

**‘Governance, Crisis, and the Longer View:
Unorthodox Reflections on the New Reality’**

Farewell Event for Daniel Kaufmann

Tuesday, December 9th, 2008, 9.00 a.m. - 10.30 a.m.
The World Bank, Preston Auditorium
1818 H St., NW. Washington, DC

Main Presentation: Daniel Kaufmann

Hosted and Moderated by: Sanjay Pradhan, Vice President, WBI

Discussed by: Randi Ryterman, Acting Director, Public Sector Governance
Joel Hellman, Sector Manager, Governance and Public Sector, South Asia

Note: the transcript of Daniel Kaufmann’s presentation was accompanied by a slide presentation. Below find the links to the slide presentation, and the B-Span video.

- Slide presentation:
<http://info.worldbank.org/etools/library/latestversion.asp?245503>
 - B-SPAN video:
<http://info.worldbank.org/etools/bspan/PresentationView.asp?PID=2363&EID=1056>
-

Present in the podium: Kaufmann, Pradhan, Ryterman and Hellman.
Preston Auditorium full to capacity.

SANJAY PRADHAN: Good morning, and welcome everyone.

This is truly a memorable occasion, not just because it's a farewell to one of our most distinguished colleagues, Dani Kaufmann, but because, as Aart Kraay told me just now as I was coming in, that Dani has made it here by 9:00 in the morning.

And when I mentioned this to Dani, he said, "It's simple. I came here before I went to sleep."

Okay. So, we are here to bid farewell to Dani Kaufmann who, as I've said elsewhere, is not just an individual; he's an institution given the scale of what he has contributed and what that contribution represents.

And so, when Dani announced to me that he wanted to leave, and this was before I joined, and I tried my best to persuade him to stay on but he'd already decided to move on, but then he decided that, and when he announced that he was going to leave, I wanted to host this farewell, to pay tribute to this extraordinary pioneer. I think we have a great deal to be indebted to Dani.

And as you know from the title, "Governance Crisis and the Longer View: Unorthodox Reflections on the New Reality," this promises to be enlightening and provocative. One of Dani's most important traits is that he has always spoken up, even when--[and precisely when]--it has not been politically correct, and I look forward to him provoking us; challenging us. And one of the things that he has consistently done is pushed these frontiers, and that's again going to be very useful to hear from Dani in this farewell lecture.

Dani--as the audience gathered here, and we're already at standing room, and there are several colleagues who are joining online--he's not just a Bank-wide leader, obviously. He's really been a global intellectual leader on governance and anticorruption.

In the World Bank Institute, which I have just taken over, Dani has really pioneered one of the best approaches worldwide on diagnosing and benchmarking governance, most notably known through the world by Governance Indicators, and it really is one of the most prominent things that the World Bank and the World Bank Institute is known for globally; and it's used by stakeholders all throughout the world.

But one of the things beyond this, that people see, is that Dani has established such a reputation in this area. Dani has actually published and worked in a much broader set of areas; also.

As some of you may or may not know, he was the World Bank's first Chief of Mission in Ukraine in the early 1990s. He held a position at Harvard before joining here. He has worked as Lead Economist in the transition economies in the Research Department. He has worked in the

Africa Region. So, he has done a huge amount, and he has published on a wide range of topics, including on macro issues, on the unofficial economy, and so on.

One of the things I should add is that Dani has also been a pioneer on blogging, and this will continue in Brookings through which we can monitor his progress as he proceeds and we can stay in close touch.

I wanted to just express my gratitude for Dani in three roles that I've had.

The first role, as some of you may know, I was in charge of overseeing the World Bank's Governance and Anticorruption strategy. Dani was a pioneer in the Bank in this area, and as I can see, several staff from the Governance and Anticorruption Public Sector family gathered in this room, we pay an enormous debt of gratitude to Dani. He pursued this agenda when it was not fashionable, when it was not sexy, and he paved the way on which you walk today.

And for that, I owe you a tremendous amount of gratitude, on behalf of the Public Sector Governance family, Dani.

The second role on which I want to express my gratitude to Dani is on behalf of the World Bank Institute. As I said, Dani has done a lot of his pioneering work there on the Worldwide Governance Indicators, but on governance diagnostics more broadly. And he has really established a legacy for the World Bank Institute on governance, which I think will be very important for us to build on. And I intend to build on that in my role as Vice President of the World Bank Institute, because WBI can actually pursue frontier areas of governance, as Dani has shown. We can do work on diagnostics extended into political economy analyses much more. We can do work on demand-side areas, on leadership capacity building, on serving as platforms for coalition building, and these things I really intend to push forward, using the legacy and example that Dani has set. And I've requested of Dani, and he has agreed, to help us in taking these agendas forward.

Finally, the third level in which I want to express gratitude for Dani is at a personal level. Dani and I started this work over a decade ago. The first governance diagnostics we did together--and with Randy, and maybe Joel got involved a little bit later--on Albania, Georgia, Latvia. So, this is a whole club from the ECA days. But we've continued this journey on Governance and Anti-Corruption (GAC) together. And there are two traits of Dani that I have found really inspirational, and the two traits, in addition to all the intellectual contributions he has made, the first is passion for the pursuit in the fight against corruption. He is genuinely, deeply dedicated and passionate about this fight, and you absolutely need that. And the second has been perseverance. Dani has persevered when there have been extraordinary challenges and odds. And for those of you who know, who have been in this field, you need that passion and perseverance to persist, and that is what I hope to continue to find--inspiration from Dani in this.

And our good fortune, Dani, is that you're not retiring but merely moving to Brookings, and another perch from which you can continue your contribution and partner with us and help guide us.

And with this, with a heartfelt gratitude and tribute, Dani Kaufmann.

MR. DANIEL KAUFMANN: I'm humbled. That's too nice...

I can only start by saying that it's reciprocal. And maybe a little bit through the presentation, some of that reciprocity may come through.

Let me start, in that case, by making some acknowledgments.

First, I really appreciate all of you being here so early. Particularly, for a latino like myself, I know that's an enormous challenge. I tend to work late at night...

[The rumor is that they are bringing chairs for those that steadfastly are staying here in spite of having to stand up. that seats and chairs are on their way]

The next acknowledgment is that today, like what Sanjay said; "it is a special day", it is International Anticorruption Day. It's a day to acknowledge achievements that have taken place but at the same time to ponder and to soul-search where we stand.

