

Sanjay Pradhan: 12th International Anti-Corruption Conference

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Transcript

Sanjay Pradhan: It's a real pleasure to be here. Nancy has given such a wonderful introduction that I'll be able to race through some of the introductory points. Nancy, rather than leaving you to write the papers and for us to go on vacation, we thought we'll try and do this together, then we could go on vacation together actually.

This is -- we really greatly appreciate this opportunity to consult with you at the IACC Forum. Nancy has already mentioned that about a decade ago, the World Bank put anti-corruption at the centre of the agenda, with Jim Wolfensohn's famous cancer of corruption speech and the Bank launched a whole series of programs. Why then are we having this discussion on the strength and the engagement of governance and anti-corruption? There are a few reasons. One reason is, poor governance and corruption continues to undermine the core mission of the Bank, which is about poverty reduction. You've heard it from many speeches, throughout the conference, the cost that petty corruption and grand corruption imposes on the poor. There are other reasons, which is that, stakeholder citizens in developing countries, even leaders in developing countries, are in fact putting this agenda front and center on the stage.

Then there is another reason why this has become very important. In the donor countries, as you would have seen, there are increasing pressures from the citizenry and parliamentarians, repeatedly wanting greater assurance that donor resources are being put to good use. There is increasing intolerance for putting large amounts of lending and large amounts of aid in countries and then hearing scandals about grand corruption, so there is another pressure that is coming from donor countries. On top of that, we have this prospect of significant scaling up of aid, and if you're going to have significant scaling up of aid, we need robust governance systems. So these are the reasons why this has emerged at the center of the agenda. I think it's important for us to distinguish three different risks that poor governance, of which corruption is one important aspect, poses for institutions like the Bank.

One risk it poses - development effectiveness risk - is that poor governance and within that corruption, undermines development. The second risk it poses is fiduciary risk, that donors resources will not be used for the purposes intended. The third risk it

poses is reputational risk - that you might be giving large amounts of lending to a country which has corrupt leaders and it will tarnish the Bank's reputation. The important thing to note is that for an institution like the World Bank, at a country level, we have to manage all three types of risks. This makes our job complicated. It makes our job complicated also because we have to manage these risks in a balanced way. If you put too much of an emphasis on managing fiduciary risk, what you will do, is put safeguards, ring fence projects; World Bank safeguards their own projects, but if you do that, you won't develop a country's systems, which are important for development effectiveness. If you put too much emphasis on reputational risk, we will stop lending to very corrupt countries and that will undermine development effectiveness. So the fact of the matter, the complexity of the development business is that, you have to manage all three risks and that is why the strategy that we've talked about at Mr. Daboub's briefing has three elements to it. It has the country level, the project level and the global level to address all these different levels of risks and problems.

Very quickly, let me just mention on the country level, I'm going quickly because we've lost some time and you have handouts on this. At the country level, the important thing to ask is, what is the World Bank doing to take poor governance and within that corruption, seriously, at the country level. One very important point to note is that, when the Bank allocates aid to countries, in the IDA allocation system, the concessional aid allocation system we have to low income countries, governance has a very, very important weight. Most people don't realize this. We allocate money to countries and governance has a very important weight. What people don't know is IDA allocation per capita can raise four times depending upon the governance performance of the country. So a country that is in the weakest quintile, will let's say get 2 SDR per capita and a country that is in the highest quintile, will get 8 SDR per capita. That means we're giving a lot more resources to countries that are better governed and a lot less resources to countries that are more corrupt. The strategy goes beyond that to say, that rather than just stopping there, what we will do is, in countries where the government leadership is undertaking major governance and anti-corruption reforms, we will scale up tactical international assistance. A good example is Liberia for instance. In other countries where governance and corruption poses a major challenge to development, the country assistance strategy through which we provide assistance to countries, will feature governance and corruption issues as major considerations as it does for instance in our CAS Country Assistance Strategy for Indonesia and Bangladesh, but there will be countries where weak governments and wide spread corruption block development and there is deep commitment from the leadership, these are the hard cases, aren't they? And if they are, the Bank will seek to ensure that basic services reach the poor, but, in fact, if still commitment is weak, we will restrict or stop lending, and we will do this through pre-identified benchmarks rather than [inaudible].

