AFRICAN DEVELOPMENT BANK GROUP

GUIDANCE NOTE

ADDRESSING SECTOR GOVERNANCE AND CORRUPTION RISK IN INFRASTRUCTURE PROJECTS

November 2009
Acknowledgments

This Operational Guidance Note has been prepared under the guidance of Chigomezgo Mtegha, Governance Expert in the Governance, Economic and Financial Management Department (OSGE. 1) Task Manager for the activity. The primary authors for the Guidance Note are DALBERG Development Advisers.

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Infrastructure investment remains a key priority for the Bank; and is one of the four pillars of its engagement strategy with Regional Member countries. Since its establishment in 1963, approximately 36% of the Bank’s commitments have been devoted to infrastructure (equivalent to USD 52 billion). Further spurred by NEPAD’s impetus, the Bank’s investments in the Sector have increased considerably, accounting for 62% of all Bank approvals.

However, the macro-economic impact of infrastructure investments can be significantly reduced by governance failures. We define governance vulnerabilities as encompassing issues along 5 primary dimensions namely:

1. Policy and Legislation,
2. Institutional Arrangements,
3. Budgeting and investment planning,
4. Public procurement, and
5. Access and rights to service.

Weaknesses in these dimensions hamper equitable growth, economic competitiveness and private sector development among others because they divert money from its most productive uses. Failed governance can lead to construction of the wrong infrastructure, poor construction and quality of provision, insufficient maintenance and high levels of thefts and losses. This can dramatically reduce economic returns not just to individual projects but to the entire infrastructure stock, and lead to lower levels and less efficient provision of infrastructure services.

Some of these vulnerabilities originate at the macro level, but some can be directly addressed at the sector level. The sector governance approach therefore looks at governance vulnerabilities that impact a particular sector or sub-sector.

This Guidance Note is to be used as a generic instrument for Task Managers and other project stakeholders to conduct sector governance risk diagnoses within the Bank’s sector operations. It consists of guidelines, templates, sample questionnaires, and indicators embedded within the existing Bank processes and instruments. It is based on a framework that highlights sector governance challenges in a macro and political economy context and looks at sectors and sub-sectors in terms of their value chain and the key actors involved at each stage of the chain.

The framework of Tools (field tested in Tanzania and DRC within two sub-sectors Energy and Transport) is comprised of:

- Macro-level assessment of broad governance issues to understand the wider systemic nature of governance failures within the country context;
- Sector level assessment of five governance dimensions (policy and legislation, institutional arrangements, budgeting and investment planning; public procurement and access to rights and services) as they impact the infrastructure sector. Illustrations have been provided from field testing results in Tanzania and the DRC;
- Value chain analysis, diagnosis and prioritization of key vulnerabilities identified within the sectors;
- Incorporating outcomes from the Sector Analysis into project design with a clear focus on: a) demonstrating clear linkages between upstream and downstream interventions; b) designing explicit strategies within individual projects to mitigate governance risks; c) indicators to monitor risk;
- Mandatory requirements at Project Approval that ensure that the project reflects governance dimensions;
- Embedding governance dimensions within the Project Completion Report process.
A NOTE ON HOW TO USE THIS GUIDANCE NOTE

This guidance note is a comprehensive set of tools, designed to respond to the needs of different user profiles. This implies that not all tools will be relevant for each user. Therefore, the tools are arranged in modules to guide the reader through the sections relevant to his or her need.

Module 1: Module 1 refers to cross-cutting issues at the macro and sector level in a given country. It draws heavily on existing work within the Bank and OSGE in particular. Often, the analyses required for Module 1 will sit outside expertise of the Task Manager. Therefore, the main responsibility for Module 1 lies with OSGE, making sure it aligns with the Bank’s overall understanding of governance risk in each country. Even though it may be possible to conduct a project specific sector governance diagnosis without going through Module 1, project design, at the very latest, requires a good understanding of cross-cutting issues.

Module 1 has a long shelf life, implying that if it has been done once in a country it remains valid for other projects in the country for a few years. In that case, a quick review of the analyses is sufficient.

Module 2: Project specific governance diagnosis lies at the heart of the toolkit. It helps diagnose and mitigate the key governance vulnerabilities that pose a threat to a successful project outcome. The toolkit employs a new and innovative value chain approach to link governance issues to specifics of the sector. It does this by analyzing vulnerabilities across five dimensions of governance along the (sub)-sector value chain, including a mapping of key project stakeholders to stages of the value chain. In this way it becomes easier to identify key governance vulnerabilities throughout the project and to hone in on particularly vulnerable stages of the value chain. To capture the specifics of the sector or sub-sector through the appropriate value chain and key stakeholder, the toolkit distinguishes between Module 2a for the electricity sector and Module 2b for the transport sector.
Module 2 exists at three levels of depth: basic, standard, and advanced. The most appropriate level is determined by outcomes of Module 1. In the simplest case, Module 1 will have shown relatively few governance concerns at sector level, in which case a basic diagnosis, i.e. Module 2.0, will be sufficient. However, this will only be true for a small number of African countries. Module 2.0 consists of a single tool that identifies the most common governance vulnerabilities by governance dimensions along the value chain of a sub-sector.

For most countries, standard or advanced diagnosis will be appropriate. The choice between standard and advanced diagnosis comes from the Task Manager’s trade-off between time invested and depth of analysis. Module 2.1 builds onto Module 2.0 and includes a sample questionnaire for an in-country diagnosis of key project vulnerabilities. The questionnaire is appropriate for use across a range of key project stakeholders which need to be consulted. Module 2.2 builds on module 2.1 and 2.0. It looks at a set of indicators to better describe project vulnerabilities and helps prioritize vulnerabilities through a prioritization framework.

Module 3: Module 3 discusses project design and implementation. The tools for this module are kept broad enough such that their application can range from a basic to an advanced level of depth. A basic application of module 3 would imply using it as a source of ideas, whereas an advanced application would imply using the concrete outcomes of Module 2 to develop an in-depth and comprehensive approach to implementing project and sector wide reforms. In most cases, the depth of Module 3 will follow the depth with which Module 2 was applied.

Module 4: Module 4 on M&E suggests monitoring dimensions to capture progress and suggestions on how to incorporate governance outcomes into the Project Completion Report at the end of the project cycle.

Combining the modules
Applying the toolkit to the entire project cycle would imply following modules 1 to 4. However a Task Manager may also focus on a selected module only. Focusing on the basic modules versus looking at more in-depth modules is a trade-off between time and accuracy. At times it may be sufficient to conduct a basic diagnosis, whereas for other projects the in-depth diagnosis will be necessary.

All modules together constitute the full toolkit for the infrastructure governance assessment.
## What the Guidance Note is / What it is not

<table>
<thead>
<tr>
<th>What it is</th>
<th>What it is not</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ An optional tool to support task managers and other stakeholders throughout the project cycle</td>
<td>- Mandatory. Adhering to the toolkit is not a formal requirement.</td>
</tr>
<tr>
<td>✓ An approach fully aligned with the Bank’s project cycle</td>
<td>- A theoretical exercise. By tying it to the project cycle, the guidance note can be integrated into the Task Manager’s day-to-day work</td>
</tr>
<tr>
<td>✓ Indicative guidelines to support the diagnosis and mitigation of sector governance risks</td>
<td>- Ready-made. Each tool has to be adapted to the particular context of the project</td>
</tr>
<tr>
<td>✓ An innovative approach that combines a sub-sector value chain analysis and a political economy lens to address sector governance challenges</td>
<td>- A stand-alone exercise in the Bank. The toolkit builds on existing approaches of development partners</td>
</tr>
<tr>
<td>✓ A set of diagnostic tools with limited focus on implementation (<em>There is limited use of a prescriptive approach to implementation. The expectation is that a thorough diagnosis of risk will inevitably lead to a better thought out and grounded approach to implementation</em>)</td>
<td>- Prescriptive. Recognizing the wide diversity of contexts and considerations that may arise, the intention of all tools, guidelines, indicators and questionnaires is to provide indicative direction rather than an approach cast in stone.</td>
</tr>
<tr>
<td>✓ A flexible set of tools from which to select a sub-set depending on the trade off between time and depth</td>
<td>- A toolkit for which each tool needs to be applied to arrive at the end point.</td>
</tr>
<tr>
<td>✓ A work-in-progress document that will continue to improve and become more relevant as it is enhanced by a community of practitioners.</td>
<td>- A definitive and finalized approach. Given the relative newness of the approach, it suffers from a lack of case examples. As it is used, the various tools will be subject to adjustment and enhancement including the incorporation of more implementation lessons learned that will ensure that the toolkit is a living and growing set of documents</td>
</tr>
</tbody>
</table>
A DEFINITION OF SECTOR GOVERNANCE

Poor governance is widely recognized as the root cause of various systemic inefficiencies and corruption. From a sector perspective, the key elements that define the sector governance environment can be broadly grouped under 5 dimensions namely:

1. Policy and Legislation
2. Institutional Arrangements
3. Budgeting and investment planning
4. Public procurement
5. Access and rights to service

Vulnerabilities related to each of these dimensions contribute to enhanced risk of overt corruption and other inefficiencies typically attributed to poor governance. Some vulnerabilities originate at macro level, but some of them can be directly addressed at sector level.

The sector governance approach looks at governance vulnerabilities that impact a particular sector or sub-sector. It reviews the value chain of the (sub)-sector to identify where these vulnerabilities are most likely to occur. It then puts these into a political economy perspective by reviewing the demand and supply side of governance – i.e. the actors that demand accountability and the institutions that provide services in the sector. In doing so, the approach also considers the mechanisms that enable effective demand for good governance including free flows of information and robust civil society, while recognizing that these critical factors typically operate at the macro level.

1 BACKGROUND

1.1 PREAMBLE

1.1 Infrastructure investment remains a key priority for the Bank; and is one of the four pillars of its engagement strategy with Regional Member countries. The Bank’s focus on infrastructure is underpinned by the recognition that improvements in infrastructure necessitate regional integration, enables intra-regional trade, connects regions to global markets and attracts private sector investments. Since its establishment in 1967, approximately 36% of the Bank’s commitments have been devoted to infrastructure (equivalent to USD 52 billion). Further spurred by NEPAD’s impetus, the Bank’s investments in the Sector have increased considerably, accounting for 62% of all Bank approvals. The Bank further recognizes that its enhanced focus on infrastructure operations provides a platform in the near term for demonstrating excellence, delivering results and building a case for an expanded role.

1.2 Investments in infrastructure increase African competitiveness and capacity across a broad range of productive sectors: agriculture, manufacturing and industry. Constraints to trade-led economic growth and regional integration are unlocked by infrastructure investments. Africa needs better transportation networks to move factors of production and products to markets. It needs safe, reliable and affordable energy and improved information and communications technology to enable a competitive private sector. Investments in infrastructure support the development of strong domestic markets as well as the integration of regional and sub-regional markets for intra-African trade and the positioning of a competitive Africa in global markets.1

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1 Investing in Africa’s future: The ADB in the 21st century, High Level panel, 2007
1.3 However, there is also increased recognition of the role of institutions in generating successful outcomes in infrastructure investments. The macro-economic impact of infrastructure investments can be significantly reduced by governance failures. Weak governance institutions hamper equitable growth, economic competitiveness and private sector development among others because they divert money from its most productive uses. Failed governance can lead to construction of the wrong infrastructure, poor construction and quality of provision, insufficient maintenance and high levels of thefts and losses. This can dramatically reduce economic returns not just to individual projects but to the entire infrastructure stock, and lead to lower levels and less efficient provision of infrastructure services. This is empirically confirmed by studies (Estache and Kouassi, 2002; Kaufmann et. al. 2005; Bob and Rossi, 2006).²

1.4 Therefore, while it is clear that Africa’s infrastructure challenges have a range of underlying causes, it is undeniable that weaknesses in governance play a significant contributing role to continued gaps in this area. Furthermore, the infrastructure sector has unique characteristics that make it vulnerable to sector level governance challenges:

1.4.1 Historically, the sector has been characterized by state monopolies due to barriers to entry imposed by capital intensity as well as political considerations. In many cases state monopolies have resulted in inefficiencies;
1.4.2 With liberalization, the challenge of transition from public to the private sector is met with insufficient expertise, creating significant governance challenges;
1.4.3 The high values of projects and large flows of money involved make the sector prone to corruption.

CASE STUDY: TANZANIA-GOVERNANCE CHALLENGES IN THE POWER SECTOR

The Government of Tanzania and the Tanzania Electricity Supply Company entered into contractual agreement with Independent Power Tanzania Limited (IPTL) of Malaysia for the supply of 100 megawatts of power over a 20-year period. This transaction, directly negotiated during a power crisis, was contested by some government officials and by the international donor community and other interested stakeholders, on the grounds that it was the wrong technology (heavy fuel oil instead of indigenous gas), that it was not part of the least-cost generation plan, that it was not procured on a transparent and competitive basis, and that the power was not needed. The government ultimately submitted the case to arbitration. Under the final arbitral ruling, the project costs were reduced by about 18 percent.

Even so, the costs remain well above international comparators. In the arbitration hearings the Government alleged that the contract award had been corrupt, but failed to produce evidence to satisfy the Tribunal of this. The government has not subsequently pursued the corruption investigation. However, legal disputes between the IPTL and the government continue.

Source: Pumpuni, J. World Bank Institute Global Programs, cited in Deterring Corruption and improving governance in the electricity sector, World Bank 2009

1.5 Through its Governance Strategic Directions and Action Plan (GAP) 2008-2012, the Bank has committed to improving the efficiency of sector spending and operations by strengthening accountability and transparency in the management of public resources within high risk sectors such as infrastructure. The Bank’s engagement in sector governance will entail:

1.5.1 Enhancing governance in sectors through improved policy, planning and budgeting by sector ministries and effective interaction with line Ministries;

1.5.2 Promoting an enabling environment for service providers through robust regulatory frameworks allowing efficient public-private partnerships for the delivery of public services;

1.5.3 Mitigating risks in Bank-financed sector projects and by assessing corruption risk and designing corresponding mitigation measures (sector governance risk mapping) through better diagnostic work, improved project design and targeted technical assistance.

2 INTRODUCING THE STAFF GUIDANCE NOTE

2.1 PURPOSE

2.1.1 This Operational Guidance Note has been developed in response to the African Development Bank’s renewed commitment to improving governance and promoting integrity in Africa, particularly within high risk sectors such as infrastructure.

2.2.2 The main purpose of this Guidance Note is to strengthen the Bank’s in-house capacity to identify and mitigate risk in key sectors and improve its ability to provide high quality technical assistance to Regional Member Countries.

2.2.3 This Guidance Note is to be used as an instrument for Task Managers and other project stakeholders to conduct simple sector governance risk diagnoses within the Bank’s sector operations. It consists of guidelines, templates, sample questionnaires, and indicators embedded within the existing Bank processes and instruments. It is based on a framework that highlights sector governance challenges in a macro and political economy context and looks at sectors and sub-sectors in terms of their value chain and the key actors involved at each stage of the chain.

2.2 STRUCTURE

2.2.3 AfDB’s processes and instruments are already geared towards addressing sector governance challenges. The Guidance Note is structured to follow the Bank’s Project cycle and Operational Review processes. By following the Bank’s project cycle with explicit attention to governance dimensions, Task Managers can effectively address sector governance challenges in the Bank’s infrastructure sector operations. Although the Guidance Note has focused on two sub-sectors (energy and transport); it can be applied across a broad range of sub-sectors within the overall infrastructure sector. See illustration 1.
2.2.4 The Guidance Note is structured with clear entry points and Tools for embedding sector governance issues within the existing project cycle. These are briefly highlighted below:

- Country strategy/ Project identification (Section 3)
- Project preparation (Section 4)
- Project appraisal (Section 5)
- Project design (Section 6)
- Project approval (Section 7)
- Project Supervision and Monitoring (Section 8)
- Project Completion Reporting (Section 9)

2.2.5 The Guidance Note is designed to allow for maximum flexibility in terms of its use to reflect varying needs of different users in different contexts. Accordingly, it can be dissected in the following ways:

- **By stage of the Bank’s project cycle**: Each chapter of the Guidance Note is aligned with each stage of the project cycle. The toolkit modules follow the Bank’s project cycle from project identification to completion. The entry point is at the project identification stage, where a set of macro level governance questions will determine the level of depth with which the analysis should be conducted.

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3 Note that the toolkit is ‘a work in progress’ instrument that will rely on task managers and practitioners to develop it further over time and to add to the richness of examples to create a library of good practices and lessons learned.
- **By depth of the modules:** As shown in the chart on page 4, core tools exist at three levels of depth to suit different users and contexts. In countries with few governance challenges, a very basic project specific diagnosis of governance challenges may be sufficient (i.e. Module 2.0). In most cases though, a standard or advanced diagnosis (Module 2.1 or 2.2) will be more appropriate. The choice is based on Task Manager’s trade-off between time invested and depth of the analysis.

- **By ‘Shelf life’, i.e. frequency of analysis:** Module 1, i.e. the contextual macro and sector level tools, build on existing Bank efforts to understand the macro drivers of governance risk in countries. This module is thus built on upstream governance assessment tools to be deployed by the Bank. The tools in Module 1 have a long shelf life, implying that if they have been analyzed once in a country, results remain valid for other projects in the country for a few years. Module 2.0 also has a long shelf life, whereas Modules 2.1 and 2.2 refer to the project specific diagnosis on the ground and therefore are only applicable to the specific project. The principles of Module 3 and 4 do not change over time, but the detailed project design is project specific.

- **By (sub)-sector view:** The current Guidance Note is focused on energy and transport within the Infrastructure sector, but can be applied to all sectors relevant to the Bank’s operations. While the entry points and approach are consistent across (sub)-sectors, analyses are tailored to suit specific sector characteristics.

- **By stage of the value chain:** Most Bank projects refer to a particular stage of the value chain in the sector. Where this is the case, the toolkit can be applied to those particular stages of the value chain.

- **By country context:** The Guidance Note is tailored to suit specific country contexts including fragile states. In a fragile state context, the Guidance Note should be seen as mandatory. It is advisable to identify and focus on two to three sector governance vulnerabilities with the biggest potential impact.

