

THE WORLD BANK'S INSTITUTIONAL FRAMEWORK FOR COMBATING FRAUD AND CORRUPTION

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I. BACKGROUND

Corruption was a taboo subject at the World Bank for a long time. It used to be referred to discreetly as the “c-word”.

The Bank's President, Mr. James D. Wolfensohn, changed all that in his address to the Boards of Governors of the World Bank and the International Monetary Fund at the 1996 annual meetings. He stated that countries could no longer afford to avoid dealing with “the cancer of corruption”: greater transparency and accountability are indispensable to encourage private foreign investment and to raise funds for international development assistance.

President Wolfensohn noted that it was the people of developing countries and countries with economies in transition themselves who clamored that this evil be addressed. Here are some examples, taken from the Bank's path-breaking study of the *Voices of the Poor*, a study involving some 60,000 people in 60 countries:

From a group of middle-aged Roma women in Bulgaria: “He's lying to people. There's no roads, no money, no food, yet he'll build a huge villa. When was the last time any improvements were made here? Which year?”¹

From interviewees in Kenya: “We saw the lorry of food relief arrive and the chief told us two weeks later that one-and-a-half bags had been received for distribution to 116 households.”²

From a group of men and women in Ecuador: “A lot of money intended for the people comes from abroad, but instead of using it to make improvements, they steal everything.”³

¹ Deepa Narayan *et al.*, *Voices from the Poor: Crying out for Change* 190 (Oxford U. Press/The World Bank 2000).

² Deepa Narayan *et al.*, *Voices of the Poor: Can Anyone Hear Us?* 93 (Oxford U. Press/The World Bank 2000).

II. GOVERNANCE CONSIDERATIONS

The Bank's charter forbids the institution to interfere in the political affairs of its members, and mandates it to take only economic considerations into account in all its decisions.

As stated in the Bank's Articles of Agreement:

“The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.” (Art. III, Section 5(b))

“The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to [the Bank's and its officers'] decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.” (Art. IV, Section 10)

The purposes for which the World Bank was created are listed in Article I of the Articles of Agreement. They can be summarized as the promotion of economic growth and poverty reduction.

When President Wolfensohn changed the focus from political considerations or individual criminal activity by government officials to a systemic problem that undermines economic development and threatens international assistance, he squarely redefined the problem as one of governance, of the quality of management of the country's resources and institutions. And the quality of governance has a direct economic impact.

Good governance is indispensable for economic growth and poverty reduction. It is also key to the effectiveness of development assistance. As reported in the well-known Bank study *Assessing Aid*⁴, with good overall country management, 1 percent of GDP in development assistance translates into a 1 percent decline in poverty and a similar decline in infant mortality. In other words, the impact of aid in an environment of good governance can be huge, and it makes the subject of corruption eminently worthy of Bank attention.

³ Deepa Narayan & Patti Petesh, *Voices from the Poor: From Many Lands* 409 (Oxford U. Press/The World Bank 2002)

⁴ *Assessing Aid* (World Bank/Oxford University Press 1998).

III. HELPING COUNTRIES COMBAT CORRUPTION: THE ROLE OF THE WORLD BANK

After the President's 1996 annual meetings speech, a major report was soon produced by the Poverty Reduction and Economic Management Network of the Bank. This report, entitled *Helping Countries Combat Corruption: The Role of the World Bank*, for the first time set out an overall framework for addressing corruption as a development issue ("the Report").⁵

The Report laid out four building blocks for the Bank's anti-corruption strategy:

- Preventing fraud and corruption in Bank-financed projects;
- Helping countries that request Bank support in their efforts to reduce corruption;
- Incorporating the corruption issue more explicitly in country assistance strategies, country lending considerations, the policy dialogue, analytical work, and the choice and design of projects;
- Adding the institution's voice and support to international efforts to reduce corruption.

