

## **Anti-Corruption within a Broader Developmental and Governance Perspective**

### *Some Lessons from Empirics and Experience*

**Statement by Head of the World Bank Delegation to the High Level Political Signing Conference for the United Nations Convention Against Corruption, held in Merida, Yucatan, Mexico, December 9<sup>th</sup>-11<sup>th</sup>, 2003 <sup>1</sup>**

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We thank and congratulate the United Nations and the Mexican hosts of this Signing Conference for holding this event of such significance, and for the invitation extended to us to be represented in the plenary proceedings. Further, we welcome the opportunity to listen and learn from the expert participants and officials from so many countries and institutions worldwide. We will be brief and synthesize in a few points some key lessons we wish to put forth at this juncture, based on our experiences and studies in this field at this crossroads.

**At a Crossroads: successes, failures, and a stark reality with hope.** We are at a crossroad nowadays on governance issues worldwide. On the one hand, hope is very much alive, and often we are encouraged, given initiatives such as this UN convention, as well as recent OECD and OAS conventions, as well as the additional efforts by the international community and many individual country leaders, government reformists, and their civil society. Similarly, innovations in this field, applied in a number of programs on the ground at the country level, do show that progress is possible, as illustrated by countries like Botswana, Chile and Slovenia, and at the project level, as exemplified in the Citizens Report Card in Bangalore, India, which has resulted in major increase in citizen satisfaction with local agencies and decline in corruption, or the expenditure tracking surveys in Uganda, which has led to a reduction in budgetary leakages to local schools, or the participatory budgeting process in Porto Alegre, Brazil and others, or the transparent and efficient e\*procurement of the Mexican government (Compranet), or the governance reforms undertaken in Albania following the first in-depth corruption diagnostic in the late nineties.

And in recent years we have been able to become active in assisting countries on governance and anticorruption. The international community has become increasingly committed to this issue, as illustrated today in this historical signing of this Convention in Merida, as well as initiatives by the OECD and other international bodies (complemented by the pioneering work done for a decade by NGOs such as TI). In fact, until the mid-1990s, the World Bank was constrained in assisting on anti-corruption, as it was perceived purely as an internal political issue. Until the mid nineties, there were even constraints on spelling out explicitly the word Corruption (it was the C.....

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<sup>1</sup> This note has benefited from the collaboration with many colleagues at the World Bank working on Governance.

word instead). Yet since James Wolfensohn became the president of the World Bank, coupled by the evidence from new data indicating the extent to which corruption was a major impediment to development, the World Bank's role in this area has been significant from 1997 onwards. Based on a major worldwide databank on governance that has been built, we codified the extent and ways by which corruption causes poverty, inequality and underdevelopment. It is clear that Anti-Corruption and good governance can therefore deliver an enormous developmental dividend, estimated to be in the tune of 400%: countries that moderately improve on controlling corruption can expect a four-fold increase in incomes per capita over the long run, and similar progress on infant mortality and illiteracy reduction.

The extent of worldwide corruption is staggering (a conservative estimate of the value of corrupt worldwide annual income would not be merely be measured in terms of billion dollars, but instead in [the low] US\$ trillions range, while the additional indirect and long term costs would further enlarge such rough estimate). It is not a surprise therefore that there is such a high socioeconomic and developmental impact cost of such corruption for a large number of countries. Similarly, the estimates of the dollar value of tainted procurement contracts worldwide every year is extremely large, as are the amounts of laundered funds. And research also shows the extent to which corruption is a regressive tax on the poor, who end up paying a disproportionate share of their income in bribes to access basic services, and also suffer in reduced access to health, education and other such services. Likewise, it has been shown that on corruption is a significant tax on investors (on average it is like a 20% tax). And the evidence over time is sobering: in spite of some significant efforts, and some successes, no significant worldwide improvement has taken place on average over the past decade, as we review below.

Since the late nineties the Bank has been involved in hundreds of projects in scores of countries in all sectors with the aim to help countries combat corruption. Some countries have had some successes in this area, others have not. The same applies to World Bank projects supporting countries in their anti-corruption efforts. We try to learn from the successes, failures and mistakes. And we have continued to expand the governance databank on governance. With the statistical advances and new empirical tools, governance and corruption can now be measured, monitored and analyzed, at both an aggregate international comparative level as well as at a much more disaggregated and in-depth country diagnostic level. This permits rigorous evidence-based analysis of what works and what does not. Further, through the new set of transparency tools (including in e\*governance), coupled with the trend towards further voice and democratic accountability in many countries, this data tools and indicators do empower reformists in government, and civil society, in affecting change to improve governance.

