Oil, Gas Mining Policy and Operations Unit (COCPO)
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World Bank Group

Governance Framework for Extractive Industries in Africa – Mining

Guidelines for Governance Work

Volume I: Main Report

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I. Introduction

The efforts undertaken with the BNPP grant sought three key development objectives, including:

    i)   Developing and testing of a comprehensive Governance Framework for Extractive Industries in Africa;

    ii)   Providing governments with practical, operational measures to support sustainable mineral resource development; and,

    iii)   Developing and mainstreaming practical measures regarding transparency, accountability, information-sharing, and consultative & scrutiny mechanisms.

Dalberg Global Development Advisors, working closely with the World Bank and other key stakeholders, conducted a two-phase project to meet these objectives. The first phase involved the development of guidelines for a governance framework and the second phase included two pilots to test and refine the framework, map key vulnerabilities in the pilot countries, and identify practical measures to address the governance challenges.

The first phase produced a systematic approach to governance assessment, remediation, and evaluation in extractive industries, with a focus on the mining sector. The guidelines focused on "demand" for governance as well as "supply," employed a systemic view rather than a purely sectoral view, emphasized fact-finding in countries, and underscored the importance of a customized approach. This phase addressed the need to develop a comprehensive framework and the need to develop practical measures regarding transparency, accountability, information-sharing, and consultative & scrutiny mechanisms. The guidelines were produced in modular form, so that World Bank Country Teams, government counterparts, and other key stakeholders can use those sections most applicable to the countries' particular needs.

The second phase entailed conducting two pilots, in Ghana and Mali, to provide in-depth diagnoses of governance vulnerabilities, maps of key institutional and governance vulnerabilities, and designs for action plans for implementation including key potential implementation challenges. The pilot phase addressed the objectives to test the

governance framework, provide governments with practical and operational measures to sustainable mineral resource development, and the mainstreaming of practical measures regarding transparency, accountability, information-sharing, and consultative & scrutiny mechanisms. The pilot reports identified a prioritization of vulnerabilities across a range of stakeholders and provided a suggested timeframe for mitigating those risks.

Why Extractive Industries are prone to corruption and what are the failures of current approaches?

1. Extractive industries remain the economic bedrock for many developing countries -- generating the main, if not the sole source, of fiscal revenues, foreign exchange earnings and surpluses to finance much needed social development. Yet, all major surveys (e.g. Transparency International's Bribery's Payer's and Corruption Perception indices) show the high levels of corruption associated with extractive industries. Not surprisingly, such countries, unable to use effectively the resources from extractive industries, tend to show poor economic performance when compared with countries with similar levels of income.

2. It is thus imperative to approach issues of governance systematically when considering support for extractive industries development. The goal of assistance is to unlock wealth from natural resources in order to contribute resources for human development and productive investments for the long term sustainable development of the country. This will only be possible if one can break the vicious circle between extractive industries and corruption.

3. This document seeks to lay the ground work for a systematic approach to governance assessment, remediation and evaluation in extractive industries. While the report primarily was prepared in conjunction with the World Bank, its can equally be used by other stakeholders including governments, the private sector, or civil society. This approach is built on four underlying principles.

   i. <u>Demand as well as supply</u> Development of good governance rests on two key pillars. The first is the

supply of government effectiveness in the areas of laws, policies and institutional development which the World Bank has historically focused on promoting in many countries. The second is the **demand** by the indigenous civil society and the private sector for good governance from its leaders and public servants. Until this indigenous pull for governance is established, it will be easy for officials to find new ways to game the system and to get away with it. Democratic openness is a prerequisite for this demand to surface and is here used as a proxy for demand.

ii. <u>Not sector limited</u> Corruption or for that matter any other manifestation of governance dysfunction does not respect sector-specific boundaries. It is essential to look at vulnerabilities more broadly by taking a systemic view. Institutions and parties that are partially or even peripherally involved in the activities of the extractive industry sector can play leading roles in permitting corruption to happen. This is a by-product of the size of the financial transactions.

iii. <u>Emphasis on fact finding</u> It is imperative to incorporate detailed first-hand information gathered at ground-level to be able to understand the nature of corruption within a specific country and/or institution. Current diagnostics based on surveys provide data with high-error margins and are rapidly outdated. There is currently no reliable and generally accepted approach that allows for a successful outside-in approach.

iv. <u>A customized approach</u> There is no recipe for governance assessment that will work in every country. This is because corruption is constantly changing and adapting to new rules or influences. This is not to say that useful information cannot be gained by looking at patterns and typical cases. On the contrary, these should be studied, and applied in a sophisticated manner that is open to new dynamics.

4. Many existing initiatives that seek to manage corruption by controlling flows of resources should be supplemented by complementary approaches to address the underlying governance weaknesses (often on the "demand side") that sustain institutional dysfunction and the associated corruption.

5. This report details a systematic set of diagnostic frameworks, designed to provide the insights necessary to fill the gaps in existing governance approaches, including:

   i. a high-level assessment to capture governance characteristics at a macro-level;

   ii. a systematic diagnosis of vulnerabilities at the institution level; and,

   iii. An approach outlined to identify the actions or interventions likely to be effective to address identified vulnerabilities.

II. The Shape of Extractive Industries Good Governance

The Issue: Multiplicity of Issues and Diversity of Stakeholders

Mineral and petroleum products are essential to contemporary societies and economies. Many basic needs cannot be met without them. But simply meeting market demand for mineral and hydrocarbon commodities falls far short of meeting society's expectations of industry. The process of producing, using, and recycling minerals could help society reach many other goals – providing well paying jobs, aiding in the development of national economies, and helping to reach energy and resource efficiency targets, among many others. Where industry is falling short of meeting these objectives, it is seen as failing in its obligations and is increasingly unwelcome.

The mining and minerals industry faces some of the most difficult challenges of any industrial sector – and is currently distrusted by many of the people it deals with day to day. It has been failing to convince some of its constituents and stakeholders that it has the 'social license to operate' in many parts of the world, based on the many expectations of its potential contributions:

- o Countries expect that extractive industries development will be an engine of sustained economic growth.

- o Local communities expect that the industry will provide employment, infrastructure, and other benefits that counter the risks and impacts they experience and will leave them better off than when the project started.

- o The industry's employees expect safer and healthier working conditions, a better community life, and consideration when their employment ends at mining closure.

- o Local citizens and human rights campaigners expect companies to respect and support basic rights, even when they are operating where government does not.

- o Environmental organizations expect a much higher standard of performance and that the industry will avoid ecologically and culturally sensitive areas.

- o Investors expect higher returns and have shown concern about the industry's financial results at times of depressed commodity prices.

- o Consumers expect safe products produced in a manner that meets acceptable environmental and social standards.

Companies must do much more, sometimes with fewer resources. There are boundaries to the responsibilities companies can take on in society: most people would be uncomfortable in a world where companies were the main sources of education and health care, the principal agencies protecting individual rights, or surrogate governments. Other actors have important roles to play – governments and local organizations above all.

Government must provide an enabling environment, define the standards expected of industry, assure those standards are being met, and have meaningful incentives and sanctions to encourage compliance. It must be a better service provider and a better protector of minority rights.

Success will require improved capacity and performance by all in the extractive industries sector – industry at all stages from exploration to processing and closure, government, international organizations, non-governmental organizations (NGOs), civil society, communities, labor, lenders, insurers, and consumers. All will need to learn to pursue their own objectives in ways that move society as a whole forward.

The Governance Framework to Reconcile Conflicting Challenges

The most pressing challenges and issues that usually need to be reconciled among stakeholders can be summarized as follows:

- o **Viability of the Industry**. Extractive industries, particularly mining cannot contribute to sustainable development if companies cannot survive and succeed. This requires a safe, healthy, educated, and committed work force; access to capital; a social license to operate; the ability to attract and maintain good managerial talent; and the opportunity for a return on investment.

- o **The Control, Use, and Management of Land**. Mineral and petroleum development is one of a number of often competing land uses. There is frequently a lack of planning, legal or other frameworks to balance and manage possible uses. As a result, there are often conflicts around issues such as compensation, resettlement, land claims of indigenous peoples, and protected areas.

- o **Minerals and Economic Development**. Minerals have the potential to contribute to poverty alleviation and broader economic development at the national level. Countries have realized this with mixed success. For this to be achieved, appropriate frameworks for the creation and management of mineral wealth must be in place. Additional challenges include corruption and determining the balance between local and national benefits, as well as the management of resource surpluses (and the rents associated with the "resource curse").

- o **Local Communities**. Extractive industries development can also bring benefits at the local level. Recent trends towards, for example, smaller work forces and outsourcing affect communities adversely, however. The social upheaval and inequitable distribution of benefits and costs within communities can also create social tension. Ensuring that improved health and education or economic activity will endure after mines close requires a level of planning that has too often not been achieved.

