

# Audit Committee

## For consideration

Subsequently Committee of the Whole, if so agreed

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**To:** The Board of Executive Directors

**From:** Secretary

**Subject:** Proposal for the action plan to support the countries in their efforts to fight corruption and foster transparency (PAACT)

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VICE PRESIDENCY FOR SECTORS AND KNOWLEDGE

INSTITUTIONAL CAPACITY AND FINANCE SECTOR

INSTITUTIONAL CAPACITY OF THE STATE DIVISION

## **ACTION PLAN**

# **TO SUPPORT THE COUNTRIES IN THEIR EFFORTS TO FIGHT CORRUPTION AND FOSTER TRANSPARENCY**

**(PAACT)**

**PROPOSAL**

**OCTOBER 2009**

This document was prepared by the Institutional Capacity of the State Division (ICF/ICS) with the participation of the Office of Institutional Integrity (PRE/OII) and in coordination with the Operations Procurement Office (VPC/PDP).

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Link 2	Definitions of corruption <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046977">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046977</a>
Link 3	List of projects related to the prevention and control of corruption (1997-2007) <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046982">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046982</a>
Link 4	Working paper from the Anticorruption Task Force <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046987">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046987</a>
Link 5	Comparative table: Scope of main international anticorruption conventions <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046994">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2046994</a>
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Link 7	Implementation timetable 2009-2011 <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2231579">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2231579</a>
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## ABBREVIATIONS

AAF	Anticorruption Activities Trust Fund
AUG	Office of the Auditor General
CFA	Country fiduciary assessment
CFAA	Country financial accountability assessment
CPAR	Country procurement assessment review
DEM	Development effectiveness matrix
EITI	Extractive Industries Transparency Initiative
ERP	External review panel
GACAP	Governance and Anticorruption Action Plan
GVCS	Procedures guide for validating country systems
IACAC	Inter-American Convention against Corruption
ICAS	Institutional Capacity Assessment System
ICF/ICS	Institutional Capacity of the State Division
IDB	Inter-American Development Bank
IRR	Integrity Risk Review
NOF	New Operational Framework
OAS	Organization of American States
OECD	Organization for Economic Cooperation and Development
OII	Office of Institutional Integrity
PAACT	Action Plan to Support the Countries in their Efforts to Fight Corruption and Foster Transparency
PEFA	Public expenditure and financial accountability
PRE/OII	Office of Institutional Integrity
RFPP	Red Flags in Project Procurement
RMG	Risk management guide for sovereign-guaranteed projects
UNCAC	United Nations Convention against Corruption
UNODC	United Nations Office on Drugs and Crime
VPC/PDP	Operations Procurement Office
WEF	World Economic Forum

## EXECUTIVE SUMMARY

Corruption adversely affects not just economic development, but income distribution, the legitimacy of the political system, the viability of the State, and the level of crime. At the regional level, despite headway in strengthening legal and institutional frameworks for fighting corruption, the countries of Latin America and the Caribbean continue to face significant challenges.

In this setting, and in light of important developments both within and outside the Bank, this document proposes a framework of action to strengthen the Bank's support for the countries of the region in the prevention and control of corruption and fostering transparency, deepening Pillar III of the Systemic Framework Against Corruption (document GN-2117-2) and those aspects of Pillar II related to support for the countries. Development of this framework will make it possible to take action concerning the External Review Panel's (ERP) recommendation (document GN-2440-1) to strengthen the Bank's external work, i.e. supporting reforms for good governance and prevention and control of corruption in the region, and to bring it up to date with the new operational and fiduciary institutional guidelines.

This document starts by describing the main challenges related to the treatment of corruption, which are associated with its clandestine nature, its many different manifestations, and the complexity of its causal process. With these challenges in mind, the document then identifies a number of implications to help define a support strategy at both the general (or external) and institutional (or internal) level of the Bank. At the external level, the document proposes strengthening the Bank's capacity for analysis and diagnostic assessment in the areas of governance and anticorruption at the country, sector, and institutional level, in order to identify the vulnerabilities specific to each context. It also suggests boosting efforts initiated by the countries to standardize the treatment of corruption by supporting implementation of international conventions against corruption and creating opportunities for regional dialogue on the subject. Lastly, it notes the need to emphasize institutional strengthening as the entry point for the prevention and control of corruption, and to support the involvement of the private sector and civil society in identifying and implementing institutional reforms. At the internal level, the document recommends moving toward institutionalization of a systemic approach, creating the necessary opportunities and capacities to channel support for the prevention of corruption and fostering transparency in all of the Bank's areas of action and throughout the project cycle, and facilitating coordinated intervention between the various Bank units involved and with other international stakeholders.

The document concludes with proposed actions to give strategic direction and add value to financial, knowledge, and capacity-building products in the area of transparency and anticorruption, which is crucial to the economic and social development of the countries of the region.

## I. RATIONALE AND BACKGROUND<sup>1</sup>

### A. Corruption and development

- 1.1 There is evidence today that corruption adversely affects not just economic development, but income distribution, the legitimacy of the political system, the viability of the State, and the level of crime (Table 1). Experts agree that any potential benefit of corruption is far outweighed by its severe adverse effects.<sup>2</sup>

**Table 1: Adverse effects of corruption**

Effect	Reference
Corruption adversely affects economic development through:	Mauro (1995), Knack and Keefer (1995), Wei (1999), Lamsdorff (2000), Tanzi and Davoodi (2002)
Fiscal variables	Tanzi and Davoodi (1997, 2002)
Deterioration of the composition of public expenditure	Mauro (1997, 2002), Tanzi and Davoodi (2001, 2002), and Gupta (2001, 2002)
A reduction in productive investment and an increase in low-productivity investment	Mauro (1997, 2002), Tanzi and Davoodi (2001, 2002), and Gupta, Mello, and Sharan (2001, 2002)
Increase in red tape	Kaufmann and Wei (2000)
Lower quality of foreign investment	Wei (2000) and Hellman, Jones and Kaufmann (2002)
Creation of financial instability	Gelos and Wei (2002)
Corruption affects income distribution	Gupta, Davoodi, and Alonso-Terme (2002)
Corruption erodes the legitimacy of the political system	Center for Global Development (2004)
Corruption erodes the viability of the State	Strange (1996) and Rose-Ackerman (1999)
Corruption facilitates international crime	Center for Global Development (2004)

- 1.2 The effects of corruption are critical for the development agenda, since they alter the effectiveness and inclusiveness of public services, discourage private sector development, erode the legitimacy of the State, and weaken democratic governance.<sup>3</sup>

<sup>1</sup> This document was prepared by: Pablo Alonso (ICF/ICS); Ana Inés Basco (ICF/ICS); Leslie Harper (ICF/ICS); Roberto de Michele (PRE/OII); Arnaldo Posadas (ICF/ICS), Juan Cruz Vieyra (ICF/ICS); Valeria Wedolowski (ICF/ICS), and Paloma Baena (ICF-ICS), team coordinator. The team worked under the supervision of Xavier Comas, Division Chief (ICF/ICS).

<sup>2</sup> There is no generally accepted definition of corruption. The term corruption is used to refer to numerous and diverse activities—legal or illegal, public or private—carried out to the detriment of public governance. Corrupt activities include, inter alia, bribery, extortion, misappropriation of funds, illicit enrichment, nepotism, misuse of information or property, and influence peddling (see electronic link 2).

<sup>3</sup> The Bank defines “democratic governance” as the process whereby authority is exercised in a given political community, including: (i) the way in which those in positions of authority are elected, overseen, and replaced; (ii) the principles and norms that define interactions between the State, the private sector, and civil society organizations, their powers, roles, and responsibilities; and (iii) the authority’s capacity to identify needs, secure resources, and make and implement policies. Governance is democratic when it incorporates a series of requirements bearing on how, and under what socioeconomic conditions, the authority should be exercised.

## B. Anticorruption efforts

- 1.3 Existing evidence on the harmful effects of corruption combined with another type of factors—including growing democratization worldwide—has contributed to the fact that in recent years most of the world’s governments, including those of Latin America and the Caribbean, have expressed their political will to address this problem. That will has been embodied in various international treaties that propose an institutional strengthening framework based on increasingly complex and ambitious prevention standards<sup>4</sup> (see electronic link 5).
- 1.4 International development institutions have also included the fight against corruption as part of their action priorities, and in the last decade most of them have formulated anticorruption policies. In recent years, they have been working on developing strategic plans to effectively incorporate this issue into their activities and into the dialogue with the countries they serve (Table 2).

**Table 2: Recent governance and anticorruption strategies**

<p><b>World Bank</b></p> <p>Following an extensive international consultation process, in March 2007 the World Bank approved the strategy “Strengthening World Bank Group Engagement on Governance and Anticorruption.”</p> <p>That strategy has three main pillars: (i) creating capable, transparent, and responsible national institutions and systems by giving assistance to the countries; (ii) reducing corruption to a minimum in projects financed by the Bank by assessing the risk of corruption before starting the project, investigating allegations of fraud and corruption, and strengthening project control and supervision; and (iii) expanding partnerships with bilateral and multilateral development institutions, civil society, the private sector, and other stakeholders under joint initiatives to attack corruption.</p> <p><b>Asian Development Bank</b></p> <p>In July 2006, the Asian Development Bank approved the Second Governance and Anticorruption Action Plan (GACAP II). GACAP aims to: (i) improve identification and management of governance and corruption risks in country strategies and programs, as well as in annual portfolio reviews; (ii) strengthen governance and anticorruption components in project design; (iii) strengthen project and portfolio management and administration; and (iv) improve the organizational structure, human resources, and access to expertise.</p> <p>To achieve these objectives, GACAP outlines three priority areas critical to poverty reduction and development effectiveness: (i) public financial management; (ii) government procurement; and (iii) combating corruption through preventive, investigative, and sanctioning measures. These areas are addressed across sectors at the national and subnational level (including municipalities) in order to avoid ad hoc initiatives.</p>
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- 1.5 In the framework of the Paris Declaration on Aid Effectiveness (2005), international organizations (including the Bank) agreed to undertake concrete and

<sup>4</sup> The Organization of American States (OAS) adopted the Inter-American Convention against Corruption (IACAC) in 1996. One year later, the Organization for Economic Cooperation and Development (OECD) adopted the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. For its part, the United Nations adopted the UN Convention against Corruption in 2003 (UNCAC). Electronic Link 5 presents the scope of the provisions.



effective actions to attack corruption and the lack of transparency, which undermine political support, prevent the effective mobilization and allocation of resources, divert resources appropriated for crucial activities to eradicate poverty and ensure sustainable economic development, and prevent donors from having confidence in the systems of the partner countries.<sup>5</sup>

- 1.6 At the same time, efforts to measure corruption have increased since Transparency International launched its Corruption Perceptions Index in 1985. In addition to perception indicators such as those developed by the World Economic Forum (WEF), the World Bank launched aggregate governance indicators, including the Anticorruption Index. More recently, organizations such as Global Integrity have developed indicators that permit a contextual analysis at the country level, while some international organizations have already announced their intention to develop a new generation of indicators that help measure progress in fighting corruption in the context of each country and sector.
- 1.7 The countries of the Latin America and Caribbean region have in most cases strengthened their institutional frameworks for fighting corruption, either indirectly by strengthening the judicial branch, or directly by creating independent oversight institutions and, in some cases, establishing specialized anticorruption offices. In recent years, significant headway has been made in promoting transparency through the proliferation of laws on access to information and, in some cases, the design and implementation of effective mechanisms to exercise that right. Likewise, most countries of the region have actively participated in the international anticorruption treaties mentioned above.<sup>6</sup>
- 1.8 Despite these efforts, the region still faces significant challenges in fighting corruption. According to commonly used corruption indicators (Table 3), the region presents levels of corruption that exceed the global average. In fact, only three Latin American countries (Chile, Uruguay, and Costa Rica) and two Caribbean countries (Barbados and Bahamas) are above the global average for 2007 shown in the World Bank Anticorruption Index. The indicators further suggest a negative trend since 2000 due to a decline in the ratings for around 60% of the countries. Lastly, according to main opinion and perception surveys, corruption is a recurring concern for both the private sector and civil society.

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<sup>5</sup> Paris Declaration on Aid Effectiveness, March 2005.

<sup>6</sup> All of the Bank's member countries, except Barbados and Suriname, have signed and ratified the IACAC and participate in its follow-up mechanism. All of the Bank's member countries, except Belize and Suriname, have signed the UNCAC, with ratification pending only by Barbados, Haiti, and Venezuela. Argentina, Brazil, Chile, and Mexico have ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and participate in its follow-up mechanism.

**Table 3: Data on corruption in the region**

Source	World Bank Governance Indicators			Transparency International		
Indicator	Control of corruption			Perception of corruption		
Scale	(2.5 = best)			(10 = best)		
Year	2000	2006	2007	2006	2007	2008
Argentina	-0.38	-0.47	-0.45	2.9	2.9	2.9
<b>Bahamas</b>	1.39	1.37	1.36			
<b>Barbados</b>	1.39	1.20	<b>1.33</b>	6.70	6.90	7.00
Belize	-0.14	-0.30	-0.27	3.50	3.00	2.90
Bolivia	-0.55	-0.64	-0.49	2.7	2.9	3
Brazil	0.09	-0.33	-0.24	3.3	3.5	3.5
<b>Chile</b>	1.39	1.31	<b>1.35</b>	7.3	7	6.9
Colombia	-0.61	-0.22	-0.28	3.9	3.8	3.8
<b>Costa Rica</b>	0.85	0.37	<b>0.9</b>	4.1	5	5.1
Dominican Republic	-0.40	-0.59	-0.65	2.8	3	3
Ecuador	-0.92	-0.75	-0.87	2.30	2.10	2.00
El Salvador	-0.41	-0.18	-0.13	4	4	3.9
Guatemala	-0.58	-0.70	-0.75	2.6	2.8	3.1
Guyana	-0.38	-0.61	-0.64	2.5	2.6	2.6
Haiti	-1.43	-1.47	-1.28	1.8	1.6	1.4
Honduras	-0.77	-0.78	-0.69	2.5	2.5	2.6
Jamaica	-0.25	-0.36	-0.49	3.7	3.3	3.1
Mexico	-0.42	-0.35	-0.5	3.30	3.50	3.60
Nicaragua	-0.94	-0.76	-0.78	2.6	2.6	2.5
Panama	-0.31	-0.28	-0.34	3.1	3.2	3.4
Paraguay	-1.19	-1.02	-0.96	2.6	2.4	2.4
Peru	-0.33	-0.35	-0.38	3.3	3.5	3.6
Suriname	0.42	-0.21	-0.26	3	3.5	3.6
Trinidad and Tobago	0.14	-0.15	-0.19	3.2	3.4	3.6
<b>Uruguay</b>	0.76	0.80	<b>0.96</b>	6.40	6.70	6.90
Venezuela	-0.59	-1.05	-1.04	2.3	2	1.9
World average	0	0	0	4.09	3.99	3.98
Average, middle income countries (MIC)	-0.19	-0.17	-0.27	3.57	3.61	3.69
Average, LA	-0.29	-0.32	-0.28	3.48	3.55	3.59
Average, Caribbean*	0.19	0.26	-0.13	3.52	3.50	3.75
Average, LAC*	-0.05	-0.03	-0.24	3.50	3.53	3.65

\* Antigua and Barbuda, Cuba, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

Promedio AL: incluye los 17 países de AL

Promedio Caribe Banco. Incluye los 9 países del Caribe miembros del Banco: Bahamas, Barbados, Belice, Rep. Dominicana, Guyana, Haití, Jamaica, Surinam y Trinidad y Tobago

Promedio Caribe (16): abarca los países del Caribe incluidos en esta table (9) más: Antigua y Barbuda, Cuba, Dominica, Grenada, St Kitts and Nevis, Sta. Lucía y St. Vicent y Grenadines

Promedio LAC Banco: incluye los 17 países de AL más los 9 países del Caribe miembros del Banco

Promedio LAC: incluye los 17 países de AL más los 16 países del Caribe

- 1.9 These data pose important challenges for the development objectives of the countries and, therefore, the Bank. As the specialized literature suggests, levels of corruption could adversely affect the region's economic growth, as well as the sustainability and inclusiveness of that growth (see Table 1). Moreover, the

effectiveness of actions undertaken by the Bank and other donors in order to achieve their development objectives could be compromised.

