

On the World Bank's Governance & Anti-Corruption [GAC] Strategy:

Key Features, Concerns, Debates, Misconceptions, and Next Steps – and selected issues on Governance Indicators

Daniel Kaufmann & Colleagues, *The World Bank*

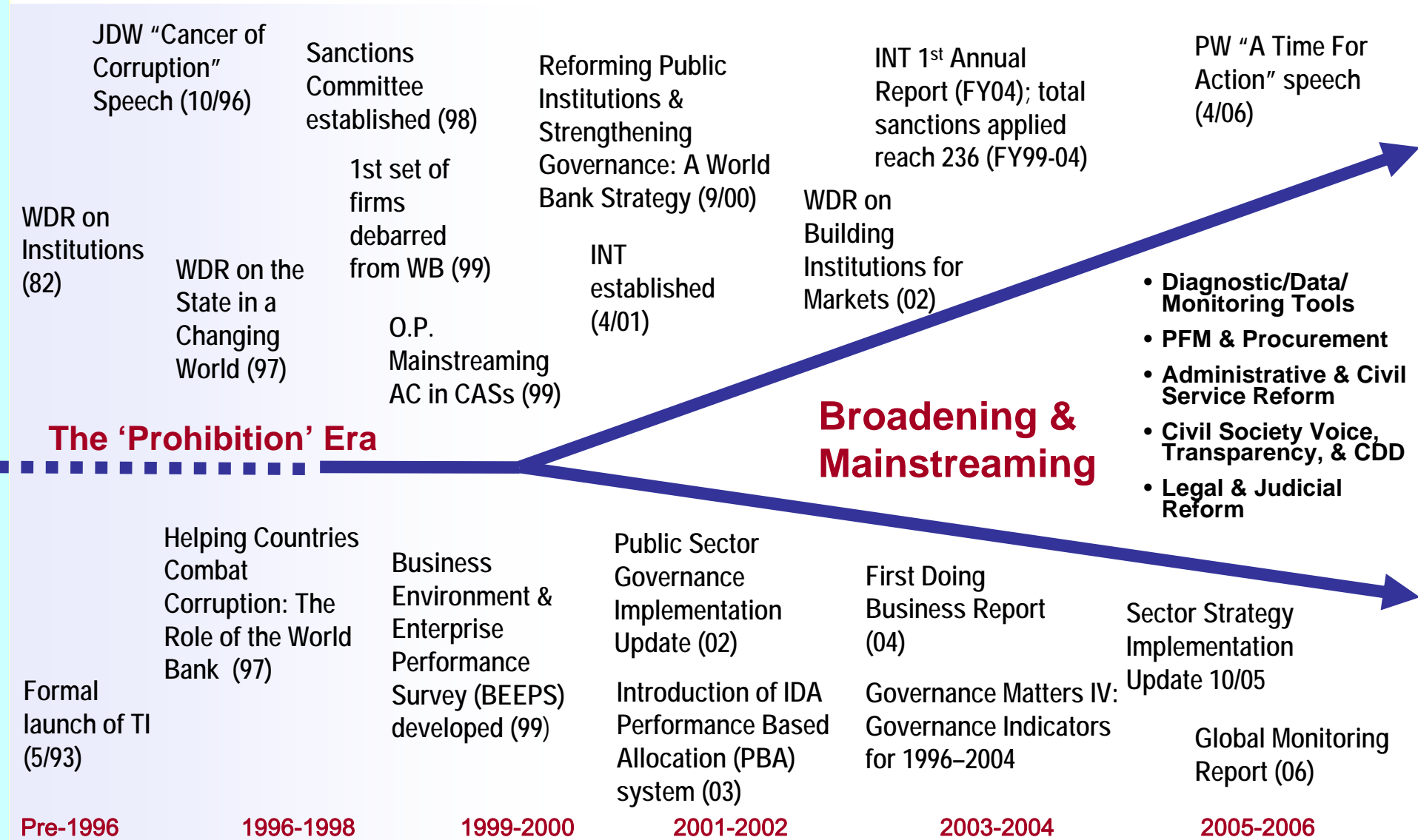
Background Handout for ODI presentation

London, September 25th, 2006

Governance & Anticorruption [GAC] at the World Bank – status and challenges

- **Evolution of GAC at the Bank**
- **Where today**
- **Why a GAC strategy now?**
- **Main pillars of GAC strategy: country, project, global partnerships**
- **Fallacies and misconceptions**
- **Substantive debates – unresolved issues**
- **Power of Data: opportunities, myths, and limits**