- o **Environmental Implications**. Minerals and petroleum activities have significant environmental impact. Managing these impacts more effectively requires dealing with unresolved issues of handling immense quantities of waste, developing ways of internalizing the costs of acid drainage, improving both impact

assessment and environmental management systems, and doing effective planning for mine closure.

- o **Access to Information**. Access to information is key to building greater trust and cooperation. The quality of information and its use, production, flow, accessibility, and credibility affect the interaction of all actors in the sector. Effective public participation in decision-making requires information to be publicly available in an accessible form.

- o **Artisanal and Small-Scale Mining**. Many millions of people make their living through artisanal and small-scale mining. It often provides an important, and sometimes the only, source of income. This part of the sector is characterized by low incomes, unsafe working conditions, serious environmental impacts, exposure to hazardous materials, and conflict with larger companies and governments.

Sustainable development requires new integrated systems of governance – i.e. roles, responsibilities and instruments for coherent and effective change. Most countries still lack the framework for turning minerals investment into sustainable development. Each of the major parties has to contribute in the respective areas of "comparative advantage" broadly along the following lines:

Governments: → Strengthening Transparency and Responsiveness

- o Public sector institutions must build greater transparency in all dealings with business and civil society, including approval and implementation of action against corruption, use and/or create of legal recourses, and develop of transparency policies, including consultative processes with stakeholders.

- o Reduce discretionary powers wherever possible, particularly in procurement arrangements, issuance of permits/licenses, avoidance of monopolies, and develop independent oversight bodies to enhance scrutiny of public institutions.

- o Build checks and balances to ensure independent and effective judiciary, vehicles of contestation and associated accountability arrangements through independent treasury, audit and procurement functions and processes.

- o Enable relevant regulatory agencies, if necessary through appropriate legislation, to require local and international

companies to either disclose taxes, royalties and other payments or transactions made in host countries or build vehicles of extractive industries surplus management to avoid resource curse and appropriate investments for sustained economic development.

Private Sector Corporations: → Supporting Transparency Drive

o Enhance transparency through public disclosure of information not subject to confidentiality clauses (financial statements, principal transactions, etc.).

o Work with host Governments and stakeholders to reduce opacity in contracts to enable greater transparency and where appropriate monitoring arrangements, help lines, etc.

o Establish codes of conduct, standards, and similar arrangements with proper control arrangements.

o Work with civil society and Governments to build incentives for efficient and effective anti-corruption in all transactions.

o Introduce corporate social responsibility actions to assist in social development in project areas, particularly where government is unable to exercise an effective role as regulator or executing agent.

Civil Society: → Building Constituency for Accountability

o Build NGOs, associations, or similar institutions or networks that are transparent to enhance credibility of civil society and level the playing the field vis-à-vis Governments and the private sector, and foster credible and effective multi-stakeholder partnerships.

o Promote involvement of such organizations in active participation in the debate to find ways to implement the role of corporations and governments as a driving force for transparency in host countries.

o Monitor government-business dealings to ensure that the agreed upon transparency is a reality (e.g. public procurement and/or investment monitoring, awareness raising efforts).

o Support public sector reforms aimed at increased transparency and accountability (e.g. monitoring of legislative proceedings, privatizations, ratification and implementation of public/private agreements).

Multilateral Institutions (e.g. World Bank): → Funding & Underpinning Reforms for Governance and Transparency

o Use of good offices to encourage host governments to move towards greater transparency in their foreign and local transactions, and facilitate dialogue between Governments, civil society, and local and international private sector entities.

o Work with transnational corporations and NGOs on mechanisms to enhance corporate transparency, and encourage enterprises being financed with multilateral funding to adopt transparency measures (codes of conduct, internal control arrangements, debarring parties associated with corrupt practices, etc.).

o Strengthen criteria for access to multilateral development funding based on adherence to transparency standards, and support reforms aimed at building transparent and accountable institutions in the public and private sectors by associating their assistance to efforts to enhance governance build-up, empowerment of civil societies, development of regulatory and oversight arrangements, accountability of political and finance processes, and mediating mechanisms.

III. Limitations of Current Approaches

6. Current approaches to remediation in governance in the extractive industries sector face challenges at the levels of (i) diagnostics, (ii) indicators and (iii) in the area of implementation of interventions.

7. <u>Current diagnostic limitations</u> There are two main types of corruption diagnostics; those that exist at a macro/national level, and those that focus on the detailed transaction level. Extractive industries demand an approach in between the two that focuses on how institutions operate and interrelate with each other. As extractive industry resources are large, a single transaction can impact or change the institutions that regulate it. Yet focusing on macro issues would be an approach that is too long term for deals with a real-time component. The current arsenal of diagnostics lacks the tools to focus on concrete actors, institutions and activities that can be influenced, strengthened or regulated to

improve governance in the near term. How specific institutions work and interrelate is the focus of this report.

8. <u>Current indicator limitations</u> Corruption Indicators are at their early stage of development and thus cannot be substituted for on-the-ground qualitative assessments. There are also a variety of assessment approaches and tool kits available to approach the issue. For a review of current indicators and diagnostic approaches, please see Annex I.

9. <u>Current implementation limitations</u> Current approaches have tended to be externally driven, mainly by donors. These have for the most part emphasized issues of enforcement and greater transparency in controlling the flow of funds from companies to Governments (i.e. the "supply side"). So far, these efforts have had two categories of shortcomings:

   (i)   <u>Demand:</u> With no local grounding, such efforts lack indigenous constituencies and thus can only survive through continuing conditionality, institutional compulsion and increased dependency – a poor substitute for homegrown ("demand side") efforts that can assure sustainability.

   (ii)   <u>Supply:</u> They rely on "supply" side interventions including policies, regulations and laws – when the requisite level of governance effectiveness is insufficient to implement.

      1. They tend to rely on gathering of information and evaluation that are scarce and expensive, which inhibits internal and external controls.

      2. There are weak information-processing skills and supporting technology at both the individual and institutional levels.

      3. There are weak incentives. Good performance goes unrewarded. Bad performance goes undetected by processes overly dependent on self-regulation. Weak independent institutions self-preserve by not "rocking the boat".

      4. They rely on inadequate legal environments.

5. They rely on oligopolistic players who, left to their own devices, may collude to avoid confrontation.

6. They are institution-intensive when institutions are frequently weak in low income, high resource countries.

10. The absence of discernible improvements in performance despite the flurry of activity around extractive sectors should be a warning of the limitations of such approaches. Among the most visible of such initiatives are: the ongoing Extractive Industries Transparency Initiative (EITI); technical assistance and financing for programs in these sectors; the existence of various International Conventions and peer review systems touching on the subject and companies' codes of conducts; among others.

IV. Proposed Guidelines
How to overcome such limitations and what does this require?

11. To effectively identify and address the underlying causes of governance dysfunctions, greater attention is needed to address:
    (i)   The underlying pillars of governance: government effectiveness and democratic openness.
    (ii)   Vulnerability analysis of the spectrum of relevant institutions including those related to the sector directly as well as those with only seemingly indirect relationships.
    (iii)   A deep understanding of how institutions work inside, developed using a first hand (rather than a desk-based) evaluation process. This includes applying a systematic approach to assess management, oversight, operations, legal, structural and procedural issues.
    (iv)   The degree to which each country and institution poses a unique, and constantly evolving governance problem.

12. This report provides the basis to address these issues in the context of the Comprehensive Governance Framework for Extractive Industries in Africa or any associated broader policy work planned for FY '07. It is deliberately prepared in generic terms, so that it can be applied to extractive industries be they in mining or oil and gas, with suitable adaptations to individual

subsector and country circumstances. It includes three categories of analysis:

(i)   A high-level "first cut" characterization of governance vulnerability at a country level;

(ii)   A detailed country diagnostic; and,

(iii) A strategic approach for identifying operational interventions.

13. This approach starts at the high level and cascades down to a detailed, field based analysis. This enables both a high level regional comparison based on available information, coupled with the ability to quickly develop a sophisticated understanding of an individual corrupt system in the context of a sectoral or project-based programme. The detailed information can then be cycled back in to the high-level view improving the regional perspective over time.

14. The <u>high-level "first-cut" characterization of governance vulnerability at a country level</u> is aimed at:

(i)   Enabling the Bank to compare countries and chart progress against peers;

(ii)   Enabling the Bank to segment countries according to stage of governance, and type of vulnerability in order to develop segment-oriented product portfolios;

(iii) Providing the task teams initial (high-level, directional) guidelines to diagnose, analyze and develop strategies to address areas vulnerable to corruption and their associated governance dimensions;

(iv)   Outlining an initial work plan to carry out the full initiative.

15. The "first cut" characterization can be completed from the outside in, using existing data and in-house expertise. Over time, these "first-cut" characterizations should be refined as more information comes available through further analysis along the lines of the detailed assessment outlined in this report. It should be noted that these outside-in analyses should not be seen as a substitute for the detailed country-diagnostics within country outlined below.

