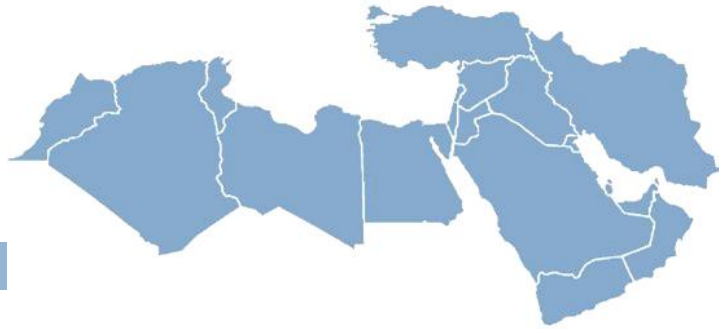

GOVERNANCE AND ANTICORRUPTION
EXPERIENCES IN THE MENA REGION

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Regional Vice President
November 2010

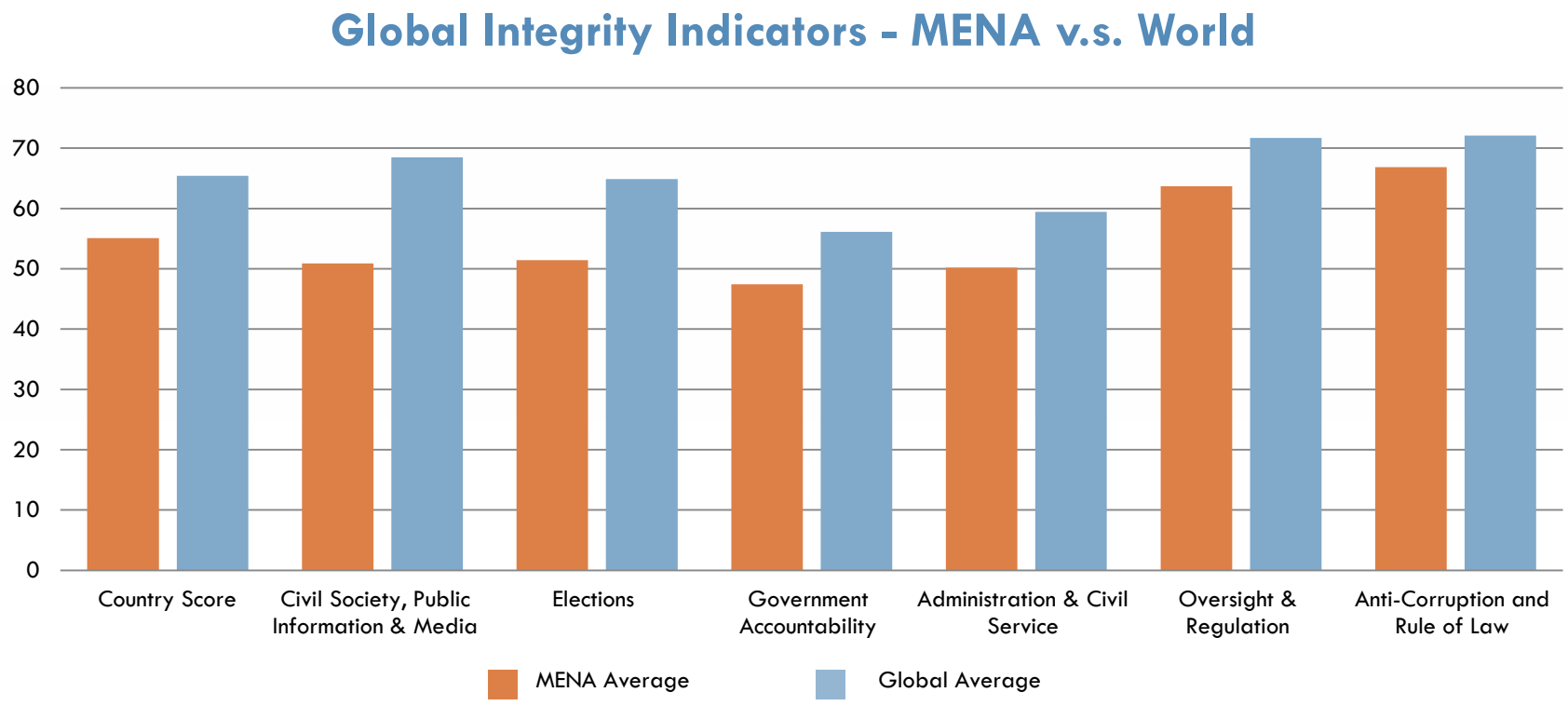
Outline of Presentation

- General Context
- What Has Worked
- Addressing Challenges (externally and internally)

