



Anti-Corruption Guide :
Developing an Anti-Corruption Program
for Reducing Fiduciary Risk in New Projects

LESSONS from INDONESIA



THE WORLD BANK OFFICE JAKARTA

Anti-Corruption Guide: Developing an Anti-Corruption Program for Reducing Fiduciary Risks in New Projects

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ABBREVIATIONS AND ACRONYMS

| | |
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| ADB | Asian Development Bank |
| BUIP | Bali Urban Infrastructure Project |
| CDD | Community Driven Development |
| CPAR | Country Procurement Assessment Report |
| DCA | Development Credit Agreement |
| EAP | East Asia Pacific |
| GOI | Government of Indonesia |
| IAPSO | Inter Agency Procurement Services Office |
| IDA | International Development Association |
| INT | Department of Institutional Integrity |
| JIWMP | Java Irrigation Implementation & Water Management Project |
| KDP | Kecamatan Development Project |
| NCB | National Competitive Bidding |
| NGO | Non Government Organization |
| TA | Technical Assistance |
| TOR | Term of Reference |
| TTL | Task Team Leader |
| UN | United Nations |
| WUA | Water Users' Associations |

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Foreword

Cases of fraud and corruption discovered recently under Bank-financed projects have highlighted the importance of developing anti-corruption arrangements as part of project preparation to reduce fiduciary risks. The purpose of this guide is to facilitate this work by distilling lessons learned from projects financed by the World Bank and ADB. These lessons have indicated that new non-traditional approaches involving recipients and civil society oversight can be more effective. There is a need for the project preparation task teams to focus on this issue and develop a comprehensive mitigation strategy as an important element of ‘quality at entry’ and project readiness. If appropriate attention is not paid to developing appropriate arrangements, then the likelihood of problems occurring during implementation may be higher.

The task teams can make good use of this guide by incorporating relevant suggestions keeping in mind the principles of transparency and openness, which is the intent of these suggestions. These principles have been around for a long time, but the means of implementation have now become possible. For example, increasing transparency and oversight by civil society can be an effective deterrent against corruption. This has become more feasible given the recent empowerment of the civil society.

The Indonesia pilot of the Bank’s revised disclosure policy can provide access to selected information about the entire procurement process to the public. This information was requested during our consultations with civil society and is expected to enable the civil society to provide effective oversight. Provisions for increased disclosure suggested in this guide have been discussed with the government and can provide the means of increasing transparency and oversight by civil society. Similarly, suggested provisions to reduce collusion during the procurement process can be incorporated in the legal documents to provide the means of reducing chances of collusion. Lessons and suggestions contained in this guide can provide valuable insight for task teams in their efforts to deal with these issues.

It is the responsibility of the task teams to ensure that appropriate arrangements are proposed to mitigate chances of fraud and corruption. These arrangements should be an integral part of project preparation. As more experience from projects is assimilated into this guide, it may become an effective instrument for knowledge sharing and institutional memory. It is expected that this guide will be revised periodically to incorporate new lessons and experience, making it a more effective tool for the task teams in ensuring that adequate attention is paid to mitigating the chances of corruption and fiduciary risks.

Andrew Steer
Country Director, Indonesia

ACKNOWLEDGEMENTS

The need to streamline anti-corruption measures was first raised by the Task Team Leaders at the Indonesia Country Team retreat in Bogor, Indonesia in March 2001. It was suggested that guidance should be provided in developing effective anti-corruption arrangements for new projects based on the lessons and experience from existing and past projects. The concept of this guide was crystallized when a proposal for the development of this guide was submitted to the Anti-Corruption Thematic Group. With the approval of the funding the partnership between the Indonesia Country Team and the PREM Governance Group emerged.

The principal author of this report is Naseer A. Rana, Lead Procurement Specialist, World Bank Office, Jakarta. Major contributions were made by several Bank staff and consultants that included the following: Steve Burgess (Consultant) prepared the initial draft based on the outline provided. Andrea Woodhouse prepared Appendix 1. George Soraya prepared Appendix 2. Ilham Abla and Guy Alaerts prepared Appendix 3. Neigel Wakeham (Consultant), Susiana Iskandar, Rosfita Roesli, and Jerry Strudwick prepared Appendix 4.

The peer reviewers included Stuart R. Andrews, Head, Portfolio Management, Asian Development Bank, Indonesia Resident Mission; Scott E. Guggenheim, Lead Social Development Specialist; and, Irina Luca, Senior Procurement Specialist in the office of the Regional Procurement Advisor. Feedback from these peer reviewers helped immensely in improving the quality of the report. Stuart also provided lessons learned from projects financed by ADB, which have been incorporated in this guide. Scott provided detailed comments resulting in a major revision of this guide.

Task Team Leaders and others who provided valuable input included Anthony Toft, Karin Nordlander, Aniruddha Dasgupta, Yogana Prasta, Novira Asra, and Rizal Rivai. Mohamad Al-Arief and Emiliana Gunawan facilitated the publication of this guide.