### C. Corruption and the Bank's mandate

- 1.10 Cognizant of the impact of corruption on the countries' development, and given its mandate to promote the economic and social development of its borrowing member countries, the Bank has been supporting the anticorruption efforts of the countries as part of numerous state modernization projects (see electronic link 3).
- 1.11 Additionally, in February 2001, the Bank's Board of Directors approved the document, "Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank ("Systemic Framework").<sup>7</sup> The Systemic Framework expressly acknowledges that corruption threatens democratic institutions, is detrimental to the economic development of the countries, and can seriously undermine the credibility of government institutions when it is not effectively combated. To that end, it serves as a framework of action to promote integrity based on three different but closely interrelated pillars:
- a. Pillar I: Ensure that Bank staff act in accordance with the highest levels of integrity and that the institution's internal policies and procedures are committed to this goal.
  - b. Pillar II: Ensure that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment.
  - c. Pillar III: Support programs that will help the borrowing member countries of the Bank strengthen good governance, enforce the rule of law, and combat corruption.
- 1.12 Since its approval, the Bank has moved forward with implementation and development of these three pillars of action. In the case of **Pillar I, Ensure the Integrity of Bank Staff**, the Bank has made significant headway in its efforts to promote integrity within the institution. The Bank has made a thorough review of its main ethics policies and regulations. Some of the main outcomes of this process are the revised Code of Ethics and updated procedures, the revised terms of reference for the Ombudsperson, and creation of the Ethics Officer position. Declaration of interests forms for Bank staff were also updated, and an ethics training program conducted for all personnel at Bank headquarters and Country Offices.
- 1.13 With respect to **Pillar II, Ensure the Integrity of Bank Programs**, in recent years the capacity to fulfill the fiduciary role imposed by the Agreement Establishing the Bank has been strengthened and improved.<sup>8</sup> A recent review of the main advances in this area is reflected in the 2006 Framework for Combating Fraud and

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<sup>7</sup> Document GN-2117-2.

<sup>8</sup> "The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency."

Corruption in the Activities Financed by the Inter-American Development Bank (document GN-2414). Among other measures, the Bank created the Office of Institutional Integrity (OII) specializing in investigating acts of fraud and corruption, a senior management committee responsible for supervising those investigations,<sup>9</sup> and a special committee responsible for enforcing the corresponding sanctions. The Bank has also participated with the main multilateral banks in harmonizing the definitions of corruption and investigation guidelines. Efforts are also being made to develop tools of fiduciary analysis with an emphasis on risk management.

- 1.14 Lastly, with respect to **Pillar III, Support for Member Countries**, the Bank has accumulated experience through a large number of institutional strengthening activities for borrowing member countries that have directly or indirectly included the objectives of preventing and controlling corruption, particularly after adoption of the Modernization of the State Strategy (see electronic link 3).<sup>10, 11</sup>
- 1.15 Despite the significant efforts and headway made by the Bank in implementing the guidelines contained in the Systemic Framework, there are still important areas to be developed and updated in relation to Pillar III and in those areas of Pillar II related to support for the countries. Thus, with respect to Pillar II, it is necessary to continue deepening the interaction between fiduciary and operational functions. Although progress has been made in this area, as demonstrated by the Red Flags in Project Procurement (RFPP) methodology, or the Integrity Risk Reviews (IRRs), the Bank should continue strengthening its project cycle through feedback between fiduciary and operational inputs.
- 1.16 With respect to Pillar III, in recent years the Bank has carried out a large number of institutional strengthening activities with anticorruption components. However, that support has not been in line with an integrated intervention strategy that builds upon the principal points of the Systemic Framework. The lack of such integration makes it more difficult to evaluate the Bank's work in the framework of the growing commitment and concern of the region's countries for fighting corruption and the development of new areas and/or mechanisms of intervention in light of relevant

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<sup>9</sup> More recently, Management formulated and is implementing an Action plan for implementation of the External Review Group's recommendations on the Bank's Anticorruption Framework (document GN-2440-6)

<sup>10</sup> A preliminary identification of resources approved between 1997 and 2007 related to preventing and combating corruption (see electronic link 3) would represent 1.63% of the total portfolio during that period. This amount could be overstated because it includes the aggregate total for each project, without a breakdown of the components and/or activities that are specifically related to it.

<sup>11</sup> The Modernization of the State Strategy (document GN-2235), approved by the Bank's Board of Directors in 2003, identifies four areas for Bank intervention: democratic system; rule of law and justice reform; state, market, and society; and public management. The subject of corruption is included in some of these areas of intervention, particularly with respect to support for oversight institutions, strengthening of the judicial branch's capacity to combat corruption, and improvement in the efficiency and transparency of spending.

conceptual developments, as well as their updating in the face of changes at the national and regional level.

- 1.17 In order to consider measures to strengthen the Bank's support for countries in the areas of governance and corruption, in 2006 the President of the Bank issued instructions to form an Anticorruption Task Force. Its diagnostic assessment and recommendations were contained in the document, "The IDB's Anticorruption Activities, Review and Recommendations," dated February 2007 (see electronic link 3), which includes proposals for the short, medium, and long term. Among these is the need to develop a specific governance and anticorruption strategy that enables the Bank to identify and prioritize the activities it wishes to conduct in this area, while facilitating an integrated approach to this issue in all of its activities.
- 1.18 More recently, the Bank's Board of Executive Directors requested that an ERP be formed to evaluate the Bank's anticorruption framework. Its report to the Board of Directors (document GN-2440-1-2), dated 20 November 2008, recommends the drafting of an anticorruption strategy at the Bank level, placing particular emphasis on the need to strengthen support for countries in the area of good governance and prevention of corruption at an external level, and to build the capacity of the relevant units for such purposes, as well as to clarify and strengthen coordination mechanisms at an internal level.<sup>12</sup>
- 1.19 Establishment of the Bank's new organizational structure in a context of growing commitment by the countries and international organizations to combat corruption has created an enabling environment for reintroduction of the proposals formulated by the Anticorruption Task Force and the ERP's recommendations, in addition to the internal and external actions to deepen implementation of the guidelines provided in the Systemic Framework.
- 1.20 Given this opportunity, the action plan presented in the next chapter proposes a framework of action to strengthen support for the countries of the region in fighting corruption and strengthening governance under a systemic approach consistent with the operational cycle.<sup>13</sup> Development of this framework of action will deepen and integrate the Bank's work in Pillar III of the Systemic Framework Against Corruption and in those aspects of Pillar II directly related to support for the countries. It will also make it possible to contextualize this work within the

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<sup>12</sup> This Action Plan to Support the Countries in their Efforts to Fight Corruption and Foster Transparency (PAACT) is part of Management's response to the External Review Group's recommendations on the Bank's Anticorruption Framework (document GN-2440-6).

<sup>13</sup> Given that the strategic guidelines of the Systemic Framework remain in full force and effect, it is not considered necessary to redefine a new institutional strategy for supporting the countries in the fight against corruption. However, it *is* considered necessary to deepen implementation of the guidelines provided in the Systemic Framework, as well as to clarify the roles and scope of action of the Bank's units with complementary responsibilities, in order to facilitate their cooperation.

framework of the Bank's new operational guidelines<sup>14</sup> and to integrate it with other complementary initiatives now being developed (see Table 7).

- 1.21 As a guiding principle, the Bank's role will always be to support the initiative of the countries, in each case tailoring the scope and support mechanisms to the needs and priorities identified jointly by the Bank and the country through informed dialogue.

## II. ACTION PLAN

### A. Purpose and objectives

- 2.1 The purpose of the Action Plan to Support the Countries in their Efforts to Fight Corruption and Foster Transparency (PAACT) is to strengthen the Bank's support for the countries of the region in the prevention and control of corruption and fostering transparency, deepening Pillar III of the Systemic Framework Against Corruption and those aspects of Pillar II related to support for the countries.
- 2.2 The specific objectives of the PAACT are:
  - a. **At an external level**, to promote and develop high value-added programs, activities, and forums for dialogue in support of the countries' efforts to combat corruption and foster transparency.
  - b. **At an internal level**, to institutionalize the efficient and coordinated channeling of support for the countries under a systemic approach consistent with the operational cycle.
- 2.3 The following sections of this document present a conceptual frame of reference, identifying challenges in the treatment of corruption, as well as the implications for developing a support strategy at the Bank's external and internal levels. Based on these inputs, the document concludes with proposed activities and an initial indication of the required next steps for their implementation.

### B. Challenges in the treatment of corruption

- 2.4 The main challenge in the treatment of corruption is its complexity, due to its clandestine nature, its many different manifestations, and the difficulty in specifying its causal process.
- 2.5 In the majority of cases, acts of corruption are punished by the judicial system; otherwise, social sanctions usually come into play. This naturally pushes acts of corruption underground, making them difficult to detect and requiring control and sanctioning efforts to be supplemented with the design of prevention measures and mechanisms. Observation and measurement is also an arduous task, hindering

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<sup>14</sup> Priority areas for the coming years include development support for institutions that promote growth and social welfare, according to documents that would update the institutional strategy: Review of the need for a General Capital Increase of the Ordinary Capital and Replenishment of the Fund for Special Operations (document CA-507), and Enhancing IDB's capacity as development partner: An agenda for a better Bank (document GN-2518-10).

- empirical testing of the multiple theories on the causes of corruption and, consequently, the development of properly focused strategies and policies.
- 2.6 A second obstacle is related to the many different manifestations and the lack of common standards for the criminalization of corruption. Corruption is a generic term that encompasses an indefinite number of behaviors, such as bribery, malfeasance, nepotism, influence peddling, State capture, etc. The prevalence of these behaviors varies from one context to the next, depending on the stakeholders, processes, and incentives involved in each case. Factors such as opportunity cost, the likelihood of detection, and the severity of the punishment or social sanction in each case help determine the scope and form in which the corruption is expressed.<sup>15</sup>
  - 2.7 The lack of a generally accepted definition or one that covers all possible manifestations of corruption is reflected in significant variations in how it is characterized in country legal systems. In some countries, corruption applies only to public officials, whereas in others, private sector behaviors have more recently begun to be criminalized, such as the payment of bribes to public officials. In the same way, while acts such as bribery are defined generally, other more complex activities, such as State capture, have a highly differentiated treatment in each judicial system.
  - 2.8 Additionally, conduct that some countries consider to be criminal is treated by other countries as legal and is regulated (e.g. campaign and party finance). The lack of a definition agreed by consensus hinders coordination of the anticorruption actions of countries, which is particularly significant given that corruption is an increasingly transnational phenomenon.
  - 2.9 Lastly, what causes corruption is still an open issue; not knowing this may hamper the success of anticorruption policies and programs. Although there is broad consensus that certain institutional weaknesses, such as the presence of monopolies in the delivery of goods and services, the existence of discretionality in decision-making on the distribution of those goods and services, or the lack of political, social, or judicial accountability foster the emergence of corruption, the existence of these factors is often due to cultural, social, political, historical, economic, geographical, and other structural factors (see electronic link 1).<sup>16</sup>
  - 2.10 However, it may be somewhat impractical in the short term to fight corruption by attacking its ultimate or structural causes. For that reason, the most advisable entry

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<sup>15</sup> For a more in-depth analysis, see for example Becker, G. (1968, 1995) and Klitgaard, R. (1988).

<sup>16</sup> It is difficult to make generalizations as to the causes or interaction between the different factors. In some cases, corruption is exclusively the consequence of institutional weaknesses, whereas in others it is the result of other, structural factors. Some countries have effectively attacked corruption through the elimination of monopolies in the delivery of goods and services, deregulation, discretionality, and better accountability. In other countries, however, policies geared toward achieving the same objectives have failed owing to, for example, the existence of different types of opposing interests or the fact that the conditions are unfavorable from the outset (e.g. certain reforms require a sophisticated degree of institutional development that is beyond the reach of many countries). Electronic link 1 contains a summary of the diverse range of theories formulated on the causes of corruption.

point for fighting corruption is to strengthen the institutional framework for preventing and controlling existing corruption in each context, while at the same time strengthening accountability mechanisms.

- 2.11 Comparative experience shows us that corruption can be fought by adopting concrete strategies geared toward attacking the underlying institutional factors.<sup>17</sup>

### **C. Implications for Bank support of the countries**

- 2.12 Important implications are derived from the challenges of the treatment of corruption for: (i) promoting and developing high value-added programs, activities, and forums for dialogue in support of the countries' efforts to combat corruption and foster transparency (external implications) and (ii) institutionalizing the channeling of that support under a systemic approach consistent with the operational cycle (internal implications). It is important to note the high level of complementarity between these two levels of action.<sup>18</sup>
- 2.13 At an external level, the Bank should strengthen its capacity for analysis and diagnostic assessment in the areas of governance and anticorruption at the country, sector, and institutional level, in order to identify the vulnerabilities specific to each context. At the same time, it should support progress toward uniform standards for the prevention and control of corruption at the regional level initiated by the countries.<sup>19</sup> Lastly, it should emphasize institutional strengthening as an entry point for the prevention and control of corruption, and should support involvement of the private sector and civil society as part of that process.
- 2.14 At an internal level, the Bank should move toward institutionalization of a systemic approach, creating the necessary opportunities and capacities to channel support for the prevention and control of corruption and fostering transparency in all of its areas of action and throughout the project cycle. Likewise, it should facilitate coordinated intervention between the various Bank units involved and with other international stakeholders, in order to achieve greater consistency and efficiency.

#### **C.1 External implications**

- 2.15 ***Develop a contextualized approach at the country, sector, and institutional level.*** The complexity of corruption requires strategies to fight it based on sound knowledge of its causes, with consideration for the particular features of each

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<sup>17</sup> Countries like Chile, Uruguay, Costa Rica, Botswana, Poland, and others have effectively fought corruption by adopting concrete institutional strengthening strategies.

<sup>18</sup> Moreover, the implications mentioned above dovetail with the guidelines provided in the Systemic Framework (Annex I).

<sup>19</sup> The provisions of international anticorruption instruments ratified by the countries of the region lay the groundwork for more homogenous treatment of corruption at the regional level, with important implications for the standardization of standards of prevention and international cooperation. However, the specific institutional arrangements that will embody those provisions will vary significantly from country to country.



country, sector, or institution.<sup>20</sup> For that reason, it is necessary to strengthen the Bank's ability to identify the most vulnerable processes in each case and to develop a differentiated intervention strategy tailored to each context based on specialized knowledge:

- (i) Strengthen contextualized diagnostic capacity. The Bank has developed and participated in preparing and instituting sound instruments for assessing the institutional capacity of the executing agencies for its projects and, on a more general level, the capacity of the governments of its member countries to manage financial budgeting and procurement processes (see Table 4).

**Table 4: Diagnostic tools**

<p><u>Country Procurement Assessment Review (CPAR):</u> This is an analytical tool to assess country capacity to manage procurement and to evaluate the need for an action plan to improve procurement systems for goods, works, and consulting services. In the section on the integrity and transparency of public procurement systems, the assessment includes a review of certain indicators of the existence of ethics and anticorruption measures in the countries.</p> <p><u>Country Financial Accountability Assessment (CFAA):</u> This is a diagnostic tool that provides information on public financial management systems. The indicators include an evaluation of the scope and transparency of systems in the budget cycle, the predictability and control of budget execution, and budget credibility. The CFAA may conclude with an identification of aspects of the system vulnerable to corruption.</p> <p><u>Country Fiduciary Assessment (CFA):</u> This is a combination of the CPAR and the CFAA, simultaneously analyzing financial management and the procurement system.</p> <p><u>Institutional Capacity Assessment System (ICAS) for project executing agencies:</u> The Bank uses this tool to evaluate the programming, execution, and supervision capacity of the executing agencies for its programs. It considers integrity in procurement and financial management systems. It also examines the existence of a code of conduct and the external independence of the entity.</p> <p><u>Red Flags in Project Procurement (RFPP) matrix:</u> This was developed by the Operations Procurement Office in the Office of the Vice Presidency for Countries (VPC/PDP) and the OII. The tool provides an analytical framework for detecting and preventing corruption and fraud in the Bank's projects, offering a practical guide to specialists tasked with project supervision.</p> <p><u>Democratic Governance Assessment:</u> Developed by ICF/ICS, this assessment systematically and comparatively diagnoses the degree of development of the government structure and its institutions, taking historical, geographical, and political factors into account and considering the areas identified in the Modernization of the State Strategy. The corruption analysis is limited to certain partial and generic aspects of the political, administrative, and legal systems.</p> <p><u>Integrity Risk Review (IRR):</u> Developed by the Office of Institutional Integrity (PRE/OII), this process identifies the risks of fraud and corruption in the Bank's projects and mitigation measures in regions, countries, sectors, divisions, or projects, based on the combination of</p>
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<sup>20</sup> Each manifestation of corruption may be due to different causes in different countries. For example, in some countries, a percentage of the salaries of public officials is exacted due to the need to finance the political parties in power, while in other countries, that same action is due to the financial motivations of the person in office. In the first case, trying to increase transparency to prohibit such conduct could be rejected due to the existence of powerful opposing interests or a firmly rooted conflicting culture, while, in principle, the second case would face less opposition.

information from cases investigated by PRE/OII, project cycle documents, interviews, and external documents. This information is provided both to the Bank's operational and oversight areas and to executing agencies and oversight bodies, so that it can be used to reduce integrity risks.