Evolution of Governance & Anticorruption at the World Bank



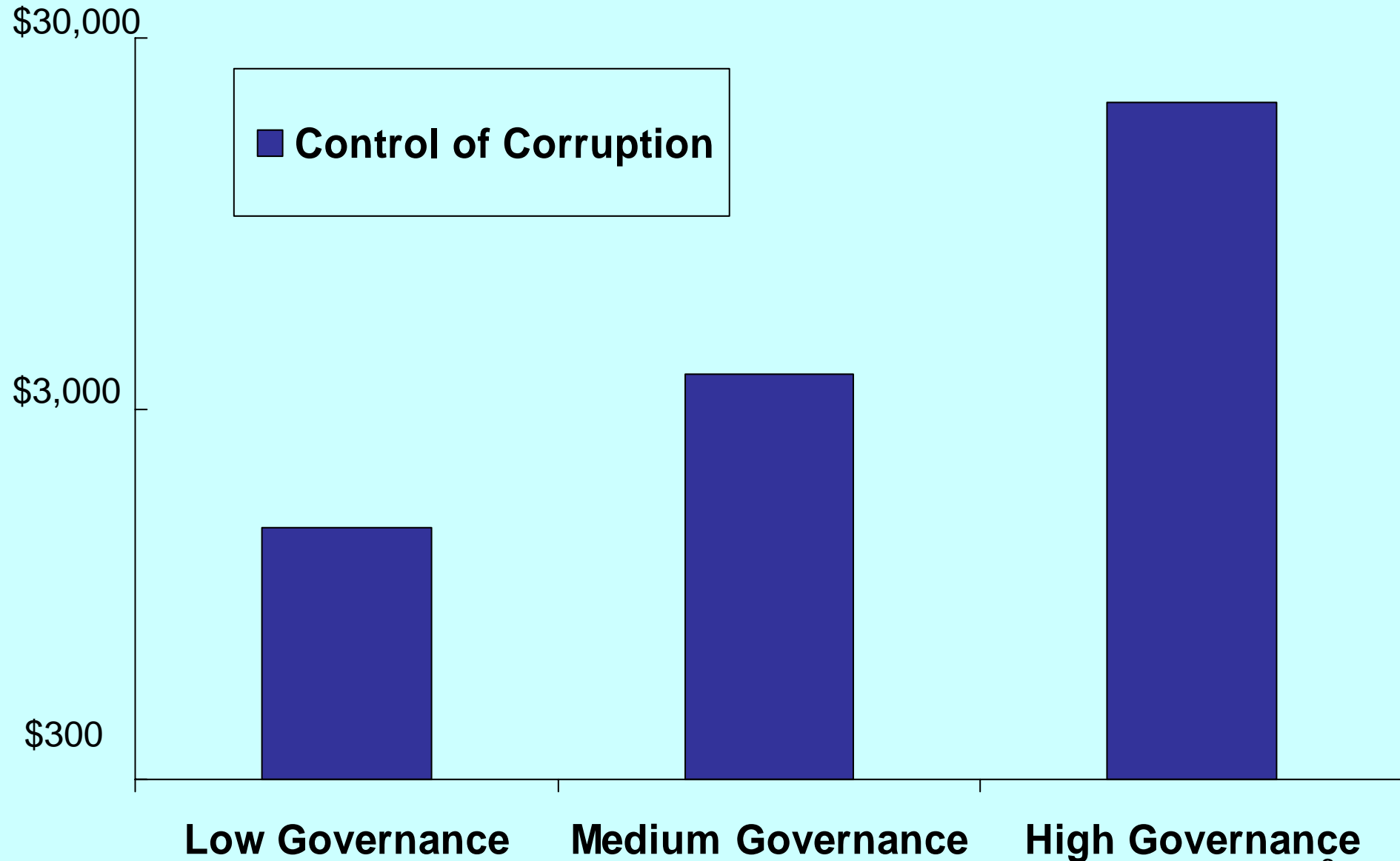
Governance \neq Corruption

- **Governance:** the set of institutions by which: authority in a country is exercised, public policy is carried out, and public services are provided
- **Corruption:** Abuse of public office for private gain
- **Corruption mostly an outcome of governance failures – *along lack of service delivery & poor investment climate***
- **Thus, governance a key entry-point to anticorruption -- *and to donor engagement***
- **Some manifestations of (high level) corruption, such as capture of the state, are more fundamental as well**

Why need a GAC strategy?

1. **‘Where have you been’?** – *message from emerging economies*
 - From citizens, from reformists in government
2. **The Evidence**
 - ‘300% development dividend’ of good governance
 - Governance matters also *for* Anti-Corruption
 - No evidence of significant improvement on GAC worldwide
 - While macro, etc., improved —→ GAC a binding constraint
 - Aid Project Effectiveness: *governance & corruption matters*
3. **The Authorizing Global Environment**
 - Prospects for major increase in aid
 - The exposed faced of global corruption (*o4fsUN*)
 - Constituencies in rich countries: concern & feedback
4. **Pending: systematic operational integration of GAC at WB**

Development Dividend From Good Governance



Lessons: Global Experience

- **Better governance is good for development – on average, countries with better governance grow faster than those with poor governance, and the effectiveness of Bank-funded investment projects is significantly impaired in countries with weak governance and high corruption**
- **Country ownership is essential – institutional reforms take time, but it can succeed when there is committed country leadership and support for local reformers**
- **Governance challenges are not uniform across countries – so strategies must be differentiated and strongly based on local knowledge, innovation on the ground, and extensive collaboration with local constituencies**
- **Improving governance requires more than just better PFM – it requires addressing the binding governance constraints to development, which may be political or in key sectors**
- **The executive is not the only entry point for strengthening governance – institutions outside the executive – judiciary, Parliament, SAI, local governments, communities, CSOs, media & other transparency initiatives, the private sector, and regional and global institutions are other possible entry points**
- **Sustainable reform typically requires a multi-stakeholder approach, durable coalitions in support of better governance, and a harmonized vision among donors**