16. The <u>detailed country diagnostic</u> will help various stakeholders, be they the governments, civil society organizations, private sector institutions or the Bank to gather the needed insights for planning at the outset of a Bank program in a specific country and in the

context of a specific investment or a sectoral improvement program. It comprises a series of frameworks and a case approach that can be used to develop a clearer set of insights regarding real and potential governance vulnerabilities. The result is a customized, current picture of how a specific system works in connection with institutions that relate to extractive industries in their different phases (exploration and project consideration, execution and operation, and ultimately closure.) These insights are meant to help pinpoint which vulnerabilities might need intervention, inform what type of intervention will be most helpful and define possible areas for corrective action.

17. Integral to the detailed country diagnosis is an assessment of the political economy of the country. This involves identifying and evaluating key decision-makers, how decisions are made, and the structure of incentives for particular types of incentives. The political economy of a country can be particularly dynamic, requiring fairly consistent engagement with stakeholders in order to both track with changes in the political economy as well as identify areas of resistance to interventions.

18. The detailed country diagnostic is meant to be carried out by an experienced professional working in the target country either focusing on a specific project, or the sector as a whole.

19. The <u>strategic approach for identifying operational interventions</u> produces a set of guidelines to address key governance gaps at the outset of a Bank program or investment, or such other institutions that might carry out such work. Interventions can be targeted to deliver customized governance improvement reforms at the project, sector, and associated macro level.

20. The three categories of analysis, with objective, relevant fact base and tools provided in this Report are summarized below:

Stage of Bank involvement	Objective	Relevant fact base	Tools provided
First Cut Analysis	• Compare countries and chart progress against peers • Segment countries according to stage of governance, and type of vulnerability. This enables the development of segment-oriented product portfolios • Provide task teams initial guidelines to diagnose, analyze and develop strategies to address areas vulnerable to corruption • Outline a detailed work plan to carry out the full initiative	• In-house expertise • WBI Statistical database	• Governance Typology • Prioritization matrix • Institutional forces framework
Detailed Diagnostic	• Provide the necessary information about a governance system to prioritize institutional vulnerabilities and plan interventions at the outset of a program in a specific country and in the context of a specific investment	• First hand meetings with institution staff • Field visits	14 Diagnostic Guides
Action Plan	Create a customized approach to meet governance goals	Full description of governance vulnerabilities and dynamics among institutions, and key participants	Strategic approach

21. Taken together, these interventions comprise a comprehensive program to:

    (i)   Combat institutional dysfunction and corrupted systems;

    (ii)   Understand the political economy of a country to assist in overcoming political resistance and vested interests;

    (iii)   Break the culture of cynicism;

    (iv)   Gain necessary constituencies and support for reforms;

    (v)   Build political momentum;

    (vi)   Transform government, civil society and the enterprise sector.

A. High Level Assessments
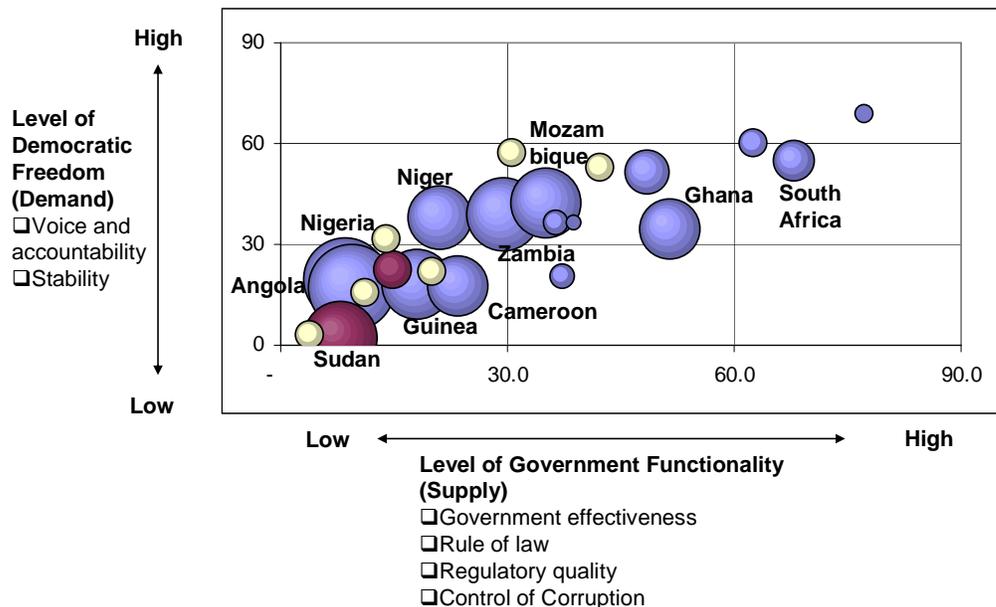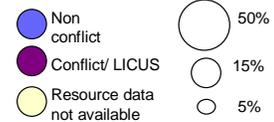
How to segment countries by need

22. The high level assessment consists of three core analyses. These assessments are described here in broad terms, and detailed in Volume II: Guidelines Attachment II.

23. The <u>first analysis</u> is a typology of countries based on their maturity with respect to the two supporting pillars of governance, democratic openness ("demand" side) and government effectiveness ("supply" side). This segmentation is used to compare countries to their peers and chart progress along the two dimensions. For example, if a country has made recent progress in governance, Bank engagement may be targeted to foster maturity along democratic openness to reinforce the gains (and shift the country's positioning in the segmentation further to the upper right of the matrix). This segmentation will also provide an important context for the in-depth diagnostics, and a key filter for evaluating proposed interventions. For example: policy and regulatory interventions in a country with poor government effectiveness probably will not have their desired effect. An example of this typology is shown below[1]:

Typology of Countries According to Democratic Openness and Government Effectiveness
Axes reflect global percentile 2004
Size represents annual mining and fuel exports as percent of total exports 2002
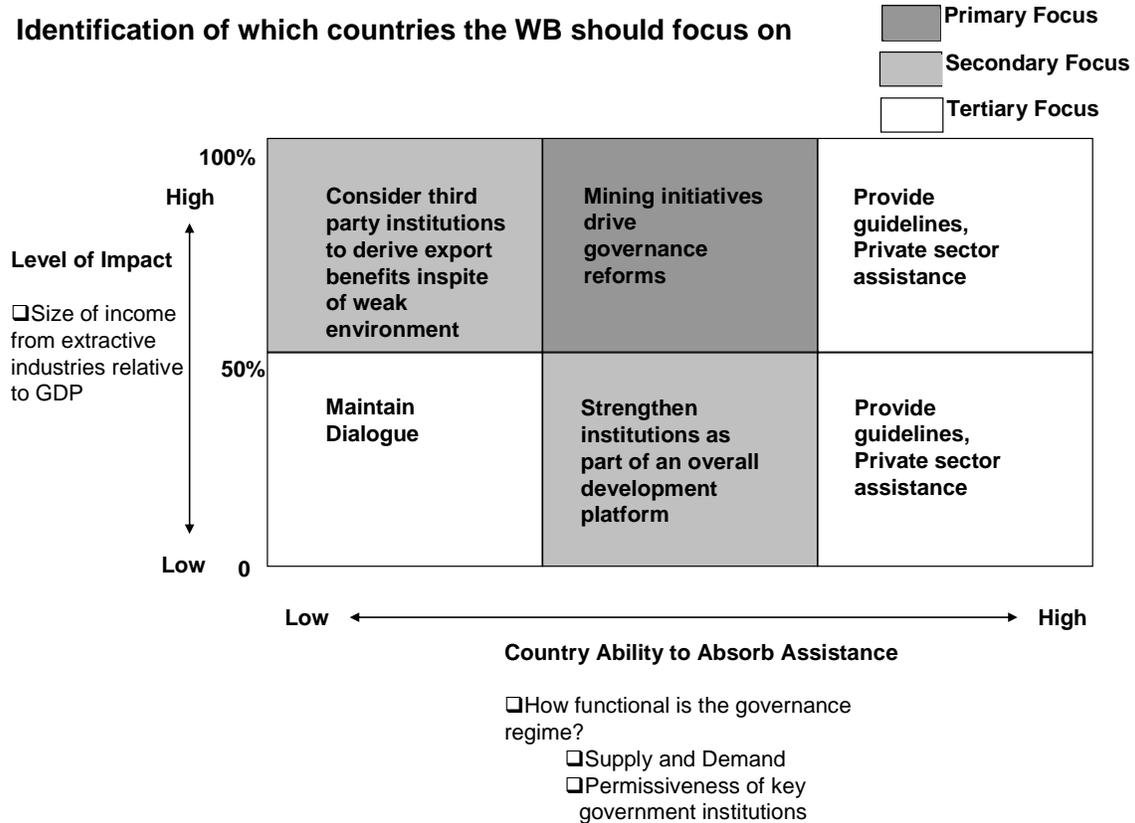

Source: World Bank, Dalberg analysis

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[1] Due to space constraints all the countries examined are not included here, and only selected countries are highlighted. A comprehensive chart can be found in Volume II: Guidelines Attachment I

24. Using the WBI-developed governance indicators, mining exporting countries have been ranked in accordance to proxies of "supply" (corruption control, government effectiveness, regulatory quality, rule of law) and of "demand" (political stability, and voice and accountability) governance factors. This plotting reveals an emerging pattern between relatively well performing countries (like Chile, Costa Rica, Botswana) to the cluster of African countries (which are more heavily extractive industries-dependent) that generally are placed on the lower quartiles of all indicators.