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As new input is received, this guide will be further improved to make it more useful for task teams preparing projects. It is expected that revisions will be ongoing and new versions will be produced every year or as required.

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The World Bank has produced a number of guidance materials related to fiduciary management of projects – this document should be read in conjunction with these and the related rules and procedures.

This document represents the views of the various authors and does not necessarily represent the views of the World Bank.

1. Introduction

1. The responsibility for the implementation of the projects financed by the World Bank, and therefore for the award and administration of contracts under the projects, rests with the Borrower. Ensuring that funds are not misused is primarily the responsibility of the Borrower. The World Bank, for its part, is required by its Articles of Agreement to “---- ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with attention to consideration of economy and efficiency and without regard to political or other non-economic influences or consideration,” and it has established detailed procedures for this purpose. These are the procedures that we are reviewing to ensure that the Borrower takes appropriate actions to reduce the chances of corruption, and ensure that effective controls are in place to mitigate misuse of funds financed by the World Bank. These controls must be cost effective also, so as not to increase the cost of business unnecessarily.

2. In Indonesia, studying corruption and rural “power dynamics” in World Bank supported projects¹ has provided us with promising new insights. It has been convincingly shown that opportunities for corruption can be reduced by including elements at the design and implementation stage, which increase the cost of corruption. There are incentives and disincentives for being corrupt, as well as for avoiding corruption. An understanding of these issues will help in preventing corruption before it occurs. Building related design features into the project will have preventative and curative effects – as long as World Bank and Borrower are prepared to follow through with sanctions and remedies.

3. A more proactive approach is required in fighting corruption by empowering and building linkages between the beneficiaries and civil society. These linkages can be built for procurement to go beyond the traditional fiduciary controls. The key elements of this approach can include recipient involvement and ownership, and civil society oversight to balance disincentives. Disclosure of appropriate information can enable this monitoring by beneficiaries and civil society.²

4. A key challenge for anti-corruption efforts is mitigation of collusion in procurement, which renders competition ineffective and deprives the Borrower of the benefits of free and open competition. Policies that can reduce chances of collusion in procurement must be enforced to allow the procurement process to result in better value for money.

¹Andrea Fitri Woodhouse; Village Corruption in Indonesia: Fighting Corruption in the World Bank Kecamatan Development Program.

² ADB is testing the inclusion of members of civil society in procurement committees, under the Sumatera Urban Development Project.

5. The Task Teams must be formed with adequate capacity to deal with fiduciary aspects during preparation and supervision. The Task Team members and especially the Task Team Leader (TTL) must have the attitude of non-tolerance of corruption and strict adherence to agreed procedures. These procedures must be designed to reduce the chances of misuse and corruption, and to obtain best value for money. Supervision must be adequate to ensure compliance to agreed procedures and progress on the ground, and to go beyond the paper trail by looking at the results of the procurement process in terms of quality, price and timeliness.

6. Going forward, the approach to anti-corruption work continues to be based on the premise that this is not about grand strategies but about management support for discrete and consistent measures, closely monitoring follow-through and making sure that new project designs systematically take on board what is being learnt. This anti-corruption guide for new projects is being developed as an instrument of knowledge sharing and to facilitate development of effective anti-corruption measures through an anti-corruption program for new projects.

7. The approach adopted is to define elements or building blocks from which an effective anti-corruption program can be constructed. It aims to synthesize the various aspects of anti-corruption interventions into an anti-corruption action plan for new projects. The elements of this action plan that incorporate the building blocks are based on the lessons learned from various anti-corruption activities and projects. After this action plan has been tested and refined under a number of new projects, it will provide more useful information for future projects. Feedback from TTLs who have used this guide as a reference will be welcomed. This feedback should keep in mind the important considerations given below.

8. Borrower reforms aimed at reducing corruption and misuse of funds offer the only hope for a sustainable long-term remedy. This must be recognized at the outset. These reforms include government changes in procurement and financial management. Since, despite our best efforts, it is not possible to fully insulate projects financed by the World Bank from systemic fiduciary risks, it is important to maintain a focus at the highest level on these reforms and the governance agenda. However, the chances of misuse can be reduced through better design of controls and oversight, and by moving the ownership of these mechanisms as far as possible to the recipients. The level of control and realistic expectations needs to be defined carefully.

9. Decentralization requires implementation of projects at the sub-national level. The challenges outlined above are more profound given the lower capacity and controls. However, this may facilitate moving ownership of controls to the recipients.³

³ ADB is financing a project for capacity building in districts. The World Bank is preparing projects for improving governance in districts. ADB is also using Umbrella contracts to get the benefits of economies of scale and provide access to lower prices to districts.

Fighting corruption can bring with it serious dangers to the project staff in the field and to community “informers”. The project management must make every effort to minimize these dangers and reduce the fear that corruption often brings with it.

10. Finally, it is ironic that any project that tackles corruption effectively can expect to deal with more cases than projects that do not. Better controls and detection will bring to surface more cases of corruption. As communities come to trust the project they will complain more, and demand more action. This must be anticipated and accepted as a part of the price that must be paid for creating a cleaner, more efficient system.