Some key features of the Bank's Governance and Anti-Corruption (GAC) Strategy

- 1. Focus on GAC: *for* development & poverty alleviation**
- 2. Better & more engaged approach on Governance: *at the Country, Project, & Global Partnership levels***
- 3. Different way of engaging w/ country in front lines: *more staff expertise, resources, & mindset on GAC***
- 4. Tailor modalities of engagement to type of governance vulnerabilities in the country -- to country needs**
- 5. Integration of GAC at the sectoral level**
- 6. Engaging the private sector: *domestic & multinational***
- 7. In Financial Sector, incl. Asset Restitution and AML**
- 8. Strengthen global partnerships**
- 9. Results-oriented: help countries improve GAC, improve aid effectiveness, lower corruption in aid**

At the Country Level: *increased 'Governance Lense'*

- Supporting the Country's Strategy on GAC 4 Development:**
- Integrating GAC into Country Assistance Strategy (CAS) design and concrete implementation**
- Deployment of resources to the front line, incl. Governance Experts and GAC teams -- within Country Teams**
- New Notion of '*High Opportunity*' Countries – scaling up & deepening engagement in high risk countries where 'high opportunity' (*reforming; resolute new regime, etc*)**
- Special scrutiny + adapted engagement in *unreforming* countries with highest governance & corruption *risk***
- Governance focus on *all* countries w/ governance challenges**
- Improved understanding of Governance challenges informs country-tailored strategies: *Governance assessment***
- Focus also on Demand Side of Governance, & Private Sector**

Project Level

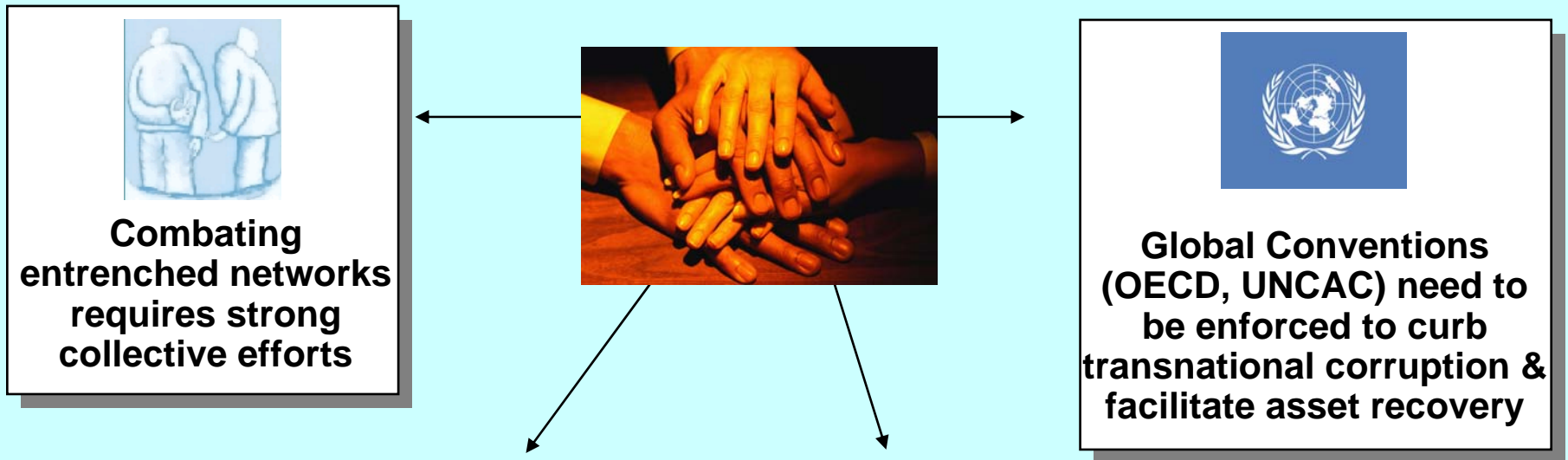
- **Enhanced safeguarding of Bank-funded projects**
- **Project Design incorporates A-C lessons of experience, starting w/ sectoral angle**
- **Enhanced Role of Investigations (INT) & deterrence against corruption in projects: public debarment of firms, VDP**
- **Monitoring, Disclosure & Transparency in projects, with beneficiary involvement**
- **Involvement of Anti-Corruption Team in the field, collaborating with country partners in government and with NGOs**

Global and Local Partnerships

- **Partnerships with Donors, Bilateral and Multilateral -- *new agreement with MDBs for instance, further collaboration with EU and bilateral donors – DfID, OECD, etc***
- **Partnerships with NGOs – TI, Global Witness/ EITI, etc.**
- **Network of reform champions**
- **Alliances of private sector groups for GAC**

Context: recognition of the limits of what we can and cannot do – division of labor, and also deeper collaboration