    (i)   Clearly in the former group, governance and associated corruption issues can be dealt with at the project level with proper "ring fencing" of the project against vulnerable areas and greater reliance on existing institutional arrangements.

    (ii)   Conversely, most African countries, which rank poorly on most governance indicators, need to address more fundamental systemic issues, to overcome performance constraints in their respective vulnerable areas. Within the lower performance countries, some distinctions have to be made between areas of emphasis, and with some countries needing greater attention on "demand side" actions, whereas others need incisive "supply side" corrective measures.

25. The <u>second analysis</u> is a country segmentation that groups countries based on the relative size of their extractive industry resource and the maturity of their governance environment. This is used to identify: (i) which types of Bank effort are likely to be most appropriate for a given country, (ii) which efforts require partnerships within the Bank, and (iii) which countries should have relative priority for the Mining Sector Group. An example of this matrix is given below:

Identification of which countries the WB should focus on

	Primary Focus
	Secondary Focus
	Tertiary Focus

Level of Impact

❏Size of income from extractive industries relative to GDP

Consider third party institutions to derive export benefits inspite of weak environment	**Mining initiatives drive governance reforms**	**Provide guidelines, Private sector assistance**
Maintain Dialogue	**Strengthen institutions as part of an overall development platform**	**Provide guidelines, Private sector assistance**

100% High

50%

Low 0

Low ⟵ ⟶ High

Country Ability to Absorb Assistance

❏How functional is the governance regime?
  ❏Supply and Demand
  ❏Permissiveness of key
    government institutions

26. The <u>third analysis</u> is an outside-in review of relevant institutions. This elicits information held by in-house World Bank experts to give a snapshot of likely vulnerabilities through out the governance regime including (a) mining sector institutions; (b) government organization with significant mining sector components; and (c) oversight institutions that influence the enabling environment of institutions operating in the sector. Examples of these institutions are given in the exhibit below:

Institutions that may have governance vulnerabilities leading to mining-sector corruption

Oversight Institutions
- ❏ Department of Finance/Budget financial and surplus management
- ❏ Oversight institutions (audit, anti corruption and law enforcement
- ❏ Public procurement function

Key Mining – Specific Institutions
- ❏ Licensing agency (Cadastre)
- ❏ Inspection function of key Ministries

Institutions with significant Mining Components
- ❏ Tax collection agency
- ❏ Customs authority
- ❏ Regional authorities and stakeholders
- ❏ Social services including health care and education
- ❏ Local business partners

27. Relevant Bank staff (or other experts) should provide a systematic analysis based on their knowledge of relevant institutions. This should include assessments across five influential areas that can be a source of vulnerability. These areas include: (i) leadership, (ii) process, (iii) culture and incentives, (iv) organization structure and oversight, and (v) transparency. Analyses should cover each of the categories and identify areas where knowledge gaps exist. These five areas with sub-components are detailed below:

Five forces influence how permissive a institution is to corruption

Leadership and Authority
❑Management commitment
❑Centralization of authority
❑Patronage

Organizational Structure
❑Checks and balances from other institutions
❑Clear roles and responsibilities
❑Responsible delegation of authority

Transparency
❑Publication of regulations
❑Stakeholder ability to complain/appeal
❑Third party review and monitoring
❑Publication of fees and charges

Policies and Process
❑Clear budget allocation processes
❑Effective management control policy

Culture and Incentive
❑Human resources incentives
❑Prevalence of corruption in society
❑Level of pay relative to needs

B. Detailed Country Diagnostic

How to identify vulnerability areas

28. The high level approach can only serve as a first phase to identify country areas of priority. To support a country either in the context of a specific investment, or as part of a generalized sector improvement program, an in-depth review will be necessary at the individual country level, through an institution-by-institution assessment. This detailed diagnostic should establish how institutions operate and are organized providing clarity into each of the five areas mentioned above particularly regarding their legal framework and accountability arrangements (components of organizational structure); codes of conduct and institutional capacity (components of policies and procedures) and complaint enforcement mechanisms (components of transparency). This should ultimately help determine concrete symptoms of institutional dysfunction and identify possible areas for corrective actions

29. As it is in general desirable to concentrate the in-depth analysis on a selected group of institutions, the country-level work could

commence by having the different stakeholders rank them in terms of the seriousness of the problems such institutions face in terms of corruption and other governance vulnerabilities. Those with the greatest vulnerabilities in terms of impact and frequency should then be selected for more detailed analysis. The institutions that should be analyzed fall into three categories: (a) mining sector institutions; (b) government organization with significant mining sector components; and (c) oversight institutions that influence the enabling environment of institutions operating in the sector. A list of institutions that should be evaluated and their role throughout the investment process is given in Volume II: Guidelines Attachment II. Normally, one can expect (depending on the size and complexity of the country), each analyst (or team of analysts) to cover three or four such institutions over an eight to ten day period -- thereby normally allowing a three to four member mission to more or less cover all relevant institutions over such a period.

30. Due to the complexity and evolving nature of corruption and other governance issues, a simple survey will not be sufficient to capture all that is going on at a given institution. Rather, this Report proposes a series of diagnostic frameworks, coupled with leading questions, which can structure a problem-solving process. These frameworks should be applied by experienced staff with an open mind to solve each puzzle independently. These frameworks and diagnostic guides are described in Volume II: Guidelines Attachment II.

31. To support the detailed country diagnostic, Volume II: Guidelines Attachment II includes: a listing of institutions that get involved in different phases of extractive industries operations (from exploration and development, to project execution, operation and ultimately closure); and a series of Diagnostic Guides in the form of questionnaires to assist project officers to review the actual functioning of such institutions, including appropriate oversight bodies, to pinpoint their vulnerable areas.

32. Based on this analysis, the Bank or other relevant institutions can immediately identify actions, or it should evident where further detailed reviews are necessary. Further information can be obtained through methodologies that are currently available including:

> (i)   Participatory diagnosis: workshops for those involved in corrupt systems;
>
> (ii)   Systematic anonymous surveys of employees and clients;
>
> (iii)   Special studies, including greater or quantified "vulnerability assessments."

C. How to Design a Strategy and Action Plan

How to develop an implementable strategy

33. The need for a strategy and a time-bound action plan may sound obvious, but most governance programs often lack just that. Successful reform goes beyond hunting for isolated culprits, adding new laws and regulations, or calling for institutional reorganization. <u>It requires the establishment of a self-reinforcing process of changing policies and systems</u>.

34. To move from identification of vulnerable areas to developing actions for overcoming them, it is desirable to undertake such work with teams of the agencies concerned, to obtain all relevant inside knowledge and necessary buy-in.

35. However, in environments of major institutional dysfunction and corruption, mobilization of independent consultants to undertake more specific surveys helps: signaling management's dissatisfaction with "business as usual"; freeing management to perform other tasks; infusing new ideas; serving as a "lightning rod"; and giving the manager an outside confidant. In addition, independent consultants may help provide:

    (i)   Expertise that may not exist in the government concern, including for example computer systems to detect and prevent fraud, specialized investigatory techniques, management and organizational systems, and procurement processes;

    (ii)   Facilitation for crucial phases of participatory diagnosis is critical, where inside staff may feel constrained when dealing with sensitive issues, and an outsider is unlikely to be seen as having his/her own agenda;

(iii) Cooperation, which may be needed across organizational boundaries, can be enhanced with a suitably chosen outsider who may be perceived to be neutral enough to facilitate the necessary sharing and cooperation.

36. Building on the previous phase where vulnerabilities were identified, the next step is to <u>prioritize</u> the vulnerabilities to identify the key areas in need of remediation. A sample prioritization would be based on evaluation of the vulnerability along the following <u>criteria</u>:
    (i) <u>Degree of certainty:</u> whether the area of corruption is known, suspected or potential;
    (ii) <u>Impact:</u> whether the vulnerability is high impact or low impact;
    (iii) <u>Addressability:</u> whether the vulnerability is easy or difficult to address;
    (iv) <u>Time frame:</u> whether the vulnerability can be addressed in the near or long term.

37. Once decisions are taken on the priority areas for corrective action, a strategy and an associated sequenced plan of action needs to be designed to address the issues that have been identified as the highest priorities.

38. Out of context, sample interventions may sound general or high-level. In fact, the most important element of the chosen interventions is that they directly address a specific set of identified weaknesses. Therefore, the most important question should be "how to". For example, asking "how to" about each of the following gaps would lead to the associated set of actionable interventions.

