a short presentation on the Bank's approach to controlling corruption. I will keep you posted on what transpires. 			
FROM Mike Stevens		ROOM NO. S10-043	EXTENSION 37493

12/11/95
The World Bank
Washington, D.C. 20433
U.S.A.

SVEN SANDSTRÖM
Managing Director

June 3, 1996

Mr. Wolfensohn

Corruption Seminar with Transparency International

Attached are materials for the joint Transparency International (TI) / World Bank seminar, scheduled for 10:00 - 12:30, Friday, 7 June:

- Seminar agenda
- Summary brief
- Full background brief

TI will give us biographical information on their team by Thursday.



cc: Bank participants

**TRANSPARENCY INTERNATIONAL / WORLD BANK
JOINT SEMINAR**

Strategies for Addressing Corruption

10:00 - 12:30 Friday, June 7, 1996
Room E-1227

PARTICIPANTS

Transparency International

Peter Eigen	Chairman
Fritz Heimann	Chairman, USA
Valeria Merino	Board Member (Venezuela)
Luis Moreno Ocampo	Chairman, Argentina National Chapter
Jeremy Pope	Managing Director
Frank Vogl	Vice Chairman

World Bank

James Wolfensohn	President
Gautam Kaji	Managing Director
Richard Frank	Managing Director
Sven Sandstrom	Managing Director
Ibrahim Shihata	Senior Vice President and General Counsel
Jules Muis	Vice President and Controller
Rachel Lomax	Vice President and Chief of Staff
Johannes Linn	Vice President, Europe and Central Asia
Vinod Thomas	Director, Economic Development Institute
Lyn Squire	Director, Policy Research Dept.
Raghavan Srinivasan	Chief Procurement Adviser, Operations Policy Dept.
Mike Stevens	Public Sector Management Adviser, Poverty and Social Policy Dept.

AGENDA
(prepared by Transparency International)

1. Transparency International -

Corruption is too Important to Ignore (Peter Eigen)

Corruption is widespread and has a wide variety of undesirable consequences.

2. Transparency International -

Changing International Environment for Combat of Corruption

International corruption needs to be tackled on all sides: at the giving and receiving end, in the North, the South and the East, at the official level and in civil.

There is a window of opportunity for fighting corruption (end of Cold War, opening up of markets and democracies); broad consensus about the importance and urgency of coherent strategies against corruption and movement of the issue in international fora. This gives rise to many initiatives and a crowded agenda in which there is a need for leadership at the highest levels.

- (a) New awareness and approaches in the North (Fritz Heimann)
(OECD, UN, EU, Council of Europe, OAS, ICC)
- (b) New awareness in the South (Valeria Merino)

3. World Bank

World Bank's Strategy to Address Corruption (Mike Stevens)

How the Bank assists countries to address corruption, through:

- (a) Macro-economic and sector policy reform to reduce scope for "rent-seeking";
- (b) Institutional reform to build capacity;
- (c) Controlling corruption within Bank-financed projects;
- (d) Insights from Bank research.

4. Transparency International

Corruption can be Contained (Jeremy Pope)

An holistic and systematic approach (Integrity Systems) will be presented. Cooperation and change on all sides is needed (North/South; public sector/civil society/private sector). Examples of actual programs will be given (Tanzania, Uganda).

5. Transparency International

How to Help Countries Reduce Corruption

The challenge should not be underestimated: this will be a long and tough journey. Reforms must come from within societies, and cannot be imposed (It has to be both "top-down and bottom-up").

(a) Cooperation of World Bank and TI (Peter Eigen / Frank Vogl): A multi-faceted partnership between NGOs such as TI and public institutions such as the World Bank can be critical.

(b) Some Possible Specific Actions (Valeria Merino / Jeremy Pope)

6. Transparency International

Expected Impact (Peter Eigen)

We expect that this approach will, over time, yield important benefits.

7. **Discussion of Next Steps**

Summary Brief

CORRUPTION SEMINAR WITH TRANSPARENCY INTERNATIONAL JUNE 7, 1996

Attached is a brief for Bank participants at the seminar on corruption this week with Transparency International (TI). The seminar has been organized following Mr. Wolfensohn's meeting in February with Peter Eigen, Chairman of TI, and in recognition that corruption has become an issue of development effectiveness, affecting both perceptions of concessional aid in rich countries, and attitudes to governments in developing countries.

We see the seminar as a learning event. TI will present its view of international corruption and strategies to combat it, both at the national and international level. The Bank will present its activities and emerging strategy.

TI's strategy:

- *Country level:* formation of national chapters, "islands of integrity", "no-bribery pledge";
- *International level:* participation in international and regional initiatives to combat corruption in international business transactions (OECD, WTO, OAU, EU, ICC).

World Bank's Strategy:

- *Macro-economic and sector policy reform:* reducing scope for "rent-seeking";
- *Institutional reform:* Support to countries for budgetary and financial management reform, tax and customs, accounting, audit, and civil service reform;
- *Fiduciary responsibility:* Controlling corruption in World Bank financed projects, through the Bank's project procurement, disbursement, reporting and auditing requirements, staff ethics and discipline.

Collaboration with TI

TI is a potential partner of the Bank. There has been an ongoing dialogue with the Bank on procurement policy (the "no-bribery" pledge is an issue), and TI has collaborated successfully with EDI in staging "Integrity Workshops" in Jordan, Tanzania, and Uganda. Further collaboration with TI, consistent with the Country Assistance Strategy (CAS), is likely.

Core Budget Funding

Although not explicitly part of the agenda, the question of funding TI's core budget through the Special Grants Program (SGP) may come up. TI has a request outstanding of \$300,000 annually for three years, and the SGP Committee has deferred a decision pending clarification of Bank policy on this issue. At the heart of the issue is whether the Bank should contribute to the core budget of an NGO with an international agenda in such a sensitive area.

Future Bank Activities

Discussion during the seminar may turn to questions such as:

- Should the Bank lend its weight to international initiatives to combat bribery, and in what way?
- How might the Bank address the perception in rich countries that aid is wasted by corrupt governments?
- Does the Bank know enough about the ways in which corruption occurs?
- Do we understand the links between corruption and development?
- What are the links between bribery and related economic crimes such as fraud, drugs, and money laundering?
- Does the Bank's strategy need to be deepened?
- What should be done (if anything) in countries which have systemic problems of corruption?

CORRUPTION SEMINAR WITH TRANSPARENCY INTERNATIONAL JUNE 7, 1996

Brief for Bank Participants

Background to Seminar

Emergence of Corruption as a Development Issue

- Corruption has become an issue of aid effectiveness in donor countries, in turn affecting IDA replenishment. The IDA 10 report records deputies calling for greater transparency to improve "effectiveness of resource use and to reduce corruption and waste."
- Corruption is no longer being referred to obliquely in Consultative Group meetings (CGs). In 16 out of 72 CGs chaired by the Bank between January 1993 and April 1996 the theme of corruption was explicitly raised by participants.¹
- The Bank's External Relations Department's surveys revealed how attitudes to aid in rich countries are adversely affected by perceptions of corruption in the poor countries.
- Corruption has become an electoral issue in many developing and transition countries, and new governments have come to power with a mandate for cleaner government. (In others, it remains a sensitive issue)
- A range of initiatives to address corruption at the international level is being taken, such as disallowing in OECD countries tax deduction of bribes to foreign officials.

¹ CGs where the issue of corruption was explicitly raised were for the following countries: Bangladesh, Bolivia, Ethiopia, Kazakhstan, Kenya, Malawi, Mozambique, Romania, Sri Lanka, Tanzania, Uganda, and Zambia.

Mr. Wolfensohn's Meeting with Peter Eigen, February 1996

At a meeting with Peter Eigen, Chairman of TI, in February, Mr. Wolfensohn accepted Transparency International's offer to present its strategy to control corruption in a seminar for senior Bank staff.

Objectives

The primary objective of the seminar is for Transparency International and senior management of the Bank to meet, exchange views, and learn about corruption as an issue of development effectiveness, and how countries can be assisted in controlling it. Underlying this general aim are some specific organizational objectives.

Transparency International's objectives for the seminar:

- Present its rationale for addressing corruption: namely, its adverse impacts on economic decision-making, the poor, the climate for aid, and good governance;
- Explain its strategy at both the national and international levels for assisting countries control corruption;
- Demonstrate how this complements the Bank's agenda and explore areas of future cooperation; and
- Show how TI as an organization has evolved in the three years of its existence, particularly the growth of "national chapters."

Behind the latter is a desire to dispel doubts about TI that have existed in the Bank, perceived as a barrier to closer partnership. In this connection, TI may informally inquire about the status of its request for core budget funding from the Special Grants Program (SGP), submitted in the Fall of 1995 (see below).

The Bank's Objectives for the Seminar:

- Present the Bank's view of corruption, as a phenomenon occurring in both industrialized and developing countries and as a complex issue of development effectiveness for our borrowers.
- Show how Bank actions in the areas of macro-economic policy reform and institution building constitute an anti-corruption strategy (even if we do not specifically label them as such); and

- Outline how we control corruption in Bank-financed projects, and the further steps we are taking to improve loan procedures and documentation. Explain how the Bank has strengthened staff rules. Show how changes in the Bank's processes, via greater transparency and participation, may indirectly contribute to greater accountability and thus less corruption in borrower countries.

Transparency International

TI's Establishment as an NGO

Founded in 1993, TI is registered as an NGO under German law, with headquarters in Berlin. TI's stated aim is coalition building with local stakeholders (including governments), to develop national strategies to combat corruption. In contrast to Amnesty International, TI does not investigate and expose individual acts of bribery. While it works with governments to develop anti-corruption strategies, it will do so only with the backing of civil society, to avoid co-option. It also eschews party politics. It publishes a newsletter giving news of headquarters and local chapter activities, and press summaries of corruption stories from both the developed and developing world.

It has grown fast, albeit with funding strains. It has an international board (Chairman: Peter Eigen, German), with balanced North/South representation, and a small secretariat in Berlin (Managing Director: Jeremy Pope, New Zealander). Its strategy is to form local chapters in both industrialized and developing countries. About 50 have been established, some of which have become very active, obtaining program funding directly from foundations and bilateral donors. Financial support is currently being received from: SIDA, Danida, the Swiss Government, Germany, USAID, ODA, Ford, Nuffield and Rowntree Foundations among others, and some 20 corporations, mostly in the United States.

TI's initial focus was on bribery in international business transactions. This has now broadened to include domestic corruption, in recognition that corruption occurs across a seamless continuum. Its definition of corruption is: "The misuse of public power for private profit." Its emphasis on the "integrity infrastructure" within a country - part of which would be called "ethics in government" in the United States - has taken it in to the area of electoral funding and codes for civil servants and conflict of interest rules for ministers, as well as auditing, financial management, government procurement, and civil service reform. At the same time, arguing that tackling bribery requires a balance of actions in both developed and developing countries it has developed a substantial agenda at the international level, supporting the anti-corruption activities of the OECD, OAS, ICC, EU and the WTO.

Possibilities for Partnership with TI

The rationale for partnership with TI is straightforward. The quality of governance in countries is so central to the outcomes that the Bank seeks, that an NGO aiming to build coalitions to fight corruption at both national and international levels and to assist countries implement anti-corruption strategies, is a natural ally of the Bank in turn a candidate for SGP funding. Partnership could be pursued on two fronts. The first, collaboration at the country (or regional) level, is straightforward. The second, funding of TI's core budget, is a problematic and unresolved issue, which need not be addressed in the June 7 meeting.

Collaboration with TI

TI has collaborated with the Bank in the following ways:

- *Launch of TI:* The Bank, along with bilateral donors and other institutions, was invited to attend (and did so) the launch workshop at the Villa Borsig in Berlin in 1993.
- *Dialogue on Procurement:* TI and the Bank's procurement specialists have produced a document on the Bank's procurement rules.
- *Integrity Workshop:* TI has worked closely with the Economic Development Institute of the Bank in staging "Integrity Workshops" in Jordan, Tanzania, and Uganda. To provide materials for these workshops, EDI commissioned TI to prepare an "Integrity Sourcebook" (see below).

While there are consulting firms that individually can deploy more expertise than TI in areas like civil service reform, accounting and auditing, and government procurement, none has fitted all the pieces together into a coherent anti-corruption strategy, as TI has done with its "Integrity Infrastructure" concept. Consequently, the expectation is that TI will continue to work with the Bank, where country circumstances permit, in workshops and in joint diagnosis and design of country or regional anti-corruption strategies.²

TI's Requests for Financial Support from the Bank:

TI has submitted two requests for core budget funding from the Special Grants Program (SGP), the first in 1994 (\$150,000 for three years), the second in 1995

² Note, however, that TI's recommendation of a "no bribery" pledge is technically controversial to the Bank's own procurement specialists.

(\$300,000 for three years amounting to 15% of TI's target operating budget). Both requests have been controversial, generating equally support and opposition within the Bank. The first request was rejected by the SGP committee, and, again on appeal to the then President, Mr. Preston. The SGP Committee has deferred a decision on the second request, received late in 1995, pending clarification of the Bank's policies in this area.

The principal argument against core budget funding of TI through SGP (engaging TI as a partner or sub-contractor for specific country tasks consistent with the CAS is not an issue) has to do with the links between corruption and political power, and whether associating the Bank's name with TI's actions drawing attention to corruption in specific countries would undermine the Bank's ability to conduct a dialogue with governments on issues as sensitive as corruption.

Other issues that have been raised in connection with core budget funding of TI have included:

- *Level playing field:* The inconsistency in core funding TI from the SGP if TI were later to compete with other organizations as an implementing agent in Bank projects at the country level under current procurement rules.
- *Role of former Bank staff in founding TI:* Both Peter Eigen (Chairman) and Frank Vogl (Vice Chairman, US) are former Bank staff, and there are other former Bank staff have been working with TI. There have been questions whether funding an NGO established by Bank staff might be seen as an improper use of Bank resources. This is seen as less of a concern nowadays, given TI's growth and diversification. TI points out that there have been precedents of former staff associated with organizations receiving SGP funding.
- *Country Corruption Index:* TI, in association with the University of Goettingen, has published a "Country Corruption Ranking" (a composite based on various surveys of international businessmen's perceptions of corruption). It ranks Indonesia, a major Bank borrower, as the most corrupt country out of a sample of 41.³ From TI's perspective it serves to dramatize the phenomenon, and might provide reforming governments a benchmark. Understandably, the Bank on its part, is apprehensive about being seen to sponsor the Country Corruption Ranking of its members if the SGP contributed to TI's core budget. Similar concerns have been raised about the press summaries of corruption in TI's newsletter.

³ The New York Times of 2 June, 1996 reports that, according to TI's latest ranking, Nigeria now tops the list of countries international business people consider the most corrupt. After Nigeria came Pakistan, Kenya, Bangladesh, China, Cameroon, Venezuela, Russia, India, and Indonesia.

- *Integrity Sourcebook*: EDI has co-sponsored with the Ford Foundation a volume of materials on how countries can tackle corruption. Originally envisaged as an EDI publication, it has been published, more appropriately, as a TI document. A shorter version of it circulated in draft as an EDI Working Paper was criticized within the Bank on the grounds that examples of corruption in individual countries based on press reports might convey Bank authenticity, and make it difficult for the Bank to discuss governance issues with such governments. This, of course, was not the responsibility of TI, but reactions to the draft highlight the sensitivity of the topic. The sourcebook remains, however, a unique collection of materials on policies and mechanisms to control corruption and to strengthen government ethics, which have been used as basic reading in joint EDI/TI "Integrity Workshops".

World Bank's Approach to Controlling Corruption

Bank Action in Three Areas:

While the Bank has always sought to control corruption within the projects it finances, increasingly it sees corruption as a critical issue of development effectiveness. There is growing evidence that corruption harms the poor, impairs investment, undermines support for aid and erodes governance. For the Bank, which sets great store on the policy framework, corruption is especially troubling since it undermines public policy. We concur that a multi-faceted strategy is needed to control it centered on addressing the problem systematically, by helping countries to strengthen institutions, improve control, and reduce the scope for corruption. For a long time the Bank, on its part, has never had an explicit "strategy" to control corruption. But we have recognized for many years that corruption is an issue of governance, and have sought to help governments control it, both directly and indirectly.⁴ This is being done in the context of Bank actions in three broad areas: economic policy reform, institutional reform, and the control of corruption within Bank financed projects. In addition, surveys and research directed primarily at other problems are yielding insights into corruption, as a by-product. Combined, these areas of action constitute the Bank's present "strategy" to control corruption.

Economic Policy Reforms

- *Exchange rate, trade regime and financial sector reforms*: Structural adjustment programs, which the Bank has supported for nearly two decades, reduce the scope

⁴ See "Governance and Development" (World Bank, 1992) and "Governance: The World Bank's Experience" (World Bank, 1994). The first discusses corruption as an issue of governance. The second outlines a strategy for controlling it.

for “rent-seeking” by replacing administrative mechanisms (e.g., import licenses, foreign exchange and bank credit allocations) with market mechanisms.

- *Tax reform:* Both by helping countries simplify their tax structures (reducing scope for administrative discretion, increasing transparency) and by strengthening tax administration (reducing evasion and improving financial controls), the Bank helps tackle corruption in customs and tax administration. In countries where civil service capacity has collapsed, the Bank has supported the “enclaving” of revenue activities as a short term measure.
- *Regulatory reform:* Eliminating price controls, simplifying government regulations through sector policy reforms and strengthening the regulation of private and state-owned enterprises operating in non-competitive markets further limits the scope for rents.
- *Privatization:* Likewise, the shifting of activities from the public to the private sector, operating in a competitive environment should curtail rent sharing between government departments and their captive enterprises. More broadly, the scale of the public sector at risk is diminished.

Effectiveness of Economic Policy Reforms to Control Corruption

How effective are such measures as an anti-corruption strategy? This is difficult to answer directly, given that the rationale for structural adjustment has been better economic performance, not the control of corruption. However, there is indirect evidence to support structural adjustment as an effective anti-corruption strategy.

- “Waterbed” effects visible in some countries (for example: eliminating administrative allocation of foreign exchange by exchange rate and financial sector reforms may result in increased “rent seeking” in the customs administration);
- Improved revenue collection efficiency;
- Resistance to reforms by those enjoying rents;
- Evidence from private sector assessments (PSAs - see below) that the scale of bribery is less in sectors exposed to competition.

Institutional Reforms

The second leg of a Bank “anti-corruption strategy” comprises institutional reform. Although slower in achieving results, institutional reform is about building capacity inside and outside the public sector to combat corruption.

Government Financial Management reform: In recent years there has been a rapid increase in the number of countries where the Bank is assisting in the modernization of government budgeting, financial management, accounting, and auditing systems. Examples are the integrated financial management projects in LAC, and accounting and auditing reform in countries like Indonesia and Pakistan. Mostly these projects have been financed by TA or sector loans or credits. There has also been creative use of IDF grants.

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Public Procurement: How government departments and agencies procure goods and services is, ultimately, an aspect of public sector management. Through the example of its own projects, through CPARs - Country Procurement Assessment Reviews - and through IDF grants for the preparation of new procurement legislation and associated training, the Bank seeks to strengthen institutional capacity within countries to procure goods and services in a transparent and competitive manner.

Governance: Finally, on a broader governance front the Bank assists countries control corruption through actions such as :

- Legal and regulatory framework reform;
- Judicial reform;
- Greater transparency in government budgets and financial statements;
- “Integrity workshops” conducted by EDI in association with TI (e.g., Jordan, Tanzania, Uganda);
- EDI’s training workshops for economic journalists (e.g., Benin);
- Support for professional bodies in the accounting field;

- More participatory approaches to the design and implementation of policies, programs and projects.

Fiduciary

The third leg in what might be seen as the Bank's strategy to control corruption is the efforts made to guard against corruption in Bank loans and credits, and among Bank staff.

Controlling Corruption in Bank Projects: Periodically updated, the Bank has long established procedures for procurement, disbursement, reporting, and auditing in Bank projects. These procedures are based on the principles of economy, efficiency, and transparency in public procurement. Currently, a set of amendments to loan documentation designed to facilitate action against any manifestation of corruption is being distributed for Board approval. These include:

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- Emphasis on portfolio management and supervision, and performance measurement.

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- Regular auditing of procurement, and clearer procedures for the investigation of allegations of corruption by borrowers, suppliers, or consultants.

Guarding against corruption in Bank operations: Long standing staff rules on outside interests and disciplinary measures (e.g., Staff Rule 3.01 and 8.01) have been strengthened by the issue of a "Code of Professional Ethics" in September 1994 and annually thereafter. The Bank's Ethics Officer has been charged with investigating cases of corruption involving Bank staff should they arise, and to report regularly. In addition, staff rule 8.01 is being amended to make termination mandatory where there is misuse of Bank funds.

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In the event the seminar turns to what the Bank might do in the future on corruption, the following are some planned and possible activities to deepen the Bank's strategy, and improve the Bank's capacity to support countries' efforts at systematic reform.

