

**“Governance, Crisis, and the Longer View:
Unorthodox Reflections on the New Reality”**

Reflections on a Journey, Doubts at the crossroads

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**Farewell presentation at the World Bank,
Preston Auditorium, World Bank, Wash. DC,
Dec. 9th, 2008, *International Anti-corruption Day***

***Note: This document includes the full complement of slides prepared for the occasion, yet some of slides were not discussed during the event to keep the speech shorter. The video of the talk and discussants is in B-Span, at:
<http://info.worldbank.org/etools/bspan/PresentationView.asp?PID=2363&EID=1056>***

The journey, in snippets

- **Achievements, research, innovations: collective (*so many great people worldwide I collaborated with*); missteps are mine...**
- 1. **Early 80's: From naïve ivy league economist to reality of poverty in Latin American slums: Why so dire & persistent?, then, Mid-Eighties: The distorted trade, industrial policy and foreign exchange allocation regimes in East Africa: Why?**
- 2. **Mid-eighties to Mid-nineties: Get the Data, Learn from it & Experience: governance work technocratically & by stealth...**
- 3. **Mid-to-late nineties: Governance & Anticorruption head on: *Break from the 'C....' taboo..., Governance & Corruption Matters***
- 4. **Transparency, transparency, & transparency**
- 5. **Participation, & Country (*not just some in gov't...*) taking the lead**
- 6. **Human Rights and Voice Matters, incl. Free Media/Expression**
- 7. **It is the 'P' Word: Importance of Politics and State Capture**
- 8. **Fast Forward to Today: Twin Crisis—Financial & in Corruption**
- 9. **With Crisis, an Opportunity: Reviving Governance programs**
- 10. **Implications of World's New Order: Towards New Model? ²**

The World: conventional, with North America center stage -- how we used to view it long ago...



Ch. I: from Ivy League Economist to Listening to the People...

- **A Traditionally Trained Economist in the early '80's...**
- **...but not stuck in the desk for very long...**
- **...Listening to the Voices of the People on the ground:
...the case of the slums in the swamp ('Cienaga') of
Cartagena, Colombia...**
- **When interviewing the Cienaga dwellers, learnt from L.
Peattie, the anthropologist: "Don't ask them about their
'histories'; ask them about their 'stories'"**
- **And importance of Codifying such information it: getting
the right type of data, getting it right, then analyzing it
rigorously, and drawing the proper implications...while
leaving open questions**
- **Stakeholder surveys are key**

Cartagena's starkly contrasting worlds...



Source:

http://images.google.com/imgres?imgurl=http://bp2.blogger.com/_K26qJIOlqxc/RzNrVPqVo7I/AAAAAAAAA7w/R4lIerIVKUU/s400/cartagena.jpg&imgrefurl=http://ricos-y-pobres.blogspot.com/2007_11_01_archive.html&usq=_y9hi4qydaLYyDKcBRq7i6Eu8lHM=&h=243&w=400&sz=42&hl=en&start=23&tbnid=EmCLq_xm7MGYbM:&tbnh=75&tbnw=124&prev=/images%3Fq%3Dcartagena%2Bbarrio%2Bpobre%26start%3D20%26qbv%3D2%26ndsp%3D20%26hl%3Den%26sa%3DN

The slums in the Cartagena Cienaga loomed larger & larger...



Why? [1]

- Working in the slums of Cartagena on an urban poverty project, and then going back to Cartagena from time to time for 25 years to visit the people living there, would wonder why
- Why such abject poverty, alongside such wealth?
- Why abject poverty among slum dwellers was so persistent over such a long period
- Politics (including political machine running the city...), Vested Interests, Corruption were already part of what I was hearing, thinking, pondering...
- But these were largely taboo issues at the World Bank..., it was the 'C..... Prohibition' era, we were ivy league economists...

Ch. II: Learning from Experience & from Data—Listening to Enterprises, & Finance...

- **Mid-to-late 1980s in Tanzania, Zambia, Ethiopia, Angola & others: Analyzed distorted Trade, Industry and Foreign Exchange Regimes**
- **In Tanzania, we showed that the more inefficient an enterprise was, the more access they had to scarce (& administratively allocated) foreign exchange: the foreign exchange regime performed worse than a lottery...**
- **In Angola it was even worse, while in Zambia the brief experiment with a foreign exchange auction as a substitute to administrative allocation led to particular insights...**
- **Was this all merely a technocratic issue?:**
- **...Not quite, of course, but we were not expected to analyze the political and governance factors driving such mismanaged trade, industrial and foreign exchange regimes...**
- **...Thus, we devised different empirical ways, different approaches to data, to enter into these issues without long prose or political labels..., and the language was technocratic language, a la 'Rent-seeking'..., and recommended technocratic reforms indirectly touched upon on some governance and vested interests issues**

Mid-80's in Morogoro, Tanzania: where is the shoe factory?



The planned huge shoe factory in Morogoro (Bank-funded) was not found...scarce forex had been wasted.

Why [2]? Looking at Misgovernance (including mistakes by the Bank/Donors) was unavoidable..., even if still in the 'C....' Prohibition era...



Ch. III: Entering Governance & Corruption Head on

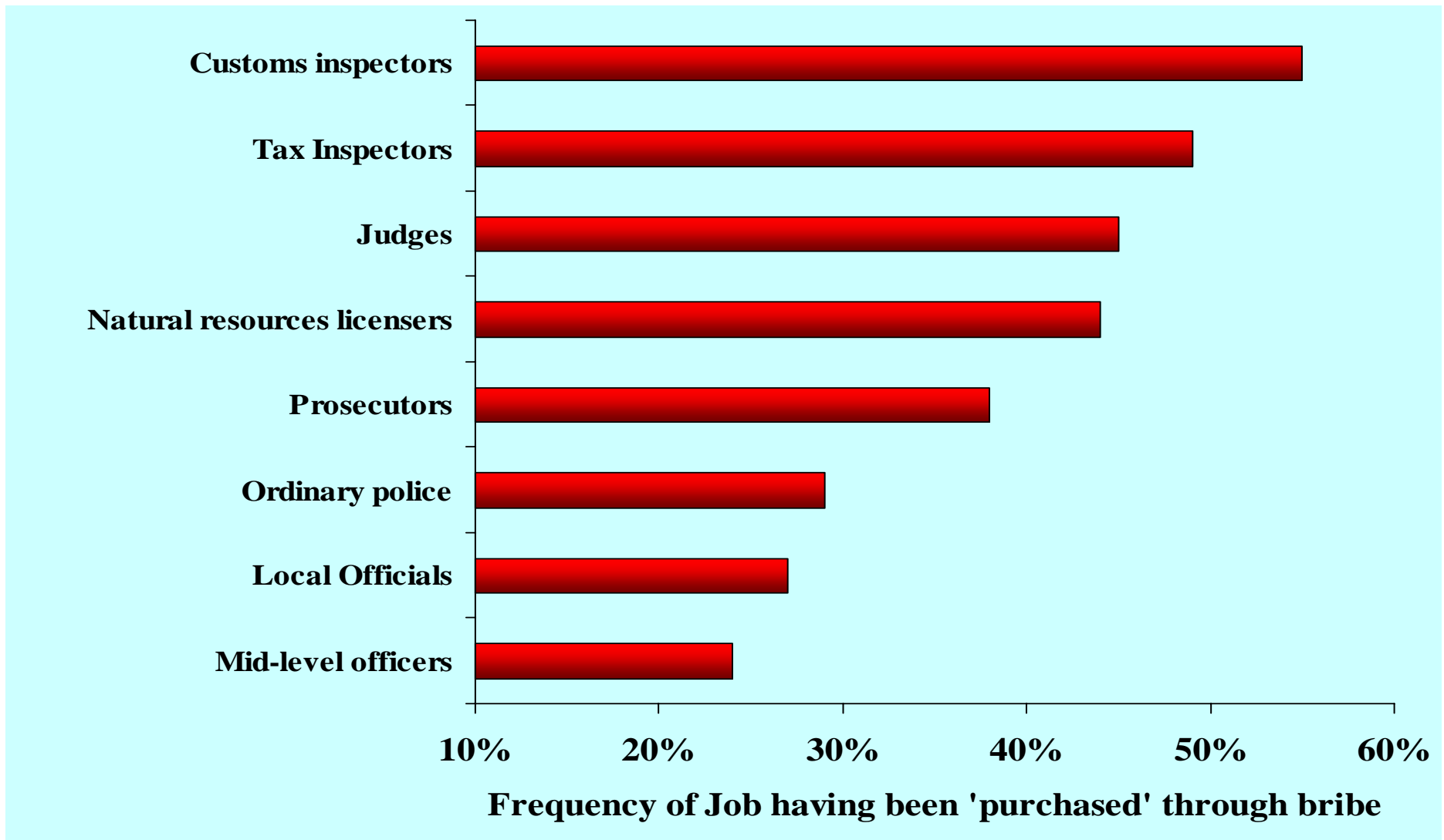
- **In Ukraine: the corrupt old guard in 1992...**
- **From 1993: Surveys under radar, requested by reformists, with emphasis on corruption and related...**
- **1996: Farewell speech by Central Bank governor when I am departing: what in his view was my most important contribution...?!**
- **Early survey work in Ukraine paves way for the broader and deeper work on Country Governance and Anticorruption Diagnostics: Albania, Georgia, Latvia, Bolivia, Ecuador, Ghana in late 1990s**
- **The Prime Minister of Albania: National Forum, facing the nation: *how data empowered him to spur reforms*¹¹.**

The “Bribe Fee List” in Ukraine and Russia, mid-1990s

Enterprise (World Bank implemented) Survey results on Unofficial Payments by Enterprises for Official Licenses and Services, Ukraine and Russia, 1996

<u>"Unofficial fee": type of license/"favor"</u>	Average "unofficial" fee required for "favor"	
	Russia	Ukraine
Enterprise registration	\$ 288	\$ 176
Each visit by fire/health inspector	\$ 67	\$ 42
Tax inspector (each regular visit)	\$ 250	\$ 87
Each phone line installation	\$ 1,071	\$ 894
Lease in state space (sq. meter per month)	\$ 26	\$ 7
Each export registration/consignment	\$ 643	\$ 123
Each import registration/consignment	\$ 133	\$ 278
Domestic currency loan from bank (preferential terms)	8%	4%
Hard currency loan (preferential terms)	23%	4%

Governance & Corruption Diagnostic in Albania, 1996: Who Pays to Get Jobs?



Source: ACER/WORLD BANK.. Public Officials Survey, 1998. Note that this is illustrative, and this challenge prevailed in other countries as well (and exists even in richest countries)

Ch. IV: Transparency...