    ➤ ***Depoliticize a non-meritocratic public administration:*** Set up the rudiments of: (a) meritocratic civil service among the agencies concerned; (b) transparent, monetized public sector institutions with adequate remuneration; and (c) associated accountability in expenditures -- by setting up independent treasury, audit, procurement functions and processes, and performance-based management processes.

    ➤ ***Professionalize sector institutions***: Build up: (a) the transparency of their transactions, including their tax and royalty payments, imports and exports; (b) establishing business standards, associated internal control and

enforcement arrangements; (c) debarring enterprises or individuals engaged in corrupt practices; (d) strengthening money flow and trade oversight verification and self-regulation; (e) eliminating, or where this is not possible, simplifying process requirements.

➢ ***Empower civil society:*** (a) ensure dissemination of information; (b) provide for publicly driven hearing or similar arrangements for drafting laws, regulations or other vehicles of governmental acts; (c) develop media, civil society organizations, etc. to engage citizenry and level the playing field between government and the private sectors; and (d) build checks and balances to ensure: independent and effective monitoring bodies with accountability, and support civil society oversight arrangements.

➢ ***Establish accountability of official bodies and finance:*** (a) disclosure of legal and other binding actions; (b) transparency in financing transactions; (c) asset declaration, conflict of interest rules and/or similar actions to build transparency of associated sections of processes covering public interest matters, (c) disclosure, accounting/audit and other transparent governance arrangements for private enterprises.

➢ ***Build up mediating mechanisms:*** Facilitate an enabling environment for the development of entrepreneurs, through (a) competitive restructuring of monopolies; (b) regulatory simplification; and (c) reducing discretionary powers of public authorities.

➢ ***Change a culture of impunity:*** (a) select actions where visible progress might be made soon, without too great a cost, to start creating favorable reactions and broader support for reform and constituencies for continuing momentum; (b) search for allies and for ways to align the anti-corruption and reform efforts with boarder forces in the society; (c) name and punish big actors involved in fraud or corruption, irrespective of affiliation, so that a citizenry believes that the drive is more than words and not politically driven; (d) announce publicly and visibly corrective actions before they are taken, to garner credibility around explicitly defined systemic programs including their expected outcomes, in matters involving revenue collection, public works, benefits, licenses and permits, and the police.

39. Once interventions have been proposed they should be evaluated and refined in the context of their expected impact within the corrupt system. Attention should be paid to the expected responses/ reactions of actors within the system to changes in the environment. Flexibility should be built into the approach to monitor and account for changing dynamics.

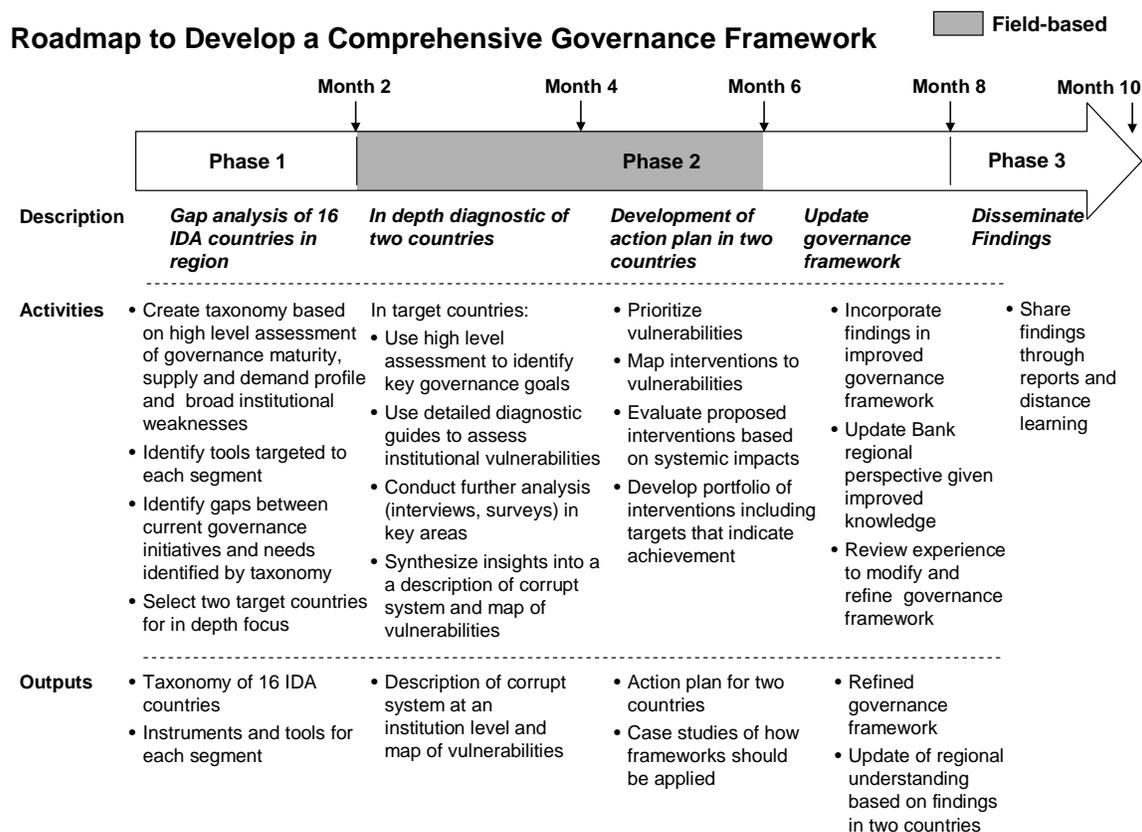# V. How to Incorporate this Approach in Broader Initiatives

Planning for detailed Comprehensive Governance Framework for Extractive Industries

40. The final component of this Report is a set of considerations for program outputs, outcomes and activities required for the implementation of a comprehensive governance framework for extractive industries at the Bank.

41. The <u>first step</u> was to conduct the High Level Assessment (including three analyses) from this Report on 16 IDA countries with extractive industries in Africa. By developing a high-level segmentation based on key variables, the Bank can then identify key needs of each segment and conduct a gap analysis comparing these needs with the current governance initiatives in place in these countries, and the preparedness of the countries concerned in engaging in an analysis of this type and ensuring disclosure on the governance implications of such work. In fact this approach was used to select the most promising target countries within which to pilot the framework. The target countries were at somewhat different stages of governance maturity, thereby highlighting different types of challenges.

42. The <u>second step</u> dives immediately to the field level to pilot the detailed institutional diagnostics from this Report in two countries. Project teams piloted the institutional approach, and started to explore the problem solving techniques and the mapping of the vulnerabilities. The teams also identified areas that need further study, and conduct the relevant follow-up actions.

43. The <u>third step</u> consisted of developing a strategy and action plan specifically for the two diagnosed countries. This included prioritizing detected governance vulnerabilities, mapping potential interventions to vulnerabilities and evaluating the systemic impacts of each proposed intervention. Ultimately an action plan

has been sketched out, but must be developed further in an interactive process with key stakeholders before full implementation.

44. The <u>fourth step</u> involved updating the comprehensive framework based on the experience of the Pilot. This included developing case studies and involved in actual fact only minor "fine tuning" of the tools as now reflected in this report. Refining the tools (frameworks, processes and diagnostic guides) will be necessary based on additional field experience. At some point, instituting a process to systematically update the Bank's high-level assessment with new information will be necessary as it comes in from the field.

45. The <u>fifth and final step</u> is to disseminate the findings to partners throughout the region, to enable replication of the approach with suitable adaptation in each country and sector situation.

46. A sample roadmap is presented in the exhibit below:

Roadmap to Develop a Comprehensive Governance Framework　　　　☐ Field-based

	Phase 1	Phase 2		Phase 3	
	Month 2	Month 4	Month 6	Month 8	Month 10
Description	*Gap analysis of 16 IDA countries in region*	*In depth diagnostic of two countries*	*Development of action plan in two countries*	*Update governance framework*	*Disseminate Findings*
Activities	• Create taxonomy based on high level assessment of governance maturity, supply and demand profile and broad institutional weaknesses • Identify tools targeted to each segment • Identify gaps between current governance initiatives and needs identified by taxonomy • Select two target countries for in depth focus	In target countries: • Use high level assessment to identify key governance goals • Use detailed diagnostic guides to assess institutional vulnerabilities • Conduct further analysis (interviews, surveys) in key areas • Synthesize insights into a a description of corrupt system and map of vulnerabilities	• Prioritize vulnerabilities • Map interventions to vulnerabilities • Evaluate proposed interventions based on systemic impacts • Develop portfolio of interventions including targets that indicate achievement	• Incorporate findings in improved governance framework • Update Bank regional perspective given improved knowledge • Review experience to modify and refine governance framework	• Share findings through reports and distance learning
Outputs	• Taxonomy of 16 IDA countries • Instruments and tools for each segment	• Description of corrupt system at an institution level and map of vulnerabilities	• Action plan for two countries • Case studies of how frameworks should be applied	• Refined governance framework • Update of regional understanding based on findings in two countries	