Some General Context

- MENA relatively weak across governance indicators
- MENA's public sectors are large
- Decentralization is limited
- Strong Interest in E-Government

MENA is Relatively Weak on Governance Indicators

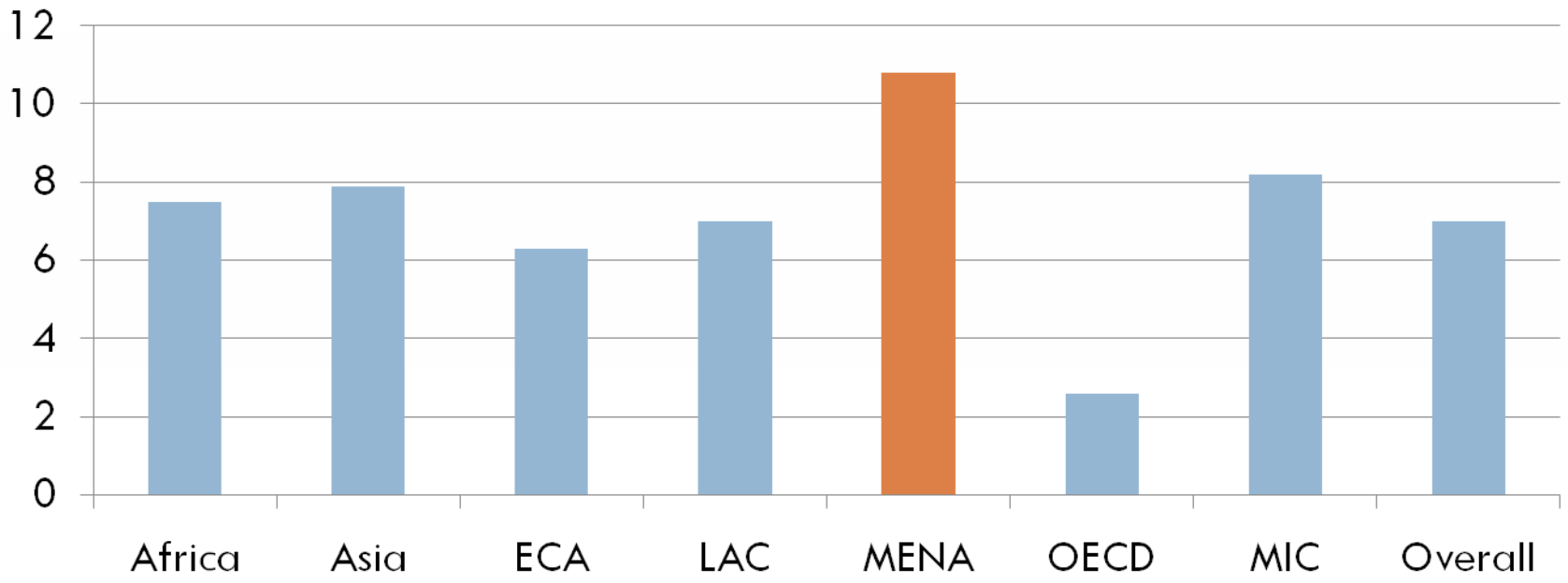


Source: Global Integrity 2009.