- **By type of tool:** The Guidance Note consists of descriptive chapters, case study examples, and references for further reading to provide background and guidance throughout the process. At the same time it includes templates and guides for conducting specific analyses.
MODULE 1: CROSS-CUTTING ISSUES

Module 1 refers to cross-cutting issues at the macro and sector level in a given country. It draws heavily on existing work within the Bank and OSGE in particular. Often, the analyses required for Module 1 will sit outside of the expertise of the Task Manager. Therefore, the main responsibility for Module 1 lies with OSGE, making sure it aligns with the Bank’s overall understanding of risk in each country. Task Managers are strongly encouraged to read through the module and to engage with OSGE on it. Even though it may be possible to conduct a project specific sector governance diagnosis without going through Module 1; project design, at the very latest, requires a good understanding of cross-cutting issues.

Module 1 has a long shelf life, implying that if it has been done once in a country it remains valid for other projects in the country for a few years. In that case, a quick review of the analyses is sufficient.

3 COUNTRY STRATEGY PAPER (MACRO-LEVEL ANALYSIS)

3.1 The entry point for the Guidance Note is a broad assessment of macro level governance issues during the Country Strategy Paper development stage. It informs sector level governance and provides a relevant context for any project. Macro and sector level governance issues will impact a project throughout the entire project cycle. It is therefore important that task managers and key project stakeholders are aware of the likely extent of governance issues as they are embedded within the Country Strategy Paper. It is anticipated that the outcomes of this upstream diagnosis will also serve to inform decision making processes on choice of sectors for the CSP.

3.2 The CSP process already includes specific dimensions of Governance analysis. These are reflected in Sections 3 and 6-12. This Chapter provides suggestions on how to deepen the analysis further and use the outcomes to influence decisions on the next stages of project design, implementation and supervision. At present, CSP’s are not systematically informed by upstream Bank-led governance diagnostics besides Governance Ratings of the CPIA. However, the Bank is currently in the process of developing a revised approach to governance assessments (Africa Governance Outlook AGO) which should be harmonized with the two step tools outlined below.

3.3 The first step of the diagnosis should address the following key questions from tool 1.

TOOL 1: PROPOSED QUESTIONS FOR UPSTREAM COUNTRY DIAGNOSTICS

How to use this tool: Discuss each of these questions briefly to get a perspective on the governance context that prevails at the macro and sector level.

**Note:** The analysis has a shelf life of up to 2 years, and does not need to be repeated for every project in a given country.

**MACRO GOVERNANCE ASSESSMENT (Built on the Governance Rating and AGO)**

1. What are the key areas of weak governance and corruption risk in the country and in the sector?
2. How have general economic conditions evolved over the past few years and how has this affected governance and corruption risk?
3. What measures have been taken nationally and internationally to strengthen governance?
3.4 The second step will entail utilizing information generated above to determine the depth with which the respective tools of the Guidance Note needs to be applied to the program or project. For example:

- If the macro level analysis reveals significant governance challenges, Task Managers should follow the various steps of the Guidance Note to diagnose and mitigate specific governance vulnerabilities.
- If the macro level governance issues are not at the forefront of concerns, it may be sufficient to consult the Guidance Note at relevant stages of the project described below.

3.5 Note that for some countries, such as fragile states, the questions listed below in tool 2 are not a sufficient entry point, since the poor macro conditions are known even without conducting the analysis. In such cases, the Task Manager will opt to follow the toolkit step by step. To obtain a preliminary understanding of likely issues involved, he or she is recommended to engage in a 30 minute telephone conversation with select country experts.
TOOL 2: BROADER GOVERNANCE ISSUES ARE USED TO DETERMINE THE ENTRY POINT FOR THE TOOLKIT

How to use this tool: Go through each of the questions below. If you answer more than 2 of them with ‘no’, this is a clear indication of a weak governance environment. In this case, you are recommended to follow the toolkit closely throughout the project cycle.

Note: The analysis has a shelf life of up to 2 years, and does not need to be repeated for every project in a given country.

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**Questions 1 – 4: Does your assessment of tool point to strong:**
1. Macro governance environment
2. Institutional capabilities
3. Demand for good governance
4. Country experience of AfDB and development partners

**Questions 5a–c: Governance outlook**
5. Governance outlook:
   a. Is the CPIA score above 3?
   b. What is the trajectory of change under the Africa Governance Outlook?
   c. Has the country made progress in the APRM?

Follow toolkit step by step to accompany the Bank’s project cycle.

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4 PROJECT PREPARATION (SECTOR GOVERNANCE DIMENSIONS)

Reviewing sector governance dimensions during project preparation is a valuable exercise because it helps to understand the cross-cutting sector issues that impact a particular (sub)-sector.

There are however two scenarios for which the project preparation stage is even more critical than under traditional circumstances:

**Multinational projects:** Multinational projects are complex because the Bank needs to interact with three to four countries at the same time and all the countries need to interact with each other. Previous lessons learned have shown that in such a situation planning and preparation is important. Already the project concept note needs to identify potential bottlenecks and define very clear ways for dealing with these.

**Sector budget support:** Where the Bank provides sector budget support, its involvement is more programmatic than project-specific. Hence, a good understanding of the quality of governance at macro and sector level matters in targeting support.
4.1 In drafting the Concept Note, the Task Manager needs to assess the (sub-) sector level governance environment. This includes a high level assessment of challenges imposed by the macro and political economy (captured under the Macro-level analysis), and assessment of the relevant governance dimensions (see below). These two corresponding analyses should be integrated within the Concept Note Sections of “Country Context and Prospects (including the Sector Governance Context)”, and “Potential Risks and Mitigation measures”.

4.2 This analysis will be critical for the Concept Note stage as it begins to pave way for a solid upstream options assessment that will filter into Section 2.2 of the Appraisal Report (PAR). Where possible, the analysis should highlight whether the most cost effective option has been selected so that governance and corruption risks can be minimized and the project selection and design responds to the country needs. The table below provides guidelines on how to conduct a first assessment of the relevant governance dimensions.

### TOOL 3 – ASSESSING THE (SUB-) SECTOR LEVEL GOVERNANCE ENVIRONMENT IN THE PCN

**How to use this tool:** Use the template below to fill out the PCN. Use the suggested questions as directional pointers to describe quality of governance for each of the five dimensions. You may wish to refer to examples included to fill out the template. They can be used as a starting point to identify which of the challenges listed below are applicable to the specific project context. The columns “Examples - DRC” and “Examples - Tanzania” provide examples for what a completed tool 3 could look like for those countries.

**Note:** The list of questions is neither exhaustive nor prescriptive – it serves as a starting point for thinking about a high level analysis of sector governance.

<table>
<thead>
<tr>
<th>Most frequent governance challenges</th>
<th>Examples – DRC</th>
<th>Examples - Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Policy and legislation</strong></td>
<td></td>
<td></td>
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<tr>
<td>• Overlaps in roles and responsibilities of public institutions</td>
<td>IFIs are heavily concerned about weak regulation and legislation which creates a hostile business environment</td>
<td>Overlaps in roles and responsibilities in parastatals in the petroleum sector leading to muddled decision-making and unclear respective roles of the Board and ministries in driving final decisions that balance company sustainability with social impact</td>
</tr>
<tr>
<td>• Regulator subject to government interference</td>
<td></td>
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<tr>
<td>• Gaps in legislation (e.g. for private public partnerships or management contracts)</td>
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<tr>
<td>• Discretionary power of influential individuals</td>
<td></td>
<td></td>
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<tr>
<td>• Inadequate standards against which to hold actors accountable</td>
<td></td>
<td></td>
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<tr>
<td>• Inadequate enforcement of existing laws, especially on environmental and social dimensions</td>
<td></td>
<td></td>
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<tr>
<td>• Inconsistency of regulation leading to unstable business environment</td>
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<td></td>
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<tr>
<td><strong>2. Institutional arrangements</strong></td>
<td></td>
<td></td>
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<tr>
<td>• History of weak institutions</td>
<td>To improve efficiency some of the key infrastructure activities are handed over to private management companies, e.g. Aeroport de Paris taking over the airports throughout the country</td>
<td>The Songas deal (Songas is the largest IPP in Tanzania) is an example of the government lacking the capacity to effectively negotiate particularly large scale deals with private sector players</td>
</tr>
<tr>
<td>• State monopolies favoring developmental and political objectives over business objectives</td>
<td></td>
<td></td>
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<tr>
<td>• Lack of private sector participation through regional integration and management contracts</td>
<td></td>
<td></td>
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<tr>
<td>• Capacities and expertise to ensure success of private sector participation missing (esp. around pricing, contract</td>
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</table>
- Infrastructure seen as central to national security and sovereignty, making international co-operation and global governance standards difficult to implement

- Lack of expertise and good management are at the core of governance challenges. The DRC has enough resources to run its affairs and sufficient taxes to pay for key expected functions, yet it is undermined by corruption

- Lack of expertise and good management are at the core of governance challenges. The DRC has enough resources to run its affairs and sufficient taxes to pay for key expected functions, yet it is undermined by corruption

### 3. Budgeting and investment planning

- No sound demand estimates and clear investment plans
- Lack of dissemination of financial statement by utilities compromising auditing and financial management
- Poor planning capabilities and lack of expertise within the utility
- In Transport, investment plans exist only for the first stages of the value chain, which poses a real threat to the sustainability of investments
- In the power sector, cost overruns and invocation of emergency rules due to delays in planning are not infrequent, and Songas will then come in as an IPP

### 4. Public procurement

- Non-transparent contract award procedures
- Collusion risk from small pool of potential contractors for high value assignments
- Collusion risk from process requirements such as prequalification of bidders
- The Ministry of Infrastructure is concerned with the standard approach of donors by which, in absence of strong oversight possibilities, bidders need to comply with high bidding requirements. This in fact reduces the eligible group to a handful of bidders and creates a breeding ground for corruption
- The World Bank has noted that prequalification of vendors is at times facilitating collusion particularly in relatively small markets

### 5. Access and rights to services

- Programs targeted at improving services do not benefit the population where only elite has access to infrastructure
- Equitable service provision only guaranteed through government involvement
- Routing of infrastructure networks not where they are most needed
- Gender and minority issues
- Access to energy is a key deficiency, corroborated through an abysmal willingness to pay with the exception of the largest enterprises. The state is about USD 400 million in debt to the electricity providers
- The Ministry of Planning is aware of the shortcomings of public transport being virtually non-existent
- Access to information, such as through the free media, plays a significant role in enabling civil society and legislative mechanisms to play their oversight role and also feeds the political will to enforce accountability. Various actors in Tanzania including civil servants, private sector, and development partners acknowledge the power of media as key distinguishing factor
MODULE 2: PROJECT SPECIFIC GOVERNANCE DIAGNOSIS

Project specific governance diagnosis lies at the heart of the toolkit. It helps diagnose and mitigate the key governance vulnerabilities that pose a threat to a successful project outcome. The toolkit employs a new and innovative value chain approach to link governance issues to the specifics of the sector. It does this by analyzing vulnerabilities across the five dimensions of governance along the (sub)-sector value chain, including a mapping of key project stakeholders to the stages of the value chain. In this way it becomes easier to identify the key governance vulnerabilities throughout the project and to hone in on particularly vulnerable stages of the value chain. To capture the specifics of the sector or sub-sector through the appropriate value chain and key stakeholder, the toolkit distinguishes between Module 2a for the electricity sector and Module 2b for the transport sector. Module 2 exists at three levels of depth: basic, standard, and advanced. The most appropriate level is determined by the outcomes of Module 1.

A note on how the tools of this section relate to the project appraisal report (PAR): The tools below are designed to link up to the PAR. They inform all governance-related elements of the PAR. Going through them allows Task Managers to complete the sector governance diagnosis, which underpins the PAR and forms a clear perspective on strengths and shortfalls of the sector governance approach in a particular project.

MODULE 2.0A AND B – BASIC LEVEL

If Module 1 has shown relatively few governance concerns at the sector level, a basic diagnosis, i.e. Module 2.0, will be sufficient. However, this will only be true for a small number of African countries. Module 2.0 consists of a single tool that identifies the most common governance vulnerabilities by governance dimensions along the value chain of a sub-sector.

While the descriptive text is identical, Tool 4a belongs to Module 2.0.a, i.e. Electricity, whereas Tool 4b belongs to Module 2.0.b, i.e. Transport.

5 PROJECT APPRAISAL (VALUE CHAIN, DIAGNOSIS AND PRIORITIZATION)

5.1 The project appraisal stage provides the opportunity to integrate field level governance assessment into the project mission by engaging key stakeholders (governments, businesses, civil societies and others) in a discussion on the infrastructure sector. The appraisal will describe issues emanating from the analysis of the value chain within the relevant infrastructure sub-sectors and identify any weaknesses or challenges that may jeopardize project objectives.
5.2 Two Tools are proposed for this level of analysis. These are: a) determining the value chain of governance vulnerabilities and b) diagnosis and prioritization of governance vulnerabilities along the value chain. The five governance dimensions identified under Project Preparation are mapped against interests and incentives of key actors. These tools should be discussed and agreed on the basis of available internal capacity, suitable consultants, and approach.

5.3 The results of the sector governance diagnosis need to be reflected in the Project Appraisal Report Sections I, II, III, and IV, as they contribute to the overall attractiveness and success of the project. Importantly, the existing Project Appraisal Report (PAR) Sections: ‘Project Feasibility’ and ‘Risk management’ need to be reflect: a) Quality of attention to governance and political economy, b) Quality of attention to fiduciary aspects, c) Ability of civil society to hold institutions accountable, and d) Quality of institutions and systematic implications. Under ‘Risk management’, mitigation approaches to increase the success of the project should be described. In particular, the Appraisal Report needs to reflect:

- Implications of sector governance challenges on “Strategic thrust and rationale”
- Importance of cost-effectiveness for good governance under “Project description – Economic and financial performance”
- “Project feasibility” from a governance point of view
- A communication strategy for “Implementation” to ensure external stakeholders such as civil society are involved and informed adequately
- High level risk management plan, including plans to mitigate governance risks.

5.4 Some illustrations are provided to show emerging trends of the most common governance vulnerabilities in the Electricity and Transport sector, based on field level discussions in DRC and Tanzania and expert interviews.

5.5 Tool 4a and b: Value Chain of Sector Governance Vulnerability

5.5.1 Electricity Sub-Sector (4a): is tasked with the Generation, Transmission and Distribution of Power. The core players at this stage include government, regulators, investors, utilities (or the generator, transmission company, distribution company in the private sector model) suppliers and contractors, and customers.

5.5.2 Road Transport (4b) entails: ‘Provision of transport infrastructure’, ‘Network maintenance’, ‘Operations and Services’. The core players in these stages include the government, the regulator, public providers, parastatals, and private providers, as well as suppliers, contractors, and customers.

**How to use this tool:** The illustrations below show common governance vulnerabilities along the value chain for each of the 5 dimensions of governance. Specific examples are provided for the different stages of the value chain. The color-coding serves to highlight particularly critical vulnerabilities (in red). The illustration serves to show which vulnerabilities are particularly relevant at a particular stage. In short, the tool helps to identify the most likely governance challenge related to the project. In a next step these will have to be confirmed.

**Note:** The list of vulnerabilities is based on a review of recent literature, expert interviews and experience gathered during the toolkit missions. The tool will benefit from a close revision once the toolkit has been implemented successfully in multiple project settings.
# TOOL 4A: GOVERNANCE VULNERABILITIES ALONG THE ENERGY VALUE CHAIN

## Governance Dimension

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>Players</th>
<th>Power generation (high voltage)</th>
<th>Transmission</th>
<th>Distribution (low voltage &amp; delivery)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy and legislation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Regulation & law enforcement  
- Framework for enforcing rules/legislation  
- Law enforcement  
- Approach to privatization | | | | |
| Legislative effectiveness  
- Political representation & debate  
- Capacity of legislature  
- Involvement of civil society | | | | |
| Institutional arrangements  
- IPP contracts  
- Rationale for IPP contract  
- Structure of contract (energy conversion, emergency, tenure)  
- Selection of successful provider  
- Engagement w/ private sector | | | | |
| Wholesale market  
- Bilateral hedge contracts  
- Failure to implement policy objectives  
- Market failure | | | | |
| Budgeting and investment planning  
- Capital projects  
- Selection of private contractors  
- Contract: quality supervision  
- Transmission routing: beneficiaries (accountability, financials) | | | | |
| Public procurement  
- Procurement  
- Inefficiency of making payments | | | | |
| Access and rights to services  
- Connections & commercial operations  
- Collusion around billing process  
- Poor tracking of usage of electricity | | | | |
| Cross-cutting  
- Human Resources:  
- Inflated payroll  
- Inflated rewards to individuals  
- Selection of staff management  
- Checks and balances to monitor theft | | | | |
| Observations from country examples  
- Democratic Republic of Congo (DRC) | | | | |
| Observations from country examples  
- Tanzania  
- Collusion in procurement process  
- Inefficiency of making payments | | | | |

### Example

- **Regulator**
- **Utility**
- **Parastatal**
- **IPP**
- **Government**
- **Public Private Partnership (PPP)**
- **Suppliers/Clients**
- **Customers**
- **Multiple**

- **Non-transparent or contracts where hedging markets exist**
- **Incentive to underestimate demand to create situations in which emergency rates apply**
- **Lack of transparency around the routing of transmission lines**
- **Reliability of delivery infrastructure (e.g., under/overestimation of distance from main line to consumer)**
- **Conflict of interest in fuel procurement affects price and quality**
- **Collusion where small number of contractors**
- **Under-reading of meter**
- **Collecting payment for fictitious employees**
- **Lack of mechanism for accountability of missing stock**

- **Private sector involvement is still relatively limited**
- **Regulator is too weak to exercise effective oversight**
- **Lack of transparency and accountability pillar**
- **Collusion in procurement in common**
- **Collusion in the bidding process is a huge governance challenge: With the exception of a few companies, the willingness to pay is very low**
- **Funding shortages are aggravated by poor budget planning processes**
- **Tariff setting according to political considerations rather than market value**
- **Limited access to electricity among general population**

---

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### TOOL 4B: GOVERNANCE VULNERABILITIES ALONG THE TRANSPORT VALUE CHAIN