Next, and as important, a regret: only after the day for this event was set it became known that today is a very special Muslim holiday, known in West Africa as Tabaski. And I received some e-mails; in fact, I've got so many e-mails overall that I'm still humbled by this, of many people that otherwise would join from afar, and I want to pay my respects that we're doing this the same day that it is this Muslim holiday. This event is being web-streamed and taped and will be available after the event as well. I will also be posting in the web the slide presentation so that everybody can transparently have access, including people in West Africa and the Middle East that may not be able to join now.

A 'mea culpa' before I really get going. On the one hand, it is a farewell talk. It was exceedingly difficult for me to figure out what I would say. I usually don't write --and neither did I, this time-- my talks before I give them. Sometimes, I'm asked to write them up afterwards, but I don't write them to read. But as you can imagine, after being for so long at the Bank, I have absolutely no experience in writing farewell speeches, or figuring out what to say.

So, bear with me, because I will combine the personal journey, a journey that has been together with all of you -- many of you being present here I recognize as friends and colleagues. In that personal journey sense, I will be a bit self-conscious; it was obviously the journey I was in.

But let me say up front, in terms of any of the achievements or things that we have done, they have always been done collectively. They have always been done with groups--sometimes just two people or three people, sometimes many more.

I asked somebody in my group to go through my bibliography yesterday--just out of curiosity--how many coauthors I've worked with, and it's about 50-plus without counting papers before 1985, so it will probably be much higher, and many of you are here. And this is just in terms of

the more academic output. In terms of the projects, the programs, the diagnostics, and so on there are so many more partners. So, any credit here is shared and collective. Anything outrageous, or mistakes, my fault, just blame me. I'm used to it... So, that's fine.

Some people may not believe it, but there was life before governance and anticorruption, even for me, and in fact I started long ago as a very traditionally trained economist, and looking at the world as an economist does, as a traditional economist does, or did at the time, from the desk, and looking at this map of the world that we knew at the time, very much center stage, the Americas, in particular, the U.S. But very soon into my experience at the Bank--in fact, it started as a researcher assistant and trying to write my dissertation on inter-household transfers among the urban poor (as survival strategy)-- I was doing this in the field, through learning and working on urban poverty.

So, from the Ivy League, even while I am in school in some sense, writing my dissertation, I start listening to people, people on the ground, in the field, in the slums, particularly, at first in Colombia and other Latin American countries.

In Colombia, I also get very involved in the slums of Cartagena, an incredible collaborative experience. Not just with economists. We worked with fantastic anthropologists and sociologists, including one that is today at the Bank and used to be a counterpart in Colombia, Eduardo Velez, who is in Hanoi today. And I learned from a very wise and famous anthropologist from MIT, Lisa Peattie, that one doesn't ask people for their histories; one asks them about their stories.

And I began to learn how to codify those stories. I began to learn how important it was to get the right data and to begin analyzing it and codifying what these people's stories were, what they had to report, how they were living, how they were surviving or not surviving in the most abject poverty.

This was a starkly contrasting world, the 'two Cartagenas' (slide). We know about a wonderfully beautiful seaside Cartagena, one part looking a bit like Copacabana, and also the very old and famous colonial part of the city, which has been fully restored.

And we got to know about the other side of the city, seen on the right in this slide. A side that looms even larger as time goes by: the slums where people basically have lived for a very long time--by and (literally) in a swamp--and that's where we worked.

I became so engaged in this work, that every time I would be invited to Colombia, about every four or five years, I would go back to that Cartagena community and visit the same people and see how they were doing.

Why? Why were they living in such abject poverty? Why there was such a contrast between the two worlds, living side by side? Why such poverty and inequality was so persistent for so long, until today? Today, there is hope. There is a new leadership, a young woman mayor, from outside of the elite political machinery that has ruled and captured Cartagena politics for so long.

It didn't take rocket science, even as a very traditional economist, to figure out that maybe

governance and corruption had something to do with the answer to all these ‘whys’. But at the time, we were not allowed to flesh it out at the Bank.

After that experience, I worked as a macroeconomist, then as an industrial trade and finance economist in East Africa, and got involved in programs in Tanzania, Ethiopia, Zambia and Angola – all countries with incredibly distorted trade, industry policy, and exchange rate regimes. They had an administrative allocation of foreign exchange well below the market price, plagued with import restrictions--you name it. It is the early to mid '80s.

Of course, we also asked the Cartagena question there as well: why? But the answers as traditional economists at the time were mostly technocratic, although we were beginning to enter the issue that there may be some vested interest behind this... This, even though it was the ‘prohibition era’ at the Bank for Corruption, the so called "C...." era, in which we were not supposed to talk or write about corruption,--the word Corruption could not be fully spelled out.

So, the approach taken was implicit, indirect. First, there was a different approach to collecting data, which I will mention. And for instance, in Tanzania, as one illustration, we had to use the very technocratic economic language like "rent-seeking" as a code word for issues of corruption--understanding why there was such vested interests in maintaining such incredibly distortive trade and foreign exchange regimes.

In the case of Tanzania in the mid-1980s, for instance, we started looking at trade and industrial regimes. We did an industrial sector review. We went looking for the major shoe factory in Morogoro. It was a huge investment, supposed to become about the largest (at-the-time) shoe factory in the world. The factory is nowhere to be found... A white elephant. Eventually they built a major brick building with a few machines. Three pair of shoes came out, all of them with nails sticking out. The World Bank was involved in funding that project. [slide]

When we carried out the trade and industrial sector analysis for the country, we collected data and information on how all the foreign exchange was allocated, on the one hand, and on the efficiency and inefficiency of hundreds of firms receiving that foreign exchange. We found that the foreign exchange allocation was much worse than if it would have been a lottery, worse than random, benefitting the most inefficient enterprises, at a very high cost. For a while we were accused by some from the old guard, and even internally at the Bank there was critique that we're not supposed to do this and be that critical. We are supposed to be ‘friends’ of Tanzania.

From that time, already, we were very clear that friends of Tanzania meant friends of Tanzania as a country, Tanzania as a people. From that perspective, the policies by the Government were extremely detrimental to the economic development of the country, even if it benefited a few in the government at the time. It is reassuring, it is heartwarming, to see that things can change. Tanzania, nowadays, obviously, is one of the countries that have made significant strides since then. I was talking about the past. But it becomes very clear, even in the 1980s, that the "why" is not such a difficult question: issues like vested interests and governance did come into mind.

But we are still during the (‘C...’) prohibition era at the Bank. Corruption was considered, at the time, in the interpretation of the mandate (Charter of Agreement), as weighing into domestic

political issues, unrelated to economic development, and thus outside of the Bank mandate. So, it took much further work --Wolfensohn coming into the Bank after the mid-90s, and also showing the evidence that it mattered significantly for economic development-- to change that. We are still during the prohibition era, though, very early 1990. I'm asked to do a new job (after World Development Report) to go and open the program and the office in Ukraine. The Iron Curtain had just fallen and we move to Kiev. At first I knew nothing about the former Soviet Union, but we collaborated with experts.