- **Mid-to-late nineties: how to better monitor governance *worldwide*, empowering agents of reform, researchers, informing donors?**
- **Conference on Governance in the Americas... *onto Atlanta...***
- **Who is this 'heckler', or an intellectually curious anti-protocol 'participant'?**

Control of Corruption

Good
Governance
2.5

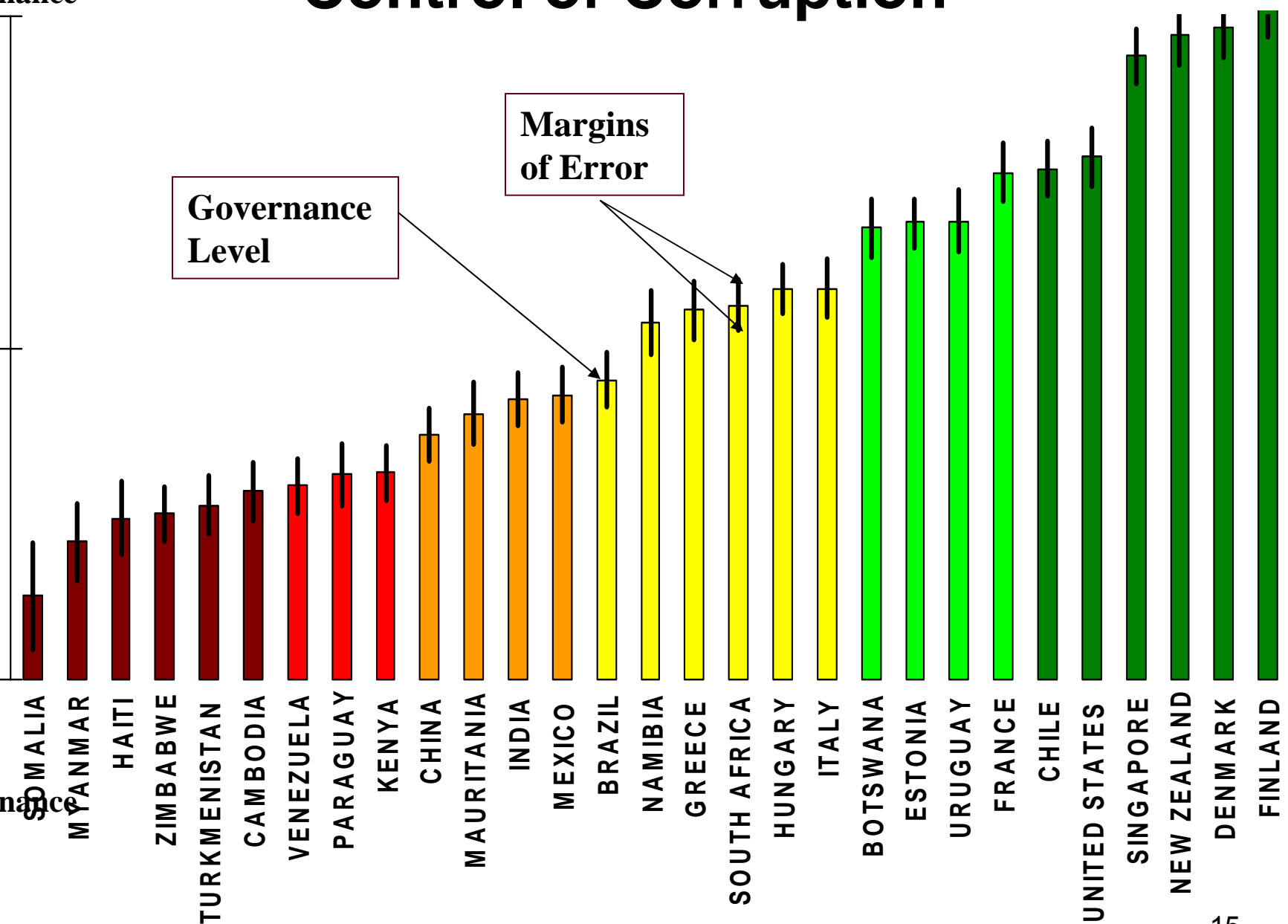
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-2.5

Poor
Governance

Governance
Level

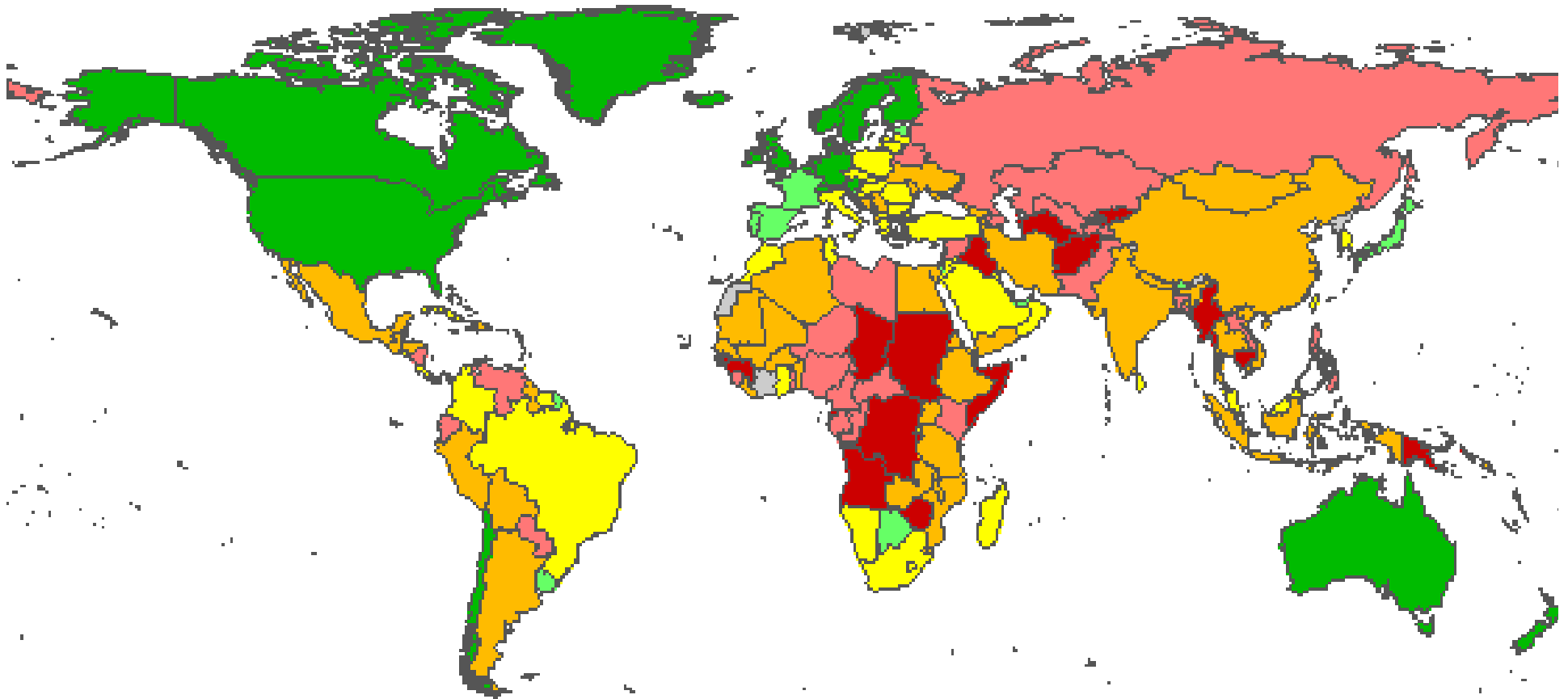
Margins
of Error



DISCLAIMER: The data and research reported here do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources or for any other official purpose.

Control of Corruption

Control of Corruption (2007)



Source for map: 'Governance Matters VII: Governance Indicators for 1996-2007', by D. Kaufmann, A. Kraay and M. Mastruzzi, June 2008 - 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

Ch. V: Participation, & Country Leads

- **Late 90s: Participatory, Country-Led Governance and Anticorruption programs are prepared by multi-stakeholder country teams in specialized action program workshops**
- **Over a dozen countries in Latin America, Africa**
- **WB President (JDW) attends each country presentation, gets involved, as are country leaders -- major issue from the top**
- **Anti-Corruption draft action/reform program prepared by each country team: they go onto major national workshop: concrete input from all stakeholders**
- **This is a Process –*participatory (w/WB 2nd fiddle)***

ACTION

ACTION	WHO	RESOURCE	BY WHEN
1. A meeting will be convened by WASHA at about 4 pm for the purpose of development of the budget plan.	Ann Fisher	AC Group	July 11, 1977
2. Budget completion survey data already collected. Prepare for the AC Group meeting.	Edward Gryg	A Group	7/13/77
3. Hold public hearings on the budget and involve the AC Group to play a role in community interest etc.	Betty Moran	AC Group	July 14
4. Develop a media liaison to community, coordinate the dissemination of the work. Start of the AC Group start with various media outlets.	John Gillmore John Owens John Cahill	Media Outlets	7/15/77
5. Write an article to capture the highlights of this AC meeting.	John Cahill	-	7/15/77
6. Meet to establish "gaps" in the Society involvement in the area of chronic operations / cost reduction.	Edward Gryg / John Cahill	Ac, 6/14/77	7/15/77
7. AC Group members will have an electronic mail address & direct to the contact.	John Cahill	AC Group	7/15/77