Given their usefulness in the diagnosis of institutional weaknesses in financial and procurement processes, the consistent application of these instruments should be encouraged as an input for both the Bank's dialogue with the countries and the project cycle (see Figures 1 and 2).<sup>21</sup>

However, manifestations of corruption go beyond financial management and management of public contracts, and the causes are not limited to weaknesses in the processes that feed those functions.<sup>22</sup> This makes it necessary to supplement the information generated by these instruments with an analysis in the area of prevention and control of corruption that goes beyond the focus of these processes and identifies underlying factors that act as potential causes.

In this regard, international organizations and the academic community have recognized in recent years that corruption has specific dynamics and consequences that reflect the nature of the sector in which it is manifested. This points to the need to develop unique approaches and methodologies for the diagnosis, prevention, and control of corruption at the sector level (see Table 5).

**Table 5: Approaches to fight corruption at the sector level**

The multiple manifestations and causes of corruption mean that a unique or contextual approach is more effective at identifying specific vulnerabilities. Following are some approaches being developed by international organizations:

*World Bank*

In recent years, the World Bank has developed an approach to diagnose, analyze, and prevent corruption based on the specific dynamics of certain sectors, such as the extractive industries, construction, water, and others, going beyond the traditional fiduciary focus. An example is the Value Chain Methodology, a tool designed to identify and analyze the stages or sequence of activities that are carried out in a sector to deliver a given product, e.g. a public service like water, electricity, or education. The main objective of this methodology is to diagnose governance and corruption risks throughout the necessary stages of service delivery, and to identify measures and practices that reduce their impact.

*Asian Development Bank*

In the framework of GACAP II, the Asian Development Bank proposes a series of actions to prevent corruption at the sector level, e.g. appointing experts in governance, institutional development, and anticorruption to cover the sector divisions, train sector specialists at a level that enables them to carry out institutional development and anticorruption work in their

<sup>21</sup> The methodology proposed in the Procedures Guide for Validating Country Systems (GVCS) will help document the inputs that these instruments generate in the framework of the Bank/country dialogue.

<sup>22</sup> More specifically, financial and contract management is only part of the corruption value chain. For example, collusion to take part in a tender; professor absenteeism; threats of lawsuit or dismissal; political pressures; and any other conduct that results in harm to the public good but not directly associated with financial and contract management could be difficult to detect with these instruments. For a more in-depth discussion, see, for example, Campos, J. E. and Pradhan, S., editors (2007).

sectors, and ensure that the personnel responsible for selecting future sector employees recognize that knowledge of institutional development and prevention of corruption are essential.

*Inter-American Development Bank*

The Policy Formulation Process methodology<sup>23</sup> developed by the Inter-American Development Bank (IDB) endeavors to analyze, from an institutional standpoint, the process whereby policies are discussed, approved, and applied. While this methodology does not focus on diagnosing corruption, its potential application at the sector level would provide important inputs with respect to the impact of political elements on sector governance. Moreover, the recent Anticorruption Activities Trust Fund (AAF) was designed with a sector focus. The AAF promotes the analysis of corruption risks specific to each sector, as well as the identification of mechanisms for transparency and access to information that can prevent these risks and reduce their impact.

*Nongovernmental organizations*

In recent years, various nongovernmental organizations have been developing approaches, methodologies, and tools for diagnosing and analyzing corruption at the sector level. Noteworthy is the work of Transparency International in sectors such as the extractive industries through the Promoting Revenue Transparency Project; in the construction and infrastructure sector through preventive interventions in collaboration with the Global Infrastructure Anticorruption Center (GIACC); in the water sector, a subject of analysis in the 2008 annual report; and in the political finance sector through the Crinis project, which was supported by the IDB.

In light of the above, the Bank's ongoing diagnostic efforts should be supplemented with tools that provide inputs specific to each context. These inputs will go into the programming and design of projects and, where appropriate, will determine the need to introduce additional safeguards during execution (see Figures 1 and 2).

In addition, the proposed sector approach will make it possible to structure available knowledge on the basis of international best practices, adapting it operationally to the work priorities of the countries and the Bank. In turn, this will help strengthen application of the fiduciary analysis tools under development by having the most precise and specific inputs for the context, so that prevention mechanisms can be identified that attack the causes of corruption, not just the symptoms (see Table 7).

- (ii) Support the use and development of a new generation of indicators. Significant efforts have been made in recent years to develop tools for quantitative measurement of the scope and effects of corruption and of progress in terms of good governance at the country level. At the external level, the Corruption Perception Index of Transparency International and the World Bank Governance Indicators, among others, have been highly valuable contributions to the international debate on these issues.<sup>24</sup>

<sup>23</sup> <http://www.iadb.org/res/ipres/2006/FrontMatter.cfm?language=Sp&parid=2>

<sup>24</sup> At an internal level, the Bank recognizes the importance of using and developing indicators that make it possible to monitor the progress of the countries and the impact of the Bank's interventions. Examples are the DataGob initiative, which compiles more than 800 governance variables and permits a comparative analysis of more than 180 countries, and the growing emphasis on managing for results.

Although these indicators can identify interesting patterns in terms of perception and/or confidence in certain institutions at the country level, their methodological approach poses limitations when formulating intervention strategies, since they provide a highly generalized view of the conditions on the ground in a country, without identifying particular problems and assigning responsibilities for strengthening.<sup>25</sup>

As a complement to strengthening its contextualized diagnostic capacity, the Bank should support development of a new generation of indicators that permit identification of specific institutional performance elements, prioritization of reforms, assignment of specific responsibilities, and measurement of progress in reforms. That progress should be captured by the existing aggregate indicators.<sup>26</sup> The Bank should also strengthen use of the indicators already available under this methodological approach, facilitating access to them and their incorporation throughout the project cycle.

- 2.16 ***Support the definition of uniform standards of prevention and control of corruption in the region.*** In the absence of a common theoretical framework for the phenomenon of corruption, it is imperative to support implementation of the different international anticorruption conventions, as well as other efforts at regional and international rapprochement, insofar as they promote a more exhaustive and homogenous treatment of corruption and progress toward uniform standards of prevention and control. This type of support will facilitate interjurisdictional cooperation to combat corruption effectively, also promoting regional integration.
- (i) *Support implementation of international anticorruption conventions.* Most countries of the region have taken important steps toward standardizing the treatment of corruption by ratifying the Inter-American Convention against Corruption (IACAC) of 1996, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of 1997, and,

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<sup>25</sup> First, most of the tools available offer aggregate information, without considering the features of corruption unique to each context. Johnston (2001) argues that those indexes suffer from the “single-number problem,” since it is impossible to capture the different types and scopes of corruption in a country in a single national score. Second, their generality diffuses the distribution of responsibility among institutions, while they do not consider the problem associated with different sectors in the delivery of public services. Lastly, in most cases, the specific institutional arrangements that in each case could be determining factors in causing corruption are not analyzed. For further reference, see *Uses and Abuses of Governance Indicators*, OECD, 2006.

<sup>26</sup> At an external level, several indicators are already headed in that direction, including those developed by Global Integrity, the Public Expenditure and Financial Accountability (PEFA) indicators, and the OECD’s government procurement indicators. Internally, the program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness (PRODEV) initiative has begun to evaluate its impact by developing indicators, including some associated with transparency in public sector financial management. The Bank can also support these efforts in the framework of support for implementation of international anticorruption conventions.

more recently, signing the United Nations Convention against Corruption (UNCAC) of 2003.<sup>27</sup>

International anticorruption conventions propose a crosscutting institutional strengthening framework. This framework of action, to which the governments have already ratified their commitment<sup>28</sup> at the national and regional level to move forward, facilitates the identification of entry points for supporting the countries (see Table 6) according to their needs for assistance and implementation priorities.

Depending on their content, implementing the conventions, among other measures, means that the States must adopt career civil service and government procurement systems that are transparent, efficient, and equitable, as well as control systems for the State's financial and nonfinancial resources. It also involves establishing or redesigning internal and external control systems, and incorporating norms and mechanisms to prevent conflicts of interest in the public sector and to detect appropriations of assets or illicit enrichment by public officials. These measures should also be accompanied by public official training programs, actions to inform the citizenry of the duties of the officials and the rights of the people vis-à-vis the administration, and accountability for the State's activities and their outcomes. Together with this framework, the anticorruption conventions criminalize a series of crimes by public officials that threaten the civil service and the State's assets, thus helping to deter corrupt practices and enforce sanctions against them.<sup>29</sup>

**Table 6: Areas of intervention in international anticorruption conventions**

<ul style="list-style-type: none"> <li>• <b>General legal framework</b> Criminalization and sanctions against corruption</li> <li>• <b>Prevention of conflict of interest</b> Government procurement and civil service Asset declaration systems Public campaign finance Party finance</li> <li>• <b>Standards of conduct</b> Codes of ethics / conduct Training mechanisms for civil servants Adoption of disciplinary measures Protection for whistleblowers Conduct of the judicial branch and public prosecutors</li> <li>• <b>Fiscal and financial management</b> Tax collection and revenue control systems Government procurement / budget Integrity of accounting books and records</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Citizen participation and access to information</b> Citizen participation mechanisms Access to information Freedom of the press</li> <li>• <b>Oversight organizations</b> Existence Independence and adequate resources</li> <li>• <b>Private sector</b> Accounting standards Denial of the deductibility of bribes for tax purposes Control of bribery—civil servants / private citizens Conflict of interest—former employees (revolving door)</li> <li>• <b>Financial sector</b> Supervision of financial institutions Money laundering Asset recovery</li> </ul>
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<sup>27</sup> See footnote 6 above.

<sup>28</sup> In signing and ratifying these international instruments, the States become legally bound by their provisions.

<sup>29</sup> *Guía para el seguimiento de las convenciones internacionales* [Guide for Monitoring International Conventions], IDB (2009 publication).

The Bank has a unique opportunity to utilize its comparative advantage as a regional financial institution to support the countries to the extent they require it in implementing these conventions. The Bank's support will help generate economies of scale in efforts at monitoring, implementing, and complying with them through technical support for formulation of uniform standards in areas of complementarity.<sup>30</sup>

In November 2006, the Bank signed a Memorandum of Understanding with the Organization of American States (OAS) to support implementation of the IACAC in the member countries common to both institutions. The Bank and the United Nations have also begun to explore ways that the two institutions can collaborate to support implementation of the UNCAC.<sup>31</sup> In the framework of the PAACT, content will be given to these commitments through technical assistance actions, support with financial resources specifically allocated to facilitate implementation of these agreements in the countries of the region, and inclusion of these implementation needs in the Bank/country dialogue.

- (ii) *Support and create opportunities for regional dialogue on governance and corruption.* At the same time, the Bank should support opportunities for regional dialogue on governance and corruption inasmuch as these activities give the Bank the opportunity to learn more about the needs of its borrowing member countries in this area, contribute to international dialogue on corruption, and share lessons learned. A more detailed analysis of this and other, complementary points is presented below in the context of implications at the internal level.

- 2.17 ***Prioritize institutional strengthening as an entry point for the prevention and control of corruption.*** The guidelines proposed in the New Operational Framework (NOF)<sup>32</sup> identify support for institutional strengthening as an issue of utmost importance to promote growth and social welfare in the countries of the region. In fighting corruption, there is evidence that corruption is associated with weak public institutions, and that the treatment of corruption can be effective insofar as the underlying institutional weaknesses are strengthened.<sup>33</sup>

Through the PAACT, the Bank will strengthen its support for countries in identifying their institutional strengthening needs, seeking to have an integrated impact on the institutional prevention and control variables that in each case affect the existence of monopolies, embezzlement, and accountability at the national and

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<sup>30</sup> Some efforts along these lines have been made through regional technical cooperation operations that help support enforcement of the provisions of the aforementioned anticorruption conventions (RG-T1307 and RG-T1311).

<sup>31</sup> The Bank is working with the United Nations Office on Drugs and Crime (UNODC) under technical cooperation program RG-T1250 to facilitate the use of effective means to detect, investigate, and prosecute bribery.

<sup>32</sup> The NOF (document GN-2494) was presented to the Board of Directors in October 2008.

<sup>33</sup> Along these lines, the IDB's Modernization of the State Strategy (2003) indicates that corruption to some degree is an expression of the weakness of the rule of law as a whole, but calls attention also to the weakness of the state's financial administration, inefficient allocation of resources, and inefficiencies in public management.

subnational levels, as well as at the sector level and by project. At the same time, it will support the processes of dialogue and building of the necessary consensuses for their development and implementation, facilitating the incorporation of a broad base of stakeholders, such as the private sector and civil society organizations, for purposes of ensuring their sustainability.

- (i) Support strengthening of institutional capacity to prevent, control, and sanction acts of corruption. Specialized literature notes the importance of the incentive system as a determining factor for corruption, pointing to a negative correlation between the presence and scope of corruption and the existence and effectiveness of detection, investigation, and sanctioning systems. However, the clandestine nature of acts of corruption and the weaknesses that are sometimes evident in control systems make reactive efforts insufficient.

Accordingly, prevention, control, and sanctioning systems should be introduced in order to combat corruption effectively, in each case respecting the existing institutional framework. Factors such as weaknesses in national governance systems and formal and informal oversight institutions; the complexity and opacity of administrative procedures; the weakness of accountability and sanctioning mechanisms; the low levels of effective political competition; the weakness of the regulatory framework; the presence of state monopolies, and the lack of transparency in the delivery of public services are not only entry points to corruption, but also concrete areas of intervention for its prevention through institutional strengthening.<sup>34</sup> From a sector standpoint, deepening of the Bank's support for institution-strengthening alongside contextualized diagnostic efforts will result in better identification of reforms geared toward effectiveness, efficiency, and transparency of public management, particularly in those sectors of greater socioeconomic importance and impact.<sup>35</sup>

Moreover, there is growing consideration for increased transparency as having strong potential for preventing corruption and achieving institutional strengthening. The Bank has deepened its work along these lines within the framework of the Anticorruption Activities Trust Fund (AAF), a multidonor trust fund focused on fostering greater transparency through access to information.<sup>36</sup> Capitalizing on this

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<sup>34</sup> Anticorruption conventions provide a true preventive framework through a series of administrative, legal, and public policy measures for the institutional strengthening associated with public management, including: the prevention of conflicts of interest through systems of political finance, public procurement, and civil service; the promotion and strengthening of oversight agencies and mechanisms; the strengthening of fiscal and financial management systems; the promotion of citizen participation; and the promotion of a preventive and integrity framework for the private and financial sector (see Table 7).

<sup>35</sup> Of these areas, it is important to highlight the management of revenue derived from natural resources, which has high economic and strategic importance in the region, and for which some countries have already launched institutional strengthening initiatives. Through the PAACT, the Bank will give support to the countries on an as-needed basis in the framework of an approach geared toward improving the efficacy and transparency of management.

<sup>36</sup> See [www.iadb.org/trustfunds](http://www.iadb.org/trustfunds).

experience, the Bank can help identify and disseminate innovative reforms that advance the institutionalization of transparency practices in public management.