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Building up the Toolkit: As countries undergo political change and governments assume power with a mandate to reduce corruption, the Bank increasingly is likely to be asked for advice and best practice. To enable it to tender relevant policy, legal, and public management advice, it will need to distill systematically the lessons of experience from successful practitioners.

Making More Explicit The Bank's Anti-Corruption Strategy: As the previous section shows, the Bank is doing a great deal already to combat corruption, but under the rubrics of economic and institutional reforms. To counter the perception that the Bank is insufficiently active, we could consider making the Bank's strategy more explicit, signaling clearly that the Bank recognizes corruption as a key issue of development effectiveness, and is building capacity to respond to country requests for support in this area.

International Initiatives: The Bank may consider lending its weight to international and regional action to combat corruption. (It has been offered observer status on the OECD committee seeking to end tax deductibility of bribes, and will discuss the feasibility of developing an anti-corruption convention, possibly with the WTO). The Bank might consult more regularly with the IMF in this area.

Research Agenda: Building on existing work, the Bank might identify specific research topics to research. Some examples:

- Comparative experience of Africa and Asia;

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31 May 1996

CORRUPTION SEMINAR WITH TRANSPARENCY INTERNATIONAL

JUNE 7, 1996

Brief for Bank Participants

Background to Seminar

Emergence of Corruption as a Development Issue

- Corruption has become an issue of aid effectiveness in donor countries, in turn affecting IDA replenishment. The IDA 10 report records deputies calling for greater transparency to improve "effectiveness of resource use and to reduce corruption and waste."
- Corruption is no longer being referred to obliquely in Consultative Group meetings (CGs). In 16 out of 72 CGs chaired by the Bank between January 1993 and April 1996 the theme of corruption was explicitly raised by participants.¹
- The Bank's External Relations Department's surveys revealed how attitudes to aid in rich countries are adversely affected by perceptions of corruption in the poor countries.
- Corruption has become an electoral issue in many developing and transition countries, and new governments have come to power with a mandate for cleaner government. (In others, it remains a sensitive issue)
- A range of initiatives to address corruption at the international level is being taken, such as disallowing in OECD countries tax deduction of bribes to foreign officials.

¹ CGs where the issue of corruption was explicitly raised were for the following countries: Bangladesh, Bolivia, Ethiopia, Kazakhstan, Kenya, Malawi, Mozambique, Romania, Sri Lanka, Tanzania, Uganda, and Zambia.

Mr. Wolfensohn's Meeting with Peter Eigen, February 1996

At a meeting with Peter Eigen, Chairman of TI, in February, Mr. Wolfensohn accepted Transparency International's offer to present its strategy to control corruption in a seminar for senior Bank staff.

Objectives

The primary objective of the seminar is for Transparency International and senior management of the Bank to meet, exchange views, and learn about corruption as an issue of development effectiveness, and how countries can be assisted in controlling it. Underlying this general aim are some specific organizational objectives.

Transparency International's objectives for the seminar:

- Present its rationale for addressing corruption: namely, its adverse impacts on economic decision-making, the poor, the climate for aid, and good governance;
- Explain its strategy at both the national and international levels for assisting countries control corruption;
- Demonstrate how this complements the Bank's agenda and explore areas of future cooperation; and
- Show how TI as an organization has evolved in the three years of its existence, particularly the growth of "national chapters."

Behind the latter is a desire to dispel doubts about TI that have existed in the Bank, perceived as a barrier to closer partnership. In this connection, TI may informally inquire about the status of its request for core budget funding from the Special Grants Program (SGP), submitted in the Fall of 1995 (see below).

The Bank's Objectives for the Seminar:

- Present the Bank's view of corruption, as a phenomenon occurring in both industrialized and developing countries and as a complex issue of development effectiveness for our borrowers.
- Show how Bank actions in the areas of macro-economic policy reform and institution building constitute an anti-corruption strategy (even if we do not specifically label them as such); and

- Outline how we control corruption in Bank-financed projects, and the further steps we are taking to improve loan procedures and documentation. Explain how the Bank has strengthened staff rules. Show how changes in the Bank's processes, via greater transparency and participation, may indirectly contribute to greater accountability and thus less corruption in borrower countries.

Transparency International

TI's Establishment as an NGO

Founded in 1993, TI is registered as an NGO under German law, with headquarters in Berlin. TI's stated aim is coalition building with local stakeholders (including governments), to develop national strategies to combat corruption. In contrast to Amnesty International, TI does not investigate and expose individual acts of bribery. While it works with governments to develop anti-corruption strategies, it will do so only with the backing of civil society, to avoid co-option. It also eschews party politics. It publishes a newsletter giving news of headquarters and local chapter activities, and press summaries of corruption stories from both the developed and developing world.

It has grown fast, albeit with funding strains. It has an international board (Chairman: Peter Eigen, German), with balanced North/South representation, and a small secretariat in Berlin (Managing Director: Jeremy Pope, New Zealander). Its strategy is to form local chapters in both industrialized and developing countries. About 50 have been established, some of which have become very active, obtaining program funding directly from foundations and bilateral donors. Financial support is currently being received from: SIDA, Danida, the Swiss Government, Germany, USAID, ODA, Ford, Nuffield and Rowntree Foundations among others, and some 20 corporations, mostly in the United States.

TI's initial focus was on bribery in international business transactions. This has now broadened to include domestic corruption, in recognition that corruption occurs across a seamless continuum. Its definition of corruption is: "The misuse of public power for private profit." Its emphasis on the "integrity infrastructure" within a country - part of which would be called "ethics in government" in the United States - has taken it in to the area of electoral funding and codes for civil servants and conflict of interest rules for ministers, as well as auditing, financial management, government procurement, and civil service reform. At the same time, arguing that tackling bribery requires a balance of actions in both developed and developing countries it has developed a substantial agenda at the international level, supporting the anti-corruption activities of the OECD, OAS, ICC, EU and the WTO.

Possibilities for Partnership with TI

The rationale for partnership with TI is straightforward. The quality of governance in countries is so central to the outcomes that the Bank seeks, that an NGO aiming to build coalitions to fight corruption at both national and international levels and to assist countries implement anti-corruption strategies, is a natural ally of the Bank in turn a candidate for SGP funding. Partnership could be pursued on two fronts. The first, collaboration at the country (or regional) level, is straightforward. The second, funding of TI's core budget, is a problematic and unresolved issue, which need not be addressed in the June 7 meeting.

Collaboration with TI

TI has collaborated with the Bank in the following ways:

- *Launch of TI:* The Bank, along with bilateral donors and other institutions, was invited to attend (and did so) the launch workshop at the Villa Borsig in Berlin in 1993.
- *Dialogue on Procurement:* TI and the Bank's procurement specialists have produced a document on the Bank's procurement rules.
- *Integrity Workshop:* TI has worked closely with the Economic Development Institute of the Bank in staging "Integrity Workshops" in Jordan, Tanzania, and Uganda. To provide materials for these workshops, EDI commissioned TI to prepare an "Integrity Sourcebook" (see below).

While there are consulting firms that individually can deploy more expertise than TI in areas like civil service reform, accounting and auditing, and government procurement, none has fitted all the pieces together into a coherent anti-corruption strategy, as TI has done with its "Integrity Infrastructure" concept. Consequently, the expectation is that TI will continue to work with the Bank, where country circumstances permit, in workshops and in joint diagnosis and design of country or regional anti-corruption strategies.²

TI's Requests for Financial Support from the Bank:

TI has submitted two requests for core budget funding from the Special Grants Program (SGP), the first in 1994 (\$150,000 for three years), the second in 1995

² Note, however, that TI's recommendation of a "no bribery" pledge is technically controversial to the Bank's own procurement specialists.

(\$300,000 for three years amounting to 15% of TI's target operating budget). Both requests have been controversial, generating equally support and opposition within the Bank. The first request was rejected by the SGP committee, and, again on appeal to the then President, Mr. Preston. The SGP Committee has deferred a decision on the second request, received late in 1995, pending clarification of the Bank's policies in this area.

The principal argument against core budget funding of TI through SGP (engaging TI as a partner or sub-contractor for specific country tasks consistent with the CAS is not an issue) has to do with the links between corruption and political power, and whether associating the Bank's name with TI's actions drawing attention to corruption in specific countries would undermine the Bank's ability to conduct a dialogue with governments on issues as sensitive as corruption.

Other issues that have been raised in connection with core budget funding of TI have included:

- *Level playing field:* The inconsistency in core funding TI from the SGP if TI were later to compete with other organizations as an implementing agent in Bank projects at the country level under current procurement rules.
- *Role of former Bank staff in founding TI:* Both Peter Eigen (Chairman) and Frank Vogl (Vice Chairman, US) are former Bank staff, and there are other former Bank staff have been working with TI. There have been questions whether funding an NGO established by Bank staff might be seen as an improper use of Bank resources. This is seen as less of a concern nowadays, given TI's growth and diversification. TI points out that there have been precedents of former staff associated with organizations receiving SGP funding.
- *Country Corruption Index:* TI, in association with the University of Goettingen, has published a "Country Corruption Ranking" (a composite based on various surveys of international businessmen's perceptions of corruption). It ranks Indonesia, a major Bank borrower, as the most corrupt country out of a sample of 41.³ From TI's perspective it serves to dramatize the phenomenon, and might provide reforming governments a benchmark. Understandably, the Bank on its part, is apprehensive about being seen to sponsor the Country Corruption Ranking of its members if the SGP contributed to TI's core budget. Similar concerns have been raised about the press summaries of corruption in TI's newsletter.

³ The New York Times of 2 June, 1996 reports that, according to TI's latest ranking, Nigeria now tops the list of countries international business people consider the most corrupt. After Nigeria came Pakistan, Kenya, Bangladesh, China, Cameroon, Venezuela, Russia, India, and Indonesia.

- *Integrity Sourcebook*: EDI has co-sponsored with the Ford Foundation a volume of materials on how countries can tackle corruption. Originally envisaged as an EDI publication, it has been published, more appropriately, as a TI document. A shorter version of it circulated in draft as an EDI Working Paper was criticized within the Bank on the grounds that examples of corruption in individual countries based on press reports might convey Bank authenticity, and make it difficult for the Bank to discuss governance issues with such governments. This, of course, was not the responsibility of TI, but reactions to the draft highlight the sensitivity of the topic. The sourcebook remains, however, a unique collection of materials on policies and mechanisms to control corruption and to strengthen government ethics, which have been used as basic reading in joint EDI/TI "Integrity Workshops".

World Bank's Approach to Controlling Corruption

Bank Action in Three Areas:

While the Bank has always sought to control corruption within the projects it finances, increasingly it sees corruption as a critical issue of development effectiveness. There is growing evidence that corruption harms the poor, impairs investment, undermines support for aid and erodes governance. For the Bank, which sets great store on the policy framework, corruption is especially troubling since it undermines public policy. We concur that a multi-faceted strategy is needed to control it centered on addressing the problem systematically, by helping countries to strengthen institutions, improve control, and reduce the scope for corruption. For a long time the Bank, on its part, has never had an explicit "strategy" to control corruption. But we have recognized for many years that corruption is an issue of governance, and have sought to help governments control it, both directly and indirectly.⁴ This is being done in the context of Bank actions in three broad areas: economic policy reform, institutional reform, and the control of corruption within Bank financed projects. In addition, surveys and research directed primarily at other problems are yielding insights into corruption, as a by-product. Combined, these areas of action constitute the Bank's present "strategy" to control corruption.

Economic Policy Reforms

- *Exchange rate, trade regime and financial sector reforms*: Structural adjustment programs, which the Bank has supported for nearly two decades, reduce the scope

⁴ See "Governance and Development" (World Bank, 1992) and "Governance: The World Bank's Experience" (World Bank, 1994). The first discusses corruption as an issue of governance. The second outlines a strategy for controlling it.

for “rent-seeking” by replacing administrative mechanisms (e.g., import licenses, foreign exchange and bank credit allocations) with market mechanisms.

- *Tax reform:* Both by helping countries simplify their tax structures (reducing scope for administrative discretion, increasing transparency) and by strengthening tax administration (reducing evasion and improving financial controls), the Bank helps tackle corruption in customs and tax administration. In countries where civil service capacity has collapsed, the Bank has supported the “enclaving” of revenue activities as a short term measure.
- *Regulatory reform:* Eliminating price controls, simplifying government regulations through sector policy reforms and strengthening the regulation of private and state-owned enterprises operating in non-competitive markets further limits the scope for rents.
- *Privatization:* Likewise, the shifting of activities from the public to the private sector, operating in a competitive environment should curtail rent sharing between government departments and their captive enterprises. More broadly, the scale of the public sector at risk is diminished.

Effectiveness of Economic Policy Reforms to Control Corruption

How effective are such measures as an anti-corruption strategy? This is difficult to answer directly, given that the rationale for structural adjustment has been better economic performance, not the control of corruption. However, there is indirect evidence to support structural adjustment as an effective anti-corruption strategy.

- “Waterbed” effects visible in some countries (for example: eliminating administrative allocation of foreign exchange by exchange rate and financial sector reforms may result in increased “rent seeking” in the customs administration);
- Improved revenue collection efficiency;
- Resistance to reforms by those enjoying rents;
- Evidence from private sector assessments (PSAs - see below) that the scale of bribery is less in sectors exposed to competition.

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Mike Stevens
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31 May 1996

Hovernance

A L L - I N - 1 N O T E

DATE: 21-May-1996 01:50pm

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption,

Ishrat,

To keep you in the loop: you recall last week I told you I was summoned to a meeting in Sven Sandstrom's office to prepare a brief for the forthcoming TI high level seminar on 7 June, following from JDW's meeting with Peter Eigen back in February.

I met with Sven and Lyn Squire last Thursday. Sven wants a brief prepared ahead of the seminar, for JDW and those present. He also wants a presentation on the Bank's approach, to be made after TI has made its case. A decision has not yet been made, so far as I am aware, as to who might make that presentation.

I did a first outline and discussed it yesterday with Lyn, Ajay and Bob Drysdale (at Sven's suggestion). After Sven returns later this week, I am due to meet with him. (This may mean skipping some of the Retreat - it depends on his timetable - I may miss Friday's proceedings).

Simultaneously, I will be working on the text, with a view to having it completed and cleared next week. What we are aiming at is:

- (i). 4-5 page brief for Bank participants
- (ii). 1-2 pages synopsis brief for JDW
- (iii). Presentation notes.

Separately Sven asked me for suggestions on who below the level of MD/VP should be invited. You were among the names. The aim is to keep it compact - those involved in the topic.

There was no discussion of what might lie beyond the TI presentation. (Sven had talked to Jane about a possible Development Committee paper). I guess Sven wants to see how things go with the TI seminar first.

I had a call this morning from Mr Shihata, reacting to Sven's circular EM to certain MDs/VPs about the TI seminar, offering Legal's assistance with material for the note. I met

with him later this morning - and he gave me a lot of material, some of which I was broadly familiar with on the external side, plus internal material (eg: tightening of staff rules). He was very accommodating.

Armean called by - I told him how things were proceeding, and that, of course, I would share the draft brief. His concern was that if HCDVP is given the responsibility of coordinating the Bank's anti-corruption work/developing a policy, we should also be given the resources (unlike Post conflict) - sentiments we all endorse.

Mike

CC: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

International Bank for Reconstruction and Development

JA
Do we know about this?
MH/MS?

SecM96-525

May 20, 1996

FROM: Vice President and Secretary

NOTICE OF INVITATION TO NEGOTIATE

JAMAICA

PUBLIC SECTOR MODERNIZATION PROJECT

The Bank is inviting Jamaica to send representatives to the World Bank Resident Mission, Kingston, Jamaica, to negotiate a proposed Loan of US\$28.4 million equivalent to help finance a Public Sector Modernization Project. *Yes. I have been following both this project and earlier PSDM reforms quite closely, and have been a peer reviewer of the present one. It is interesting insofar as it is an example of NPM concepts being transferred to a developing country - in this case the UK agency model.*

The Loan would help finance (a) the modernization of public sector agencies and ministries, on a pilot basis; (b) technical assistance for privatization of the water and sewerage sector and other facilities and services, besides institutional strengthening of the National Investment Bank of Jamaica (NIBJ), the lead agency for privatization; (c) strengthening of government procurement, contracting, internal control and auditing; (d) further development and extension of the Financial Management Information System (FMIS) and Human Resource Management Information System (HRMIS); and (e) project implementation, carrying on of an effective communication campaign to facilitate project execution, and development of the next stage of public sector modernization.

Distribution:

Executive Directors and Alternates
President's Executive Committee
Senior Management, Bank, IFC, and MIGA

W. M. W.
29 May.

A L L - I N - 1 N O T E

DATE: 20-May-1996 09:47am

TO: Arturo Israel (ARTURO ISRAEL@A1@WBHQB)

FROM: Mike Stevens, PSP (MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: PSM Staffing Group

Arturo,

It was good to have lunch on Monday and talk about PSM, the Bank and what you might most usefully do.

Subsequently I spoke with Ishrat. His priority is that you should make an assessment of the current and future demands on PSM in the Bank. This should be done primarily by talking to a broad cross sample of PSM specialists and non-specialist task managers throughout the Bank, and by the preparation of a report for him as chairman of the PSM SG. We can then have a session of the SG to discuss the findings.

This means addressing questions such as:

- 1). - What are the types of PSM work currently being undertaken, region by region? (What's needed is not so much a numerical survey of projects and ESW - we already have pretty good information on this - but rather where those involved believe emphasis is being placed).
- 2). - Can any changes be foreseen, region by region - either in terms of what countries are saying to the Bank, or what Bank staff, specialists and non-specialists anticipate?
- 3). - What issues are arising from this work?
- 4). - How well placed is the Bank to undertake this work - in terms of number of staff available and their skills and experience? (We have detailed numbers following the analysis done by Alberto de Capitani and Paulo Gallo last year for the SG).
- 5). - What can be said about the large amount of Bank sector lending and studies being undertaken by non-specialist staff which have (knowingly or unknowingly) significant PSM or ID implications? (cf the FY94 Annual Report on PSM done by OPR which estimated at least 200 out of 228

operations in the year had significant PSM elements).

- 6). - What is the capacity of the PSM technical units in the regions and the PSM unit in PSP to respond to Bankwide demands for PSM skills and advice, and how could this be enhanced? Are there issues that should be addressed which are not, are there skills that are needed that are absent?
- 7). - As the Bank changes its budgetting, internal processes and organizational structures to become more responsive to its clients, shifting to internal contractual arrangements to better support country managers, how will this affect PSM, and what steps need to be taken in the coming years to strengthen the cadre to meet the challenge?

The expected output of the work would be a 10-15 page report, with recommendations, for the chairman of the PSM SG. The work should be completed in 15 working days, inclusive of participating in the PSM SG discussion of the report.

We talked about some other tasks:

- 1). Reviewing the present Institutional Development training course material, as delivered last year, recommending what modifications may be necessary, and providing the PSM Unit in the centre assistance in delivering the training later in FY97.
- 2). Helping identify themes for the annual PSM Symposium, identifying speakers, and assisting the LLC with the organizational arrangements.
- 3). Reviewing the present PSM Consultants list, and make recommendations as to how it could be updated and placed on a better footing.

I have a particular interest in the last task, which I have viewed as critical for some time. The present list is a consolidation of informal lists kept by the various PSM Units, and is an improvement on what existed before. But it needs updating, there is serious miss-classification, and many omissions. There is also no tracking of work done by consultants for the Bank, and any assessment of performance.

If the Bank is to move to the type of model now being piloted in Africa, and contestability between internal and

external PSM specialists is sharpened, we can anticipate increased demand for names of good consultants. Furthermore, the greater the incentives for outsourcing, the more the Bank's reputation will hang on its ability to deploy highest quality consultants. The list in its present form does not enable us to do this.

Also, if well-performing government is increasingly seen as one of the foundations of sustainable development, on the one hand, and the Bank is to enhance its reputation as a knowledge-based institution, on the other, the roster of PSM consultants is going to have to be deepened.

Our suggestion is that you turn to the PSM Consultants list after the first task, assessing PSM needs and directions, is completed and discussed by the PSM SG.

Mike

CC: ISHRAT HUSAIN	(ISHRAT HUSAIN@A1@WBWASH)
CC: Jane Armitage	(JANE ARMITAGE@A1@WBHQB)
CC: BARBARA NUNBERG	(BARBARA NUNBERG@A1@WBWASH)
CC: Paolo Gallo	(PAOLO GALLO@A1@WBHQB)

Josie - file?

Yes, Governance

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: May 20, 1996 10:06am

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Armeane Choksi, HCDVP

(ARMEANE CHOKSI@A1@WBHQB)

EXT.: 31811

SUBJECT: FYI - Attached

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: May 18, 1996 02:40pm EST

TO: MIKE STEVENS (MIKE STEVENS@a1@WBHQB)

FROM: Sven Sandstrom, EXC (SVEN SANDSTROM@a1@WBWASH)

EXT.: 81138

SUBJECT: Transparency International and Corruption
June 7 seminar

Mike,

I spoke to Peter Eigen yesterday. He told me the following about their plans for the June 7 seminar with Jim and others.

