

# Operational Concerns in the East Asia and Pacific Region

**Some talking points based on  
personal observations**

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# The Backdrop



In the shadow of the  
Asia crisis



# The Challenge

- Macro governance reform work can be slow
- Broader reforms need explicit, detailed implementation strategies and sustained political support to succeed – often piloting
- Most fiduciary environments in EAP are inherently weak, existing rules not enforced
- Corruption may be institutionalized, with cultural underpinnings (e.g. elite capture)
- Ring fenced insulation of projects is seldom very useful, and the risks can remain high

**But funds are needed for development!**

# Changing Perspectives

- Governance issues are now openly discussed
- Speeches from high level officials often focus on governance and “end corruption” has been a political rallying call in several countries.
- Access to electronic media and greater press freedom are becoming increasingly common.
- Some high-profile cases investigated and tried.
- Donor community pushing for better governance.



# The Starting Point

Accepting that problems exist - and designing mitigation measures



# Lifting the Veil

## Stage 1. In-depth Fiduciary Review

- “Satisfactory” projects can prove to have serious problems
- Procurement and Implementation are focus areas
- For the first time we see a detailed close-up of what happens.

## Stage 2: Governance CAS

- Toughen governance stance in projects, with clear, consistent messages; use diagnostic reports to support this.
- Mitigate fiduciary risks – smart project designs – and open multiple entry points through projects
- Pre-emptive audits, investigations. Follow up allegations.
- Apply and announce sanctions / remedies more consistently

## Stage 3: Supporting Key Country institutions

- Helping champions of change, CSOs, Supreme Audit Board, Anti Corruption Commission, etc.
- Governance and fiduciary reforms built into ILs, DPLs

# Steps Being Taken

The efforts of the WB teams in EAP include, inter alia:

- Willingness to look - from supervision and audits to investigations
- Increasing transparency. Research, publications
- Partnerships and harmonization: with champions in government; donors; CSOs (e.g. NGO involvement in some projects).
- Anti-corruption plans/Good Governance Frameworks





# Smarter Projects

Risk and Capacity Assessments

Anti-Corruption Action Plans

Good Governance Frameworks



# Risk and Capacity Assessments

All new project designs are assessed.

- A risk mapping exercise is carried out at the beginning of the planning process to flag inherent risks (e.g. social, environmental, fiduciary, reputational). The risk matrix is kept up to date as planning progresses
- Specific FM and procurement assessments look at the current capacity of the institutions concerned, identifying areas that will need to be strengthened
- Opportunities for having a positive impact on country systems are highlighted and pursued

# ACAPs and GGFs

Part of project design - must be cleared

Different teams, different approaches

**Govt. ownership is critical**

Risk Mapping: Inputs from  
Procurement, FM, risk assessments

In Cambodia and Indonesia for all loans



## ACAPs in Indonesia....

WB in Indonesia advocates a 6 – point framework

1. Disclosure – making key documents easily available to the public; encouraging projects to maintain public internet websites.
2. Civil society oversight – involvement of NGOs, universities and the media in monitoring and supervision exercises.
3. Anti-collusion measures in procurement– end-use and civil society observation of procurement process;

## ACAPs in Indonesia.....

4. Anti-forgery and anti-fraud measures – stronger payment validation processes; improved audits, including interim audits; training CSOs on what to look for; closer financial monitoring.
5. Complaints handling systems – clear, multiple channels for complaint; professional tracking and analysis of complaints; whistleblower protection; forensic audit investigations.
6. Sanctions and remedies – calling on INT for serious cases, with formal blacklisting of companies where needed; encouraging government to prosecute where appropriate.



# Observations

Commonalities between sectors  
Prominence of Procurement  
Importance of Monitoring  
Consistency Vs Innovation

# Levels Vs Sectors

- In terms of mitigation measures, early indications point toward commonalities **between** sectors at various development levels (e.g. national, decentralized and community)
- In terms of entry points and opportunities for strengthening country systems, often sectors have very specific (sometimes surprising) unique characteristics.

## **Example: Centralized (national level) problems and solutions**

Large procurement packages with powerful bidders.  
Political pressure.

Common mitigation measures might include:

- Strengthen procurement processes (rules, procurement advisors, procurement agents);
- More involvement of national level civil society groups in oversight;
- Transparency through national level press, etc.