1. Preventing fraud and corruption in Bank-financed projects

In order to fulfill the Articles' mandate that the proceeds of Bank loans only be employed for the purposes for which the loan was granted, the first thing the Bank did was to change its procurement guidelines and related provisions.⁶

Among the key changes introduced were the following:

- **definitions** of "corrupt practice" and "fraudulent practice" were introduced as follows:
- **corrupt practice** was defined as: "the offering, giving, receiving or soliciting of any thing of value to influence the action of a public official in the bidding process or in contract execution"
- **fraudulent practice** was defined as: "a misrepresentation of facts in order to influence a bidding process or the execution of a contract to the detriment of the Borrower, and includes collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the Borrower of the benefits of free and open competition"

⁵ *Helping Countries Combat Corruption: The Role of the World Bank* (R97-201, August 13, 1997) (The paper was considered by the Executive Directors on September 2, 1997, together with the paper *The World Bank's Role in Helping Countries Combat Corruption: Guidelines to Staff*, and published in pamphlet form in September 1997 by the Poverty Reduction and Economic Management Network.)

⁶ Guidelines for Procurement under IBRD Loans and IDA Credits, Guidelines for Selection and Employment of Consultants by World Bank Borrowers, General Conditions Applicable to Loan and Guarantee Agreements, General Conditions Applicable to Development Credit Agreements.

- **declare misprocurement:** the Bank will reject any proposal for award if it determines that the bidder or consultant proposed for award of the contract has engaged in corrupt or fraudulent activities in competing for the contract
- **partial loan cancellation:** the Bank will cancel the portion of the loan allocated to a contract for goods, works or services if at any time it determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or executing agency during the procurement or selection process or execution of that contract, unless the Borrower has taken timely and appropriate action satisfactory to the Bank to remedy the situation
- **debarment:** the Bank will declare a firm or a consultant ineligible, either indefinitely or for a stated period of time, to be awarded a Bank financed contract if at any time it determines that the firm or consultant has engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract
- **inspection and audit of accounts:** the Bank's right to require that in all Bank-financed contracts suppliers, contractors or consultants must permit the Bank to inspect their accounts and records related to the performance of the contract and to have them audited by auditors appointed by the Bank.

Since 1996, the Bank has also taken a number of measures to strengthen its institutional capability to control corruption.

Currently, the key features of that architecture are:

The Department of Institutional Integrity

President Wolfensohn charged this new Department with responsibility for conducting all investigations of corrupt or unethical behavior within the World Bank Group and in connection with Bank-financed contracts. The Department of Institutional Integrity was given institutional independence: just like the Internal Audit Committee, it reports directly to the President.

With the creation of the Department of Institutional Integrity, the Bank succeeded in consolidating all its investigative work. All Bank units who may encounter fraud or corruption, such as the Internal Auditing Department, the Professional Ethics Office, the Legal Adviser for Procurement, the Ombudsman, and the Operations Evaluation Department, are now to report any such matters immediately to this Department.

The Sanctions Committee

This committee was established by the President in 1998. It is responsible for determining whether contractors, bidders, suppliers, consultants, and individuals have engaged in fraudulent or corrupt practices in connection with Bank-supported projects. If the committee finds that the evidence shows with reasonable sufficiency that fraud or corruption has occurred, it must recommend an appropriate sanction to the President.

The Sanctions Committee has no mandate with respect to Bank staff: on these matters, the Department of Institutional Integrity refers its findings and recommendations to the Vice President for Personnel and Administration.

So far, 73 firms have been debarred as a result of the Sanctions Committee's work. The debarment was permanent for 63 of them.

2. Helping Countries that Request Bank Support in their Efforts to Reduce Corruption.

The World Bank's programs to help countries with their own anti-corruption programs can broadly be classified under two headings: (a) Lending and Technical Assistance Programs, and (b) Learning Programs.

Under its **Lending and Technical Assistance Programs**, the Bank has provided support in a wide variety of areas, including the following:

- deregulation and expansion of markets
- infrastructure privatization
- environmental regulation
- tax reform
- public expenditure reduction
- civil service reform
- legal and judicial reform
- opening up of civil society and the independent media

The Legal Vice Presidency of the Bank has taken the lead in the formulation and task management of projects that help root out corruption in the judiciary and that equip the judiciary in dealing effectively with corruption at all levels of society. It does so through capacity building and project support for