2. Key Elements –The Building Blocks

ELEMENT ONE: Understanding corruption risks

Corruption mapping and an analysis of incentives and disincentives

11. A recent study of corruption patterns in the *Kecamatan Development Project (KDP)* (FY99) maps the incentives and disincentives to corrupt behavior facing project actors.⁴ Corruption mapping requires mapping carefully the chances and risks of corruption for each step of the project cycle and implementation. This mapping must be updated as part of project supervision as new information becomes available.

12. Based on the risks identified above, an analysis of incentives and disincentives for corruption can illustrate the likelihood of where corruption can occur. This can facilitate efforts to reduce incentives and increase disincentives. As illustrated by KDP, disincentives can be both formal and informal, and these measures are more effective when control is exercised by the recipients and communities.

Box A: Corruption mapping and an analysis of incentives and disincentives (Volume Two Appendix 1)

- The corruption mapping study mentioned above draws on the many examples from KDP of formal and informal ways that community projects can be designed to do a better job of fighting corruption, including transparency and disclosure at various steps and levels; independent monitoring, including that done by journalists; fund flow measures (who handles contracting, money, etc.); and the establishment of accountability mechanisms, such as identified complaint handling systems and villager control over project planning and financial management.
- Part of the success of KDP is removal of many layers of government of clearances and approvals both for approval of grants and for the flow of funds that allowed the project to bypass the associated fiduciary risks. The role for the district government was limited by enhancing villager control over project planning and financial management. The extent to which this may be possible with the enhanced role of the districts under decentralization will depend on the project. However, most of the concepts of accountability, transparency, monitoring, and feedback by the recipients are generally applicable.

13. A matrix of corruption mapping must be developed, covering the entire project cycle and an assessment of risk at each stage, together with an analysis of incentives and disincentives. A summary which prioritizes high-risk areas requiring careful review of incentives, disincentives and remedies must be prepared. The action plan will be developed to mitigate the chances of corruption identified above.

⁴ Andrea Fitri Woodhouse; Village Corruption in Indonesia: Fighting Corruption in the World Bank Kecamatan Development Program.

ELEMENT TWO: Empowerment of recipients and communities

Smart project designs

14. At the outset the project design is reviewed to incorporate controls that can be driven by recipients and communities. To establish these controls requires an understanding of the opportunities for corruption through corruption mapping and an analysis of incentives and disincentives. The capacity assessment can be an important factor in determining the amount of control the recipients and communities will have and the mechanisms that will make this control possible. Every project can be designed to allow empowerment of the communities and recipients as much as possible. Corruption mapping and an analysis of incentives and disincentives can help in exposing the potential and scope for recipient involvement and empowerment for most projects.

15. As illustrated in Box A for KDP, smart project designs can recognize the fiduciary risks and try to bypass these risks by moving control to the recipients through interventions which include mechanisms for transparency and disclosure, accountability, independent monitoring, flow of funds and complaints handling. Given below in Box B are lessons from KDP on how to develop effective mechanisms that can be incorporated especially for CDD projects.

| Box B: Lessons from KDP (Volume Two Appendix 1) | |
|--|--|
| What works to limit corruption? | |
| Simplicity | <ul style="list-style-type: none">• Direct transfer of funds• Villager control of budgets• Simple financial formats that villagers can understand |
| Dissemination of information | <ul style="list-style-type: none">• Villagers learn how the project is supposed to work, what their rights are and what to do if they are unhappy and suspect foul play. |
| Transparency | <ul style="list-style-type: none">• All financial information is made public and publicly displayed in villages• Kecamatan subproject allocations and complaints database are published in newspapers |
| Limited discretion | <ul style="list-style-type: none">• All financial transactions require at least three signatures (not of govt. officials, but villagers) |
| Accountability mechanisms | <ul style="list-style-type: none">• Regular village meetings to account for funds. Disbursals can be suspended if misuse of funds is suspected. |
| Monitoring & follow-up | <ul style="list-style-type: none">• Regular project monitoring, complaints tracking & follow-up• Independent monitoring by civil society groups & journalists |

Empowering end-users (recipients) in the procurement process

16. The challenge in many cases is the identification of credible recipients or their representatives. Once the group representing recipients has been identified, their involvement during preparation and supervision can be determined through a consultative process. The nature of the recipient group will determine the extent and mode of their participation. JIWP (Volume two, Appendix 3) provides an example of how water

users' participation in the entire procurement process can prevent corruption and reduce costs. The concept is to involve the end-users in the entire procurement process, from the preparation of the specifications to acceptance of the completed work. Representatives of the water users are selected through the Water User Associations. These representatives are involved in all steps and stages of the procurement process, including being present at bid opening.