Why together? Four Reasons for Collective Action Against Corruption



Supporting Supply & Demand of Governance

Supply-side

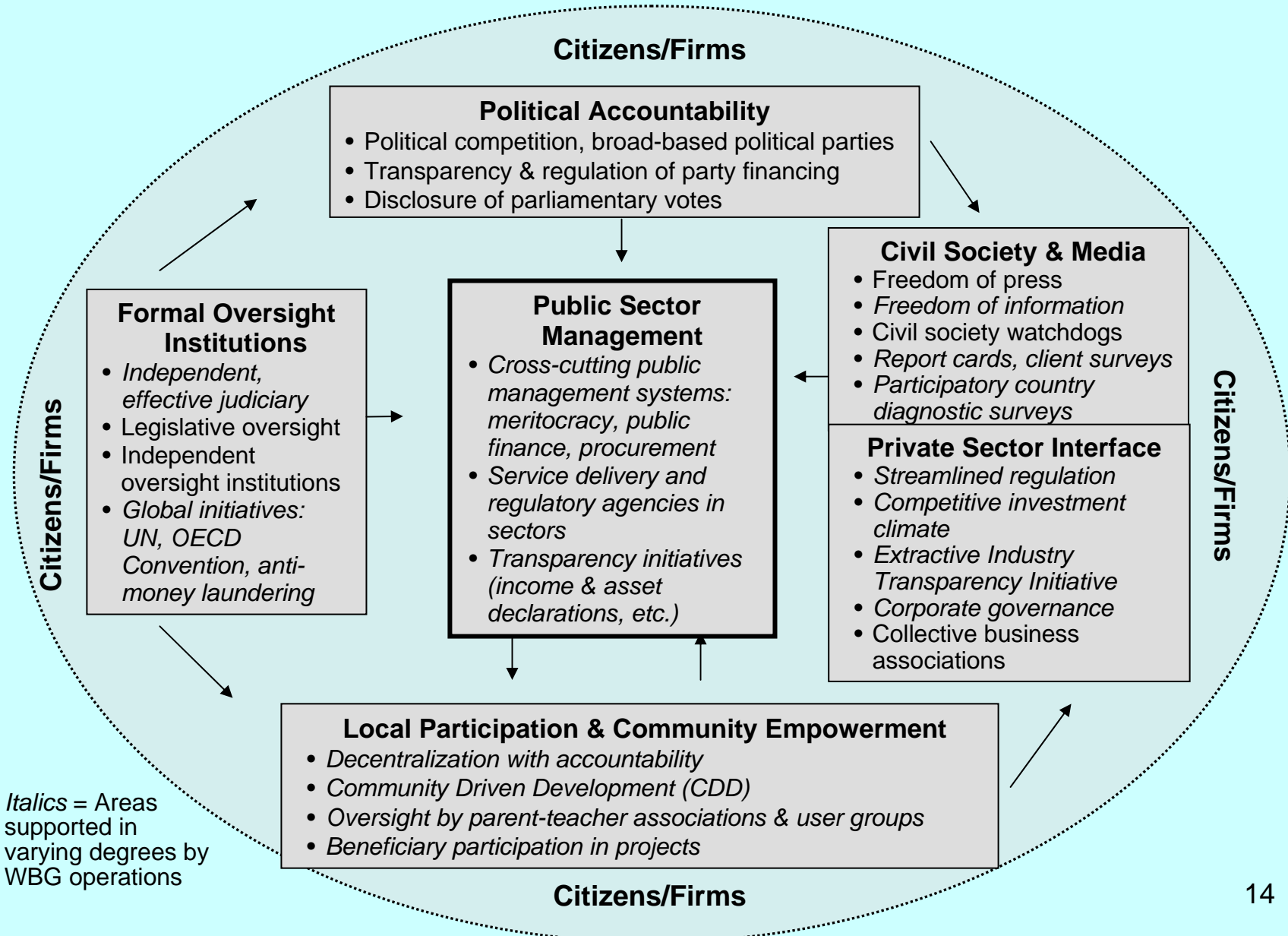
Strengthen the state's bureaucratic capability – **leadership, skills, human resource & financial management systems** – to deliver public goods and services

Demand-side

Strengthen accountability arrangements – **elections, political parties, effective parliaments, independent judiciary, free press, vibrant civil society, accountable local governments** – that enable citizens and firms to hold state institutions to account



Governance Reform: Multi-pronged, multi-stakeholder, multi-donor



Italics = Areas supported in varying degrees by WBG operations

Next Steps

- **Continued consultations with MDBs, bilaterals, CSOs**
- **Operational details of the strategy**
- **Budget and staffing planning**
- **Operationalization**
- **Implementation in country settings**
- **Progress report for Spring Meetings**

8 misconceptions & concerns

1. **Governance & A-C vs. development & anti-poverty?**
2. **High corruption & governance not that important for growth?**
3. **Resources taken away from ‘other sectors’ to GAC work?**
4. **World Bank is a Sanctions-driven approach? -- a strategy to:**
 - i) **become ‘bad cop’, punishment wherever corruption?**
 - ii) **disengage from high risk, vulnerable countries?**
 - iii) **obscure selection of country lists for punishment?**
5. **GAC: backdoor entry point to domestic politics?**
6. **GAC: subterfuge to reinstate plethora of conditionality?**
7. **Instrument for top management discretion & arbitrariness?**
8. **Governance indicators will now ‘rule’ for: resource allocation, country selection, precise ranking?**