VI. Considerations for Implementation

More than anywhere else, diagnostic and strategic work in extractive industries will contrast with mainstream Bank work on at least three counts:

- *Dynamism and continuing work in progress.* The large rents that can be generated in extractive industries are such that they create insatiable demands for illicit deflection of resources, and public sector organizations have inherent inflexibilities and capacity constraints to deal with such dynamic forces. Since every solution to identified vulnerable areas, is bound to generate new capabilities to circumvent enhanced controls built as a result of Bank actions, and traffic of influences inevitably adapt their operations in ways that exploits precisely the obstacles that weigh governments down. For this reason, the rules are always challenged not only by traffickers of influence but by political quarrels, manipulations by experts in gaming the system, and often the rush of innovation and new circumstances. The distinction between tax evasion and taxes avoidance is often the matter of an accountant skill rather than clear and enforceable rules – and thus, any set of rules and control vehicles is a matter in constant flux, not just because of political differences but because the ranges available financial transaction keep growing more plentiful and more complex. Accordingly, the guidelines outlined in this report must be seen as vehicles that need constant adaptation to emerging conditions – and thus a way to "reason" around the problems, where to put the burden of proof, and where the benefit of doubt -- rather than a standard set of questions that need to be asked in every country situation, no mater what its evolution. For this reason at the end of the BNPP initiative, the questionnaires and approach were reassessed but found broadly satisfactory for an initial round of evaluation of several countries.

- *The country (rather than the Government) as client*. As governments are oftentimes are held hostage to powerful, distorting forces: vested interests, corruption, bureaucratic inertia, politization or sheer ineptitude – solutions can seldom rely on government actions alone. For this reason, the incorporation of civil society and the private sector, as an integral part of the process, could create conditions for self-controls, which are bound to be more limited in countries in their

earlier stage of development. This has two important ramifications.

- *First*, regarding competencies, the Bank or whichever agency (private or public) that undertakes such work will inevitably have to face the incredible diversity and vitality of private parties that can become involved, and the crucial role they can play in the buildup of governance in the country concerned. This requires however the development of partnerships, technical assistance, and skills that establish organizations in developed countries can bring to the fore. One way or another, this may require the Bank or similar bodies to at least be aware of knowledge that exist in areas such advocacy and other areas, which are becoming full-fledged professions, with its innovators, best practices and iconic figures – along with lawyers, PR firms, fund raising, non-profit consultants and other service providers not usually associated with work in such agencies.

- *Second*, the traditional propensity to rely on supply driven control vehicles, tend to be built on top-down, coercive and enforcement approaches, which perpetuate by necessity vertical and hierarchical lines of command that aim at producing discipline – but poor coordination both within and outside the units concerned. The work outlined in this report requires greater interdisciplinary discipline and coordination across organizational units, since corrective actions cannot be sought within the extractive industries sector alone, and carries wide policy and organizational implications beyond these sectors themselves – and cannot be relied upon massive application of state power and resources to fighting illicit activities, burdened by bureaucracy, eroded by corruption, institutional weaknesses, organizational myopia and poor incentives structures.

- **Integration with associated work** *T*he proposed approach must be dovetailed with at least four areas *not* covered in this exercise -- namely:

(i)   *EITI,* which is focused solely on the transparency and accountability of the payments that companies make to governments – and thus the need to track ensuing resource use and disposition to meet intended purposes;

(ii)   The *macroeconomic management* and sterilization of extractive industries surpluses to prevent exchange rate and other distortions that curtail sustained economic development, including the appropriate saving and disbursement of resources through the budgetary process to ensure that expenditures are aligned with absorptive capacity in the country;

(iii)   Recasting of *downstream activities* (mainly associated with oil and gas refining, procurement, and transportation activities) to avoid transfer inefficiencies and corruption across national boundaries;

(iv)   Policy, control, accountability, management and other factors influencing integrity behavior and performance of the *corporate sector.*

VII. A Sequenced Framework for Policy Analysis and Action

Diagnose and develop buy-in on the types of corruption and their extent

Use one or a combination of the following techniques to assess problem areas:
A. Special studies or assessments, including "vulnerability assessments."
B. Participatory diagnosis: workshops for those involved in corrupt systems.
C. Systematic anonymous surveys of employees and clients.

Rank priority areas among those listed in the surveys through: consensus among authorities, specialists and project managers concerned; or
develop a simple (high, medium, low) probability rating to rank different vulnerable institutions in terms of the likelihood and consequences of corrupt and dysfunctional institutional behavior, as depicted in the graph below which is taken from a concrete country mining project case:

Likelihood and Consequences of Transactions and Systemic Risk Factors

	Perms, Imp/ Exp	Secur.	Taxes	Ins & Finan	Resce. Manag	Int'l Stds.	Policy Stabt.	Soc., Env & Infr.
■ Likelihood	2	3	4	3	4	3	3	4
■ Consequences	2	4	2	2	2	3	4	3.25
		Transactions & Operations			Institutional Systemic			

Aver Likelihood:
Ave Consequences:

□ Likelihood   ■ Consequences

Design a strategy focused on systems

Brainstorm to explore possible options and their impact under the following headings:

A. Select agents

    1. Screen out the dishonest and/or untransparent processes or institutions based on Diagnostic Guides

    2. Strengthen recruitment by merit and circumvent nepotism

    3. Exploit outside "guarantees" of honesty (use networks for finding dependable agents and making sure they stay that way)

B. Set agents' rewards and penalties.

    1. Change rewards

        a. Raise salaries to reduce the need for corrupt income

b. Reward specific actions and agents that reduce corruption

c. Improve career paths so that promotions depend on performance

d. Use contingent contracts to reward agents on the basis of eventual success (e.g. performance bonds).

e. Link non-monetary rewards to performance (training, promotions, perks, travel, publicity, or praise)

2. Penalize corrupt behavior

a. Raise the severity of formal penalties

b. Increase the principal's authority to punish

c. Calibrate penalties in terms of deterrent effects and breaking the culture of corruption

d. Use a range of penalties (transfers, publicity, blackballing or debarring, and loss of professional standing, perks, and travel privileges)

C. Obtain information about efforts and results

1. Improve auditing and management information systems

a. Gather evidence about possible corruption (using red flags, statistical analysis, random samples of work, and inspections).
b. Carry out "vulnerability assessments"- along the lines of the Diagnostic Guides

2. Strengthen information agents.

a. Strengthen specialized staff (auditors, computer specialists, investigators, supervisors, and internal security).

b. Create a climate in which agents (for example, whistleblowers) get proper protection and will report improper activities.

c. Create new units (ombudsmen, special investigatory committees, anti-corruption agencies or inquiry commissions).

3. Collect information from third parties (media and banks).
4. Collect information from clients and the public (including professional associations).
5. Change the burden of proof, so that the potentially corrupt (for example, public servants with great wealth) have to demonstrate their innocence.

D. Restructure the principal-agent-client relationship to weaken monopoly power, circumscribe discretion, and enhance accountability.

1. Induce competition in the provision of the good or service (through privatization, public-private competition, and competition among public agents).

2. Limit agents' discretion.

    a. Define objectives, rules, and procedures more clearly and publicize them.

    b. Have agents work in teams and subject them to hierarchical review.

    c. Divide large decisions into separable tasks.

    d. Clarify and circumscribe agents' influence over key decisions (change decision rules, change decision makers, and alter incentives).

3. Rotate agents functionally and geographically.

4. Change the organization's mission, product, or technology to render it less susceptible to corruption.

5. Organize client groups to render them less susceptible to some forms of corruption, to promote information flows, and to create an anti-corruption lobby.

E. Raise the "moral costs" of corruption.

1. Use training, educational programs, and personal example.

2. Promulgate a code of ethics (for civil service, profession, or agency).

3. Change the corporate culture

Develop an implementation strategy

a. Organize the government's efforts: coordination and a focal point.

b. Choose a relatively easy-to-fix problem first to get early results and gain momentum.

c. Align with favorable forces (national, international, private sector, NGO).

d. Break the culture of impunity by exposing major, high level corruption cases.

e. Raise the profile of the anti-corruption effort through publicity.

f. Take positive actions for government officials before seeming to attack them.

g. Strengthen institutional capacity not only through "supply-side measures" (more training, more experts, or more

computers) but especially through changing systems of information and incentives.

h. Consider how an anti-corruption campaign can galvanize broader and deeper changes in municipal government (such as client consultation, pay-for-performance, or privatization with high quality regulation).

g. Build civil society and/or independent oversight institutions to demand accountability of public officials, and private sector organizations.