Box C: Empowerment of end-users (recipients) in the procurement process (Volume Two, Appendix 3)

a. End-user participation in procurement is incorporated in the following manner:

- In the Tendering Process: Representatives of WUA are members of the tender committee with a formal decree from the project manager. They participate in pre-bid meetings and attend the bid opening and contract signing
- In day-to-day Supervision: With a letter from the project manager, WUAs are encouraged to contribute to the day-to-day supervision of construction work.
- In Handing-over of Completed Works: Representatives of WUA are members of the Handing-over Committee with a formal decree from the Project Manager. They participate in checks in the field and sign the handing-over minutes.

b. A study was conducted to document the results of the increased participation of the end-users confirmed the following benefits: (1) the creation of a more transparent environment enhancing accountability, (2) better quality of works, (3) a greater volume of works completed for the same cost.

c. The field observation showed that the quality of *all* works in 2001 had improved compared to 2000 and before. Contractors, WUAs and local project officers reported that this was the result of increased involvement of the WUAs since late 2000. WUA participation in the tender process improved accountability and performance.

17. Recipients can be encouraged to act as a pressure group, since ultimately they are directly affected by corruption. They are the prime beneficiaries of the output of the procurement process and, with adequate awareness, can ensure that misuse is minimized. For example, school children can be the end-users of furniture and school materials under an education project. The representatives of this end-user group could be parents selected from various schools. They could participate at each stage of the procurement process, i.e. in determining requirements and preparing procurement plans, they could be present during the bid opening, review the evaluation summary, and check the awarded prices with other schools. They could be as empowered as the WUAs in JIWMP or villagers in KDP.

Community driven construction

18. Small civil works can normally be carried out effectively by communities. The capacity of the communities must be enhanced through civil works consultants who assist the communities in planning, designing and construction. Given below are lessons from education projects.

Box D: Community driven construction (Volume Two, Appendix 4)

- Experience under the education projects generally (and especially under the WJBEP) has demonstrated that small civil works by communities can be cheaper and more appropriate than those built by contractors. The concept is to empower communities to rehabilitate schools and even build new schools. The communities have completed works at a lower price and to a higher standard. Based on the success of this method, it has been envisaged as the primary method under restructured basic education projects. Also, under JIWWMP the study mentioned above, it was concluded that works completed by the communities were better quality and cost less.
- The communities have ownership of the works completed by them and they ensure that the maintenance is done on a timely basis.
- The role of a competent civil works consultant is critical is assisting the communities.
- Completion of these works successfully leads to stronger communities, the benefits of which go beyond the civil works.

19. Thus, empowering the recipients and communities to fight corruption makes a lot of sense. They are the most important stakeholders and have the knowledge on the ground of what works more effectively. They are very familiar with both the formal and informal measures that make a difference. Consultations with the recipients and communities are essential during project preparation. Meaningful consultations can lead to smart designs and empowerment of recipients and communities.

ELEMENT THREE: Building partnership for civil society oversight and feedback

20. Consultations with civil society to develop a constructive partnership must be conducted. Enhanced disclosure of information can enable civil society to provide effective oversight to discourage corrupt behavior. Besides enhanced disclosure, a complaints handling system, media contacts, corruption surveys, and feedback from firms can be part of the oversight and feedback mechanisms.

Indonesian pilot of the World Bank's revised disclosure policy

21. The revised disclosure policy of the World Bank allows greater disclosure of information to public. Implementation of this policy includes the Indonesian pilot for disclosure of procurement and audit information. During consultations in Jakarta on the World Bank's disclosure policy, civil society representatives demanded disclosure of procurement information for projects financed by the World Bank. The World Bank has agreed with the government to test greater public access to information for selected new projects. The details will be agreed on a project-by-project basis during preparation with the intention of allowing greater access to information, including disclosure of mid-term review reports, audit reports and selected information on the entire procurement process. The expectation is to enable civil society to provide effective oversight to reduce the misuse of public funds. Initially, civil society groups may need to become familiar with their rights and roles, and the know-how to use this information effectively. Given below in Box E is the procurement information discussed with the government that the implementing agencies could make available to the public if agreed during preparation.

Box E: Disclosure of information that can be agreed during preparation

1. The implementing agency and the World Bank will each make publicly available, promptly after completion of a mid-term review of a project carried out in accordance with this agreement, the mid-term review report and the aide-memoire prepared for this purpose.
2. The implementing agency and the World Bank will each make publicly available promptly after receipt all final audit reports (financial or otherwise, and including qualified audit reports) prepared in accordance with this agreement, and all formal responses of the government.
3. The implementing agency will (and the World Bank can):
 - make publicly available promptly after finalization all annual procurement plans and schedules, including all updates thereof;
 - make available to any member of the public promptly upon request all bidding documents and requests for proposals issued in accordance with the procurement provisions of this agreement, subject to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be available until a year after completion of the contract entered into for the goods, works or services in question;
 - make available to any member of the public promptly upon request all short lists of consultants and, in cases of pre-qualification, lists of pre-qualified contractors and suppliers;
 - disclose to all bidders and parties submitting proposals for specific contracts, promptly after the notification of award to the successful bidder/consultant, the summary of the evaluation of all bids and proposals for such proposed contracts. Information in these summaries will be limited to a list of bidders/consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, bids and proposals declared non responsive (together with reason for such an assessment), the name of winning bidder/consultant and the contract price. Such summaries will be made available to the public, promptly upon request;

- allow representatives of the end-users of the goods or works being procured to attend the public bid openings;
- make publicly available and publish widely contract award information for all contracts for goods and works above USD100,000 equivalent and all contracts for consultants above USD 50,000 equivalent, promptly after such award; and
- make available, promptly upon request by any person or company, a list of all contracts awarded in the three months preceding the date of such request in respect of a project, including the name of the contractor/consultant, the contract amount, the number of bidders/makers of proposals, the procurement method followed and the purpose of the contract.