This is one of the issues that is contentious, as Daniel will also say. But we -- the whole strategy is not about disengagement as it was reported in the press. It is about engagement, but it recognizes that in some country context, you need to take some hard decisions. So, if it is about engagement how do we help countries from that

corruption, how do we actually help countries rather than standing in judgment and this illustrates the main areas in which the World Bank provides support to our countries in various areas of governance, to improve governance and combat corruption. Some areas we are doing a lot in; in other areas we need to do a lot more and that's what the strategy signals.

Let me very quickly walk you through it, the first area where we're doing a lot is what is called here as core governance. Core governance refers to core public management and what we're doing here, this is core public management. One of the main things we're doing with countries is helping improve public financial management and [inaudible] ensuring that money is accounted for properly. So, a lot of the work we're doing here in a number of countries is strengthening the systems, making them more transparent - accounting, auditing, transparent and competitive procurement systems, e-procurement systems, civil society oversight of a procurement, for instance, in Philippines or Slovakia and a whole series of reforms including in tax and customs.

If you go back to Huguette Labelle's opening remarks yesterday, she talked of one of the priorities she would put in if she will meet the Head of a State would be to strengthen some of these core areas of governance. We're also doing a fair amount in administrative civil service reform, to make the civil service meritocratic and better paid, which was another area that was raised although, it's a fairly difficult area to make a lot of progress. The other area we're doing a lot is local governance, where we are doing a lot of work with community driven development, to generate bottom-up pressure for greater accountability. Very good examples are Indonesia's Kecamatan Development Project and many others. These are areas where we are doing a fair amount, we can still do much more and we should.

There are three other areas where we need to do a lot more, to be candid with you. One of the areas where we need to -- where we are doing stuff, but we want to do more is what was being labeled as the demand for governance. Demand for governance really refers -- what we mean by that is strengthening non-executive institutions of accountability. The World Bank primarily works with the executive branch of government, but you know as practitioners in the area of anti-corruption, we're not going to go anywhere if we just work with the executive branch, we have to work with non-executive institutions. Parliament, John [inaudible] talked about it today as the constitutional body to hold the executive to account ; judiciary; supreme audit institutions and so on, cross-cutting transparency initiatives; freedom of information; asset declaration. We're also -- we need to do a lot more work with the key institutions - the whole array of civil society organizations, media, investigative journalism, citizen report cards and the like

This is a big area and it is also controversial because there was a sense that the Bank should work more with the executive branch. We think this area is very important for us to do more work in. Flipping to the other side of the private sector, while we have been doing a fair amount with civil society and media, with the private sector, frankly, we have not done all that much. We do a lot of work on the investment climate, but we do not engage the private sector as an ally, as a champion, because corruption is a two-way street with every bribe-taker there is a bribe-giver. How do we engage with the private sector in its dual role and this is an area where IFC and MIGA, parts of the World Bank group, look at due diligence in their projects, but we have not engaged enough with the private sector, this is an area we would acknowledge, we need to do a lot more work.

The last area is governance and anti-corruption in the sectors. This is very important because the bread and butter of the World Bank is its work in the sectors - infrastructure, health, education and so on. Lots of initiatives - we're already involved in INT [inaudible] and so on, but we need to do a lot more work in the sectors. We have to advance this work in corruption in the sectors. We think we need to do much more systematic analysis of tackling corruption in the sectors. We have done a major report and there is a draft copy at the back of the room, where we're looking at 12 sectors and we are trying to develop a methodology for tracing vulnerabilities to corruption in the sectors. So, in pharmaceuticals the vulnerabilities vary - whether its manufacturing registrations for procurement, distribution and so on. We need to look at the whole value chain inside every sector, identify the different points of vulnerability and what you need to do for vulnerability in manufacturing or procurement, is different from other areas. We have done this with electricity, forest, health education, customs and so on. But this is an area where we need to do much more and make much more progress.

