

The World Bank's Anti-corruption Agenda

Cheryl Grey

Introduction

” The causes of financial crises and poverty are one and the same . . . if [countries] do not have good governance, if they do not confront the issue of corruption, if they do not have a complete legal system which protects human rights, property rights and contracts . . . their development is fundamentally flawed and will not last.”

*James D. Wolfensohn
Address to the Board of Governors
September 28, 1999*

This is a very exciting and promising time for anyone interested in governance and anti-corruption. Over the past few years the attention of the world has shifted dramatically, in part because of historical events (including the end of the Cold War and the opening up of political discourse and democracy in many countries) and in part because of the growing body of evidence that poor governance and high levels of systemic corruption corrode development and impair economic growth.

Governance and anti-corruption are at the top of the World Bank's development policy discourse more than ever before. Of course the Bank has always been concerned with the integrity of its operations. Its Articles of Agreement require that its resources be used efficiently and appropriately for development purposes, and procurement procedures in Bank projects have long been focused on that goal. In terms of its development strategies, however, the Bank did not explicitly talk about "corruption" as such before the mid-1990s, in part because of its political sensitivity and the Bank's explicit non-political mandate. (This was also true for the vast majority of other development agencies -- bilateral and multilateral.) The Bank did, however, raise the issue of corruption in discreet but direct ways with certain governments.

In the 1980s, as the nature of the Bank's business evolved from "hard" infrastructure projects to policy frameworks (with the advent of adjustment lending), the Bank began to help countries reform trade regimes, financial sectors and investment laws to help mitigate the effects of "rent-seeking" behaviour. Increasingly, it also began to address the need for institutional strengthening, public sector reform, and good governance in its client countries. Landmark documents include the 1983 World Development Report on Public Management; the Africa Long-term Perspectives Study in 1989, and two Governance reports in the early 1990s.

Corruption as a development issue was explicitly addressed by the Bank for the first time when Mr. Wolfensohn became President in 1995. During the 1996 Annual Meetings, Mr. Wolfensohn captured the world's attention when he vowed to fight the "cancer of corruption" that undermines development. The 1996 and 1997 World Development Reports (on transition and the role of the state, respectively) both discussed

the issue of corruption. In the summer of 1997 the Bank's procurement guidelines were amended to specifically address corruption in Bank projects. Most notably, in September 1997 the Board approved a comprehensive anti-corruption policy framework for the Bank.

The framework envisions action on four fronts:

- *First, the Bank will make every effort to prevent fraud and corruption in projects it finances.* This has always been a concern, but we are strengthening our efforts.
- *Second, the Bank will assist countries that ask for help in curbing corruption.* All regions are now receiving requests, and our challenge is to respond meaningfully while ensuring government commitment and leadership.
- *Third, the Bank will mainstream a concern for corruption in its country analysis and lending.* The contains the explicit statement that the extent and nature of the Bank's activities in a country will be affected by the level of corruption, its impact on development and/or Bank projects, and the willingness of the government to address it. Explicit attention to governance has been a feature of IDA allocations for some time, and diagnosing addressing governance concerns is now an explicit requirement in the preparation of country assistance strategies. As stated in the 1997 Bank strategy, *Helping Countries Combat Corruption: The Role of the World Bank*, "Corruption should be explicitly taken into account in country risk analysis, lending decisions, and portfolio supervision if it affects project or country performance and the government's commitment to deal with it is in question."
- *Fourth, the Bank will participate actively in international efforts to address corruption.* This area of activity is moving along well, but more can be done.

This talk primarily focuses on our assistance to clients – the second part of this strategy.

Assistance to Clients

The Bank views systemic corruption as a symptom of weak and poorly functioning institutions. Research has shown that corruption is empirically associated with economic policy distortions, excessive regulatory interventions and discretion, a poor judiciary system, weak rule of law and inadequate protection of property rights, as well as non-meritocratic service hiring and promotion practices and weak incentives and a lack of professionalism in the civil service. Bribery also prevails where anti-monopoly policies are weak. Legal, regulatory, organisational, and ownership reforms to reduce monopoly power are crucial first steps in the fight against corruption. Furthermore, bribery and tax evasion (which go hand in hand) are more common when the overall tax burden on the firm is high -- particularly where administrative capacity to enforce tax laws is weak. Finally, research points to the correlation between the extent of corruption and the extent of civil liberties. The 1997 World Development Report and the Bank's evolving public sector strategy, as well as the Bank's increasing emphasis on inclusion and social

development, all recognise the importance of a strong and involved civil society in providing an impetus for governance reform and in monitoring public sector performance.