Independent monitoring by media

22. Monitoring by the media has many benefits, but the key benefit is that it leverages the dissemination power of the media effectively. It helps in the formation of opinions based on facts. This monitoring if planned and managed effectively can raise the level of awareness of the stakeholders about their rights including non-tolerance of corruption. Media monitoring can especially be a deterrent for government officials and politicians.

Complaints handling mechanisms

23. An effective complaints handling mechanism with an assurance of protection of whistle blowers is necessary for any serious efforts in fighting corruption. These mechanisms must be established as part of project preparation and reviewed during supervision. The system should allow that complaints against the project staff be handled by an independent entity to be credible. Protection of the whistle blowers is an important aspect of creditability. This system must be designed, installed and tested during preparation.

Corruption surveys

24. Independent corruption surveys should be part of project monitoring and the feedback mechanism. These surveys should be conducted periodically to get open feedback from various stakeholders of the project, including civil society.

Feedback from firms

25. Periodic feedback from firms participating in the procurement process can provide valuable insights into the behavior of the implementing agencies during the procurement process. It is also useful to get feedback from good firms that did not choose to participate in procurement or selection process under the project.

ELEMENT FOUR: Establishing procurement policies to mitigate collusion

26. Projects can initiate a number of policies to mitigate chances of collusion, and it is a well-documented fact that this in turn results in lower prices. One example of successful implementation of these policies⁵ is the experience under BUIP (Volume Two, Appendix 2), where reduced chances of collusion through increased competition and the empowerment of capable and honest contractors led to lower prices.

**Box F: Procurement policies to mitigate chances of collusion
(Volume Two, Appendix 2)**

- a. The policy implemented by BUIP included:
- Wider advertising in national newspapers
 - Removal of geographic and other restrictions
 - Post qualification which allowed participation by all bidders without any restrictions
 - Encouragement of complaints, which were then adequately addressed
 - Declaration of misprocurement for any deviations from agreed policy
- b. The implementation of this policy, which was established in FY 2000, is ongoing. Data on bid prices has indicated that the prices are much lower after FY 2000, and the spread is much greater.

27. Collusion can also occur at the community level. Here the best protection against such abuse is transparency, and an effective complaints handling mechanism. Openness (transparency) and effective complaints handling provides greater empowerment of the communities to ensure that collusive practices are not tolerated.

⁵ These policies are included in the NCB side-letter given in Appendix 7.

ELEMENT FIVE: Building strong task teams with effective tools

Quality at entry

28. The World Bank's task team for preparation should remain intact for supervision so that the anti-corruption action plan developed during preparation and the linkages developed as part of preparation can continue and be fully implemented during supervision. The team must have adequate capacity to deal with fiduciary aspects during preparation and supervision. Procurement and financial management specialists should be included in the task teams, who will be responsible for overall quality of procurement and financial management work. Technical specialists should also be included in the team especially to supervise the quality aspects.

29. The project preparation must consider the capacity of the borrower for project management, and ensure that arrangements are made to ensure adequate capacity is in place for procurement, financial management, maintenance of documents and contract management. A litmus test for adequate preparation is if disbursements can begin upon effectiveness.

Effective supervision

30. Task team members, especially the Task Team Leader (TTL), must have an attitude of non-tolerance of corruption and strict adherence to agreed procedures. These procedures must be designed to reduce the chances of misuse and corruption, and to obtain best value for money. Supervision must be adequate⁶ to ensure compliance to agreed procedures and progress on the ground, and to go beyond the paper trail by looking at the results of the procurement process in terms of quality, price and timeliness.

Looking beyond the paper trail: Value for money and timeliness

31. Procurement is normally an area that is most prone to misuse and for most projects has the highest risk of corruption. In many cases of corruption it has been found that examining just the documents may not be enough. Monitoring the results of the procurement actions is very important for measuring the economy and efficiency of the procurement system, and to reduce chances of corruption. The instruments recommended for this purpose are summarized below in Box G.

⁶ When the project involves numerous implementing units, there should be third party monitoring hired by the government for procurement post review. These consults must send their reports simultaneously to the government and the Bank. The procurement post review **by the Bank on consultants hired by the Bank** would still be required but the sample size may be adjusted keeping this arrangement in mind.

Box G: Measuring the results of the procurement process, to control corruption independent of the process

- Physical audits or end-use checks of the goods and works which result from the procurement process based on a strategic sample of contracts to illustrate whether the funds under the project are being utilized for intended project purposes. This also provides a verification of quality and quantities specified.
- Price comparability studies, which are independent studies to make a relevant and rational comparison of prices obtained for goods and works under the project, and prices prevalent in the market for items of equivalent quality.