- (ii) Support strengthening of institutional capacity at the subnational level. In many countries of the region, a process of decentralization is taking place that requires greater attention to the challenges posed by corruption at the subnational level. Although historically the Bank has focused its institutional strengthening activities mainly on the national level, these decentralization processes require deeper support for subnational governments in governance and the prevention of corruption, even more so in light of the transition to non-sovereign guaranteed lending.
- (iii) Support the involvement of the private sector and civil society. Effective support for the prevention and control of corruption requires consideration of both the supply and demand side, complementing the strengthening of public institutions with the active participation of other stakeholders, which, like the private sector and civil society organizations, are capable of demanding reforms from their governments and of supporting them in the identification and implementation of institutional reforms.<sup>37</sup>

Participation by these stakeholders can produce important benefits for both democratic governance and the effectiveness and efficiency of public management.<sup>38</sup> For that reason, the Bank should support their capacity to monitor the government's performance and participate in the formulation of public policies, and to contribute to the creation of an environment that facilitates effective participation. This enabling environment can be promoted both by reforming the legal framework to regulate the right to access information or to modernize administrative law and by supporting the definition of participatory mechanisms and standards of conduct, among other aspects.<sup>39</sup>

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<sup>37</sup> In addition to civil society organizations, which have traditionally been involved in the accountability process, the private sector has been expressing a growing concern for the nonfinancial and opportunity costs of corruption. Along these lines, the importance of corruption lies not only in equal access to the market, but also in the capacity to influence public-private sector dialogue and policy decisions. The role played by the private sector in corruption on both the demand and supply side should also be considered.

<sup>38</sup> For example, public-private partnerships help build capacity for implementing projects, determining policy and budget priorities, developing joint responsibilities for the delivery of services to citizens, and improving transparency in public spending. For their part, social audit mechanisms mobilize citizens both to influence the formulation of public policy and to monitor the quality and inclusiveness of public services.

<sup>39</sup> With respect to administrative law, the introduction of a comprehensive legal framework that improves the principles of accountability, due process, transparency, effectiveness, and efficiency in public management is important as a necessary or helpful condition for providing institutional mechanisms that foster transparency in public management.



Noteworthy are the initiatives undertaken by the Bank's private sector in this direction,<sup>40</sup> as well as programs that the Bank has been, and should continue, supporting with civil society through bilateral donor funds.<sup>41</sup>

## C.2 Internal implications

2.18 ***Institutionalize a systemic approach.*** In order for the Bank's support for the countries regarding the problem of corruption to have the desired impact, it must be channeled in the different sectors of its work based on an informed dialogue that, at the countries' request, lays the groundwork for a joint medium- and long-term work plan. It is also important to ensure that this operational logic permeates the project cycle, from programming to the design, execution, and evaluation of operations, irrespective of the sector.

- (i) ***Strengthen sector treatment of the issue.*** As mentioned above, corruption has specific dynamics and consequences that reflect the nature of the sector in which it is manifested. As a focal point of a systemic treatment, analysis of, and support for, the control and prevention of corruption should form part of the Bank's work at the sector level. It should not be limited to the fiduciary control of resources, but take into account to the governance framework in which its development objectives are to be achieved.

Several of the Bank's operating sectors have been working along these lines, either directly or indirectly, incorporating institutional strengthening elements into their programs.<sup>42</sup> These efforts should be deepened, leveraged under a common operational approach that makes it possible to systematize them, extract knowledge, and promote their visibility and replicability.<sup>43</sup>

Under the PAACT, the Bank will promote a sector governance approach, deepening its support for institutional strengthening and prevention of corruption in its different operational areas. Along these lines, development of instruments that permit a contextual diagnosis (see Table 5) will facilitate the analysis of institutional capacity and governance at the sector level, as well as the identification, where appropriate, of preventive components and activities to be conducted in the framework of sector programs. It will also generate important inputs for the sector risk analysis proposed

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<sup>40</sup> These include: (i) development of a conceptual framework for private sector activities within the Bank Group; (ii) establishment of a training program on integrity and reputational risks (document CC-6093); (iii) establishment of an internal protocol for considering the issues of integrity and reputation in the Bank's private sector transactions in all phases of the project cycle; and (iv) the participation of OII in the review of integrity and reputational risks.

<sup>41</sup> Some pilots along these lines are being supported by the AAF, and efforts will be made to document their outcomes.

<sup>42</sup> Particularly in the case of social sectors. In addition, the Water and Sanitation Initiative, launched by the Bank in 2007, has a program dedicated to efficiency and transparency in the management of water utilities.

<sup>43</sup> Operational and policy guidelines at the sector level currently provide either superficial or no treatment for the implications of corruption. For example, only eight sector strategies make explicit reference to corruption as it relates to the sector, while none of the 37 operational sector policies make mention of it. Likewise, a preliminary review of anticorruption programs in recent years (see electronic link 3) points to a concentration of efforts in the area of modernization of the state and fiscal and municipal management.

in the framework of the future Risk Management Guide for Sovereign-guaranteed Projects (RMG) (see Table 7).

- (ii) Strengthen coherence among diagnostic assessment, programming, and project design. As part of a systemic approach, the Bank should promote an intervention logic that ensures continuity between diagnostic assessment and programming, with the objective of ensuring that the interventions respond to the needs of the countries and to the special features of the national and sector context.

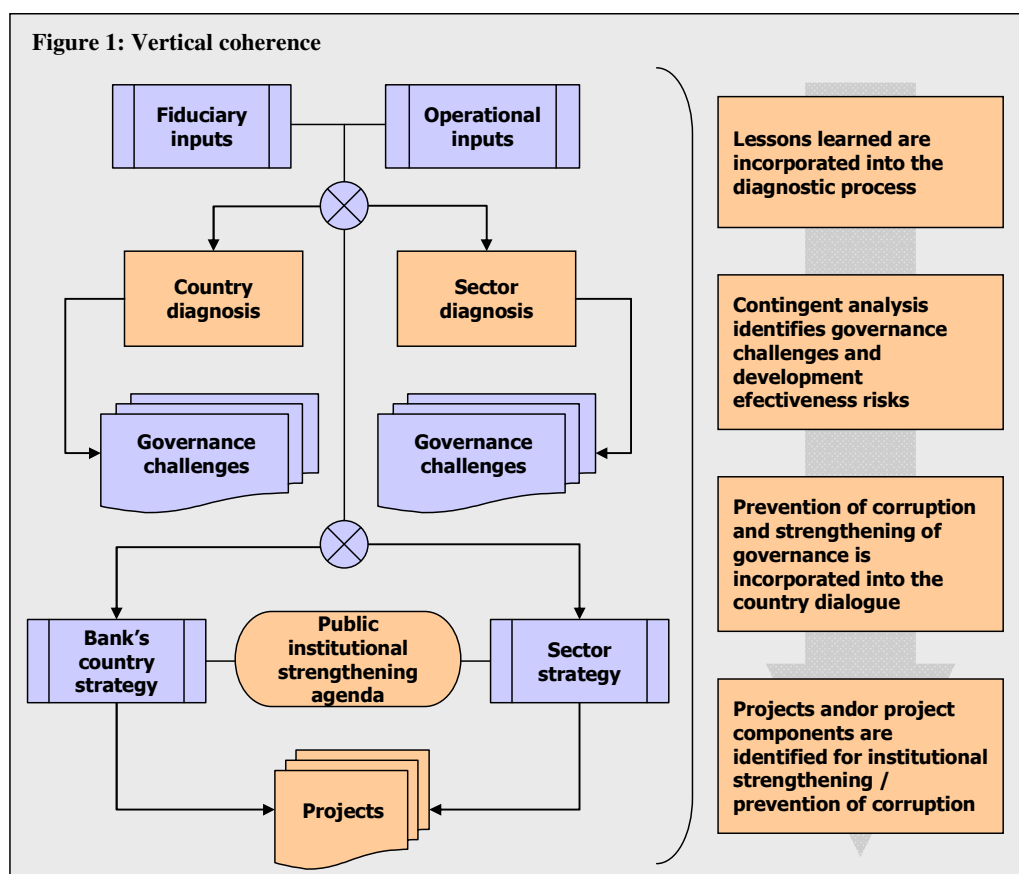
Given their programmatic nature, the Bank's country strategies provide an effective instrument for channeling this intervention logic by focusing dialogue and promoting concrete operations that respond to the problems diagnosed.<sup>44, 45</sup> In light of the above, and given that the country strategies reflect the priorities and needs of each country, it is important to strengthen the treatment of governance challenges, in general, and of corruption, in particular, when they are prepared. This will help define framework agreements to guide the joint work of the Bank and the country in the medium term. This mechanism, supported by a flexible mix of technical and financial assistance based on the needs and priorities of the countries, will allow sustained technical assistance for their anticorruption and transparency efforts, and the generation of sustainable outcomes over time (see Figure 1).<sup>46</sup>

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<sup>44</sup> A preliminary review of the Bank's 26 country strategies in effect in 2007 revealed significant variations in the treatment of corruption, both with respect to inclusion of the issue and the depth of its diagnosis, even for high-risk countries (based on data from the World Bank and others).

<sup>45</sup> Inclusion of the issue in the country strategies can support the countries in achieving the objectives required to access financial incentives, such as resources from the Millennium Account and, where appropriate, from the Fund for Special Operations (FSO), for which public management and institutional quality is a component of the allocation criteria (the public management and institutions category accounts for 13% in the country institutional and policy evaluation (CIPE), whereas the transparency and accountability indicator represents around 7% of the final weight).

<sup>46</sup> The proposed logic is consistent with the Bank's new operational and fiduciary guidelines. For example, the diagnosis contextualized at the institutional level would support the approach in the use of country systems, since it would identify the necessary actions to alleviate existing gaps in country systems with respect to internationally accepted standards, such that overall efficiency is achieved in public spending, not just in Bank-financed projects, which in many cases make up only a fraction of the government's expenditure. Moreover, use of the aforementioned IRRs and of the information generated by the RFPP matrix will make it possible to identify specific areas of fiduciary risk and mitigation measures.



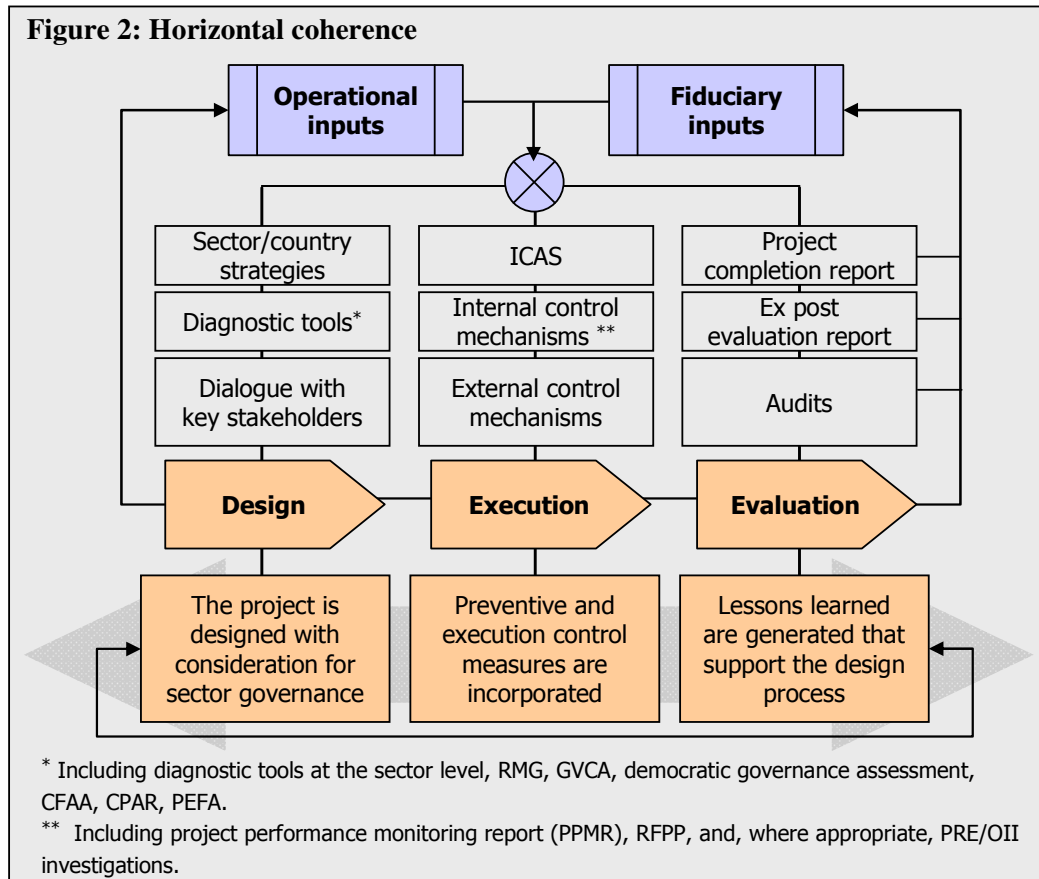
- (iii) *Strengthen the prevention and control of corruption throughout the project cycle.* As part of a systemic approach, the Bank should promote an intervention logic that facilitates the integration of prevention and control efforts throughout the project cycle.

Currently, due to the work carried out by the Operations Procurement Office (VPC/PDP) in procurement and the investigative function of the Office of Institutional Integrity (PRE/OII), together with the existence of specific tools such as the recent RFPP and IRRs, most of the Bank's efforts are concentrated in the fiduciary sphere and on the execution phase. The design phase (where preventive efforts can be concentrated) is weakened in part by the lack of diagnostic tools contextualized at the sector level.<sup>47</sup> The new operational and fiduciary guidelines aim to reverse this dynamic. Their emphasis on risk management and development effectiveness provides entry points for the prevention of corruption and strengthening of governance at all stages of the project and, in particular, in its design.

With this in mind, Figure 2 proposes a model for application of tools and processes throughout the project cycle, indicating both existing ones and those to be developed

<sup>47</sup> Concentration of efforts on managing fiduciary aspects during execution is consistent with the greater development in recent years of Pillars I and II of the Systemic Framework.

or supplemented based on the PAACT proposal, particularly in order to strengthen the design phase. It also proposes greater interaction and, therefore, feedback, between operational and fiduciary inputs, in line with the new operational and fiduciary guidelines (see Table 7).



The adoption of a vertical systemic strategy (see Figure 1) will be a key contributor to effective development and application, facilitating the availability of contextualized diagnostic assessments, consideration of the governance framework and identification of mechanisms to incorporate the outcomes of fiduciary investigations and experience gained, and operational knowledge at all phases of the project, in line with the RFPP.

**Table 7: Linkage with new tools**

<p><b>Risk Management Guide for Sovereign-guaranteed Projects (RMG)</b></p> <p>There is a clear alignment and complementarity between the PAACT guidelines and the objective and scope of the RMG. The RMG includes an analysis of governance, sustainability, reputational, and fiduciary risks at both the general and sector levels. Insofar as the PAACT identifies the need to (i) strengthen the project design phase, (ii) strengthen treatment at the sector level of risks related to the governance and institutional framework, and (iii) supplement external or operational inputs with fiduciary inputs, it will generate inputs for the methodology proposed in the RMG, thus strengthening its application. For example, some of the tangible actions to complement the RMG are: (i) systematization of the findings of the CFAA, CPAR, and PEFA and other inputs; (ii) development of contextual analysis methodologies at the sector level; and (iii) identification and/or development of institutional performance indicators that could be used as separate components for several of the risks addressed in the RMG, giving specific content to identification and evaluation of risks and formulation of mitigation measures. Additionally, both proposals are aligned with respect to maximizing the potential for collaboration of different capacities resulting from the matrix, given the need for specialized knowledge as an input for the assessment of governance risks at both the general and sector levels.</p> <p><b>Procedures Guide for Validating Country Systems (GVCS)</b></p> <p>The GVCS notes that corruption is a consequence of weak fiduciary systems. While the causes of corruption are many, and vary from one context to the next, as this document mentions, strengthening of these systems is one of the most important tools for preventing and controlling corruption. In this regard, the GVCS and PAACT complement one another and will help achieve their respective objectives. For example: (i) the diagnostic assessment of country systems that accompanies formulation of the Bank's country strategies and identification of gaps for their strengthening would help strengthen the "vertical coherence" process (see Figure 1); (ii) systematization of the findings of the CFAA, CPAR, and PEFA, and incorporation of other external or operational inputs for the assessment are a way of deepening the interaction between fiduciary and operational functions, in addition to improving consistency in the use of the Bank's diagnostic tools; and (iii) support for implementation of international conventions, insofar as they propose an ambitious institutional strengthening framework in the areas of financial management and public procurement, based on international good practices, will help support the objective of using country systems.</p> <p><b>Development effectiveness matrix (DEM)</b></p> <p>Existing empirical evidence, both outside the Bank and derived from our internal evaluations, notes that institutional capacity is key for the effectiveness, efficiency, and sustainability of the Bank's programs. Recognizing this, the DEM includes factors related to public institutional capacity as a component of additionality, and incorporates inputs resulting from the risk analysis to address governance and institutional risks. The PAACT approach, geared toward institutional strengthening as an entry point for preventing corruption, will help strengthen the capacity for analysis of institutional conditions at the sector level that affect development of the Bank's programs, as well as the institutional context in the environment where they are executed.</p>
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- 2.19 ***Strengthen internal capacity.*** Institutionalization of the proposed systemic approach requires a framework for coordinated intervention by the different units tasked with implementation of the Systemic Framework, enabling them to: (i) define areas of intervention based on their respective mandates; (ii) identify opportunities and mechanisms for coordination between the fiduciary and operational functions; and (iii) facilitate and promote crosscutting support within

the new matrix structure, underpinned by a renewed effort to generate and disseminate specialized knowledge.