<table>
<thead>
<tr>
<th>Governance Dimension</th>
<th>Provision of Road Infrastructure</th>
<th>Maintenance of the road network</th>
<th>Operations and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy and regulation</td>
<td>- Discretionary issuance of licenses</td>
<td>- Insufficient enforcement of safety standards</td>
<td>- High cost of road use environmental standards</td>
</tr>
<tr>
<td></td>
<td>- Capacity issues in developing privatization strategy</td>
<td>- Long delays due to bureaucracy</td>
<td>- Poor air quality</td>
</tr>
<tr>
<td></td>
<td>- Network of co-operating agents affect competition</td>
<td>- Fundraising for routine maintenance leading to higher cost of inaccessibility</td>
<td>- Public transport system does not meet needs of urban society</td>
</tr>
<tr>
<td></td>
<td>- Environmental impact on revenue generation</td>
<td>- Underfunding for routine maintenance leading to higher cost of inaccessibility</td>
<td>- Public transport system does not meet needs of rural society</td>
</tr>
<tr>
<td>Legislative effectiveness</td>
<td>- Policy implementation process for allocation and routing of road projects</td>
<td>- Excessive focus on very stable new construction</td>
<td>- Lack of organized advocacy for public transport options</td>
</tr>
<tr>
<td></td>
<td>- Political representation/consistency</td>
<td>- High cost of road use environmental standards</td>
<td>- Public transport system does not meet needs of rural society</td>
</tr>
<tr>
<td></td>
<td>- Capacity of legislature</td>
<td>- Excess focus on very stable new construction</td>
<td>- Public transport system does not meet needs of rural society</td>
</tr>
<tr>
<td></td>
<td>- Involvement of civil society</td>
<td>- High cost of road use environmental standards</td>
<td>- Public transport system does not meet needs of rural society</td>
</tr>
<tr>
<td>Institutional arrangements</td>
<td>- Public Private Partnerships</td>
<td>- Private sector has lower incentives to invest in maintenance</td>
<td>- Lack of capacity and/or symmetry of resources to negotiate successfully with private sector</td>
</tr>
<tr>
<td></td>
<td>- Trade-off between predictability and providing adequate accessibility</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td></td>
</tr>
<tr>
<td>Management/infrastructure/infrastructure</td>
<td>- Poor planning processes</td>
<td>- Delay due to poor management</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Capacity of information management</td>
<td>- Low incentive to invest in maintenance</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Lack of experienced personnel</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Poor qualification of management</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Bureaucratic procedures</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td>Budgeting and investment planning</td>
<td>- Budget and resource allocation/absence of coordination between transport subsectors</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Adequate budget allocation</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Excession of road fund revenues</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Level of investment</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Sustainable pricing policy, toll setting</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td></td>
<td>- Regard of socio-economic factors in budget allocation</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
<td>- Inadequate financial management and accounting systems to oversee operations effectively</td>
</tr>
<tr>
<td>Budgeting and investment planning</td>
<td>- Capital projects</td>
<td>- Overestimation of needs to attract funding</td>
<td>- Revenue collection leakage</td>
</tr>
<tr>
<td></td>
<td>- Development/infrastructure for capital project</td>
<td>- Lack of accountability/sufficient compensation to affected communities understatement of adverse effects</td>
<td>- Overestimation of needs to attract funding</td>
</tr>
<tr>
<td></td>
<td>- Selection of public and private contractors</td>
<td>- Complete facilities not suitable for use</td>
<td>- Revenue collection leakage</td>
</tr>
<tr>
<td></td>
<td>- Contract supervision/quality control</td>
<td>- Lack of access to other results in weak quality controls</td>
<td>- Revenue collection leakage</td>
</tr>
<tr>
<td>Public procurement</td>
<td>- Procurement process</td>
<td>- Weak quality controls</td>
<td>- Based on specifications</td>
</tr>
<tr>
<td></td>
<td>- Lack of transparency in the evaluation process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to services</td>
<td>- Land use and transport integration</td>
<td>- Collusion where competition is low due to small number of contractors</td>
<td>- Revenue collection leakage</td>
</tr>
<tr>
<td></td>
<td>- Cultural, social and environmental parameters</td>
<td>- Revenue collection leakage</td>
<td>- Overestimation of needs to attract funding</td>
</tr>
<tr>
<td></td>
<td>- Sustainability</td>
<td>- Revenue collection leakage</td>
<td>- Revenue collection leakage</td>
</tr>
<tr>
<td></td>
<td>- Excessive impact of network construction on communities</td>
<td>- Revenue collection leakage</td>
<td>- Revenue collection leakage</td>
</tr>
<tr>
<td>Cross-cutting</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>- Public participation</td>
<td>- Inefficiencies due to overstaffing</td>
<td>- Malpractices in public transport due to lack of accountability</td>
</tr>
<tr>
<td></td>
<td>- Inefficient or wasteful use of resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations from country missions</td>
<td>- DRC</td>
<td></td>
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<tr>
<td></td>
<td>- Some of the key governance issues include</td>
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<td></td>
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<tr>
<td></td>
<td>- Poor human resource capacity in the public sector</td>
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<tr>
<td></td>
<td>- Corruption in tenders and procurement</td>
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<tr>
<td></td>
<td>- Civil society not yet accustomed to demand and transparency of accountability</td>
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<tr>
<td></td>
<td>- Lack of access to construction sites for inspection</td>
<td></td>
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<tr>
<td>Observations from country missions</td>
<td>- Tanzania</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>- Corruption in public transport processes</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>- Excess focus on very stable new construction</td>
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<td></td>
<td>- High cost of road use environmental standards</td>
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<td>- Poor air quality</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Public transport system does not meet needs of urban society</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Lack of competition/tax evasion</td>
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<tr>
<td></td>
<td>- Network maintenance is an area that has been completely neglected due to funding, budget allocation and oversight issues</td>
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<tr>
<td></td>
<td>- Public transportation is an area completely neglected due to funding and lack of responsibility (i.e. accountability)</td>
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<tr>
<td></td>
<td>- Poor pay of employees</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>- Corruption in public transport processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Lack of competition/tax evasion</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
MODULE 2.1A AND B – STANDARD LEVEL

The choice between the standard and advanced diagnosis (Module 2.1 vs Module 2.2) comes from the Task Manager’s trade-off between time invested and depth of analysis. Module 2.1 builds onto Module 2.0 and includes a sample questionnaire for in-country diagnosis of key project vulnerabilities. The questionnaire is appropriate for use across a range of key project stakeholders to be consulted.

While the descriptive text is identical, Tool 5a belongs to Module 2.1.a, i.e. Electricity, whereas Tool 5b belongs to Module 2.1.b, i.e. Transport.

5.6 Tool 5: Diagnosis and prioritization of governance vulnerabilities

5.6.1 During the Project Appraisal, Task Managers consult with key project stakeholders to refine the approach and discuss challenges. These conversations provide a platform for integrating governance related questions into the discussion.

- Step 1: Bolster existing list of key project stakeholders that need to be consulted (These will differ by country and context – Annex 2 provides an example) and appropriate format for conversations (e.g., survey, interview);
- Step 2: Develop a strategy for engagement with key stakeholders (see suggested tailored questionnaire for conducting the diagnosis based on the generic templates for Electricity and Transport provided and conduct diagnosis).

TOOL 5A AND B: DIAGNOSTIC QUESTIONNAIRE FOR ELECTRICITY AND TRANSPORT

How to use this tool: Below is a generic template (for electricity and transport each) from which tailored diagnostic questionnaires will be developed. These questionnaires are structured to identify governance challenges overall, by key actors, and by stage of the value chain. These questions can be posed to a wide range of stakeholders. From comparing answers across a sample of 5-10 interviewees, you will get a good understanding of the key vulnerabilities.

Note: The templates need to be understood as broad guidelines. The questionnaire cannot be adopted in totality, but needs to be adapted to suit the specific purpose of every specific project situation.

<table>
<thead>
<tr>
<th>GENERIC TEMPLATE FROM WHICH TO DEVELOP TAILORED DIAGNOSTIC QUESTIONNAIRE</th>
</tr>
</thead>
</table>

**Introduction:**
- Context and purpose of the diagnosis
- Assurance of confidentiality of individual responses
- Information on how the aggregate results of the diagnosis will be used to prioritize and mitigate risks
- Estimated timing of interview/survey

**Sample questions:**

**Open ended questions:**

5 governance dimensions

1. Demographics (Interviewee’s name, organization, position, tenure, nationality, gender)

2. How would you rate the quality of the business environment (alternatively: the level of corruption/the quality of governance) in the sector overall?
3. What do you consider the three biggest challenges in the business environment you operate in? (e.g., legal procedures, corruption, inappropriate infrastructure, cost of procedures and regulations, frequent changes in the public policy, level of technological development, monopolies, market uncertainty, etc)

4. How would you rate the quality of the following 5 dimensions of governance:
   - Policy and legislation
   - Institutional arrangements
   - Budgeting and investment planning
   - Public procurement
   - Access to rights and services

5. How engaged are the following actors in creating an environment of good governance?
   - Government
   - Regulator
   - Media
   - NGOs
   - Civil society

6a. What is the role of informal actors in the electricity sector? What are the main issues involved?
6b. What is the role of informal actors in the transport sector? What are the main issues involved?

7a. Broadly speaking, the electricity sector consists of three components: Generation, Transmission, and Distribution of electricity. At which of these stage(s) do you see the biggest issues? What are those?
7b. Broadly speaking, the transport sector consists of three components: Infrastructure provision, Maintenance, and Operations and Services. At which of these stage(s) do you see the biggest issues? What are those?

Rating questions
Please rate the following statements on a scale from 1 to 5, where 1 means you do not agree with the statement at all, and 5 means you fully agree. Alternatively, you may choose ‘Don’t know’.

Key actors:
Government
(Note: These questions can also be customized specifically for the ministry of energy, ministry and environment, regulatory authorities, etc) ...

8. The government is never involved in corruption scandals
9. The government processes requests quickly
10. The government always follows through on the commitments it makes
11. The government has the resource capacity to negotiate effectively with the private sector
12. Public officials do not live beyond their means

Utilities (for Electricity):
(Note: In addition to asking about utilities in general, these questions can also be customized for generator, transmission and distributions companies separately or refer to specific utilities)
13a. The utility is managed efficiently and provides high quality services
14a. Relevant information about the utility is readily accessible to the general public
15a. The utility follows transparent procurement processes

Alternatively
Transport providers:
(Note: In addition to asking about transport providers in general, these questions can also be customized for private contractors, ministry of work, public transport providers separately)
13b. The organization is managed efficiently and provides high quality services
14b. Relevant information about the organization readily accessible to the general public
15b. The organization follows transparent procurement processes
Parastatals:
16. Roles and responsibilities between CEO, governing body, oversight body, ministers and ministerial offices are clearly separated
17. Political pressures or the need to satisfy a complex and possibly conflicting range of political, economic and social objectives do not compromise results

Contractors and suppliers:
18. I have not heard of incidences of collusion in procurement
19. Contractors and suppliers meet high quality standards

Jurisdiction:
20. Laws are applied consistently and for everyone
21. The amount of debate in parliament and the number of parties represented is adequate
22. A large proportion of laws passed involve citizen input

Media:
23. The media are independent of the government
24. The media are accessible to everyone

NGOs:
25. NGOs represent the needs of the local society well

Civil society:
26. Civil society is actively engaged in the sector
27. Information is widely and readily available to civil society

ENERGY

The value chain:
Generation:
28a. Investments into electricity generation are adequate to meet demand
29a. Requirements and obligations that the authorities have established are clear and timely
30a. The government manages more complex types of contract such as IPP (independent power providers) and management contracts well

Transmission:
31a. Transmission grids span through the entire country and reach remote territories
32a. Affected populations receive adequate compensations
33a. A transparent decision making process is in place for determining the routing of the network

Distribution:
34a. I have not heard of collusion around the billing process
35a. The utility has effective systems in place to track the usage of electricity
36a. Wholesale markets are transparent

TRANSPORT

The value chain:
Provision of road infrastructure:
28b. Investment allocations into road infrastructure are determined through a transparent and established process
29b. Investments into road infrastructure are appropriately scoped
30b. Budget is allocated to the right investments

Maintenance of the road network:
31b. Roads throughout the country have sufficient budget allocations for maintenance
32b. I have not heard of fraudulent reporting in inventory as a common practice
33b. The public and private sector work together efficiently on road maintenance

Operations and services:
34b. The country enjoys a high quality of public transport
35b. Service providers usually consider and remedy the adverse effects of their operations on the environment
36b. Consumer prices are adequate

MODULE 2.2A AND B – ADVANCED LEVEL

The choice between standard and advanced diagnosis comes from the Task Manager’s trade-off between time invested and depth of the analysis. Module 2.2 builds on module 2.1. It looks at a set of indicators to better describe project vulnerabilities and helps prioritize the vulnerabilities through a prioritization framework.

For the tools of Module 2.2, please refer to Annexes 3 (indicators), and 4 (prioritization framework). They relate to Module 2.2a for Electricity and Module 2.2.b for Transport.

PRIORITIZATION FRAMEWORK

How to use the framework: The matrix below shows a simple method for prioritizing vulnerabilities by their impact and likelihood. As described above, each vulnerability can be approximated by indicators referring to its potential impact and likelihood. Assess each vulnerability in this way to identify key project vulnerabilities that need to be mitigated – i.e. vulnerabilities that are high /high or high/medium on the impact and probability dimensions

Note: Examples provided below are purely illustrative and change from project to project
Module 3 discusses project design and implementation. The tools for this module are kept broad enough so that their application can range from a basic to an advanced level of depth. A basic application of module 3 would imply using it as a source of ideas, whereas an advanced application would imply using the concrete outcomes of Module 2 to develop an in-depth and comprehensive approach to implementing project and sector wide reforms. In most cases, the depth of Module 3 will follow the depth with which Module 2 was applied.

6 INCORPORATING SECTOR ANALYSIS INTO PROJECT DESIGN

At the point of project design, the toolkit moves from diagnosis to implementation. Implementation needs to build on sound diagnosis where key vulnerabilities have been adequately identified and prioritized. The toolkit’s sections on project design and implementation are kept broad on purpose. Project design should consist of addressing project specific vulnerabilities, creating an incentive structure that is aligned with aspiration for sector governance outcomes, and investing in efforts to strengthen the demand and supply side of governance. Going beyond this high level description would quickly show the limits of a prescriptive approach. It is impossible to capture the range of relevant factors that come into play for each specific project situation, and it would thus be dangerous to develop predefined toolkit approaches that can be applied mechanically. Therefore, the toolkit emphasizes the role of diagnosis for implementation, making the point that a good diagnosis will contribute more to a good project outcome than a narrow and prescriptive focus.

What makes project design more difficult is that due to the relative newness of the approach, it is too early to say why some approaches work in some countries but not in others and why some approaches do not work at all. There are still too few good case studies that could provide these insights. The toolkit has the potential to shed light on the debate. As it stands, case studies included in the toolkit serve to provide an initial perspective on what may or may not work. However, as the toolkit gets implemented and turns into a living and growing set of documents supported by a community of practitioners, a whole library of case studies alluding to actual experiences of the AfDB can be included.

6.1 In designing the project, Task Managers should ensure the following:
- Demonstrate clear linkages between ‘upstream’ programs addressing Public Financial Management, Procurement and Audit Reforms; civil service reforms; legal reforms and increased freedom of information with the targeted downstream governance reforms within individual infrastructure projects.
- Design explicit strategies within the projects targeted at increasing competitive pressures, reducing unnecessary regulation and better monitoring necessary regulation; improving planning and budgeting processes; increasing civil society participation; reducing discretionary power of individual bureaucrats and improving financial and physical auditing.
- Where applicable, build on existing foundations, such as for example the CoST initiative in Tanzania
- Conduct scenario planning and discuss the implications of alternative project outcomes

6.2 Institutional reforms at the sector level can take place on three fronts:

6.2.1 First, through *reshaping the incentives* of key actors, i.e. applying a political economy lens to change patterns of stakeholder interests, power relations and decision logics.

**TOOL 6I: TEMPLATE FOR ADDRESSING POLITICAL ECONOMY ISSUES**

*How to use this tool:* Use the tool as a checklist for ensuring you have covered the most important political economy dimensions

**TEMPLATE – A CHECKLIST FOR RESHAPING INCENTIVES**

**Step 1:** Distinguish systemic constraints from institutional context.
- Screen out dishonest and non-transparent processes or institutions

**Step 2:** Develop feasible outcome scenarios

**Step 3:** Identify most promising lever(s) below and focus project design on those
- Repositioning the sector/the project
- Changing the pattern of stakeholder interests and decision logic
- Creating room for manoeuvre through communication and change processes

**Step 4:** Invest in people and relationships
- Invest in capacity building of staff
- Strengthen recruitment by merit through transparent recruiting process (e.g. job descriptions based on which profiles are matched to requirements)
- Use outside “guarantees” of honesty (use networks to find dependable agents)

**Step 5:** Set agents' rewards and penalties
*Change rewards – e.g.,*
- Reward specific actions and agents that reduce corruption
- Improve career paths so that promotions depend on performance
- Review salaries
- Use contingent contracts such as performance bonds
- Link non-monetary rewards to performance (training, promotions, etc)

*Penalize corrupt behaviour – e.g.*
- Raise the severity of formal penalties
- Increase the principal’s authority to punish
- Calibrate penalties in terms of deterrent effects and breaking the culture of corruption
- Use a range of penalties (transfers, publicity, loss of professional standing, etc)

*Source: Expert interviews*

6.2.2 Second, through strengthening the demand side of governance (‘Demand’ for good governance refers to efforts of the private sector and civil society to participate in the development process and to hold providers accountable. Positive change is brought about by strengthening both the demand and the supply side of governance).

6.2.3 Third, through strengthening the supply side of governance. (Supply of governance refers to the ability and willingness of the key actors in the sector to display transparent, predictable and non-corrupt behavior).
TOOL 6II: TEMPLATE FOR STRENGTHENING THE DEMAND AND SUPPLY SIDE OF GOVERNANCE

How to use this tool: Use the tool as a checklist for ensuring you have addressed the most important levers for strengthening demand and supply sides of governance.