COMMUNICATION PLAN

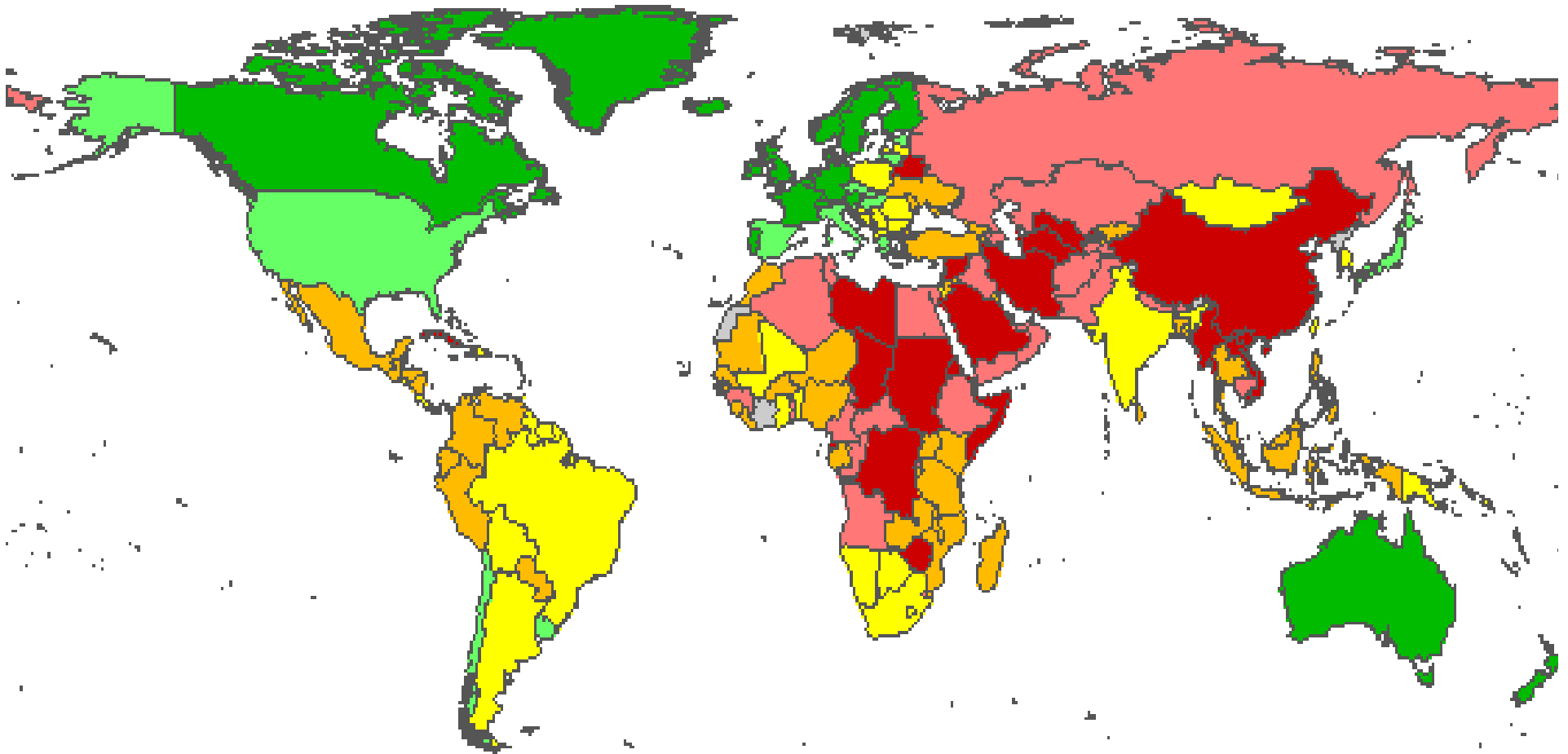
How to present message
Partnership / frequent meeting

- Overall Goal / Challenge

Ch. VI: Human Rights & Voice Matters

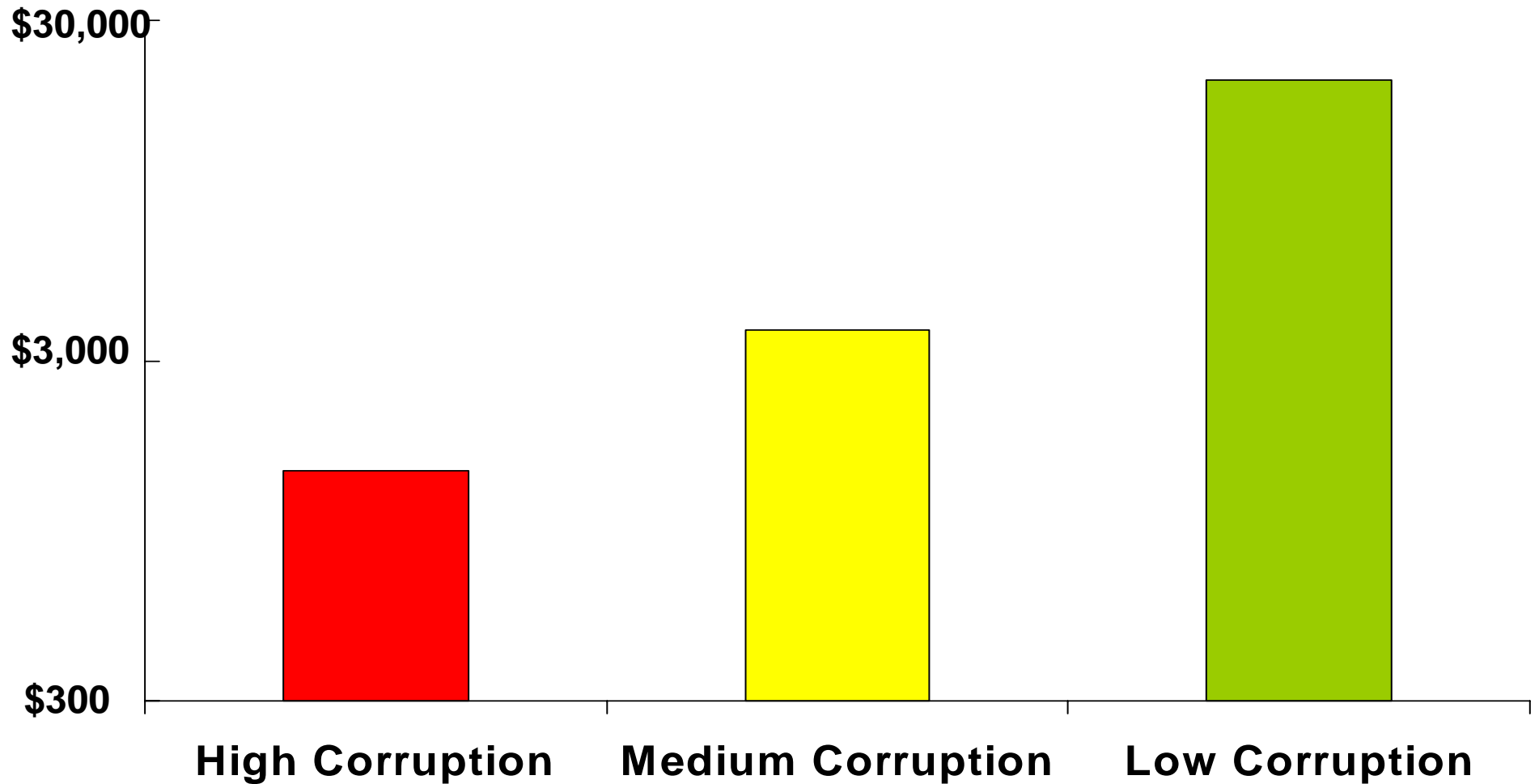
- **Enabling environment to do cutting edge empirical research on sensitive issues in late '90s & early 2000s...**
- **...while the Bank is also operationally opening up to civil society & multitude of stakeholders and voices...**
- **...some work on Human Rights starts...**
- **...governance more broadly understood: Voice and democratic accountability**
- **Human Rights & Voice do Matter for A-C and for development**

Voice and Accountability



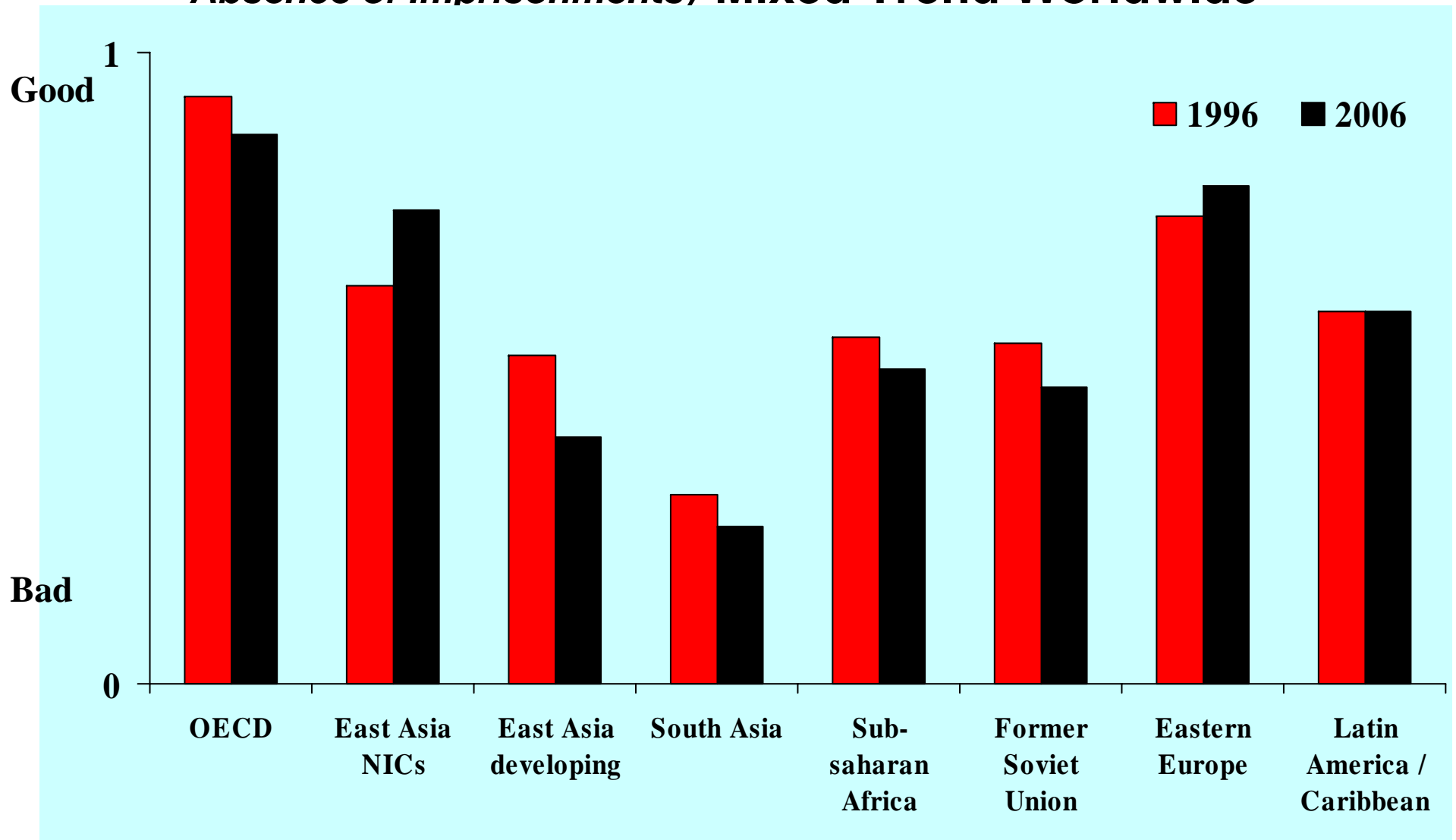
Source for map: 'Governance Matters VII: Governance Indicators for 1996-2007', by D. Kaufmann, A.Kraay and M. Mastruzzi, June 2008 - www.govindicators.org. Colors are assigned according to the following criteria: Dark Red: country is in the bottom 10th percentile rank ('governance crisis'); Light Red: 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.