The second day that I'm in Kiev, Ukraine I'm told by the ambassadorial ranks that had already been there that the official to see --in order to obtain real estate, because there was no real estate market yet-- was one of the Deputy Ministers in the Ministry of Real Estate. [There were like 78 ministries at the time...even a Ministry of Legumes]. Ukraine had not started the reform period at the time; it was the old guard.

Within twenty minutes of that meeting, the official summonsed his personal lawyer, and we were given a piece of paper showing where we're supposed to privately deposit US\$20,000--in which bank in Vienna--in order to secure both real estate for our office and for our residence. I had never been faced or encountered such request directly. Instinctively I got up and left and then lodged a major complaint to the Prime Minister's office. And to the credit of the World Bank headquarters and my bosses (even though discussing openly and writing about corruption was still taboo), on these internal integrity issues there was zero tolerance; I had complete support in terms of the complaint.

A year later, when the reformists were already in power, from one of them that became friends I learnt what actually happened after our complaint. The Prime Minister summonsed this very old guard official, and screaming ensued by the PM scolding him for being so stupid not to know that to the World Bank you do not ask for bribes.

So, that was the reality then, my experience was not isolated. This is still early on in the Bank's venturing on corruption issues. But for me, personally, it was in some sense a turning moment, seeing that development is not just about technocratic economic issues. There is much more.

I start seeing that this is so pervasive. So we start doing surveys. This is 1992/3/4, working with Andy Stone and Enrique Rueda, on surveys of firms, and questions of corruption are included.

How come we can carry such surveys at the time, in spite of the prohibition era of the Bank? Simple -- country reformists. A few reformists in government in Ukraine start asking me, "Can you help us on this?" And they are the first demanders of that data, the first demanders of the analyses, the first that would say, "Come, let's discuss it. And what can we do about it?"

And this is a recurring theme through the years. Even when we have gotten pushback by some, from indicators or data we have produced, there are always reformists in government, and also leaders outside, that are asking, requesting, hungry for this type of data and analysis. They want it to leverage change. It empowers them.

And one of the most telling moments for me is when I'm leaving Ukraine, and one of the

farewell parties is given by the Governor of the Central Bank, and to my surprise, he had invited all the leaders of the political parties. And in his farewell speech he said very nice things, including regarding certain initiatives I was involved, but then he said, "But I want to acknowledge the most important thing that you did is that you made sure that neither the World Bank nor the IMF, for the first two years, gave us a cent in loans, because we basically were not ready. The cadre that was in power would never have reformed, and this would have perpetuated non-reforms." Recognition that sometimes it does not make sense to push money out of the door to a government is all too rare. By the way, that former Central Bank Governor is currently the President of Ukraine.

Then we start on the diagnostics for which that data in Ukraine is kind of a precursor, the first ones (the ones that Sanjay mentioned, and this is also with Randy and Joel and with many others that are here today), in Albania, Georgia, Latvia, Bolivia, Ecuador, Ghana and others.

In the case of Ukraine (and Russia), this slide on the 'bribe fee list' is history in a sense (illustrating the earlier survey and diagnostic work). I found it in a very old file. This bribe fee list shows how much one had to pay in bribes for each type of service, whether for registration or for tax inspector, and so on. And frankly, I looked at it with a bit of a poignant "looking back," because we don't do this type of detailed bribe fee codification often enough anymore, and when we do it, sometimes there are some obstacles in being able to show what's happening today in that country in terms of the bribe fee list.

That was Ukraine, but then we went to Albania (see slide). We did that work and we looked very frankly as to many issues: Who pays to get jobs, and how much do they pay? I still vividly recall that we were all there in a room like this, but there were about 800 people, at the National Workshop on Anticorruption, which was organized around the diagnostics that had just been done, with a think tank there and with the authorities.

And the Prime Minister looks at all the data, and then in front of national TV says, "Look, we can discuss until midnight about 'picky' things--whether there's a margin of error for tax data on customs inspectors or others, but every piece of data I've seen here"--and he saw plenty, from the public officials, from the enterprises, from the citizens--"is telling us that these three institutions need to be completely revamped and reformed. We start reforms of these institutions tonight." So, data analysis, diagnostics, were empowering for the reformist Prime Minister at the time.

Consequently that issue of the power of data leads us, then, to the next question, one of transparency. And I'm going through these journeys, through a few of these chapters. One was basically coming down from the Ivy League and listening to the voices of the people on the ground. Then, I mentioned the importance of learning from experience and listening to enterprises and diagnostics. Now: Transparency is a major key theme that I've been faced with and believed in all along.

So then, in the mid '90s, with Aart Kraay first, we start wondering how to monitor governance worldwide. We start through this very elaborate discussion. At the time, Transparency International had started their Corruption Index, and we were wondering, "How can this work be broadened? How can some methodological questions that were still pending be addressed?"

And the work broadened to cover not just corruption, but the whole spectrum of governance. So, that's when we start, in the mid to late '90s, with Governance Indicators. And many of you know about them, so I'm not going to belabor on that.

But what happens then is that this work goes on, but it's internal. Wolfensohn was already in the Bank, and challenging the taboo of corruption. But there was a lot of concern about transparency and disclosure of the data by some governments and some others in the Bank. So, until 1999, the work on indicators was still essentially internal work.

I then go to a Conference on "Governance and the Americas" in Atlanta. The first evening some Presidents of countries and companies spoke. Then the next morning it's the turn for us technocrats. I was asked to address the plenary, with very clear instructions: "You have seven minutes and you have seven slides maximum. And that's with every panelist in this plenary will have, addressing 500 people. And there will be no interruption, then the next panelist. And after all the panelists, people from the floor will ask questions."

I start my presentation with some of the data on the governance indicators. From the first slide, an immediate interruption --one person, who then kept questioning me in each slide-- "Why is that? How did you do that?" He was flaunting the rules of the conference game, and I was still on the second slide and the seven minutes had elapsed. He was urging me to continue, and continued asking questions.

To illustrate, here in this slide there is another take of the data that shows, by the way, how diverse the map of governance is around the world. This is one of the six indicators, "control of corruption." It began even then to debunk the myth that the rich countries had reached Nirvana, and they were all green light and doing very, very well in controlling corruption, and the poor developing countries are all hopelessly corrupt.

No. It is a much more complex and varied picture instead. Every region, in fact, almost, has the whole spectrum between green and red. Among neighbors, even, there are stark differences.

