

## **The State and Civil Society in the Fight Against Corruption: Defining the Challenge**

**James D. Wolfensohn  
President  
The World Bank**

---

Well, Mr. chairman, Mr. Minister, Ladies and gentleman, may I start by saying how very sorry I am that I cannot join you in Person, much as I would have wished to. The reason is very simple. In just a couple of days we have our annual meetings in Hong Kong, where I expect. seven or eight thousand people, and, like you would be, at the last minute I have many preparations to do and to my great regret, I cannot be with you.

I am particularly sorry because many of my friends are with you and, indeed the subject is one of the utmost importance to The World Bank.

I'd like, immediately, to thank President Fujimori for having agreed that the conference should be held in Peru, and for his opening words yesterday, and to you, Minister Camet, I express my greetings, and in fact look forward to seeing you in Hong Kong. Dr. Al Blanco-Colon (ph), and Mr. Karlos Morelli, I am sorry that I cannot meet with you this time.

And I also want to thank Transparency International, and my friend, Peter Eigen for the remarkable work that they continue to do in terms of the fight against corruption around the world.

I might say, personally, I'm also sorry to have missed Lynda Chalker, and John Brademas and many other friends.

The issue of corruption is really one that is of great importance to us. There's nothing greatly complicated about our interest in this subject. For a very long time, I've always wanted, that when I have a project, that the money that we have that we for that project be used correctly. I get annoyed when the money, or the resources are taken and used somewhere else. That's perfectly human.

And that relates to the Projects of the Bank itself but in a broader context, given that the role of our institution is to assist in the fight against poverty around the world, It's quite obvious that if resources are taken from the purposes that we intend them. for, the poor suffer.

And if the poor suffer, our objectives are not met, and if our objectives are not met, the world, unfortunately is in a worse place, and people in poverty suffer the most.

And so it's not surprising that last year, in my annual meeting speech I talked about corruption, a subject that was also covered by my colleague, Michael Camdessus of

the International Monetary Fund.

What has been surprising to me is that since that speech, the reaction of commentators, and at every, press conference, almost the first subject is about corruption. Corruption is central to the issues that are on the table at the moment.

And that's not surprising either. You'll be hearing from some of my colleagues and from Danny Kaufman, from Harvard. Who's now again with us, that the studies show that people don't like corruption. Why should they?

Poor people say we can stand poverty, we don't like it but we cannot abide it if someone else is getting rich on the resources that are meant to stabilise the economy. That, again, is perfectly natural.

So there is nothing- complicated about the issues of corruption. It's quite clear, that when there is corruption, economies don't work so well, resources that are put in to make the economy stronger are not as effectively used, and that is the reason that there has been this global outcry.

There is, of course a series of issues, moral and ethical, which are themselves valid. And what is interesting in this last 12 or 18 months is the way in which so many international bodies have come to face this issue at this time.

Peter Eigen and his colleagues, and many of you in the room have been fighting this battle for many years. This is, indeed, the eighth biennial conference. But now, we have the organisation from (sic) American States from whom we heard yesterday, OECD, the G-7, the World Customs Organisation - Mr. James Shaver is there with you - the international Monetary fund - all coming together in this fight against corruption.

We ourselves have done our own studies. Because you must understand that there was a certain reticence at the board of the Bank, and by my colleagues in the Bank, because we are not entitled, as persons employed by our institution, to engage in politics. Nor is that surprising. We are owned by 180 governments, is anxious to keep our focus on economic and social issues.

And yet our board has been enormously responsive. Our board, representing the 180 countries around the world. And why is that they've been responsive? Let me just tell you some of the findings of our studies, that have been led by Mike Stevens, whom you will be meeting later in the week.

The first course is that corruption has massive costs to the countries in which we're operating. To the institutions and to the ordinary citizens. It affects macroeconomic stability. It encourages wasteful use of resources, ineffective governments, expenditures that are not needed, and of course tax evasion.

I might say also that at a time when developing countries are becoming more and more dependent for their growth on private sector investment, almost the single largest deterrent to private sector investing is in fact corruption.

There are studies that will be referred to later in this week, which talk specifically of the impact on the Gross National Product of countries of corruption.

Studies that have been done by the World Economic Forum, of hundreds of companies, and which recognise their reaction, and their reticence to enter into those countries where there is corruption. It raises the cost of doing business, quite obviously. If money goes out of the project to pay someone off, then the costs go up.

It also reduces the competitiveness of enterprises. If the market is not operating properly and effectively, domestic enterprises tend to become less competitive in international market.

Worse still, it corrodes public institutions. Where is corruption in public institutions, the people in the countries and the people who want to be in the countries have a reaction which is one of doubt and concern about the very essence of a country's activities.

It also undermines the political legitimacy of governments. It obstructs economic growth and development. A corrupt Country doesn't grow as fast as a non-corrupt Country. And it creates a serious risk of marginalisation in the global economy for countries with high levels of corruption.