Note: *The Global Integrity Index groups countries into five performance "tiers" according to a country's overall aggregated score: Very strong (90+) Strong (80+) Moderate (70+)Weak (60+) Very Weak (< 60)*

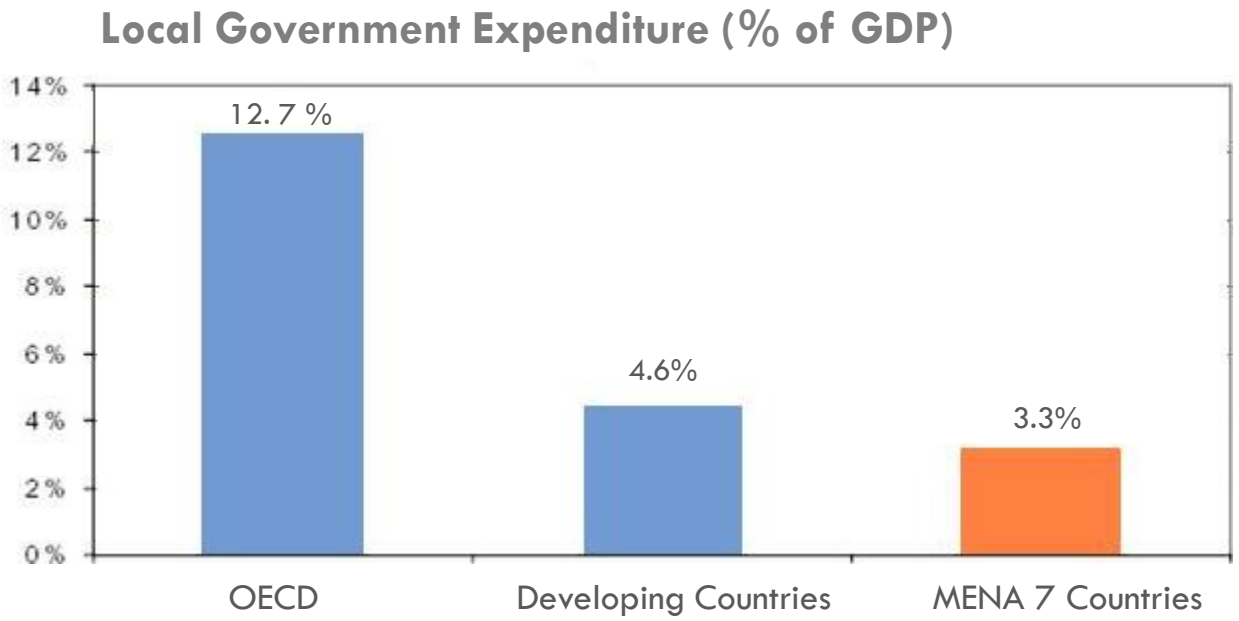
MENA's Public Sectors are Large

(Central Civilian Government Wages as % of GDP)