The 300% Development Dividend From Improving Governance & Controlling Corruption



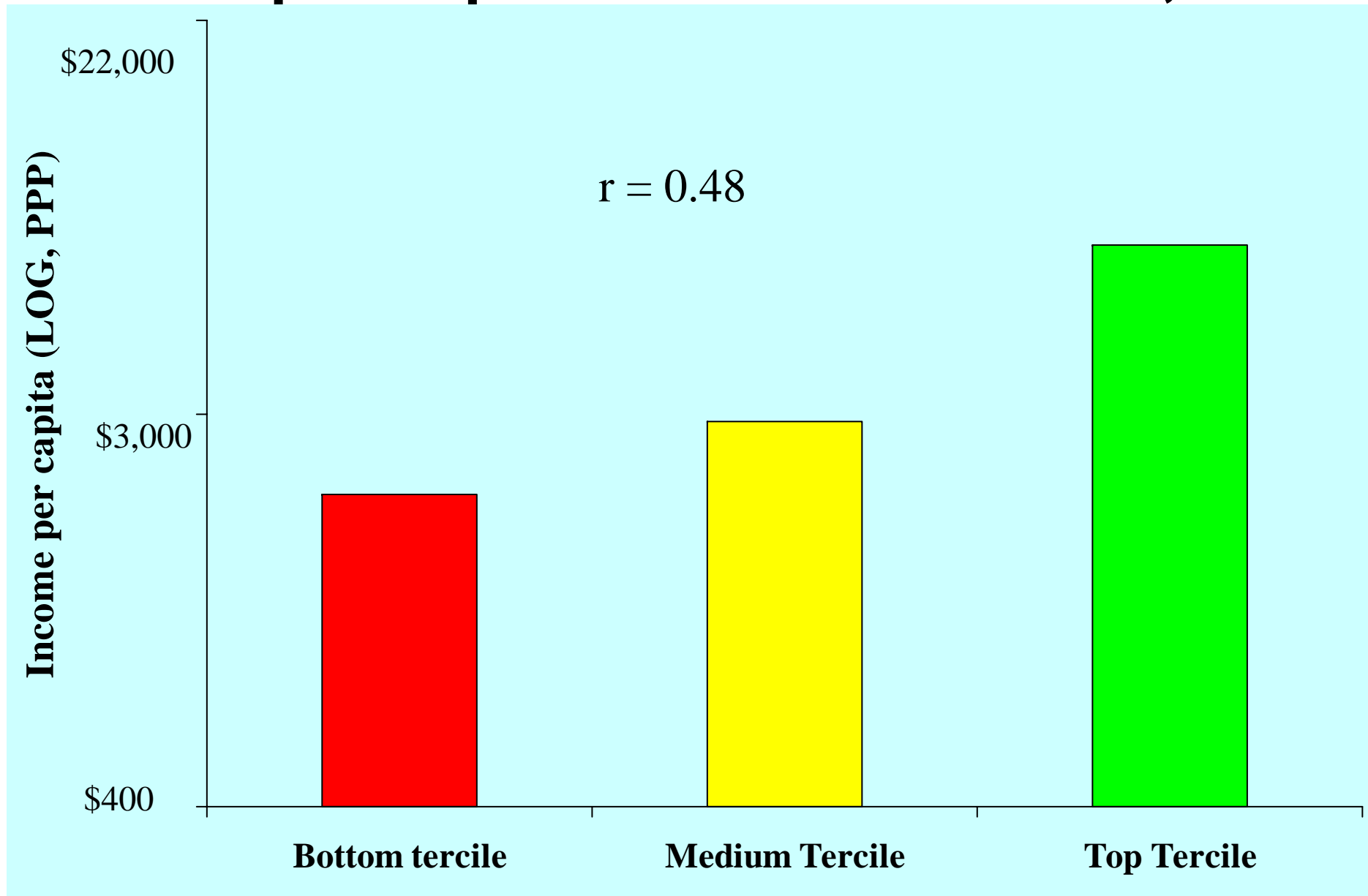
Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

Human Rights: Extent of Life Protection *(Composite of Absence of Killings, Absence of Disappearances, Absence of Torture, & Absence of Imprisonments)* Mixed Trend Worldwide



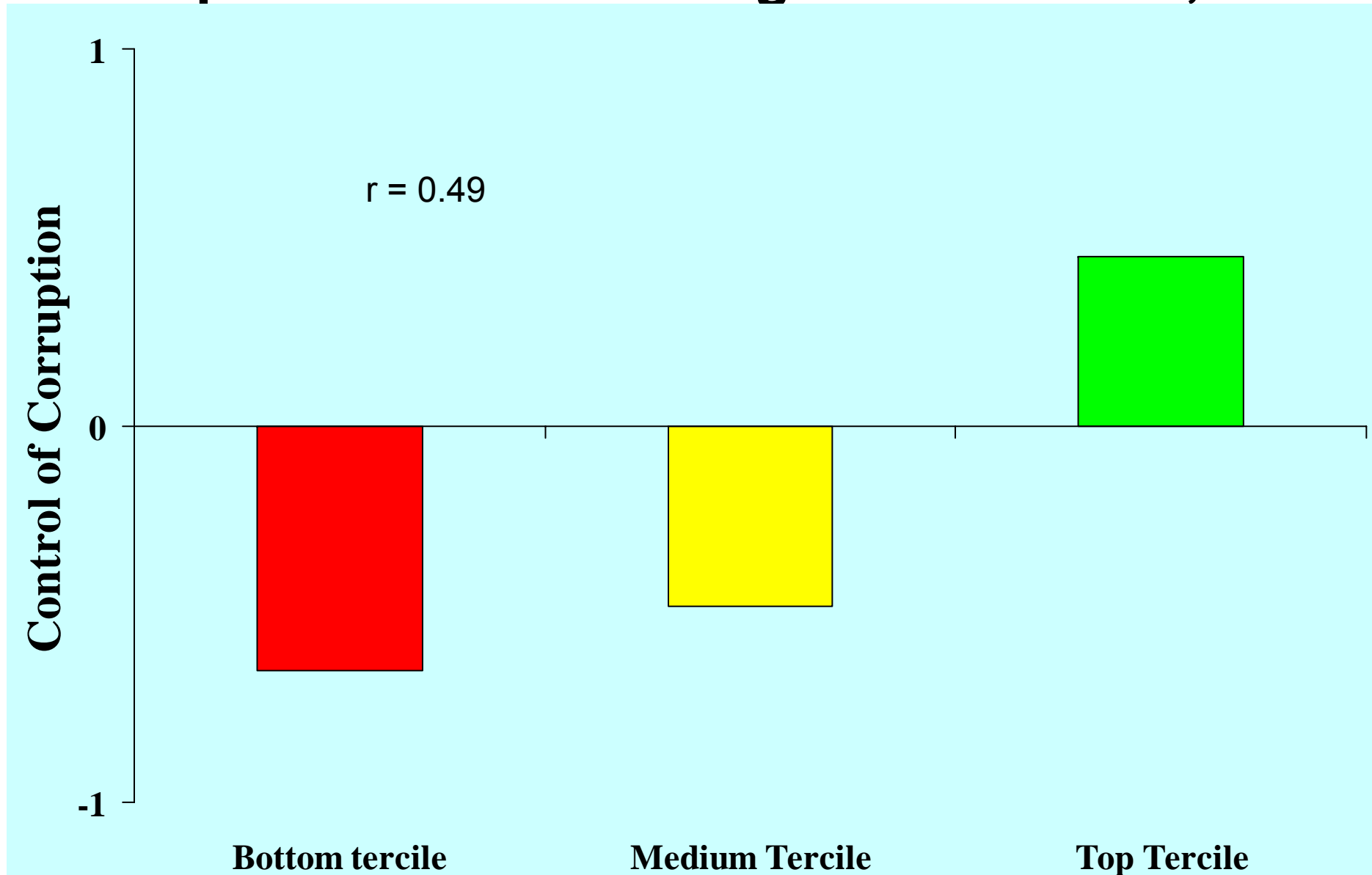
Source: Cingranelli / Richards (CIRI) human rights dataset – <http://www.humanrightsdata.com>. A high value reflects respect for human rights.

Income per Capita vs. Life Protection, 2007



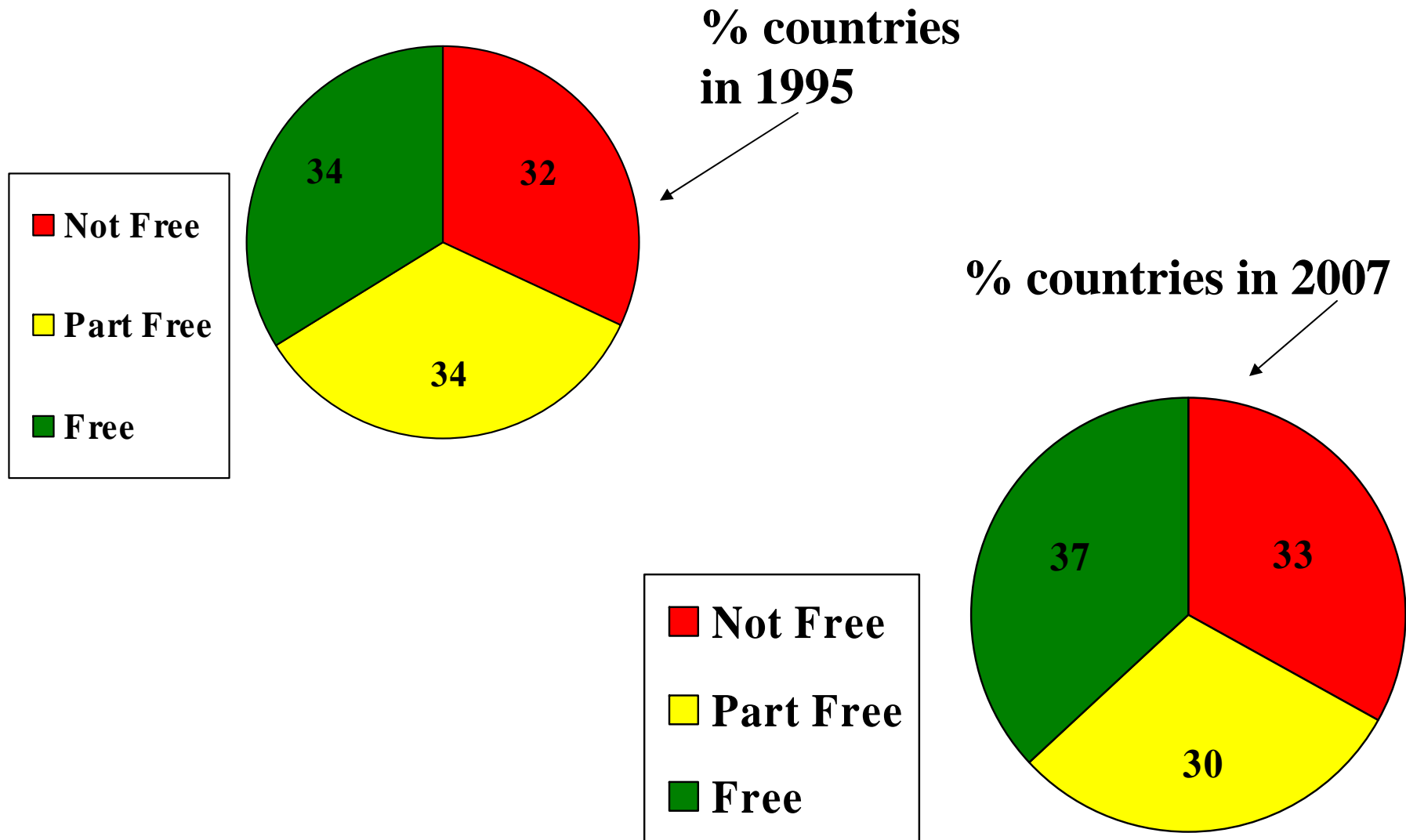
Source for data: CIRI dataset (www.humanrightsdataset.org) and 'Governance Matters VII: Governance Indicators for 1996-2007', by D. Kaufmann, A. Kraay and M. Mastruzzi, June 2008, www.govindicators.org. Life Protection is a Composite of Absence of Killings, Absence of Disappearances, Absence of Torture, & Absence of Imprisonments). Terciles computed according to life protection scores: Bottom tercile: 0-2; medium tercile: 3-5; top tercile 6-8.