Questions, Debates & Challenges Ahead

- **Whether & How to engage on the ‘Demand side of Governance’ -- & *which demand ‘sides’ in particular?***
- **How to deepen collaborate with donors? Civil society?**
- **Priority concrete changes in the way we do business?**
- **Scaling up effectively in high opportunity settings?**
- **Minimizing exposure to corruption in our programs**
- **Engaging with Privates, multinationals, banks**
- **Challenge of humility: state of the arts evolving**
- **Maintaining Perspective: *Poverty focus, other factors do matter as well – yet also lessons from aid effectiveness***
- **Judicious use of existing Data & Indicators + new ones¹⁷**

**Instead, Data Empowers for constructive
use by country stakeholders...**

Governance: multi-dimensional (6)

Governance as 'the set of traditions and institutions by which authority in a country is exercised'

- ***Political Dimension: the process by which those in authority are selected and replaced***

1. VOICE AND ACCOUNTABILITY

2. POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM

- ***Economic Dimension: the capacity of government to formulate and implement policies***

3. GOVERNMENT EFFECTIVENESS

4. REGULATORY QUALITY

- ***Institutional: respect of citizens & state for institutions that govern interactions among them***

5. RULE OF LAW

6. CONTROL OF CORRUPTION

Governance Matters V Individual and Aggregate Governance Indicators 1996-2005

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The World Bank
September 2006

Worldwide Governance Indicators

- **Six aggregate governance indicators covering 213 countries over past decade**
- **Based on 31 data sources from 25 organizations, capturing views of thousands of informed stakeholders**
- **Widely used by policymakers and researchers to study causes and consequences of good governance**

2006 Update of Worldwide Governance Indicators: Key Features

- Move to annual data
 - complement biannual data 1996-2004 with annual data for 2003, 2005
 - continue reporting data annually in future
- First-time access to data underlying aggregate indicators
 - hundreds of individual indicators over past decade
 - one of the largest on-line governance data resources

Sources of Governance Data

- Cross-Country Surveys of Firms: Global Competitiveness Survey, World Business Environment Survey, World Competitiveness Yearbook, BEEPS
- Cross-Country Surveys of Individuals: Gallup International Voice of the People, Latinobarometro, Afrobarometer
- Expert Assessments from Commercial Risk Rating Agencies: DRI, PRS, EIU, World Markets Online, Merchant International Group, IJET Travel Consultancy, PERC
- Expert Assessments from NGOs, Think Tanks: Reporters Without Borders, Heritage Foundation, Freedom House, Amnesty International, Bertelsmann Foundation, International Research and Exchanges Board, Columbia University,
- Expert Assessments from Governments, Multilaterals: World Bank CPIA, EBRD, AFDB, ADB, State Dept. Human Rights Report, Trafficking in Persons Report