First, their team is likely to include: Peter, Pope, Heiman, Vogl, and (possibly) Ms. Merino from Ecuador. So, max five right now.

Second, he proposed the following agenda, based on my earlier suggestions: 1. Peter speaks broadly about corruption (how widespread, damage, responsibilities, etc); 2. Heiman talks about solutions in / from the North and what organizations in the North are doing; 3. Pope takes up solutions in the South, and the TI Sourcebook; 4. Merino gives a LAC perspective; and 5. Peter and Frank Vogl describe programs for strengthening actions by donors and others. There would be a discussion of each point as we move along.

We agreed that the Bank team should come in at the end (as Item 6 on the agenda; I said we are the hosts so we should be last..) with a statement on the Bank's perspective and actions, followed by a free discussion. The briefing note you and I discussed with Lyn on Thursday would be a good base for this (and I think that note could help guide the follow-up work if we get the conceptual framework right).

Peter will work more on the agenda and fax it to me by Wednesday and we will speak again on Thursday when I'm back.

Our list of Bank participants already include: Jim, Rachel, Gautam, Ibrahim, Jules, Mike Stevens, Sven -- i.e., 7.

Vinod Thomas (EDI) and Ajay Chhibber (WDR) should also attend (Josie, please invite them asap) -- 9.

The following should be considered: Chris Walser (up to Ibrahim), Susan Rose Ackerman, and Alfonso Sanchez (with Srini away).

Regional participation? Bob Drysdale, Jean-Louis or Cal, Russ?

Also, shouldn't Richard Frank and / or IFC participate??

Advise on participation would be appreciated, from recipients of this EM. We should not have too big a group, though.

I'm glad you will prepare an annotated outline of the briefing note by the time I return on Wednesday. Ibrahim and Jules may want to provide you with further inputs (although I think you have followed this subject so closely that you have all or most of what's needed).

Many thanks for your help,

Sven

CC: Ibrahim Shihata	(IBRAHIM SHIHATA@A1@WBWASH)
CC: Jules Muis	(JULES MUIS@A1@WBWASH)
CC: Josie Bassinette	(JOSIE BASSINETTE@A1@WBWASH)
CC: Ishrat Husain	(ISHRAT HUSAIN@A1@WBWASH)
CC: ARMEANE CHOKSI	(ARMEANE CHOKSI@A1@WBHQB)
CC: LYN SQUIRE	(LYN SQUIRE@A1@WBHQB)
CC: ROBERT S. DRYSDALE	(ROBERT S. DRYSDALE@A1@WBHQB)
CC: GAUTAM KAJI	(GAUTAM KAJI@A1@WBHQB)
CC: EXCMD C	(EXCMD C@A1@WBWASH)

A L L - I N - 1 N O T E

DATE: 17-May-1996 12:47pm

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Human Rights

Ishrat,

Concidentally, after your note about links with the Commonwealth Secretariat, I had a call just now out of the blue from an old friend - John Syson, who is now Special Adviser in the Political Affairs Division of the Secretariat, and is organizing a workshop on human rights early July. He would like the Bank to be representated. I briefed him on who was working on HR, gender, NGO, participation issues in this area - and he is likely to write to you next week formally inviting the Bank.

I was cautious about our ability to attend - given time and budget constraints. But in the spirit of partnership, I encouraged him to write to the Bank. The workshop is pitched at the working level, (Mr Shihata giving his address on what the Bank's policy is, would be pitching it too high). The thrust of the workshop is how donor assisted policies, programs and projects can help advance the HR agenda.

Mike

file -
Governance

A L L - I N - 1 N O T E

DATE: 14-May-1996 04:50pm

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

TO: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

FROM: Mike Stevens, PSP

(MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: CORRUPTION

Ishrat,
Jane,

You have both been sending me copies of EMs between Rachel Lomax, Mark Malloch-Brown and Jules Muis on the Bank's WG on Bribery, and Bank strategy on this issue.

On a parallel track, picking up on my EM to Myrna, copied to Legal, Christian Walser sent me a copy of his early draft on changes proposed to Bank loan documents to tighten control against corruption. Attached is my reply. I am not per se against what is proposed. We have a fiduciary responsibility to take care of. Rather, the main thrust of the Bank's strategy in this area is to help countries control corruption themselves. Building up the Bank's policeman role has a value, but would take us in the wrong direction if it were the main response of the Bank.

This seems similar to the point made by Mark Malloch-Brown about keeping "separate the essentially technical, Bank specific nature of (WB procurement issues) from the categories of (international legal framework and overall political/moral framework) for which we need an overall strategy".

Mike

A L L - I N - 1 N O T E

DATE: 13-May-1996 11:07pm EST

TO: CHRISTIAN H. WALSER (CHRISTIAN H. WALSER@A1@WBWASH)

FROM: Mike Stevens, PSP (MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: Corruption and World Bank Loan Documents

Christian,

You asked me for comments on the first draft of a paper for the Board on how the Bank's loan documents might be tightened to heighten the penalties and remedies against corruption encountered under Bank financed projects.

In general terms, I can see what is driving the paper, and why it is necessary to respond. Specifically, within their respective contexts the proposals make sense (I assume you have thought fully about the risks to the Bank of bidders taking issue with the Bank and threatening counter action).

More generally, following on from my earlier EM to Myrna, I have worries about a reaction that seeks to bolster the Bank's remedies against corruption rather than strengthen country remedies.

1). Amendments to General Conditions:

The paper makes it clear that we can't cancel a loan for "misprocurement" reasons, if we have reason to believe a bidder has bribed/ colluded with borrower staff over contract award, on the grounds that "misprocurement" per se has not happened yet - insofar as the contract has not been awarded. The proposal is to allow the Bank to cancel a loan (or a part of it) if there is evidence of corruption during award or during implementation of a contract.

I don't have a problem with the Bank having such power, the issue to me is how it will be exercised. Whilst we have a fiduciary responsibility to ensure that the money we provide is used uncorruptly, we should be encouraging borrower action to control corruption in contract award or implementation. Could we not introduce wording to the effect that the proposed powers will not be invoked until we have determined the government has failed to act to remedy the situation? It could happen that a bidder and borrower staff collude to bias an award, this is brought to the attention of the government, which then acts promptly to discipline staff and disqualify the bidder. We should not under such circumstances cancel all or part of the loan.

2). Amendment to Model Forms of Loan Agreements:

The paper points out that while under existing time-based consultants' contracts, the government has a right to audit the consultants' books to ensure time is being logged and billed properly, this is rarely, if ever, used by borrowers - presumably because of the cost of appointing auditors. The paper proposes including a provision that would give the Bank a right to carry out audits. It also floats the notion of similar arrangements for works contracts and goods contracts (the latter, for eg: through Bank commissioned pre-shipment inspection).

Again, I can see how the above actions may be necessary from a fiduciary perspective, and in terms of the Bank being able to say to the world at large that it does all in its powers to control corruption under Bank financed projects. The PSM question is whether we should play the role of policeman. The aim, surely, is to encourage governments routinely to audit consultants' time recording, contractors' records of works contracts, and selective pre-shipment inspections of goods contracts. Have we done enough in terms of : (i) allowing audits as a loan expense, (ii) stressed the importance of supervision of works contracts during negotiations, and, (iii) encouraged pre-shipment inspection of goods contracts during supervision? In short, we need to provide stronger incentives for governments themselves to do such things as routine good public management. In the country dialogue, truthfully, how much weight do we attach to such matters?

3). Amendment of Procurement and Consultants Guidelines:

As a residual power, maybe the Bank should have the right to penalize a consultant who behaved unethically (eg: qualifications of a proposed team) or otherwise engaged in corrupt practices. My question is: what steps are proposed to have governments take action first?

4). Amendment of SBD:

Standardization of anti-corruption provisions across all Bank SBDs makes obvious sense. Disclosure of agents' commissions has a logic. Beyond this is the broader PSM point - should we require governments seeking Bank finance for projects to conform with a global Bank standard (present practice) or should we be thinking more in terms of supporting country practice, granted that it varies, provided it conforms with basic principles of good procurement. There is a tension between the two approaches, obviously. I believe this needs to be discussed.

Mike

CC: Malcolm Holmes

(MALCOLM HOLMES@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 09-May-1996 09:55am

TO: Malcolm Holmes

(MALCOLM HOLMES@A1@WBHQB)

FROM: Ajay Chhibber, WDR

(AJAY CHHIBBER@A1@WBHQB)

EXT.: 34869

SUBJECT: PSM : CODE Paper

Malcolm,

I hope you received my marked-up comments on the para dealing with the WDR 97.

On the paper more broadly it reads very well and I learnt a lot on it.

A few comments :

Perhaps the focus is too much on the new reformers - largely English speaking countries but there are also Japan, germany etc which have run very effective systems for some time now.

On developing countries I found the summary of remaining agenda very useful but perhaps some summary analysis of what has been tried- what has worked and not worked would also be useful.

At the moment it appears we are starting on a clean slate.

Ajay

CC: Mike Stevens

(MIKE STEVENS@A1@WBHQB)

CC: Jane Armitage

(JANE ARMITAGE@A1@WBHQB)

CC: ISHRAT HUSAIN

(ISHRAT HUSAIN@A1@WBWASH)

Governance

L - I N - 1 N O T E

DATE: 08-May-1996 12:11pm

TO: ISHRAT HUSAIN

(ISHRAT HUSAIN @A1@WBWASH)

FROM: Armeane Choksi, HCDVP

(ARMEANE CHOKSI)

EXT.: 31811

SUBJECT: FYI - Attached

CC: Josephine Carreon

(JOSEPHINE CARREON)

L L - I N - 1 N O T E

DATE: 07-May-1996 03:02pm EST

TO: Rachel Lomax (RACHEL LOMAX@A1@WBWASH)

FROM: Jules Muis, CTRVP (JULES MUIS@A1@WBWASH)

EXT.: 81674

SUBJECT: OECD Working Group on Bribery

To follow up on my April 17 EM to you (attached, together with Mark's reaction) re the above, I wonder if you and I could speak briefly when you return from mission toward the end of this month. I think it's important that the Bank not drop the ball tossed to it last month by the OECD Working Group on Bribery, and proceed with establishing on a formal basis our "observer" status.

CC: ARMEANE CHOKSI	(ARMEANE CHOKSI@A1@WBHQB)
CC: Mark Malloch Brown	(MARK MALLOCH BROWN@A1@WBWASH)
CC: GAUTAM KAJI	(GAUTAM KAJI@A1@WBHQB)
CC: Ibrahim Shihata	(IBRAHIM SHIHATA@A1@WBWASH)

L L - I N - 1 N O T E

DATE: 18-Apr-1996 12:37pm EST

TO: Rachel Lomax (RACHEL LOMAX@A1@WBWASH)

FROM: Mark Malloch Brown, EXTVP (MARK MALLOCH BROWN@A1@WBWASH)

EXT.: 85914

SUBJECT: OECD Working Group on Bribery

Rachel:

I think this is a good idea; but having also attended part of this meeting we must operate on a number of levels:

1. WB procurement issues which Jules is referring to.
2. Overall international legal framework where we have to watch the extent this is becoming an "American" issue versus European competitors.
3. Overall political/moral climate on corruption where if we manage (2) right we have a pulpit on what Moises Naim calls the "corruption eruption."

To play 2 and 3 right we just have to keep separate the essentially technical, Bank-specific nature of 1 from the latter two categories for which we need an overall strategy.

Mark

CC: ARMEANE CHOKSI	(ARMEANE CHOKSI@A1@WBHQB)
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CC: Ibrahim Shihata	(IBRAHIM SHIHATA@A1@WBWASH)
CC: Jules Muis	(JULES MUIS@A1@WBWASH)

L L - I N - 1 N O T E

DATE: 17-Apr-1996 04:40pm EST

TO: Rachel Lomax (RACHEL LOMAX@A1@WBWASH)

FROM: Jules Muis, CTRVP (JULES MUIS@A1@WBWASH)

EXT.: 81674

SUBJECT: OECD Working Group on Bribery

Rachel, yesterday I met with Prof. Mark Pieth, chairman of the OECD's Working Group on Bribery. Nancy Zucker Boswell of the US chapter of Transparency International arranged the meeting. I believe she also arranged for one with Ibrahim.

Prof. Pieth is a criminal lawyer on the faculty of Basle University in Switzerland. The OECD Working Group on Bribery has for the past 2-3 years been focusing on the tax deductibility of bribes (with great success, in that a resolution was passed recently to require the banning of such tax treatment or corporations' disclosure of amounts paid and to whom), and the criminalization of bribery of foreign officials and of money laundering.

The OECD Working Group on Bribery is now turning its attention to financial accounting and auditing issues, and later to public procurement. Noting that a number of international organizations have observer status at this Working Group's sessions, Prof. Pieth invited the World Bank to do the same. I think this would be an excellent idea, and I told him TR would follow up on this end and with the contact he gave us at the OECD.

I'm looking to you for guidance on next steps. Perhaps Mike Stevens (a public sector management specialist in PSP of Armeane's VPU, and the task manager of the Bank's governance paper a few years ago) would be a good choice to serve as the Bank's official observer. I know that he and Christian Walser (LEG's procurement law specialist) represented the Bank at an OECD meeting on bribery in March 1995. My own bias is that it would be preferable to name someone with an operational real-world perspective.

I could certainly take this up with Armeane myself, but I think it would be better coming from EXC. What do you think?

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CC: GAUTAM KAJI (GAUTAM KAJI@A1@WBHQB)
CC: Ibrahim Shihata (IBRAHIM SHIHATA@A1@WBWASH)

A L L - I N - 1 N O T E

DATE: 08-May-1996 12:11pm

TO: ISHRAT HUSAIN

FROM: Armeane Choksi, HCDVP

EXT.: 31811

SUBJECT: FYI - Attached

CC: Josephine Carreon

(ISHRAT HUSAIN@A1@WBWASH)

(ARMEANE CHOKSI@A1@WBHQB)

(JOSEPHINE CARREON@A1@WBHQB)

JA/MS ✓ok
FYI 5/13
J
5/8

A L L - I N - 1 N O T E

DATE: 07-May-1996 03:02pm EST

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CC: Ibrahim Shihata (IBRAHIM SHIHATA@A1@WBWASH)

OFFICE MEMORANDUM

MAY 3 1996 (1082)

11
File: Governance
(MS + MH cc'ed)

DATE: May 2, 1996

TO: Distribution

FROM: Malcolm D. Rowat, Chief, LATPS

EXTENSION: 3-9380

SUBJECT: **TOR for Preparation of Technical Note on Corporate Governance**

Attached is a draft TOR for the preparation of a technical note on corporate governance on which we would appreciate your comments. Given the fact that we only anticipate using eight staff weeks, we are not proposing to go through the process of a formal IM.

Distribution:

Messrs./Mmes. S. Aiyer (LATDR); H. Shah (LATAD); R. Lacey, M. Lubrano (LA2PS); K. Challa (LA3PS); P. Meo (LA1PS); D. Webb (LEGPS); J. Collell (LEGLA); I. Husain, M. Stevens, M. Holmes (PSP); C. Gray, J. Nellis (WDR); P. Siegelbaum (EC4EF); M. Iskander, R. Khemani, A. Ewing, I. Lieberman (PSD); LAC Files; LATPS Files.

TERMS OF REFERENCE FOR CORPORATE GOVERNANCE STUDY

Background

The legal framework for corporate governance in many Latin American countries has been cited as an obstacle to effective management and as a factor in the high cost of finance. The degree of definition and enforceability of rights of various parties (both investors and third parties) is deficient in many cases. In law and in practice, the access of securityholders to accurate information about companies is limited and it is difficult for them to protect themselves from efforts of controlling shareholders to take more than their share of the profits (through related party transactions, or otherwise). The lack of an adequate legal framework for corporate governance and the scarcity of public information about companies have been cited as contributing to concentration of corporate ownership, poor management, difficulties in obtaining finance and uneven development of capital markets in the region.

Most enterprises in Latin America continue to operate as family or closely-held companies. Few medium-sized companies are widely held or listed on stock exchanges. Shares of subsidiaries of holding companies are rarely offered to the public. There are only about 500 publicly listed companies in Argentina and less than 200 in Mexico. Even those large companies with significant numbers of shares floated in the domestic and international markets are usually firmly under the control of a family or group of individuals which represent a substantial majority of the voting shares. The information that Latin American corporate managers make available to minority shareholders and the public at large is significantly more limited than is typical in more developed economies. Lack of transparency in certain accounting practices contributes to uncertainty about the financial condition of companies and volatility in the pricing of their securities.

The Study

The study will begin with a review and analysis of the legal framework for corporate governance in selected Latin American countries. Topics which will receive special treatment include: corporate forms; respect for corporate separateness; voting rights; other shareholder rights; authority of directors and managers; the business purpose rule; accounting principles; auditing standards; information disclosure and public and private oversight of listed companies. The study will assess both the state of the law and the practical realities of enforcement. Special attention will be paid to issues of related-party transactions and protection of the rights of minority shareholders.

The study will then go on to examine in general terms the effects of the current state of corporate governance in the region. How are companies typically organized? What types of holding company structures predominate? What sorts of shareholding patterns are typical? What sort of information (accounting and otherwise) is made available to shareholders and the public? Has this limited the financing options for large, medium and small enterprises? What has been the effect on the profile of debt and equity finance and the development of regional capital markets? What types of disputes have arisen over corporate governance issues? How have these been resolved?

The last part of the study will assess the options for improving corporate governance in the region and make general recommendations for reform. What improvements in corporate governance, disclosure, accounting practices and auditing standards would have the greatest impact on investment and the costs of finance? What steps can be taken that would result in more effective decision making and management of companies? In addition to "stroke of the pen" legal/regulatory reforms, what are the institution-building issues that need to be addressed (e.g., regulatory agencies, private sector infrastructure, judicial capacity)?

Throughout, the study will make appropriate comparisons with experiences outside the region. In particular, the examples of the rather diverse OECD corporate governance regimes, recent reviews of the companies acts of former British colonies and recent work done on this topic in Eastern Europe and the Newly Independent States will provide important inputs.

Budget and Timing

The preparation of the study is expected to involve approximately one month of staff time and one month of consultant services. The Department's Auditing and Financial Management Specialist would contribute importantly to the aspects of the study addressing auditing standards. It is anticipated that much of the work can be done from Washington, but that the study would benefit significantly from direct contact with government officials, private sector representatives and legal practitioners during one field trip to the region (probably concentrated in the Southern Cone countries). The total budget for the study (exclusive of staff time) will be approximately US\$20,000.

A L L - I N - 1 N O T E

DATE: 18-Apr-1996 04:49pm

TO: Armeane Choksi

(ARMEANE CHOKSI@A1@WBHQB)

FROM: Oey Astra Meesook, PSP

(OEY ASTRA MEESOOK@A1@WBHQB)

EXT.: 34872

Sent By: Maria Paz Felix

SUBJECT: OECD Working Group on Bribery - FYI

Armeane:

I asked Mike Stevens for his reaction and am forwarding you his response. I read it to be a "yes" but he does want us to register that he is busy!

Oey

CC: ISHRAT HUSAIN, o/r

(ISHRAT HUSAIN@A1@WBWASH)

A L L - I N - 1 N O T E

DATE: 18-Apr-1996 04:24pm EST

TO: Oey Astra Meesook (OEY ASTRA MEESOOK@A1@WBHQB)

FROM: Mike Stevens, PSP (MIKE STEVENS@A1@WBHQB)

EXT.: 37493

SUBJECT: OECD Working Group on Bribery

Oey,

You asked me for my reaction to Jules Muis' suggestion that the Bank take up the offer of observer status in the OECD WG on Bribery, and that I serve as the Bank's representative.

It is logical, and consistent with the PSM Unit's governance mandate, and my prior involvement in the issue, and attendance at last year's OECD conference. Following that, the OECD proposed an informal contact group of the international organizations involved in the conference, and asked me to be the point of contact for the Bank (which I agreed - though not much was forthcoming). Naturally, I have been following what the OECD has been doing (a text of the most recent agreement is on its way to me). Obviously I have a strong interest.

A few qualifications: I already serve on the Bank's WG on PDGG (participatory development and good governance), though this is due to wrap up end '96, with approx one more meeting to go. Second, if the WG is getting into financial accounting and auditing issues, and then procurement, I am a specialist in neither, but I do have a view of their role in public management and the issues involved. Malcolm and I have been in dialogue with the accountants in the Bank and their participation in the work of IFAC and INTOSAI on accounting and auditing standards. Third, there's a time cost. I would expect two meetings a year, allowing for coming and going and preparation, that's 5% of an already crowded WP.

Mike

CC: Jane Armitage (JANE ARMITAGE@A1@WBHQB)

A L L - I N - 1 N O T E

DATE: 18-Apr-1996 06:32pm

TO: Oey Astra Meesook (OEY ASTRA MEESOOK@A1@WBHQB)

FROM: Armeane Choksi, HCDVP (ARMEANE CHOKSI@A1@WBHQB)

EXT.: 31811

SUBJECT: RE: OECD Working Group on Bribery - FYI

Oey:

Let's wait before finalizing anything.