Obtain information about efforts and results
- Strengthen agents within the organization who will be able to provide valuable information on efforts and results:
  a. Build capacity among specialized staff (auditors, computer specialists, investigators, supervisors, and internal security)
  b. Create a climate in which agents (for example, whistleblowers) get proper protection and will report improper activities
  c. Create new units (ombudsmen, special investigatory committees, anti-corruption agencies or inquiry commissions)
- Collect information from third parties (media and banks)
- Collect information from clients and the public (including professional associations).
- Change the burden of proof, so that the potentially corrupt (for example, public servants with great wealth) have to demonstrate their innocence
- Review auditing and management information systems to ensure they are fit for purpose

Restructure the principal-agent-client relationship to weaken monopoly power, circumscribe discretion, and enhance accountability
- Limit agents’ discretion
  a. Define objectives, rules, and procedures more clearly and publicize them
  b. Have agents work in teams and subject them to hierarchical review
  c. Divide large decisions into separable tasks
  d. Clarify and circumscribe agents’ influence over key decisions
  e. Rotate agents functionally and geographically
- Organize client groups to render them less susceptible to some forms of corruption, to promote information flows, and to create an anti-corruption lobby
- Change the organization’s mission, product, or technology to render it less susceptible to corruption
- Induce competition in the provision of the good or service (through privatization, public-private competition, and competition among public agents)

Source: Expert interviews

6.3 There is no single set of standard best practices to mitigate against specific vulnerabilities, because country, sector and project context will likely impose constraints on the possible solution space. However, the tool below provides an initial list of ideas on how to approach prioritized vulnerabilities:

TOOL 6IIIA: ADDRESSING VULNERABILITIES PRIORITIZED DURING THE DIAGNOSIS – ELECTRICITY

How to use this tool: Select the vulnerabilities prioritized in the diagnosis and review the feasibility of recommended actions listed below. The descriptions will serve as helpful starting points in taking the recommended action.

<table>
<thead>
<tr>
<th>Recommended actions</th>
<th>Description (Illustrative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation and law enforcement</td>
<td>Request clear economic rationale and objectives of privatization and design transaction that achieves those objectives</td>
</tr>
<tr>
<td></td>
<td>Run a transparent and competitive process to select private investors to ensure these are not selected on motives other than price and quality</td>
</tr>
<tr>
<td></td>
<td>Focus on capacity building to strengthen authority of regulator once private sector contract is awarded to ensure effective oversight. Pay particular attention to management contracts where incentives for managers are lower</td>
</tr>
</tbody>
</table>
| Empower citizens through information | • Require providers to issue regulatory-type reports of performance against standards - e.g. through e.g. accessible media  
• Use report card, surveys or consumer meetings to gather a wide range of consumer feedback on performance and push providers to act on results  
• Request regulators to issue clear guidance on the type of information to be provided to consumers and the timeline. Encourage regulator to intervene where established rules and reporting requirements are not followed  
• Issue comparative information on cost and quality of service providers in other towns and countries |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure that regulator, government and civil society hold provider accountable</td>
<td>• Empower key actors to hold provider accountable by requesting provider to issue a clear written understanding as to what service the provider is expected to provide, and the resources, i.e. tariffs and subsidies, the provider may reasonably use in providing those services</td>
</tr>
</tbody>
</table>
| IPP contracts | Review rationale for IPP | • Define exactly the capacity and merit order position the government wants to procure from an IPP to ensure volumes are not changed ex-post to make the deal more attractive for one party – i.e. ensure rationale is no other than economic reason  
• Take precautions for crisis response to ensure unattractive IPPs that are a mere response to an emergency situation |
| Define contract specifications | • Draft a power purchase agreement and associated documentation that reflects the capacity and merit order position  
• Provide guidance/template for contract that needs to be adhered to  
• Run a competitive bidding process using international transaction advisors |
| Procurement | Promote competitive procurement | • If there is indication that a small number of competitors among pre-qualifiers may lead to collusion drop pre-qualification stage and introduce one-stage process where all information (proposal, financials, references, etc) is required  
• To raise transparency and lower opportunities for biased decision making, request procurement decisions to be made public  
• Standardize and enforce procurement rules, e.g. through e-procurement standards, and make outcomes publically available to increase transparency and reduce opportunities for collusion  
• Review technical specifications to establish true specification range followed by tender to ensure that technical specification is not used as an excuse to exclude bidder or that inefficient technological decisions are made  
• Build expertise among bid evaluation teams through appropriate training to increase efficiency of decision making |
| Connections and commercial operations | Promote probity in meter reading – i.e. limit meter readers’ ability to develop corrupt relationship with households | • Encourage management to change meter reader’s route on a regular basis to create peer pressure among meter readers and to avoid personal ties with clients  
• Remove past billing info from meter reader’s books, so reader cannot repeatedly submit ‘average bill reading’  
• Automate meter reading by installing devices that will  
• Provide incentives for accurate reading and collection |
| Promote probity in billing | • Computerize the billing system to reduce opportunity for human errors or manipulation of figures and improve accuracy of link between amount metered, electricity consumer, bills issued  
• Create an interface between the billing and accounting systems to reduce the opportunity for human error and manipulation, and improve the efficiency of data transfer and ease with which billing discrepancies can be detected |
| Promote probity in collection | • Make payment easier for customers to pay bills by providing multiple payment options such as through the bank, cell phone, kiosk, or internet  
• Issue receipts for all consumer payments and keep corresponding records of payments received  
• Establish an accessible complaints system to enable problems to be identified quickly |
| Human Resource and Company property | --- | --- |
Implement methods to prevent salary payments to ‘ghost workers’

- Issue photo identification cards to all staff, and requiring these to be shown for inspection
- Require that staff collect paychecks in person, and sign for receipt of their check

Increase likelihood that staff are correctly skilled for their jobs

- Develop clear, well-specified job descriptions for each position that detail all the tasks that a staff member with such a position should be held accountable for completing competently
- Institutionalize transparent recruitment processes with clear rules and processes for advertising positions, reviewing applications and selecting staff
- Appraise staff performance, and directly and transparently link performance to salaries, bonuses and promotions
- Set up appeals process that staff can use if they believe an appraisal or recruitment decision was unfair

Monitor utility stores closely

- Design company policies that define rules for misconduct to introduce the idea that theft from the company will have consequences
- Install appropriate security for store rooms, e.g., locking them, restricting access, using ID cards to perform HR controls, or carrying out inspections in order to deter stealing from the utility
- Set up accounting controls such as a stores module in the general ledger and regular external audits to show staff that the utility is keeping track of material and may eventually investigate more closely
- Ensure budget and responsibility systems in which members of the management team are given responsibility for expenditure management. This will create incentives to monitor utility property.

TOOL 6IIIB: ADDRESSING VULNERABILITIES PRIORITIZED DURING THE DIAGNOSIS – TRANSPORT

How to use this tool: Select the vulnerabilities prioritized in the diagnosis and review the feasibility of recommended actions listed below. The descriptions will serve as helpful starting points in taking the recommended action.

Recommended actions | Description (Illustrative)
--- | ---
**Budget and resource allocation**
Request strong data basis to back up all strategic decisions | • Interview multiple stakeholders and review available documents in order to understand needs in relation to resource allocation. This will make it possible to effectively review all decisions and assess their economic rationale
• Obtain access to all relevant data to monitor transport related indicators and investments and replicate analyses to ensure investments are economically viable

Disempower agents of the elite through adoption of transparent rules | • Reduce scope for discretionary spending of revenues by creating and enforcing laws for improved, objective, and transparent national budget allocation

Empower civil society to hold government accountable/ Increase civil society participation | • Strengthen position of key actors by improving public access to information such as company statistics and indicators – e.g., through the media - for which providers can effectively be held accountable
• Demand transparent long term strategic plans to be shared openly and obtain public support
• Build capacity among civil society to become voice of accountability through timely and genuine consultation and involvement in debates among development partners

Engage in dialogue with the government | • Engage in intense dialogue and discuss possible remedies at the country partnership strategy level to ensure government is aware of full consequences of its actions. These may include strong, coordinated action and sanctions in the event of a country- or sector-level scandal

**Regulation and Law Enforcement**
Ensure that regulator, government and civil | • Issue a clear written understanding as to what service the organization is expected to provide, and the resources the provider may reasonably use in
| **society hold provider accountable** | providing those services. This will ensure that the rules are not changed ex-post.  
• Work with the regulator to request transport organization to provide information on performance to the government and consumer |
| **Adopt legal reforms** | • Reduce overlaps in legislation and responsible agencies that will permit holding individuals accountable for their actions and increase transparency to actors working with the different departments  
• Reduce discretionary powers and replace them by laws to create common standards and predictable behavior and prevent individuals from power misuse. Work closely with government to review quality and practicality of laws and law enforcements. Work environmental and social considerations such as clean transport, and safety into the legal framework. |
| **Review rationale for privatization activities and approach closely** | • Request clear economic rationale and objectives of privatization and design transaction that achieves those objectives  
• Run a transparent and competitive process to select private investors to ensure these are not selected on motives other than price and quality  
• Focus on capacity building to strengthen authority of regulator once private sector contract is awarded to ensure effective oversight. Pay particular attention to management contracts where incentives for managers are lower |
| **Capital projects** | **Request strong data base to back up decisions for (scope) of capital projects and monitor closely**  
• Request quantitative data (assets, costs, performance) as well as qualitative data (information on parties involved) and review decision making process for vested interests. Indications could be e.g., uncommon contract elements  
• Develop a set of indicators from data obtained and monitor these closely throughout the project to verify that project is running according to plans |
| **Closely monitor ‘social’, ‘health’, and ‘environmental’ indicators** | • Impose environmental standards and make continuation of project subject to adherence to these standards  
• Empower affected communities to obtain adequate compensation by providing them access to complaints mechanisms and raising awareness of the media  
• Conduct controls to verify whether safety standards are adhered to and hold contractors publicly accountable |
| **PPPs** | **Create business and legal environment for PPPs**  
• Engage in capacity building to ensure capabilities in the country are adequate to manage PPPs. Initially support contract negotiations to ensure deals are attractive to both parties  
• Review business risks in the country and work on risk mitigation/risk sharing approach together with the government to encourage private companies to invest in the sector  
• Work with government to design appropriate regulatory environment for PPPs, especially through appropriate laws and a major emphasis on law enforcement |
| **Procurement** | **Reform the procurement system and automate processes. Standardize and enforce procurement rules.**  
• If there is indication that a small number of competitors among pre-qualifiers may lead to collusion drop pre-qualification stage and introduce one-stage process where all information (proposal, financials, references, etc) is required  
• To raise transparency and lower opportunities for biased decision making, request procurement decisions to be made public  
• Standardize and enforce procurement rules, e.g. through e-procurement standards, and make outcomes publically available to increase transparency and reduce opportunities for collusion  
• Build expertise among bid evaluation teams through appropriate training to increase efficiency of decision making  
• Blacklist offenders of previous contract terms to dis-encourage corrupt behavior |
### Infrastructure management

| Identify specific management issues | • Use staff satisfaction surveys and performance benchmarks compared to other organizations to identify management issues and create actionable follow ups.  
• Invest in capacity building to train managers to perform effectively in their jobs in order to increase efficiency |

### Human Resources

| Implement methods to prevent salary payments to ‘ghost workers’ | • Issue photo identification cards to all staff, and requiring these to be shown for inspection  
• Require that staff collect paychecks in person, and sign for receipt of their check |

| Increase likelihood that staff are correctly skilled for their jobs | • Develop clear, well-specified job descriptions for each position that detail all the tasks that a staff member with such a position should be held accountable for completing competently  
• Institutionalize transparent recruitment processes with clear rules and processes for advertising positions, reviewing applications and selecting staff  
• Appraise staff performance, and directly and transparently link performance to salaries, bonuses and promotions  
• Set up appeals process that staff can use if they believe an appraisal or recruitment decision was unfair  
• Develop HR strategy that is aligned with the overall strategy of the organization and create incentives for staff (rewards, career paths, etc) to progress according to the HR plan |

6.4 In a context where governance challenges are pervasive throughout the sector and the broader economy, combating corruption in the sector requires mutually reinforcing improvements in broader public governance institutions. This is a long term process focuses on sustaining political commitment, changing incentives of stakeholders, and institutionalizing new standards of transparency and accountability.

6.5 Given the magnitude of the issue, it is recommended to focus on one or two big initiatives rather than trying to tackle all of the identified governance vulnerabilities. For example, a comprehensive power sector reform may be too ambitious in a country suffering a major economic crisis. Aiming for second best solutions, i.e. optimization under constraints, is often a more feasible strategy in fragile environments. Second best solutions may be considered where political will or administrative capacity needed for first best reforms is lacking. Annex 5 provides an overview on this proposed approach.

6.6 To effectively embed governance and anti-corruption concerns within projects, Task Managers should also seek to actively review lessons learned from previous projects. Annex 6 provides a collection of case studies and examples of lessons learned in project implementation. These examples are drawn both from within and outside the Bank. They reflect on learning’s from positive and negative past experiences in designing risk mitigation strategies for the prioritized governance vulnerabilities. Ideally, these case studies will be complemented with more examples as the Guidance Note becomes a living and growing document for task managers. A library of case studies would be one of the most useful tools in the entire Guidance Note. Currently, the examples are taken from existing literature and anecdotes collected during the country visits. As the library of examples grows, it will reflect the valuable experiences from Bank financed projects in RMCs. All Task Managers are encouraged to add reflection from each project (especially lessons generated during the PCR process) to feed into the library of examples.
**MODULE 4: MONITORING & EVALUATION**

*Module 4 on M&E suggests monitoring indicators to measure progress and suggestions on how to incorporate governance outcomes into the Project Completion Report at the end of the project cycle.*

6.7 The Log frame of the PAR must actively embed mitigating actions within the project’s key performance indicators. The Guidance Note provides suggested broad level and specific indicators that could be tailored to suit the prevailing context and project.

**TOOL 6IV: SAMPLE OF MONITORING INDICATORS**

**How to use this tool:** Use the template as a basis from which to develop your monitoring indicators. Ideally, you will develop a monitoring framework that helps you measure progress on the dimensions of the political economy, demand side, and supply side of governance. Pick only a few indicators, but make sure they are relevant and relatively easy to measure. Link your indicators up to the PCR – i.e. measure those outcomes that will also figure in the PCR.

<table>
<thead>
<tr>
<th>Element</th>
<th>Focus of implementation and monitoring</th>
<th>Ways to measure progress</th>
</tr>
</thead>
</table>
| Political economy | Institutional arrangements | • Progress in working around “informal” rules of the game  
• Periodic review of stakeholder interests and incentives  
• Adequate analysis of formal institutions (e.g. organizational structures, decision-making rules, staff skills and capacity, and reporting and accountability arrangements  
• Understanding of informal institutions and ‘rules of the game’  
Investing in people and relationships | • Investments into capacity building (financial resources, trainings)  
• Surveys to measure perceived quality of staff and relationships  
Demand side of governance | Access and rights to services | • Periodic surveys (service delivery quality, perception surveys of ability to influence decision-making)  
• Number of activities where communities/beneficiaries are given the opportunity to meet and question implementers  
• Social audit  
• Access to basic infrastructure  
Civil society participation in oversight | • Perceptions of designated monitors  
• Operation of complaints mechanism  
Participation in implementation | • Involvement in verification before payment  
• Number of people taking an active part in subproject level activities  
• Measurable impacts on ability to participate resulting from any related capacity building activities  
Supply side of governance | Adequate country systems | • Quality of budget and investment planning  
• Adequate sector budget planning process |
7 PROJECT APPROVAL

7.1 The Bank has an established process for project approval that includes an assessment of the governance challenges as part of the wider approval criteria. At the approval stage, it is important to make a distinction between governance challenges that can be addressed at the sector level versus those that require wider reform efforts. To ensure consistency, references must be made to assessments captured in the appraisal report, and these should be presented in quantitative terms to allow for better comparison across projects. Importantly, explicit efforts should be made to ensure that the sector agenda on governance builds on the same principles and approaches of macro-level interventions specifically tailored to particular features of infrastructure provision.

7.2 PAR, Peer and Country Team Review: The Task Manager should ensure that peer reviewers assess the extent to which the diagnosis presented on governance vulnerabilities has been captured within the program design arrangements. Close scrutiny will be made on the Risk and Mitigation Sections to ensure that these are not merely framed as ‘killer’ risks. The Log frame needs to reflect sector indicators with governance dimensions and demonstrate explicit linkages with other upstream governance programs. It is advisable that the Peer reviewers should deliberately include relevant expertise drawn from OSGE, ORPF, ORPC, ECON, OAGL and EDRE.

7.3 Country level analysis of institutional quality, generated under the CSP and project preparation and appraisal should inform decision making throughout the project cycle, including project selection. The CT Review should assess the projects in the context of country and sector development strategies and governance challenges. Issues will need to be systematically identified and recommend linkages to be made with other upstream programs that mitigate governance failures specific to the Sector.
7.4 **OPSCOM Review**: OpsCom will need to provide a challenge function in scrutinizing the extent to which the highlighted governance and corruption risks are closely addressed. Where required, OpsCom should request for a review of the Governance contributions to the Appraisal. Sections 9 and 11 of OpsCom’s Operating Procedures and Guidelines empower it to raise high level strategic issues on how the project/program has been designed to mitigate governance and corruption Risk.

8 **PROJECT SUPERVISION AND MONITORING**

8.1 The Bank is currently revising its Supervision Reporting formats to enhance the quality of supervision reports and their ability to inform decision making over the life span of projects. During Project Supervision, Task Managers should rigorously review the performance progress indicators embedded in their Log Frame (see suggested indicators under Tool 6e) to report on governance and corruption concerns within the project. BTOR and SAP Supervision Reports (Sections V. A (4) B should actively report on any progress made in mitigating risks.

8.2 BTOR and SAP Supervision Reports (Sections on Issues for follow up and Actions), should specifically highlight any pending matters or challenges faced by the project to mitigate that particular risk. Task Managers could also further indicate if the identified issue is upstream (requiring governance actions outside the scope of the project) or a downstream problem that could be mitigated by specific project actions.

9 **PROJECT COMPLETION REPORTS**

9.1 Project completion reports (PCR) ultimately inform the Bank’s wider project and sector evaluation processes. It is therefore important that PCR’s hone in on the governance and anti-corruption elements that will be most important to the review. However, it is important to stress that the PCR is at the tail end of the process. Assessing the extent to which the program or project mitigated governance risk is highly dependant on the design (and inclusion of governance dimensions) within project performance indicators of the Log frame.