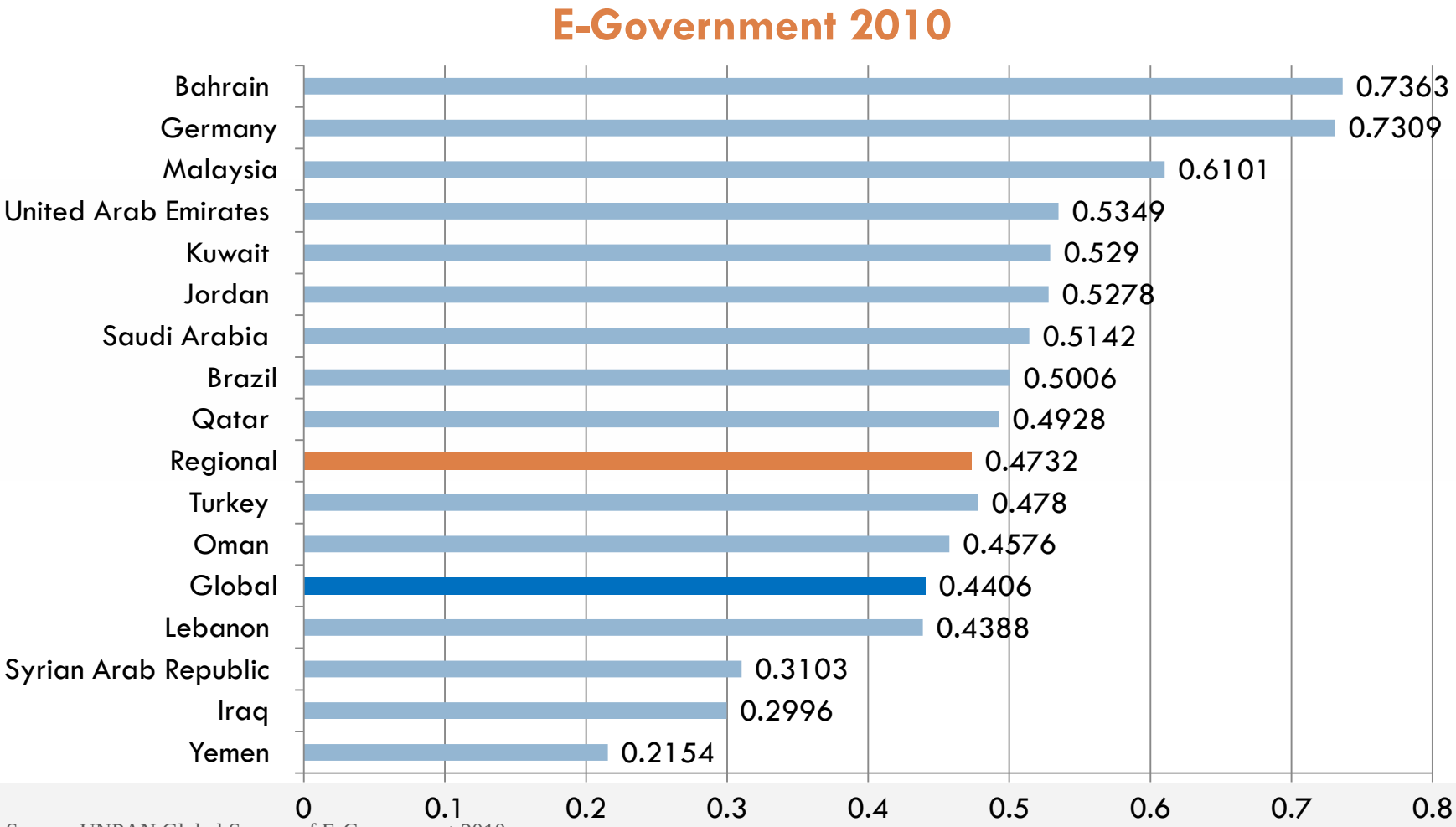


Source: World Bank Fourth Regional Working Group on Civil Service and Integrity Presentation in Morocco, 2008

Decentralization is Limited in MENA



Strong Interest in E-Government



Source: UNPAN Global Survey of E-Government 2010

183 countries included in the survey. Mathematically, the EDGI score is a weighted average of three normalized scores on the most important dimensions of e-government: 1) scope and quality of online services; 2) telecommunication connectivity, and; 3) human capacity.

EGDI = (0.34 x online service index) + (0.33 x telecommunication index) (0.33 x human capital index)

What Has Worked

- Mainstreaming Public Expenditure Management
- Strengthening Delivery of Public Services
- Community Development Programs
- Improving Coordination and Visibility of GAC Agenda
- Support for Corporate Governance Reforms
- Focus on Financial Sector Reform (Banks)

Mainstreaming Public Expenditure Management

Flagship report to promote relevant reforms

- Public Financial Management Reform in the Middle East and North Africa: An Overview of Regional Experience
- Individual country cases cover **10** countries in MENA

Analytic work to identify key issues together with clients

- PFM assessments in MENA:
  - **9** completed
  - **2** on-going
  - **1** planned
- Country Procurement Assessments (e.g. Morocco, Jordan, Egypt, Yemen, Iraq)
- **8** Public Expenditure Reviews (e.g. Djibouti, Lebanon, Egypt)