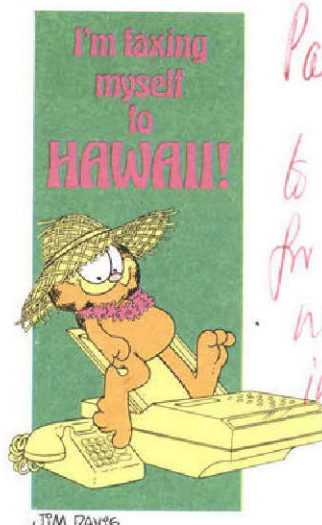
Armeane

CC: ISHRAT HUSAIN, o/r (ISHRAT HUSAIN@A1@WBWASH)

✓ APR 18 1996 900827
~~CM~~
~~MS~~
141 (o/r)

THE WORLD BANK GROUP

ROUTING SLIP		DATE: April 18, 1996	
NAME			ROOM. NO.
Ishrat Husain			
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
☒	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: OECD Working Group on Bribery			
REMARKS: Ishrat: What do you think? Armeane			
FROM Armeane M. Choksi		ROOM NO. S13-131	EXTENSION 31811



Pat: Please show this
to Mike Stevens & ask
for his reaction - his
name is mentioned
in the EM.

L - I N - 1 N O T E

DATE: 17-Apr-1996 04:40pm

TO: Rachel Lomax

(RACHEL LOMAX@A1@WBWASH)

FROM: Jules Muis, CTRVP

(JULES MUIS@A1@WBWASH)

EXT.: 81674

SUBJECT: OECD Working Group on Bribery

Rachel, yesterday I met with Prof. Mark Pieth, chairman of the OECD's Working Group on Bribery. Nancy Zucker Boswell of the US chapter of Transparency International arranged the meeting. I believe she also arranged for one with Ibrahim.

Prof. Pieth is a criminal lawyer on the faculty of Basle University in Switzerland. The OECD Working Group on Bribery has for the past 2-3 years been focusing on the tax deductibility of bribes (with great success, in that a resolution was passed recently to require the banning of such tax treatment or corporations' disclosure of amounts paid and to whom), and the criminalization of bribery of foreign officials and of money laundering.

The OECD Working Group on Bribery is now turning its attention to financial accounting and auditing issues, and later to public procurement. Noting that a number of international organizations have observer status at this Working Group's sessions, Prof. Pieth invited the World Bank to do the same. I think this would be an excellent idea, and I told him TR would follow up on this end and with the contact he gave us at the OECD.

I'm looking to you for guidance on next steps. Perhaps Mike Stevens (a public sector management specialist in PSP of Armeane's VPU, and the task manager of the Bank's governance paper a few years ago) would be a good choice to serve as the Bank's official observer. I know that he and Christian Walser (LEG's procurement law specialist) represented the Bank at an OECD meeting on bribery in March 1995. My own bias is that it would be preferable to name someone with an operational real-world perspective.

I could certainly take this up with Armeane myself, but I think it would be better coming from EXC. What do you think?

CC: ARMEANE CHOKSI
CC: Mark Malloch Brown
CC: GAUTAM KAJI
CC: Ibrahim Shihata

(ARMEANE CHOKSI@A1@WBHQB)
(MARK MALLOCH BROWN@A1@WBWASH)
(GAUTAM KAJI@A1@WBHQB)
(IBRAHIM SHIHATA@A1@WBWASH)

*141.
What do you think? A*

A L L - I N - 1 N O T E

DATE: 18-Apr-1996 04:24pm

TO: Oey Astra Meesook

(OEY ASTRA MEESOOK)

FROM: Mike Stevens, PSP

(MIKE STEVENS)

EXT.: 37493

SUBJECT: OECD Working Group on Bribery

Oey,

You asked me for my reaction to Jules Muis' suggestion that the Bank take up the offer of observer status in the OECD WG on Bribery, and that I serve as the Bank's representative.

It is logical, and consistent with the PSM Unit's governance mandate, and my prior involvement in the issue, and attendance at last year's OECD conference. Following that, the OECD proposed an informal contact group of the international organizations involved in the conference, and asked me to be the point of contact for the Bank (which I agreed - though not much was forthcoming). Naturally, I have been following what the OECD has been doing (a text of the most recent agreement is on its way to me). Obviously I have a strong interest.

A few qualifications: I already serve on the Bank's WG on PDGG (participatory development and good governance), though this is due to wrap up end '96, with approx one more meeting to go. Second, if the WG is getting into financial accounting and auditing issues, and then procurement, I am a specialist in neither, but I do have a view of their role in public management and the issues involved. Malcolm and I have been in dialogue with the accountants in the Bank and their participation in the work of IFAC and INTOSAI on accounting and auditing standards. Third, there's a time cost. I would expect two meetings a year, allowing for coming and going and preparation, that's 5% of an already crowded WP.

Mike

CC: Jane Armitage

(JANE ARMITAGE)

A L L - I N - 1 N O T E

DATE: 19-Apr-1996 05:52pm

TO: Armeane Choksi

(ARMEANE CHOKSI@A1@WBHQB)

FROM: Oey Astra Meesook, PSP

(OEY ASTRA MEESOOK@A1@WBHQB)

EXT.: 34872

Sent By: Maria Paz Felix

SUBJECT: RE: OECD Working Group on Bribery - FYI

Armeane:

Right. Mr. Muis has not contacted you in any case, I
don't think.

Oey

CC: ISHRAT HUSAIN, o/r

(ISHRAT HUSAIN@A1@WBWASH)

APR 16 1996 878

The World Bank
Washington, D.C. 20433
U.S.A.

ARMEANE M. CHOKSI
Vice President
Human Capital Development

April 12, 1996

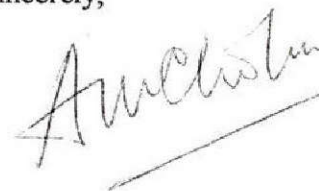
Mr. Ibrahima Fall
Assistant Secretary-General for Human Rights
Centre for Human Rights
United Nations Office at Geneva
Palais des Nations
CH-1211 Geneve 10
Switzerland

Dear Mr. Fall,

Thank you for your letter of 26 March to the President asking whether the World Bank wished to submit information on "the impact of the working methods of transnational corporations on the full enjoyment of all human rights, in particular economic, social and cultural rights and the right to development, for consideration in the preparation of this report.

We do not monitor human rights performance of transnationals or other entities, and therefore have no information to submit.

Sincerely,



Mr. Ibrahima Fall

-2-

4/12/96

bcc: Messrs./Mmes. I. Husain, J. Armitage, M. Stevens, M. Holmes (PSP); L. Forget (LEGAD); L. Pachter (UNAVP).

Mstevens:vm

o:\registry\psp\HCO-143

April 12, 1996

THE WORLD BANK GROUP

ROUTING SLIP		DATE: April 12, 1996	
NAME			ROOM. NO.
Mr. Armeane Choksi, HCDVP			S13-131
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☒	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☒	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Response to Mr. Ibrahima Fall, Assistant Secretary-General, UNCHR. Letter of 26 March (EXC-07880/HCO-143).			
REMARKS: Please see attached.			
FROM Ishrat Husain, PSPDR		ROOM NO. S10-051	EXTENSION 81415

Cleared by: Jane Armitage, Manager, PSP
 Drafted by: Mike Stevens (Vicky, x82848)

04/09/9605:12:31 PM, HCOVP

APR 9 1996 (878) (LAW 31)

→ JN/m Stego

**Correspondence Management for HCDVP
CHORUS
Correspondence Profile**

Reference #: HCD-00143
EXC-07880

For Action: Husain Unit: PSP Room #: S 10-051 Telephone: 81415	Log Date: 04/09/96 Status: Open Response Date:
--	---

Correspondence Description:

From: United Nations Centre for Human Rights To: Mr. Wolfensohn Dated: 03/26/96 Topic: Resolution 1995/31
--

Action Instructions

Due Date: 04/19/96

1. Please handle/respond on behalf of Mr. Choksi and provide a copy.

Special Instructions

None

Information Copies:

Please return to: Armeane M. Choksi - HCDVP S13-131 The final response document should be saved as O:\registry\[department]\HCO00143 (eg. O:\registry\hdd\HCO00143).
--

**CORRESPONDENCE MANAGEMENT FOR THE PRESIDENT'S OFFICE
CHORUS**

External Correspondence Profile

Reference #: EXC-07880

For Action: Michael Stevens

VPU: Room #: Telephone:

Log Date: 04/09/96 02:58:34 PM

Status: **Filed**

Response Date:

CORRESPONDENCE DESCRIPTION:

From: United Nations Centre for Human Rights

To: Mr. Wolfensohn

Dated: 03/26/96

Topic: Resolution 1995/31

ACTION INSTRUCTIONS:

5. For information.

SPECIAL INSTRUCTIONS:

None

INFORMATION COPIES:

For information, please contact:

Rachel McColgan-Mohamed, EXC, E1247, 82441

HNBP
96 APR -9 PM 4:15



CENTRE POUR LES DROITS DE L'HOMME

Télégrammes: UNATIONS, GENÈVE
Télex : 41 29 62
Téléphone : 917 1234 - 917 3958
Téléfax : (22) 917 0212

Réf. N° : G/SO 214 (16-4-1)
(à rappeler dans la réponse)

CENTRE FOR HUMAN RIGHTS

880
Palais des Nations
CH-1211 Genève 10



26 March 1996

Dear Madam/Sir,

I would like to draw your attention to resolution 1995/31 adopted by the Sub-Commission on Prevention of Discrimination and Protection of Minorities on 24 August 1995, entitled "The relationship between the enjoyment of human rights and the working methods and activities of transnational corporations." A copy of the resolution is attached herewith.

81 2 6 In paragraph 2 of that resolution, the Sub-Commission requested the Secretary-General to prepare for its consideration at its forty-eighth session a report on the impact of the activities and working methods of transnational corporations on the full enjoyment of all human rights, in particular economic, social and cultural rights and the right to development, bearing in mind existing international guidelines, rules and standards relating to the subject matter.

→ In paragraph 3 of the resolution, the Sub-Commission also requested the Secretary-General to invite Governments and intergovernmental organizations and non-governmental organizations to submit information on the impact of the working methods and activities of transnational corporations on the enjoyment of human rights, in particular economic, social and cultural rights and the right to development, for consideration in the preparation of his report.

I would be grateful if any information you may wish to provide for inclusion in the report could be forwarded to the Centre for Human Rights, United Nations Office at Geneva, CH-1211 Geneva 10, if possible by 30 April 1996.

Yours sincerely,

Ibrahima Fall
Assistant Secretary-General
for Human Rights

1995/31. The relationship between the enjoyment of human rights and the working methods and activities of transnational corporations

The Sub-Commission on Prevention of Discrimination and Protection of Minorities,

Recalling the provisions of the Charter which establish that one of the Purposes of the United Nations is to achieve international cooperation in solving international problems of an economic, social, cultural or humanitarian character, and in promoting and encouraging respect for human rights for all,

Reaffirming the commitment of States Members of the United Nations, contained in Article 56 of the Charter, to take joint and separate action in cooperation with the Organization for the achievement of the Purposes set forth in Article 55 of the Charter,

Conscious that the Universal Declaration of Human Rights provides that everyone is entitled to realization of the economic, social and cultural rights indispensable for his dignity and the free development of his personality,

Considering that under the provisions of the Universal Declaration of Human Rights everyone is entitled to a social and international order in which the rights and freedoms set forth in the Declaration can be fully realized,

Reaffirming the Declaration on Social Progress and Development proclaimed by the General Assembly in its resolution 2542 (XXIV) of 11 December 1969 and the Declaration on the Right to Development adopted by the General Assembly in its resolution 41/128 of 4 December 1986,

Underlining that the right to development as a universal and inalienable right and an integral part of fundamental human rights was reaffirmed by the World Conference on Human Rights in the Vienna Declaration and Programme of Action (A/CONF.157/23) and that the human person is the central subject of development,

Recognizing that development is a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom,

Reiterating that all human rights are universal, indivisible, interdependent and interrelated and that the international community must treat human rights globally in a fair and equal manner and on the same footing,

Recalling the four reports of the Special Rapporteur on the realization of economic, social and cultural rights, Mr. Danilo Türk (E/CN.4/Sub.2/1989/19, E/CN.4/Sub.2/1990/19, E/CN.4/Sub.2/1991/17, E/CN.4/Sub.2/1992/16),

Mindful of the Vienna Declaration and Programme of Action (A/CONF.157/23) adopted by the World Conference on Human Rights, in which the need is underlined for a concerted effort to ensure recognition of economic, social and cultural rights at the national, regional and international levels,

Recognizing that the activities of the various organizations of the United Nations system should be closely interrelated and that it is necessary to draw on all the efforts made in the various disciplines relating to the human person in order to promote all human rights effectively,

Taking into account the background document prepared by the Secretary-General as requested in its resolution 1994/37 of 26 August 1994 (E/CN.4/Sub.2/1995/11),

1. Endorses the background document prepared by the Secretary-General as requested in its resolution 1994/37 of 26 August 1994 (E/CN.4/Sub.2/1995/11);

2. Requests the Secretary-General to prepare for its consideration at its forty-eighth session a report on the impact of the activities and working methods of transnational corporations on the full enjoyment of all human rights, in particular economic, social and cultural rights and the right to development, bearing in mind existing international guidelines, rules and standards relating to the subject matter;

3. Also requests the Secretary-General to invite Governments and intergovernmental organizations and non-governmental organizations to submit information on the impact of the working methods and activities of transnational corporations on the enjoyment of human rights, in particular economic, social and cultural rights and the right to development, for consideration in the preparation of his report;

4. Decides to consider the report of the Secretary-General at its forty-eighth session under the agenda item entitled "The realization of economic, social and cultural rights".

35th meeting

24 August 1995

[Adopted without a vote. See chap. IX.]



CENTRE POUR LES DROITS DE L'HOMME

CENTRE FOR HUMAN RIGHTS

Télégrammes: UNATIONS, GENÈVE

Télex : 41 29 62

Téléphone : 917 1234 - 917 3958

Téléfax : (22) 917 0212

Réf. N° : G/SO 214 (16-6)

(à rappeler dans la réponse)

Palais des Nations
CH-1211 Genève 10

28 March 1996

Dear Madam/Sir,

At the request and on behalf of Mr. José Bengoa, Special Rapporteur of the Sub-Commission on Prevention of Discrimination and Protection of Minorities on human rights and income distribution., I have the honour to communicate to you the following letter:

"As Special Rapporteur of the Sub-Commission on Prevention of Discrimination and Protection of Minorities on human rights and income distribution, I have the honour to refer to Sub-Commission resolution 1995/30 of 24 August 1995 entitled "Human rights and income distribution".

In that resolution, the Sub-Commission, aware that the relationship between income distribution and growing levels of poverty, as well as the violation of human rights, requires further in-depth research and analysis by the human rights community, expressed its agreement with the work plan presented by me in my preliminary report, especially the suggestion that the outcome of the Copenhagen Summit for Social Development should be taken into account and followed up and encouragement given to the discussions needed for the complete and rapid achievement of its objectives (para.3).

On the follow-up to the World Summit, the Sub-Commission drew attention to the recommendations of the World Summit for Social Development concerning the United Nations system, especially those related to strengthening its operational activities for development in order to implement the Summit outcome. The Sub-Commission placed particular emphasis on the recommendation contained in the Programme of Action (para.99(e)) to strengthen the United Nations system's capacity for gathering and analysing information and developing indicators of social development, taking into account work carried out by different countries, in particular developing countries.

In paragraph 4 of the resolution, the Sub-Commission requested the Special Rapporteur to pay particular attention to the impact of the enjoyment of human rights, and that of the right to education, in particular, on income distribution. In paragraph 5, it requested the Special Rapporteur to take special care to analyze the indicators needed for the gradual full satisfaction of economic, social and cultural rights.

In paragraph 6 of the resolution, the Sub-Commission requested the Secretary-General to invite Governments, United Nations bodies, the specialized agencies and intergovernmental and non-governmental organizations to provide the Special Rapporteur with information relevant to the preparation of his report and urged them to participate actively in the work of the Sub-Commission.

In order to assist me in the preparation of a progress report which I am expected to submit to the Sub-Commission at its forty-eighth session, I have prepared the attached questionnaire which is primarily addressed to Governments. I would, however, appreciate it if you could provide me with any data requested for in the questionnaire, in particular that related to general questions 19 and 20.

In paragraph 6 of its resolution, the Sub-Commission also urged, inter alia, non-governmental organizations to participate actively in the work of the Sub-Commission.

In the preliminary report submitted to the Sub-Commission at its forty-seventh session, I had underlined that the most effective way in which the system can contribute to improved realization of economic, social and cultural rights is by establishing a forum for the discussion of those rights and recommended that the Sub-Commission invite Governments, international bodies and non-governmental organizations to take an active part in debates under the agenda item relating to this issue and to devote to it just as much time as it requires and deserves. (para.45)

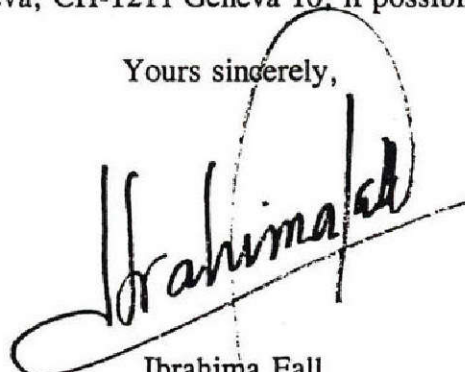
In this connection, may I draw the attention of non-governmental organizations engaged in development, in particular, to the above resolution.

Accept, Madam/Sir, the assurances of my highest consideration.

José Bengoa
Special Rapporteur on human rights
and income distribution"

I would be grateful if any information you may wish to provide for the preparation of the above-mentioned progress report could be forwarded to Mr. José Bengoa, Special Rapporteur of the Sub-Commission on the Prevention of Discrimination and Protection of Minorities, c/o Centre for Human Rights, United Nations Office at Geneva, CH-1211 Geneva 10, if possible by 30 April 1996.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Ibrahima Fall', is written over a horizontal line. The signature is fluid and cursive.

Ibrahima Fall
Assistant Secretary-General
for Human Rights

QUESTIONNAIRE ADDRESSED TO GOVERNMENTS RELATING TO HUMAN RIGHTS AND INCOME DISTRIBUTION

A. Income distribution at the national level

1. What is the GNP of your country and how is it distributed? How much does the top 20% of the population earn? How much does the bottom 20% earn? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.
2. What is the average family income? for the top 20%? for the bottom 20%? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.

B. Income distribution and access to education

3. Upto what age is education free and compulsory?
4. What is the share of the national budget devoted to primary education? to secondary education? to higher education? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.
5. What is the share of family income spent on school fees for primary education? secondary education? higher education? Please provide figures for the top 20% and the bottom 20%. Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.
6. Out of the total population of children of school-going age, what is the percentage attending primary and secondary schools in your country? What percentage of children of school-going age complete primary education? What percentage of children of school-going age complete secondary education? Out of this population, what percentage of children continue to higher education? Whenever available, please provide data according to income category.
7. What is the school drop-out rate in your country according to income group? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.
8. Please provide any other relevant information on the relationship between income distribution and education?

C. Income distribution and extreme poverty

9. What is the total population of your country?
10. At what level has the poverty line been established in your country? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.
11. What is the cost of living in your country? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.
12. What is the percentage of the population living under the poverty line? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.

D. Follow-up to the World Summit for Social Development, Copenhagen

In its Programme of Action, the World Summit for Social Development recommended that the United Nations operational activities for development should be strengthened. To this end, it recommended, *inter alia*, to strengthen the United Nations' capacity for gathering and analysing information and developing indicators of social development, taking into account work carried out by different countries, in particular developing countries (para.99(e)).

13. What measures have been taken by your Government to implement the above recommendation to improve international cooperation?

14. In the Programme of Action of the World Summit for Social Development, all States agreed on a mutual commitment between interested developed and developing country partners to allocate, on average, 20 per cent of ODA and 20 per cent of the national budget, respectively, to basic social programmes (POA, para.88(c)).

What measures have been taken by your Government in this regard?

E. Addressed to Governments of developed countries only

In its Programme of Action, the World Summit for Social Development considered that the implementation of the Declaration and the Programme of Action in developing countries, in particular in Africa and the least developed countries, will need additional financial resources and more effective development cooperation and assistance. The international community agreed that this would require, inter alia, the fulfilment of the agreed target of 0.7 per cent of gross national product (GNP) for overall official development assistance as soon as possible, and increasing the share of funding for social development programmes, commensurate with the scope and scale of activities required to achieve the objectives and goals of the Declaration and Programme of Action (POA, para.88(b)).

In this regard, the Special Rapporteur would appreciate receiving the following information:

15. What is the GNP of your country? What percentage of your country's gross national product (GNP) is allocated for overseas development assistance? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.