We have also learnt from a major scaling up in our own internal processes in this field, to ensure that Bank-financed projects are not tainted by corruption. Our colleagues in the investigation department will present some of the specific investigative tools and lessons in a parallel session later this week. Similarly,

colleagues will also showcase in parallel sessions the role of the World Bank in assisting civil society participation in this area, as well as ways to minimize misgovernance in the financial sector.

With much greater involvement in this area and the increasing availability of databases, there is a growing responsibility in terms of monitoring and assessing whether progress is taking place worldwide in this area. Indeed, as suggested previously, there are success stories in some countries, cities and institutions. But the sobering reality is that for each success case, there has been inaction or deterioration in others. The variation in performance across countries, cities and institutions in controlling corruption is enormous. The result of this is that on balance worldwide there appears to be little progress on average on corruption control in recent times, and the data suggests that this stagnation in overall governance levels contrasts improvements in some areas of economic and sectoral reforms over the past decade or so. Against this sobering reality it is imperative to ask ourselves whether some areas require more emphasis in the next phase. The fact that there is such a large differences in governance performance permits a rigorous analysis of such variance, trying to learn from the lessons of success (controlling for specific country conditions). Selectively, from the lessons of experience and the available evidence let us suggest the following issues:

1. **On the link between Corruption and Governance.** Corruption and Governance are linked, but they are distinct notions. Yet fighting corruption cannot be done by merely 'fighting corruption' – through another anticorruption campaign, or by just adding anticorruption offices or incessant redrafting of laws in the books (often not enforced). Instead, corruption needs to be viewed within a broader governance context. Within such broader context there are other important dimensions -- such as rule of law, protection of property rights, freedom of the press, political competition, transparent campaign finance and others – that in turn affect corruption and need to be addressed head on. It is imperative to understand in which particular dimensions there are governance challenges within a country, and what are the key factors explaining weak institutions fostering corruption, and what are the specific political factors and vested interests contributing to corruption in a country. The role of participatory voice mechanisms afforded to the citizenry in curbing corruption is of particular importance in this context.

2. **On the Power of Data and Transparency.** It is now possible to define and measure the key concepts in governance, and these new data frontiers, both at the overall country level for the whole world, as well as the in-country diagnostics, constitute important transparency tools that reformist countries are utilizing pro-actively to monitor and inform policy-makers on governance and corruption. Data is very important to have a reality check, or checks and balances on our own views. Related, other pro-transparency measures need to be further encouraged, such as Freedom of Information Acts, public disclosure of asset declaration by high officials and politicians, e\*procurement, etc.

3. **History, Culture, Ideology and Globalization as factors determining Corruption?** These popular notions, and at times myths, are not borne

out by the evidence. There is no solid evidence that corruption is culturally determined. Thus, there is no basis to justify a lax approach to corruption due to a cultural justification. Corruption constitutes a cancer in any setting, with large costs on society in general and the poor in particular. There are anthropological studies showing how even illiterate peasant in rural villages differentiate well between a gift and a bribe. Similarly, while historical factors are of relevance in understanding the evolution of the quality of governance and institutions in a country, there is no deterministic historical legacy which countries cannot transcend, as witnessed by the vastly different institutional, governance and anti-corruption performance of countries in the same region with very similar historical, cultural and linguistic antecedents.

Further, we find no evidence that government's ideological leaning matters in explaining the prevalence of corruption in a country. In fact, there are excellent examples of corruption control in countries with left and right-wing ideological leanings, and unfortunately there are also examples of countries plagued with high corruption in both types of regimes. Another 'myth' in this field is that the globalization process is a significant contributor to corruption. To the contrary, the evidence points to the fact that countries that embrace globalization can reduce opportunities for corruption, likewise regarding economic reforms. Similarly, there is no evidence that privatization results in increasing corruption, and where transparent and competitive methods of privatization prevail, in fact the contrary is the case.

4. **On Anti-Corruption (A-C) Commissions.** Realism is required in the assessment and expectations of what can be attained by Anti-Corruption agencies. They have succeeded in a few selected cases (such as the notable case of Hong Kong), but in many cases they have not. It is difficult to expect much impact by creating a commission in a setting where corruption is systemic or endemic. For other settings (average or low corruption), it may help, but complementary reforms may be even more important – such as reduction in red tape, liberalizing trade barriers, confronting the illegal influence by the vested interests of the elite (state capture), reforming political campaign finance, and other economic and political reforms promoting more competition and transparency. Further, Anti-Corruption commissions cannot succeed in isolation (or in an institutional vacuum within government). As important is to involve other branches from the ministry of justice and enforcement institutions, and also key central agencies such as the ministry of finance, customs, procurement, Central Bank, and at the subnational level as well.