Corruption vs. Political Rights Protection, 2007



Source for data: CIRI dataset (www.humanrightsdataset.org) and 'Governance Matters VII: Governance Indicators for 1996-2007', by D. Kaufmann, A. Kraay and M. Mastruzzi, June 2008, www.govindicators.org. Political Rights is a Composite of Freedom of speech, movement and political participation. Terciles computed according to political rights scores: Bottom tercile: 0-1; medium tercile: 2-3; top tercile 4-5.

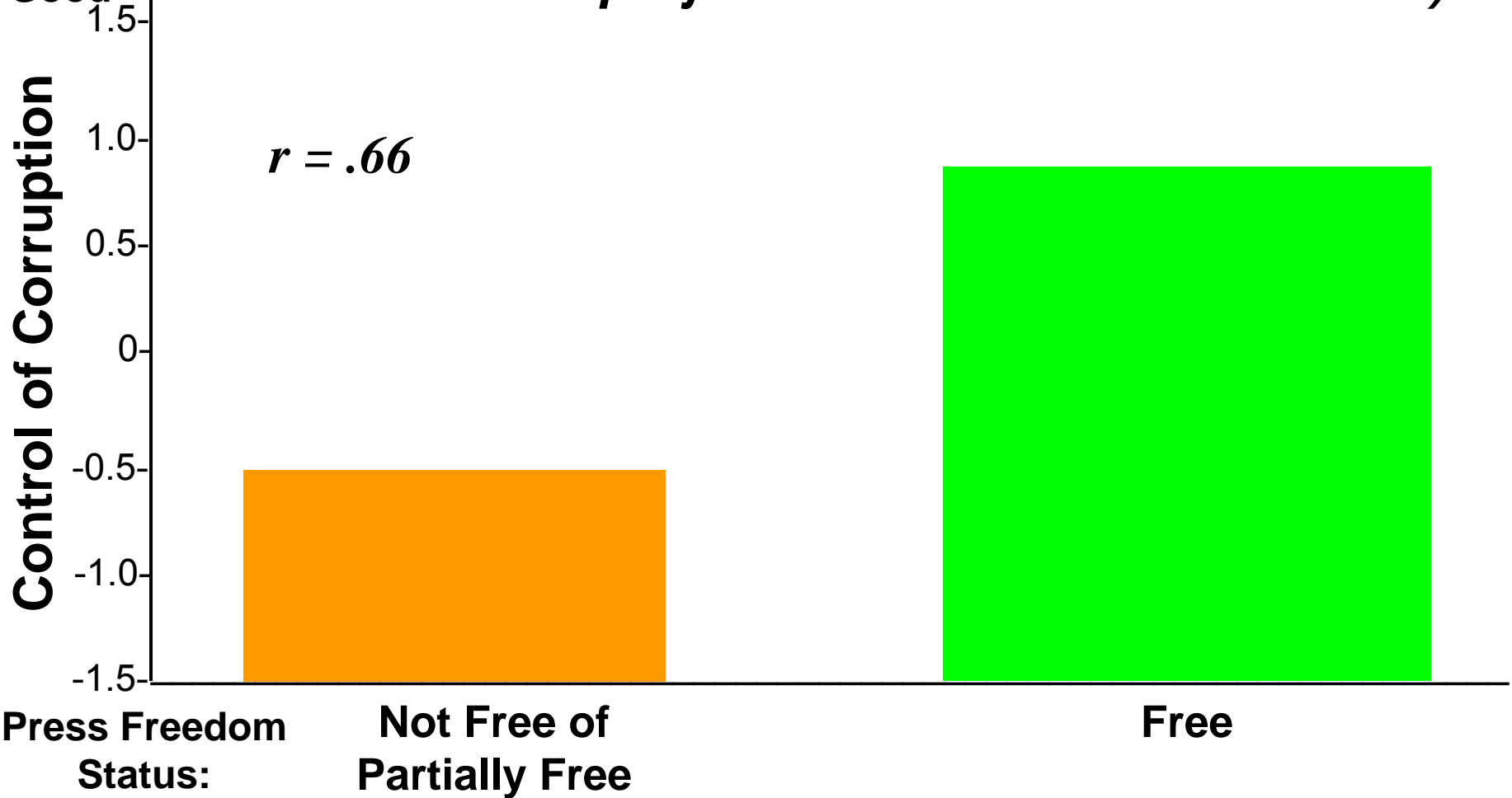
Press Freedom in the World, 1995 vs. 2007: *Stagnant? Full Sample*



Source: Freedom House. Y axis measures percentage of countries in the region with free press (rating of 30 or below), partly free (ratings between 30 and 60) and not free (rating above 60).

Freedom of the Press is associated with better Control of Corruption

(& civil liberties more generally is associated with better performance of World Bank-funded projects – see WBER article 1997)

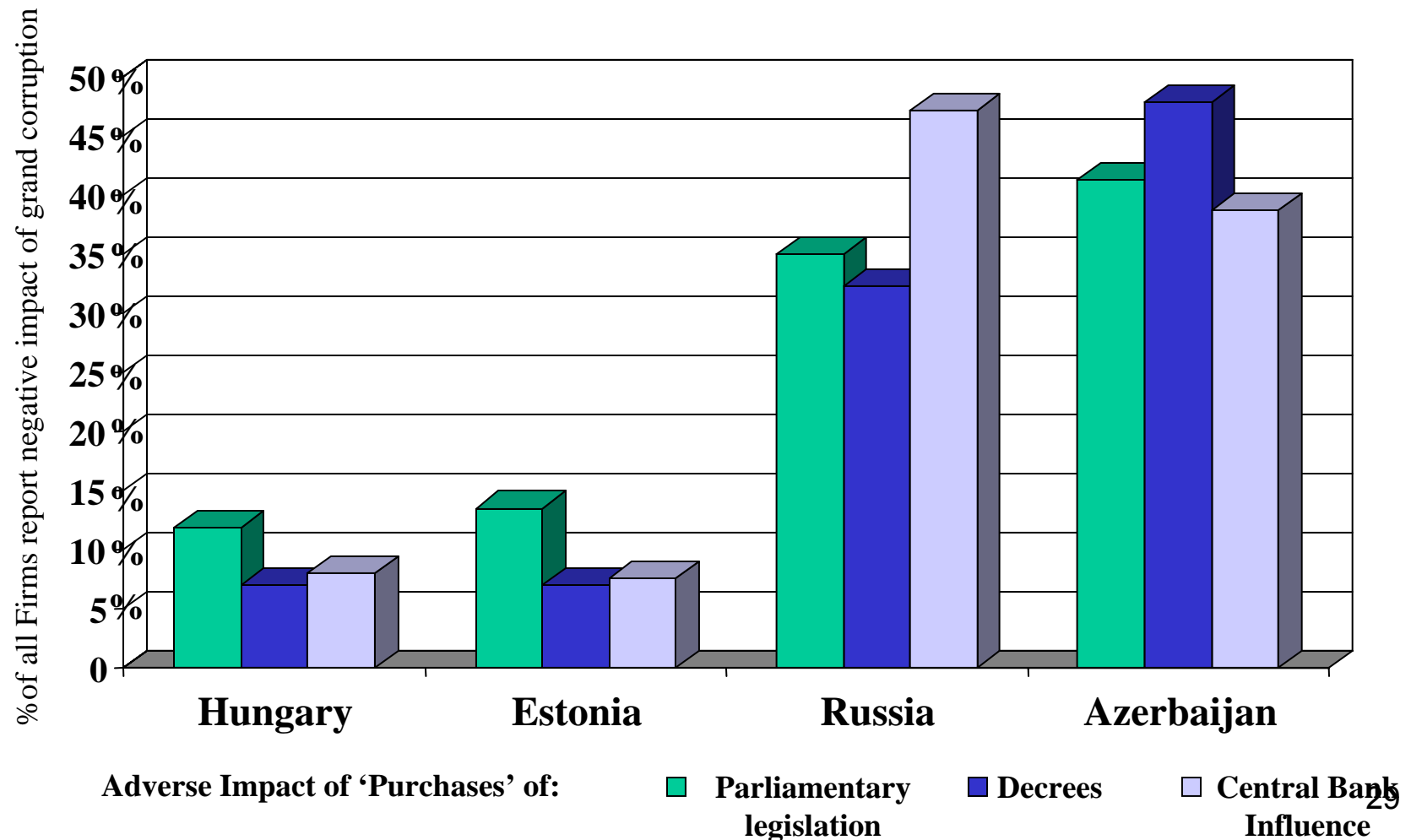


Source for control of corruption: : 'Governance Matters V: Governance Indicators for 1996-2005', D. Kaufmann, A. Kraay and M. Mastruzzi, September 2006 (<http://www.govindicators.org/>). Source for Press Freedom: 2006 Freedom House's Press Freedom Report. Terciles divided according to Press Freedom ratings (190 countries total). Free: 0-30 (69); Partly Free: 31-60 (54); Not Free: 61-100 (67).