9.2 Sections D of the PCR accord the Task Manager to highlight the governance dimensions of the project. Importantly, Section D II sub-sections 2 (commenting on additional cross cutting issues such as gender, governance etc) and 3 (Risks to sustained achievement of outcomes) are highlighted. Section E sub-section 2b requires an explicit assessment of how the risks were assessed and mitigated. Sections F and H will require Task Managers to embed findings from Supervision and Monitoring Reports, which specifically highlight how the risk mitigating actions improved the efficiency of project implementation.

9.3 In responding to Sections D, E, F, H and where possible the Narrative Section as highlighted above, the Task Manager could look at some of the suggested governance dimensions below and how they have impacted each of the key performance indicators:
**TOOL 7: KEY GOVERNANCE DIMENSIONS FOR THE PCR PROCESS**

*How to use this tool:* As you fill out the PCR, make sure to address the relevant governance related project outcomes. The template below provides an overview of some of the criteria of the PCR that will be affected by the quality of governance. For example, a description of “Public policy reform” could allude to the appropriateness of the demand and supply side of governance to take the reform forward. The ‘governance mindset’ needs to be consequently applied across the PCR to describe project outcomes adequately. A fact based inclusion of governance-related issues in the PCR will be based on reviewing the progress made on the monitoring indicators that were developed during project design (see tool 6e) and commenting on these.

<table>
<thead>
<tr>
<th>Key performance indicators in PCR</th>
<th>Criteria for which governance lens is relevant <em>(not comprehensive)</em></th>
<th>Examples for monitoring indicators to refer to (see tool 6e)</th>
</tr>
</thead>
</table>
| Relevance and achievement of objectives | • Public policy reform  
• Private sector development  
• Institutional development | • Improvement in overall indicators relating to demand and supply side of governance  
• Mitigation of key vulnerabilities  
• Institutional arrangements |
| Implementation performance of borrower | • Financial management  
• Skills upgrading | • Adequate country systems  
• Quality of financial management  
• Investment in people and relationships |
| Institutional development impact | • Governance | Progress made on dimensions  
• Political economy  
• Demand side of governance  
• Supply side of governance |
| Sustainability of project or program results | • Institutional Arrangements  
• Environmental viability | • Quality of institutional arrangements  
• Access and rights to services  
• Budget and investment planning |
TECHNICAL ANNEXES (NOT MANDATORY)

MODULE 1: CROSS-CUTTING ISSUES

ANNEX 1: GOVERNANCE DIMENSIONS AND THEIR FIELD APPLICABILITY

Context: Upstream country diagnosis has been conducted in a previous step. Now sector governance dimensions need to be described in the PCN. Sample questions along the 5 dimensions of governance are a helpful way of identifying what the PCN should include.

Element of project cycle: Project preparation

How to use this tool: Use the template below to fill out the PCN. Use the suggested questions as directional pointers to describe quality of governance for each of the five dimensions. You may wish to refer to the examples included below to fill out the template. They can be used as a starting point to identify which of the challenges listed here are applicable to the specific project context. The columns “Examples- DRC” and “Examples- Tanzania” provide examples for what a completed tool 3 could look like for those countries.

Note: The list of questions is neither exhaustive nor prescriptive – it serves as a starting point for thinking about a high level analysis of sector governance.
### Tool 3: Sector Governance dimensions for analysis

<table>
<thead>
<tr>
<th>Governance dimension</th>
<th>Sample questions to consider</th>
<th>Description</th>
</tr>
</thead>
</table>
| **1. Policy and Legislation** | - Are roles and responsibilities of government institutions involved in the sector clear?  
- Is the regulator independent?  
- Are there adequate laws to guide sector policy and operations?  
- Do influential individuals enjoy high discretionary power?  
- Are laws properly enforced?  
- What is the level of consistency in the application of regulations? |  |
| **2. Institutional Arrangements** | - How strong/ corruption-prone have sector institutions been historically?  
- How evolved is the role of the private sector?  
- How is engagement with the private sector affected by capacity and asymmetry of resources?  
- What is the general level of skill sets in the sector?  
- Are very specific skill sets such as developing pricing mechanisms under PPPs available?  
- Is equitable service provision pursued strongly, consistently and successfully?  
- What is the level of international co-operation in the sector in the country?  
- Are roles and responsibilities in parastatals separated clearly? (i.e. decision making structures, accountability relations, corporate governance structures)  
- What incentives do key actors in the sector respond to?  
- Do political pressures/ the need to satisfy potentially conflicting ranges of political, economic, social objectives compromise results?  
- What are the informal ‘rules of the game’ in public institutions? |  |
| **3. Budgeting and investment planning** | - Do public authorities operate based on sound demand estimates and clear investment plans?  
- How sophisticated is financial management in private companies?  
- Is public information on the financial performance of major utilities/organizations in the sector readily available?  
- What is the level of financial skills (i.e. around the planning process, financial mgmt, etc?) |  |
| **4. Public procurement** | - Is there a sense of the extent to which public procurement in the sector is able to withstand corruption?  
- How big is the pool of potential contractors? |  |
| **5. Access and rights to service** | - What part of the population has access to infrastructure network?  
- Are there subsidies for people who are not able to afford these services?  
- How are gender and minority issues handled in the question of access to basic infrastructure?  
- How readily available is information to the general public?  
- What measures are in place to make information more regularly available? (e.g. role of media) |  |
### Most frequent governance challenges

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Overlaps in roles and responsibilities of public institutions</td>
<td>History of weak institutions</td>
<td>No sound demand estimates and clear investment plans</td>
<td>Non-transparent contract award procedures</td>
</tr>
<tr>
<td>Regulator subject to government interference</td>
<td>State monopolies favoring developmental and political objectives over business objectives</td>
<td>Lack of dissemination of financial statement by utilities compromising auditing and financial management</td>
<td>Collusion risk from small pool of potential contractors for high value assignments</td>
</tr>
<tr>
<td>Gaps in legislation (e.g. for private public partnerships or management contracts)</td>
<td>Lack of private sector participation through regional integration and management contracts</td>
<td>Poor planning capabilities and lack of expertise within the utility</td>
<td>Collusion risk from process requirements such as prequalification of bidders</td>
</tr>
<tr>
<td>Discretionary power of influential individuals</td>
<td>Capacities and expertise to ensure success of private sector participation missing (esp. around pricing, contract structures and contract enforcement)</td>
<td>In Transport, investment plans exist only for the first stages of the value chain, which poses a real threat to the sustainability of investments</td>
<td>The Ministry of Infrastructure is concerned with the standard approach of donors by which, in absence of strong oversight possibilities, bidders need to comply with high bidding requirements. This in</td>
</tr>
<tr>
<td>Inadequate standards against which to hold actors accountable</td>
<td>Infrastructure seen as central to national security and sovereignty, making international co-operation and global governance standards difficult to implement</td>
<td>In the power sector, cost overruns and invocation of emergency rules due to delays in planning are not infrequent, and Songas will then come in as an IPP</td>
<td>The World Bank has noted that prequalification of vendors is at times facilitating collusion particularly in relatively small markets</td>
</tr>
<tr>
<td>Inadequate enforcement of existing laws, especially on environmental and social dimensions</td>
<td>Lack of expertise and good management are at the core of governance challenges. The DRC has enough resources to run its affairs and sufficient taxes to pay for key expected functions, yet it is undermined by corruption</td>
<td>Overlaps in roles and responsibilities in parastatals in the petroleum sector leading to muddled decision-making and unclear respective roles of the Board and ministries in driving final decisions that balance company sustainability with social impact</td>
<td></td>
</tr>
<tr>
<td>Inconsistency of regulation leading to unstable business environment</td>
<td>To improve efficiency some of the key infrastructure activities are handed over to private management companies, e.g. Aeroport de Paris taking over the airports throughout the country</td>
<td>The Songas deal (Songas is the largest IPP in Tanzania) is an example of the government lacking the capacity to effectively negotiate particularly large scale deals with private sector players</td>
<td></td>
</tr>
</tbody>
</table>

---

**Example attached to Tool 3: Sector governance dimensions in DRC and Tanzania**
fact reduces the eligible group to a handful of bidders and creates a breeding ground for corruption

<table>
<thead>
<tr>
<th>5. Access and rights to services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programs targeted at improving services do not benefit the population where only elite has access to infrastructure</td>
</tr>
<tr>
<td>Equitable service provision only guaranteed through government involvement</td>
</tr>
<tr>
<td>Routing of infrastructure networks not where they are most needed</td>
</tr>
<tr>
<td>Gender and minority issues</td>
</tr>
<tr>
<td>Access to energy is a key deficiency, corroborated through an abysmal willingness to pay with the exception of the largest enterprises. The state is about USD 400 million in debt to the electricity providers</td>
</tr>
<tr>
<td>The Ministry of Planning is aware of the shortcomings of public transport being virtually non-existent</td>
</tr>
<tr>
<td>Access to information, such as through the free media, plays a significant role in enabling civil society and legislative mechanisms to play their oversight role and also feeds the political will to enforce accountability. Various actors in Tanzania including civil servants, private sector, and development partners acknowledge the power of media as key distinguishing factor</td>
</tr>
</tbody>
</table>
**Module 2: Project Specific Governance Diagnosis**

**Module 2.1a and b – Standard Level**

**Annex 2: Overview of Actors**

*Context:* During project appraisal, multiple project stakeholders on both the supply as well as the demand side of governance need to be consulted for a representative picture of the quality of governance in the project.

*Element of project cycle:* Project appraisal

*How to use this tool:* The list below provides an overview of key project stakeholders that should be consulted during project appraisal. It serves as a checklist to ensure no key actors have been forgotten in the analysis.

*Note:* While the type of actors will remain relatively constant, the most relevant organizations may vary widely across countries. For example, not all countries have a regulatory authority.

---

### Module 2.1a. Overview of Potential Organizations to Interview - Energy

<table>
<thead>
<tr>
<th>Types of actors</th>
<th>Potential organizations to interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>Ministry of Energy</td>
</tr>
<tr>
<td></td>
<td>Ministry of Environment</td>
</tr>
<tr>
<td></td>
<td>Regulatory authority</td>
</tr>
<tr>
<td>Utility</td>
<td>Public utility (management)</td>
</tr>
<tr>
<td></td>
<td>Generation companies</td>
</tr>
<tr>
<td></td>
<td>Transmission company</td>
</tr>
<tr>
<td></td>
<td>Distribution companies</td>
</tr>
<tr>
<td></td>
<td>Parastatals</td>
</tr>
<tr>
<td>Contractors and suppliers</td>
<td>Capital project contractors</td>
</tr>
<tr>
<td></td>
<td>Fuel suppliers</td>
</tr>
<tr>
<td></td>
<td>Other contractors and suppliers</td>
</tr>
<tr>
<td>Independent Power Producers (IPPs)</td>
<td>IPP – if country uses IPP contracts</td>
</tr>
<tr>
<td>Demand side actors</td>
<td>ADB staff in country</td>
</tr>
<tr>
<td></td>
<td>NGOs</td>
</tr>
<tr>
<td></td>
<td>Affected communities</td>
</tr>
<tr>
<td></td>
<td>Development partners</td>
</tr>
<tr>
<td></td>
<td>Consumers</td>
</tr>
<tr>
<td>Types of actors</td>
<td>Potential organizations to interview</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Government</td>
<td>Ministry of Transport</td>
</tr>
<tr>
<td></td>
<td>Ministry of Environment</td>
</tr>
<tr>
<td></td>
<td>Regulatory authority</td>
</tr>
<tr>
<td>Service providers along the value chain</td>
<td>Government’s preferred private infrastructure provision contractors</td>
</tr>
<tr>
<td></td>
<td>Ministry of Work</td>
</tr>
<tr>
<td></td>
<td>Public transport organization</td>
</tr>
<tr>
<td></td>
<td>Public private partnerships</td>
</tr>
<tr>
<td></td>
<td>Parastatals</td>
</tr>
<tr>
<td>Contractors and suppliers</td>
<td>Capital project contractors</td>
</tr>
<tr>
<td></td>
<td>Other contractors and suppliers</td>
</tr>
<tr>
<td>Public procurement agency</td>
<td>Public procurement agency</td>
</tr>
<tr>
<td>Demand side actors</td>
<td>ADB staff in country</td>
</tr>
<tr>
<td></td>
<td>NGOs</td>
</tr>
<tr>
<td></td>
<td>Affected communities</td>
</tr>
<tr>
<td></td>
<td>Development partners</td>
</tr>
<tr>
<td></td>
<td>Users of public and private transportation</td>
</tr>
</tbody>
</table>
**Context:** An initial high level governance diagnosis has been completed. However, the latter has not been able to identify where the vulnerabilities originate and how they could be prioritized. Therefore, a more in-depth analysis is required. By describing each major vulnerability through a number of indicators, the underlying key issues quickly become apparent, allowing for a prioritization of vulnerabilities. Governance challenges originate where indicators to not meet a threshold value.

**Element of project cycle: Project appraisal**

**How to use this tool:** From the list below, choose the most relevant vulnerabilities, i.e. those that you would like to assess in more detail. Review the list of indicative indicators provided below, and for each impact and probability indicators choose the 2 most relevant per vulnerability for which you will be able to obtain data. Impact indicators refer to potential impact should the vulnerability materialize, whereas probability indicators speak to the likelihood with which the vulnerability will materialize. Together with OINF, identify an acceptable threshold and the actual value for the indicators that you have chosen. Governance challenges originate where indicators to not meet the threshold value. Comparing across the various vulnerabilities will now allow you to prioritize across them (see prioritization framework)

**Note:**
1. The indicators provided below are an indicative list which task managers are expected to review and reduce to the most relevant ones.
2. The list is not comprehensive. The idea of the exercise is not to analyze each indicator in detail. Instead, as described above, task managers should develop the 2-3 most relevant indicators and describe those adequately. Selection of indicators should be driven by a combination of data availability and relevance to key anticipated vulnerabilities.
3. There are two types of indicators: The first refers to magnitude of the impact (e.g. carbon emission of plant), the second refers to the probability with which a vulnerability is likely to materialize (e.g. Number of different government officials involved in renegotiating private participation arrangements). It is important to look at both of these types of indicators in order to prioritize risk.

**Generic template for in-depth analysis of vulnerabilities**

*(Fill out using the indicator lists provided below)*

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>Sample indicator</th>
<th>Threshold values</th>
<th>Value of indicator for specific project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation and law enforcement</td>
<td>Carbon emission of plant</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Privatization sales price compared to similar deals</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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44
Indicator lists to fill out the template

MODULE 2.2.A - ELECTRICITY INDICATORS PER GOVERNANCE DIMENSION AND VULNERABILITY

POLICY AND LEGISLATION
Regulation and law enforcement
Impact Indicators:
• Carbon emission of plant
• Privatization sales price compared to similar deals
• Typical duration of process to obtain legal support (license, concession, decisions)
Probability Indicators:
• Number of changes to norms and licensing criteria
• Overlaps of jurisdiction between authorities
• Time limit for final decision on clearance procedures (y/n)
• Number of different government officials involved in renegotiating private participation arrangements
• Accessibility of information to consumers

INSTITUTIONAL ARRANGEMENTS
Independent Power Producer contracts
Impact Indicators:
• Value of IPP contracts over time
• Unit costs: all-in-cost of power from the generation project, compared to projects with similar fuel supply and load factors
• Cost of fuel/technology used compared to other fuels/technologies
Probability Indicators:
• Existence of investment plan for public utility (y/n)
• Energy conversion contracts (y/n)
• Frequency of emergency responses

Wholesale market
Impact Indicators:
• Difference between cost of electricity through hedging contracts versus spot markets over time
• Difference in cost of electricity from generators between competing distributors
Probability Indicators:
• Bilateral hedge contracts despite existence of transparent market for hedge contract (y/n)
• Terms of hedging contracts compared to similar contracts
• Market failure

BUDGETING AND INVESTMENT PLANNING
Capital projects
Impact Indicators:
• Ratio “Estimated demand to electricity sold”
• Difference between actual and estimated costs
• Average compensation paid to project affected people/Land owners
• Cost of capital project in comparison to similar projects
Probability Indicators:
• Existence and quality of feasibility study
• Number of site investigations conducted
• Duration to implement project
• Number of public complaints filed

PUBLIC PROCUREMENT
**Procurement**
Impact Indicators:
• Cost of fuel
• % of Material loss
• Payment delays
Probability Indicators:
• Standard duration for bid proposal and submission (y/n)
• Project officials insisting on use of certain local subcontractors/suppliers (y/n)
• Number of contracts awarded just below competitive procurement
• Number of suppliers
• Incidences of change of contract (price, volume) after selection of low price bidder

**ACCESS AND RIGHTS TO SERVICE**
Connections and commercial operations
Impact Indicators:
• % of losses of electricity
• % of non-technical losses
• Collection ratio
• Accounts receivable
Probability Indicators:
• Variation in consumption between similarly placed consumers
• Frequency of complaints regarding quality of service/bill
• Match of numbers between billing and accounting system (y/n)
• Average time to set up connection

**CROSS CUTTING DIMENSIONS**
Human Resources and company property
Impact Indicators:
• Ratio of staff/ number of connections
• Proportion of utility costs spent on salaries
• Difference between electricity produced and sold
Probability Indicators:
• Management and staff qualifications
• Time since personnel records were last updated
• Auditing of store records (y/n)
• Existence of inventory and control system (y/n)

**POLICY AND LEGISLATION**
Regulation and law enforcement
Impact Indicators:
• Average compensation to land owners/affected populations
• Carbon emission from vehicles and facility construction
• Costs of accidents due to inadequate enforcement of safety rules
• Privatization sales price compared to similar deals
Probability Indicators:
• Number of overlaps between departments
• Number of legal actions taken per 1000 drivers
• Number of regulatory reviews of public transport operators
• Adequate procedures for award of contracts for transport infrastructure, services, supplies
• % of disadvantaged groups measured in terms of GDP connected to the public transportation network

Legislative effectiveness
• Public Accounts Committee is established and routinely conducts public hearings
• Representation of different parties in parliament
• Number of legislative items passed that have multi-partner sponsoring
• Frequency with which government motions are defeated in parliament or members motions passed over government opposition

INSTITUTIONAL ARRANGEMENTS

Public Private Partnerships
Impact Indicators:
• Price efficiency or cost based pricing
• Time spent on bureaucracy
• Operational profit of private provider
• % of GDP spent on infrastructure