Dedicated public expenditure management reform projects/programs

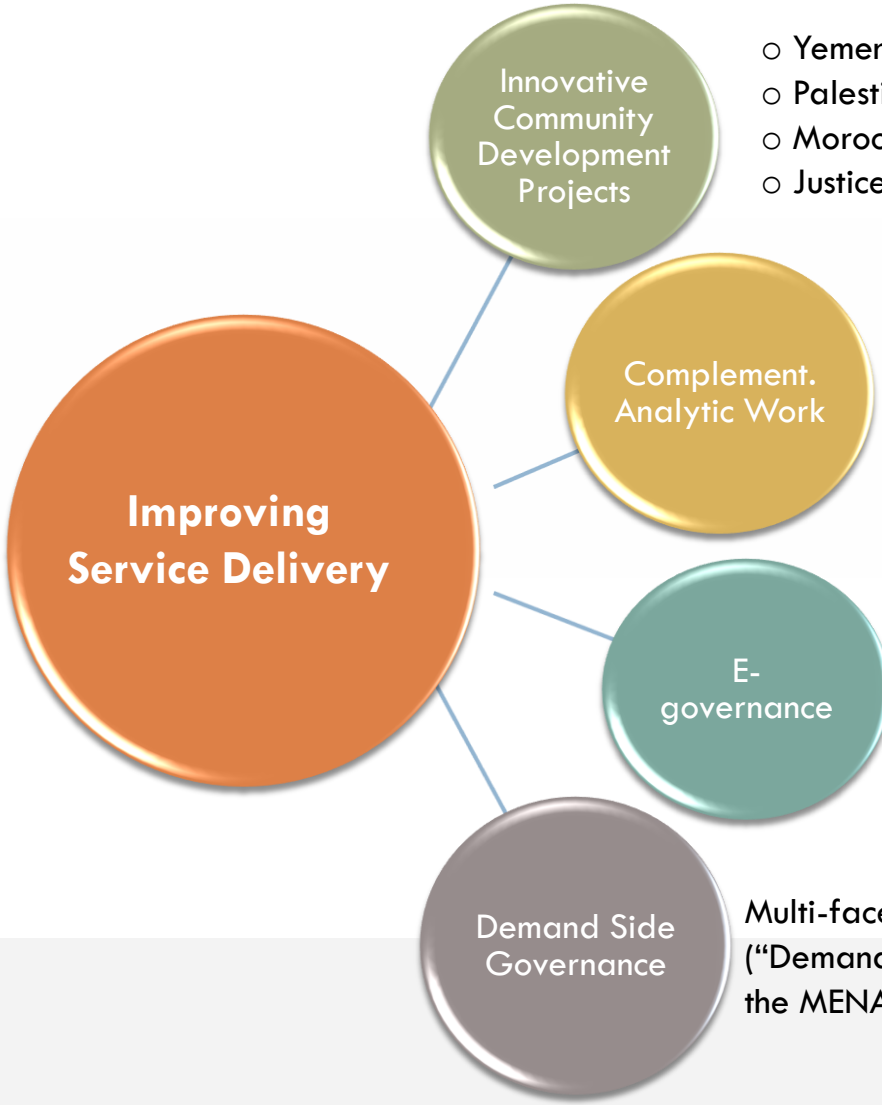
- Morocco, WBG, Iraq, Yemen, Jordan

Procurement reforms in many countries in the region

- Iraq, Yemen, Jordan, Egypt, Kuwait, Saudi Arabia and Syria

With good overall results as evidenced by relevant benchmarks (CPIA, PEFA, OECD-DAC)

Strengthening Delivery of Public Services



- Yemen Social Fund
- Palestine NGO project
- Morocco Human Development Fund
- Justice sector service delivery to the poor in Jordan and Iraq

- Flagship reports (e.g. MENA water management)
- Diagnosing realities on the ground using Public Expenditure Tracking Survey and Quantitative Service Delivery Surveys (e.g. Morocco, Egypt)
- Poverty and Social Impact Analysis (e.g. Yemen Water Sector, WBG Water Restriction Study)

Serves as important entry point to improve service delivery and transparency (e.g. Morocco Public Administration Reform Program, Tunisia Public Administration Reform)

Multi-facetted activities to support demand side governance ("Demand for Good Governance Approaches to Strengthen the MENA portfolio")

Community Development Programs

- The **Yemen Social Fund** has become an important safety net tool to poverty reduction through its provision of development opportunities to the poor and provides an example of an effective, efficient and transparent mechanism for social services delivery