16. To which countries is this aid destined? Out of the total amount of ODA, what is the share allocated to developing countries? What is the share allocated to Africa and the least developed countries? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.

17. What is the composition of ODA from your country? What is the share of public, private and trade related assistance? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.

18. Out of the total amount of ODA, what is the share allocated for social development programmes? Please provide figures for the period 1990-1996.

F. General

19. Have you any data on income distribution within countries? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.

20. Have you any comparative data on income distribution between countries at the international level? Please provide figures for 1960, 1970, 1980, 1990 and upto 1996, if available.

APR 9 1996

879

TH
JA / AE
File Governance (Pat)
(MStevens ccd)

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 5, 1996

TO: Files

FROM: Gretchen M. Handwerger *Gru*

EXTENSION: 580-3019

SUBJECT: **April 2 DAC Meeting**

The DAC Meeting on April 2, 1996 concerned itself primarily with preparation for the May 6-7 High-Level Meeting (H-LM). Once the Summary Record of the 685th DAC Meeting (January 18, 1996) was approved and the French delegate, M. Claude Warnet (resume attached), was selected as one of three Vice-Chairs, the meeting got down to business and reviewed all proposed agenda items for the H-LM.

High-Level Meeting Agenda - DCD/DAC/A(96)6

It was generally agreed that the proposed agenda for the May 6-7, 1996 H-LM shows promise for a lively day and a half of discussion. There are two major themes for discussion on the first day: The Role of Development Co-operation into the 21st Century (which will reflect the results and follow-up of the Exercice de Reflexion) and Choices and Strains in the Global Aid Effort, Multilateral and Bilateral. The morning of the second day is expected to be devoted to other subjects: Follow-up to the Rwanda Evaluation and DAC work on Conflict, Peace and Development Co-operation; Anti-corruption Proposals for Aid Procurement Contracts; and Country-level Co-ordination for Participatory Development and Good Governance. There was some concern that the agenda overlooked other important topics (e.g. the Helsinki discipline which the UK thinks will be discussed at the July G-7 meeting in Lyon), but members generally felt that the H-LM would benefit from not having an overloaded agenda. Chairman Michel said that there were plans to distribute a "news bulletin" of items of concern which would not be on the agenda but which he hoped would be discussed by Ministers in their informal meetings.

The Role of Development Co-Operation into the 21st Century (Exercice de Reflexion - Results and Follow-Up)

The Chair noted that comments on the second draft (March 11, 1996) were still being received and that two more review meetings were scheduled (April 4 in the Hague and April 22 in Washington) before the draft would be finalized for discussion.

at the H-LM. Assuming the imprimatur of Ministers at that meeting, attention needs to be paid to both follow-up work and dissemination of the document. In particular, members wondered about steps to feed this effort into the May 21-22 OECD Ministerial meeting and about the proposal to hold a follow-up meeting with representatives of developing countries.

Choices and Strains in the Global Aid Effort, Multilateral and Bilateral - DCD/DAC(96)13, ADD/1 and ADD/2

Discussion of this subject has moved from the abstract to the very specific as evidenced in the much shorter, more concise issues paper and the accompanying tables which give a detailed breakdown of individual donor disbursements for multilateral and bilateral aid during the 1981-94 period. Since members were seeing these data for the first time, there was considerable discussion of both the accuracy of the figures and the validity of comparisons. It is clear that there will be revisions before the final documents are produced for the H-LM. The Secretariat is also preparing an "analysis paper" which will look at trends in aid flows (e.g. "what is happening within the multilateral envelope," "what is happening to categories which are growing in importance such as food aid, emergency assistance and debt"). Japan continued to express its skepticism of the whole process, again referring to the on-going work in other fora and observing that the work that has been done by the Secretariat might be useful information for an expert meeting but does not lend itself for discussion at a H-LM where there is likely to be only one round of commentary. The Netherlands joined Japan in questioning the usefulness of a "statistical discussion at the H-LM" but thought that a political one might be appropriate. Referring to related work being done separately by UNDP, the Development Committee and the UN, the Dutch delegate wondered whether "the DAC might synthesize the results of these other studies." Looking pointedly at the US delegate, he concluded by saying that the DAC's work should not be undertaken to "send a message to the US Congress." The Canadian delegate suggested that H-LM participants be asked to comment on the key paragraphs (paras 7-10) of DAC/DAC(96)13.

Follow-up to Rwanda Evaluation and Related Issues - DCD/DAC(96)12

Not surprisingly, the French, who have disassociated themselves from the Rwanda evaluation, took great exception to DCD/DAC(96)12, stating that the document is "dense," the analysis "uneven," and that the "researchers may have lacked essential information or technical skills or both." The French delegate thought it inappropriate to give the document either to Ministers, since it might give rise to extensive discussion based on incorrect facts, or to non-DAC members who might consider it "doctrinal rather than just a document for stimulating discussion." Other delegates seemed to feel that the questions to donors arising from the Rwanda evaluation are "the ones to be asked," though the UK doubts the DAC could or should undertake "an in-depth study of the cost-effectiveness of various roles by military contingents" as recommended in the synthesis report.

Progress Report on Conflict, Peace and Development Co-operation - DAC(96)4/REV1

There was little comment on DAC(96)4REV1, primarily because the paper merely reflects the state-of-play after the March 14-15, 1996 meeting of the DAC Task Force on Conflict, Peace and Development Cooperation (ref. my March 22, 1996 report of that meeting) and outlines work to be done before the next Task Force meeting on June 17-18, and papers to be written by various Members, all in preparation for compiling a first draft of Best Practices and Orientations to submit to the DAC Senior-Level Meeting on November 26-27, 1996.

Anti-Corruption Principles for Aid Procurement Contracts - DCD/DAC(96)11

Discussion of the proposed "Statement of Principle," which would set out DAC Members' commitment to tackle corruption in the area of development co-operation, and of an anti-corruption "model" clause to be inserted in aid-financed contracts in an attempt to "counter opportunities that may exist for corrupt or illicit payments associated with securing or implementing such contracts" was hot and heavy and complicated by the fact that the postponement of the meeting of the DAC Working Party on Financial Aspects of Development Assistance (WP/FA) from December to April (because of the French transport strike) meant that delegates were being asked to pass judgment on these proposals without benefit of the discussion and recommendations of the WP/FA. Several delegates and the Chair sought valiantly to obtain a consensus subject to confirmation of the position at the WP/FA's April 16-17 meeting, but Japan and France remained adamant that given the irregular timetable "it would be premature to ask for endorsement of these proposals at the H-LM." They noted, somewhat gratuitously, that there could be discussion of corruption if Ministers so chose. Delegates were reminded that the issue of corruption is being discussed in many other parts of the OECD and will be addressed at this year's Ministerial meeting; consequently it would be remiss of the DAC not to have dealt with the matter at its H-LM. My guess is there will be considerable behind-the-scenes maneuvering both before and after the WP/FA meeting in an attempt to effect a DAC position on this issue. In the meantime, the UK would prefer a stronger Statement of Principle and a "sign-on provision" and the US would like to add the following: "Corruption compromises the ability of firms to compete in an open and transparent fashion on the basis of price and quality facts."

Draft Policy Note on Strengthening Country Level Coordination for Participatory Development and Good Governance - DCD/DAC(96)14

The DAC Working Party on Participatory Development and Good Governance (WP/PD/GG) has been working on this note for quite some time, with considerable input from the Bank. As it now stands, the note strongly recommends that coordination (among donors and with government and civil society) be handled primarily in country. There is a provision, however, that DAC Members support the

systematic treatment of PD/GG issues "in CGs and RTs in a manner suited to their nature and importance in each specific country context." There is a further recommendation that, initially, this "be done on a pilot basis (taking one or more CG and RT countries for comparative purposes) before expanding coverage." The Bank is working with the DAC to identify a pilot CG. There was little discussion of the paper though Sweden, as expected, said that it was not in a position to subscribe to the note since it wanted to be sure that the views of individual donors are not undermined.

Request by Moldova for Inclusion in Part I of the DAC List - DCD/DAC(96)9

Following up on an earlier discussion (January 18, 1996 DAC meeting) of Moldova's surprise request to be moved from Part II (Countries and Territories in Transition) to Part I (Developing Countries and Territories, i.e. those eligible to receive ODA) of the DAC List, Members reiterated previously stated positions. The Netherlands, which represents Moldova at the Bank and Fund, strongly endorsed the application. Denmark, supported by Belgium, Norway, France, Portugal and others, does not want to act on the Moldova case before reviewing the whole procedure whereby countries are added to, subtracted from, or moved to other parts of the DAC List. A review of the List is scheduled for December 1996, though there seems to be some disagreement among Members as to what, exactly, will be reviewed. Members were strongly opposed to making the Moldova request a H-LM agenda item, though it was suggested that Ministers may want to discuss it "in the corridor."

Other Business

Bernard Wood spoke of the dire financial straits of OECD in general and the DAC in particular (due primarily but not exclusively to failure on the part of the US to pay its pledged contribution), saying the situation required not only a reliance on voluntary funds, unappealing as that may be, to carry on "frontier tasks" but also a "need to reassess core functions." The DAC work program and budget will be discussed on June 7 in a meeting which Wood said "will be tough."

A tour-de-table revealed that a number of Ministers of Development Cooperation (or their equivalents) have committed to attend the May H-LM. A complete list will be compiled and circulated.

cc: Mmes/Messrs: A. El Maaroufi (EXTEO); M. Alexander, R. Srinivasan (OPRDR); M. Malloch Brown (EXTVP); I. Husain, M. Stevens (PSP); A. Shakow (DCS); P. Donovan (FRMDR); M. Ahmed (IECDR); P. Blanchet (OPRPR)



Record Removal Notice

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APR 4 1996 (852)

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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April 4, 1996

Mr. Jose Ayala-Lasso
High Commissioner for Human Rights
United Nations Centre for Human Rights
United Nations Office at Geneva
Palais des Nations
CH-1211, Geneve 10
Switzerland

Dear Mr. Ayala-Lasso,

Further to Mr. Choksi's letter of March 30, I am writing to say that while my future travel plans to Europe are still not firm, a close colleague, Ms. Lisa Pachter, will be in Geneva next week on other UN business. I wonder whether it would be possible for her to call on you?

Lisa Pachter works for Mark Malloch Brown, Vice President responsible for the Bank's relations with the United Nations Agencies. She is part of the small group that has been working with me on the WB/UNHCR consultation on human rights and will be part of the Bank's team at the meeting. She arrives in Geneva 9 April in the morning and will be staying at the Inter-Continental Hotel (tel. 919-3939/fax. 919-3838). Subject to your convenience, one possibility would be 11:00 am Tuesday; alternatively, 9:00 am Wednesday. I would hope she could also meet with Mr. Thomas McCarthy.

Yours sincerely,



Mike Stevens

Public Sector Management Adviser
Public Sector Management Unit

cc: Mr. Thomas McCarthy, UNCHR

bcc: Messrs./Mmes. L. Forget (LEGAD); L. Pachter (UNAVP); I. Husain, J. Armitage,
M. Holmes (PSP).

MS:vm

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April 4, 1996

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

MAR 26 1996
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TH
CV (G/F)
EA
DAJ
LA
File Governance (PAT)

March 19, 1996

Mr. Thomas McCarthy
Senior Adviser
UN High Commissioner of Human Rights
United Nations
Palais des Nations
CH-1211 Geneve 10
Switzerland



Dear Mr. McCarthy,

I promised I would get back to you on my return to Washington on how we might go forward with the proposed dialogue between our two organizations on human rights and development. Our current thinking is on the following lines.

- (i) The consultations should take place over 1 1/2-2 days, and scheduled for early summer 1996. We prefer Washington as the location to allow for a fuller participation of Bank staff in making the presentation on Bank policy and practice. The exact date can be adjusted to fit with concurrent UNCHR staff travel plans;
- (ii) Rather than a workshop with other participants, we propose bilateral consultations between our two agencies alone;
- (iii) The consultations should be at working level, aimed at promoting a fuller understanding of the work of each agency and the approach to human rights issues. Proceedings would be off the record, and there would be no formal recommendations to either side;
- (iv) Subject to your agreement, we would draw up an agenda based on the list of topics discussed in Paris, and attached to this letter. Please let us know what topics are of particular interest to UNCHR, and whether there are significant areas which you feel have been omitted. For our part, we would present the Bank's approach to human rights issues in development, Bank operational policies, and how we address issues such as poverty, resettlement, gender and children, workers' rights, health and education in our economic work, country dialogue and lending.

(v) An early indication whether Mr. Ayala-Lasso wishes to participate would be appreciated. We could either run the proceedings entirely at working official level, and schedule a meeting between Mr. Ayala-Lasso and Mr. Wolfensohn at a later date. Alternatively, should Mr. Ayala-Lasso accompany or lead the UNCHR delegation, we could schedule a meeting between the High Commissioner and the President at some point during the working level meetings, subject to the latter's travel plans.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mike Stevens', with a long horizontal flourish extending to the right.

Mike Stevens
Public Sector Management Adviser
Public Sector Management Unit

bcc: Mr. L. Forget (LEGAD); Ms. L. Pachter (UNAVP); M. Holmes (PSP).

IH
FYI.
MS

WORLD BANK/UNCHR WORKSHOP

SUGGESTED CONTENTS

1. Legal Framework for World Bank operations
 - Articles of the World Bank and how the Bank interprets them
2. The World Bank's Mission/Challenges
 - Sustainable development and environment
 - Poverty and social development
 - Economic management
 - Re-orienting government
 - Private sector development
3. How the World Bank carries it out
 - Operational guidelines and inspection panel
 - Country assistance strategy and country assessment
 - Policy dialogue
 - Project cycle, participation and conditionality
 - Evaluation
4. Sector Policies and Programs
 - Poverty
 - Gender and children's issues
 - Resettlement and indigenous people
 - Human resources development
 - Social costs of adjustment
 - Labour market policies
 - Governance and public management

MAR 8 1996 (633)

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: March 1, 1996

TO: Messrs. Ajay Chhibber and Ishrat Husain

FROM: Robert Picciotto, DCO

EXTENSION: 84569

SUBJECT: Columbia University Faculty Human Rights Seminar

JA/MS ← copied to JOK 3/11

This is a very useful Summary of where the Bank stands in respect to Human Rights issue.

In 3/11

You expressed interest in the draft paper I presented to the above seminar on February 20, 1996. It is attached. **Comments are invited.**

I was well impressed by Professor Bonnie Kent who runs the seminar. In case you plan to do work on human rights (and I do hope you are) you might do worse than contact her and seek access to the largely unpublished papers which have been gathered for the seminar. Her address is:

Professor Bonnie Kent
Philosophy Hall, Office 713
Columbia University in the City of New York
116th Street and Broadway
New York, NY 10027
Tel. 212-854-6988

The Executive Director of the Center for Human Rights attended the seminar too. Here again, a valuable contact:

Professor J. Paul Martin
Executive Director
Center for the Study of Human Rights
(same address as above)
Tel: 212-854-3193
Fax: 212-316-4578

I understood that the Columbia Center, while largely staffed with legal scholars, is the only multi-disciplinary one in US academia. The Executive Director expressed a strong interest in cooperating with the World Bank, especially on the data side

Attachment

cc (w/att.): Messrs. M. Malloch Brown, A. Rigo, S. Lateef, M. Baird, Mrs. Koch-Weser

INTERNATIONAL HUMAN RIGHTS AND DEVELOPMENT ASSISTANCE: THE ROLE OF THE WORLD BANK

Robert Picciotto

Director-General, Operations Evaluation, World Bank*

This paper describes the advent of international human rights in the context of changing conceptions of development. It pays particular attention to the role of the World Bank in promoting economic and social rights in developing countries and transition economies—where 85 percent of the world's people live.

A. Introduction

The global promotion of human rights and economic development emerged as twin concerns in the wake of the World War II. Though interconnected, they were perceived as distinct goals of human progress and their pursuit was entrusted to different international agencies.¹

In his 1941 State of the Union address, Franklin Roosevelt had referred to four freedoms: freedom of speech and expression, freedom of worship, freedom from fear, and freedom from want. The first two—freedom of thought and religion—are positive freedoms. They are part of a cluster of personal rights which allow individuals to express their opinions, assemble, organize, and participate in the life of their communities. The third—freedom from fear—is a negative freedom, implying protection against arbitrary rule, illegal arrest, unwarranted search and seizure, and violence.

Both sets of rights presume equality of opportunity under the rule of law. The fourth freedom—freedom from want—on the other hand, goes beyond security of person and equality of opportunity. It is concerned with opportunity as well as with outcomes. And it is not so readily dealt with through judicial means. According to the United Nations Covenant on Economic, Social, and Cultural Rights, it implies not only the right to work but also the right to food, clothing, housing, education, and health care. It is a right for every human being to enjoy a satisfactory standard of living. There is no simple way to define, let alone achieve, such a norm.

Inevitably, economic rights, if they are to be more than pious hopes, call for a significant role for the state in the economy and the society, i.e. a mandate to ensure that the economy is effectively managed and the benefits of development are

* The views in this paper are those of the author and do not necessarily represent those of the World Bank.

equitably allocated. Ultimately, freedom from want implies the elimination of poverty. It is, in short, equivalent to what the United Nations calls the right to development.²

Over time, the definition of development has broadened, to include improved governance, greater equity, and increased access to political liberties and civil rights. The implications for development assistance have been profound. To explore these implications, this paper traces the progress achieved toward setting up an international human rights agenda, examines the influence of human rights in development assistance, describes the specific role of the World Bank in promoting economic and social rights, and concludes with some reflections at the intersection between institutional economics and human rights theory.

B. Toward international human rights

In 1945, the victorious allies inscribed the promotion of human rights on the agenda of the fledgling United Nations, and in 1948, a Universal Declaration of Human Rights was unanimously adopted. But the declaration was not binding under international law. Two detailed covenants (one devoted to civil and political rights; the other to social, economic, and cultural rights) were not approved until 1966, and it took another ten years to secure enough signatures for their ratification.

In 1977, the UN General Assembly adopted a resolution stating that political and civil rights are mutually interrelated and inseparable from social, economic, and cultural rights. The resolution was a compromise that concealed sharp ideological differences among states. All pay lip service, but the international means available for investigation, monitoring, and enforcement have remained feeble and subject to political manipulation. This outcome is consistent with Russell Hardin's finding that "norms that are focused on groups are more forceful than those that are universalistic (Hardin, 1995)."

The notion that democratic governments are instituted to secure the human rights of their subjects has wide appeal. Even the most authoritarian states label themselves democratic. But the very elasticity of the term "democracy" reflects a wide range of intellectual traditions. Anglo-Saxon liberalism is grounded in the proposition that citizens have a natural right to pursue their own individuality in an open society. The French republic, by contrast, is dedicated to the premise that liberty is best achieved through individual participation in collective decisions, while communitarian, corporatist, and authoritarian doctrines subordinate human rights to the interests of the group, the party, or the nation.

Different political regimes thus stand for different conceptions of human rights. Some regimes restrict state powers and promote individual and property rights. Others emphasize civil rights but favor a strong role for the state. Still others give primacy to the national interest and concentrate on the duties of the citizen vis a vis

the state.³ Given these contrasting traditions, it is understandable that rhetoric has outstripped results, and that a full consensus about international human rights has remained elusive. Given the wide range of cultural contexts prevalent in developing countries, rapid replication of western models of political and social organization is not a realistic prospect. Hence, it would be wrong to denigrate the gains achieved by legal scholars and diplomats in framing an international human rights agenda. The progress made should be seen in a historical context.⁴

Since the end of World War II, the cause of human rights has been advanced by the emancipation of former colonies, the dissolution of the Soviet bloc, and the peaceful transition to democracy in South Africa and in many developing countries, especially in Latin America.

But between the end of World War II and the Gulf War, there have also been 125 wars, leading to 40 million deaths, largely in the Third World. These peripheral conflicts have led to massive violations of rights. Out of 126 developing countries, 32 are still plagued by war and another 33 by civil strife. About 70 million people have been displaced by conflict. What are euphemistically termed "complex humanitarian emergencies" already absorb a fifth of concessional development assistance. Faced with this challenge, the international community has had a mixed record in making and sustaining regional peace, let alone in enforcing basic international conventions, even where genocide has been involved, as in Rwanda.

Most conflicts today originate within national borders. Many of the world's people are trapped in regions of low incomes, galloping population growth, and pervasive environmental distress. Thus, the human rights agenda is as much about access to food and clean water as it is about free speech and free assembly. Worldwide, the thirst for law and order and for economic betterment is at least as intense and widespread as the urge for civil liberties.

C. Human rights and development assistance

The new development agenda views the human being as the central subject of development,⁵ recognizes that developing countries themselves are responsible for their own development, and relates their ability to achieve self-reliance to the effectiveness of their policies and institutions. Within this framework, the key emphasis in development assistance has shifted toward capacity building, promotion of participatory development, and progress toward good governance. In addition, for most bilateral (unlike most multilateral) agencies, the promotion of human rights is now an explicit factor in the channeling of development assistance. This shift reflects a broad-based associational revolution which has spawned systematic monitoring of human rights violations through global voluntary networks.