Examples of Governance Questions

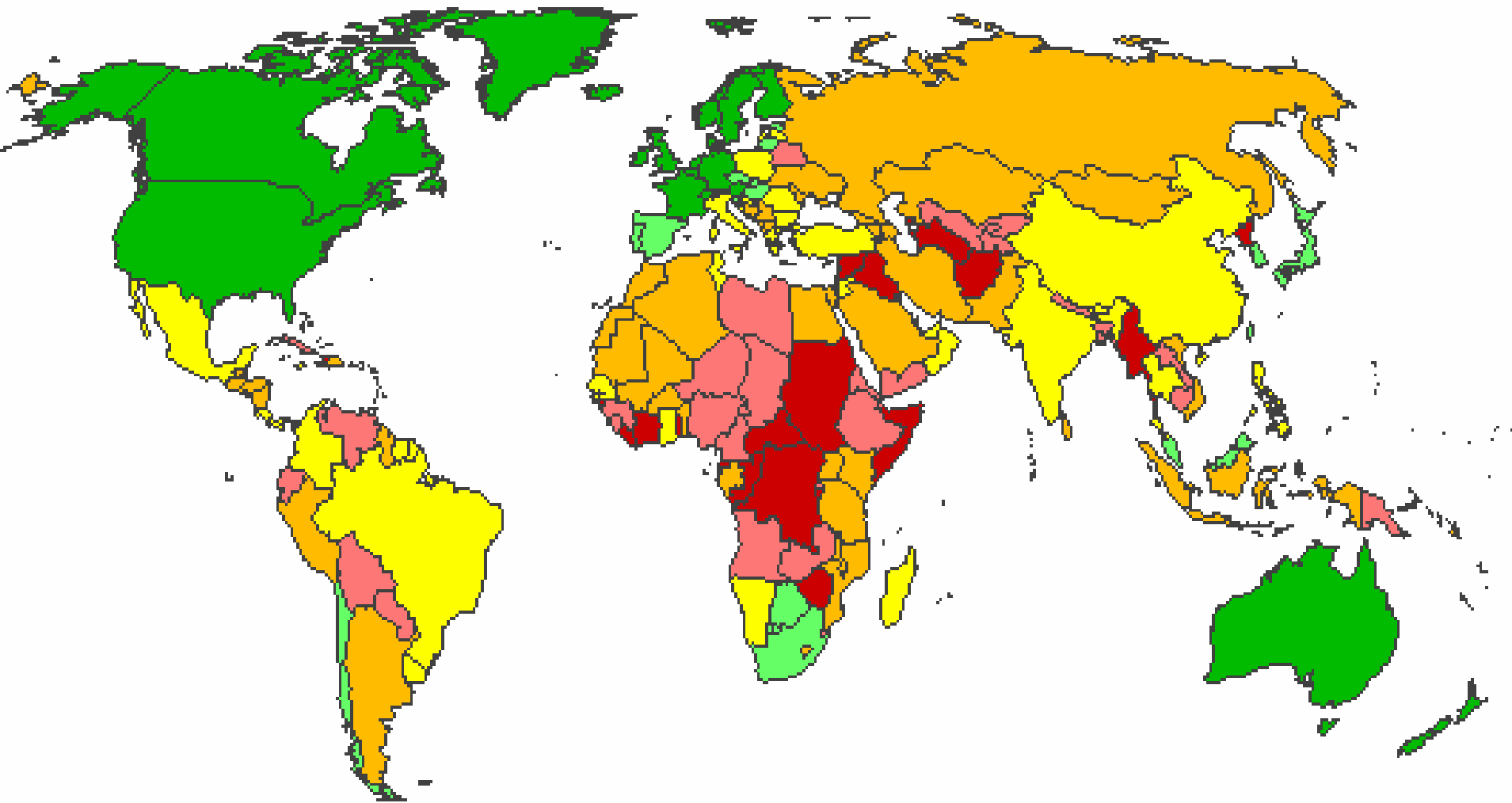
1. Expert assessment polls

- Government interfere w/ private investment? (RQ)
- How transparent and fair is the legal system? (RL)
- Risk of coup, civil war, org. crime, terrorism? (PV)
- How severe is the bureaucratic red tape? (RQ)
- What is risk of loss of FDI due to corruption? (CC)
- Freedom of the press, expression, association (VA)

2. Survey Responses

- % bribery “to get things done”? (CC)
- Transparent info given by government? (GE)
- % Management Time spent on red tape? (RQ)
- Access & quality of government services? (GE)