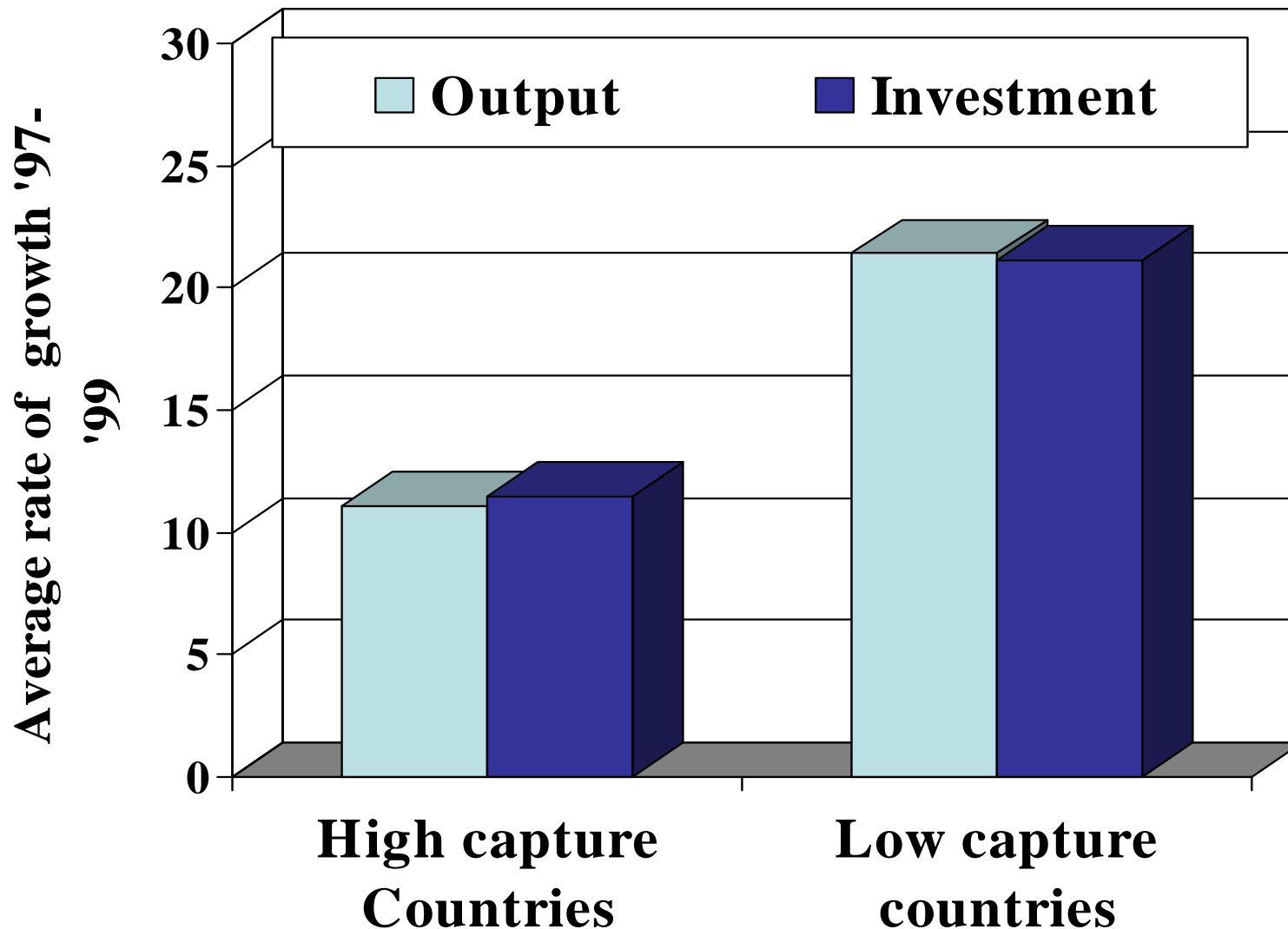
Ch. VII: It is the 'P' Word: State Capture

- **Late 90's: Enabling environment to do cutting edge empirical research**
- **...innovating on sensitive issues...**
- **...and debating concrete policy options**
- **...recognizing that Politics matters** *(not just PE...)*
- ***'P': Political High Level Corruption, State Capture – how elites collude and 'privatize public policy'***
- **Implementation was the challenge, constraint**

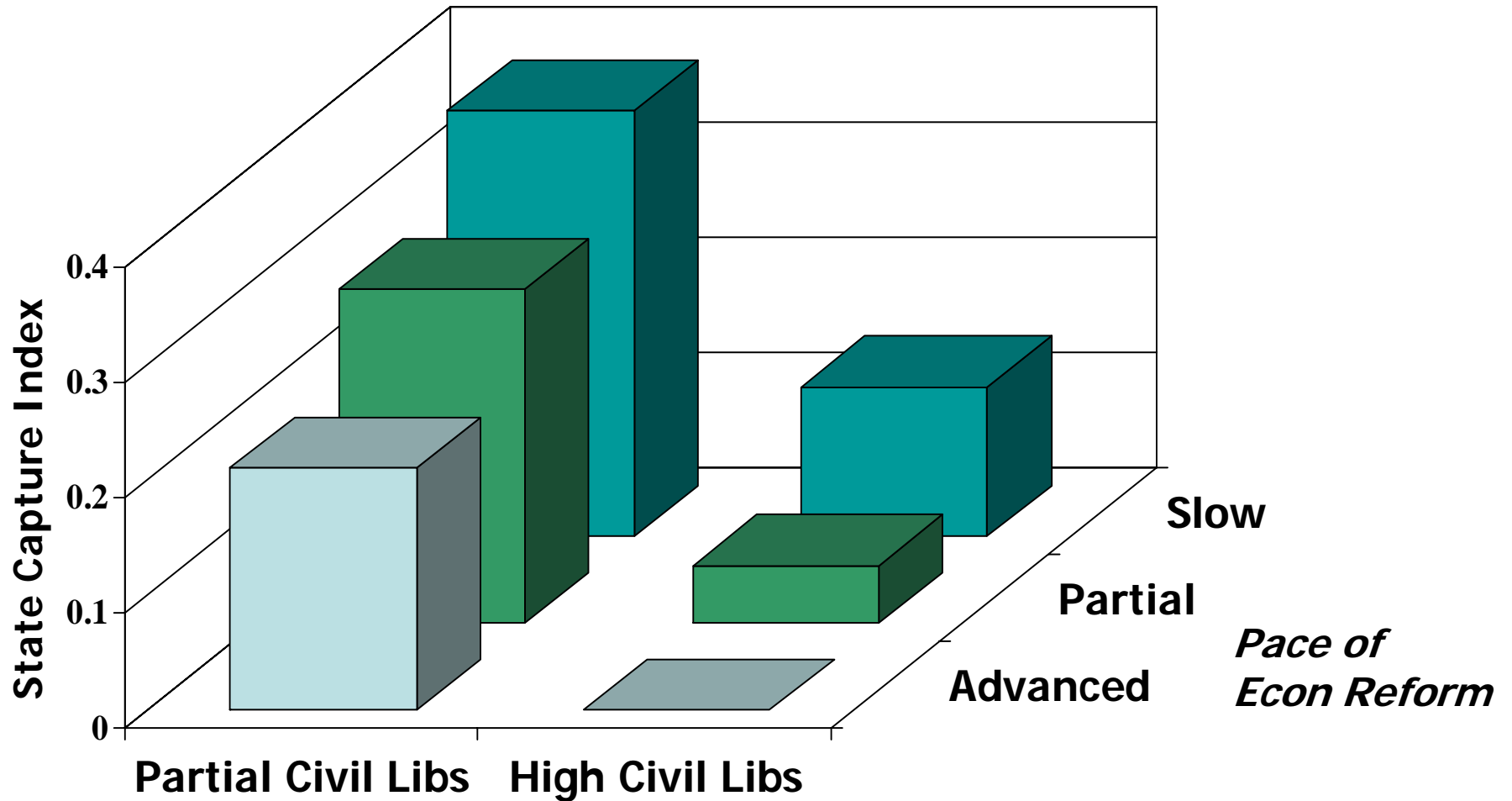
'Seize the State, Seize the Day' Research on Capture, 1999-2000: Differences in Transition Countries on the Extent of State Capture



Costs of State Capture – *Private Sector grows and invests less*



Addressing Capture: Economic Reform, Political Competition & Voice/Civil Liberties Matter



Political/Civil Liberties Reforms

Ch. VIII: Fast Forward – The Twin Crisis

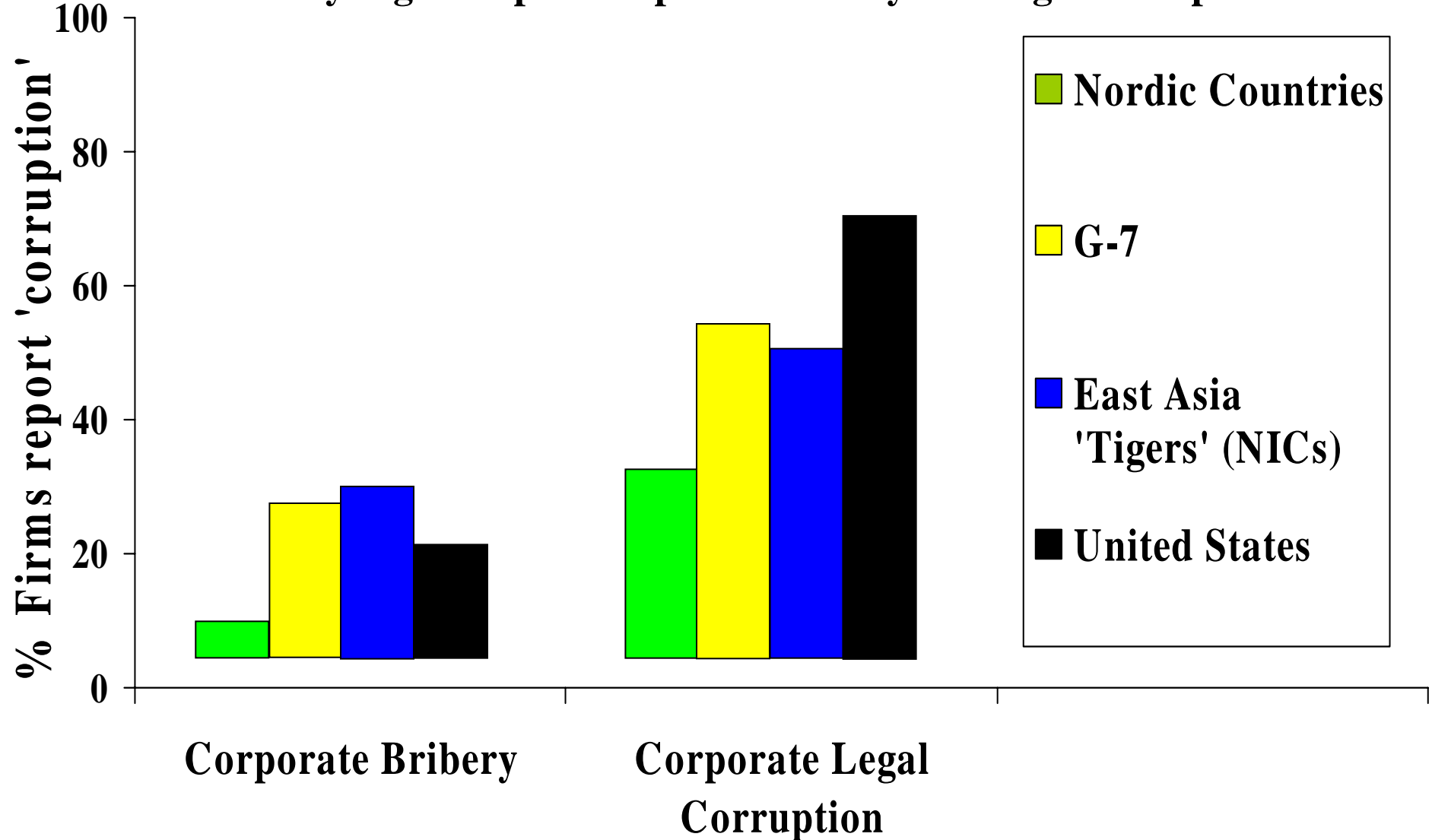
- **One Loud crisis with a bang, Financial, one Silent crisis: the Governance & Anticorruption field and movement**
- **Some notable accomplishments have taken place over the past decade...but tapering off in recent years, and...**
- **Anti-Corruption & Capture & Undue Vested interests: neglect, silent crisis, with consequences**
- **Financial Sector Crisis: Governance & Anticorruption movement was asleep**
- **Financial Crisis: beyond mere technocratic explanations...**
- **Capture & governance even more relevant now -- for both 'rich' and for developing countries...**