Probability indicators:
• Liquidity of service providers
• Introduction of new/amendment of existing agencies to facilitate PPPs/ cross sectoral PPP regulation (y/n)
• Existence of appropriate legal framework and mechanisms to encourage and sustain PPPs

Infrastructure management
Impact Indicators:
• Cost effectiveness compared to similar organizations
• Efficiency losses (bureaucracy, etc)
• Difference between planned costs and actual costs

Probability Indicators:
• Adherence to procurement standards
• Level of automatization of business processes
• Number of site investigations conducted
• Duration to implement project
• Number of public complaints filed

BUDGETING AND INVESTMENT PLANNING

Budget and resource allocation
Impact Indicators:
• Discretionary funds as a % of total funds
• Increase in % of paved roads per year
• Expenditure on roads
• Revenues from tolls as a % of budget

Probability Indicators:
• Number of departments involved in transport (road) infrastructure
• Frequency of dialogue between municipality
• Availability of transport-related statistics and indicators
• Number of mentions of gender and social equity in transport plans, policies
• Increase in % of households connected to road network in last year
• Number of complaints by consumers or affected communities

Capital Projects
Impact Indicators:
• Difference between actual and estimated costs
• Rate of return of capital projects
• Cost of project compared to similar projects
• Average compensation paid to project affected people

Probability Indicators:
• Existence and quality of project plans
• Number of project site investigations conducted
• Duration to implement project
• Number of public complaints filed

PUBLIC PROCUREMENT
**Procurement**

Impact Indicators:
- Difference between contract value and cost estimate
- Price difference between winning bid and lowest bid accepted for examination
- Cost per km
- Difference between winning bid and nearest bid
- Difference between value of material delivered and specified

Probability Indicators:
- Average duration between bid opening and contract signing
- Number of bidders
- % of firms buying bids actually bidding
- Average time until contractors are actually paid
- Project officials insisting on use of certain local subcontractors/suppliers (y/n)
- Number of different sites visited
- % of prequalified firms bidding for contract

**ACCESS AND RIGHTS TO SERVICES**

**Land use and transport integration**

Impact Indicators:
- Scale of public versus private transport by number of passengers
- Land devoted to transport facilities
- Habitat and cultural sites degraded by transportation facilities

Probability indicators:
- Number of community complaints

**CROSS-CUTTING DIMENSIONS**

**Human Resources**

Impact Indicators:
- Number of staff per km or per passenger
- Proportion of costs of transport organization spent on salaries
- HR costs compared to similar organizations

Probability Indicators:
- Time since personnel records were last updated
- Number of staff complaints after promotion cycle
- Disciplinary action taken for corruption (y/n)
- Relations between senior mgmt and government/ Individuals in key positions are related

---

**Graphic representation of Annex 3: Overview per vulnerability, including red flags and indicators through which to detect the vulnerability.**

**Note:** The overviews are not comprehensive but may nevertheless be used for a quick review at the end of the diagnosis.
### Module 2.2.A - Impact and Probability Indicators – Electricity

#### Regulation and law enforcement

**Definition**
The way in which the utility deals with the government entities which set, monitor, and enforce tariffs and service standards, or other parameters and that have an important influence on the utility’s financial performance.

**Governance vulnerabilities**
- Framework for enforcing rules/regulations
- Law enforcement
- Approach to privatization
- Selection of staff in regulation authority

**Indicators**
- Carbon emission of plant
- Privatization sales price compared to similar deals
- Typical duration of process to obtain legal support (license, concession, decisions)

**Probability Indicators**
- Number of changes to norms and licensing criteria
- Overlaps of jurisdiction between authorities
- Time limit for final decision on clearance procedures (y/n)
- Number of different government officials involved in renegotiating private participation arrangements
- Accessibility of information to consumers

**Red flags**
- High regulatory discretion due to unclear or ambiguous rules
- Alteration of norms, licensing criteria
- Dilatory and repetitive clearance procedures. Authorities with overlapping jurisdictions. No time limit for final decision.
- Frequent renegotiation and extension of private participation arrangements
- Government officials living beyond their means

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility management</td>
<td>Adhering to rules and laws</td>
</tr>
<tr>
<td>Regulators</td>
<td>Framework for enforcing rules/regulations, Law enforcement, Approach to privatization</td>
</tr>
<tr>
<td>Government</td>
<td>Selection of regulatory staff</td>
</tr>
</tbody>
</table>

---

#### Independent Power Producer contracts

**Definition**
The process of contracting with the owners of independent generation capacity to purchase electricity

**Governance vulnerabilities**
- Rationale for IPP contract
- Structure of contract (energy conversion contract, emergency contract)
- Selection of successful provider

**Indicators**
- Value of IPP contracts over time
- Unit costs: all-in-cost of power from the generation project, compared to projects with similar fuel supply and load factors
- Cost of fuel/technology used compared to other fuels/technologies

**Probability Indicators**
- Existence of investment plan for public utility (y/n)
- Energy conversion contracts (y/n)
- Frequency of emergency responses

**Red flags**
- Sudden shift in number/value of IPP contracts
- Procurement processes (see procurement)
- Tender documents that favor particular fuel or technologies but no investment plan for the public utility
- Asymmetry in capacity and resources between government and private sector

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility</td>
<td>Rationale for IPP contract, Structure of contract (energy conversion contract, emergency contract), Selection of successful provider</td>
</tr>
<tr>
<td>IPP</td>
<td>Advising on contract structure, Influencing selection decision</td>
</tr>
</tbody>
</table>

---

**Dalberg**
Wholesale Market

**Definition**
Wholesale electricity markets provide a venue for generators to sell electricity and retailers (or large users) to purchase electricity. They generally operate “spot” markets, that set short-term prices for electricity, and for some cases determine the order in which generation plant will be used.

**Governance Vulnerabilities**
- Bilateral hedge contract
- “Gaming” strategies in spot markets

**Indicators**
**Impact Indicators:**
- Difference between cost of electricity through hedging contracts versus spot markets over time
- Difference in cost of electricity from generators between competing distributors

**Probability Indicators:**
- Bilateral hedge contracts despite existence of transparent market for hedge contract
- Terms of hedging contracts compared to similar contracts
- Market failure

**Red flags**
- Hedging strategies by wholesale buyers that appear irrational
- Public companies negotiating/hedge contracts bilaterally when competitive and transparent markets for such contracts exist
- Managers responsible for negotiation/hedge contracts are living beyond their means

---

**Capital Projects**

**Definition**
Forecasting, planning, tendering, contract and project management of major capital works commissioned by or for the electricity utility (e.g. additional generation capacity, new transmission or distribution lines)

**Governance Vulnerabilities**
- Rationale for capital project
- Selection of private contractors
- Contract supervision/quality control
- Transmission routing/beneficiaries – accountability, financials

**Indicators**
**Impact Indicators:**
- Ratio “Estimated demand to electricity sold”
- Difference between actual and estimated costs
- Average compensation paid to project affected people/Land owners
- Cost of capital project in comparison to similar projects

**Probability Indicators:**
- Lack of feasibility studies and site investigations
- Vagueness about procedures for obtaining clearances
- No clear rationale for the sequence in which various regions get connected to the national grid
- No/ too little budget set aside for compensating affected communities
**Procurement**

**Definition**
Electricity utility purchasing supplies and contracting for services, such as maintenance of generation plant or distribution lines, fuel (such as gas, oil, or coal) for generation plant, etc.

**Governance vulnerabilities**
- Collusion in procurement process
- Inefficiency of making payments
- Low quality/inefficient service provision

**Impact Indicators:**
- % of losses of electricity
- % of non-technical losses
- Collection ratio
- Accounts receivable

**Probability Indicators:**
- % of losses of electricity
- % of non-technical losses
- Collection ratio
- Accounts receivable

**Red flags**
- Long duration of procurement and payment processes
- Frequent close clustering of tendered prices from competing bidders suggesting collusion
- High frequency of contracts just below the threshold for competitive bidding
- Large number of contracts just below the threshold for competitive bidding to the same contractor
- Asymmetry of negotiating capacity and resources between government and private sector

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility management</td>
<td>• Inefficiency of making payments</td>
</tr>
<tr>
<td>Suppliers and contractors</td>
<td>• Collusion in procurement process</td>
</tr>
<tr>
<td></td>
<td>• Low quality/inefficient service provision</td>
</tr>
</tbody>
</table>

**Indicators**

- Standard duration for bid proposal and submission (y/n)
- Project officials insisting on use of certain local subcontractors/suppliers (y/n)
- Number of contracts awarded just below competitive procurement
- Number of suppliers
- Incidences of change of contract (price, volume) after selection of low price bidder

**Connections and commercial operations**

**Definition**
Connections refers to the process by which would-be customers apply for, and receive, a connection to the electricity system. Commercial operations refers to metering, meter-reading, the issuing of bills, and collection of payment.

**Governance vulnerabilities**
- Collusion around billing process/connection
- Provision of low quality service
- Poor tracking of usage of electricity

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility</td>
<td>• Provision of low quality service</td>
</tr>
<tr>
<td></td>
<td>• Poor tracking of usage of electricity</td>
</tr>
<tr>
<td>Utility staff</td>
<td>• Collusion around billing process/connection</td>
</tr>
<tr>
<td>Customers</td>
<td>• Collusion around billing process/connection</td>
</tr>
</tbody>
</table>

**Red flags**
- Long waiting lists for connections
- High levels of non-technical losses
- High levels of receivables
- Low collection ratios
- No link between billing system and accounting system

**Indicators**

- % of losses of electricity
- % of non-technical losses
- Collection ratio
- Accounts receivable
- Match of numbers between billing and accounting system (y/n)
- Average time to set up connection
Human Resources and company property

Definition
The way the utility deals with its staff including hiring, firing, setting pay and conditions, assessments and incentives, work assignments, promotions and movement between positions. Also refers to how utility deals with property.

Governance vulnerabilities
- Inflated payroll
- Inflated rewards to individuals
- Selection of staff/management
- Checks and balances to monitor theft

Red flags
- Personnel records out of date and/or heavily paper based as opposed to electronic
- High turnover in senior roles driven directly by political leadership
- Poor control of bank account authorities, check-books and credit cards
- Lack of proper inventory and control system
- Stores records not reconciled with accounts and not audited
- Unexplained shortages of supply

Actors and Vulnerabilities

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility</td>
<td>• Inflated payroll</td>
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<td></td>
<td>• Inflated rewards to individuals</td>
</tr>
<tr>
<td></td>
<td>• Selection of staff/management</td>
</tr>
<tr>
<td></td>
<td>• Lack of checks and balances to monitor theft</td>
</tr>
<tr>
<td>Government</td>
<td>• Selection of staff/management</td>
</tr>
<tr>
<td>Staff</td>
<td>• Theft of company property</td>
</tr>
</tbody>
</table>

Indicators

Impact Indicators:
- Ratio of staff/number of connections
- Proportion of utility costs spent on salaries
- Difference between electricity produced and sold

Probability Indicators:
- Management and staff qualifications
- Time since personnel records were last updated
- Auditing of store records (y/n)
- Existence of inventory and control system (y/n)
MODULE 2.2.B - IMPACT AND PROBABILITY INDICATORS – TRANSPORT

Regulation and law enforcement

**Definition**
The way in which the transportation organization deals with the government entities which set, monitor, and enforce tariffs and service standards, or other parameters and that have an important influence on (financial) performance.

**Governance vulnerabilities**
- Framework for enforcing laws and rules
- Approach to privatization
- Environmental standards
- Health standards
- Public Services Oftentation

<table>
<thead>
<tr>
<th>Provision of Road Infrastructure</th>
<th>Maintenance of the road network</th>
<th>Operations and services</th>
</tr>
</thead>
</table>

**Red flags**
- Unclear regulatory rules/ High regulatory discretion
- Alteration of normal licensing criteria without stakeholder consultation
- Authorities with overlapping jurisdictions/ lack of independent jurisdiction
- Non-transparent administration of subsidies to specific consumer groups including selection of beneficiaries
- Frequent Renegotiation and extension of private participation arrangements
- Government officials living beyond their means
- Tariffs and cost recovery structure not transparent to the public

**Indicators**
- Carbon emission from vehicles and facility construction
- Costs of accidents due to inadequate enforcement of safety rules
- Privatization sales price compared to similar deals

**Probability Indicators**
- Number of overlaps between departments
- Number of legal actions taken per 1000 drivers
- Number of regulatory reviews of public transport operators
- Adequate procedures for award of contracts for transport infrastructure, services, supplies
- % of disadvantaged groups measured in terms of GDP connected to the public transportation network

Legislative effectiveness

**Definition**
Informed and fair legal decision making to represent general population

**Governance vulnerabilities**
- Political representation/debate
- Capacity of legislature
- Involvement of civil society

<table>
<thead>
<tr>
<th>Provision of Road Infrastructure</th>
<th>Maintenance of the road network</th>
<th>Operations and services</th>
</tr>
</thead>
</table>

**Red flags**
- Lack of clear differentiation between legislative and executive functions
- Absence of public debate and contestation on governance issues within the legislature
- Perfect alignment between legislature and executive
- Poor capacity of legislature to effectively perform oversight function and lack of resources to support that function

**Probability Indicators**
- Public Accounts Committee is established and routinely conducts public hearings
- Representation of different parties in parliament
- Number of legislative items passed that have multi-partner sponsoring
- Frequency with which government motions are defeated in parliament or members motions passed over government opposition
Public Private Partnerships

**Definition**
In a public private partnership, the public and private sector co-operate to provide vital services (e.g. capital projects, maintenance) with a clear split of responsibility – the private sector role is on the commercial and management side. Includes greenfield projects, concessions, and contracting out of services.

**Governance vulnerabilities**
- Trade off between profitability and universal access
- Risk involved

**Impact Indicators:**
- Price efficiency or cost based pricing
- Time spent on bureaucracy
- Operational profit of private provider
- % of GDP spent on infrastructure

**Probability Indicators:**
- Liquidity of service providers
- Introduction of new/amendment of existing agencies to facilitate PPPs/ cross sectoral PPP regulation (y/n)
- Existence of appropriate legal framework and mechanisms to encourage and sustain PPPs

**Red flags**
- No clear policy or framework for PPPs
- Unclear roles and responsibilities
- Very high profits or losses of private provider
- Legislation does not facilitate PPPs
- Asymmetry of capacity and resources between government and private sector

**Vulnerability**
- High
- Medium to low
- None

**Governance vulnerabilities**

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>Lack of capabilities to engage private sector</td>
</tr>
<tr>
<td>Regulator</td>
<td>Clarity and effectiveness of regulation</td>
</tr>
<tr>
<td>Private transport companies</td>
<td>Lack of accountability to poorer populations due to profitability objectives</td>
</tr>
<tr>
<td></td>
<td>High level of risk involved</td>
</tr>
</tbody>
</table>

**Infrastructure management**

**Definition**
The way the organization manages infrastructure investment, maintenance and service provision. Refers to the management capabilities of the organization.

**Governance vulnerabilities**
- Ownership
- Lack of commercial orientations
- Poor qualifications of management
- Business processes/ Poor technology

**Red flags**
- Weak planning methods and mechanism
- Weak procurement mechanisms
- Lack of proper inventory and control system
- Company vehicles not accounted for
- Unexplained shortages of supply
- Outstated finance and project monitoring processes allowing scope for manipulation
- Lax inspection and supervision

**Vulnerability**
- High
- Medium to low
- None

**Governance vulnerabilities**

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport organization</td>
<td>Lack of commercial orientation</td>
</tr>
<tr>
<td></td>
<td>Management capabilities</td>
</tr>
<tr>
<td></td>
<td>Weak business processes/ poor technology</td>
</tr>
<tr>
<td>Government</td>
<td>Effectiveness of ownership structure</td>
</tr>
</tbody>
</table>

**Indicators**

**Impact Indicators:**
- Cost effectiveness compared to similar organizations
- Efficiency losses (bureaucracy, etc)
- Difference between planned costs and actual costs

**Probability Indicators:**
- Adherence to procurement standards
- Level of automation of business processes
# Budget and Resource Allocation/Use

**Definition**
National and sector policy decision about budget and resource allocation to road transport including the use of resources and collection of revenues for further investment

**Governance Vulnerabilities**
- Coordination between transport sub-sectors
- Adequate budget allocation
- Diversion of road fund revenues
- Level of investment
- Sustainable pricing policy - e.g. tolls
- Review of socio-economic factors in resource allocation

**Provision of Road Infrastructure**

**Maintenance of the Road Network**

**Operations and Services**

**Red Flags**
- Unclear, overlapping transport, road department roles and functions at HQ and sub-national level
- Large portion of discretionary funding
- Road fund revenues not earmarked
- Budget allocation rules change
- Weak link between planning and budgeting functions in government
- Imbalance between allocations for new construction and budget for ongoing maintenance
- Huge backlog in periodic maintenance

**Indicators**

### Impact Indicators:
- Discretionary funds as a % of total funds
- Increase in % of paved roads per year
- Expenditure on roads
- Revenues from tolls as a % of budget

### Probability Indicators:
- Number of departments involved in transport (road) infrastructure
- Frequency of dialogue between municipality
- Availability of transport-related statistics and indicators
- Number of mentions of gender and social equity in transport plans, policies
- Increase in % of households connected to road network in last year
- Number of complaints by consumers or affected communities

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
</table>
| Government  | • Poor coordination between transport sub-sectors
              • Inadequate budget allocation
              • Corrupt practices of public officials
              • Lack of transparency and misuse of resource allocation |
| Civil society | • Lack of information |
| Media       | • Lack of independence from the government
              • Poor quality of journalists |

---

# Capital Projects

**Definition**
Forecasting, planning, tendering, contracting and project management of major capital works commissioned by or for the transportation organization (e.g. new roads, new terminals, etc)

**Governance Vulnerabilities**
- Development rationale for capital project
- Selection of public and private contractors
- Contract supervision/quality control

| Provision of Road Infrastructure | Maintenance of the Road Network | Operations and Services |

**Red Flags**
- Absence of published project plans
- Disregard for forecasted need, expected rates of return
- Poor cost estimates and consistent cost overruns
- Information asymmetry among parties involved
- Lack of contract specificity
- Inconsistent application of eligibility (screening) criteria
- No clear development rationale for relative prioritization of projects

**Indicators**

### Impact Indicators:
- Difference between actual and estimated costs
- Rate of return of capital projects
- Cost of project compared to similar projects
- Average compensation paid to project affected people

### Probability Indicators:
- Existence and quality of project plans
- Number of project site investigations conducted
- Duration to implement project
- Number of public complaints filed

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
</table>
| Government  | • Unclear rationale for capital project / choice of locations/ network connections
              • Little accountability/compensation to affected communities |
| Transport organization management | • Selection of contractors
              • Contract supervision/quality control |
| Regulators  | • Conflict of interest in regulatory decisions |
| Contractors | • Conflict of interest affects price and quality |

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### Land use and transport integration

**Definition**
Refers to how land is used for transport infrastructure and how the transport infrastructure is integrated in the landscape and communities.