And worst of all, corruption affects mostly the poor. The vulnerable are those that are hit, and that is of course why we, in our institution, are so deeply involved in this issue.

And finally for us, it's important because the governments that are putting money up for overseas development assistance naturally react adversely, if there is corruption. The worst headline that we can have for our efforts to increase overseas development assistance is the fact that the money's going off into someone's pocket where it's not intended to go. That is the worst thing that can happen to us.

The issue of Course is very complex. It's not one that can be solved easily. There are powerful vested interests involved. It is a political issue. It's an economic issue. It's a social issue. It's an ethical issue.

And let me say immediately, it's an issue which transcends the distinction between developed and developing countries. There is corruption everywhere. It is not a developing country issue.

To start with, if someone is corrupted, they have to be corrupted by someone. And as you know, in many of the developed countries in the world although we have talked against corruption, where there have been payments of bribes the been tax deductible. That is not something that can continue, and very fortunately, our G-7 leaders came public, along with the representations made by the OECD and the International Chamber of Commerce, to indicate that we have to put a stop to this process of corruption. It hurts everybody.

And, indeed, it should be made criminal, as it is in many countries. But you can't talk about corruption in any country on the basis that you deal with someone else's

corruption. Corruption can only be fought if it's fought from the top.

There has to be a systemic approach to corruption. And if there is corrupt leadership, it is very difficult to have a non-corrupt administration. That of course is quite obvious.

And so it is that in the work that we're doing, the challenge is to develop a coherent strategy to deal with the different aspects of corruption. To mobilise all stakeholders, from the top down, and then to implement an effective strategy.

To meet this challenge, what we have to do is to set the policy environment right. We have to get a found foundation of clean government. We've got to simplify the rules and regulations, reduce the discretion of public officials, foster competitiveness in the private sector, and most of all create an environment of transparency and accountability.

If there is light on corruption, corruption is forced away. There must be transparency and there must be accountability.

And we have to have strong public sector institutions, disciplined in policy-making processes, with effective accountability, strong management systems, streamlined business processes and a professional civil service that is properly paid.

If we do not have a professional civil service that is properly paid, with people that can have a sense of dignity, a sense of tradition, and a sense public services, it is very, very difficult to do away with corrupt practices.

And we of course have to forge a coalition against corruption. Indeed, the title of this conference "The State And Civil Society And The Fight Against Corruption" is an indication of the two of the principal partners that are involved.

But we also need the private sector, and I have very great hopes that the private sector both is joining and will continue to join this exercise, because it's in no one's interest no one's interest, to have corruption perpetuated in a market environment

At our own board, just two or three months ago, we had a dozen representatives of the private sector to talk about social responsibility and talk about corruption. These business leaders recognise that an effectively operating market system is in the interests of everybody and that a system that is distorted by corruption is in the interests of nobody.

We at the Bank have, of course, for many years tried very hard to establish open macroeconomic policies in which corruption cannot thrive. We continue to do that.

But with the invitation of governments there are many other things that we can do.

I say with the invitation of governments because it has to be with the invitation of governments. We cannot operate unless we have the support of the leadership. And we can help governments in many ways, in terms of the reform of their policies, creating and strengthening special anti-corruption bodies, reforming specific areas of

public service management, such, as taxes and customs administration, civil services, public financial management, auditing management, auditing government procurement, and most of all the judiciary.

It is absolutely critical that there be faith in an operating judicial system and an effective judicial system.

And you might wonder that the Bank should get involved in these things, well it is indeed an essential part of our Bank's activities, that we create an effective system. Giving money alone is not enough, and we have very much strengthened our team that is operating in this area.

We're also doing work in education with national integrity workshops, doing work even with investigative journalists, looking at services delivery systems, and developing systems for access to information by the public about the activities of the state.

We are getting drawn into this systemic reform, but it requires a strong leadership from the top. We can help. We can help along with the InterAmerican Convention against corruption and the InterAmerican Cooperation Program to combat corruption, sponsored by the OAS. By the OECD's efforts, as I mentioned earlier. The International Chamber's efforts to establish voluntary rules to conduct - to combat extortion and bribery in international business.

And of course the good practice guided of the world's customs organisations. I am delighted to be with you by means of this video conference, because I want you to know that the Bank wants to play its full role as a partner.

We ourselves are looking into the Bank itself. We're strengthening procurement rules. We're increasing transparency. We're launching surprise audits. We're strengthening monitoring compliance, and we have the highest possible ethical standards in the institution.

I would like you all to know that we're very proud to be part of this conference. My colleagues, Javed Burki, Petter Langseth, Danny Kaufmann, Jaime Roman, and later, Mike Stevens, will all be with you.

They will personally tell you of our commitment. And Mr. Chairman, I want again to thank you for the invitation to participate, and say, to all of you in this room; that you can count on The World Bank to be your partner, to be involved in the economic and social aspects of the of the corruption issue.

Because only if we succeed in the fight against corruption will our efforts to alleviate poverty throughout the world be successful and effective.