## **Example: Decentralized (province/district level) problems and solutions**

Medium size procurement packages in dozens of locations. Keeping track of implementation is a major challenge. Skilled local staff may be scarce and under pressure.

Future mitigation measures would include:

- Tighter adherence to procurement rules;
- Much tighter tracking of timelines, key quality and cost indicators to spot anomalies;
- Strengthening and involvement of province/district level civil society groups in oversight;
- Transparency through province/district press, etc.

## **Example: Community Driven Development (community level) problems and solutions**

Many thousand small activities, widely scattered. Problems tend to be small and often resolved by the communities themselves.

Future mitigation measures would include:

- Early warning systems tied to facilitator reporting and complaint handling;
- Strengthening and involvement of community groups and district level civil society groups;
- Transparency at and below district level;
- Sanctions - social pressure - halting assistance

# Procurement

- Many problems appear to start at the procurement stage, though often the “plotting” may begin earlier
- When collusion between bidders is caught, the contracts are not approved
- Misprocurement can be declared after contract award, resulting in cancellation and often sanctions against the firm
- Success stories get little exposure!

## **Example from a Government Presentation (1 of 3)**

### **Efforts taken in procurement:**

#### **□ Since 2000:**

- Determine the (wide circulated and well known) newspapers used for announcing tender.
- Begin to apply post qualification system for some packages of sub-project
- Encourage participants to object if there is any wrong practice and respond them.