**Governance vulnerabilities**
- Cultural, social and environmental parameters
- Community impact
- Scale of public versus private transportation

### Indicators

#### Impact Indicators:
- Scale of public versus private transport by number of passengers
- Land devoted to transport facilities
- Habitat and cultural sites degraded by transportation facilities

#### Probability Indicators:
- Number of community complaints
- Type and amount of land devoted to transport facilities
- Degradation of landscape/cultural sites due to road infrastructure
- Transport not integrated with community plans
- Poor connection of communities to the network

### Governance Vulnerabilities

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>• Low accountability towards communities/affected populations</td>
</tr>
<tr>
<td>Regulator</td>
<td>• Lack of enforcement of social, cultural and environmental concerns</td>
</tr>
<tr>
<td>Communities</td>
<td>• No strong voice</td>
</tr>
</tbody>
</table>

### Red flags

- 20% or more Prequalified firms fail to bid
- Period from bid opening to contract signing > 7 months
- Contract value >20% above cost estimate
- Tenders consistently attract 3 bidders or fewer
- Nearest bid above winning bid within 2%
- 50% or more firms buying bid docs fail to bid
- Prequalification rather than open tenders where number of potential contractors is low
- Consistently tight clustering of bids from limited number of bidders

### Indicators

**Impact Indicators:**
- Difference between contract value and cost estimate
- Price difference between winning bid and lowest bid accepted for examination
- Cost per km
- Difference between winning bid and nearest bid
- Difference between value of material delivered and specified

**Probability Indicators:**
- Average duration between bid opening and contract signing
- Number of bidders
- % of firms buying bids actually bidding
- Average time until contractors are actually paid
- Project officials insisting on use of certain local subcontractors/suppliers (y/n)
- Number of different sites visited
- % of prequalified firms bidding for contract

---

**Dalberg**

### (Public) procurement

**Definition**
Organization purchasing supplies and contracting for services, such as capital projects.

**Governance vulnerabilities**
- Collusion in procurement process
- Inefficiency of making payments

**Red flags**

- Provision of Road Infrastructure
- Maintenance of the road network
- Operations and services

**Actors and Vulnerabilities**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport organization</td>
<td>• Inefficiency when making payments</td>
</tr>
<tr>
<td>Suppliers and contractors</td>
<td>• Collusion in procurement process</td>
</tr>
<tr>
<td></td>
<td>• Low quality/inefficient service provision</td>
</tr>
</tbody>
</table>

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### Human Resources

#### Definition
The way the organization deals with its staff, including hiring, firing, setting pay and conditions, assessments and incentives, work assignments, promotions and movement between positions.

#### Governance vulnerabilities
- Inflated payroll and rewards to individuals
- Selection of poorly qualified staff
- Overstaffing

#### Red flags
- Staff/Management do not seem qualified in their positions
- Ghost workers
- Personnel records out of date
- Waiving of entry rules such as technical qualifications

#### Actors and Vulnerabilities

<table>
<thead>
<tr>
<th>Actor</th>
<th>Vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport organization</td>
<td>• Inflated payroll</td>
</tr>
<tr>
<td>(Mgmt. staff)</td>
<td>• Inflated rewards to individuals</td>
</tr>
<tr>
<td></td>
<td>• Selection of staff/management</td>
</tr>
<tr>
<td>Government</td>
<td>• Selection of staff/management</td>
</tr>
</tbody>
</table>

#### Indicators

**Impact Indicators:**
- Number of staff per km or per passenger
- Proportion of costs of transport organization spent on salaries
- HR costs compared to similar organizations

**Probability Indicators:**
- Time since personnel records were last updated
- Number of staff complaints after promotion cycle
- Disciplinary action taken for corruption (y/n)
- Relations between senior mgmt and government/individuals in key positions are related

#### Vulnerability
- High
- Medium to low
- None
ANNEX 4: PRIORITIZATION OF VULNERABILITIES

This tool provides a simple method for prioritizing vulnerabilities according to their potential impact and their likelihood of materializing:

- Three types of vulnerabilities constitute immediate risks and project approval will be subject to the design of mitigation measures for implementation: High impact/High probability, High impact/Medium probability, Medium impact/High probability
- Vulnerabilities that are high impact but low probability require ongoing monitoring through simple indicators
- Vulnerabilities that are high probability but low impact should be subject to periodic checks on their level of impact on the project.
- Where impact and probability are relatively low, no action is required.

The tool helps identify the 2-3 vulnerabilities that present the greatest immediate risk to the project and which in the next step will need to be mitigated if the project is to proceed. It also helps identify the vulnerabilities that need to be monitored closely throughout the project.

**Prioritization framework**

*How to use this tool:* The matrix below shows a simple method for prioritizing vulnerabilities by their impact and likelihood. As described above, each vulnerability can be approximated by indicators referring to its potential impact and likelihood. Assess each vulnerability in this way to identify the key project vulnerabilities that need to be mitigated – i.e. vulnerabilities that are high/high or high/medium on the impact and probability dimensions

*Note:* The examples provided below are purely illustrative and change from project to project.
ANNEX 5: RISK MITIGATION UNDER CONSTRAINTS (FRAGILE STATES)

How to use this tool: Think of this tool as a reminder to underline the important constraints may impact the feasibility of your implementation approach. Where that is the case, opting for a more pragmatic “second best” approach that accounts for the real-world constraints, will often yield a higher rate of success than forcing the “optimal” solution.

Note: With increasing complexity of the context, e.g. a fragile state environment, multinational projects, etc, the importance of this pragmatic approach to options increases.

<table>
<thead>
<tr>
<th>Vulnerability: Capital Projects in the Electricity Sector</th>
<th>2nd best option under limited political support</th>
<th>2nd best option under limited capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Problem:</strong> Capital procurement is poorly managed, with high corruption risk. Utility managers and senior politicians pay lip service to improvements, but find arguments to prevent substantive change.</td>
<td><strong>Problem:</strong> Capital procurement is poorly managed, with high corruption risk and low competence. Senior politicians want improvements, but the provider, and the country as a whole, lack competent engineers and procurement professionals.</td>
<td></td>
</tr>
<tr>
<td><strong>Options:</strong></td>
<td><strong>Options:</strong></td>
<td></td>
</tr>
<tr>
<td>• Benchmark unit rates for construction in the electricity sector with rates in similar sector in the country, and rates in comparable countries, and develop a construction quality audit. Results of these audits may reveal symptoms of corruption. Involving stakeholders such as university engineering departments or professional associations in the work, and publishing the results, can help to create pressure for improvements, once the financial and quality costs of corruption become clear</td>
<td>• Recruit skilled professionals from higher capacity countries nearby, or attract members of the Diaspora to return</td>
<td></td>
</tr>
<tr>
<td>• Get the government to agree to provide information to the public on contract costs and performance (as done in Construction Sector Transparency Initiative)</td>
<td>• Outsource capital planning, supervision and procurement to a program management contractor. Allow the contractor considerable autonomy and discretion, while imposing audit requirements, to be carried out by a private auditing firm reporting to government</td>
<td></td>
</tr>
<tr>
<td>• Promote community supervision of contract award, and of construction</td>
<td>• Privatize the utility, thereby giving strong incentives for the owners to attract the necessary level of capacity, and improve processes for capital works.</td>
<td></td>
</tr>
<tr>
<td>• Reach out to major electricity users with information on the costs and quality implications of corruption, in order to create a corporate constituency for change</td>
<td>• Capacity building of local staff through a long term program of technical assistance, training and twinning</td>
<td></td>
</tr>
<tr>
<td>• Promote/ require the use of improved systems</td>
<td>• Attempt to build political will by clearly identifying electoral benefits of having effective projects</td>
<td></td>
</tr>
</tbody>
</table>
Case study: Power reform in a fragile state

Country typology: Outside Africa, Fragile State (Ukraine)

Lessons learned: Aiming for targeted, second best solutions rather than comprehensive sector reforms may work better in the context of a fragile state

Summary:
The World Bank’s Electricity Market Development Loan to Ukraine, approved in 1997, was designed to support improvements in the power sector, including development of a competitive power pool based on the British model of unbundling. The project’s reform objectives—improved collection levels, access to working capital, metering facilities, and financial management—were to increase the quality and reduce the cost of electricity supply by developing a competitive electric power market and operating conditions that would encourage electric power companies to seek full cost recovery.

Delays in ratification slowed project implementation, and in the meantime political interference prevented any improvement in payment collections—collection levels in fact declined. This prevented full cost recovery for the generating companies, which were also burdened with the requirement of maintaining minimum fuel stocks throughout the year. Subsidies to power plants and non-payments by distributors exacerbated the problem.

The loan was suspended in July 1997 due both to the unsatisfactory financial performance of the entire power sector and to a new government prohibition on the increase in electricity tariffs for household consumers. Only US$76.4 million was disbursed, which paid for fuel stocks. The loan was cancelled at government request in 1999 due to the impact of the Russian financial crisis on the Ukrainian economy.

A key lesson from the project is that there is little merit in pursuing comprehensive power sector reform policies (legislation, regulation, unbundling, competition, privatization, regulation) in a country suffering a major economic crisis. The project shows that in an economy that was barter-based, with salaries and pensions in arrears and where the government condoned the culture of non-payment, there was no way to make consumers pay for electricity in cash. In such an environment, the introduction of an advanced model of a competitive power market was bound to be a losing proposition. Project objectives should have been more modest and targeted to improving well-delineated technical, institutional, and financial problems.

ANNEX 6: CASE STUDIES

Context: Annex 6 relates to project design, i.e. the diagnosis has been completed and the project now needs to be implemented. Case studies that reveal the lessons learned of others in project implementation help to replicate successes and avoid common pitfalls.

Element of project cycle: Project design

How to use this tool: Review the examples to identify learnings relevant to your particular context. Refer to the tool as a growing library, and add your own examples where they could benefit the Bank/future users.

Note: The examples currently provided are very preliminary and serve illustrative purposes. Over time, a library of case studies should be created, full of examples taken from AfDB experiences.

POLICY AND LEGISLATION

Case study: Reforming the electricity sector

Country typology: mixed

Lessons learned: Different approaches work to reform the electricity sector. They all have in common that they push the sector towards private-sector type of practices in legal, financial, commercial, and accountability terms.

Summary:
A review of four cases of corporatization—in Mexico, New Zealand, the Philippines, and South Africa—found that country governments had taken quite different approaches to reforming the electricity sector and improving provider governance. Some of the more successful practices derived the cases were:
• Subjecting the utilities to company law and other laws that apply to private-sector companies—in order to bring to bear new rules governing the relationship between the utilities and the government as their owner
• Legislating for additional constraints on the relationship between the government, as owner, and utilities—to address the special problems afflicting the governance of state-owned utilities (such as the weak influence of the utilities’ ultimate beneficial owners, citizens, over the proximate owner, the government)
• Requiring additional public reporting by the utilities—for example, of directions given to the utility by politicians and of the utility’s policies toward theft and corruption by employees
• Taking further steps to instil a commercial culture in the utilities, such as appointing independent directors from successful businesses
• Requiring electricity companies to borrow from private lenders without the benefit of a government guarantee, to bring to bear the benefits of scrutiny by lenders and credit-rating agencies
• Listing a minority of the companies’ shares, to create market information on commercial performance, allow equity-linked compensation, and create monitoring by other shareholders
• Strengthening more transparent and efficient means of redistributing resources, such as direct subsidies to electricity customers
• Reducing the conflict of interest it faces as policymaker and owner, by separating responsibility within government for policy and ownership—for example, making the former the job of the minister of energy and the latter the job of the minister of finance.

Case study: Prosecution of misconduct

Country typology: Anglophone, Developmental (Tanzania)

Lessons learned: Demand side actors, such as an increasingly powerful legislature are the drivers of change in sector reforms

Summary:
In Tanzania, an audit of the national External Payment Arrears Account (EPAC) revealed 15 cases of forgery for the purposes of embezzlement, 14 of which are now being prosecuted at the insistence of the President. Contradictorily, one case involving a company allegedly with linkages to the Head of State, has been excluded from prosecution and instead has just been made to pay back embezzled funds. The AfDB and other donors are following up on this case through the budgetary support framework regulations. The toolkit offers an increased opportunity to detect such irregularities and the Bank can share the information with demand side actors such as the increasingly powerful legislature to drive change.

Source: Interviews during Toolkit mission to Tanzania

INSTITUTIONAL ARRANGEMENTS

Case study: Inefficiencies in state-run monopolies

Country context: Francophone, Fragile state (DRC)

Lesson learned: Where there is no political will to reform, even the most obvious grand scale inefficiencies prevail

Summary:
SNEL, the national energy company is a loss making venture that continues to apply an arbitrary pricing policy:
- Low voltage clients receive 41% of energy but contribute to 16% of revenues only. SNEL sells to this segment at a 82% loss.
- Medium voltage clients receive 15% of energy and contribute to 42% of revenues.
- High voltage clients receive 14% of energy and contribute to 25% of revenues. 30% of the energy is exported, but only 16% of revenues are made from exports. In addition, the company suffers from a majority of public sector customers and households simply not paying for their bills.
SNEL also has a history of weak PPPs, which are badly negotiated and face major challenges in their execution.

Source: DRC case study from Roundtable presentation in Tunis, October 2009

Case study: Private management firm ensures proper operations & quality of airports

Country context: Francophone, Fragile state (DRC)

Lesson learned: The involvement of a private management company can improve the reliability, quality, and sustainability of key transport infrastructure
Overview:
Situation: The donor community wanted to improve the operations of some 60 key airports throughout the country.
Complication: The project met with initial opposition from certain government circles with potentially vested interest in the airport operations.
Solution: Eventually donor bargaining power (funds) and support in the tender process convinced the government that the best operator would be found in the long term interest of the country.

Summary:
To cope with the increase in air traffic, security requirements of foreign carriers, and continuous financial troubles of the Congolese airport authorities, swift action was necessary. The donor community put forward the idea of finding the best private management firm to help streamline operations, uphold security standards, and ensure financial sustainability. Some government circles initially opposed the idea. However, the weak criticism reflected vested interests among some officials rather than factual arguments against the hiring of a private management firm. Through the pressure from the donor community, particularly multilateral development banks, and the support offered in finding the best management firm the government agreed. A tender was prepared, an independent jury selected, and final decision of the best candidate made by the IFC. Aéroports de Paris won the bid and is now managing 65 airports. When Aéroports de Paris’s started its operations in the DRC, a mere USD 5,000 were found in the cash accounts. Today, Aéroports de Paris offers significantly higher than Western European salaries to attract key posts to its Congolese operations and is confident of the long term profitability of the venture. Emboldened by the success of Aéroports de Paris’s operations, Lafarge, a French world leader in building materials will take over a cement firm soon.


Case study: Increasing accountability across a utility to prevent power theft

Country typology: outside Africa (India)

Lessons learned: Increasing accountability across the utility is an effective way to reduce power theft. However, it needs to be enforced at all levels and not be confined to lower-level employees. If lower-level employees get the feeling that they are victimized, the measure may actually be counterproductive.

Overview:
Situation: Power theft is a common issue in some state-owned power utilities.
Complication: Not many of these utilities have reliable reporting and monitoring systems. As a result, there is no way of reconciling the energy received against energy billed against the amount paid by customers.
Solution: Prioritize metering - i.e. purchasing meters, installing them in consumer premises and at feeders. Introduce measures of accountability throughout the organization, i.e. not refined to low levels of the hierarchy.

Summary:
One distribution utility in India took a series of steps to tighten procedures and plug the leakage of revenue. Metering was given high priority on this agenda. Utility staff enthusiastically supported the purchase of about 400,000 meters to be installed in consumer premises. The process of drawing up specifications, issue of tender notices in newspapers, choice of turnkey contractors, and visits abroad to inspect the meters before they were shipped was completed promptly. But when it came to buying about 600 meters to be installed at the feeders, troubles started. Unions of linemen and section officers saw the step as a move to victimize their members by making them specifically responsible for the energy received and sold. They argued that accountability should be ensured across the utility at all levels and not confined to a few low-level employees. It took the utility another two years and a change in the management to get all the feeders metered.
Case study: Experiences with management contracts

Country typology: Anglophone, Developmental (Tanzania)

Lessons learned:
The major difficulty with management contracts has been demarcation of responsibilities between owner and manager, and the need for the full support of owners and employees for the arrangement. To lead to long term sustainable improvements in technical performance, a management contract needs to be set up to encompass incentives for a wide range of incentives, not just to increase revenues.

Overview:
Situation: The Government of Tanzania contracted a private provider under a management contract with Tanesco. The contractor’s primary job was to increase revenues.

Complication: The contract failed to lead to longer-term, sustainable improvements in technical performance and customer focus. Consumers faced tariff increases.

Solution: Enforce management contracts that go beyond increasing revenues. An obvious area, for example, would be for the private provider to take over procurement of generation from the government.

Summary:
The Government of Tanzania decided to contract a private provider under a management contract with TANESCO. Eleven companies initially responded to the request for proposals, with three submitting a full bid. The winning bidder proposed an arrangement somewhat different from that set out in the RFP, but the government quickly agreed to this. The media criticized the government for a perceived lack of transparency, and workers protested in concern that the utility would be privatized.

The contract successfully led to a doubling of utility revenues over a two year period. However, it failed to lead to longer-term, sustainable improvements in technical performance. The contract also had little emphasis on customer service. As a result, electricity consumers faced tariff increases despite a lack of tangible improvements in services. The utility has also suffered from a lack of investment in maintenance and infrastructure. The contractors’ primary job was to increase revenues—there were few incentives for other improvements in utility planning or performance. The government was still in charge of the procurement of generation, and secured a particularly costly IPP deal that contributed to rising prices for consumers.