Now, back to what was happening during that Conference plenary. This person in the first row kept interrupting to ask detailed questions. I finished, and later on the full panel ends. He comes up to the podium, approaches me and says, "I need to talk to you. You are going to go back to Washington and talk to your boss, Mr. Wolfensohn, because I want to know where I can find all this data and we should have it."

I said, "Well, if you request, and if he gives me the permission, I'll give the data to you."

"No, no, no. It's not just for me", he says. "The whole world needs to have this, see, study and use it. Are you going to upload into the Web?"

I said, "I would have no problem in doing so if I get the political support to do so."

"You tell Mr. Wolfensohn that I am asking this, with my warm regards." OK, and I am delighted to pass such message, I retorted".

My interlocutor was Jimmy Carter. This was at the Carter Center in Atlanta, and of course it was clear that he could flaunt any conference plenary session rule and interrupt to ask all those probing questions. I wanted to give some credit where it is due to where we are today--and perhaps some of the headaches, too?—to Jimmy Carter, since he played a very important ‘transparenting’ role.

I went back to Washington and asked Jim Wolfensohn, who did retort: "Go ahead. No need to make enormous noise, but we need to be more transparent about this."

This is a story that I wanted to weave into my remarks today, perhaps of a somewhat personal nature, because it conveys such a potent message on transparency.

The next story, or next theme, is about participation -- participation in the real sense of the word, with a country, and with a country taking the leadership on their development. I personally have problems with the notion of ownership, so I prefer participation, real participation, and country leadership. This is because ownership sometimes gets translated into ownership by particular interests in a government which are not necessarily representative of a truly (and broader) participatory process.

In the late 1990s, this process of governance and anticorruption diagnostics get woven in and integrated into participating countries. They are done by the teams of the countries themselves, for which the diagnostics become a tool. They come to Washington sometimes. Sometimes we meet in other places, and in their countries. This process took place for over a half-a-dozen countries in Africa; then similarly in Latin America.

The Bank’s President at the time, once the draft presentation of the program was ready, would attend each presentation while they would get endorsement from the President of their own country. It would be then presented in the major anticorruption conference in Durban in Africa, with major input from stakeholders, thanks to a national workshop. It was a process involving the power of data, participatory and collective action, and reform program formulation.

And we learned the importance of this notion that these anticorruption programs, these anticorruption and governance reforms, are part of a process. It's not a one-off technocratic approach that one just basically comes up (and often from the outside..) with a list of what needs to be done, or a one day event with typical lectures.

This slide we see here on this action program preparation process may not be a very clear photo, but it gives a sense of what was going on and how they themselves were preparing the program. And believe it or not, the World Bank was playing very much ‘second fiddle’ -- it was a facilitator role, and they were a country team that included high-level officials, leaders from civil society, the local chapter of TI, parliament, private sector, all working together--many of them in fact for the first time getting together in a multi-stakeholder fashion, and here in this slide we see an illustration of the type of draft action reform programs that were put together.

In some countries, then, such process didn't result in any concrete implementation of reforms, for

particular political reasons, like in the case of Kenya; for instance. In other countries reforms were partial; in others results were better. Varied. Nowadays we witness some relative successes, as we mentioned in the case of Tanzania, and for instance some actions were taken in Colombia, Mexico, and so on. So, that was the issue of real participation, at the country level, as part of a process.

Thereafter we also get involved in the work of Human Rights, and on the work on 'Voice'. The focus is from an analytical and research perspective, because the constraint in interpretation of the mandate of the Bank, but still it was encouraging that there was room to get involved in these sensitive issues, and an enabling environment for innovation in that work--late '90s and the early 2000s--while the Bank is increasingly opening up in a very operational sense to civil society, to a multitude of stakeholder and voices that work on human rights, and voice and accountability start.

And at the time we suggest, through our empirical work, that Voice and Accountability as well as Human Rights do matter for economic development. So, in principle we argue that there's a rationale for the World Bank of being involved with these issues. Human Rights are not just an important end in itself (which obviously they are and have to be --a moral and ethical imperative), but it turns they matter for economic development outcomes as well.

Indeed, one of the six governance indicators we have constructed with Aart Kraay (and Massimo Mastruzzi and Pablo Zoido), the one on Voice and Democratic Accountability, is depicted in this slide--again, we witness an extremely mixed global picture in terms of performance on Voice. This slide happens to depict the world picture of today -- a world with many challenges and many variations within continents, within developing country regions.

With Aart we do this work showing that governance does matter. We're not alone. There are a set of half-a-dozen papers that, in different fashion, show how important they are by what we label and synthesize the literature as the development did, then, from good governance. We label that the 300 percent development dividend of improved governance (voice and accountability, rule of law, control of corruption, etc.): When there is an improvement in governance by one standard deviation, in the long run, that leads to a 300 percent improvement per capita income, or threefold increase from \$3,000 to \$9,000. It takes a long time for all those fruits of improved governance to be harvested, but it is an enormous payoff.

And Human Rights do matter. This slide shows that between--for about a decade, up to 2006 and 2007, there were some improvement and some deteriorations, but overall it is still a very challenging picture in many countries in terms of different dimensions of human rights. This is with disaggregated data from academics at the State University of New York.

Press Freedom as well. We are looking at those issues, as can be seen in the slide, and we see that, in spite of a process by which there are many more formal electoral democracies in the world today (a sea change, comparing today the number of electoral democracies, with twenty years ago), such formal election sea change has not been translated into dramatic improvement in basic issues of freedom of expression.

Let us review in this slide the evidence on press freedoms around the globe, and on average it is a stagnant world. Of course, some countries have improved, but for any improvement, a deterioration has taken place elsewhere. And we know that freedom of the press is associated with development outcomes, whether it's with incomes or with controlling corruption itself. As we say, "One doesn't fight corruption just by fighting corruption. One has to look at levers and important determinants of corruption." Freedom of expression and of the press is one. There are others.

Then, through this venue, we get also into (again, not alone and with people like Joel Hellman, and Sanjay, Randy and others) the 'P'-word. We had done something about the C-word for many years, but what about the P-word, namely the Politics?

Within the Politics (particularly with Joel), we started to work on the issue of State Capture in the late 1990s, when there was an enabling environment to do cutting edge political research, innovating on sensitive issues, debating concrete policy options, and recognizing that politics matter.

And within politics, this issue of high-level political corruption, and high-level political corruption in the form of state capture, how elites collude and purchase, or unduly influence the rules of the game, shape the institutions, the policies and regulations and the laws for their own private benefit. Or the way I've suggested in re-defining corruption, which I think it's obsolete to call it "abuse of public office for private gain." Instead, it is 'privatization of public policy', a much higher level political notion, and this crisp definition would encapsulate capture as well.