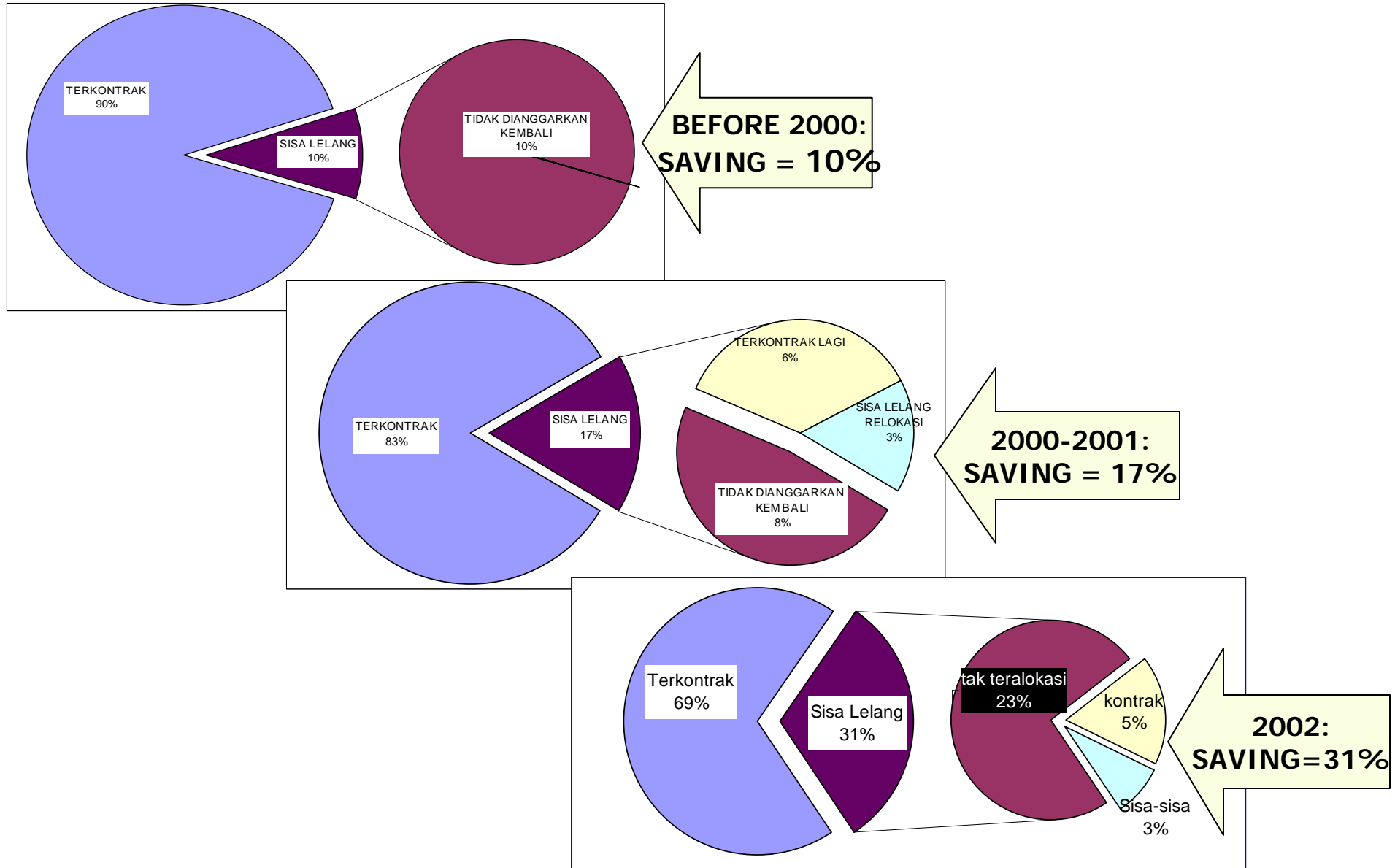
#### **□ Since 2002:**

- Apply post qualification tender for all packages of sub-projects.
- Control tender process especially in advertisement/announcement and evaluation phase.

### **The results:**

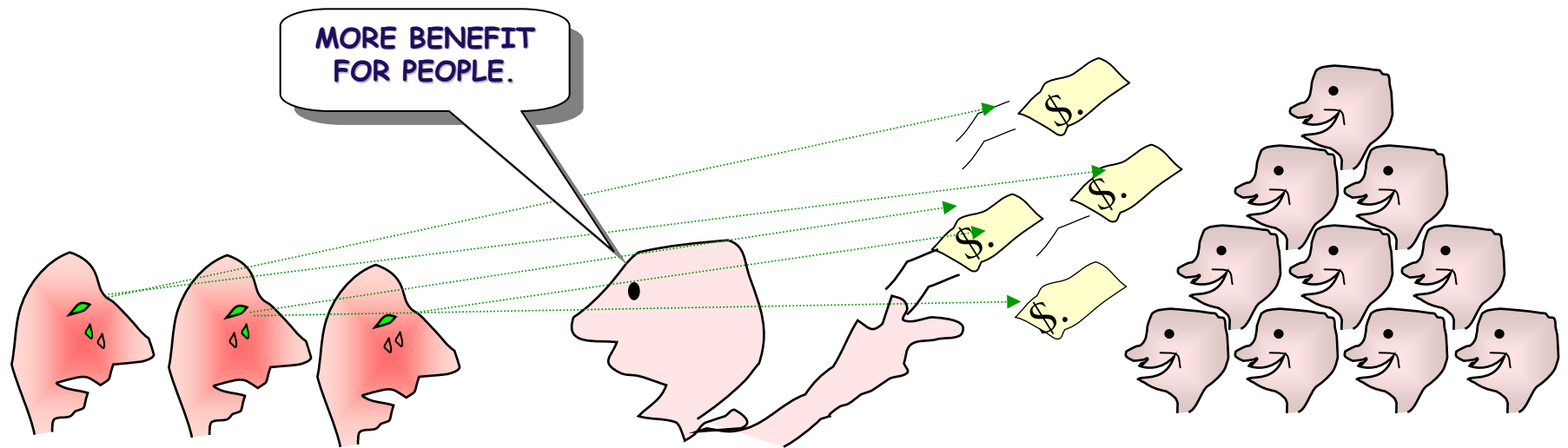
- Contract/lowest bid price: 50% – 70% to Owner Estimate.
- Contractors from out of region participated in the tender.
- Loan saving can be used to add more infrastructure and benefit to community.

# Example from a Government Presentation (2 of 3)



## Example from a Government Presentation (3 of 3)

The saving can be used again and give more benefit to community



# Importance of Monitoring

We need to prove the \$\$\$ value of better governance

We need to watch for mutations in the way corruption works and whether our efforts are still effective

We need to find problems sooner, and deal with them more effectively – ideally before funds flow

We need to encourage studies on good governance measures (eg .Ben Olken Study on audit samples, Sharing Audit findings with civil society)

# The Road Ahead

- As problems come to light, we need to build partnerships and share this load with emphasis on legal institutions
- Different problems require different solutions, e.g.:
  - “Petty” corruption and rentseeking
  - Collusion in procurement; “cartels”
  - Fraud, altered/forged supporting documents
  - Inconsistencies (documented Vs real performance)
  - Coercion; intimidation; forced kickbacks;
- Preventive measures and sanctions are needed
- Incentive reforms in Ministries need to closely link with governance reforms