- (i) *Institutionalize mechanisms for coordination of fiduciary and operational functions.* Among their fiduciary, legal, and operational functions, several of the Bank's units have different yet complementary responsibilities and capabilities for implementation of Pillars II and III of the Systemic Framework (see Table 8). Successful institutionalization of the proposed systemic approach requires a clear definition of their mandates, but also identifies the advisability of, and need to pursue, mechanisms for coordination, exchange of information, and feedback between their functions.

The new organizational structure assigns responsibility for supporting the countries in preventing and combating corruption to the Institutional Capacity of the State Division (ICF/ICS) within the Institutional Capacity and Finance Sector.<sup>48</sup> According to this mandate, ICF/ICS must be capable of drawing clear strategic lines, have coordination mechanisms to agree on them with all of the Bank's other units, and have the resources and an appropriate level of knowledge to carry out its functions and provide support to the other relevant sector divisions.

**Table 8: Functions of ICF/ICS, PRE/OII, AUG, and VPC/PDP**

<p><b>Institutional Capacity of the State Division (ICF/ICS)</b></p> <p>ICF/ICS prepares sector strategies, policies, and guidelines on modernization of the state, governance, and strengthening of civil society. It analyzes, prepares, approves, and executes operations and develops analytical knowledge in the democratic system, general management of the public sector, transparency, oversight systems, citizen security, judicial institutions, and other areas. It creates or maintains a network of institutions in the region in the nonfinancial public sector. It provides technical assistance on sector issues to borrowers, executing agencies, country offices, and other Bank units.</p>
<p><b>Office of Institutional Integrity (PRE/OII)</b></p> <p>PRE/OII investigates allegations of fraud, corruption, and, at the request of the Ethics Office, violations of the Code of Ethics, related norms, and staff rules. It reports the conclusions of investigations and lessons learned, and offers advice and recommendations based on those reports to the President, Senior Management, and the relevant Bank committees. It supports the development and implementation of dissemination and training activities for Bank staff and other relevant parties in order to disseminate lessons learned from the findings of the investigations, and promotes awareness-raising with respect to mechanisms for promoting integrity and preventing fraud and corruption.</p>
<p><b>Operations Procurement Office (VPC/PDP)</b></p> <p>VPC/PDP prepares and recommends policies for observing the Bank's fiduciary safeguards, specifically as they relate to procurement and financial management, participating actively in harmonization initiatives with other multilateral development banks. It establishes procedures and designs parameters for auxiliary information systems, and sets rules for evaluating procurement and financial management systems for the Bank's operations. It supports observance of the Bank's fiduciary safeguards, offering technical guidance to fiduciary personnel from design through execution, concentrating on the assessment and management of fiduciary risks.</p>

<sup>48</sup> The need to strengthen internal coordination and to assign responsibility to a specific unit was one of the recommendations of the Anticorruption Task Force.

**Office of the Auditor General (AUG)**

AUG periodically provides independent and objective evaluations and audits of financial, accounting, operating, administrative, and other activities, including identification of possible ways to improve the efficiency and economy of the Bank's operations and the use of its resources. Its work focuses on internal audit in order to increase the value and quality of the institution's operations. AUG helps the IDB achieve its objectives by providing a disciplined and systematic method of evaluating and improving the effectiveness of risk management, oversight, and governance processes.

Consolidation of this institutional definition will be sought through implementation of the PAACT. A first step in this direction is the Memorandum of Understanding between ICF/ICS and PRE/OII, which delineates the respective roles of each unit and identifies coordination mechanisms (see Table 9).

In the same way, based on this institutional definition, the PAACT will seek to identify and consolidate mechanisms for coordination of the units involved, promoting feedback between fiduciary and operational functions and inputs in order to strengthen the Bank's support for the countries, as suggested in Table 7.<sup>49</sup>

**Table 9: Principles for coordination between ICF/ICS and PRE/OII**

In December 2008, a document was prepared at the request of the Office of the Presidency (PRE/PCY) on the principles for coordination between ICF/ICS and PRE/OII with respect to the Bank's anticorruption, transparency, and integrity work (see Annex III). The objective of that document is to facilitate institutionalization of a coordinated intervention to support the countries in these areas and, specifically, to: (i) clarify the scope of their respective mandates, thus facilitating the effective channeling of internal and external requests for support; (ii) ensure efficiency in the use of the Bank's resources, preventing duplication of effort; and (iii) facilitate identification of opportunities for the combined use of the resources and installed capacities of both units.

The coordination principles were defined based on the respective mandates of each unit. Their scope includes activities for the preparation and execution of programs and activities related to this issue; support for the Bank/country dialogue; generation and systematization of knowledge; and coordination with other stakeholders. As a general principle, the document indicates that ICF/ICS is charged with leadership and responsibility with respect to the aforementioned activities (see Table 8). In order to facilitate the search for complementarity in the work of both units, as well as in their installed capacities, PRE/OII can collaborate in carrying out the aforementioned activities at the request of ICF/ICS, insofar as its resources will allow. In the same way, PRE/OII will coordinate activities with ICF/ICS that are intended to prevent corruption in the Bank's operations and programs related to the Bank's support for the region, mainly those derived from the identification and channeling of lessons learned from its investigative work.

- (ii) *Strengthen the capacity of relevant units.* As part of the PAACT, coordination units will be developed to maximize the matrix structure, fostering crosscutting support on the basis of the contribution of specialized knowledge. At the same

<sup>49</sup> For example, the IRRs prepared by PRE/OII on the basis of lessons learned from its investigations can serve as inputs for the Bank/country dialogue and programming, and, where appropriate, the need to strengthen the fiduciary control processes and mechanisms. In the same way, the governance and/or institutional development diagnostic assessments at the country and/or sector level produced by ICF/ICS can contribute to the decision to prioritize investigations, in the case of PRE/OII, or to introduce additional safeguards in the design and execution of operations, in the case of VPS and/or VPC/PDP.

time, the capacity-strengthening needs of each unit with responsibility for implementation of the PAACT will be identified in order to facilitate institutionalization of the proposed systemic approach.

In line with the guidelines proposed in the NOF, which identifies the creation of knowledge and capacity-building products as a core activity of the Bank, capacity-building will be rooted in a renewed effort to generate specialized knowledge in governance, anticorruption, and transparency that contributes to country dialogue and programming, as well as the design of programs and activities.<sup>50</sup>

2.20 ***Consolidate the Bank's leadership in supporting the fight against corruption in the region.*** The Bank's natural leadership in the region provides a chance to create internal and external opportunities for implementing the institutional commitment to good governance and the fight against corruption, positioning the Bank as an active and relevant partner at the regional and international level.

- (i) *Implement the Bank's institutional commitment to the fight against corruption.* Instituting the proposed systemic approach requires continuity in the institutional commitment to the fight against corruption and promotion of good governance through measures that include: identification of the necessary resources to enable the relevant units to give content to their responsibilities, continuity in efforts to adopt the highest standards of transparency<sup>51</sup> and institutional integrity, and support for initiatives that promote uniform standards of good governance and facilitate cooperation and convergence at the regional and international level, as well as international conventions or the Extractive Industries Transparency Initiative (EITI).<sup>52</sup>
- (ii) *Support the generation, systematization, and dissemination of the Bank's knowledge and work in governance, corruption, and transparency.* The PAACT will promote documentation of the outcomes of programs and initiatives in this area, by monitoring projects and identifying lessons learned and promising practices. The PAACT will also promote evaluation of the impact of the programs carried out, so that successive interventions have the necessary empirical evidence, and knowledge about anticorruption tools is accumulated and disseminated. Lastly, mechanisms will be improved that make greater dissemination of the Bank's activities in this area possible and that facilitate the exchange of experiences at the regional level.

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<sup>50</sup> As indicated in the Anticorruption Task Force document, the Bank's efforts will be reinforced by the documentation of experiences, the analysis of the impact achieved, and the strategic evaluation of results obtained... combining the results of the assessment tools to offer a contingent approach in the country strategy and in the sector analysis of the corruption problem (see electronic link 3).

<sup>51</sup> Including implementation and monitoring of the Bank's Disclosure of Information Policy (OP-102). In this regard, the Bank has updated a new version of the policy that will be accompanied by revised instructions for its implementation, as well as training workshops.

<sup>52</sup> Among the organizations that support the EITI are the World Bank Group, the International Monetary Fund, the European Bank for Reconstruction and Development, the European Investment Bank, the United Nations, the OECD, the African Development Bank, and the Asian Development Bank.



- (iii) Strengthen coordination with other international stakeholders. In the spirit of the Paris Declaration on Aid Effectiveness, the Bank should coordinate its support actions with other international aid institutions in an orderly and strategic manner, in order to improve the quality of its interventions and better position itself to support implementation of anticorruption agreements among other goals.

The Bank has advanced several initiatives in coordination with other international organizations (see Table 10).

**Table 10: Examples of the Bank's cooperation with other international agencies**

International Financial Institution Anticorruption Task Force (2006): Promotes (i) cooperation in investigating projects; (ii) ethical business practices; (iii) support for member countries in combating corruption; and (iv) harmonization with respect to the definitions of fraud and corruption and investigative guidelines.

Memorandum of Collaboration between the World Bank, the Department for International Development (DFID), IDB, and Transparency International (2006): Signed during the Twelfth International Anticorruption Conference, the memorandum formalizes a framework for cooperation with the purpose of magnifying the impact of anticorruption activities and supporting coordination between the members and civil society.

Memorandum of Understanding between the IDB and the OAS (2007): Promotes support for implementation of the IACAC and its follow-up mechanism.

Memorandum of Understanding between the IDB and the Government of Norway (2007): Promotes efforts to combat and prevent corruption by creating a technical cooperation fund focused on actions to support greater transparency and access to information.

Memorandum of Understanding between the IDB and the World Economic Forum (2007): Promotes support for the Partnering Against Corruption Initiative (PACI) to promote anticorruption principles and practices in small and medium-sized enterprises in Latin America and the Caribbean.

Coordination with the United Nations Office on Drugs and Crime (UNODC) to support implementation of the UNCAC.

Coordination with the OECD: Organization of annual meetings to exchange experiences with implementation of the IACAC and enforcement of the "Convention on Combating Bribery of Foreign Public Officials in International Business Transactions."

In order to provide more efficient and informed assistance to the countries of the region, the PAACT will seek to give specific content and support to these initiatives, as well as to those arising from implementation of the proposed systemic approach. This will foster better leveraging of the respective comparative advantages, as well as access to knowledge derived from the exchange of experiences.

#### **D. Proposed actions**

- 2.21 Table 11 (Strategic Vision) brings together and presents all of the challenges of addressing corruption and the implications derived from those challenges for defining a framework of action.

2.22 Tables 12 and 13 present proposed actions to develop the implications identified for each action area at the external and internal levels.<sup>53</sup> Several of the proposed actions are under development as part of the Bank's work. In these cases, the scope of the actions to be conducted depends on their continuity, depth, and consistency with the guidelines proposed in the document.

**Table 11: Strategic vision: Challenges, implications, and action areas**

CHALLENGE	IMPLICATION	ACTION AREA
<b>External level</b>		
<i>Multiple causes of corruption</i>	<i>Develop a contextualized approach at the country, sector, and institutional level</i>	<ul style="list-style-type: none"> <li>Strengthen contextualized diagnostic capacity</li> <li>Support the use and development of a new generation of indicators</li> </ul>
<i>Lack of a uniform definition of corruption and many different manifestations</i>	<i>Support the definition of uniform standards for the prevention and control of corruption</i>	<ul style="list-style-type: none"> <li>Support implementation of international anticorruption conventions</li> <li>Support and create opportunities for regional dialogue on governance and corruption</li> </ul>
<i>Preeminence of a reactive approach / adoption of visible measures with no impact</i>	<i>Prioritize institutional strengthening as an entry point for the prevention and control of corruption</i>	<ul style="list-style-type: none"> <li>Support strengthening of institutional capacity to prevent, control, and sanction acts of corruption</li> <li>Support strengthening of institutional capacity at the subnational level</li> <li>Support participation of the private sector and civil society</li> </ul>
<b>Internal level</b>		
<i>Ad hoc response to challenges</i>	<i>Institutionalize a systemic approach to the treatment of corruption</i>	<ul style="list-style-type: none"> <li>Strengthen sector treatment of corruption</li> <li>Strengthen coherence among diagnostic assessment, programming, and project design</li> <li>Strengthen the prevention of corruption throughout the project cycle</li> </ul>
<i>Fragmentation of responsibilities</i>	<i>Strengthen internal capacity</i>	<ul style="list-style-type: none"> <li>Institutionalize mechanisms for coordination of fiduciary and operational functions</li> <li>Strengthen the capacity of relevant units</li> </ul>
<i>Lack of visibility</i>	<i>Consolidate the Bank's leadership in the fight against corruption in the region</i>	<ul style="list-style-type: none"> <li>Implement the Bank's institutional commitment to good governance and the prevention and control of corruption</li> <li>Support the consolidation and dissemination of the Bank's anticorruption knowledge and work</li> <li>Strengthen coordination with other international stakeholders</li> </ul>

<sup>53</sup> The proposed actions are associated with the Bank's mandate in this area (see Annex II).