The Bank thus addresses corruption in systemic terms, mainly with a goal to reduction and prevention through institutional strengthening. It is not the Bank's role to identify and prosecute individual offenders, but rather to address the various aspects of policy and institutional reform that are likely to be critical in reducing corruption -- including economic policy and its implementation, institutional reforms and the framework for civil service employment, the legal-judicial system, financial control mechanisms, and the extent and nature of public oversight. We know from experience that internal reforms in the rules and restraints on bureaucracy are perhaps necessary but are not sufficient for reform. The "voice" of the citizenry and the private sector and competitive pressure (for example, in public service delivery) are two mechanisms that complement changes in internal rules and restraints.

What can the Bank do to help countries address corruption? We are guided by several principles. First, a country's leaders must be in the driver's seat. Without high-level political support an anti-corruption effort is unlikely to succeed. Second, as noted earlier, citizens need to have mechanisms to hold leaders accountable. They need voice and participation, and competition can also help increase transparency and accountability. Third, relevant organisations in the public, private, and non-profit sectors must have the capacity and the incentives to do their jobs effectively.

In-depth empirical work can often help to diagnose the extent and nature of the problem and to raise awareness. For example, in-depth surveys of citizens, private firms, and government officials have helped to quantify the level of corruption, pinpoint where it is most problematic, and thereby help set priorities for action. The results of recent surveys in transition countries, for example, help to identify which government services are most trusted by citizens and help to quantify how much citizens must pay for certain services and to what extent public officials tend to purchase their positions. Empirical results such as these help to break the problem into manageable pieces and set priorities for action.

Another interesting type of survey that the Bank has recently helped clients undertake is a "tracking" survey to see to what extent public spending reaches its intended uses. In Uganda, for example, tracking surveys helped reveal that many funds budgeted for education failed to reach the schools. To help increase budgetary effectiveness, the Government of Uganda began to disseminate information on monthly transfers of funds to districts publically -- in newspapers, on radio, and in posters put up at schools. School-based procurement replaced central procurement of construction materials, a standard accounting system was implemented at the central and district levels, and the methods of calculating grants to schools were made totally transparent. This is only one of many examples of the power of information and transparency.

It is also an example of how awareness raising must be followed by action to be useful. The Bank is involved in helping government reform policies and strengthen institutions all around the world; it lends at least \$5 billion per year for institutional reform. Priorities for action will vary by country and may include initiatives (i) to deregulate the economy, (ii) to reform public sector management in areas such as customs,

tax administration, or the civil service, (iii) to strengthen "accountability" institutions such as audit bodies, anti-corruption commissions, or the judiciary and/or (iv) to decentralise government structure to bring services closer to the people.

Knowledge sharing is another important part of the Bank's work. In addition to surveys and workshops, the Bank has conducted over 40 training courses in investigative journalism, parliamentary procedures, and the roles of the auditor general and the public accounts committee, and it recently launched its internal and external anti-corruption web sites.

Finally, we believe that international efforts are key complements to these in-country efforts at reform. Anti-corruption work is most effective when it involves a wide variety of partners, and many corruption problems cross national boundaries. We are working actively with a wide variety of partners -- including OECD, UNDP, bilateral donors, the other multilateral development banks, regional organisation, and non-governmental organisations (both within countries and internationally) to address common concerns, share experiences, and jointly design and implement interventions in the field where possible. We strongly support the OECD's Anti-bribery Convention, and we hope all signatory countries will ratify the convention in 1999.

In sum, we are in the midst of profound change, and there is room for great optimism. The attention given to governance both inside and outside the Bank has increased dramatically, the dialogue is noticeably more open both in the Bank and in our client countries, and new ideas and experiments are emerging daily. We need to continue our strong commitment, because helping governments function more effectively is a fundamental key to long-term development.

However, at the same time we need to keep realistic expectations. As was noted at the outset, the need to be vigilant in addressing fraud and corruption never ends, and tackling widespread systemic corruption is a particularly difficult task. Corruption is a deep and complex problem, both technically and politically. Making substantial progress takes time, and countries must be continually vigilant. Enormous top-level commitment and leadership is required. We are still in a relatively early stage in developing our capacity and techniques to understand and help countries address this issue, and we all still have much to learn. The goal is well worth the effort, but we need to have realistic expectations. We must seek continual progress but not expect perfection.