We are allowed to do this sensitive work, and this is great. But let's not exaggerate. It was a major implementation challenge, both internally for political reasons, but also externally, and this is not just unique to the Bank. So, we encounter constraints practically in translating the analysis into action.

Ten years ago we did this work on state capture. We see in this slide in a very synthesized fashion the type of results we got. Again, it is an enormously varied picture. It is not the whole world that was captured. There were enormously captured economies, and others that have gone the free market route, and they have taken very different paths. Back then we measured Azerbaijan and Russia for example, as highly captured economies--whether one is looking at the illicit purchase of parliamentary legislation or presidential decrees or central bank influence. This is a completely different picture than for some of the Eastern European countries, like Estonia or Hungary, which avoided such extreme capture. I know that Anders Aslund--who is here with us in the audience--has done great work on these issues and knows more than I do...

We found that State Capture matters. It matters enormously for investment growth, for output growth, to be in a captured environment or not. It matters for the private sector growth. So it's a major issue for private sector development.

We also had begun to weigh the question, what's behind State Capture? Why it afflicts so much some countries and not others? And we find that (surprisingly for me as an economist, but not for Joel as a political scientist), while economic competition and opening up of trade are rather

important factors, even more important is for a country to have political contestability (slide). It's about civil and political liberties: countries that got stuck with partial civil liberties during the transition do much worse. So again, we cannot escape the Politics here. Being mindful of the time, and being interested in listening to my colleagues and to you all, now let me fast-forward -- to today. There'll be other occasions for telling other anecdotes and lessons. But in fast-forwarding I want to also have the opportunity of wrapping up and using some of the elements that I have just outlined through my journey in terms of thoughts for today and the future.

Let me call the fast-forwarded reality we are facing today "the twin crisis". Sanjay has said that I'm always frank, even if I may be less punchy today than some would expect. It is my farewell talk at the Bank, after all.

But: why twin crisis? One crisis which is so bold and loud; everybody knows about it: the global financial crisis. But the other, is silent: in my modest view and personal view, the governance and anticorruption movement is in a quiet crisis; we have lost steam over the past few years. There are many reasons. I'm not going to weigh into this now in detail, because it is a complex story (and I don't pretend to have the full answer either).

But we are in a moment where a wakeup call may be needed. We have had accomplishments, and there's no question: it's a different world today on governance and anticorruption, even in terms of discussing these issues, the whole rhetoric has changed completely on corruption issues, and in terms of being able to carry out certain things we couldn't do about 12-15 years ago.

But in terms of concrete reforms, and on the most important governance and corruption challenges, such as political corruption and the problem of capture, and subtler form of capture--undue vested interest--, there's been a neglect by the governance and anticorruption movement, and, as a result, a silent crisis. Much more silent than the financial crisis, but let me suggest that it's not as if both crisis are merely in parallel and unrelated.

A case in point on the financial sector crisis: We, in the field of governance and anticorruption--let's face it—we were asleep at the wheel. And in fact, while there was a good move into sectoral governance over the past few years, even in entering such sectoral approaches we neglected the financial sector.

Generally speaking, in terms of being frank and engaging with country officials and other key players on this, we have been lagging. Not only us in the Bank. I'm talking about the field in general. Where was the IMF? Where were others? So, the financial sector crisis, I think, brings this (silent crisis of the governance and anticorruption movement) to the fore.

Crisis also brings opportunity. These issues of capture and governance, now, because of the crisis--not only because of the causes and antecedents of the financial crisis, but also because of the consequences of the crisis-- brings up an opportunity. These issues are even more relevant now, and for both, obviously, rich countries and developing countries. If anybody thought that the governance and corruption challenge was a monopoly of the developing world, that, obviously--that notion has been disposed of completely. The challenge was already clear in the

data for some time... (slide). I'm not going to go through this in detail, but we're doing some thinking and it's part of ongoing work in terms of what really actually happened in terms of the financial crisis.

We are not experts on the financial sector, and there are very good analyses already coming out about the technocratic regulatory missteps that were taken. What has not been given sufficient attention, though, and that's what we're focusing on, is on the governance and capture dimensions that were very important in leading to the global financial crisis today.

And these examples and data in the slides are just a few examples where one looks very carefully, as a case study, to illustrate these issues of capture and governance. The small derivative unit in London of AIG, just 400 employees, that virtually brings down this mammoth empire of almost--over 100,000 employees in 130 countries, and with it, major damage to the overall financial sector. How, basically, they managed to get around the regulatory regime and get around it, through methods that may be legal in the very strict sense (and if they get very good lawyers). But it may still constitute capture, and privatization of public policy for their own good, which, in my view, is in the realm of corruption.

What happened with the Freddie Macs and the Fannie Maes, spending millions of dollars in lobbying members of Congress, basically in exchange for a particularly beneficial regulatory treatment. Then there is the story of the Office of Thrift Supervision, and how they totally failed, basically, in regulating and overseeing some of the banks that could choose to be under them and getting away from being under tougher supervision. That Office of Thrift Supervision relied on fees paid by the banks it regulated. The same, and that's much better known, the credit rating agencies and the role played by them, and they are--the whole issue of misgovernance, and the implication from that are dire.

Let's look at two things that happened in 2004. One, is a meeting in April, 2004 in the basement of a big building in New York. In that basement, the very high-level representatives of the five largest investment banks goes into the room, and the meeting lasts 55 minutes with their counterparts. After those 55 minutes, the decision is made to significantly relax the regulatory oversight and capital requirements for the investment banks. That meeting was with the SEC. So, in 55 minutes, they managed to weigh into that. It's very well-documented by investigative journalists in The New York Times.

At that time, just coincidentally, in our empirical work, thanks to a collaboration with a survey of enterprises worldwide, we were trying to get much more detailed questions on capture worldwide--not just in transition economies, like when we started the work with Joel, but worldwide. So, on the one hand, we get the traditional questions on bribery paid by corporations. But on the other, we also tried to codify legal corruption--what we call "legal corruption," which is getting particularly preferential treatment in terms of the regulatory environment through legal political contributions.