7,606

classrooms were built and rehabilitated benefiting 684,046 children

92

feeder roads were built benefiting 531,810 people

Community Development Programs

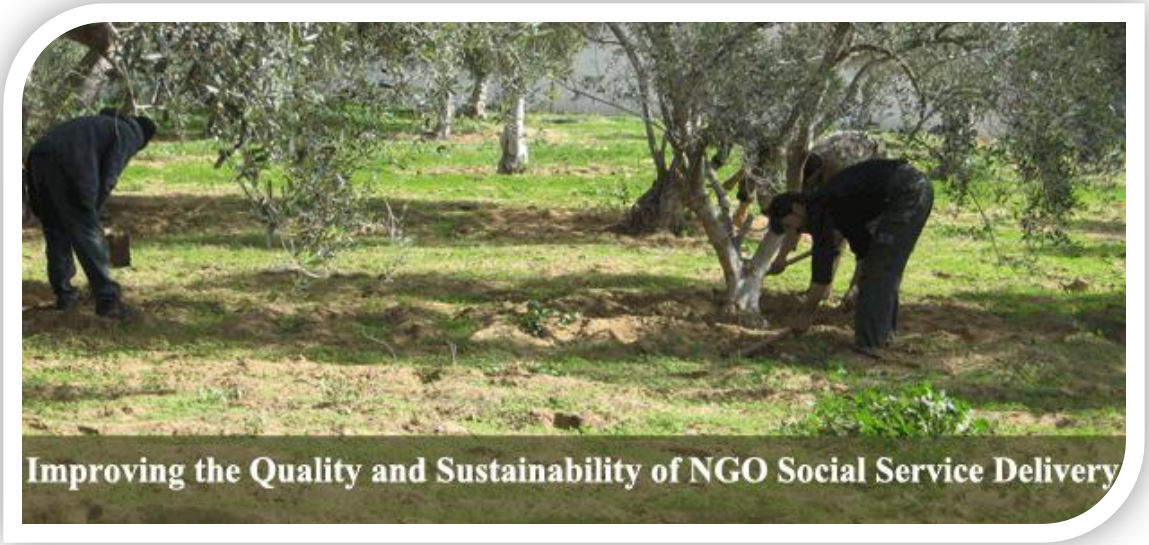


- The **National Initiative for Human Development in Morocco** promotes better economic and social infrastructure for poor and vulnerable groups through improving inclusiveness, accountability and transparency of decision making and implementation processes at local levels.

700

regional, provincial and local human development committees, composed of equal shares of representatives from civil society, local government and government ministries, were set up under the initiative; 18.000 subprojects were financed, targeting over 4.6 million beneficiaries

Community Development Programs



74%

of the participating NGOs (compared to 14 percent prior to the launch of the program) have made their financial reports public, either by using the NGOs portal or through their own websites.

- The **Palestine NGO project** provided important resources for the development of a more vibrant civil society through consultative development and implementation of a national NGO Code of Conduct for Palestinian NGOs

Improving Coordination and Visibility of GAC Agenda

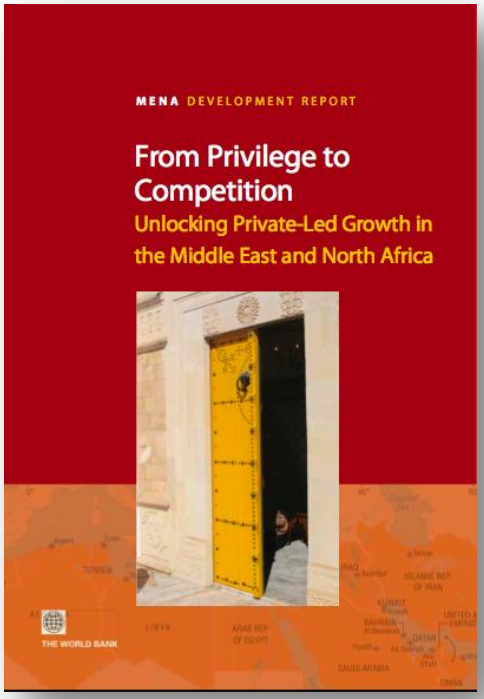
Establishing basic framework

- GAC Implementation Committee established
- Members drawn up from all CMUs and Sectors
- MENA Public Sector and Governance Unit (MNSPS) set up, new Sector Manager assigned
- Successful engagement in high-risk settings (Iraq, Yemen, WBG)

Deepening our engagement on governance

- Focus is on the establishment of **an integrated governance review mechanism** screening all our (lending/non-lending) products
- Focus the work of the Public Sector and Governance Unit to support sector teams
- MNSPS Sector Manager part of the development effectiveness review function in MENA