**Table 12: Proposed activities - External level**

IMPLICATIONS	PROPOSED ACTIVITIES (2009-2011)
<i>Develop a contextualized approach at the country, sector, and institutional level</i>	<p><u>Strengthen contextualized diagnostic capacity</u></p> <ol style="list-style-type: none"> <li>1. Develop corruption analysis methodologies that permit an approach contextualized by country / level of government</li> <li>2. Develop methodologies for diagnosing and analyzing corruption that permit an approach contextualized by sector</li> <li>3. Support the review and, where appropriate, strengthening of the Bank's methodologies for microinstitutional capacity analysis</li> </ol> <p><u>Support the use and development of a new generation of contextual indicators</u></p> <ol style="list-style-type: none"> <li>4. Support systematization of the use of existing indicators throughout the project cycle</li> <li>5. Support development of new indicators that permit a contextual analysis</li> </ol>
<i>Support the definition of uniform standards for the prevention and control of corruption</i>	<p><u>Support implementation of international anticorruption conventions</u></p> <ol style="list-style-type: none"> <li>6. Promote technical and financial assistance actions to support convergence and implementation of the IACAC and UNCAC</li> </ol> <p><u>Support and create opportunities for regional dialogue on governance and corruption</u></p> <ol style="list-style-type: none"> <li>7. Establish an annual regional policy dialogue on governance and corruption</li> <li>8. Promote the Bank's participation in regional and international events on governance and corruption that are relevant to defining the operational framework</li> </ol>
<i>Prioritize institutional strengthening as an entry point for the prevention and control of corruption</i>	<p><u>Support strengthening of institutional capacity to prevent, control, and sanction acts of corruption</u></p> <ol style="list-style-type: none"> <li>9. Deepen support for countries in defining mechanisms for accountability and prevention of corruption based on the framework proposed by international conventions</li> <li>10. Strengthen support for countries in consolidating mechanisms to detect, investigate, and sanction acts of corruption (oversight system, criminal justice system, judicial system, police)</li> <li>11. Develop an intervention and awareness strategy in external and internal control</li> <li>12. Develop an intervention and awareness strategy in targeted transparency</li> <li>13. Strengthen support in governance, anticorruption, and transparency for subnational governments</li> </ol> <p><u>Support involvement of the private sector and civil society</u></p> <ol style="list-style-type: none"> <li>14. Provide technical assistance to support the establishment of a favorable environment for good governance</li> <li>15. Support development of integrity practices in the private sector</li> <li>16. Where necessary, deepen the incorporation of social control mechanisms in preparing and executing projects, in accordance with the main points of strategy document GN-2232-5</li> <li>17. Support traditional or virtual training of public officials and other important stakeholders, such as chambers of commerce, in light of their participation in corruption prevention activities</li> <li>18. Continue including the issue of governance and corruption in Bank / civil society meetings</li> </ol>

**Table 13: Proposed activities - Internal level**

IMPLICATIONS	PROPOSED ACTIVITIES (2009-2011)
<i>Institutionalize a systemic approach to the treatment of corruption</i>	<p><u>Strengthen treatment of the implications of corruptions at the sector level</u></p> <ol style="list-style-type: none"> <li>1. Where appropriate, incorporate and deepen analysis of the impact of corruption in sector strategies</li> <li>2. Implement a pilot phase in one (some) sector program(s), incorporating contextual analysis tools</li> <li>3. Deepen governance work in particularly vulnerable sectors (e.g. natural resources)</li> </ol> <p><u>Strengthen coherence among diagnostic assessment, programming, and project design</u></p> <ol style="list-style-type: none"> <li>4. At the countries' request, support incorporation of a specific governance and corruption agenda into country strategy documents, in order to identify and prioritize needs and establish a joint work plan in the short and medium term</li> <li>5. Implement a pilot phase in one or several countries</li> </ol> <p><u>Strengthen prevention and control of corruption throughout the project cycle</u></p> <ol style="list-style-type: none"> <li>6. Facilitate the incorporation of corruption prevention and institutional strengthening measures in the project cycle</li> <li>7. Support strengthening of control and supervision methodologies throughout the project cycle by incorporating operational inputs</li> </ol>
<i>Strengthen internal capacity for implementing the proposed systemic approach</i>	<p><u>Institutionalize mechanisms for coordination of fiduciary and operational functions</u></p> <ol style="list-style-type: none"> <li>8. Define mechanisms for operational coordination with the Bank's relevant units, particularly between fiduciary functions and programmatic and operational functions</li> <li>9. Develop and apply mechanisms and tools for feedback between fiduciary and operational functions</li> <li>10. Promote the formation of a network of multisector specialists with an interest in this issue</li> </ol> <p><u>Strengthen the capacity of relevant units</u></p> <ol style="list-style-type: none"> <li>11. Identify the common training needs specific to each unit</li> <li>12. Where appropriate, develop a training plan for personnel relevant to implementation of the PAACT</li> <li>13. Develop a knowledge generation strategy that leverages the development of capacity</li> </ol>
<i>Consolidate the Bank's leadership in supporting the fight against corruption in the region</i>	<p><u>Implement the Bank's institutional commitment to the fight against corruption</u></p> <ol style="list-style-type: none"> <li>14. Identify and mobilize the necessary resources for the relevant units to give content to the proposed actions</li> <li>15. Support relevant initiatives at the international level, such as international conventions or the EITI</li> <li>16. Promote the evaluation and dissemination of progress in implementing the PAACT by Management</li> </ol> <p><u>Support systematization and dissemination of knowledge on corruption and transparency</u></p> <ol style="list-style-type: none"> <li>17. Prepare a plan to systematize knowledge and facilitate access to that knowledge by personnel relevant to development of the PAACT</li> <li>18. Promote documentation and dissemination of the outcomes of programs and initiatives in this area</li> <li>19. Establish networks for exchanging and collaborating with the academic community</li> </ol> <p><u>Strengthen coordination with other international stakeholders</u></p> <ol style="list-style-type: none"> <li>20. Identify and develop existing and potential opportunities for harmonization and cooperation with other multilateral development organizations, international organizations, and cooperation agencies</li> <li>21. Form a working group for coordination at the operational level with other international organizations</li> </ol>

**E. Next steps**

- 2.23 Implementation of the PAACT will be supported by the Bank's new matrix structure and will follow an appropriate sequence of actions, based on the availability of other related Bank processes and policies, country demand, available resources, and the scope that Management wishes to give to the recommendations formulated by the ERP.
- 2.24 In line with the objective of institutionalizing a systemic approach, several of the proposed actions, particularly at the internal level, require a clear commitment and collaboration among the Bank's units for successful implementation. To that end, each Bank unit involved will add activities to its work plans designed to further its development, as well as effective coordination mechanisms to ensure consistency and leveraging of institutional synergies. ICF/ICS will provide technical support in the framework of its mandate (see Table 9) and in accordance with its installed capacity.
- 2.25 The PAACT will be implemented incrementally through annual work plans in order to ensure its alignment with the available resources and capacities. To that end, an initial phase will include coordination of implementation of the PAACT in the context of one or several stakeholders and pilot countries. For such purposes, VPS, with the support of ICF/ICS, will identify priority sectors for this first stage and, in coordination with VPC, opportunities to develop those pilot experiences in concrete Bank programs based on country demand. VPC will identify one or more pilot countries to start the proposed systemic approach in the corresponding Bank country strategies. In the same way, ICF/ICS will coordinate with VPC/PDP and PRE/OII when identifying opportunities to promote coordination and feedback between fiduciary and operational functions, particularly with respect to risk management.
- 2.26 The pilot experience will guide implementation of the PAACT in subsequent years, gradually incorporating other countries and sectors. In order to strengthen institutionalization of the approach proposed in the document, from this pilot phase onward lessons learned will be identified, as well as the needs for strengthening installed capacity, implementation resources, and, where appropriate, additional coordination needs.
- 2.27 For such purposes, implementation of the PAACT will be reflected in quantifiable operational objectives. Some indicators that could guide the implementation objectives are: projects and/or components of sector projects related to governance enhancements and/or the prevention of corruption; available resources for technical assistance in terms of governance and the fight against corruption; and technical notes, methodologies, and knowledge resources.
- 2.28 For detailed information on PAACT implementation for the period 2009-2011, see Annex IV, "Business Plan 2009-2011," and the corresponding electronic links 6, 7 and 8.

## **F. Conclusion**

- 2.29 At an external level, implementation of the activities proposed in the PAACT will strengthen the Bank's capacity to support the countries in anticorruption and transparency by: (i) generating greater diagnostic capacity in the area of prevention and control of corruption; (ii) facilitating identification of the needs and priorities of the countries, as well as sustained assistance for their anticorruption efforts; (iii) promoting consideration for the issue of corruption and governance in all of the Bank's sectors of intervention; and (iv) supporting the creation of opportunities for regional and international cooperation and dialogue.
- 2.30 At an internal level, it will institutionalize a more efficient intervention logic by (i) supporting greater continuity and effectiveness in programmatic and dialogue processes with the countries; (ii) promoting interdepartmental cooperation, utilizing the advantages offered by the Bank's matrix structure; (iii) supporting strengthening of corruption prevention mechanisms in the project cycle, particularly in project design; and (iv) consolidating organized and coordinated intervention between the fiduciary and operational functions, facilitating feedback.
- 2.31 The group of proposals contained in this document are based on the following guiding principles for the Bank's work to support the countries:
- (i) The value-added of the Bank's support is realized insofar as it contributes to the countries' efforts and is tailored to the reality of their institutional context.
  - (ii) Sustained technical assistance for those efforts requires an innovative and flexible use of the Bank's support mechanisms, which makes it possible to combine and complement knowledge and technical and/or financial support tools based on the needs and priorities of the countries.
  - (iii) Known standards of prevention offer a useful frame of reference to identify opportunities to support and foster the integration of efforts to prevent corruption in the region.
  - (iv) The Bank's programs can provide additionality in their respective operational spheres by including measures to strengthen the governance framework for the beneficiary sector, in addition to addressing the program's fiduciary risks. In this regard, diagnostic work at the sector level permits better identification of specific vulnerabilities and strengthening opportunities.
  - (v) The challenges and implications of corruption transcend the public sector. In light of the effectiveness and sustainability of reform efforts, the Bank's call for support should include the private sector and civil society organizations as part of the solution.
- 2.32 Overall, this framework of action will make it possible to give strategic direction and add value to the Bank's financial, knowledge, and capacity-building products in

the area of transparency and anticorruption, which is crucial to the economic and social development of the countries of the region.

## **ACTION PLAN TO SUPPORT THE COUNTRIES IN THEIR EFFORTS TO FIGHT CORRUPTION AND FOSTER TRANSPARENCY (PAACT)**

### **OBJECTIVES OF THE SYSTEMIC FRAMEWORK AGAINST CORRUPTION (2001)**

#### **Strengthening a Systemic Framework Against Corruption for the IDB (2001)**

- Concern for the safe allocation of resources in the framework of project impact should be a common theme incorporated into all phases in the life of the Bank's projects, from the stages of identification and design of an operation, through its execution, and finally during its evaluation.
- The country paper should explicitly address the issue of governance within the country. Corruption will be addressed in the country paper if it is found to be a restriction to economic and social development of a Bank lending program in a particular country.
- Preventive controls in Bank projects must be upstreamed to the beginning of the project cycle.
- Increasing the quality of the Bank's risk analysis is crucial.
- Training on risk assessment and on prevention of corruption for project team members is necessary.
- The Bank will strengthen its capacity for institutional analysis or will support outsourcing it when necessary.
- When crafting large decentralized projects, projects in new lending areas, or social programs, the Bank's project teams should note that traditional monitoring and evaluating instruments, practices, and mechanisms may no longer provide the necessary safeguards against corruption.
- Guidelines for improved monitoring will be provided and reporting on the efficiency of current control mechanisms will be encouraged.
- Current policies, procedures, evaluation methodologies and practices, including project completion reports, need to be analyzed to ensure that they are capable of addressing the questions of whether or not operations were properly designed and executed and whether or not corrupt practices may have been present.
- The Office of Evaluation shall incorporate the evaluation of the Bank's compliance with its anticorruption mandates in its program of activities.
- Evaluation reports need to be broadly disseminated and used to provide lessons learned in the process for preparing new operations.
- Proper training for personnel at Headquarters and at the Country Offices will be provided in support of the aforementioned measures.
- The Bank must address corruption when intervening at decentralized levels of government, when dealing with privatization processes, and in its many social programs.
- Within the private sector, the Bank can take a more active role in supporting corporate codes of conduct, corporate governance frameworks, and transparent pacts of integrity.
- Whenever the Bank and its borrowers consider that corruption will be a restriction to the achievement of the goals set forth in a project or program in any given sector, specific components for deterring corruption will be incorporated into the funding operation.
- The Bank should continue to support a more proactive intervention on the part of civil society and of the private sector in public affairs and a more efficient alliance in dealing with public issues.



- The Bank shall help its borrowing member countries to harmonize their domestic legislation with the international legal instruments that they have approved, such as the Inter-American Convention Against Corruption (IACAC).
- It is also important for the Bank to participate actively in the dialogue and cooperative effort that have arisen in the fight against corruption.

## ACTION PLAN TO SUPPORT THE COUNTRIES IN THEIR EFFORTS TO FIGHT CORRUPTION AND FOSTER TRANSPARENCY (PAACT)

### ACTION AREAS VS. THE BANK'S MANDATE<sup>1</sup>

Action area	Relationship to the Bank's mandate
Develop a contingent approach at the country, sector, and institutional level	
Strengthen contextualized diagnostic capacity at the country, sector, and institutional level	Corruption is an obvious byproduct of institutional inefficiency and should therefore be detected through adequate institutional analysis. Such institutional analysis is an important element in the Bank's operational analysis activity. The Bank will strengthen its capacity for institutional analysis or will support outsourcing it when necessary (Systemic Framework).
Support the use and development of a new generation of institutional indicators	
Support initiatives to standardize the treatment of corruption	
Support implementation of international anticorruption conventions	The Bank shall help its borrowing member countries to harmonize their domestic legislation with the international legal instruments that they have approved, such as the Inter-American Convention Against Corruption (IACAC) (Systemic Framework).
Support and create opportunities for regional dialogue on governance and corruption	It is also important for the Bank to participate actively in the dialogue and cooperative efforts that have arisen in the fight against corruption (Systemic Framework). These activities serve as an opportunity for the Bank to learn more about the needs of its borrowing member countries in this area; to contribute to the international dialogue on corruption, in conjunction with the Organization of American States (OAS), from the unique perspective of the Latin America and Caribbean region; and to share best practices from other regions and institutions with its member countries (Systemic Framework).
Prioritize a preventive support strategy	
Support strengthening of institutional capacity to prevent and control corruption	The mandates agreed to by the Bank's shareholders and the provisions of the Bank's Charter provide a firm basis for the Bank to support member country efforts to attack the causes and effects of corruption (Systemic Framework).
Support the involvement of the private sector and civil society	The Bank should continue to support a more proactive intervention on the part of civil society and of the private sector in public affairs and a more efficient alliance in dealing with public issues (Systemic Framework). Within the private sector, the Bank can take a more active role in supporting corporate codes of conduct, corporate governance frameworks, and transparent pacts of integrity (Systemic Framework). Review the role of civil society organizations in the different phases of the operational process to ensure that the Bank's beneficiaries have a voice in the appropriation and use of resources allocated for their benefit (The IDB's Anticorruption Activities).

<sup>1</sup> Reference documents: Modernization of the State Strategy (document GN-2235-1); The Framework for Combating Fraud and Corruption in the Activities Financed by the Inter-American Development Bank. (document GN-2414); Systemic Framework Against Corruption for the Inter-American Development Bank (2001); New Project Cycle; The IDB's Anticorruption Activities (2007); Review of Sector Strategies, Policies, and Guidelines (document GN-2077-15).

<b>Implement a systemic approach</b>	
Strengthen treatment of the governance framework and corruption risks at the sector level	<p>There is a need for the Bank's ongoing commitment against corruption to be articulated in a more systemic strategy for various reasons. First, such an integrated approach will ensure that there is greater synergy between the Bank's efforts in each area (Systemic Framework).</p> <p>The Bank should ensure that policies and operational guidelines are consistent with the highest standards of transparency and institutional governance (Review of Sector Strategies, Policies, and Guidelines, document GN-2077-15).</p> <p>New areas of activity will become priorities in order to help the borrowing member countries secure the benefits of their efforts in modernizing the State, in adjusting their economies, and in preventing corruption (Systemic Framework).</p>
Strengthen coherence among diagnostic assessment, programming, and project design	<p>The country paper should explicitly address the issue of governance within the country. Corruption will be addressed in the country paper if it is found to be a restriction to economic and social development of a Bank lending program in a particular country (Systemic Framework).</p> <p>The Bank's shareholders have indicated their political will to jointly attack corruption. The mandates agreed to by the shareholders (IACAC, Summit of the Americas, and Third Annual Meeting of the Finance Ministers of the Hemisphere) and the provisions of the Bank's Charter provide a firm basis for the Bank to support member country efforts to attack the causes and effects of corruption (Systemic Framework).</p>
Strengthen the prevention and control of corruption throughout the project cycle	<p>Concern for the safe allocation of resources in the framework of project impact should be a common theme incorporated into all phases in the life of the Bank's projects, from the stages of identification and design of an operation, through its execution, and finally during its evaluation (Systemic Framework).</p> <p>When crafting large decentralized projects, projects in new lending areas (e.g. state reform, private sector, and privatization processes), or social programs, the Bank's project teams should note that traditional monitoring and evaluating instruments, practices, and mechanisms may no longer provide the necessary safeguards against corruption (Systemic Framework).</p>
<b>Strengthen our internal capacity</b>	
Institutionalize internal coordination mechanisms	Mechanisms should be established for effective communication and coordination between the Bank's units involved in supporting the countries' anticorruption activities throughout the programming strategy / project cycle (The IDB's Anticorruption Activities).
Strengthen the capacity of relevant units	<p>Training on risk assessment and on prevention of corruption for project team members is necessary (Systemic Framework).</p> <p>Support the development and implementation of outreach and training activities to Bank staff and other relevant parties in order to disseminate lessons learned from investigative results and promote awareness of mechanisms, practices, regulations, and policies that promote integrity and prevent fraud and corruption (The Framework for Combating Fraud and Corruption).</p>
<b>Prioritize this issue in the Bank's strategic vision</b>	
Implement the Bank's institutional commitment to good governance and the fight against corruption	<p>Corruption is a threat to democratic institutions, serves as a detriment to the economic and social development of national economies and, if condoned and permitted to flourish, can seriously undermine the credibility of the state's institutions and structures (Systemic Framework).</p> <p>Critical recommendations that should be introduced immediately include: (1) preparation of a Bank-wide anticorruption strategy that: (a) provides a comprehensive approach to anticorruption activities for all Bank programs and operations, making sure that they have sufficient flexibility and address unique situations in particular countries and sectors (Anticorruption Task Force).</p>

Support generation and dissemination of knowledge	Disseminate the results of the country financial accountability assessment (CFAA), country fiduciary assessment (CFA), and country procurement assessment review (CPAR) to all staff so that they are aware of the issues identified in the different countries. The country offices should also actively monitor the recommendations and actions included in the CFAAs, CFAs, and the CPARs (The IDB's Anticorruption Activities).
Strengthen coordination with other international stakeholders	Coordinate with other international financial institutions and international organizations to share experiences and practices to prevent corruption, and develop integrity programs and strategies (The Framework for Combating Fraud and Corruption).