For instance, to have undue influence because you are very powerful, you go to a meeting and you are very important, and in 55 minutes, you get it. It may still be legal, but you got that through your enormous political and economic power. So, we distinguish between the two measures: the illegal typical and administrative bribery and what we call "legal corruption," or

corporate type of capture without bribes having exchanged hands. (slide)

Interestingly enough, in both cases, the Nordic countries do quite well. We find low incidence--a little bit more on the legal aspect, which is the case for most countries, but they do very well. Once we move to the G-7 on average, it begins to be a different picture, and quite a difference between corporate bribery and legal corruption. For the Tigers of East Asia, it's more or less similar to the G-7. And here we see depicted in this slide, the U.S., in 2004 already. But then nowadays everybody's shocked...

The data in this slide reflects the measurement of corruption in terms of the--all the aggregate measures of corruption take a very legalistic view--and that's the data that is collected--while not considering that these are much subtler forms of capture that could have very insidious implications.

Let me now begin wrapping up by first making clear for perspective and for balance, that not only a lot has been achieved during this period by the donor community, by the World Bank, but also obviously by countries. And some countries in particular, from our data and the governance indicators, we can see it very clearly, unambiguously, and significantly that there have been improvements in a very short period of time.

For institutional and political change--eight to ten years--is a millisecond in history. Improvements for instance in Voice and accountability in Ghana, in Indonesia, in Liberia, in Peru, much more political stability in Algeria, Rwanda, control of corruption in Serbia and Liberia. Eastern Europe, we saw before--many countries--there have been significant improvement, and as a region, what a difference in their trend with the past and with some other subregions.

At the same time, there have been very significant declines in many other countries, and that's also in the data and to be recognized, and then there are many in the muddle middle that have not been improving or deteriorating.

So, on average, the world has not seen--studying all the datasets we have--a significant improvement in governance and corruption control over the past ten years. There's no evidence of a global upward trend in governance. Yet that may not matter as much as looking at some of the winners, some of the losers, some of the stagnating countries, and then asking what distinguish these, and what can be done about it.

This is sobering. At the same time, let us acknowledge that today there is some work being done by the countries with the World Bank and other partners, like in Albania, in Bangladesh, in Zambia--that's something encouraging, to pay attention to. At the same time, let's not escape the broader reality of what I was suggesting before, that overall, we should be further along nowadays, and we need to draw the lessons of insufficient progress so far.

Let me illustrate with our ongoing research project on one particular State Capture issue, for which I illustrate some preliminary results here in this slide: new research, but it also is going

back to the future. Background: In 1991, when the World Development Report was on the challenge of development and I worked with Vinod Thomas on that report, we took the great database of the World Bank evaluation projects, thousands of projects, and at the time, we had data also on economic policies, and we showed that they were related: in environments with better economic policy, the investment projects funded by the World Bank do better. Nowadays we have data also on governance and institutional dimensions.

Fast forward to today. Interestingly (and this is ongoing work), what is suggestive in the results so far: capture among the different governance elements plays a particularly important role in explaining success or failure of investment projects, even those that are funded by donors. So, the 'P' word and capture are not issues that we can escape even from the perspective of getting projects successful. Where it is a dire situation in terms of state capture, the probability of failure of the project could be one-third, versus only 10 percent from a setting where there's little state capture.

With crisis, there's an opportunity. And in this case, there could be a wonderful opportunity and call for action of a new era in this field, particularly one where we could stress two or three things.

One is much more Transparency. Transparency for all, including for us in the donor community; and having a much more open debate and putting the data forth on the pending challenges of capture of anticorruption, of human rights, of freedom of expression. Sometimes, that whole debate is muted, particularly among some of the multilateral organizations.

Not that everything needs to be taken up in terms of policies by our organizations, but we need to have that debate. It needs to be much fuller integrated into the aid effectiveness debate. Aid effectiveness cannot just be about harmonization. We also need to confront the toughest issues of the day, and now it's particularly relevant, given the crisis.

The major call--and it is extremely important to have the highest level of integrity and transparency with respect to data and analytical products-- is that we all maintain complete intellectual independence when it comes to data and analytical products. Operational decisions and whether to lend or not and what conditions to put is subject to many different considerations. But when it comes to data, research and analytical products, there can be no censorship, like there has been in terms of our governance indicators – as in the flagship data product of the World Bank, the WDI (World Development Indicators), which for the past two years excised the governance indicators from it. President Zoellick suggested last year that this would not happen again. Indeed, this cannot happen anymore. It undermines the intellectual integrity of how we are seen, of what we actually do.

Similarly, in terms of governance assessments, they have to be frank and straightforward. We owe this to the countries, to the people. More transparency in general in terms of internal documentations, in terms of decisions, particularly when a decision is made that something cannot be published. There has to be more disclosure.

Selectivity. And in that context, a push for selectivity also comes out very clearly from the data

and from the lessons of experience. In this slide, here, we see the results of a recent global poll done by the Bank. In fact, the Bank seeks very much, and it's quite open, about the challenges that we face, and many stakeholders rated the Bank quite highly in many areas.

But one question was very interesting, what the view from these public opinion leaders in countries--from government, from the private sector, from the media, and from others-- are on corruption, specifically: What should the World Bank do in a setting where there is high corruption and no political will to do reforms? Only 8 percent of all opinion leaders, --and government officials did not answer very differently--only 8 percent said there should be money flowing to government in any case. The plurality of respondents basically said no funds to the country, but then a non-trivial number said, "Yes, funds should go to the country, but not to central government. It should go to local government or it should go outside of government and to NGOs."

We should be listening to this and other such data and feedback. It brings out the issue of selectivity.

This applies not just about countries, but more importantly about type of products and instruments. When I was working operationally in Ukraine, the range of products and instruments--lending instruments and non-lending instruments that I had at my disposal--and this is early to mid '90s, were not very different to what's today. So, there is a question today about the business model and the required adaptation to the stark new reality.

New world reality. So, in ending, related to this new order, recognizing that it is a changed world, I want to refer to this changed world in one dimension I have not mentioned much, deserving emphasis before I finish. This is not about the causes of the financial crisis that had governance, capture and some corruption as part of the story and the factors—here instead I'm emphasizing now the consequences of the financial crisis (slide).

The consequence of the crisis is that we're facing, nowadays, a very different role for governments. We'll see how temporary or medium-term this is—but there is a different role for the government and the economy in various dimensions, such as in terms of ownership of what was considered purely private sector, and whether it's in banking or the car industry or whatever--in terms of regulation, in terms of expenditures and bailouts (slide). And of course, we're thinking about the U.S., but it's not just about the U.S. This has also implications for many other countries.

This completely different role of government brings out a totally different set of challenges, new challenges in terms of our work on governance and anticorruption. So, it's another extremely important reason and opportunity for this much needed governance wakeup. Lobbyists are already at the door for all these funds and these issues. So, the potential for capture--we were talking about the data from before, imagine where we are nowadays.

