

12th IACC Report

Special Plenary Session 1: The World Bank Governance And Anticorruption Strategy: A Multistakeholder Dialogue On The Road Ahead

Thursday, November 17, 2006 18:00-19:30

Moderator: Nancy Boswell, Transparency International Board of Directors

Rapporteur: Martha Dye, Transparency International-USA

Panellists: **Daniel Kaufmann**, Director, Global Programs, World Bank Institute
Sanjay Pradhan, Director, Public Sector Group, World Bank
Huguette Labelle, Chair, Transparency International
John Githongo, founder of TI Kenya and former Permanent Secretary for Governance and Ethics in the Office of the President of Kenya

Session Summary: Not long ago, anticorruption was something that the World Bank neither acknowledged nor addressed. Since 1996, however, the topic has gained prominence because of a growing consensus that corruption undermines the Bank's mission to alleviate poverty and its ability to ensure that its funds are used for the purpose intended. There is general agreement that governance and anticorruption should have a more important place in Bank policies and programs to avoid the diversion of its funds and to achieve its anti-poverty mission. At the request of its board of directors, the Bank has recently issued a new governance and anticorruption strategy. The IACC special plenary provided information about this new strategy and afforded an opportunity for over 150 participants to provide input to Bank officials regarding its design and implementation.

Sanjay Pradhan and Daniel Kaufmann, representatives of the Bank, presented the conceptual framework for the new strategy, which includes country level, project level, and global level aspects. They pointed out that corruption presents three types of overlapping risks to the Bank: risk to development effectiveness, fiduciary risk, and reputational risk. They emphasized that different country situations require different approaches, and identified a number of entry points where the Bank can help countries to improve governance, some of which the Bank is already exploiting and others that need to be ramped up. They also pointed out that corruption is not just a developing country problem and that more emphasis needs to be placed on actions to deter the payers of bribes. The Bank is seeking further consultation on its approach, including regarding difficult questions with respect to when to restrict financing or stop lending and how to safeguard funds in aid projects while at the same time building countries' systems and capacity.

Commentators and participants congratulated the Bank on engaging in this consultation, but called for broader consultations on the strategy's development and implementation and more broadly in the development of country programs. Participants noted that in order to overcome strong internal resistance in some quarters, both the board and the president must send a clear and consistent message about the need for anticorruption reforms. Furthermore, significant institutional

design issues must be resolved for any anticorruption strategy to be successful. First, the Bank's internal incentive structure needs to change from one that rewards lending to one that takes account of attention to governance improvements. Second, it was noted that in some cases Bank country staff – in whom significant power has been vested since Bank decentralization – do not tackle corruption with the necessary vigor due to local pressures. Finally, Bank missions and interaction at the country level currently focus almost exclusively on the executive and should engage with non-executive government branches and civil society. The importance of these stakeholders to successful implementation of the strategy was also stressed.

With regard to restricting lending in highly corrupt environments, commentators noted that the fight against corruption must be part of the Bank's poverty alleviation mission. Huguette Labelle stressed that “the poor should not pay the price” for corruption in borrower governments and that the Bank should employ creative means to reach the poor if it becomes necessary to bypass the executive branch during a period where there is not the requisite political will or inadequate progress implementing governance reforms. Accordingly, the Bank must find ways of engaging to help the poor (*e.g.*, by collaborating with other donors and with civil society) even in situations where further lending to corrupt governments cannot be justified. The Bank was also encouraged to increase transparency of core borrower institutions, engage with the business sector, and use lessons learned from its integrity unit to inform its anticorruption strategy.

The session generated a variety of additional comments for the Bank representatives to consider in implementing the strategy. For example, commenters urged the Bank to become more transparent and accountable as a model to borrowers, to release its whistleblower policy for public comment, to improve its disclosure policy, to place greater emphasis on judicial reform and the rule of law, to become more visible at the grassroots level, and to ensure that civil society participation in Bank processes becomes a reality. Common themes were:

- (1) The Bank needs to engage and encourage greater borrower engagement with civil society in order to promote greater demand for good governance and create sustainable reform;
- (2) The Bank's strategy should place a premium on greater transparency and public participation both in its own operations and by borrower governments; and
- (3) The Bank should recognize and promote non-executive engagement in decisions affecting borrower countries.

Nancy Boswell closed the session by noting the importance of a more fulsome consultation process and one that brings civil society perspective to the attention of the board as well as management. She encouraged participants to provide written comments to the Bank and to contact the Bank country offices and Executive Directors in their countries to promote an effectively implemented anticorruption strategy.

As a result of the session, participants learned about the features of the World Bank's new governance and anticorruption strategy and were able to provide input to World Bank representatives about what the correct priorities should be in the governance and

anticorruption strategy. The World Bank representatives also benefited by receiving recommendations from stakeholders about key ways to improve the Bank's approach to anticorruption and ensure the success of the new governance and anticorruption strategy. Participants were encouraged to provide further feedback to the Bank, both in written form and at the country level.

The session resulted in the following recommendations for the Bank's strategy going forward:

- (1) The Bank should work more frequently and consistently with civil society in order to promote greater demand for good governance and create sustainable reform.
- (2) The private sector should be engaged for its valuable insights on corruption in projects and should be required to enforce anti-bribery policies and programs.
- (3) The Bank must find ways of engaging to help the poor even in situations where further lending to corrupt governments cannot be justified.
- (4) The Bank's strategy should place a premium on increasing transparency and opportunities for public participation both in its operations and at the borrower government level.
- (5) The Bank should recognize and promote non-executive engagement in decisions affecting borrower countries.
- (6) The Bank must address institutional design issues at the country level to ensure staffing with relevant skills and incentives to ensure local offices promote governance reforms.
- (7) Incentives for Bank staff must be realigned to reward proper handling of governance issues even when it impedes lending.
- (8) The Bank should expand the consultation period in order to allow for sufficient outreach in affected countries.

All of the stakeholders present at the session are expected and encouraged to engage in follow-up activities. *The World Bank representatives* will report to management and the Board regarding participants' comments and recommendations, which will then be taken into account in the further elaboration and implementation of the governance and anticorruption strategy. *Participants* should provide further comments to the Bank both in written form by January 26, 2007 and at upcoming country level consultations. The website for comments and further information about the scheduling of consultation meetings during January is <http://www.worldbank.org/governancefeedback/>. They should also take the initiative of contacting Bank country staff and their Executive Directors to promote effective anticorruption measures consistent with the poverty alleviation mission of the Bank.

Signed: Martha Dye