The second level is at the project level. The Bank has had a lot of experience in trying to ensure throughout project design, supervision and so on to combat corruption in our projects to make sure resources are used for the purposes intended. What this strategy does and what this slide is simply trying to point out, are additional areas of emphasis over and above what the Bank group has already been doing to further safeguard our projects from corruption and some of these measures are identifying high risk operations, having anti-corruption teams in our field offices, who have much greater knowledge of corruption in Bank projects, preparing project anti-corruption action plans. This has been done in Indonesia, disclosing them, making them transparent so they're having oversight by civil society organizations. Greater emphasis on portfolio reviews, so we are not just looking at new projects; a major emphasis on strengthening enforcement. We have the colleagues here from the Department for Institutional Integrity (INT), which investigates fraud and corruption in Bank projects. The INT has been significantly strengthened now and is doing a number of investigations. As you know, the World Bank, as many of you know, but some of you may not know; the World Bank has been one of the champions in investigations, publicly sanctioning and debarbing the firms that have been found to be corrupt. Since 1999, 330 firms and individuals have been debarred. We also have a

Voluntary Disclosure Program, where firms who want to -- like an amnesty program; want to come forward rather than being debarred, they have to exchange information of corrupt practices they have engaged in, in the past, to undergo some sort of an amnesty.

So, there is a fairly significant emphasis on further strengthening our measures to corruption-proof our projects. The final level is at the global level. This is very important because corruption is a transnational problem. Corruption is not just a developing country problem. This slide comes from some research Daniel Kaufmann and others have done, which shows percentage of firms that pay public procurement kick backs by country of origin and you will see some of your favorite countries will be featured here.

The important thing here, is that as we are pointing fingers at developing countries governments, we need to realize that at least three fingers are pointing back at us and therefore, the actions of enforcement of conventions, like the OECD Convention have actually been somewhat limited. So, if we are going to make further progress, we need to address both sides of the corruption equation. It's also important not just to look at transnational corruption but to look at entrenched and embedded networks of corruption. You've heard about this. This is the case of Montesinos in Peru, you've heard Doctor Magallanes getting the award yesterday -- and we heard embedded networks. This is the case study of Montesinos - all the arrows show, all the various transactions at all the various sectors that were involved in this embedded network of corruption. If this is the kind of embedded network of corruption we face in many countries and for those of you who've heard John Githongo speak very eloquently about this. It is very clear that the World Bank alone cannot do much about this problem, we need to engage with local coalitions that encompass state civil society and private sector into coalitions for action.

So, therefore there are three priorities for global collective action underlined here. The first priority is donor collaboration. Within that, one very important area is MDB harmonization, Multilateral Development Banks. A taskforce has been set up for MDB harmonization that has looked at sharing information on investigative rules and on sanctions, recognizing sanction decisions of each other, that's good but not far enough.

We have a real problem amongst donors, that we give mixed signals, one donor can stand tough and the other donor can come in and start bending because frankly, there is competition amongst donors. We cannot have that, if we are going to be credible about this. The other area that we need to move on is coordinated donor action so that some donors can work in areas like political corruption, like working with civil society media, where for instance the Bank may be more constrained. So, we need to

have a good division of labor. Global conventions are very important; OECD conventions, I've mentioned, we need to play an advocacy role. The UN convention is coming, it is very important for the Bank to play an important monitoring role and to provide assistance to countries. We also want to do a lot more in asset recovery, where we've done some work in Nigeria and finally, we need to work with coalitions, for we need to have to work with coalitions of private sector with civil society, Transparency International, other civil society organizations, and parliamentarians.

This is very, very critical because corruption reflects embedded networks, the only way we will be successful is, if we work with coalitions. We have the Global Integrity Alliance with many organizations around here involved in EITI and many other organizations and that's what we need to do more of. Let me now turn it over to Danny Kaufmann.

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