Business Model Revamp? Business as usual is simply not an option, and we all need to think-- and I'm not talking about the World Bank only, but more broadly in terms of the aid community. And of course, there are differences and also different constraints. Bilateral donor countries have

less constraint in some areas of their politics. Let's recognize that, what we can do and what we cannot do, but then we get out as a multilateral from pretending that we are seriously involved in certain issues. Then we would be much more selective and have much more impact, on fewer and only priority areas and interventions, rather than trying to be all over the place and with a lot of rhetoric, and pretending that we're making a difference on things we cannot engage well.

We can learn, also, from others aid organizations. DFID (the UK aid agency) has changed its business model in recent years. And they have dozens and dozens of governance experts in the field, having decentralized. Plenty of lessons we can draw from them and others.

So I go full circle now, and I end up with this upside down view of the map of the world (slide), which is the polar opposite of the very old traditional one with which I started. This is not that I inverted a map. This is an actual world map projection that is called the Hobo-Dyer World Map Projection. One, which may actually make sense given the reality nowadays.

I've never understood why, always, north has to be up anyway. And given what has happened in the past few months around the world, and the financial crisis, and what the locations of power and our focus should be. It is time to basically have a slightly different perspective, think out of the box; where do we go further from here.

In that context, I do want to end with a touch of humility, because, on the analytical issues, on the research issues, I just went through a journey of some of the things we have done over the years with our colleagues. But there are many answers to some key questions that we don't have yet; questions in terms of what really works at a much more detailed level. That is a pending agenda.

So, I outlined--of course, we know that human rights is important, freedom of the press, voice and more accountability. When it comes to which particular and more selective interventions, in what particular context--and it will vary--there is so much in the next stage that needs to be understood, and more research to be done, that I would not want to end with a sense of certitude or certainty. My only certainty is that we can and should take this to the next level.

Thank you very much.

[standing ovation]

SANJAY PRADHAN: Thank you very much, Dani, for this remarkable journey. And people have spoken, so I don't have much more to say.

Let me turn to Randi Ryterman, who is the Acting Director for Public Sector Governance in the PREM Network, and then I'll turn to Joel Hellman, who is the Sector Manager for Governance in Public Sector in the South Asia Region. They've both been close collaborators of Dani.

So, first to Randi.

RANDI RYTERMAN: Thank you, Sanjay.

Dani, it's a privilege for me to be here today, honoring you and the work that you've done, which is considerable. I just want to echo Sanjay's earlier comments and take a brief moment and just thank you for the enormous contributions you've made to our field, not just to the Bank or not just to--actually, I've learned a tremendous amount personally from you, but you know, to the global effort in anticorruption and governance widely, and you're a guru in every sense of the word, and I thank you.

I was reflecting a little bit about the first time we met, and it actually happened to be at one of the BBLs that you gave with Ukraine data, comparing Ukraine and Russia and the cost of what firms were paying in bribes. And at the time, I was doing work on tax evasion, and the subject of corruption didn't even come up about--the motivation for tax evasion, and it was one of these "aha" moments for me personally, linking the behavior of the public sector to the behavior of firms.

And the other "aha" part was that you could quantify it. And as everyone knows, this did lay the foundation for the anticorruption diagnostics we did in the ECA region, in Georgia and Albania and Latvia and elsewhere, and it really provided a platform for really launching our anticorruption work broadly in the Bank.

For me, personally, that period when we began working on anticorruption was one of the highlights of my career. And for those of us who were working on the agenda--that includes all of us here and many of you sitting out there--it was really a time of incredible innovation, discovery, collaboration, and promise. And I think one of the things that Dani does extremely well, and he did it today, is to challenge us whether or not we're living up to that incredible promise.

My personal view is that we can look back and see a number of accomplishments, a number of important accomplishments, which are in no small part related to the work that Dani has done directly and behind the scenes.

First, and Dani spoke to this over the course of his presentation, I think there's been a real

transformation in organizational culture. And for those of you who can look back a decade, a decade-and-a-half, you'll remember it was a time when people really couldn't speak up about corruption. You know, careers were jeopardized if you spoke up about corruption. Now, we're living in a world where we're expected to speak up about the risks of corruption early in the operational cycle, and this is a tremendous, tremendous, transformation within the Bank.

So, technocratically, I think we have made some progress dealing with administrative corruption, and you can--and Dani mentioned some examples. You can look at all different parts of the Bank where certain innovations in operations in service delivery and in regulation have really helped reduce the cost of corruption and improved the quality of services generally.

And I think, although this is a little more direct--I think (department of investigation at the Bank) INT has been a major--the role of INT has been a major change in the Bank in the last decade. We now have significant capacity to uncover and sanction corruption. And even more recently, there's been a dual emphasis not just on investigating sanctioning corruption, but also learning about how corruption works, and then feeding it back into our design for operational projects, and I think this is a new level for us in terms of being able to address some of the realities.

But I think Dani is correct. I think the stark reality is that the frontier is dealing with political corruption and, within this, state capture. And I think we do speak about it a bit, but I think we're still trying to develop operational responses. And the evidence that Dani presents--some of it, today--that political corruption has an important impact on the quality of our projects is real.

So, I think, in this regard, we do have some very early products that are trying to deal with this issue, and I want to emphasize early, because it's way too early to see if it will have an impact.

First, in analytics, I think we do have a--the Bank is in the process of scaling up work on political economy analysis, both as inputs into the CASs and to the operations. I think this is giving us --especially the broad country team--a much better understanding of some of the political drivers of decision-making in countries, including political corruption.

Unfortunately, because these instruments tend to be frank, they typically are not publicly disseminated, and so that really leaves open the question--how do you stimulate debate around those higher-level issue in the countries. The WBI GAC diagnostic surveys do this to a bit, but it's really--still only in the beginning of this area.

In terms of operations, I also think there's been a beginning of a transformation a bit. We say, even five years ago, we were talking about governance operations. We're really thinking of a public sector management operation. I think the space has opened up, and we're beginning to think about sectoral interventions, as Dani mentioned, and looking at transparency and accountability in key sectors. But again, I think we're at the very beginning of that process.

And Dani has made a very important point: We really aren't looking at the financial sector in this context, and I hope that's one place that we're going to go as we move forward.

Third, I think that we are--at the beginning of some changes in a business model. I do think that

we have a very country-based model, but we are beginning to take a much more, I'll say, a global approach. We do have instruments that look at global public goods and enforcement of global standards. Our work with the UN Convention against Corruption is one example of a global standard. It has very innovative parts on asset recovery, and the Bank, as many of you know, has the StAR (Stolen Asset Recovery) initiative as trying to work in this area.