INTER-AMERICAN DEVELOPMENT BANK

# MEMORANDUM

**File Classification:**

**DATE:**

**TO:** Germán Quintana  
Chief of Staff, PRE/PCY

**FROM:** Mario Marcel, VPS/ICF  
Steve Zimmermann, PRE/OII

**SUBJECT:** Principles for coordination between ICF/ICS and PRE/OII for the Bank's anticorruption, transparency, and integrity work

## 1. BACKGROUND

In view of changes in recent years in the region's social, political, and economic landscape, the Bank has realigned its organizational structure, vision, and processes. The new organizational structure resulting from the realignment provides an opportunity to reduce the ambiguity in terms of scope and leadership that in the past has marked the anticorruption, transparency, and integrity work of the Bank's various units. The report from the Anticorruption Task Force of February 2007 recommended that such ambiguity be rectified.

Recognizing this opportunity, and in order to facilitate institutionalization of a coordinated and integrated intervention in these areas, the Office of the President has requested that ICF/ICS and PRE/OII define how they will discharge their respective roles and responsibilities in the framework of the new organizational structure. In response to that request, this memorandum lays out the coordination principles that will guide the work of both units in the aforementioned areas, particularly activities related to the Bank's support for the countries of the region in preventing corruption and promoting transparency.

## 2. OBJECTIVES

The purpose of this memorandum is to facilitate institutionalization of a coordinated and integrated intervention by ICF/ICS and PRE/OII in the areas of anticorruption, transparency, and integrity in order to:

- *Define their respective roles and responsibilities:* Clarify the scope of their respective mandates in order to send a uniform message both within the Bank and to external clients, thus facilitating the effective channeling of internal and external requests for support, proper projections of capacity-strengthening needs, organized planning of activities in these areas, and accountability;

- *Enhance efficiency:* Establish a coordination mechanism that ensures efficient use of the Bank's resources, preventing redundancies, so that initiatives for generation and systematization of knowledge, coordination, and dissemination related to these areas are carried out in an organized manner, and maximum benefits and impact are achieved;
- *Boost complementarity:* Establish a coordination mechanism to identify opportunities for the combined use of the resources and installed capacities of both units, promoting the exchange of information and the development of activities that contribute to a systemic treatment of these issues in the Bank, in order to ensure that the Bank is in the best position to meet the needs of the countries of the region in terms of integrity and control of corruption.

### 3. COORDINATION PRINCIPLES

According to the respective mandates of ICF/ICS and PRE/OII, the proposed principles will guide their coordination in activities related to the Bank's support for the countries of the region in preventing corruption and fostering transparency, including: (i) activities to support the preparation and execution of anticorruption and transparency programs and activities, both in the Institutional Capacity of the State Division (ICF/ICS) and other sectors of the Vice Presidency for Sectors and Knowledge (VPS); (ii) activities to support the Bank's programming; (iii) training activities and/or activities to generate and systematize knowledge; and (iv) coordination activities with other stakeholders, including participation in events and/or dissemination activities.

Under the new organizational structure resulting from the realignment, ICF/ICS is charged with leadership and responsibility for the activities mentioned in the preceding paragraph, as part of VPS and in the context of its thematic responsibilities.<sup>1</sup> In order to facilitate the pursuit of complementarity in the work of both units, as well as in their installed capacity, PRE/OII may collaborate on the aforementioned activities at the request of ICF/ICS and insofar as its resources will allow. In the same way, both units will coordinate those activities related to the Bank's support for the region, conducted by PRE/OII to prevent corruption in the Bank's activities and programs.

#### ***Activities to support program preparation and execution:***

ICF/ICS leads the preparation and execution of financial and nonfinancial programs and activities related to anticorruption, transparency, and integrity to support the countries. It also provides technical support for the preparation of financial and nonfinancial programs and activities carried out in other sectors of VPS related to this issue. PRE/OII can support the activities of ICF/ICS at the request of the latter insofar as its resources will allow.

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<sup>1</sup> ICF/ICS has responsibility in the areas of good governance, democratic system, and public management, including transparency, financial management, public procurement, public oversight mechanisms, and national accountability systems, among others.

PRE/OII prepares and shares the lessons learned from its investigations with the Bank's different units. PRE/OII coordinates activities with ICF/ICS that it conducts with other sectors of VPS as part of its work to prevent corruption in the Bank's programs, in order to develop synergies and create opportunities to promote a systemic treatment of corruption prevention in the Bank's work.

***Training activities and/or systematization of knowledge:***

ICF/ICS supports dissemination of knowledge and training for countries in the aforementioned areas. In the framework of VPS, it also supports training activities for Bank staff in these areas, including preventive treatment of corruption at the sector level.

PRE/OII promotes awareness and understanding of the Bank's integrity policies and of lessons learned from its investigative work. Both units will share and complement their training efforts, particularly with respect to program design in order to prevent redundancies, maximize the Bank's resources, and promote a systemic treatment of corruption prevention in the Bank's work.

ICF/ICS leads the development of knowledge products and operational methodologies related to the aforementioned areas, as well as their systematization, dissemination, and public access. Based on the above, PRE/OII will coordinate activities with ICF/ICS to systematize knowledge related to the aforementioned areas so as to prevent redundancies and maximize the Bank's resources.

***Coordination with other stakeholders, events, and dissemination of knowledge:***

ICF/ICS leads coordination with other stakeholders with respect to the Bank's work in preventing corruption to support the efforts of member countries, including its tools, strategies, and programs. It also supports Senior Management in the process of negotiating cooperation agreements with other relevant stakeholders. Coordination by PRE/OII with other stakeholders is part of its fiduciary responsibility.

Both units will exchange information on these coordination activities in order to maximize benefits and, to the extent possible, to present an integrated view of the Bank's work in these areas.

**4. COORDINATION MECHANISM**

In order to promote achievement of the objectives indicated in this memorandum, a coordination mechanism should be created between ICF/ICS and PRE/OII consisting of: (i) focal point designation in both units and (ii) quarterly work meetings to exchange information and, where appropriate, to coordinate joint activities.

The first output of this mechanism will be a review in the coming weeks of the work plan of both units for the period 2008-2009 and identification, where appropriate, of cooperation opportunities, based on the principles mentioned in the preceding paragraph and the objectives indicated in this memorandum. PRE/PCY will be informed of the outcomes of those work meetings.

## **BUSINESS PLAN**

### **EXECUTIVE SUMMARY**

This Business Plan describes the scope of implementation of the Action Plan to Support the Countries in their Efforts to Fight Corruption and Foster Transparency (PAACT) for the period 2009-2011. It identifies: (i) the priority areas that emerge from the lines of work proposed in the PAACT; (ii) the main outputs and their implementation sequence; (iii) the associated budget; and (iv) the expected outcomes.

The Business Plan identifies four priority areas: (i) strengthening of sector focus, to help foster transparency and prevent corruption in the sectors where the Bank operates; (ii) strengthening of country focus, to guide technical and financial support to the countries through priorities identified jointly; (iii) support for strengthening of country institutional frameworks, to deepen, update, and add value to efforts to support institutions seeking to prevent, control, and sanction acts of corruption; and (iv) strengthening of institutional capacity within the Bank, to generate the capabilities, coordination mechanisms, and opportunities for dialogue necessary to institutionalize a systemic approach in the Bank's anticorruption work.

Each priority area includes activities and outputs as part of its implementation, such as: (i) development of contextualized diagnostic assessment methodologies at the country and sector level to prevent and control corruption, and (ii) putting them into practice in at least two sectors and two countries of the region. Work in each priority area will be anchored by the strategic use of knowledge to identify and disseminate good practices and lessons learned.

The Business Plan calls for gradual implementation of the PAACT with an introduction phase in 2009-2010 and an institutionalization phase in and after 2011, so as to align PAACT's scope with existing resources and guide its future development, gradually incorporating other countries and sectors and identifying additional capacity needs, as necessary. Implementation of the PAACT will be supported by the matrix structure and will seek to institute coordination bodies that foster crosscutting support on the basis of the contribution of specialized knowledge. To that end, the Institutional Capacity of the State Division (ICF/ICS) will provide technical support in conducting the proposed activities, within its mandate and in keeping with its installed capacity.

The projected budget for 2009-2011 is US\$2,009,680 from a mix of budgetary sources, requiring staff capacity equivalent to 2.67 and 2.92 full-time employees (FTE) for 2010 and 2011, respectively. As the PAACT becomes institutionalized, the resources necessary for its implementation are expected to originate from the Bank's regular budget.

As an overall outcome, implementation of the PAACT will help to deepen implementation of Pillar III of the Systemic Framework, giving strategic direction and adding value to the Bank's financial, knowledge, and capacity-building products in the area of transparency and anticorruption, which is crucial to the economic and social development of the countries of the region.



## BUSINESS PLAN

### I. OBJECTIVE

- 1.1 This document describes the operational scope of implementation of the actions described in the Action Plan to Support the Countries in their Efforts to Fight Corruption and Foster Transparency (PAACT) for the period 2009-2011. It identifies: (i) the priority areas that emerge from the lines of work proposed in the PAACT; (ii) the main outputs and their implementation sequence; (iii) the associated budget; and (iv) the expected outcomes.
- 1.2 Additional information supplementing this document can be found in the following technical files: (i) detailed business plan (electronic link 6); (ii) implementation timetable (electronic link 7); and (iii) itemized budget (electronic link 8).

### II. PRIORITY AREAS

- 2.1 The lines of action can be grouped into four priority areas: (i) strengthening of sector focus; (ii) strengthening of country focus; (iii) support for institution-strengthening; and (iv) support for institutionalization of the systemic approach.
  - 2.1.1. **Strengthening of sector focus.** This priority area includes activities to consolidate and help foster transparency and prevent corruption in the sectors where the Bank operates, particularly by putting into practice methodologies to facilitate diagnostic assessment of the institutional framework applicable in each area of public policy to prevent and control corruption, identifying the necessary institutional strengthening measures.
  - 2.1.2. **Strengthening of country focus.** This priority area includes activities to guide external support to the countries and better identify, through integrated, contextualized diagnostic assessment in the institutional mechanisms of Bank/country dialogue, a joint work agenda that will be sustained over time and implemented using a flexible mix of Bank instruments based on country needs and priorities (hereinafter, Framework Agreement).
  - 2.1.3. **Support for strengthening of country institutional frameworks.** In this priority area, the institutional capacity building efforts the Bank has been making under its Modernization of the State Strategy will be deepened, updated through the development of contextualized diagnostic assessment methodologies at the country level to prevent and control corruption, and supplemented with support for implementation of the relevant international conventions, generation of specialized knowledge on external and internal control mechanisms, support for transparency at the subnational level, and development of mechanisms to institutionalize access to information.

- 2.1.4. **Strengthening of institutional capacity within the Bank.** This priority area includes actions necessary to institutionalize a systemic approach in the Bank's anticorruption work through the identification and ongoing update of strategic lines of work, the promotion of interagency coordination, the generation of internal capacity, and the coordination of, and involvement in, forums for international dialogue.

**Table 1: Outcome Areas and Activities**

<b>PAACT – Outcome Areas and Main Activities</b>		
<b>Priority area</b>	<b>Objective</b>	<b>Activities</b>
Strengthening of <b>sector focus</b>	Strengthen the capacity for analysis and diagnostic assessment in governance and anticorruption at the sector level	Development of contextualized methodologies at the sector level
		Operational application in Bank programs and sector dialogue
		Activities for the systematization and generation of knowledge
Strengthening of <b>country focus</b>	Strengthen the capacity for analysis and diagnostic assessment in governance and anticorruption at the country level	Development of a methodology to guide dialogue and identify priorities
		Operational application in Bank programmatic and dialogue processes
		Activities for the systematization and generation of knowledge
Support for <b>strengthening of country institutional frameworks</b>	Support the countries in strengthening the institutional framework to prevent and control corruption	Activities to support implementation of international prevention frameworks
		Activities to strengthen external and internal control mechanisms
		Support for the institutionalization of transparency and anticorruption mechanisms in subnational governments
		Support for the institutionalization of transparency and access to information
Strengthening of <b>institutional capacity within the Bank</b>	Consolidate the Bank's leadership in supporting the fight against corruption	Identification of Bank lines of work in the area of anticorruption
		Fostering of interagency coordination
		Activities to generate institutional capacity
		Analysis of new challenges and opportunities for intervention

### III. MAIN OUTPUTS AND IMPLEMENTATION PLAN

- 3.1 The PAACT will be implemented via two-year business plans, whose objectives and outcome indicators will be reviewed at the start of each year. Table 2 summarizes the main outputs envisaged for the 2009-2011 period, in accordance with the priority areas described above. A detailed description of outputs and activities is given in the detailed business plan (see electronic link 6).

**Table 2. Outputs 2009-2011**

PAACT - Productos 2009-2011					
Objective	Type of Activity	Outputs	Implementation		
			2009	2010	2011
Strengthening of sector focus					
Strengthen the capacity for analysis and diagnostic assessment in governance and anticorruption at the sector level	Development of contextualized methodologies at the sector level	Identification of operational sectors			
		Operational sector 1 methodology (citizen security)			
		Operational sector 2 methodology			
	Operational application in Bank programs and sector dialogue	Operational sector 3 methodology			
		Sector 1 operational application			
	Activities for the systematization and generation of knowledge	Sector 2 and 3 operational application			
		Publication			
	Presentation workshop				
Strengthening of country focus					
Strengthen the capacity for analysis and diagnostic assessment in governance and anticorruption at the country level	Development of methodology to guide dialogue and identify priorities	Introduction into programming and dialogue processes			
		Methodology to guide country dialogue			
	Operational application in Bank programmatic and dialogue processes	Countries A and B operational application			
		Country C operational application			
		Country D operational application			
	Activities for the systematization and generation of knowledge	Publication			
		Presentation workshop			
Support for strengthening of country institutional frameworks					
Support the countries in strengthening the institutional framework to prevent and control corruption	Activities that support implementation of international prevention frameworks	Regional report on IACAC implementation			
		Guide for civil society organizations on compliance with conventions			
		Independent reports			
		Regional workshop			
	Support for internal/external control mechanisms	Control proposal to the Institutional Capacity Fund			
	Support for the institutionalization of transparency at the subnational level	Work strategy for subnational governments and institutions			
	Support for the institutionalization of transparency and access to information	Administration of Norwegian Fund			
		TC programs for access to information			
Access to information knowledge products					
Support for the institutionalization of the systemic approach					
Consolidate the Bank's leadership in supporting the fight against corruption	Identification of Bank lines of work in the area of anticorruption	PAACT			
		Business Plan 2009-2011			
	Fostering of interagency coordination	Coordination with other multilaterals			
		Agenda of participation in international events			
	Activities that generate institutional capacity	Identification of training needs			
		Annual workshop			
	Analysis of new challenges and opportunities for intervention	Regional policy dialogue			
Preparation of work plan 2012-2015					

3.2 As Table 2 shows, the proposed outputs are distributed incrementally over time, to ensure that they are aligned with the available resources and capacities. Taken as a whole, implementation of the PAACT will be divided into the following two phases:

3.1.1 **Introduction phase (2009-2010).** In this first phase, which covers activities between 2009 and 2010, implementation of the PAACT will be coordinated in the context of several pilot countries and sectors. Methodologies will be developed and introduced for at least two sectors where the Bank works, and a country-level diagnostic methodology will be developed. At the sector level, the methodologies developed will be applied in at least two sector programs (tentatively identified within the purview of VPS/ICF and VPS/SCL). At the country level, inputs

derived from the introduction of such methodologies will feed a medium-term work agenda or framework agreement in at least two countries of the region seeking such support from the Bank.<sup>1</sup> The experience gained in this introduction phase will serve to guide implementation of the PAACT in subsequent years, gradually incorporating other countries and sectors. In the same way, this experience will help to identify needs for strengthening of installed capacity, implementation resources, and any additional coordination needs.