World Map: Government Effectiveness, 2005

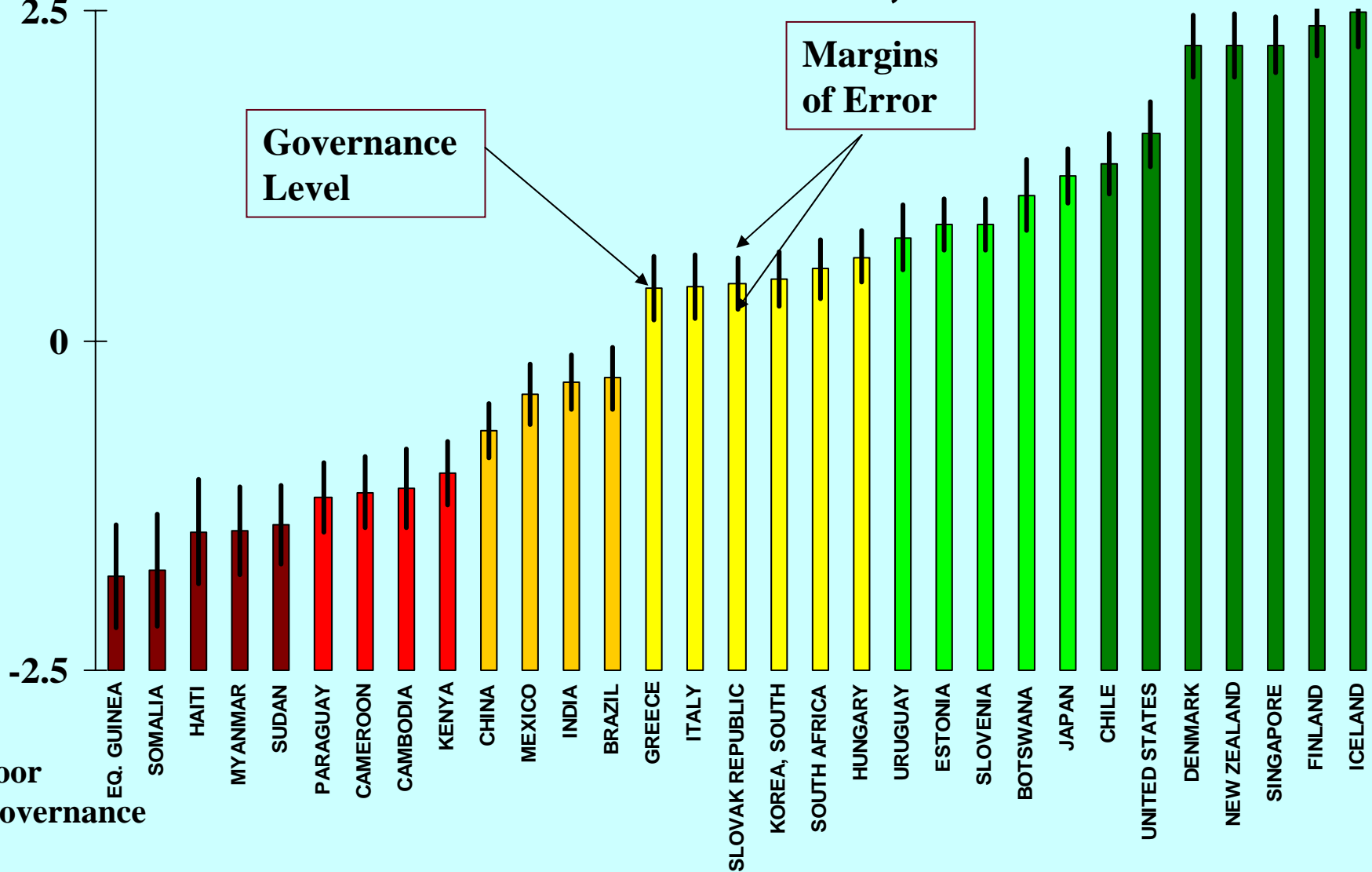


Source for map: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A.Kraay and M. Mastruzzi, September 2006 - www.govindicators.org. Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10th percentile rank ('governance crisis'); Light Red: between 10th and 25th percentile rank; Orange: between 25th and 50th percentile rank; Yellow, between 50th and 75th; Light Green between 75th and 90th percentile rank; and Dark Green: between 90th and 100th percentile (exemplary governance). Estimates subject to margins of error.

Control of Corruption

Selected Countries, 2005

Good
Governance
2.5



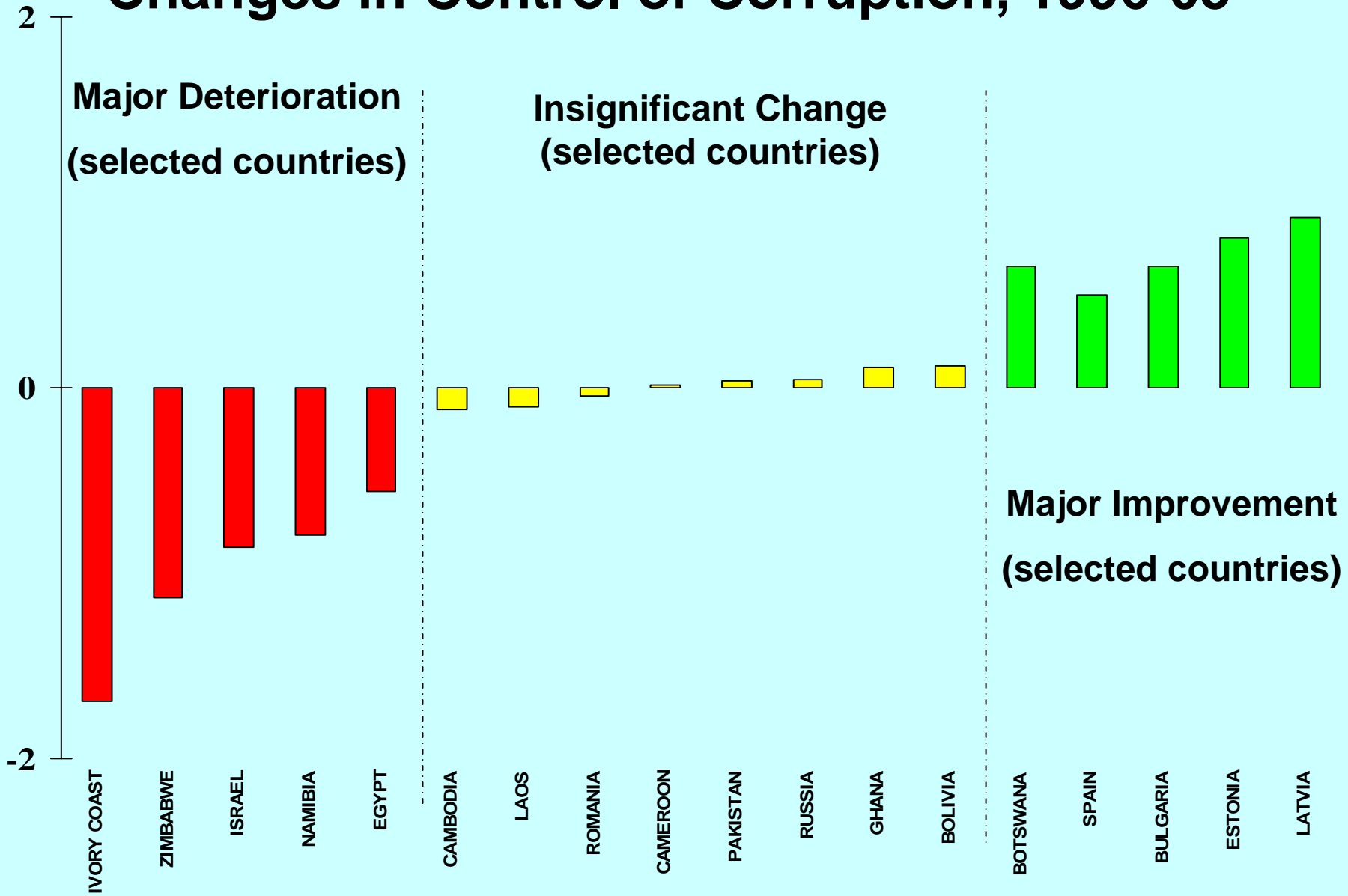
Poor
Governance
-2.5

Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006.
 Note: Colors are assigned according to the following criteria: Dark Red, below 10th percentile rank among all countries in the world; Light Red between 10th and 25th; Orange, between 25th and 50th; Yellow, between 50th and 75th; Light Green between 75th and 90th; Dark Green above 90th.