The new development agenda also reflects geopolitical considerations. With the end of the cold war, development assistance is no longer underpinned by

competition between the superpowers.⁶ Instead, given the spread of electronic media with its focus on international trouble spots, development assistance has had to respond to public pressure from electorates increasingly aware of the humanitarian costs of failed governance and ethnic conflict.

The case of the World Bank

The World Bank is a collaborative, market-based organization. Its institutional priorities have much in common with the agenda promoted by bilateral donors. Yet the World Bank does not normally include civil and political rights within the conditionality of its financial assistance. This is because its charter precludes the Bank from interfering in the political affairs of its members. Article IV, Section 10 of the Bank's Articles of Agreement reads:

The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially....

The World Bank's effective dialogue with borrowing member countries would be jeopardized if its objectivity could be called into question. And since the Bank depends on private market borrowings to fund the bulk of its operations, its financial status would be weakened if its operational decisions came to be perceived as subject to political interference.

This implies strict limitations on the degree to which the World Bank can concern itself with the promotion of civil and political rights. But the Bank can and does consider the economic effects that stem from a borrowing country's policies and actions, including human rights practices. For example, where a development program is stymied because a country's human rights violations have triggered the censure of the international community, the Bank is likely to refrain from supporting the program. More generally, the Bank considers political events that have a bearing on a member country's economic conditions or its ability to implement development programs, or on the Bank's own ability to monitor projects. But a poor human rights record does not in and of itself constitute a valid reason for the Bank to reject or cancel a loan.

Beyond legal considerations, it makes practical sense for the World Bank to concentrate on its own mandate—the promotion of economic and social rights. This is where the Bank has built a considerable track record and where it enjoys a comparative advantage in relation to other parts of the international system.

D. The World Bank and poverty reduction

The World Bank promotes the achievement of economic and social rights through its central role in poverty reduction. It is one of the few institutions that make it their business to focus public attention on issues of poverty and to direct resources to poverty reduction. To reduce poverty, the World Bank supports policies and programs that promote broad-based growth, increase the productivity of the poor, and enhance the access of the poor to social services. This strategy is implemented through lending for investment projects and policy adjustment and a variety of nonlending services that include research, advice, training, aid coordination, and cofinancing.

Worldwide, one person in four does not get enough food. In many African countries, malnutrition affects a third to a half of the children. About 1.1 billion people in the developing world live on less than one dollar a day. Their number is increasing and may reach 1.3 billion by the end of this century. Diarrheal diseases that result from contaminated water kill about 2 million children and cause about 900 million episodes of illness each year. Indoor air pollution resulting from burning wood, charcoal, and dung endangers the health of more than 400 million people.

Countries with the richest 20 percent of the world's people earn more than 80 percent of the world's income, while those with the poorest 20 percent of the world's people earn less than 2 percent of the income. There are also widespread income disparities within countries. Three million children a year die from immunizable diseases. A half million women die each year from causes related to inadequate childbirth care. Life expectancy is 12 years shorter in the South than in the North. Infant mortality rates are nearly six times higher in the South than in the North, and individuals in the South receive only one third of the schooling of those in the North.

On average, developed countries grant only 0.3 percent of their incomes as official development assistance. The UN has fixed a norm of 0.7 percent of GNP for use as official development assistance, but only five countries meet it. The entire multilateral system (the UN as well as the Bretton Woods institutions) employs only one third of the people who work for McDonalds. The budget of the World Bank is about 5 percent of the New York City budget.

The World Bank targets about a fourth of its investment projects—or \$4-5 billion of lending a year—directly to the poor. Poverty targeted interventions deal with health, education, housing, credit, and agricultural extension. Lending for human resource development has tripled since the early 1980s. And a substantial share of lending for water supply and sanitation, urban and rural development is designed to benefit the poor. In policy adjustment loans, special attention is given to the reallocation of public resources toward essential social services.

To ensure that its assistance is anchored to specific country circumstances, the World Bank undertakes country poverty assessments. About 65 of these will have been completed by mid-1996. The assessments describe the special problems faced by weak and neglected social groups and the social safety nets needed to protect them. Gender issues feature prominently because the majority of the poor are women. The assessments also analyze the impact of macroeconomic and sectoral policies on the poor and identify barriers to labor-intensive growth. A central feature of the assessments is their analysis of public expenditure programs and the links between these programs and poverty. The assessments use data from household surveys and increasingly take account of the views expressed by the poor themselves regarding the constraints they face in improving their living standards.

Substantial progress has been achieved over the past 25 years. Average consumption per head in developing countries has increased by 70 percent in real terms; average life expectancy has risen from 51 years to 63 years; primary school enrollment has reached 89 percent. It took the United Kingdom 60 years to double its per capita income during the industrial revolution, but since the end of World War II, many developing countries have achieved the same feat within 20 years. Indonesia took less than a generation to reduce the incidence of poverty from almost 60 percent to less than 20 percent.

E. The World Bank and governance

The World Bank's approach to the promotion of economic and social rights distinguishes between (1) the political regimes chosen by its member countries (choices that lie outside the scope of the World Bank's legitimate concerns) and (2) the capacity of borrowing country governments to design policies, implement programs, and discharge functions relevant to sustainable and equitable development (a subject that lies at the center of the continuous policy dialogue that the World Bank conducts with its borrowers).

In pursuit of its mandate to promote equitable and sustainable development, the World Bank gives prominence to promoting accountability, enhancing transparency, and strengthening the rule of law. These aspects of governance are supportive of political and civil rights, though they do not promote them directly. Equally, by making greater use of participatory methods for designing and implementing the projects it finances, the World Bank helps to amplify the voice of the voiceless without interfering in politics (World Bank, 1996). For example, in projects involving resettlement, the World Bank insists on adequate consultation and compensation for all oustees. Where indigenous peoples are affected, they are given protection and they participate in the design of the intervention. In a wide variety of rural and urban development schemes, as well in the design of policy reforms backed by adjustment loans, World Bank policies favor intensive consultations with the ultimate beneficiaries of the assistance. Thus, World Bank-financed projects act as laboratories of popular participation.

The World Bank recently established an Inspection Panel, independent of management, to ensure that where Bank policies and guidelines are alleged to have been ignored or circumvented, affected local parties can secure a fair hearing. In addition, the Bank has liberalized its information disclosure policy to make itself more open and accountable to the public.

Better public sector management has become a major goal of the World Bank's country assistance programs in Latin America, Sub-Saharan Africa, and the transition economies of Eastern and Central Europe and the former Soviet Union. Given the spread of democracy and market-based policies in those regions, demand has shot up for civil service reform, public expenditure rationalization, public enterprise reform, deregulation, decentralization, and fiscal modernization. There is growing recognition that a well-functioning public sector is a prerequisite for a sound civil society and an efficient private sector.

Institutional improvements of this kind may, in the long run, lay the groundwork for democratic change. Alternatively, they may help to reinforce existing political structures. Either way, they involve significant improvements in economic and social rights and are part and parcel of the art of the possible that is called development assistance.

Thus, while the World Bank restricts itself to the economic dimension of governance, this has not precluded it from a concern with social issues or from taking account of how political factors are affecting resource use and project implementation. Thus, the World Bank has censured countries that have neglected basic development priorities or mismanaged their public finances through excessive military outlays. Nor has the World Bank failed to confront issues of corruption or to help countries reduce the scope of rent seeking through policy reform; improved systems for accounting, auditing, and procurement; and civil service reform.

F. Human rights and institutions

Throughout the 1960s and 1970s, the dominant view was that a trade-off had to be struck between political liberties and development, and that the latter depended on the state controlling the commanding heights of the economy. In general, it was postulated that poverty would be reduced as long as growth was accelerated through massive public investment and central economic planning.

But by the 1980s, given the technology-driven integration of the world economy, the performance of centrally planned economies had proved disappointing. Discriminatory taxation of agriculture had distorted development. Pursuit of economic autarky through trade restrictions had hindered productivity, and state micromanagement of the economy had become counterproductive. The high human

and economic costs of state led, inward oriented economic development became clear throughout the developing world.

In the early 1990s, the creation of an enabling legal framework for vigorous private activity, combined with broad-based investments in human resources, emerged as central prerequisites for sustainable and equitable growth. It is now clear that sustainable growth and poverty reduction go hand in hand with open economies and with policies that are market friendly as well as people friendly.

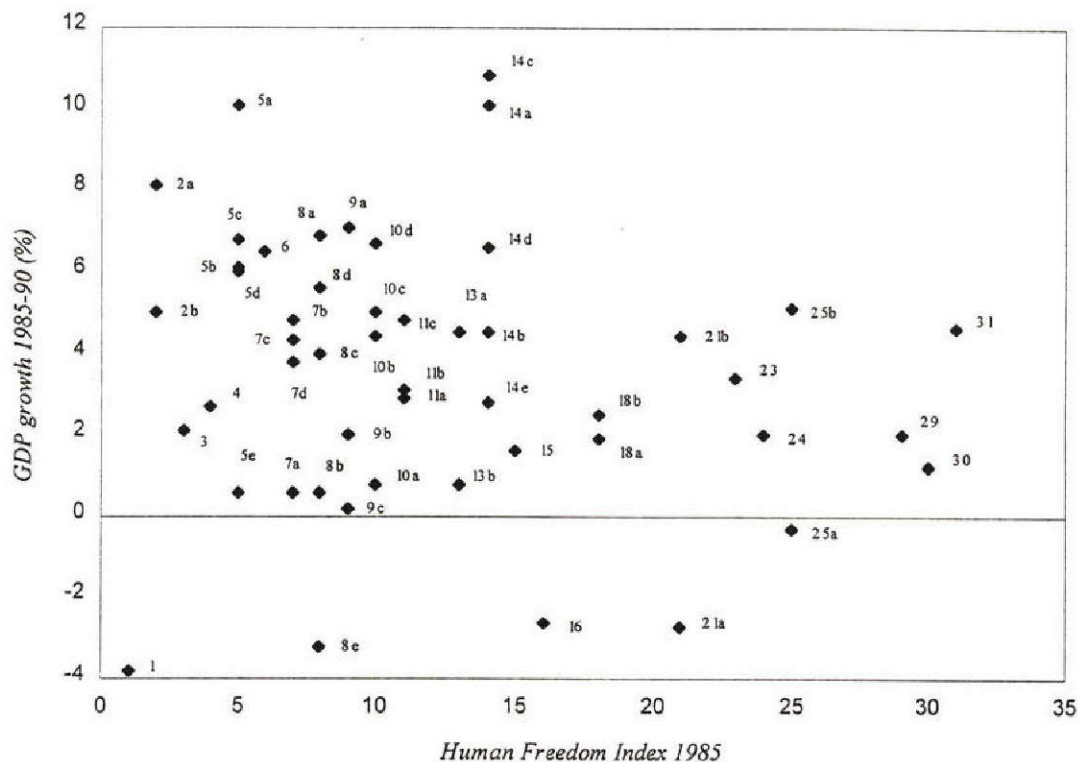
It is less clear that there is a close relationship between liberal democracy and development. Both democracies (such as Thailand) and one-party regimes (such as China) have successfully combined human investment with market-oriented policies. Similarly, both democratically elected governments (Allende in Chile, Garcia in Peru) and dictatorships (Idi Amin in Uganda, Mobutu in Zaire, Duvalier in Haiti) have seen fit to adopt policies that bankrupted the economy and severely hurt the poor. In 1950, literacy rates were identical in China and India, but today they are twice as high in China as in India, the largest democracy in the developing world.

All in all, the credibility of economic policies, the resilience of enabling environments for private enterprise, and the resources allocated to human development are much more reliable predictors of economic development than the status of individual rights. Figure 1 relates the Humana Index of Human Freedom to economic growth rates. No correlation is apparent. The literature on the subject is inconclusive. Out of 16 empirical studies seeking to relate economic growth and democracy, three found a negative correlation, three a positive one, and the balance found no conclusive results either way. On the other hand, eleven studies have found a positive correlation between economic growth and political stability.⁸

Arguably, the mighty struggles between liberalism and absolutism—as well as between capitalism and socialism—were contests about the appropriate role of the state. They turned bloody in part because they were conducted within an archaic intellectual framework which conceived of the state, its subjects, and the economy as irreconcilably distinct and adversary entities.⁹ Conversely, international efforts to legislate away doctrinal differences by promulgating all kinds of human rights and privileges have not achieved the utopian results intended.

There are undoubtedly connections between freedom and development. But they are complex and poorly understood. According to Benjamin Disraeli, "To be conscious that you are ignorant is a great step to knowledge."¹⁰ It is one thing to postulate that ultimate human progress requires both freedom and development. It is another to assume that progress on one front automatically and invariably produces progress on the other. The pattern of history seems to favor a halting and complicated set of trajectories, involving fits and starts, with partial advances followed by tactical retreats, first on one front, then on the other.

Figure 1: Freedom and economic growth



Note: The Human Freedom Index (HFI) introduced in UNDP, 1991 is based on data published in *World Human Rights Guide* by Charles Humana (1985), which uses forty indicators to measure degrees of cultural, social, political and economic freedom. The higher a country's score on the HFI, the greater the degree of freedom its citizens have. For key to countries, see Annex 1.

Sources: HFI values from UNDP, 1991; GDP growth rates from World Bank, 1995.

In other words, the winds of economic and political change can blow in different directions. In Chile and Peru, autocrats were able to restore sound economics following the disastrous populist policies of democratically elected presidents. In Eastern Europe, centrally planned economies used to rank low on individual freedom but high on social indicators. Their recent strides toward democracy have not been without negative social consequences.

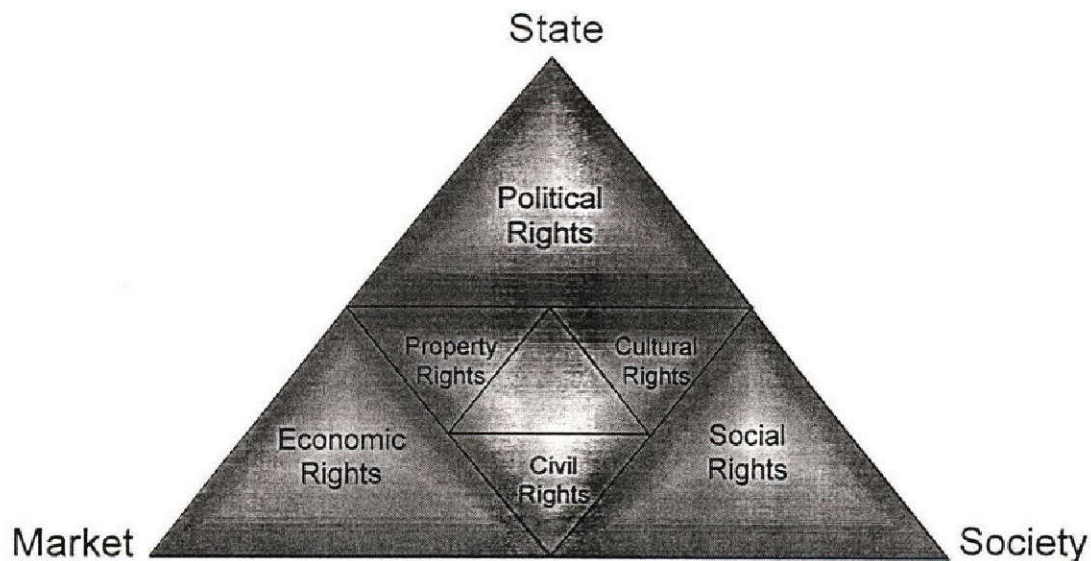
There are circumstances, of course, as in Argentina and Brazil, where policymakers have combined sound development policy with democratization. There is no inherent contradiction between development and freedom. But the road can be bumpy and tortuous. One thing is clear: doctrinal triumphalism, whether of the right or of the left, is abating. A pragmatic view of institutions is emerging. And the

academy is helping in the process by engaging in fruitful trespassing across social science disciplines.

The new institutionalists (whether economic sociologists or institutional economists) view both the market and the state as endogenous to society, i.e. as resulting from ideas, customs, rules, and organizations. They recognize that there is no single model for a market society or a liberal democracy. They understand the power of initial conditions and path-dependence. They embrace Hirschman's view of policymaking as "sailing against the wind." Like him, they favor reform over revolution, and they view development as an empirical challenge involving the design of suitable contractual and institutional frameworks rather than the enunciation and application of standard recipes.

Political rights define the state, economic rights define the market, and civil rights define the civil society. Unless a judicious balance is achieved among the state, the market, and the civil society, social harmony and economic progress cannot be expected to prevail. Figure 2 illustrates the challenge of governance design.

Figure 2: Institutional design for achieving human rights



Implicit in this conceptual scheme is the notion that beyond a basic and fundamental "core," there are no absolute rights across the board. Within a static framework (i.e., in the short run), first best for the state may mean second best for economic rights (e.g., heavy taxation) and civil rights (e.g., military conscription). Equally, first best for the civil society may involve sacrifices for economic rights

(e.g., restraint on competition) and political rights (e.g., limits on majority rule). Finally, first best for the market may diminish civil rights (e.g., opposition to affirmative action) and political rights (e.g., diminished power of the state in a global economy).

From the perspective of the new institutionalists, the achievement of different admixtures of human rights is a matter of institutional arrangements. These arrangements are not ordained by a higher authority. They represent societal choices informed by open debate, popular participation, and evaluated experience. This is the ultimate rationale for the tailormade approaches to poverty reduction and the eclectic and evolving definition of governance favored by the World Bank.

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ENDNOTES

¹ In particular, the Bretton Woods financial institutions (the World Bank and the International Monetary Fund) were set up as multilateral agencies, operating under their own rules and with a great deal of autonomy, as specialized agencies of the United Nations.

² The "right to development" was proclaimed by the UN General Assembly on December 4, 1986. The first article states: "The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural, and political development, in which all human rights and fundamental freedoms can be fully realized."

³ According to Francis Fukuyama, Americans have developed a "culture of rights that is quite distinctive....For Americans, rights have an absolute character that is not balanced or mediated by institutional language outlining duties to the community or responsibilities to other people." See Francis Fukuyama. *Trust, the Social Virtues, and the Creation of Prosperity* (Free Press, 1995), pp. 314-317.

⁴ Almost a century passed before the ideas of John Locke were translated into the stirring words of the United States Declaration of Independence in 1776. By 1844, the United States House of Representatives was still debating whether Congress could even discuss the subject of slavery. And it took a bloody civil war during the 1860s and the civil rights movement of the 1960s for the power of the Federal Government to be directed toward the protection of the "self evident" rights of all Americans to "life, liberty, and the pursuit of happiness."

⁵ The adherence by members of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development to the internationally defined principles and standards contained in the UN Charter, the International Bill of Human Rights, and various UN Conventions were codified in a policy statement endorsed by the High Level Meeting of the DAC on December 13-14, 1993.

⁶ The weight of commercial considerations in bilateral decision making, always present, may have increased and be acting to restrain human rights conditionality.

⁷ The World Bank has helped member countries to improve their legal systems, reform their regulatory frameworks, decentralize their administrations, and reduce the scope of government through privatization. More than 300 Bank operations include technical assistance for judicial reform, mostly in areas of commerce and law.

⁸ "Measuring the Price of Politics," *The Economist*, January 27, 1996, p.72.

⁹ The role of the state in the economy has been and remains a matter of debate within and across nations. Neoclassicists limit the role of the state to the production of public goods. Keynesian policy makers see an important macroeconomic stabilization and management role for the state. Traditional development economists emphasize the investment and technological role of the state. Social reformers view the state as responsible for the equitable allocation of resources.

¹⁰ Benjamin Disraeli, *Sybil*, 1845, p. 40.

Annex 1: Developing countries ranked by the Human Freedom Index, 1985

Low Freedom ranking (0-10)

1	Romania
2a	China
2b	Ethiopia
3	USSR
4	Bulgaria
5a	Korea, Dem. Rep. of
5b	Indonesia
5c	Viet Nam
5d	Pakistan
5e	Zaire
6	Mozambique
7a	Hungary
7b	Turkey
7c	Morocco
7d	Bangladesh
8a	Chile
8b	Algeria
8c	Zimbabwe
8d	Kenya
8e	Cameroon
9a	Malaysia
9b	Zambia
9c	Haiti
10a	Poland
10b	Paraguay
10c	Philippines
10d	Tanzania, U. Rep. of

Medium freedom ranking (11-30)

11a	Sri Lanka
11b	Egypt
11c	Ghana
13a	Nigeria
13b	Benin
14a	Korea, Rep. of
14b	Colombia
14c	Thailand
14d	India
14e	Sierra Leone

15	Mexico
16	Peru
18a	Brazil
18b	Bolivia
21a	Panama
21b	Dominican Rep.
23	Senegal
24	Ecuador
25a	Argentina
25b	Jamaica
29	Venezuela
30	Papua New Guinea

High freedom ranking (31-40)

31	Costa Rica
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The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

*Ann 3/6
paper is probably
still being missed
Room sending
all late today
3/6*

DATE: March 3, 1996 02:28pm

TO: Mark Malloch Brown
TO: TIMOTHY THAHANE

(MARK MALLOCH BROWN)
(TIMOTHY THAHANE @A1@WBHQB)

FROM: Robert Picciotto, DGO

(ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Visit to New York

You are receiving through the mail the paper I delivered at the Columbia Human Rights Faculty seminar. Once again, I was struck by the deep ignorance about the Bank which prevails in academia. The organizer of the conference thought it was the most lively human rights seminar they have had in a long time. Certainly, I was able to dispel some myths about our institution.