5. **Citizen Voice and Democratic Accountability for Governance and Anti-Corruption.** Even where there is a multi-institutional approach within government, it cannot succeed or be sustained if the effort just based on Government institutions. It is crucial to involve, in a participatory manner, with democratic accountability, the key segments of civil society, the media, parliament, the judiciary, and the private sector. The evidence suggests that countries that restrict freedom of the press, citizen's rights and their voice and participation, would be hampered in reducing corruption.

6. **Corruption and the Private Sector.** It is clear that the private sector has a major responsibility in this area as well, particularly since influential firms and conglomerates play such a key role in affecting policies and institutions in a country – sometimes for the better, but at times for worse. Ensuring openness and competition so to avoid capture of state institutions by monopolistic vested interests is important. Such undue influence or capture by some conglomerates, where it takes place, affects political structures, resulting in the deep entrenched institutionalization of corruption. Corruption is therefore not just a problem within mid-level bureaucracies. The political structures and their links with the private elite is an area of important focus.

7. **Corruption and the international context.** There is no question that the international community bears a very important responsibility in this area. The UN Convention Against Corruption, being signed today, is an important landmark. Effective monitoring, incentives for improvement, and appropriate enforcement mechanisms will obviously be key for success in its implementation. Further, complementary actions by the OECD countries and multinationals will also be very important in a global compact to address corruption internationally. Multinational corporations, through their practices, can affect governance and corruption in a country, for the better or for worse. Consequently, incentives for good governance behavior in emerging markets is very important. Countries in OECD (and within them the G-7) can play a key role in providing a framework for well-governed transnational investments and aid. A high priority by the G-7 to a worldwide fight against corruption and in promoting good governance would appear to be warranted at this crossroads. appropriate at this juncture. Nowadays this is not only an economic development imperative; it also has worldwide security implications.

In this context, further transparency and disclosure in international banking, and addressing the challenge of money laundering, is also key. And the UN convention inclusion of provision to recover looted proceeds is a welcomed example in this context. Within our own international financial institution, we will continue building on the experience and deep commitment already made, and will continue to provide with updated databanks on governance worldwide, helping with monitoring, analytical and operational tools in this area. We will continue to work closely in assisting countries intent on improvements in this areas that so request. We will also continue to ensure that we can have the best possible standards in the Bank's-funded projects and internally as well, within a zero-tolerance policy. We have made a major commitment for transparency in this area, with many related measures, such as taking the lead in publicly delisting companies that have engaged in corrupt practices in World Bank-funded projects.

8. **Recognizing the role of Domestic Politics.** We commit ourselves to continue building on our efforts as an international institution, providing a good example, and rendering expertise and supporting with concrete projects and programs in good governance and A-C. At the same time, it is important to recognize that a lesson emerging from experience so far suggests the limits of what one international organization can do in this arena: domestic politics in a country matter enormously for

success or failure in reducing corruption. Politics and vested interests have often been major obstacles to effective technocratic projects in this area. Politics obviously refer to internal matters; the required leadership and will for reform needs to be generated and sustained from within. Often such political dimensions are linked to the vested interests of some in the elite, which also need to be understood and addressed in the formulation of realistic programs and measures. Technocratic solutions by international institutions or outside experts cannot be expected to have impact in the absence of resolve by the domestic leadership to implement political reforms and undertake difficult institutional measures to reform systems that would help prevention. Addressing issues such as political campaign finance; transparency in the legislative process, freedom of the press, rights of women, and parliamentary immunity, are examples of areas where some technical know-how can help, yet they ultimately refer to domestic politics.

In concluding, it is important therefore to reiterate the importance of a collective commitment in this area, where the various international and domestic stakeholders do fulfill their respective roles. Politics and leadership matter, and so does the strategies of the multinationals and domestic private sector. The emphasis ought to be in altering the incentives through systemic reforms so to succeed at deterrence and prevention – later stages are costly and not always most effective. Major challenges within the public sector and the legislatures still remain to be addressed in many settings. A long road lies ahead, including in the implementation stage of this landmark UN convention to combat corruption, yet the countries that have attained good governance --including a number of them in emerging markets -- do suggest that this is indeed an attainable goal, and that being a wealthy country is neither a necessary nor a sufficient condition to have exemplary governance.

*Merida, December 9<sup>th</sup>, 2003*

**For general information on governance and anti-corruption:**

**<http://www.fightcorruption.org/>**

**Access to data: <http://www.worldbank.org/wbi/governance/data.html>**