Changes Over Time in Governance

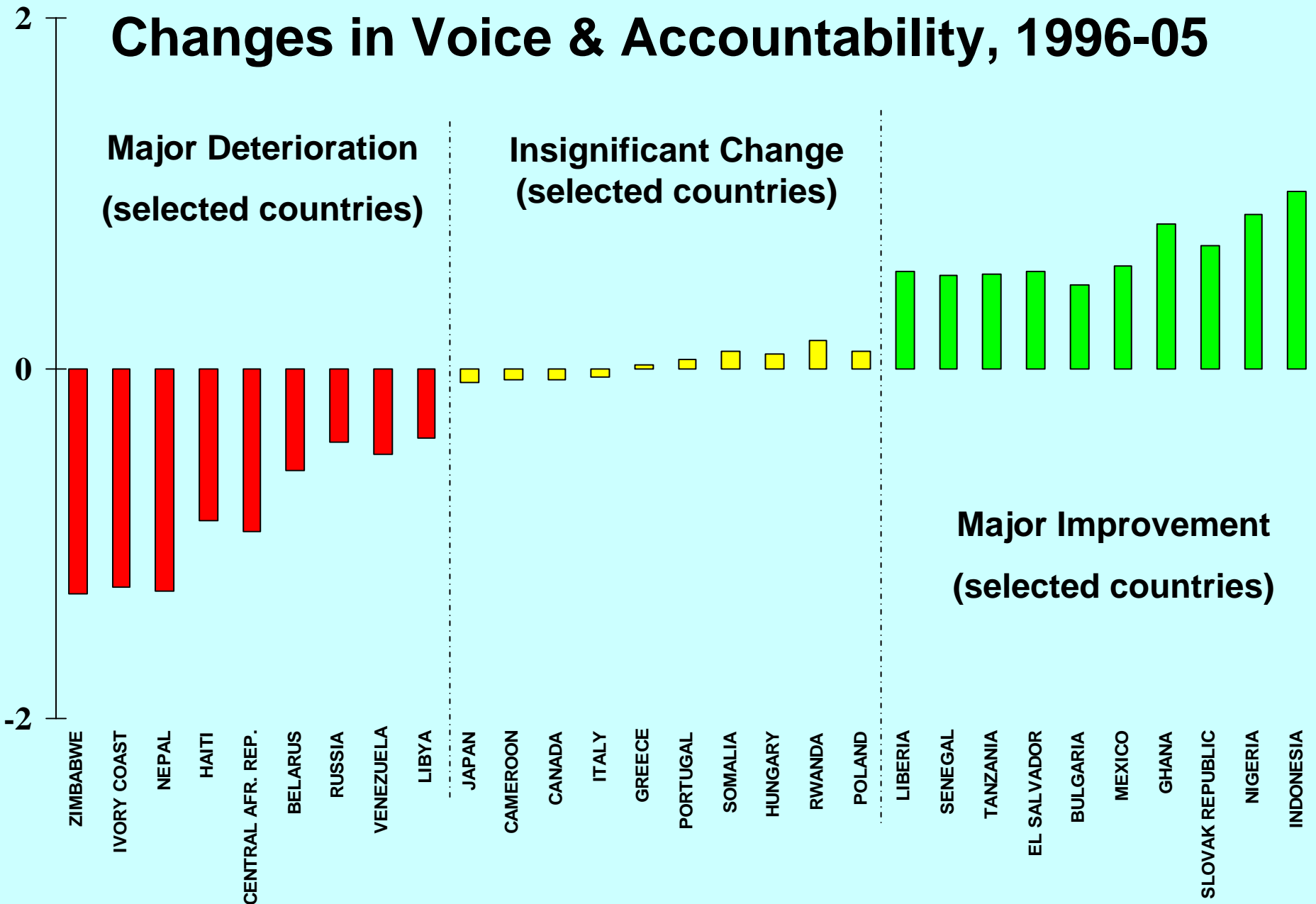
- Many changes in governance are small relative to margins of error – even over eight-year period 1996-2005
- But substantial improvements/worsening in some countries
 - Rule of Thumb: changes over time are significant if confidence intervals don't overlap
 - One in three countries had significant (at 90% level) change in at least one dimension of governance 1996-2005
- Individual data sources suggest no evidence of improvements in worldwide averages of governance
 - important implication is that it is ok to look at *relative* changes

Changes in Control of Corruption, 1996-05



Changes were calculated on the basis of the differences in country estimates from 1996 and 2005. Classification for major deteriorations and improvements were based on 75% confidence interval. Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - www.govindicators.org

Changes in Voice & Accountability, 1996-05



Changes were calculated on the basis of the differences in country estimates from 1996 and 2005. Classification for major deteriorations and improvements were based on 75% confidence interval. Source for data: 'Governance Matters V: Governance Indicators for 1996-2005', by D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 - www.govindicators.org

Data Power Debunks Myths

Governance Indicators and related data do Challenge the Myths of:

- Afro-pessimism: a number of African countries have made significant progress in less than a decade**
- Rich country full integrity vs. highly corrupt developing countries**
- Generalizing on governance or corruption about full continents – instead variance**
- Countries can grow in long run in spite of poor governance and corruption**
- Multinationals do not bribe abroad nowadays**