Annex I:
Comparison of Several Existing Corruption Indicators

	Opacity Index	Corruption Perception Index	State Capture Index	Control of Corruption Index	Public Integrity Index
Author	Pricewaterhouse Coopers and Kurtzman Group (www.opacityindex.com)	Transparency International (www.transparency.org)	World Bank and EBRD - Business Environment and Enterprise Performance Survey (www.ebrd.com/pubs/econo/beeps.htm)	World Bank Institute Governance Indicators (http://info.worldbank.org/governance/kkz2004/)	Center for Public Integrity (www.globalintegrity.org/default.aspx?act=13)
What is measured?	The existence of corruption and lack of clear, accurate, formal, easily discernible, and widely accepted practices in the legal, economic, accounting, and regulatory systems	The degree to which corruption is perceived to exist among public officials and politicians	The extent to which businesses seek to buy legislation, political parties, and court decisions to gain undue influence	The extent to which corruption is controlled through governance procedures	The existence of public integrity mechanisms, including laws and institutions that promote public accountability and limit corruption; the effectiveness of these mechanisms; the

					access that citizens have to public information to hold their government accountable
How do you read the scale?	0 = most transparency 100= most opacity	0 = most corrupt 10 = most clean	0 = least affected by state capture 1 = most affected by state capture	-2.5 = least control over corruption 2.5 = most control over corruption	Very Strong (90-100); Strong (80-90); Moderate (70-80); Weak (60-70); and Very Weak (Below 60).
Country coverage	35 countries (2001) 48 countries (2004)	More than 150 countries	26 countries in Central Eastern Europe and NIS	209 countries (2004)	25 countries
Timeline data	2001 and 2004	Annually since 1995	1999 and 2002	1996, 1998, 2000, 2002, 2004	Early 1990s through 2003
Data source	PWC's own survey of economic elite and expatriates;	Aggregates several surveys of other organizations	World Bank's own survey	Aggregates several surveys of other organizations	In-country experts and peer review panel

	aggregates data from several organizations				
How valid/reliable is the index?	Moderate: • Limited sampling • Measures perception • Multidimensional	Low: ▪ Methodological problems ▪ Measures perception ▪ Unidimensional	High: ▪ Large sample ▪ Measures behavior ▪ Multidimensional	Moderate: ▪ Methodological problems ▪ Measures perception ▪ Multidimensional	Moderate-High: • Limited number of countries and data points

Annex II
Review of Existing Assessment Approaches

This review of existing corruption assessment frameworks and methodologies highlights the richness and diversity of thinking in this field over the past few years. Each approach was designed to fulfill the purposes of its developer or sponsor. The following Table provides a quick comparison of the strengths, weaknesses and lessons learned from each of these approaches.[2]

Assessment of Existing Corruption Assessment Approaches

Approaches	Strengths and Weaknesses	Lessons Learned
Self-Assessment Approaches		
ADB/OECD Stocktaking Reports	• Helps identify gaps where Action Plans are needed • Facilitates cross-country comparisons • Does not assess whether past activity has been implemented successfully • No prescribed methodology on how to conduct monitoring • No validation of self-reporting • Primarily legal and institutional focus	• Gaps directly point to remedies • Need for common monitoring methodology to assure consistency
UNDP CONTACT	• Very comprehensive checklists based on best practices • Primarily financial management focus	• Measures highly targeted sub-sectors in depth
OECD Survey of Prevention	• Measures existence and effectiveness of control mechanisms, as opposed to corruption	• Usefulness of focusing on institutional prerequisites

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[2] For a more detailed analysis of each assessment tool, refer to *Development of a Corruption Assessment Framework and Methodology: Review of the Literature, Development Experience and Existing Methodologies for Corruption Assessments.* Washington, DC: Management Systems International. January 10, 2005.

OECD Trust in Government	• Measures existence and effectiveness of variety of ethics programs/mechanisms	• Usefulness of focusing on ethics policies and practices
Integrity Development Review	• Multi-method approach for monitoring • Extremely detailed checklists for variety of governance domains • Geared to monitor one government agency at a time; can be used at central or local levels	• Multi-method approach for monitoring is preferable where practical • Checklist and vulnerability assessment highlight specific remedies to yield improvements
OAS Follow-up Questionnaire	• Monitors existence and adequacy of legal frameworks • Focused on compliance with international convention	• Produces social pressure to comply
External and Peer Assessment Approaches		
TI National Integrity System	• Deals with major governance institutions and sub-sectors • Clearly delineates between what exists on paper versus what is implemented	• Clear indication of what reforms exist in practice is essential • Developing comprehensive picture of governance structure is critical
GRECO Peer Evaluations	• Focuses primarily on compliance with EU and COE conventions	• Creates peer pressure to improve anti-corruption standing
OSI EUMAP	• Focus on legal policies and institutional structures • Yielded more information on grand corruption and state capture	• Questions probed further than most into grand corruption and state capture
Public Integrity Index	• Focus on anti-corruption mechanisms in law and in practice	• Data is gathered and displayed in systematic fashion to facilitate comparison

USAID Country Assessments	Emphasis on political will and institutional capacity • Offers ability to compare alternate stakeholder perspectives on situation and potential reforms • Usually conducted with multi-method approach	• Readiness is a key concept that incorporates political will, but goes beyond it to incorporate available resources, capacity and demonstrated intent • Comparison of stakeholder interests/capacities is critical in making recommendations
USAID/E&E TAPEE	• Conceptual framework based on program categories • No indication of how to operationalize the framework to conduct an assessment	• Framework naturally orients assessor to thinking about program options
Aggregate Data Approaches		
WB Governance Indicators & Surveys (WBI)	• High level of aggregation makes diagnosis rather abstract based on indicators alone • Indicators can be several years out-of-date	• If data is up-to-date, indicators can serve as first-cut on where vulnerabilities lie and where additional detailed diagnosis is required
Large N Survey Approaches		
Three-Pronged Surveys	• Provides sector-by-sector information • Three prongs produce useful comparison across key stakeholders • Perceptual data is often criticized as not reflecting reality of situation, but popular image • Surveys can be expensive and can take a long time to conduct	• Survey instrument is efficient for delving deeply into particular sectors • Useful information for assessing political will and readiness of stakeholders

Social Audits and Report Cards	• Provides detailed access into corruption processes within particular sectors • Perceptual data may not reflect reality	• Useful in generating sector-specific diagnoses • Useful in developing local ownership of assessment results and future anti-corruption programs

Several insights can be drawn from this comparison.

1. The four categories of assessment approaches have strengths and weaknesses. The self-assessment is quite popular within regional arrangements and international organizations; however, there is a strong potential for bias in their results. Alternatively, the external/peer assessment approach and the aggregate data approach offer a greater likelihood of objectivity. The large N surveys provide an element not present in the other approaches – citizen participation.

2. Data collection is a doable and practical exercise across all approaches. Many approaches provide a good and detailed set of questions and checklists that are usually focused on particular sectors or functions. However, the basis of these questions varies across approaches, some based on logic, some on theory, and some on best practice. If these questions and checklists can be integrated in accordance with an acceptable analytical framework, it would yield a unique resource for corruption assessment. But none of these approaches offer a definitive and objective measurement tool of corruption, anti-corruption efforts, or key situational factors that impact corruption. Most measurement approaches resort to expert evaluations, perceptual data, and reviews of laws and procedures. The most systematic approaches use checklists to make measurement more consistent and comparable.

3. In general, the assessment results from each of the approaches provide a useful map of what exists and where the gaps and deficiencies lie. However, most do not provide a sense of priority concerning the gaps and what might be done to fill those gaps.

4. It is difficult for these assessment frameworks to directly link deficiencies identified with appropriate remedies. However, this

has been accomplished, on a departmental-level, in the IDR approach using an analysis of best practices to associate identified deficiencies with the next best initiative or reform.

5. Most of the approaches monitor and diagnose the state of core governance practices at the central level and do not examine subnational problems or sector-specific governance practices, for example, in the health, education, food security, or environmental areas. The survey approaches seem to be best suited to probing sectors and local government levels.

6. Few assessment approaches focus on grand corruption or state capture. The exception is the OSI EUMAP approach, which asks more probing questions in this regard.

7. USAID corruption assessments have found a way to compare alternate stakeholder perspectives and to produce useful information concerning the amorphous notion of political will by assessing the broader concept of "anti-corruption readiness." Moreover, they have been able to probe more deeply into sectors than some other approaches.

8. Some of the approaches focus on monitoring the clearly observable, whether laws, institutions, regulations and procedures exist. These are considered prerequisites for good governance and supportive of an anti-corruption regime. However, only some of the approaches attempt to measure whether these laws, institutions, regulations and procedures are operational and implemented. It is critical to assess not only what exists "in law" but to evaluate what exists "in practice."

9. Multi-method approaches appear to be more effective in diagnosing the situation. They uncover multiple perspectives and can probe into a variety of sectors. From an efficiency perspective, these multi-method approaches can be engineered in a staged fashion, first, monitoring broad trends through existing indicators; second, completing quick checklists that identify areas of greatest vulnerability and risk; and third, prioritizing in depth diagnostic activity in particular sectors or at particular levels of government.