- 3.1.2 **Institutionalization phase (2011 onward).** This second phase, covering activities from 2011 onward, will enable the continuation and deepening of efforts based on lessons learned in the introduction phase, the gradual increase of work at the sector and country levels, and the institutionalization of efforts through the incorporation of relevant activities aligned with the PAACT objectives into the work plans of the relevant units. Table 3 summarizes the main elements of the proposed implementation plan. The details can be found in the implementation timetable (see electronic link 7).

**Table 3. Incremental Implementation**

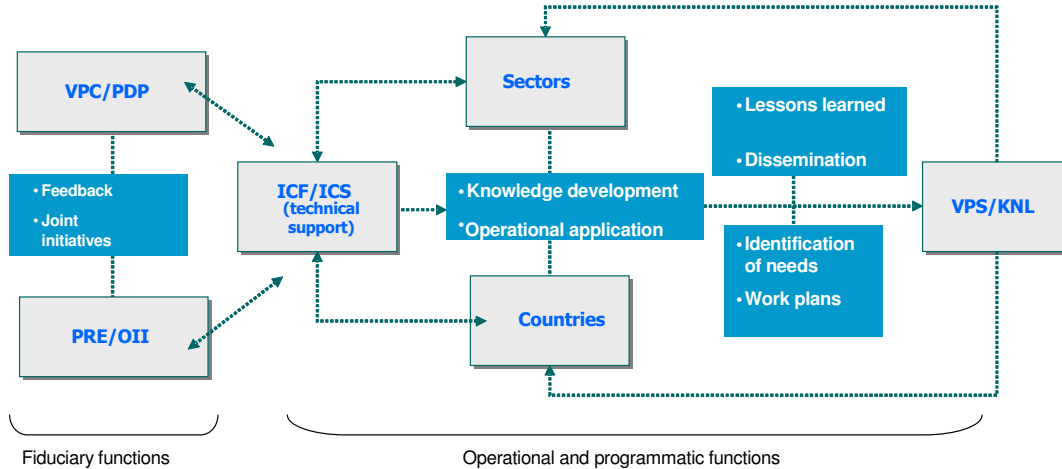
PAACT – Implementation Phases		
Phase	Output	Expected Outcomes
Introduction	Methodologies for two sectors	Methodologies improved, based on pilot experiences
	Methodology for country-level diagnostic assessment	Strengthening of interdepartmental work
	Pilot applications	Operational-fiduciary feedback mechanisms
	Operational application in two sector programs	Identification of additional needs
	Development of two Framework Agreements	Awareness-building
	Generation of knowledge	Positioning of the Bank
Institutionalization	Methodologies for other sectors where Bank operates	Increased country and sector demand
	Dialogue institutionalized in programmatic processes	Improved institutional capacity in response to demand
	New components support design of sector programs (based on demand)	Institutionalization of systemic approach
	Implementation of Framework Agreements	Improved sustainability of assistance to countries
	Continuity in generation of knowledge	Consolidation of Bank leadership position

- 3.3 Implementation of the PAACT will be supported by the matrix structure and will seek to institute coordination bodies that foster crosscutting support on the basis of the contribution of specialized knowledge. To that end, the Institutional Capacity of the State Division (ICF/ICS) will provide technical support in conducting the proposed activities, within its mandate and in keeping with its installed capacity. The detailed business plan (see electronic link 6) indicates the units involved in development of the proposed outputs. Table 4 graphically

<sup>1</sup> Development of a diagnostic assessment methodology applied to the citizen security sector began in 2009, and will be piloted in the design of two programs in 2010. A country-level diagnostic assessment methodology is being developed; it will be piloted during development in the context of Chile and may be used in 2010 to provide inputs for Bank/country dialogue.

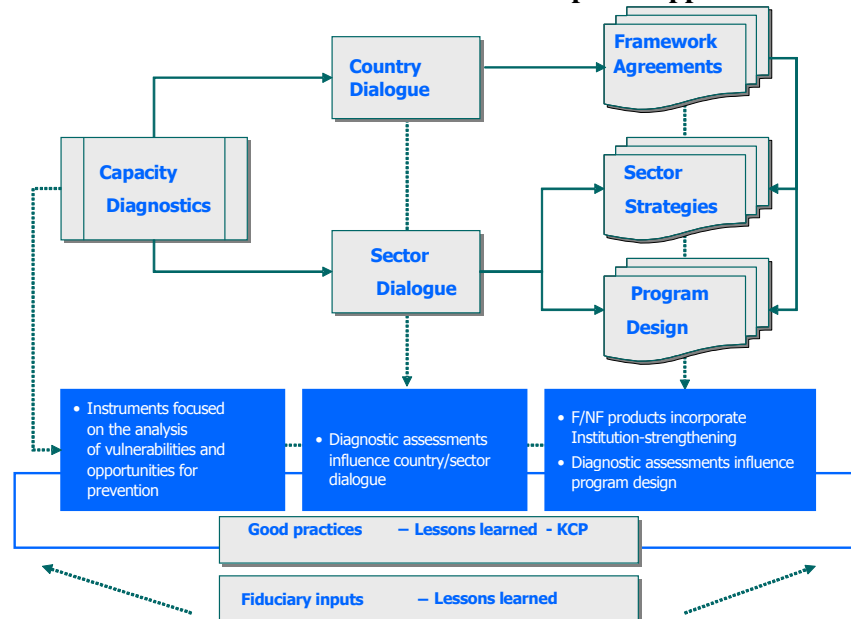
represents the PAACT implementation structure, supported by the new matrix structure.

**Table 4. Institutional Coordination**



- 3.4 To support institutionalization of the proposed approach, the products and activities to be developed as part of PAACT implementation are aligned with key processes of the Bank, particularly: (i) programming and dialogue processes; (ii) program design; and (iii) the development of training and knowledge products and activities (see Table 5).

**Table 5. Institutionalization of the Proposed Approach**



- 3.5 In this way, the inputs generated from the development and application of targeted diagnostic tools to assess vulnerability to corruption will feed the country and/or sector dialogue. This, in turn, will facilitate the identification of financial and/or nonfinancial products to support the measures necessary to prevent

corruption, as well as the design of specific components to strengthen operational programs, as applicable.

- 3.6 Additionally, feedback between the fiduciary and operational areas will be promoted as part of PAACT implementation, based on the clear institutional definition of their respective mandates and functions described in the PAACT, and coherence with the new operational and fiduciary guidelines (see Table 7 of the main document).

#### IV. BUDGET PLAN

- 4.1 The projected budget for 2009-2011 is US\$2,009,680, broken down as follows: US\$171,000 in 2009; US\$723,900 in 2010; and US\$1,114,780 in 2011.
- 4.2 In terms of the staff capacity required to implement the PAACT, it is projected that a specialist will have to be devoted full-time to complete the activities planned for the last quarter of 2009. The full-time employee (FTE) totals for 2010 and 2011 are 2.67 and 2.92, respectively.
- 4.3 Table 6 shows the consolidated budget. The itemized budget is presented in electronic link 8.

**Table 6. Consolidated Budget**

PAACT – Budget Data *			
Resources	Implementation		
	2009	2010	2011
Budget (US\$)	171,000	723,900	1,114,780
% Identified	100%	70%	40%
% To be identified	0%	30%	60%
FTE **	0.94	2.67	2.92

\* Data as of October 2009.

\*\* FTE Full-time employee, where 1 represents one employee-year.

- 4.4 Implementation of the PAACT will be supported by a flexible mix of different financing sources, depending on the type of activities to be conducted. The projected budget (see electronic link 8) includes the following sources of financing: (i) resources allocated by the Vice Presidency for Sectors and Knowledge (VPS) under the heading of knowledge and capacity-building products (KCPs); (ii) budget allocated by the Vice Presidency for Countries (VPC) for program preparation and/or execution and/or for country programming and dialogue activities and/or technical assistance; (iii) training and knowledge resources provided by the Knowledge and Learning Sector (KNL); and (iv) technical-cooperation resources financed through trust funds or the Fund for Special Operations (FSO).
- 4.5 The activities budgeted for 2009 are being implemented, which means that virtually 100% of the necessary financing resources were allocated. For 2010 and 2011, the percentage of resources identified is 70% and 40%, respectively, mainly

technical cooperation resources in execution and the allocation of KCP resources by VPS in the case of 2010. Table 7 summarizes the budget breakdown by source of financing.

**Table 7. Sources of Financing**

<b>PAACT – Budget Data by Source of Financing</b>				
<b>Financing</b>	<b>Main activities</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Administrative budget (NPC-VPS)*</b>	Development of methodologies at the sector and country levels PAACT institutionalization processes	95,000	318,000	301,000
<b>Administrative budget (NPC-KNL)*</b>	Training, publication, and dissemination of outputs	–	19,000	130,000
<b>Administrative budget (NPC-VPC)*</b>	Implementation of methodologies and framework agreements with the countries. Policy dialogue and support programs	–	157,000	157,000
<b>Technical-cooperation resources</b>	Technical support for access-to-information programs. Support for implementation of anticorruption conventions. Support for strengthening of internal and external control mechanisms.	76,000	229,900	526,780
<b>Totals</b>		<b>171,000</b>	<b>723,900</b>	<b>1,114,780</b>

\* May be supplemented by third-party funds administered by these units.

- 4.6 As Table 7 shows, the development of the sector- and country-level methodologies will be financed with resources allocated specifically by VPS under the heading of KCPs. Development of sector- and country-level methodologies represents approximately 50% of the resources in 2009, 45% in 2010, and 30% in 2011. Activities related to the implementation of these methodologies through framework agreements, as well as the strengthening of policy dialogue, will be financed with VPC resources. During the introduction phase, support for the design of sector programs will be funded in part with KCP resources from VPS. As the introduction phase approaches (2011 onward), the necessary resources are expected to originate from the Bank's transactional budget, as new activities are incorporated into programming, dialogue, and program design and execution processes to meet the objectives set in the PAACT.
- 4.7 Training, publication, and dissemination activities will be financed mainly with resources provided by KNL. The increased need for KNL resources will begin in 2011. The KNL support is expected to further the development outcomes and implementation of sector and country methodologies. In addition, technical-cooperation resources will be used to provide specific support for the activities to support the implementation of anticorruption conventions, institution-strengthening in areas of control, knowledge generation, and the review and processing of technical-cooperation proposals to be financed by the Anticorruption Activities Trust Fund (AAF).

- 4.8 Significantly, this budget takes current capacity limitations into account and is based on gradual implementation. As the PAACT becomes institutionalized, and demand is generated from countries and sectors, the budget may need to be revised and updated to correctly reflect institutional needs. In any event, as noted above, once the introduction phase is over, the needs will be identified for strengthening of installed capacity, implementation resources, and any additional coordination needs. These will be reflected in a new budget for the period from 2011 onward.

## V. EXPECTED OUTCOMES

- 5.1 The planned activities and outputs have been identified in the priority areas with the objective of adding value to our institutional offerings in recognition of country needs and new conceptual developments. They will also help to contextualize this work area within the Bank's new operational guidelines. Table 8 summarizes the contributions that are expected to be achieved through implementation of the PAACT.

**Table 8. Main Proposals**

<b>PAACT – Value-added Elements</b>		
<b>Focus</b>	<b>Current</b>	<b>Proposed</b>
Diagnostic	Broad diagnostic assessments of the governance framework	Contextualized diagnostics at the sector and country level
	Diagnostic assessments targeting the public financial system	Diagnostic assessments along the "value chain"
	General and perception indicators	Actionable indicators, institutional focus
Programming	Isolated interventions	Sustained support (Framework Agreements)
	Reactive demand	Support directed to institution-strengthening
	Focus on institutions of formal control	Preventive focus
Outputs	Technical cooperation	Mix of technical cooperation and KCPs
	Programs to strengthen control bodies	Comprehensive programs addressing prevention and control
	Isolated policy notes	Strategic use of knowledge products
	Isolated components at the sector level	Strategic use of forums for regional dialogue Institutionalized sector focus

- 5.2 Specifically, implementation of the PAACT is expected to contribute to:
- 5.2.1 Strengthened Bank support for the countries in their efforts to fight corruption and foster transparency, through the identification of specific entry points for the prevention of corruption and necessary institutional strengthening measures.
- 5.2.2 Increased effectiveness of the Bank's sector programs to support the countries of the region, through the identification and strengthening of major institutional areas in each context for the prevention of corruption.
- 5.2.3 Institutionalized support for the countries in their efforts to fight corruption and promote transparency in key processes, especially: (i) programming and dialogue



- processes; (ii) program design; and (iii) the development of training and knowledge products and activities (see Table 5).
- 5.2.4 Strengthened capacity within the new institutional framework, leveraging the matrix structure through interdepartmental support, enhancing complementarity among operational and knowledge outputs, and supporting evaluability of outcomes with contextualized diagnostic assessments.
- 5.2.5 Institutionalized, organized interaction between fiduciary and operational functions, which will facilitate input feedback based on a clear recognition of their respective target areas and mandates.
- 5.3 Implementation of the PAACT will be reflected in quantifiable operational objectives, to be determined in the context of implementation of the respective business plans. Possible indicators to orient the implementation objectives include: projects and/or components of sector projects related to governance enhancements and/or the prevention of corruption; available resources for technical assistance on issues of governance and the fight against corruption; and technical notes, methodologies, and knowledge resources developed. Table 9 presents preliminary outcome indicators for the 2009-2011 period. These indicators must be updated as the work plans take shape at the start of each year.

**Table 9. Preliminary Outcome Indicators**

PAACT – Outcome Indicators			
Type of outcome	2009	2010	2011
Policy	1 PAACT	Mechanism for technical support for AAF project execution	
	1 AAF Knowledge Proposal Identification of sector prioritization criteria	IDB participation in two international work groups	
Knowledge	Diagnostic assessment methodology at sector level (citizen security)	2 Diagnostic assessment methodologies at the sector level	Publication (working paper) including countries similar to those studied
	1 Country methodology	Note on control and results-based management	Lessons learned from work with countries on transparency and anticorruption
	Regional progress report on implementation of international conventions	Report on best practices at the sector level	Report on best practices in internal control auditing
	Methodological guide for supporting civil society in compliance with the conventions	Working paper and case studies on access to information and transparency	Joint research project with the CHR Michelsen Institute (U4)
Operational	Independent civil society reports for presentation to MESICIC (3)	Independent civil society reports for presentation to MESICIC (6)	At least two TC programs related to transparency
	At least two TC programs related to transparency	At least two TC programs related to transparency	Application of Sector A methodology in at least one program
		Two citizen security programs have transparency and anticorruption components	Application of Sector B methodology in at least one program
		Two Bank/country framework agreements	Two Bank/country framework agreements
		Institutional capacity fund proposal	Implementation of capacity fund proposal
		Review and advisory support for AAF technical-cooperation projects	Review and advisory support for AAF technical-cooperation projects
		At least two projects supported by MATE	At least two projects supported by MATE
Dissemination	Annual anticorruption day workshop	Annual anticorruption day workshop	Annual anticorruption day workshop
	Survey of international work groups	Participation in convention-related regional events	Workshop (presentation of sector- and country-level work)
	Institutional participation in international events	Regional events for comptrollers	National workshops (each of the pilot countries)
	PAACT implementation progress report	Institutional positioning agenda	Workshop (presentation on the progress of financed projects + progress on the knowledge pillar)
		Institutional participation in international events	Institutional participation in international events
		PAACT implementation progress report	PAACT implementation progress report
Training		3 sector meetings	Training guide
		3 meetings by country groups	Development of specialist training program