At the United Nations Development Program, I met with Ms Sharon Capeling, Mr Palmlund and Mr Wyckman.

Ms Capeling is in charge of strategic planning and evaluation at UNDP. I briefed her about the steps we are taking with respect to the MDB Evaluation Cooperation Group. I stressed that this was not at the expense of building strong links on evaluation between the two global and multisectoral development organizations (UNDP and the Bank). We agreed that we would cooperate on the next Evaluation and Development Conference, the proposed International Development Evaluation Association and evaluation capacity building in developing countries. Ms Capeling is very interested in setting up an electronic data system to link evaluation at New York HQ with evaluation in UNDP field offices. I said that we would be prepared to share our knowhow in this area as well.

Mr Palmlund is a senior adviser active in public sector management and governance. UNDP has significant training and capacity development activities in this field. We discussed the important role of evaluation capacity development in improved governance -- alongside the strengthening of financial management and auditing where UNDP has started useful work with Nordic trust funds. We have had useful working level relations at country level in these areas (e.g. Tanzania; Zambia) but no overarching strategic alliance with respect to public sector management.

This is an area which could well be explored further to the mutual benefit of UNDP and the Bank by HCO, EDI and the L&L Center. I will get in touch with those directly concerned within the Bank since evaluation capacity development (as well as strengthening of financial accounting and auditing) are best promoted within the context of a clear public sector management strategy.

Mr Wyckman was bullish about the evolving cooperative relationship with the Bank following the set up of the three task forces launched by Mr Wolfensohn. Against this background, he was supportive of the understandings I had reached with Ms Capeling. He expressed satisfaction with the close links which have emerged between UNDP and the Bank with respect to green accounting and the water strategy. He evinced interest in the proposed Bank-NGO study of adjustment. And he hoped that Mr Deshpande would be replaced at the right level (and will, I am sure, be delighted to find out that Myrna Alexander will take the lead on this).

In closing, we talked about the progress being made by GEF in setting up an evaluation unit. In this context, Mr Wyckman expressed concern about the strategic focus of the GEF and thought that a high level interaction between the Bank and UNDP (possibly including Mr Serageldin and Mr Strong as well as Mr El Ashry), might be helpful at an appropriate time. Finally, Mr Wyckman looked forward to an intensified UNDP-Bank dialogue on social policy and capacity development (e.g. between WDR and HDR).

CC: ARMEANE CHOKSI	(ARMEANE CHOKSI @A1@WBHQB)
CC: ISMAIL SERAGELDIN	(ISMAIL SERAGELDIN @A1@WBHQB)
CC: Rachel Lomax	(RACHEL LOMAX)
CC: Tariq Husain	(TARIQ HUSAIN @A1@WBHQB)
CC: VINOD THOMAS	(VINOD THOMAS @A1@WBHQB)
CC: Francisco Aguirre-Sacasa	(FRANCISCO AGUIRRE-SACASA)
CC: Ishrat Husain	(ISHRAT HUSAIN)
CC: Maurice Strong	(MAURICE STRONG)
CC: MIKE STEVENS	(MIKE STEVENS @A1@WBHQB)
CC: NIMROD RAPHAELI	(NIMROD RAPHAELI @A1@WBHQB)
CC: LISA PACHTER	(LISA PACHTER @A1@WBHQB)
CC: Pablo Guerrero	(PABLO GUERRERO)
CC: DGO Files	(DGO FILES)

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: February 6, 1996

TO: Xavier Simon, Division Chief, EDIRP

FROM: Petter Langseth, Senior Public Sector Mgmt. Specialist, EDIRP

EXTENSION: 3-8277

SUBJECT: **Governance Strategy Meeting**

On Thursday, February 1, 1996, the Governance and Public Sector Management team held a Strategy Workshop with various partners. In light of the proposed EDI expansion, we invited various donors, consultants, and NGOs who we work with closely such as Transparency International and CIETinternational to discuss our programs, our plans for the future, and planned expansion of programs. A lively discussion followed the presentations, and we plan to continue this dialogue over Internet, as well as meeting again in the future.

If you have any comments or questions, please let me know.

Attachments:

1. Brainstorming --Ideas and Actions
2. Participant List
3. GPSM Proposed Strategy Handout

Distribution: Messrs./Mmes.: Thomas, ter Weele, Bridi, Miovic (EDIDR); EDI Division Chiefs; EDIRP staff.

Governance and Public Sector Management
Strategy Workshop with Partners
February 1, 1996

Summary Proceedings
Juliette Schindler, EDI

Introduction

On February 1, 1996, EDI's Governance and Public Sector Management Team (GPSM) invited its partners (bi- and multilateral donors, foundations, NGOs, World Bank staff, and consultants) to discuss ways EDI can extend and deepen its relationship with them, in light of the planned expansion at EDI of the Governance Theme.

During the course of the meeting in EDI's offices, the GPSM Team presented its own vision for the next three years, which it is currently discussing with management. The partners were then invited to react to this vision, and to highlight areas, if any, in which their programs could benefit from collaborating with EDI.

The partners were excited by the EDI vision. One partner noted that EDI's approach to governance was an improvement over the Bank's usual routine of flying in, recommending a cut in the civil service of 50%, and flying out. When talking about capacity and institution building, one must be prepared to be engaged throughout the process of reform and to learn along with clients. Each partner was interested in staying in touch and forming a network. They also benefited from meeting each other. Already there is cross-fertilization occurring on the subjects of service delivery surveys, dissemination of materials, the links between good governance and private sector development.

Partners saw many avenues of mutual interest and potential for leveraging resources among each other to increase impact in client countries.

A summary proceedings follows, followed by some action points and a list of participants and contact information (attachments 1&2).

EDI Governance and Public Sector Management Team presentation

Petter Langseth (EDI) started the meeting with an overview of the GPSM program and goals. He used the example of the GPSM team's work in Tanzania to illustrate its approach to the integrity issue. The key message is that change requires a strong civil society. Civil society needs to be taught that they should expect integrity, and are clients of the government, not victims. The goal is to involve civil society in fighting corruption through strengthening the media and reporting corrupt officials, among other actions. Integrity needs support from the top as well to be accomplished. Thus, at the invitation of the government of Tanzania, EDI facilitated a workshop for both civil society and government. The workshop produced a) a National Integrity Plan and b) an Integrity Pledge to actively fight corruption, which presidential candidate Ben

Mkapa signed. Upon being elected, President Mkapa began the fight against corruption, claiming, "I will fight corruption and these are not just empty words." He followed up this statement by changing members of the cabinet, and pledging himself to a "Code of Ethics" to clean up public life.

To achieve enhanced management of the public sector the GPSM strives for improvement in three areas: capacity, results-orientation, and integrity. Traditionally, the focus has been central government capacity building; the GPSM program broadens this strategy to include changing mindsets and leadership, involving local governments, NGOs and the private sector as partners in learning. The GPSM program is also promoting a results orientation within public sector management and an emphasis on enhancing integrity. There is a strong customer orientation, which encourages input from civil society. In order to facilitate the implementation of this strategy, the approach includes increasing public awareness and involvement of civil society to establish the linkage between good governance and private sector development, and to strengthen the requisite public sector management (PSM) skills within client countries.

Patricia Langan (EDI) said that regarding *impact*, EDI has sought impact through both direct and indirect participation in workshops, seminars, and conferences. Traditionally success has been measured in terms of *outputs*; i.e., the number of workshops, conferences, and training programs, the number of participants, and the number of copies of publications/materials/videos. The GPSM program strives to go beyond this and measure *outcomes*, e.g., produced, and the number of citizens surveyed in Service Delivery Surveys (SDS), the participants and workshops indirectly affected by EDI, number of countries implementing an integrity or SDS system, etc. Finally, it hopes to see *impact* through the number of countries showing progress against the locally set baseline for integrity and service delivery.

A cornerstone of the program is improving the delivery of public services through the involvement of civil society in assessing public services. An initial **service delivery survey** assists client governments to identify priority services demanded by civil society, and serves as a baseline to measure improvements in service delivery. Repeated surveys can benchmark client satisfaction with those services. This mechanism also helps GPSM measure the impact of some of its own product lines. In FY96 the GPSM team intends to facilitate 32 workshops/conferences in client countries and 5 seminars for Bank staff, and plans to produce 25 books.

The GPSM approach involves working with client countries (both government and civil society), donors, NGOs, research/training institutes, and World Bank Operations. A prerequisite for GPSM work has been the identification of strong partners within client countries who can act as champions for the activities, and a champion within the Bank. The GPSM team is developing a small core of consultants with whom it has a trusted relationship, such as CIETInternational and Transparency International. Regarding bilateral agencies, the team seeks longer-term program cofinancing from those bilateral agencies which share its goals and objectives in the area of governance and public sector management. With the success of a secondment from CIDA (Rick Stapenhurst), the team is seeking additional secondments from bilateral agencies to the group to increase in-house capacity to develop and deliver quality programs. Lastly, the GPSM program strives to develop joint programs with other multilateral organizations, such as the UNDP, the Commonwealth Secretariat, and regional development banks.

The approach is one of acting as facilitators in a learning process, rather than as experts with all the answers. As became clear in the process of working on TI's "Integrity Sourcebook", there is no blueprint for enhanced public sector management.

Bob Beschel (EDI) explained that in FY96 there are five major product lines in operation, all tied to governance: service delivery surveys involving civil society; accountability and transparency; civil service reform; multimedia dissemination and public expenditure management. There is one product line at an advanced planning stage (post-conflict reconstruction). In FY97 the current product lines will be expanded geographically, for example the CSR product line will be expanded to East Asia and Public Expenditure Management product line globally and to Central/Eastern Europe. In 1997, the Post-Conflict Reconstruction project will begin implementation. Expansion will continue in FY98 and 99.

Program 1: Service Delivery Surveys (SDS): In many countries civil service reform programs have had only limited success because they lack the strategy to improve service delivery to the public. SDS provides essential information to help design civil service reforms, monitor results and ultimately make services more responsive to citizens' demands. Thus far they have been implemented in Africa, the Middle East, and Latin America. More surveys will be undertaken in these regions, as well as in Central/Eastern Europe, the FSU, and Asia.

Program 2: GPSM Multimedia Dissemination: GPSM is producing and disseminating the key findings and examples of best practice emanating from its workshops in order to promote the integrity, efficiency and effectiveness of the public sector. Dissemination takes place through the production of conference proceedings, books, working papers, and videos. The team intends to put more emphasis on this activity than in the past and to develop training materials for use in the Public Expenditure Management and Post Conflict Reconstruction product lines.

Program 3: Transparency and Accountability: Widespread corruption hinders development in many countries and urgent action is needed on a broad front to enhance integrity. The team is currently compiling and disseminating examples of best practice in promoting transparency and accountability, facilitating the development of strategies to combat corruption, enhancing the role of civil society, etc. This product line has been implemented in Uganda, Tanzania, and Jordan and will be extended to additional African and Middle Eastern countries, as well as to Asia and Latin America.

Program 4: Civil Service Reform (CSR): the goal of CSR is to improve the responsiveness, efficiency, effectiveness and integrity of the civil service through realignment of the size and structure of the civil service, improved personnel training, and results-oriented management. To date the activities are focused in Africa and, to a lesser extent, the Middle East and Latin America; we plan to extend product lines within those regions and to East Asia, Central/Eastern Europe and the FSU.

Program 5: Public Expenditure Management and Investment Decision-Making: Developing countries need to strengthen capacity in strategic macro decision-making and the formulation of meaningful medium term expenditure framework (MTEF). The product line is focused primarily on the FSU with one activity in Africa, and it is proposed to extend it to CEE/FSU and Africa and develop a global program.

Program 6: Post Conflict Reconstruction: this product line will begin implementation in FY97, and are proposed initially for Bosnia, West Bank/Gaza, Haiti and Angola.

New product lines which could begin to be developed over the next 18 months include **public sector/private sector interface**, and **decentralization and local government development**.

* Please see the GPSM Strategy Presentation handout for staff and budget growth figures (attachment 3).

Partners' Presentations and Discussion

Jeremy Pope (Transparency International) spoke on the topic of corruption. He defined corruption as the misuse of public power for the private profit. Corruption engenders wrong economic choices, deepens poverty, undermines governance structures, and the poor pay the price for the corrupting of their elites. The strategies of dealing with corruption are i) prevention ii) enforcement iii) public awareness and d) capacity building. It must be undertaken in a holistic approach, focusing on best practice/lessons learned, and creating coalitions. To do so, a national integrity action plan must be set, prevention must be emphasized and opportunities minimized, excellence must be rewarded and transgression punished, and civil society must be empowered.

The role of Transparency International is non-confrontational, fostering dialogue and building coalitions between North and South, and forming partnerships with interested governments. TI's National Integrity Sourcebook is a starting point to develop best practice. It strives to empower civil society groups and act as a resource for reformers and policymakers. The next steps are specific, highly-focused handbooks, translation of the Sourcebook into various languages, identification and analysis of success stories, and identifying further government, NGO and donor partners. Jeremy spoke of lessons learned from the past, and an overall strategy for the future. Prevention, enforcement, and institution building are key elements to the strategy. He mentioned possible next steps as including i) establishing a national integrity working group, ii) identifying areas for reform, and iii) planning with short, medium and long-term goals, among others. His final thoughts were:

1. Reform is a long term process.
2. Tackle issues where reform is most effective.
3. Reform is fashioning building blocks.
4. Reform should be owned visibly and supported from the top.
5. Issue is the public's confidence in the State - and its abilities to reciprocate.

Neil Andersson (CIETinternational) introduced CIETinternational as a non-profit, non-governmental organization. It promotes community-based fact finding and analysis as a means of increasing participation of socially and economically disadvantaged people in local planning and development decisions. CIET uses community-based research, promoting decentralized use of modern research and evaluation methods. It focuses on capacity building, building local capacities through formal courses, hands-on training and the distribution of training materials. Information management is important; by linking three types of data -- impact, coverage, and costs -- community-based research increases the transparency of planning.

CIET worked with EDI and Bank Country Operations to implement the Service Delivery Survey (SDS) in Nicaragua, Mali, and Uganda in 1995. SDS is a reiterative, results-oriented evaluation scheme to build local capacities while delivering

quantitative and qualitative data. The SDS can contribute to greater effectiveness and efficiency of the public sector in at least two ways. Firstly, fresh representative local data are fed into the planning process to precipitate *more informed decisions* on service delivery. Also, the very process of obtaining evidence *motivates and builds awareness*. A SDS is much more than a one-time household survey. Several methods are combined in a modified cluster design: a critical review of existing data, institutional reviews, key informants and focus groups provide the qualitative dimension *over the same sample*. A large number of nationals are trained to make the process sustainable. By emphasizing **analysis and communication** capacities, SDS can contribute substantively to national capacities for evidence-based planning. SDS is flexible to national capacities and needs; it is a carefully balanced selection of tools that take off from -- and develop along with -- national capacities.

Typically the costs of a SDS system are lower than surveys of similar designs. A pilot and at least two additional cycles are recommended in order to build strong capacity to assure that the process is sustainable. One cycle of SDS can be completed fairly rapidly, with design, data collection and entry, and preliminary analysis taking around one month (the initial cycle will take closer to two months.)

Victor Carvell (CIDA) explained that CIDA has explicitly linked good governance, human rights and development. In this area, it prefers to work with countries who are responsive, but occasionally CIDA does have country programs in places that may be less cooperative on the governance issue. Modalities CIDA uses include institutional strengthening (e.g. building broadcasting organizations), improving legal frameworks, and increasing professional skills (e.g. for judges). In contrast to EDI, which to date has concentrated in Africa and is present in LAC, the Middle East and the former Soviet Union, the bulk of CIDA's governance work has been in Asia. There are several areas in which EDI's work fits with CIDA's, and the National Integrity Sourcebook for which EDI has provided support is a good example. The Sourcebook could tie into CIDA's regional human rights work with NGOs, for example, in West Africa.

Clay Westcott (UNDP) highlighted five UNDP product lines which are related to EDI's objectives:

1. Manual: "Process consulting for systemic change"
2. AID Accountability Initiative (with like-minded)
3. Research -Human development report coming out in May. Clear link between human development and growth, neither can be sustained without other. Another way to look at link between economic growth and governance.
-Capacity assessments: capacity is the ability to carry out tasks. Service ability function: interesting findings on why some functions perform in places like Tanzania when many of the other functions do not.
4. Networking using the Internet: links practitioners together. Currently links are through conferences and mail. Rather than countries asking UNDP specialist for answer to problem, put problem out to group over Internet. Not just a network for people to chat with each other, but put documents or at least summaries over Internet, many of these countries don't have copies of reports, big problem
5. Work with SPA on guiding principles. In civil service reform and public expenditure are guiding principles. Two more are being prepared; economic reform in context of liberalization (led by A.I.D.), and poverty (led by World Bank).

Sandra Granzow (Granzow Communications) addressed some principles that could underlie EDI's facilitation of public awareness and communications campaigns on governance issues, and some ways to design these campaigns in a participatory fashion. The communications campaign in support of the structural adjustment program for Madagascar exemplifies these principles and processes. The team started with participatory workshop on structural adjustment. In the workshop they tried to draw in a wide range of stakeholders, including representatives from the private sector, and the National Council of Churches, as well as policymakers. As building blocks of a communication strategy they had the participants draw pictures, starting with the current situation and then their visions for future. With this approach they ended up with a working hypothesis that can later be tested, but is ready to roll. The use of pictures led to a high degree of excitement and ownership. Also, to increase ownership they formed a communications committee and media subcommittee, instead of communications people pretending to be experts about structural adjustment. The participants in the workshop strongly felt the top priority audience had to be government, which shifted greatly the direction they chose to go.

The analysis was based on several key questions:

- what do we want audience to do or not do, and
- what do the participants want and what are they afraid of.

Sandra said the workshop teams also worked on message development, not just slogans. Much more will be done with language of messages, processing, etc. Also, vehicles and channels, e.g., how to reach the peasants (reach the elites primarily through newspapers). One risk is raising expectations too high. Regarding corruption, 40% of citizens had actually paid a bribe in capital of Madagascar. Need more than just communication here--strong policy and management skills cannot be replaced by better communications.

Petter stated that we are in need of techniques, amazed to see how ignorant people in the Bank are of how to facilitate workshops. He feels Wolfensohn wants a variety of people in the Bank as well as economists.

Ilan Kapoor (EDI Consultant) said that he has worked with CIDA in its policy branch, and right now they are trying to develop a methodology for indicators on human rights and democratic development. There are also ways of using visual communication. A spin-off is training local people to be facilitators, which adds sustainability.

David Fagelson (IRIS Center, University of Maryland) spoke on the connection between institutional arrangements and economic growth. More generally, protection of individual rights is connected to the ability of private market to thrive. Property or contract rights cannot be enforced without an independent judiciary. For the IRIS Center corruption is a focus, but they also study the impact of crime on governance. In Russia, for example, the link between government structure and crime is being looked at. Businessmen have no way to enforce rules and have to fall back on people they know, thus getting sucked into the criminal element. An outside enforcer of contracts and property rights is needed. In some Eastern European countries you cannot get credit or collateral in order to get that credit. The way institutional arrangements are structured impacts crime. The IRIS Center has provided technical assistance in the area of credit markets, by trying to make credit non-discriminatory and by working with people who go to get credit, for them to lobby/pressure government. In

Madagascar, for example, to get a license required getting 52 licenses, which was 52 opportunities for bribes.

The IRIS Center tends to focus on transitional economies, especially former communist countries; Mr. Fagelson questioned Petter on why there is not more focus there. Petter feels the situation in Eastern Europe/Russia is almost out of control, and the problem is how to bring participants from these countries into these workshops.

Bob Beschel commented that it is an extremely chaotic situation in this region between government branches and within the branches fighting is rampant. EDI has done some work in Bulgaria, Hungary, and will move into Bosnia. Mr. Fagelson replied that there is a large group of people who are committed to reform in the EE/FSU region, and it is fertile ground. Petter added that we need to explore how well lessons from Africa translate into these other countries, and there is a need to do more cross-fertilization between continents.

Sahr Kpundeh (EDI Consultant) spoke on a project funded by A.I.D. for the National Academy of Sciences called "Democratization in Africa: African Views, African Voices" which obtained information from Africans rather than the West. He organized workshops in west, east, and southern Africa, structuring them around governance, etc. The participation of indigenous people and how workshops are structured determine to a large degree the products you get out of it. The experts from West Africa acting as facilitators was significant in terms of product, for example. Participants have gone on to posts such as minister in South Africa and vice president in Malawi.