10. Most approaches do not distinguish between differences in the development contexts of countries and how that might

influence corruption profiles, corruption risks and the utility of various possible interventions. Generally, approaches are missing evaluations of (a) institutional capacity to prevent/control corrupt practices and conduct anti-corruption programs, and (b) the political and economic dynamics in a country, that is, the political forces and economic incentives that facilitate or inhibit corruption. Such an examination would entail, at a minimum, looking at the kind of regime in place (for example, consolidating democracy, late nation-builder, retreating democracy, consolidating authoritarian, or re-integrating state); the unity and capacity of the government (including a look at factions, constituent bases, and patron-client networks); and the people and groups who control specific institutions (for example, is the Justice Minister a relative of the president, or from a rival faction of the governing party?) It also would include looking at any openings for reform, such as a scandal causing pressure for change in some areas, a politician pledging specific reforms, an economic crisis, or external pressure (such as the IMF or World Bank).

Annex III

Review of Existing Anti-Corruption Toolkits

Several compendia of anti-corruption techniques have been compiled that describe how such tools have been applied in different countries with varying effect. These "toolkits" provide users with a range of program options and case study accounts that can prove helpful in designing new anti-corruption programs. These toolkits are available on the web and consist of the following:

1. **United Nations Office on Drugs and Crime (UNODC): Anti-Corruption Tool Kit (http://www.unodc.org/unodc/corruption_toolkit.html)**

   The Anti-Corruption Tool Kit has been prepared by the United Nations Global Programme against Corruption (GPAC). The purpose is to suggest measures used successfully by other countries in their efforts to uncover and deter corruption and build integrity.

   Part 1 is a general introduction to what the tool kit covers, how to use it, forms of corruption, and lessons learned. The challenge is to find combinations or packages of tools that are appropriate for the task at hand, and to apply these tools in the most effective possible combinations and sequencing. A guide to help decide on the right combination and sequencing of tools is given in the general introduction.

   Part 2 gives a general description of institution building followed by suggestions of anti-corruption strategies for reforming government institutions. The first three tools deal with the process and assessment of the problem to be resolved, and what tools (policies, infrastructure, measures) are available to deal with the problem. Each tool in the tool kit is summarized. Parts 3-8 cover tools for prevention, public empowerment, enforcement, anti-corruption legislation, monitoring and evaluation, and international judicial cooperation.

You can download the entire UN Tool Kit as a pdf -file. However, the file is very large and it is recommended that you download it chapter-by-chapter from the web page.

2. Transparency International: The Corruption Fighter's Tool Kit (http://www.transparency.org/tools/e_toolkit)

The Corruption Fighter's Tool Kit shares experiences of TI's national chapter programs, best practices, and lessons learned. The aim is to foster discussion, spark ideas, and inspire those fighting corruption around the world. The tool kit presents cases of anti-corruption activities that can be replicated or adapted by civil society groups in other countries. Emphasis is on empowering civil society to engage both the public and private sectors.

The reader will find detailed descriptions of the stages of implementation, positive and negative results and lessons learned. The tool kit covers activities ranging from reform of the judiciary to corruption control in public procurement. For brief overviews of tools, Fact Sheets provide a concise summary of more detailed information.

The publication highlights the potential of civil society to create mechanisms for monitoring public institutions and to demand and promote accountable and responsive public administration. At present, the Corruption Fighters' Tool Kit includes 46 tools. The special edition for 2004, *Teaching Integrity to Youth,* includes 11 additional tools of youth anti-corruption education and provides many illustrations, cartoons and photographs which accompany the text.

3. Transparency International Sourcebook 2000 – Confronting Corruption: The Elements of a National Integrity System (http://www.transparency.org/publications/sourcebook)

The Sourcebook provides discussions of anti-corruption tools used for institutional, legal and procedural reforms. It starts out by reviewing the challenges of promoting and establishing national integrity systems. The second section deals with the institutional pillars of national integrity systems and examines them in terms of their roles and the necessary preconditions of independence and accessibility that enable them to discharge

their functions effectively. The "pillars" include government, the media, the private sector and civil society. The third section looks at the tools – the rules and practices which the institutional pillars need to have at their disposal. It discusses not only bureaucratic practices and the enforcement of laws, but also the need for more broadly based reforms. A fourth section gives a short overview of the lessons learned to date in the global fight against corruption. A fifth section provides a compilation of emerging best practice.

4. **Transparency International: Anti-Corruption Handbook (ACH): National Integrity System in Practice** (http://www.transparency.org/policy_and_research/ach)

   The ACH is a practical guide which aims to assist the process of designing and applying anti-corruption measures – from legal reform to institution-building. Intended as a one-stop reference for practitioners around the world, it provides a unique and up-to-date overview of key reform elements, developing guidelines for their effective implementation illustrated by examples of good practice. The ACH is based on TI's National Integrity System approach to countering corruption, which offers a framework for assessing the adequacy and effectiveness of national anti-corruption efforts. The ACH seeks to build on this approach, addressing the key elements of anti-corruption reform in a useful and practical way. The Handbook features key measures for tackling corruption grouped into six main areas: country strategies and policies, oversight and control bodies, the public sector, the political system, the legal system, and non-governmental actors.

5. **Independent Commission Against Corruption, New South Wales, Australia: Tools for Building Corruption Resistance (http://www.icac.nsw.gov.au/index.cfm?objectid=EFCF306 6-9990-4A22-F1493C9E95F3C5DE**)

   These tools are designed to help government agencies increase their corruption resistance. The following components are available online:

   - Do-It-Yourself Corruption Resistance Guide (2002). The guide sets out benchmarks for key corruption resistance measures and lists resources that can help agencies achieve them.

- Fighting Fraud: Guidelines for state and local government (2002). Fraud threatens the ability of agencies and councils to carry out their functions. These guidelines look at ways of responding to fraud through risk assessment and management, prevention and detection strategies, thorough investigation and appropriate follow up action.
- Fighting Fraud Checklists (2002). The checklists cover: fraud prevention, job monitoring, transaction monitoring, investigating fraud and discovered fraud management.
- Recruitment and Selection: Navigating the best course of action (2002). This publication aims to guide public sector officials towards the best course of action in situations where the integrity of a recruitment and selection process may be compromised.
- Codes of Conduct: The next stage (2002). This publication looks at how to make codes of conduct more effective. Steps include: reviewing your code, how to structure a good code of conduct, and how to implement your code successfully.
- Fact-Finder: A 20-step guide to conducting an inquiry in your organization (2003). This guide will help you to carry out a fact-finding inquiry on behalf of your agency. It provides an overview of the fact-finding process and covers the generic matters that you need to know about during an inquiry.
- The First Four Steps (2001). This quick guide tells you what organizational integrity is, how it can benefit your organization and how you can take the first four steps towards achieving organizational integrity in your agency.
- Corruption trouble-shooting (2001). Lessons learned about identifying and dealing with corruption hot spots. It suggests actions that management can take to overcome these risk areas and lists resources that they can use.

6. **GTZ: Literature Reviews on Key Anti-Corruption Areas and Tools (http://www.gtz.de/en/themen/politische-reformen/korruption/6259.htm)**

   GTZ sponsored the development of literature reviews and practical manuals on major corruption vulnerabilities and techniques. The goal is to "mainstream" corruption prevention. Key activity areas include:

   - Advising on good governance with emphasis on avoidance and prevention of corruption in public administration, public finance, law and justice, gender, and in the public domain, e.g. in health, education and social services
   - Advising on the distribution of public goods and resources such as land and water, and privatization processes.

7. **Utstein Anti-Corruption Resource Centre (www.u4.no)**

   The U4 Utstein Anti-Corruption Resource Centre is a web-based resource center in the field of anti-corruption that shares lessons and experiences about practical

8. **Organization for Economic Cooperation and Development (OECD): Anti-Corruption Toolkit -- Anticorruption Legislation: Amnesties, Money Laundering, Burden of Proof, and Whistleblower Protection (http://siteresources.worldbank.org/INTLAWJUSTINST/Resources/aclawissues.pdf)**

   To promote compliance with new anticorruption measures, some countries have experimented with provisions that forgive past offenses. Others have enacted new laws 1) banning money laundering, 2) requiring officials accused of corrupt behavior to explain the sources of their wealth, and 3) protecting public servants who disclose the corrupt acts of other government workers. This anticorruption toolkit from the OECD discusses the issues raised by each of these initiatives and includes examples and case studies of how such provisions have been implemented.

9. **Governance Diagnostics Step by Step Guide to Governance Diagnostic Empirical Tools Implementation; Countries Where Diagnostic Tools Have Been Implemented.**

(http://www.worldbank.org/wbi/governance/capacitybuild /diagnostics.html)

This guide describes with concrete examples of design and implementation procedures of World Bank's Institute's governance and diagnostic tools, consisting of household, enterprise and public official surveys, and the manner to "triangulate" their assessment vulnerable to governance and corruption-problems.