Case Study: Internal Auditing to reduce staff corruption

Country typology: Anglophone, Developmental (Namibia)

Lessons learned: Use of an Internal Auditor in government department helps reduce staff corruption

Overview:
Situation: The municipal electricity department of Namibia required restructuring.

Complication: Alleged malfeasance, such as collusion and theft of electricity and revenues, within some of the council departments were not uncommon.

Solution: Creation of an internal audit function reporting directly to the CEO of the city.

Summary:
The Office of the Chief Internal Auditor (OCIA) of Windhoek reports directly to the Chief Executive Officer of the city and undertakes the audit functions of the city’s nine major departments, including electricity. As part of this restructuring, the government recognized that an internal audit function was
needed reporting directly to the CEO, with strengthened powers. Alleged malfeasance within some of the council departments, including alleged collusion with service users, seemingly resulted in substantial losses of revenue, particularly through theft of water and electricity, meter tampering, or simple non-payment of fees. The OCIA has been able, through internal auditing to pinpoint a number of the common practices and to assist departments to improve their procedures. The OCIA also has a customer hotline to enable residents of Windhoek and city employees to report any cases of a suspicious nature.


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**Case study: Successful PPP deals**

**Country typology: Anglophone, Developmental (Tanzania)**

**Lessons learned:** Expertise and negotiation capacity is required to set up successful PPP deals

**Summary:**
Historically the Government of Tanzania has not been able to secure PPP deals that were beneficial to them resulting in many deals that did not benefit the general population. Detecting this, the World Bank sponsored the drafting of a PPP policy which lays out the rules governing PPP deals and also determines how to handle unsolicited proposals. Upon finalization, the policy will give leverage to the government to achieve investment objectives, while at the same time building negotiating capacity

Source: Interviews during Toolkit mission to Tanzania

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**Case study: Institutional capacity building**

**Country typology: Anglophone, Developmental (Tanzania)**

**Lessons learned:** Development partners are investing heavily in capacity building at the level of the government

**Summary:**
The World Bank (WB) in Tanzania has been able to utilize its governance mechanisms to shape its programs of support. The WB has begun supporting the government from the identification phase till completion of projects. As an example, the WB identified procurement as a major area of vulnerability and has since started supervising the entire procurement process, minimizing room for corruption. This year alone the WB has been able to detect irregularities in two large tenders that were then suspended. The WB continues to seek ways of devolving this power to build capacity whilst also maintain the integrity of its investments.

Source: Interviews during Toolkit mission to Tanzania

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**BUDGETING AND INVESTMENT PLANNING**

**Case study: Avoiding over-capacity in electricity markets**

**Country typology: outside Africa (Pakistan)**

**Lesson learned:** Set tariffs for IPP contracts can avert crisis but lead to over-capacity. To prevent these, there needs to be a limit on the quantity to be procured.

**Overview:**
**Situation:** Pakistan was approaching a power crisis. The Government was willing to rapidly procure new plants and set a tariff ceiling for investors to accelerate the private power program. The approach proved very successful in attracting investors.

**Complication:** The deals only presented a short term success and led to the government agreeing to purchase more power than it needed.

**Solution:** The government needs to set a limit on the quantity to be procured, if it operates with set tariffs.

**Summary:**
In the beginning of the 1990’s, Pakistan was in an urgent need of additional capacity to avoid a power crisis. The Government was willing to rapidly procure new plants. Rather than proceed through competitive bidding, the Government instead set a tariff ceiling for investors in an effort to accelerate the private power program. The ceiling price set in the 1994 Private Power Policy (US$0.061/kWh as an average for the first ten years and US$0.055/kWh over the life of the project on a levelized basis) was competitive with other developing countries at the time.

The set tariff approach proved very successful in terms of enabling projects to reach financial close in a relatively short period. Under the 1994 Policy, 19 IPPs reached financial close in record time, adding 3,400 MW in capacity. While Pakistan’s first IPP, Hub Power, took almost eight years to reach financial close, the IPPs under the 1994 Policy closed on average in two years. Aspects of the IPP deals under the 1994 Policy that helped to attract investors included (i) a clear policy framework; (ii) attractive fiscal incentives; (iii) standardized security package; and (iv) a “one stop shop” for investors.

However, the deals only presented a short-term success, and led to the government agreeing to purchase more power than it needed. As a result, by 1998 the Government had issued notices of intent to terminate 11 IPPs, and four projects totaling 435 MW were eventually terminated.

One of the problems identified with Pakistan’s IPP program was that the Government did not set a limit on the quantity to be procured, and this resulted in excess capacity for several years. Had the implementation of the 1994 Policy been limited to about 2,000 MW the Water and Power Development Authority (WAPDA) may have been better able to absorb the capacity charges under the long term power purchase agreements, even as demand for power increased at a slower pace than anticipated. A clear mechanism to prioritize least cost projects would have helped. The basis on which projects were selected and accorded attention was not transparent and subject to political influence, which led to perceptions of corruption by successive governments.


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**Case study: Road prices and investment planning under private road providers**

**Country typology:** outside Africa (China)

**Lessons learned:** With private providers there is a risk of too high costs for consumers. Private finance for road development tends to push toll rates to too high levels, if the existing toll system is not equipped to counter the effects. Introducing a well functioning toll system has the benefit of supporting investment planning.

**Overview:**

**Situation:** There is a large market for private road finance in China

**Complication:** Private finance for road development has pushed toll rates to levels that divert substantial traffic to other roads

**Solution:** Introduce a well functioning toll system - for example charging for all rather than some roads – and use incremental capital raised for faster expansion of the road network

**Summary:**
Toll roads began to appear in China in the 1980s, when the central finance ministry began requiring provinces to accept full responsibility for payment of debt service on loans from which they benefited.
But acceptance of the principle that roads could earn revenue directly also opened the way to private participation. Today, China has more tolled roadway than any other country, probably near 20,000 km. Given the importance central government placed on roads—in the last years of the 1990s road investment reached 2.5 percent of GDP—the provinces have eagerly sought new ways to supplement their budgetary funds. Promoters of private finance responded imaginatively, and the market developed, often in parallel with the legislative changes that would make it fully legal. By the late 1990s, 5 percent to 9 percent of the funds going into road development were from private sources.

The original mechanism for private financing was the joint venture. Joint ventures occurred mainly with private partners from Hong Kong and public management and staff provided by the Provincial Communication Department (PCD). The Hong Kong promoters negotiated special agreements to compensate for the uncertain legal environment and sometimes carried out the construction work. From the mid-1990s, and especially after approval of a new highway law in 1997, a second source of private capital rapidly developed—the Hong Kong, Shenzhen, and Shanghai stock markets.

Investor interest in road transport was strong. Holding companies, mainly provincial expressway development companies, assembled packages of already operating toll roads and floated shares for some 20 percent to 40 percent of the aggregate value of the roads. By 2002, 18 Chinese companies had successfully listed, in addition to the three main Hong Kong promoters. Several of the provinces have been able to reinvest substantial proceeds into further road development. Some of the stronger companies have also been able to float revenue bonds and to raise bank loans secured against their revenue streams. Initiatives to develop BOT projects, though welcomed by the central authorities for their efficiency-increasing potential, have not so far won significant support among PCDs.

Insufficient information is available to permit a full assessment of the impact the private participation has had on the technical and allocative efficiency of these toll-road operations. However, regarding allocative efficiency, concern is widespread and rising that PCDs and private promoters have often pushed toll rates to levels that divert substantial traffic to other roads. The problem is particularly serious for heavily laden trucks, which would usually cause far less damage on the stronger pavements of the new roads than on the old roads to which they divert. A partial solution has been to introduce tolls on the competing roads as well. The Jiangsu Expressway Company followed its completion of the Huning expressway in 1996 with the purchase of 15-year operating rights on the parallel Ninghu highway so that it could itself adjust the tolls on both. Although it seems that too much weight is given to financial profitability over maximization of economic benefits in setting toll levels, this is more a problem of the existing toll system than of the private participation in it. In so far as the latter introduces incremental capital, permitting faster expansion of the road network, it should have some beneficial allocative consequences.

Sources: Bellier and Zhou (2003); CPCS China Merchant Consulting (2003); Ojiro (2003); Wood (2002).

**PROCUREMENT AND CONTRACTING**

**Case study:** Government guarantees to enable contracts with private suppliers

**Country typology:** Anglophone, Fragile state (Sierra Leone)

**Lesson learned:** Where competitive tenders seem unfeasible due to the risk for the private supplier, Government guarantees of payment can make them possible

**Summary:**

**Situation:** The National Power Authority in Sierra Leone has a history of poor performance with a cost of service well above its already high tariffs. One of the main contributors to this poor performance has been a series of expensive fuel supply contracts, most of which have been arranged through informal negotiations with a traditional supplier. One reason for these expensive contracts is that the NPA has
very poor credit—because its cost of service is higher than tariffs it often struggles to pay its fuel bill. Another reason is that a fuel barge was sunk outside the fuel terminal during the civil war, making supply of fuel difficult until the wreck is removed. Corruption in fuel procurement may have been another reason for the high prices.

Recently the National Commission for Privatization (NCP) initiated a competitive tender for the supply of fuel for electricity generation. This tender adhered to “best practice” in competitive procurement, including public advertisement of the tender, public opening of the tenders, and selection based on the lowest price offered.

To reduce the fuel supplier’s risk and make the tender possible, the NCP arranged for the Government of Sierra Leone to guarantee payment for the fuel. The competitive tender was a success—the price of fuel was reduced significantly. There is hope that the lower fuel price will reduce the NPA’s cost of service and break its cycle of deterioration.

Source: Castalia interviews with National Commission for Privatization staff and sector practitioners

Case study: Complexities of procuring and negotiating IPP contracts

Country typology: Anglophone, Developmental (Tanzania)

Lessons learned: IPP contracts are a major avenue for corruption and other governance failures in the electricity sector. Expertise is required to negotiate professional and transparent contracts. Where this is lacking, poor investment an non-transparent procurement will lead to long term costs and consequences.

Overview:
Situation: Tanzania entered into a 20 year agreement with a Malaysian IPP during a power crisis
Complication: The transaction was contested by some government officials and development partners for i) relying on the wrong technology, ii) not being part of the least-cost generation plan, iii) not being procured on a transparent and competitive basis. It was also disputed whether the power was needed.
Solution: The case was submitted to arbitration, and project costs were reduced by 18 percent. However, disputes continue.

Summary:
The Government of Tanzania and the Tanzania Electricity Supply Company entered into contractual agreements with Independent Power Tanzania Limited (IPTL) of Malaysia for the supply of 100 megawatts of power over a 20-year period. This transaction, directly negotiated during a power crisis, was contested by some government officials and by the international donor community and other interested stakeholders, on the grounds that it was the wrong technology (heavy fuel oil instead of indigenous gas), that it was not part of the least-cost generation plan, that it was not procured on a transparent and competitive basis, and that the power was not needed. The government ultimately submitted the case to arbitration. Under the final arbitral ruling, the project costs were reduced by about 18 percent. Even so, the costs remain well above international comparators. In the arbitration hearings the Government alleged that the contract award had been corrupt, but failed to produce evidence to satisfy the Tribunal of this. The government has not subsequently pursued the corruption investigation. However, legal disputes between the IPTL and the government continue.


Case study: Pre-qualification of suppliers

Country typology: Anglophone, Developmental (Tanzania)

Lessons learned: Prequalification processes may result in collusion if the number of selected contractors is small
Summary:
The World Bank through its project processes picked up that the pre-qualification of suppliers was resulting in collusion among the small group of selected contractors. The Bank also detected that when separate envelopes were submitted with financial proposals, they were tampered with after the technical selection process. As contractors are fully aware of the fact that government places a higher score on tender price, the incentives to change price after submission were high. The World Bank has since stopped the pre-qualification process and is now asking companies to provide proposals, qualification documents and financial information in one packet, which has made the bid prices more competitive.

Source: Interviews during Toolkit mission to Tanzania

Case study: European Union internalizing (owning) procurement operations in “failed” state environment

Country context: Francophone, Fragile state (DRC)

Lesson learned: A supranational institution executing the tender process to immediately kick-start the build-up of road infrastructure in absence of donor confidence in the government (corruption) and the country’s capacity for doing so.

Overview:
Situation: In 2002, the donor community wanted to develop the much neglected road infrastructure to improve access to key cities throughout the Democratic Republic of Congo (DRC).
Complication: Donors and civil society where worried that in the aftermath of the civil wars, the DRC didn’t have the capacity to execute a fair tender process.
Solution: To diffuse the concerns and start immediate build-up of the roads, the European Union (EU) stepped in and took on the operations of the public tender process for its own funds.

Summary:
Upon calming of the state of civil war in the DRC in 2002, structural cooperation between the EU and the DRC resumed. Immediate assistance was needed on many fronts to stabilise the country as it came out of conflict.

Among others the EU focused on restoring or upgrading infrastructure, particularly roads, to meet the needs of individuals and the economy. In absence of appropriate capacity at national level to ensure a fair public tender process to identify the most suitable bidder, the EU moved in as an interim tender process administrator of its own funds to ensure that roads are built whilst national capacity and proper tender standards are developed in the meantime.

The tender process encompassed the full range from the drafting of the proposal, to the collection of Expressions of Interest (EOI), the collection of proposals, and final selection of the bidder and oversight of the works. As capacity is increasingly being developed at country level (2009), the EU is moving to an “arm’s length” standard similar to that of other multilateral development banks whereby a government agency runs the tender process with “no objection” (veto right) rights being granted to the EU as regards the candidates identified through the EOI, the final Request for Proposal (RFP) for dispatch, and the bidder selected for execution of the RFP.

Source: Interviews during Toolkit mission to DRC
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**Overview:**

**Situation:** The Central Negros Electric Cooperative in the Philippines wanted to build a coal fire power plant in the Negros Province.

**Complication:** The project met with widespread public opposition, and civil society and NGOs organized themselves to question the project through informed research.

**Solution:** Civil society and local government authorities compromised on a renewable energy project.

**Summary:**

In 2002, the Governor of Negros Occidental province and the Secretary of the Department of Energy (DOE) in the Philippines committed to a 100 percent renewable energy target for Negros province. The announcement came after eight years of heated debate about whether to build coal-fired power plants in Negros or to prioritize renewable energy solutions to the province’s energy needs.

When the Central Negros Electric Cooperative (Ceneco) announced its intention to build a 50-Megawatt coal-fired power plant in Negros Province in 1997, a process of public consultation prior to starting construction was initiated. The plant was contracted to the Edison Global company, in collaboration with the Central Negros Power Corporation and two other multinationals, Ogden Energy and Asea Brown Bover. Independent research and engagement by civil society organizations with support from technical experts found that the power plant was to be constructed on a river delta and that the coal ash and effluents were likely to disrupt the water system and impact fishermen in particular. The plant was also expected to have serious negative impacts on local health, particularly since there were no plans to manage the dumping of fly ash from the plant. Pulupandan had been the site of a highly polluting alcohol plant for many years, and residents were very concerned about a new facility that would have additional environmental health impacts.

The project met with widespread public opposition. In Pulupandan, a small group of women began mobilizing the town’s residents to question the construction of the coal-fired power plant, drawing more and more volunteers and eventually organizing itself as a formal NGO. Despite alleged attempts by some project developer representatives and government authorities to prevent their participation in consultations, the group prepared educational materials about the project and mobilized residents to participate in discussions about the need for the plant. They submitted a formal critique of the project to the Department of the Environment and Natural Resources (DENR), documenting the project developers’ failures to comply with the conditions upon which an Environmental Compliance Certificate (ECC) should be issued. The DENR eventually responded by revoking the ECC for the project.

Rather than simply opposing the construction of new coal-fired power capacity, civil society and local government authorities were able to work together to consider the downsides of coal power and the advantages of developing new renewable energy projects such as wind, solar, small hydro, and modern biomass under this new local policy framework. Organizations including the Philippines Rural Reconstruction Movement, Preferred Energy, the International Institute for Energy Conservation, World Wildlife Fund, and Greenpeace worked with DOE and local Negros government officials to develop a detailed alternative energy plan for Negros Province, with an emphasis on off-grid clean energy options for isolated communities. They also set up a new program to execute this integrated plan, the Green Independent Power Producers Program (GRIPP), which partners with private sector actors to develop new clean energy projects. Ceneco and GRIPP are working together to develop a wind farm in Pulupandan on the same land that would have been the site of the coal plant. In addition, GRIPP is working with the First Famers Holdings sugar mill in Talisay city to set up a 30MW biomass cogeneration plant. The DOE has declared Negros a model for 100 percent clean energy-based development in the Philippines. Under its Renewable Energy Framework, the DOE is promoting the GRIPP program as a model for encouraging greater private sector participation in the development of
renewable energy resources, energy efficiency initiatives, and strategic integrated public-private energy planning.


Case study: Educating civil society to hold contractors accountable

Country typology: outside Africa (Pakistan)

Lesson learned: It pays off to educate community members on what should be delivered by contractors, as this reduces the contractors’ opportunities for corrupt behaviour.

Summary:
In a study of the Slum Networking Project (SNP) in Ahmedabad, contractors interviewed reported that there were far fewer opportunities to “fudge” contracts under the SNP than other contracts with the Ahmedabad Municipal Corporation. NGO staff monitoring the project included engineers that could supervise the contractors work, and NGOs trained community leaders to measure and weigh pipes and evaluate the quality of work.

One foreman explained:
The community have been told to watch us. At first we ignored them. Then they would report to the [NGO] and they would tell [the SNP staff]. They have taught them how to test the materials … [E]ven when there is a small mistake now, they are all coming to shout at us”.

In this case, educating community members on what should be delivered by contractors reduced the contractors’ opportunities for corrupt behavior.


Case studies: Development Partners’ Governance group

Country typology: Anglophone, Developmental (Tanzania)

Lessons learned: Development partners can work together to prioritize key areas of sector governance concerns

Summary:
Through cooperation arrangements with the government, development partners have formed a governance group with various sub-committees. Priorities of these sub-committees include pay reform, legal sector reform and anti-corruption measures. The group has further contracted a neutral third party consultant to serve as a coordinator as well as provide overall analysis for all governance issues. During monthly forums, development partners discuss key themes arising from their own analysis as well as from the secretariat and prioritise key areas of concern that shape program priorities. Local civil society groups and government representatives are welcome to provide input in these processes.

Source: Interviews during Toolkit mission to Tanzania