Support for Corporate Governance Reforms



- ✓ Flagship report to promote relevant reforms
- ✓ Main focus is to stimulate competition and to modernize existing in-country framework which is dominated by privilege and preferential treatment
- ✓ Integration of corporate governance reforms in Private Sector Development Programs
  - e.g. Egypt, Morocco, Tunisia
- ✓ Bank Governance Reviews, FSAPs, and financial sector DPLs are all entry points to promote governance reforms
  - Bank governance reviews performed in four MENA countries with requests for TA follow up
  - Results of reviews fed into both FSAPs and DPLs
  - Egypt FSAP & Financial Sector DPL series were critical to bank governance reform measures
  - Morocco DPL included bank governance assessment

Focus on Financial Sector Reforms (Banks)

In MENA, initial focus is on bank governance, as financial systems are largely bank-based (banks account for 80%-90% of financial assets)

Sound bank governance means sound risk management – this is critical to ensure that any gains in access to finance do not compromise financial stability.

Bank governance assessments in MENA have included surveys and in-depth reviews by the World Bank.

In depth- reviews have been performed in 4 MENA countries, in response to client requests:

- Basel Committee's (newly revised) Principles for Corporate Governance is the basis for country reviews.
- Focus on legal framework and bank practice.
- Extensive exchange with central bank, private and state banks.
- Clients request TA follow up, open workshop for banks.

Key Challenges

- Need to explain better the critical role played by banks and the need for strong corporate governance
- Need to address highly concentrated relationships, inter-locking ownerships, accompanied by blurred responsibilities
- Need to improve Board understanding of risk management; need to strengthen internal risk management function
- Need for greater transparency: accurate financial information (solo & consolidated), related parties, non-financial

Addressing Challenges Externally

- Enhancing and further deepening our engagement on reforms that strengthen value-for money of public spending;
- Scaling-up service delivery reforms and participation; and
- Strengthening financial sector/corporate governance reforms

Strengthen Value-for-Money of Public Spending

- **Public expenditure management reforms** have been fairly successful in MENA but could be further deepened,
  - Public finance reforms that promote greater transparency and accountability, e.g. performance/outcome-based budgeting
  - More support for Supreme Audit Institutions and other institutions of accountability

- **Project-specific focus to address fiduciary concerns** should migrate towards systematic support for the use of country systems
  - Existing pilot program in MENA will be expanded to include additional countries

Improving the Delivery of Public Services

Large and often inefficient public sector is seen as **impediment** for economic development; strong interest in results-focused public sector reforms

Examples:
Public admin. reforms in Morocco, Tunisia, Jordan

Need to find ways to **make these reforms more transparent and participatory** – less technocratic. Considerable potential (and challenges) to scale-up demand-side governance activities

Examples:
Service delivery reform activities in Yemen, Morocco, Tunisia, Jordan, Egypt, Iraq

Existing **"windows of opportunities"** such as strong interest in E-government should be better exploited to promote service delivery reforms

Examples:
E-government reforms in Morocco, Tunisia, Jordan

Strengthening Financial Sector/Corporate Governance Reforms

- Some good experiences with corporate governance reforms in MENA – but need to be **scaled-up and expanded**,
  - Stronger focus of our program on increased disclosure, business ethics,
  - Promotion of the use of international reporting and compliance standards
  - Regional forum to share experience on corporate governance reforms
- Emphasize need to **overcome existing culture** which is dominated by privilege and preferential treatment to promote private-sector led growth
  - Regional events to stimulate debate and share experience
- Use MENA private sector interest in **E-government** to foster respective government reforms
  - Modernization of government services and adjustment of regulatory framework (e.g. Morocco, Tunisia, Jordan)

Strengthening Financial Sector/Corporate Governance Reforms – specifically Banks

- Countries in MENA are focusing on corporate governance reforms: adopted comprehensive corporate governance codes, upgraded banking regulation and included governance issues within bank supervision practices

- **Further measures** to consider:
  - Bank governance reviews in countries that have not yet conducted one
  - Assistance to those countries implementing recommendations of the bank governance review(s)
  - Support to strengthen the legal and supervisory framework and enforcement mechanism for sound governance
  - Promotion of more comprehensive financial and non-financial reporting
  - Raising awareness of owners, boards, management, and authorities (central banks, bank supervisors, public officials)
  - Sponsoring workshops for both bankers and regulators
  - Regional forum to share experience on corporate governance reforms