Governance, Capture & the Financial Crisis

- **AIG small derivative unit in London**
 - 400-employees derivatives unit in London, beyond oversight and disclosure, virtually brings down 100K employees firm, 130 countries.
- **Freddie & Fannie**
 - Spent millions of dollars in lobbying influential members of congress in exchange for lax capital reserve requirements
- **Office of Thrift Supervision (OTS)**
 - Some mortgages lenders switched regulators, for laxity. OTS, a regulator w/ flexible oversight, accommodated private sector's interest. OTS relied on fees paid by the banks it regulated.
- **Credit rating agencies**
 - Credit rating agencies failed to manage conflicts of interest when giving their blessing to mortgage-backed securities (MBS).
 - **Wall Street Large Investment Banks & SEC**
 - 2004: largest investment banks persuade SEC to relax regulatory debt constraints, capital requirements, and also weaker oversight.

Bribery vs. 'Legal Corruption'

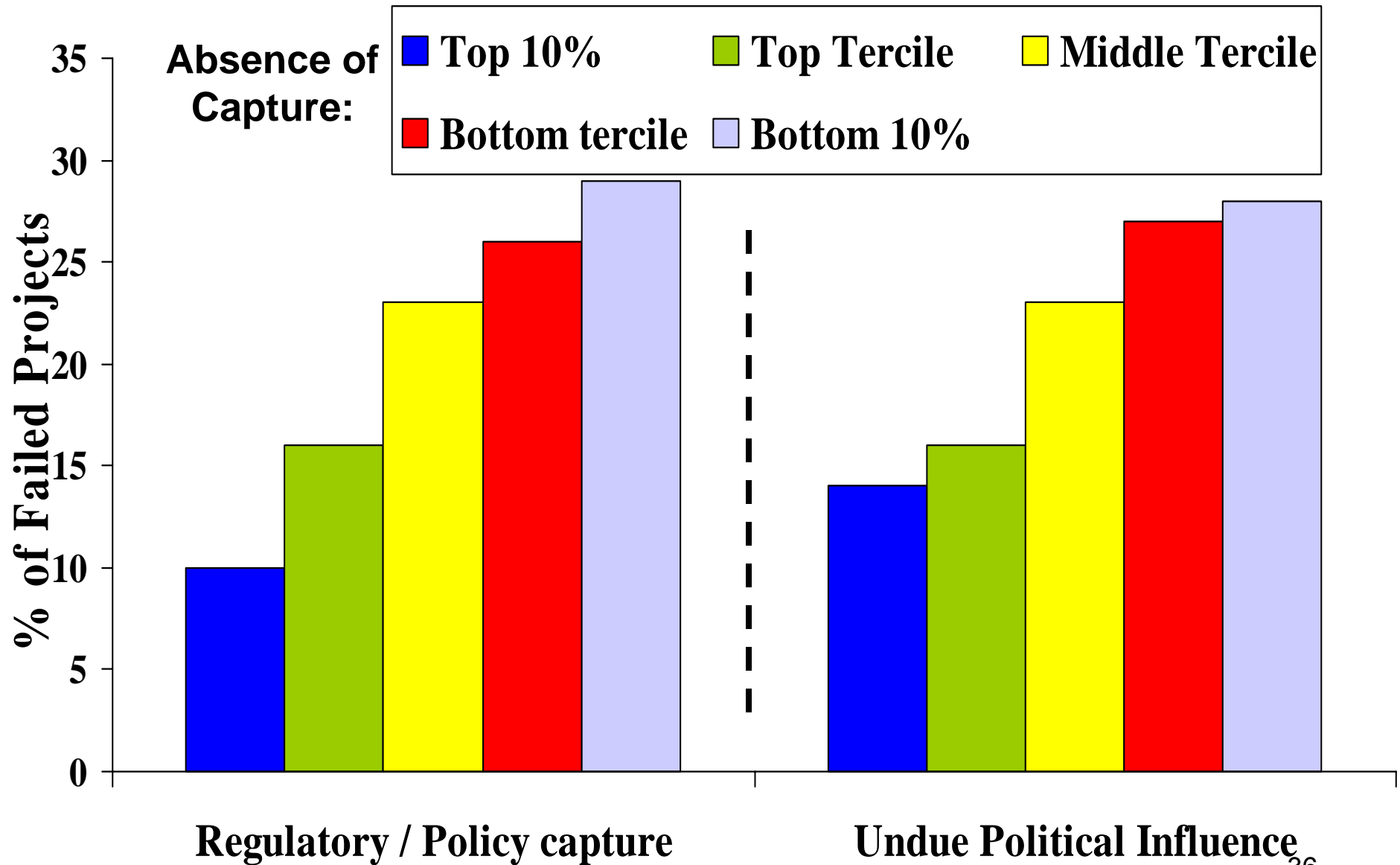
% Firms in country/region report corporate bribery vs. 'Legal corruption'



Governance Success Stories in Short Term

- For instance, between 1998 and 2007 significant improvements in: Voice and Accountability in Ghana, Indonesia, Liberia, and Peru; Political Stability/No Violence in Algeria and Rwanda; Control of Corruption in Serbia and Liberia.
 - Eastern Europe: gains across, mostly
 - But declines in many countries too (e.g. Venezuela, Cote d'Ivoire and Zimbabwe)
 - No evidence of global trends in governance
- AT THE SAME TIME, NOW GOOD GAC WORK
IN ALBANIA, BANGLADESH, ZAMBIA....,
yet we cannot escape broader reality₃₅.**

Capture & Project Performance Failure *(prelim.)*



Note: Top tercile refers to good governance ratings; bottom tercile refers to poor governance ratings. Sources: World Economic Forum's Global Competitiveness Survey, 1996-2007 and World Bank Business Warehouse for World Bank-funded projects. Number of projects evaluated: 3,340 during 1995-2007 for 92 countries. Regulatory / Policy Capture: In your country, how frequently would you estimate that firms like yours make undocumented extra payments or bribes connected with import and export permits? Undue Political Influence: How much influence do you think individuals or firms with close personal ties to political leaders actually had on recently enacted national laws and regulation that have a substantial impact on your business? Share of Failed Projects measures the percentage of projects with a rating of 1, 2 or 3 (out of 6 possible ratings).

Ch. IX: With Crisis, an Opportunity, and call for action

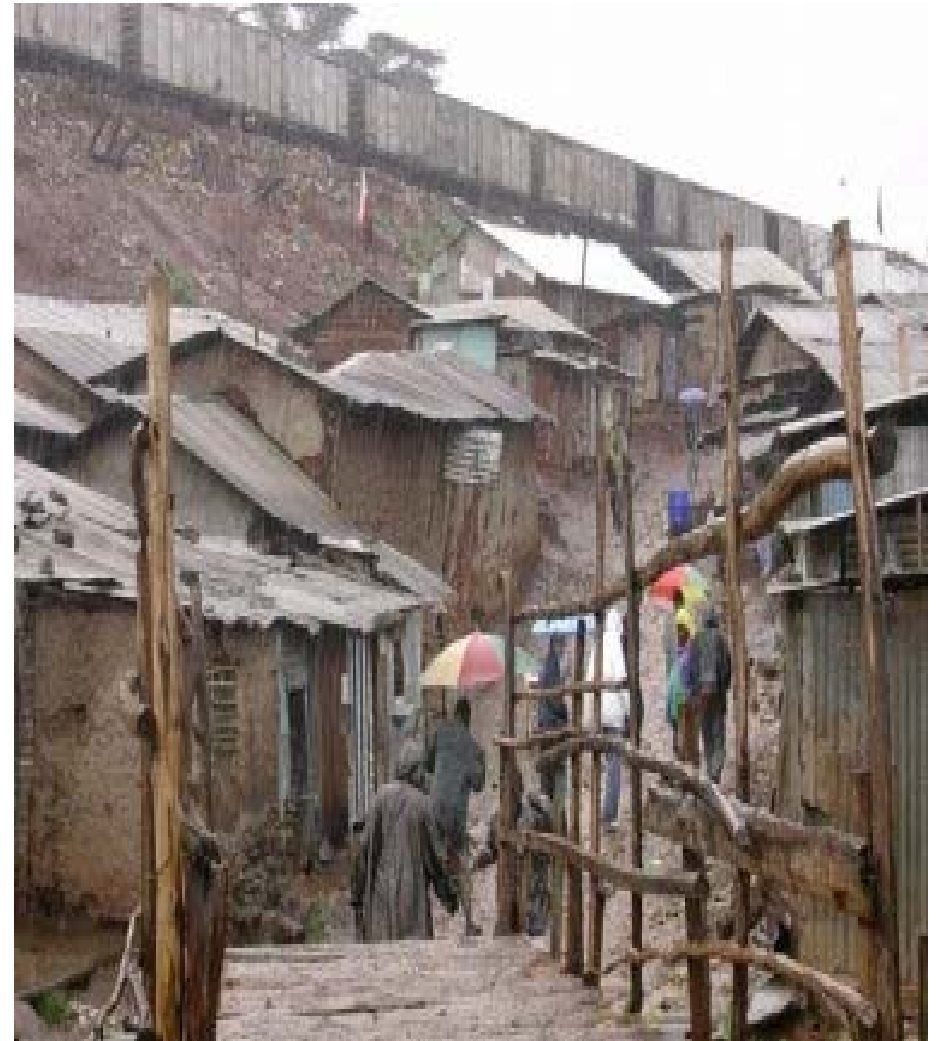
A Call for Action & elevating priority of Governance

New Era of Transparency for Donor Community?