32. Examining the timeliness of procurement actions offers the greatest opportunity for reducing political or other non-economic influences or consideration, and chances of corruption. Given below in Box H, are some effective measures to mitigate procurement delays.

Box H: Reducing procurement delays can reduce chances of corruption

a. Our experience from EAP and other regions indicate that procurement delays not only lead to implementation delays, but also increase the opportunities for corruption. The greater the delay, the greater are the chances that corrupt influences will be introduced in the procurement process.

How Due Diligence can be used to control corruption

b. Whenever there is undue delay in preparation of bidding documents, or in issuing bidding documents, which may indicate either lack of interest, lack of capacity or poor institutional setup, it is recommended to quickly threaten suspension while at the same time defining conditionalities necessary to avoid suspension; the main conditionality would often be the appointment of procurement agents or changes to the institutional setup, both of which would be geared to reduce corruption opportunities. Currently these situations lead to delays, which continue at times for years.

c. We also recommend that service standards for procurement actions should be agreed with the government for the entire procurement process including actions for which the borrower is responsible. Both the government and the World Bank should agree to a target of 90 percent consistent compliance with service standards. When performance falls below 70 percent remedies should be agreed which include engaging consultants for a period of not less than six months. This will improve project implementation and disbursement ratios also.

Misprocurement if borrower fails to award in 60 days after original bid validity

d. According to the Guidelines, requests for extensions of bid validity for 60 days beyond the original validity require World Bank prior approval. We should grant such extensions only in cases with good justification, almost force majeure. Therefore we would say “no” often and every time we do so, we would create a “misprocurement” situation. This would drastically reduce “passive” corruption, when a government official sits on something waiting for the proper incentive to sign off. It would also reduce opportunities for 2nd and 3rd evaluation committees.

33. A recent Fiduciary Audit,⁷ undertaken jointly with the Department of Institutional Integrity (INT) revealed systematic irregularities in an urban project that was designed several years ago (Box I). Similar problems have been revealed in a centrally managed textbook project. These entrenched corruption problems will take time and concerted efforts to weed out, including the provision of effective remedies.

Box I: Key findings of the Sulawesi Audit

- a. Missing procurement documentation.
- b. Collusion in the procurement process. The procurement process is not market driven, the contracts are prearranged, and there is collusion among bidders facilitated by common ownership of shell companies leading to noncompetitive prices and poor quality.
- c. Poor contract management resulting in departures from compliance with contracts, failure to complete work, and changes in contracts without appropriate approvals.
- d. Poor performance of the consultants hired for assisting in project oversight.
- e. Financial management issues in disbursement, accounting, record keeping and auditing.

34. The need to apply effective remedies when corruption cases are found is very important for sending a clear signal of non-tolerance of fraudulent and corrupt practices. This is discussed in more detail in the next section. All cases of fraud or corruption must be referred to INT for handling.

⁷ The Overview Report of the Fiduciary Audit is available on the Indonesia country program website: “www.worldbank.or.id”

ELEMENT SIX: Clearly define and announce remedies

35. The use of remedies for suspension and cancellation must be carefully drafted. They should include actions required from the government to avoid the application of these remedies. The actions required from the government must include credible sanctions against firms and individuals against whom evidence of fraud or corruption has been found, including government officials. Other actions should be designed to ensure effective compliance with controls that are established as part of project preparation.

36. The declaration of misprocurement can be facilitated by including a side-letter for NCB procurement. A currently agreed side letter is included in Volume Two, Appendix 7.

37. Remedies to reduce procurement delays are included in Box H. The following remedies are suggested for deviations found in the Sulawesi audit:

a. **Missing procurement documentation** can be mitigated by requiring an adequate plan for completing and maintaining procurement files so that information for each procurement process and the resulting contracts is kept in one place and is protected and readily available. Disclosure of information related to contracts will also require that these records be adequately maintained. A detailed plan for maintenance of procurement files should be a condition of negotiations, and this system must be ready for use as a condition for effectiveness. During supervision, if it is discovered that procurement files are not being maintained as agreed, then it is recommended to quickly threaten suspension while at the same time defining conditions necessary to avoid suspension; the main condition would often be to bring documentation up to date within a defined time frame or changes to the institutional setup, both of which would ensure that procurement documentation is complete.

b. **Collusion in the procurement process** has been dealt with above under paragraphs 26 and 27, but the remedies can be further enhanced. The current remedies include declaring misprocurement if the Borrower staff is determined to be involved in collusive practices, and initiating investigations leading to sanctions of firms and individuals. It is not clear what sanctions, if any, will be applied against Borrower staff found to be involved. It is recommended that the Borrower should be required to deal with collusion cases effectively and in a timely manner. If timely action is not taken, then it is recommended to quickly threaten suspension while at the same time defining conditions necessary to avoid suspension; the main condition would often be to hire a firm acceptable to the World Bank to complete investigation in a timely manner and the government to take actions recommended or changes to the institutional setup, both of which will reduce the chances of collusion.

c. **Poor contract management** may be mitigated through adequate supervision. Third party monitoring must be included if warranted in the project design.