Addressing Challenges Internally

- Clarify the Bank's GAC strategy
- Better communicate objectives to clients, partners, and systematically share successful governance work with clients
- Scale-up governance screening and training
- Ensure adequate GAC funding

Clarify Bank's GAC Strategy

- Existing GAC strategy is seen as largely inward looking – too much focused on our fiduciary concerns, **not sufficiently geared towards addressing systemic governance issues in our client countries**

- New strategy should be **meaningful for our clients**
  - For *middle-income countries* struggling with service delivery and improving the value-for-money of public spending
  - For *less advanced countries* struggling with peace and stability issues, and with the strengthening of core government functions

GAC Communication and Dissemination

- While GAC strategy may be clear for insiders **key objectives of GAC strategy could be better explained** and communicated to our clients to avoid "impression of interference"
  - Expand MNA governance learning series to include clients
  - Organize regional events on specific governance issues to stimulate debate

- While documentation of GAC experience has made good progress, **well-documented regionally relevant GAC experience is still limited** (MENA case studies series under preparation)
  - Enhance collaboration with regional universities and training institutions to document and share GAC experience (e.g. Dubai School of Government)
  - Close the language gap and make available relevant experience (e.g. on demand-side governance issues) in Arabic

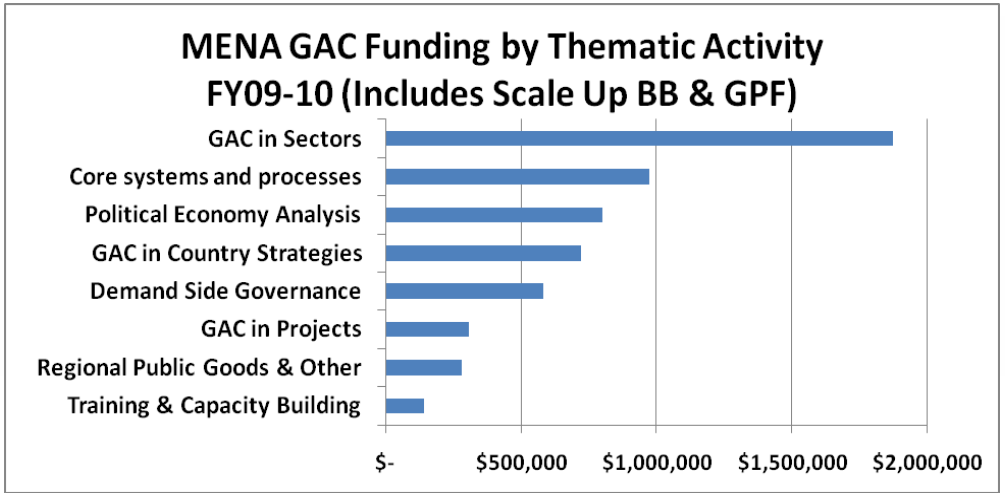
GAC Screening and Training

- While the new **risk management framework** (ORAF) is an opportunity to focus on governance it may not be sufficient to strengthen governance throughout our portfolio
  - Scale-up ORAF training as early experience in MENA indicates that governance part of ORAF is not fully understood.
  - MENA is thinking about an **integrated review mechanism** that systematically screens of all projects/programs (lending/non-lending) with regard to governance issues
  - Dedicated support to projects/programs with high governance relevance

- While GAC training has intensified **many teams still struggle with governance issues**, in particular in operational work
  - Increase relevant training, also to enable teams to have a meaningful dialogue with the client on GAC issues
  - Strengthen support to task teams on governance issues (coordinated by Public Sector and Governance Unit)

GAC Funding

While significant resources were available in the past to address GAC issues, funding is now more limited.



The majority of the funding was provided for governance work in sectors and activities to strengthen core country system and processes.

As TF-resources are limited in MENA the renewal of the Governance Partnership Facility would be important to support country and task teams

Issues for Discussion

- How to ensure adequate and meaningful quality assurance on GAC issues in our strategic and operational products? Do we need a more sophisticated governance screening mechanism? Would it be useful to establish a “governance classification” of projects/programs?

- What are the GAC entry points that resonate with middle-income country clients?