- Pending challenges of *Capture, Anticorruption, Human Rights, & Freedom of Expression*: open debate whether & how aid community should do better
- Giving Governance higher priority among IFIs/donors & G-20 for enhanced aid effectiveness and world stability
- Transparency w/r to Data & Analytical products: safeguard intellectual independence & avoid censorship (e.g. WDI, Governance Assessments)
- Increased Transparency of Bank/IFI/Donor documents, their processes, deliberations, drafts, decisions
- Open debate on what the stakeholder views on aid effectiveness really are in emerging/developing countries
- Leveraging IT for Governance: GonGo, Blogs, etc

Selectivity: Countries, and particularly types of Intervention and which stakeholders, sectors to engage with, much more strategic work in portfolio approach to collaborating with a country, more strategic approach by Investigations (eg INT) departments

Nowadays: Nairobi's starkly contrasting worlds: *The Kenya reality we did not want to see, c. 2005-2007...*

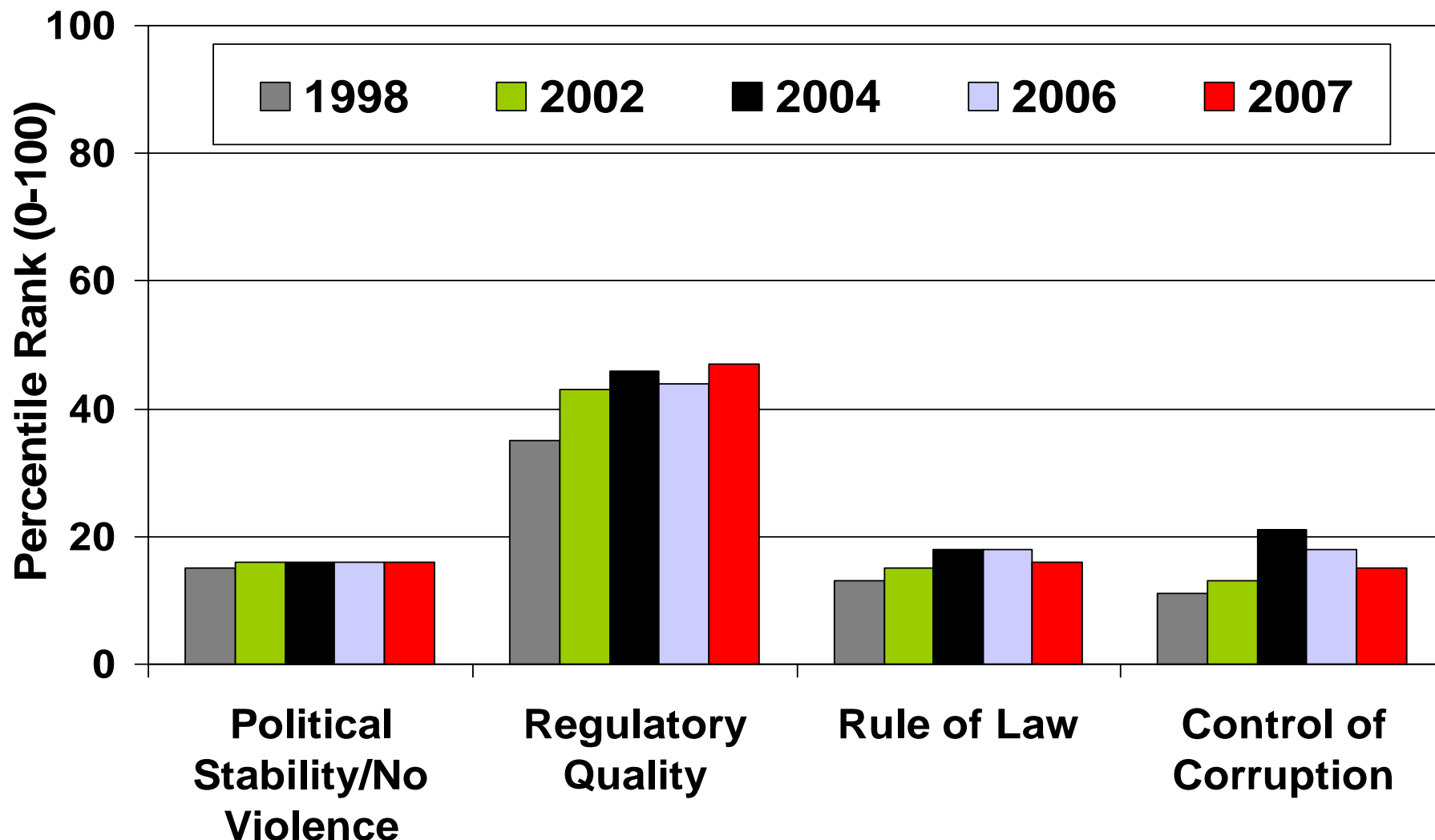


http://www.mst-network.de/stollberg/welcome/04_testimony/kenya_slum_nairobi.jpg

http://cityscoper.files.wordpress.com/2008/08/img_0865_nairobi_skyline.jpg

The Kenya reality we did not want to see – evidence was clear about the impending challenges in 2006, well before crisis, yet business as usual for most donors/IFIs. Pending @ the Bank: drawing the lessons from Kenya

Kenya: Selected Governance Indicators: 1998-2007



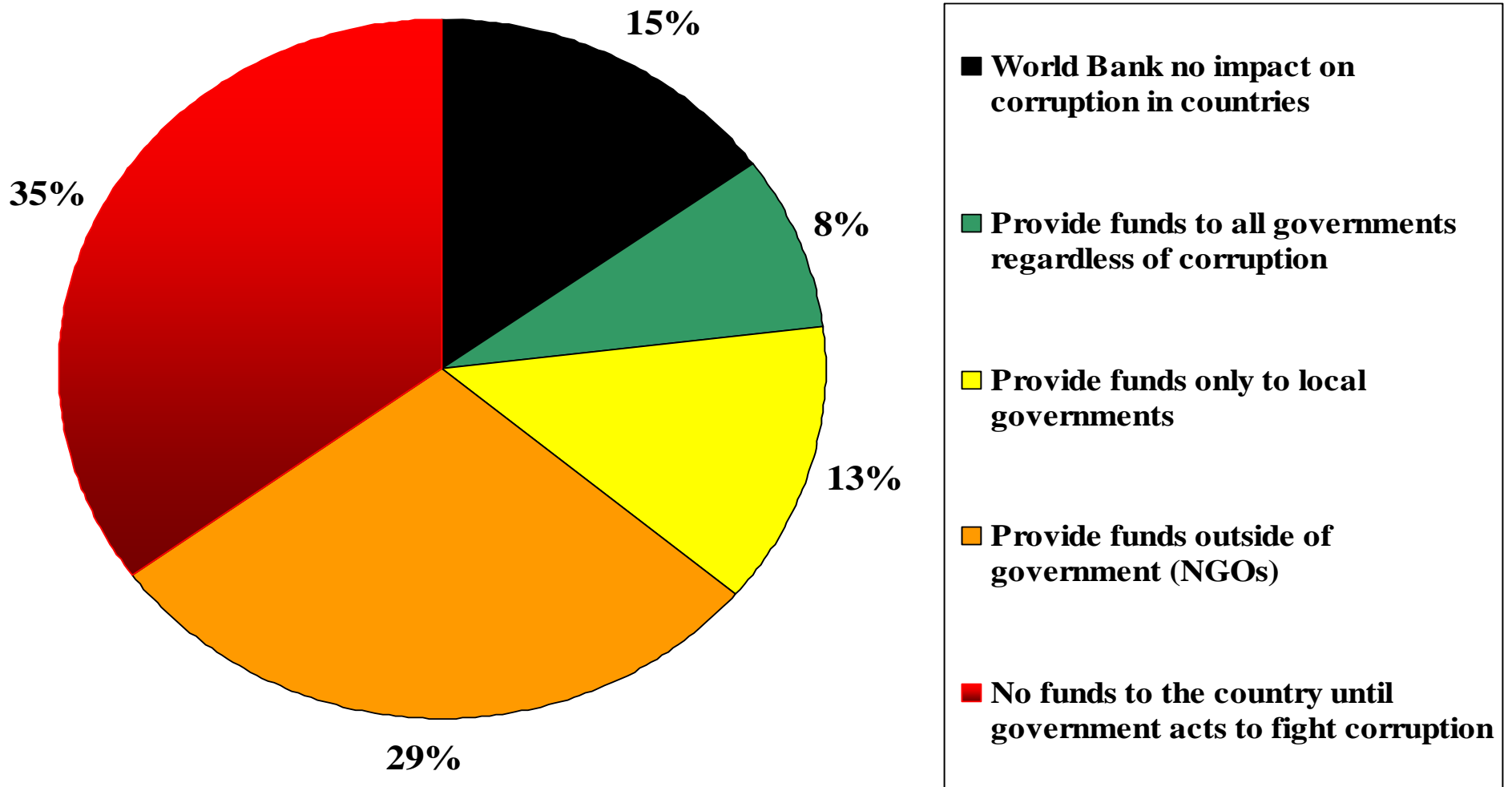
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World Bank Funding to Countries With High Corruption?

Opinion Leaders responses in developing Countries

Are we taking stakeholder feedback seriously?



Source: Global Poll 2008, commissioned by the World Bank and carried out by Gallup USA. Question: When there is ⁴⁰very high corruption in a country, and no concrete improvement is taking place, what should an international aid agency like the World Bank do when making decisions on funding to a developing country? (% respondents) WB Client sample.

Ch. X: In Ending...on the new order...

- **Changed World: different role of government in economy: ownership, regulation, expenditures & bailouts, safety nets**
- **Changed World, and lessons from Crisis: Major Implications for our global work on Governance, Capture & Corruption**
- **Business-as-usual or marginal change: Not an option**
- **For seriously addressing challenges of Governance and Capture for development and growth: A Revamped Business Model of many donor institutions, incl. the Bank, needed? [Worth wathing DfID example]**
- **Research, Analysis: *Onto next stage, much that we still don't know...many pending questions, doubts*** 41