David Baker (Eurasia Foundation) pointed out that governance work is being done at least at the local levels in the transition economies of the former Soviet Union. He said his own foundation has recently given its 1000th grant to N.I.S (former Soviet Union) area, in the form of joint projects and directly to N.I.S. organizations. Success is due to the types of mechanisms used: there are six offices in field, each delegated to make grants, each grant reviewed by binational review board, etc. Grants include public administration grants, which provide the linkages between governments and people, improving communication between local governments, streamlining government services, etc. Roundtables have been held between local governments and NGOs, helping to improve the links between the private and public sectors. Sustainability is an important guiding principle for bilateral committees to use.

Adam Thiam (Embassy of Mali) said that he used to work for Oxfam in West Africa on training and information dissemination on arid lands. This involved a network of 2,500 people throughout Africa, working in 14 countries. He trained and gave information on where to reach donors for various projects. He commented on the difficulty of translating not just language, but whole concepts, between anglophone and francophone Africa. Cartesian views of service very different from view in anglophone countries, yet on the ground the problems are very similar.

Two people commented that EDI's emphasis on raising awareness is important, but cannot replace the substantial need for skills and expertise. Clever lawyers, responsible journalists, committed management experts, financial, communications expertise--this is the type of indigenous skill base that must be created in order for EDI to meet its objectives. In addition, institutions, systems and professional associations must be created.

Several people were enthusiastic about EDI's initiative in improving service delivery. Ed Campos (World Bank-Policy Research Department) noted that client surveys help reveal information and thus reduce transaction costs. He noted the usefulness of including samples of business people as well as citizens, as a way of

revealing data on regulatory barriers to private sector development. This was done in the SDS for Nicaragua.

Clay Weskit asked how much useful information on a particular service can be gleaned from a household survey, when many citizens may be uninformed about the service. Patricia Langan answered that (a) SDS collects information about coverage as well as impact and costs, so that the fact that they do not know about the service says something about coverage; and (b) SDS is not only a means to reveal information, but it also sets up a two way communication link between the government and the governed, with the government providing information back to the public. It helps set up expectations on the part of citizens that services will actually be improved. Neil Andersson added that the size of the household survey sample is so large that a subset of informed citizens can be teased out that provides statistically significant information.

One person asked to what extent the key stakeholders are brought into the SDS process. Neil Andersson (CIETInternational) answered that the full range of stakeholders are targeted. Where appropriate, key informant interviews with the people responsible for providing the service are conducted to complement the household survey information. Participatory methods that are indigenous to the community in which information is sought are used. Indigenous talent is used to the greatest extent possible, from universities and local NGOs, for example. SDS further avoids reinventing the wheel by using extant data in the country.

One person expressed skepticism about whether EDI was pushing decentralization for its own sake. Decentralization can spread talent out, and make it harder to control corruption. Others disagreed. Jack Titsworth noted that in the case of water and sanitation services, often the level at which service delivery is the most efficient and effective is at a level quite close to the actual consumer. Petter Langseth remarked that EDI is not pushing decentralization *per se*, but is emphasizing results.

Jack Titsworth (Global Engineering Services) commented on a governance group in Kenya. He said the opportunity costs of not putting into place public expenditure policies donors cannot support are great. If a structural adjustment package is not put into place there are enormous costs, whereas there are enormous benefits if it is put into place. It was not put into place in Kenya, and things are getting worse. Also linked up with the B.I.S. with this project (Kenyan deposits overseas very high). Suggested that ideas have Museveni's support, and the Commonwealth often have discussions on how to run country; Museveni could speak at a Commonwealth government meeting and be advocate for integrity.

Claus Simonsgaard (Global Engineering Services) asked if the private sector might not be more interested in investing in country where it can get around the system? Jeremy Pope responded that Malawi expatriates want assurances, constitutional assurances are useless. Message was if there was clear evidence of commitment to accountability and transparency, then the money will come.

Claus asked if the private companies were buying into monopolies primarily. Someone responded by comparing East Asia to the rest of the world. Businessmen will go where laws and environment are predictable. If you see private investment coming in, it is a good indicator of improving governance.

Mr. Fagelson agreed that investors like certainty, even buying into a monopoly does not guarantee this. Nancy Boswell (Transparency International-US Chapter) stated that she sees real life examples of businesses hesitant to go into a country because it lacks the proper legal framework and stability. Another comment was that

instability is a manifestation of bad governance. Sahr Kpundeh said the fundamental problem is political, not economic, in Africa. Bob stated that empirical correlations between governance and investment and economic growth exist.

Brainstorming--Ideas & Actions

Sandra Granzow facilitated a brainstorming, the main points of which include:

Name	Ideas/ Needed Actions	Commitments to Action
Ilan Kapoor	Connect governance and participation; devise explicit methodologies and indicators	⇒ David Fagelson offers to share IRIS research on the connection between governance and growth.
	When investigating the connection between investment and governance, include not only big business, but also small and medium size enterprises	⇒
Ed Campos	Link governance issues to private sector development	⇒
Claus Simonsgaard	Global Engineering needs timely requests for consultants from EDI	⇒
	Partners should have a monthly brown bag to discuss progress to date, and any new issues/opportunities that arise	⇒
Peter Richardson	Complement awareness raising with follow through on expertise building	⇒
	Establish/solidify linkages within the Bank, and not just with operations--include PSM Divisions, FIAS, Legal Dept.	⇒
	The nexus of corruption, good governance and foreign investment could be articulated by partners in the World Bank such as FIAS. Include IMF and local investors in the dialogue	⇒
	Be more ambitious--pursue major program to build institutions. An example would be for a McKinsey to replicate itself in developing country contexts with a PSM bent	⇒

Name	Ideas/ Needed Actions	Commitments to Action
Ron Hood	Put more emphasis on FSU earlier in EDI's expansion strategy for GPSM	⇒
	Include more public servants from cofinanciers to leverage PSM expertise	⇒
	EDI should publicize what is being done to the rest of the Bank	⇒
	Focus on local government--start small and build on that	⇒
Nancy Zucker Boswell	Use TI's national chapter network	⇒
	Choose countries more carefully--e.g. look for where the private sector is more interested in investing	⇒
	Tap the expertise of TI more	⇒
	Many other groups are working on governance—do not reinvent the wheel: e.g. there is an initiative out of John Clark's NGO unit on regulatory and institutional frameworks for NGO development which could have implications for EDI's governance work. Offer to help them test their ideas in the field.	⇒
Adam Thiam	Since economies are linked in West Africa through, for example the monetary union, take a regional approach in West Africa and use those networks that already exist, e.g. use the West African monetary union system	⇒
	Facilitate the transfer of lessons learned in Anglo- to Francophone Africa	⇒
	Insist on dealing only with credible NGOs that have constituencies	⇒
	Focus on the information coming out of workshops	⇒
	There is no impact if people don't understand the message--one of easiest ways is to put it in their language--translate documents/materials/videos, etc. into vernacular language	⇒

Name	Ideas/ Needed Actions	Commitments to Action
	Stay away from the bias toward the printed word--disseminate through audio tapes, radio in vernacular languages	⇒
	Include NGOs in planning and execution	⇒
Neil Andersson	Form partnerships with universities in order to tap into local expertise and also to build capacity in results oriented management	⇒
Patricia Langan	Need to communicate regularly with Partners--propose through Internet	Clay Wescott offers to make a list server for this Network of Partners; make an electronic forum and broadcast to the networked groups worldwide
		⇒ David Fagelson asks participants to send their web sites to him and he will interlink them
	Partners invited to contribute to success of EDI's new newsletter on GPSM, through for example, article submissions/ database exchanges/ Internet access	⇒ Patricia Langan will put Network of Partners on GPSM Newsletter database
	Ask partners to share their publications lists	⇒
Jack Titsworth	Get every donor to provide a secondment plus a person from a client country	⇒
	Sponsor "mentoring" opportunities for client country civil servants, e.g. bring them to New Zealand to observe reforms.	⇒
	We need to examine why things work and do not work and build on the lessons	⇒
	We need to form learning and communication strategies	⇒
David Fagelson	We must remain sensitive to the fact that governance is not a management question with right answers--the answer varies according to the context	⇒

Name	Ideas/ Needed Actions	Commitments to Action
	the link between investment and governance is not a mystery--much success can be attributed to environments the foster settled expectations	⇒
	Concentrate on domestic local investment and emerging markets	⇒
Sahr Kpundeh	Mentoring: rather than New Zealand, take Africans to other countries in Africa	⇒
	Indigenous facilitators exist-use them	⇒
	Use local talent to a greater extent	⇒
Jeremy Pope	Concentrate on building coalitions between civil society/society/business	⇒
	Take the broad view, but not at the expense of actionables	⇒
	Consultants should not roar in and out--they should think of their jobs not as doing the job, but of helping the job get done	⇒
Petter Langseth	A partnerships network like the one we hope we are in the process of establishing is crucial to the success of EDI's strategy, especially given the expansion, and EDI would like to be able to continually call upon partners for counsel and input	⇒
	We need to get the messages we agree on today out as a group--to form a strong lobby for these ideas	⇒
	Be careful to manage all sides' expectations or you will be seen as unsuccessful	⇒
Shahrzad Sedigh	Concentrate on small and medium enterprise in any attempt to highlight investment-governance links	⇒
	look at monetary policy and governance	⇒
Sandra Granzow	A communications strategy should be incorporated into overall strategy from the beginning	⇒

Governance Theme
Strategy Workshop with Partners
February 1, 1996 at EDI

Participant List

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GOVERNANCE AND PUBLIC SECTOR MANAGEMENT GPSM

Handout for Strategy Presentation

February 1, 1996

GOVERNANCE AND PUBLIC SECTOR MANAGEMENT

Objective

1. The GPSM program aims at improving governance and public sector management by piloting new approaches through the dissemination of lessons learned and best practices .

Strategy

2. Enhanced management of the public sector requires improvements in three areas: capacity, results-orientation and integrity. Traditionally, the focus been central government capacity building, primarily through the provision of tools and skill-building. We are now broadening our strategy to include changing mindsets and leadership, and involving local governments, NGOs and the private sector as partners in learning. This approach concurs with EDI's strategy of enabling partners to "exchange ideas and experience among themselves, to learn from each other's best practice and failures." In addition, we are promoting a results orientation within public sector management and an emphasis on enhancing integrity. With a customer orientation, we are encouraging input from civil society throughout the public sector program delivery cycle.

3. In order to facilitate the implementation of this strategy, our approach includes increasing public awareness and involvement of civil society to establish the linkage between good governance and private sector development; and to strengthen the requisite public sector management (PSM) skills within client countries

Impact

4. Traditionally, the Governance theme, like others in EDI, sought impact through both direct and indirect participation in seminars, workshops and conferences. To date, such activities have primarily taken place in developing countries, although we have hosted several seminars for Bank staff on the topic of accountability and transparency. In the pursuit of broader impact, we are increasing the dissemination of lessons learned and

examples of best practice that emanate from our activities and. Publications, case studies, training materials, videos and a newsletter are distributed through EDI and its partner organizations.

5. A cornerstone of our program is improving the delivery of public services through the involvement of civil society in assessing public services. An initial service delivery survey assists client governments to identify priority services demanded by civil society , serves as a baseline to measure improvements in service delivery. Repeated surveys can benchmark client satisfaction with those services. This mechanism also helps GPSM measure the impact of some of its own product lines.

In FY96, the GPSM team intends to facilitate 32 workshops/conferences in client countries, either directly or in workshops directed by our partners. In addition, we will conduct 5 seminars for 150 Bank staff. We plan to produce 25 publications, including books, workshop proceedings, staff working papers and articles. Ultimately in FY 99, we project EDI's efforts, working with its partners, will either directly or indirectly reach over half a million people annually . The number workshops will 118, and the number of direct participants will be about 4,000. In addition, there will be 21 seminars for Bank staff. We are also working with the World Bank's operational and technical staff to identify indicators of public sector efficiency, which will assist us in measuring impact.

Partnership

6. Our approach involves working with client countries (both governments and civil society), donors, NGOs and research/training institutes and World Bank Operations. A prerequisite for our work has been the identification of strong partners within client countries who can act as champions for our activities.

7. We have found it very cost effective to use NGOs such as Transparency International and CIET International to help facilitate our programs and we are developing a small core of trusted consultants with whom we have a long-term relationship .

8. Instead of regarding bilateral agencies as mere sources of co-financing, we are seeking longer-term program co-financing from those bilateral agencies who share our goals and objectives with regard to governance and public sector management. We actively seek and encourage secondments from those agencies to our group to increase our in-house capacity to develop and deliver quality programs , especially, to help develop the working level relationship between EDI and the bilateral agencies.

9. We will also seek to develop joint programs with other multilateral institutions, such as the UNDP, the regional development banks and the Commonwealth Secretariat.

Learning Process

10. Accepting that there is no blueprint for enhanced public sector management, we work as facilitators and promoters in a learning process, rather than as experts with all the answers.

11. Our *clients* are ministers and other senior officials from central government ministries, technical experts, regional and local government officials, management training institutes and trainers, representatives from civil society, and World Bank operational and technical departments.

12. Our *comparative advantage* rests in our ability (a) to facilitate a participatory action learning process that enhances ownership and sustainability, using a broad range of analytic tools and practical experience; (b) to develop and implement GPSM programs which both complement World Bank operations and, at the same time, are strongly client-focused and locally-owned; and (c) to identify, to develop and to disseminate examples of best practice drawn from around the world.

Product Lines

13. As the Theme tab indicates, in FY 96 we have five major product lines in operation, all tied to governance (service delivery surveys involving civil society; accountability and transparency; civil service reform; multimedia dissemination and public expenditure management) and one at an advanced planning stage (post -conflict reconstruction). These five product lines have strong implications for governance when applied together. For example, service delivery surveys provide evidence for transparency and civil service reform. The SDS also draws civil society into results-oriented public expenditure management.

14. Diagram 4 represents the GPSM theme in FY 97. Current product lines (i.e., extending the CSR product line to East Asia and Public Expenditure Management product line both Globally and in Central/Eastern Europe) will be extended. The Post Conflict Reconstruction product line will begin implementation. Chart 3 in the Hand out represents the further expansion of the program in FY 98 and FY99.

Program 1: Service Delivery Surveys - Involving Civil Society

15. In many countries, civil service reform programs have had only limited success because they lack strategies to achieve one of the key goals of reform, namely improving service delivery to the public. Results-oriented management is an important element for improving service delivery, but client countries often do not have the structures or processes in place to implement such an approach. We are assisting a number of countries to design and implement *Service Delivery Surveys* that will provide essential information to help design civil service reforms, monitor results, and ultimately make services more responsive to citizens' demands.

16. To date, service delivery surveys -- and the national capacities to conduct them -- have been established in Africa, the Middle East and Latin America. We intend to extend this product line, by undertaking more surveys in these regions, as well as in Central/Eastern Europe, the Former Soviet Union and Asia

Program 2: GPSM Multimedia Dissemination

17. GPSM is producing and disseminating the key findings and examples of best practice emanating from its workshops, conferences and seminars in order to promote the integrity, efficiency and effectiveness of the public sector. This is achieved by: commissioning/supporting important pieces of research; emphasizing examples of best practice and successful policy instruments and program which affect the integrity, efficiency and effectiveness of the public sector; by reviewing the main issues involved in improving public sector management and highlighting factors constraining effective donor-government coordination. Dissemination takes place through the production of conference proceedings, books, working papers and videos.

18. The output of this product line is determined by activity in the other product lines; nonetheless, it is our intention to put more emphasis on this activity, and, in addition, to develop training materials for use in the Public Expenditure Management and Post Conflict Reconstruction product lines (see below). An extension of this product line, will formally include the training of Bank staff (in cooperation with the Learning Center) and the training of trainers.

Program 3: Transparency and Accountability

19. Widespread corruption hinders developmental efforts in many countries and urgent action is essential on a broad front to enhance integrity. We are currently, developing, collecting and disseminating examples of best practice in promoting transparency and accountability; facilitating the development of promising strategies for combating corruption, and considering the link between corruption and civil service codes of conduct, leadership, incentives, penalties and organizational culture; enhancing the role of civil society in promoting accountable, responsible government; and encouraging the devolution of authority and responsibility.

20. This product line has, to date, been implemented in Africa (Uganda and Tanzania) and the Middle East (Jordan). We intend to extend activities to additional African and Middle Eastern countries as well as to Asia and Latin America.

Program 4: Civil Service Reform

21. The goal of civil service reform is to improve the responsiveness, efficiency, effectiveness and integrity of the civil service. Realignment of the size and structure of the civil service with the role of government (together with the adoption of more realistic remuneration packages), improved personnel training and results-based management are critical to success of civil service reform. Our workshops and seminars include the viewing the civil service reform as a process of change and learning. They emphasize: integrated civil service reform, where questions relating to the size and mandate of the civil service are viewed in the broader context of the state's role in development (including private sector development); they devise strategies for change, coordinating and sequencing major reforms and key interventions, as well as monitoring the progress of reform; they enhance access to relevant management information for decision making and improving service orientation and delivery; and they link structures and processes to organizational objectives.

22. To date, our activities have mostly focused on Africa and, to a lesser extent, the Middle East and Latin America. We propose to extend this product line within these regions and also start up programs in East Asia and Central/Eastern Europe and the FSU.

Program 5: Public Expenditure Management and Investment Decision-making

23. Around the globe, developed countries are abandoning the old planning and programming paradigm and adopting a more strategic, medium term expenditure framework (MTEF). Developing countries need to strengthen capacity in strategic macro decision-making and the formulation of a meaningful MTEF. This will lead to disciplined decisions regarding the role of the government, national expenditure priorities, the relationship between both capital and recurrent expenditures and external and internal resources and the management and co-ordination of external financial assistance.

24. This product line is focused primarily on the FSU, with one activity in Africa. We propose to extend it both within CEE/FSU and Africa and also to develop a global program.

Program 6: Post Conflict Reconstruction

25. Although initial work in this area is already underway, implementation of the major initiatives in this product line will begin in FY 97. Initial activities to strengthen and rebuild government institutions that have been shattered or devastated by war and occupation, are envisaged in Bosnia, West Bank/Gaza, Haiti and Angola. Priority will be given to strengthening central mechanisms for policy formulation, coordination and

implementation; working out a viable system of inter-governmental relations; upgrading the training and management skills of senior and mid-level civil servants, and improving service delivery through the use of service delivery surveys.

Program 7 : New Product Lines in FY 98 and FY99

26. New product lines, the development of which could begin over the next 18 months, be ready for implementation in FY 98 and FY 99 include:

Public Sector/Private Sector Interface

27. This product line will grow out of existing and planned Civil Service Reform and Service Delivery Survey activities. Primary emphasis will be given to two sets of issues: (1) the link between good governance and foreign investment, and (2) the privatization, commercialization and outsourcing of selected public sector goods and services.

Decentralisation and Local Government Development

28. In much of EDI's work on Civil Service Reform, Public Expenditure Management, and Post-Conflict Reconstruction, issues of inter-governmental relations and decentralization are of critical importance. Furthermore, the tremendous growth of urbanization in the Third World will require that increasing attention be given to local governance and management. Within the next two years, it is our goal to consolidate much of this work together.

Program Budget and Composition

Resource Implications

Staff

28. Our current staff complement is 2 Regular Higher Level Staff, one Seconded from a Bilateral Agency, Two Long-Term Consultants, 1 projects assistant (consultant) and 3 administrative staff (all of whom are shared with Task Managers outside GPSM).

29. Our program expansion, as outlined, would require an increase in staff.

In FY 97 we would require

* 8-9 Higher Level Staff and/or Long-Term Consultants (ie an increase of 4-5 persons;

of these, 2 could be Secondees from partner bilateral agencies)

* 2 Project Assistants (an increase of one)

* 4 Administrative Staff, dedicated to GPSM (an increase of 2)

In FY 98-9 we would require :

* 10-11 Higher Level Staff and/or Long-Term Consultants (ie an additional increase of

2 - 3; of these, one could be a Secondee)

* 3 Project Assistants (an additional increase of one)

* 5 Administrative Staff (an additional increase of one)

FY 99	FY 96	FY 97	FY 98	
Proposed	Current	Proposed	Proposed	
<u>Staff</u>				
Regular Higher-Level	2	3	4	5
Term/Secondments	1	3	4	
4				
Long-Term Consultants	2	3	3	4
Total Higher Level	5	9	11	
13				
Project Assistants	1	1-2	2	
3				
Administrative Staff	3*	4**	5**	5

* Shared Staff

** Dedicated Staff

Reference:

Program Budget (\$i000)	1616	3000	4000
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Budget/HLS (\$i000)	323	355	390
Project Asst/HLS	.2	.17	.18
Admin Staff/HLS	.6	.44	.45

Space

30. A commensurate increase in office space would be required, as follows:

	Total Office Space Required		
	FY96	FY97	FY98
Offices with Windows	4	8-9	10-11
Interior Offices	1	2	3
Administrative Work Stations	3	4	5