- legislative reform (e.g. China, Russia, Georgia, Indonesia)
- legal education (e.g. Zambia, Thailand)
- training for judges (e.g. Cambodia, Argentina)
- promotion of judicial independence and accountability through improved appointment, financing, and disciplinary procedures (example: in Cambodia, the minimum living wage is estimated at the equivalent of US\$130 a month. Judges are currently paid a maximum of US\$35 a month. Obviously, they need other resources to survive. Judicial corruption is, unsurprisingly, a problem.)
- public outreach through television and other media, to build public understanding of the law and justice systems (e.g. Georgia, Venezuela, Kazakhstan)
- expanding community-based dispute resolution initiatives
- establishing commercial mediation centers and pilot courts (e.g. Argentina)
- supporting legal services for the poor (e.g. Ecuador, Sri Lanka, Jordan).
- anti-corruption (e.g. Benin, Guatemala)

- comprehensive legal and judicial assessments (e.g. Argentina, Bulgaria, Armenia)
- the organization of global conferences on comprehensive legal and judicial reform
- court facilities improvements (e.g. to reduce free access to judges by the public) and case management systems (e.g. Venezuela, Argentina).

The **Learning Programs** can be classified in two basic categories:

- training courses and workshops for government officials
- diagnostic and research work, such as surveys of households, government officials, and business enterprises, and the dissemination of the results.

As is clear from the above, in all of this work, it is not the Bank's role to help governments identify and prosecute individual offenders. Rather, the Bank assists governments in identifying weaknesses in their institutional frameworks and in formulating programs for reform and for enhanced control mechanisms.

3. Mainstreaming Anti-corruption

In order to provide the necessary momentum for the fight against corruption, the Bank has mainstreamed its concern with corruption in its own processes and in its dialogue with its borrowing member countries.

Consequently, in the Comprehensive Development Framework (CDF) launched by President Wolfensohn in January 1999, good and clean governance is listed as the very first pillar of the framework. Elaborating on this, he said:

“While building an effective government framework is difficult, it will become impossible if there is corruption which is the single most corrosive aspect of development and must be fought systematically at all levels. Particularly it must start with a vigorous commitment from the leadership to fight corruption on all levels, with initiative both to prevent it from happening and a system for finding and punishing wrongdoers where corruption exists.”

The Bank's Country Assistance Strategy papers (CAS) set forth the basis, direction, and basic content of the Bank's assistance strategy for a country for a given period (typically 3 to 5 years). As a result of the Bank's insistence on mainstreaming concern with corruption in its work, the attention devoted to governance and anti-corruption in CASs has increased significantly in the last 3 years.

For example, a recent retrospective looked at the coverage of governance and corruption issues in 28 CASs completed during the period FY2000 to mid-FY2001. Compared to the previous retrospective in 1999, it found that:

- the number of CASs that addressed governance and corruption issues was up from 78 to 100 percent
- the number that included governance-related triggers for the lending program was up from 27 to 82 percent
- the number that discuss audit institutions and other accountability mechanisms is up from 52 to 79 percent
- the number that discuss the causes of corruption is up from 57 to 79 percent
- the number that diagnose governance conditions and the risks of corruption is up from 73 to 100 percent.

4. Support for International Efforts

The Bank works closely with the International Monetary Fund and with other development partners to make sure that its client countries receive the benefit of the best international thinking and experience on the subject. Thus, the Bank:

- **cooperates** with bilateral donors and international financial institutions by informing them of its own activities and by undertaking joint or coordinated activities
- **works closely with the IMF**, recognizing the complementary roles of both institutions in the areas of macroeconomic frameworks, banking supervision, and financial policies
- **contributes** to the work of regional organizations such as the OECD, the Council of Europe, and the OAS
- **consults and maintains contacts** with other relevant organizations such as UNDP, the UN Drug Control Program, and the UN Center for Crime Prevention and Control
- **consults** with the business community to better understand the business perspective on corruption
- **consults** with NGOs
- **uses conferences and the media** to explain the cancer of corruption and to demonstrate its costs
- **contributes** to international research efforts.

IV. CONCLUSION

Nothing is more central to the legitimacy of development assistance and the effectiveness of aid than good and clean governance. Corruption is one of the most corrosive factors, and it hits hardest those who can least afford to pay the bribes: the half of the world's population that lives on less than US\$2 a day, and the 1.2 billion people who must survive on less than US\$1 a day. The rule of law, including better governance through control of corruption, leads to poverty reduction that is effective, sustainable and equitable, and that is the central mission of the World Bank.

Thank you.