Adequate remedies as suggested above should be applied diligently, including the condition of requiring third party monitoring.

d. **Poor performance of the consultants** will require actions by the Borrower as part of the primary responsibility for administration of the contract. The World Bank is also supposed to evaluate the performance of the consultants and apply necessary sanctions if required in accordance with paragraphs 1.23 and 1.24 of the consultants' guidelines. It is recommended that appropriate procedures be developed as part of the supervision plan to evaluate the consultants' performance and implement required follow-up actions.

e. **Financial management** issues in disbursement, accounting, record keeping and auditing should be mitigated through appropriate supervision and adequate remedies.

3. Developing an Effective Anti-Corruption Action Plan: A Step-by-Step Guide

38. An effective anti-corruption program can be developed by selecting the elements appropriate for a specific project situation. The various actions and interventions must be integrated in a manner designed to have the maximum impact.

STEP ONE: Understanding and prioritizing corruption risks by corruption mapping and analyzing incentives and disincentives (paragraphs 11 to 13).

Outputs:

- A summary prioritizing high-risk areas requiring careful review of incentives, disincentives and remedies must be prepared;
- The action plan elements to mitigate the chances of corruption identified above;
- A corruption mapping matrix, including analysis of incentives and disincentives.

STEP TWO: Empowerment of recipients and communities through smart project designs, involvement of recipients in the procurement process, and construction of simple works through communities (paragraphs 14 to 19).

Outputs:

- Listing of features of project design that will empower recipients and communities, including mechanisms (Box B);
- Design of mechanisms for recipient involvement in the procurement process;
- Planning of construction of simple works by communities;
- Updating of the corruption matrix and the action plan to incorporate the above interventions.

STEP THREE: Building partnership for civil society oversight and feedback by initiating consultation with representatives of civil society (paragraphs 20 to 25).

Outputs:

- Agreement on the watchdog role and the mechanism of oversight by civil society;
- Agreement on the disclosure provisions to be included in the legal documents of the project (Box E);
- Development of a media strategy including independent monitoring by the media;
- Development of a credible complaints handling system under the project;
- Planning of corruption surveys to get independent feedback;
- Planning of periodic feedback from the private sector including firms that are participating and those that are not;

- Updating of the corruption matrix and the action plan to incorporate the above interventions.

STEP FOUR: Establishing proven procurement policies to mitigate collusion (paragraphs 26 to 27).

Outputs:

- Formal incorporation of policies against collusion in the project by their inclusion in legal documents, operational manuals, minutes of negotiations, materials of project launch, and plans of dissemination to all stakeholders;
- Updating of the corruption matrix and the action plan to incorporate the above interventions.

STEP FIVE: Building strong task teams with the means of paying increased attention to fiduciary risks (paragraphs 28 to 34).

Outputs:

- Ensuring that the task team has adequate capacity to deal with fiduciary issues by including procurement and financial management specialists in the task team;
- Ensuring that the Borrower has made acceptable arrangements to put in place adequate capacity for project management, including capacity and systems for procurement, financial management, maintenance of records and contract management;
- Development of a supervision plan to ensure compliance with agreed procurement and financial management procedures, progress on the ground, and handling of complaints (see check list below);
- Planning for assessing value for money by examination of the results of the procurement process through asset verification and comparison of prices obtained (Box G);
- Planning of actions that avoid procurement delays to reduce chances of corruption (Box H);
- Updating of the corruption matrix and the action plan to incorporate the above interventions.

STEP SIX: Clearly define remedies to ensure compliance with corruption prevention measures and remedies to deal with cases of fraud or corruption discovered during implementation (paragraphs 35 to 37).

Outputs:

- Definition of the use of remedies for suspension and cancellation, including actions required to avoid application of these remedies;
- Definition of actions required from the government, including credible sanctions against firms and individuals against whom evidence of fraud or corruption has been found, including government officials;

- Facilitating declaration of misprocurement by including a side-letter for NCB (Volume Two, Appendix 7);
- Definition of remedies to ensure implementation of disclosure provisions agreed (Box E);
- Definition of remedies to reduce procurement delays (Box H).
- Definition of remedies for deviations found in the Sulawesi audit as suggested under paragraph 37;
- Updating of the corruption matrix and the action plan to incorporate the above interventions.

STEP SEVEN: Consult stakeholders to finalize the anti-corruption action plan.

Outputs:

- Drafting of anti-corruption action plan

39. Check-list of procurement and financial management actions for reducing opportunities for corruption

- Agree on a standard wording of advertisements (no changes to be allowed in general provisions during implementation, except for provisions specific to a particular procurement)
- Agree on the list of newspapers of nation-wide circulation in which specific advertisements will be placed. This list has been prepared and included in Appendix 9.
- Agree to finance the cost of procurement work including the cost of preparing bidding and contract documents and advertisements. Inadequate funding has been an excuse for poor advertisement/ notification practices (sharply curtailing competition and transparency). During project appraisal, if the GOI does not seek IDA financing for this, we should insist on acceptable arrangements and amounts that should be set aside and made available for this critical work (including earmarking of the counterpart funds if necessary). This agreement should become a covenant in the DCA.
- Agree during appraisal/negotiations on all standard bidding and contract documents (including for NCB), and request for proposals (for consultancy services). All agreed documents should include provisions in all contracts, allowing the World Bank the right to audit the accounts of the suppliers, contractors and consultants. The agreements should include the statement that no further changes will be made in the documents without the World Bank's prior approval.
- Give more attention to the TORs for consultancy assignments, selection procedures, arrangements for contract management, and procedures for assessing consultants' performance during implementation, to enhance effectiveness of the large TA included in the project. These should be spelled out in the implementation manual. A procedure to assess the performance of consultants by the Borrower and the World Bank should be agreed during preparation, including remedies against poor performance.
- Base packaging for procurement on economy and efficiency. It should not be influenced by the desire to spread works among local firms. The first year procurement plan should be as specific as possible. Disbursements for subsequent years should be allowed only after there is an agreement on the procurement plan for the subsequent years. Prior review thresholds should be project-specific and take into account the institutional capacity of the new districts/kabupatens; the standard thresholds of \$50,000 for individual consultants and \$100,000 for consulting firms should be reviewed.
- Define and agree upfront on items to be procured using national shopping. Where appropriate, the project should promote more use through UN agencies like IAPSO.
- Ensure that the project keeps records of prices paid for major items under each contract and regularly make this information available to the public.
- Build in project design annual reviews/audits by independent firms of the procurement process and procurement results (prices obtained, quantity and quality of delivered goods or works, and of services purchased, comparison of prices with prices of similar items in the market and verification of prices for similar supplies to other clients by the same vendor, and end-use checks). For shopping processes, this review should verify who the firms quoting are, their independence from each other and their existence as established and regular vendors of the items being procured. Agree that the project will

make results available to the public. The recruitment of the firm to be retained for these external reviews should be a condition of effectiveness. The project should finance the cost of these reviews.

- j. Consider having the project agency conduct an annual survey of contractors, suppliers, consultants, NGOs and community groups associated with the project to seek views on their experience in dealing with the project implementing agencies and make the results public.
- k. Agree upfront on the specific format and contents of the project progress reports, including procurement, financial management and disbursements.
- l. Include an updated procurement plan in regular project progress reports (giving status of procurement progress, reasons for delay and revised procurement schedule) so that we stop the "business as usual" for annual procurement plans
- m. Install financial planning, budgeting and project monitoring systems in the implementing agencies (who are considered ready for participation) prior to project start up.
- n. Give a fit and proper test for the Project Managers. Require their appointment before Board (preferably before negotiations so that they can participate in negotiations). Explore enhanced salaries for project staff.
- o. Develop a code of conduct and ethics that should be observed by the project implementing agencies, bidders, suppliers, contractors and consultants. This should be incorporated in the implementation manual and made public.
- p. Ensure that eligibility criteria and a decision on the readiness of a subnational government for participation in the project should include an assessment of the fiduciary environment and capacity (including an assessment of internal controls and enforcement capacity in the subnational government). Corrective actions to strengthen capacity should be realistic and practical as well as including a feasible basis for monitoring progress.
- q. Suggest that the implementation manual include a separate section on the fiduciary risks and actions to mitigate these risks (this would help ensure that staff responsible for implementation at all levels become familiar with the fiduciary issues).
- r. Finally, on monitoring and evaluation, make sure that there are simple indicators ensuring that:
 - baseline data is available by negotiations;
 - arrangements are in place for gathering and analyzing data during implementation; and
 - an agreement exists on how the analysis will feed into corrective actions.

4. A Generic Anti-Corruption Action Plan

21. An anti-corruption program should normally include the following sections:

I. Executive Summary:

a. Prepare a brief summary highlighting areas with high risk of corruption and mitigating measures through project design and supervision arrangements, including clearly defined remedies for deviations.

b. Describe briefly the following:

- *Fiduciary Arrangements:*
 - Project design features
 - Supervision and monitoring features

- *Key Aspects beyond traditional arrangements:*
 - Understanding corruption risks
 - Empowering recipients and communities
 - Building partnership for civil society oversight and feedback
 - Establishing procurement policies to mitigate collusion
 - Building strong task teams with effective tools
 - Clearly defining and announcing remedies

- *Key Remedies:*
 - Actions required for deviations from preventive measures and detection measures
 - Actions required for incidence for fraud or corruption
 - Clear specification of the use of remedies related to misprocurement, suspension of disbursements, suspension of the project, and cancellation of the project

II. Corruption Mapping Matrix: Prepare a corruption matrix through corruption mapping and an analysis of incentives and disincentives for corrupt behavior of project actors.

III. Action Plan: Prepare an action plan for anti-corruption measures based on the consultations conducted during preparation. This action plan should include a dissemination plan of the anti-corruption program under the project to all stakeholders.