But even more interesting, I think, is the sectoral ones. EITI is perhaps the quintessential model for global--creating multi-stakeholder alliances around global standards. And many know the Africa Region is launching EITI++, which tries to do this across the whole value chain. We also have some initiatives that are modeled on the EITI process: there's cost, which looks at construction transparency, and the Medicines Transparency Alliance, which looks at transparency in pharmaceuticals.

So, I think that these types of initiatives, if we can invest enough resources in them, holds, I guess, some process.

Dani made a really important point about selectivity, and I think the big challenge for us is to be able to do it in a consistent way. And I think, in this regard, underpinning with analytics is quite important. I think the political economy diagnostics are going to help, but I especially think the DIRs that are being done are really making the space to think more systematically about selectivity with regard to sectors in specific places, and how--there's a huge knowledge management agenda around this, and it would be interesting to see how this evolves over time.

But I think, generally speaking, the path ahead is going to be particularly challenging. I think the reality is that political corruption and state capture are just intrinsically more difficult for us to deal with, given who our clients are and how we engage. WBI does have an important role to play in this regard, because they work with clients in untraditional ways.

I do think that the financial crisis is going to be an important--that's both, I guess, an opportunity for us--we are seeing much more government intervention in the economy. It creates the scope for lots of governance risks. And we have to scale up--we're doubling our lending in a very quick amount of time, and this is going to be a challenge for us to be able to deal with these governance risks in a real way as we scale up this lending.

And finally, I think there's a lot of competitive pressure that we have from other MDBs and new donors in the arena which are pressing us to reduce costs, and we're going to have to reduce costs in a way without sacrificing some of the progress that we've made in the governance and anticorruption area.

So, with that, I think I'll just close, but I just want to say, Dani, you were a voice on this issue way before it was in vogue. I consider a great loss to our institution that you're leaving, but I know you're going to continue to be an important voice for decades to come, and we look forward to collaborating with you in this work.

Thanks.

SANJAY PRADHAN: Thanks, Randi. Joel now.

JOEL HELLMAN: Thanks very much, Sanjay.

This really is a great pleasure for me. I've been a collaborator, a coconspirator, a partner, and a good friend of Dani now for many years. We first met at Harvard and have worked together now at the Bank for ten years--the IBRD, as well--and it's just been a great pleasure, always stimulating.

It's always difficult to be a commentator, though, on Dani's presentations, because last night, I called Dani and said, "What are you going to say?" And he said, "I don't know, yet."

And when I came into the room today and I saw that they laid a dance floor, I thought maybe he's going to express himself through movement rather than through slides.

And the other thing is that--I don't know if many of you may have attended Dani's lectures, but Dani's lectures, because they are usually so packed with information and slides always last a half-hour to 45 minutes longer than they were intended. So, I figured there wasn't going to be much time for me to say anything.

But as it turns out Dani really did keep to a short, crisp, and fascinating presentation, as he always does.

I have a couple comments to make echoing, not disagreeing, with anything that Dani has said.

I think that I would go very far to say that Dani and his work with many collaborators has really changed, you could say, the rhetoric of development, I'd even say the language of development. I mean, the language of development, the kinds of topics that we discuss, the way in which we discuss them, the way in which we define the problems of development, they have radically changed in the course of the 10-15 years that Dani has been writing on this. His governance indicators have changed the way we have looked at the world, the color-coded maps, the way in which he presented the data, the openness and transparency in which that data was presented on the websites for everyone to look at.

Something that hasn't been mentioned but I think is absolutely critical: the openness with which he showed the margin of error of his estimates—in this work that he did with Aart--and essentially changing the way we look at how we measure and are open about the way in which we measure, and the measure of both what we know and the uncertainty of what we know has been tremendous.

The extent to which he put information on the Web about how they came to the indicators, what's behind the indicators, the surveys and so forth, it's all been tremendously transformative in the way we think about development, in the way we think about measurement, in the way we look at these kinds of complex issue. So, that's been a tremendous change.

But as you heard from Dani, I think, and Randi, I think that the major changes in the rhetoric of development have certainly not been matched by changes in the reality of development, and I think that's something that we all recognize and we need to think how to move, then, to the next stages.

And I think the reason is we all know--or we think we have a sense of we know--of what to do. What needs to be done in order to deal with some of the inherent issues that Dani laid out on the table today and he has consistently across his many years of work? But we really don't know how to do it, how to transform a low-paid civil service--in which everyone pays for their position in order to get the lowest position as well as the highest position--in which they may have to pay, in some cases, hundreds of thousands if not millions of dollars for high-level positions, as well as many times their salary at low level positions--how do you transform a civil service like that in which everyone has a strong need in order to recoup those investments? How do you change that into a civil service that's based on meritocracy, that's not based on patronage, that's not based on payment? How do you change a parliament in which every law that's passed is based on who pays for it, and how much?

In the country that I worked on, it was turning out that the government was paying its own parliament to pass laws in the government's favor.

How do you change a police where every transaction essentially requires a bribe?

How do you create a clean and corruption-free justice sector, especially in a case when you're dealing, as the development institutions do, with the executive who doesn't necessarily have control over the judges, and they've taken the structure of a Western system in which the justice sector is independent, and yet they can't change--once its corrupt, you can't put any pressure on the justice sector to change?

Those kinds of things--and those are just a small number of the kinds of challenges that we face in the development community--all of them are impacted by the kinds of things that Dani talked about. They're impacted by undue influence, excessive influence, the nexus of money and power, and influence, which affects--as Dani rightly showed, continues to affect policy in most advanced countries, but has an even far more devastating effect in the least-developed countries. And I think we have to be honest, we do not know how to get from point a, where we are, to point b, and improve systems in the developing world.

And it's amazing where we look--try and look at the experience of developed countries--it's even difficult to find out the story itself, of how you draw from the United States and in parts of Asia. We really don't have the knowledge of how to make these changes. And what we do know is that, when these changes have been made, they've been made over generations in almost imperceptible changes over time that are difficult to actually explain what causes what. All you know is that there's been a march or movement that's gone up or down, but it's gone over a

course of generations--institutions have changed and developed.

But we're very impatient in development institutions. We want to look for--we have strategies that have three- to five-year time horizons. We're asked to change legal institutions in the course of a few years. I mean, it doesn't jog with the reality of what we know about institutional change.

So, I think that there has been a tremendous and fascinating gap that's been created by Dani, his collaborators, and the work in demonstrating how much further we need to go and what topics that we need to address, and Dani has given the ability to people to address that, but we've only just begun, really.

And I think the challenge lies in two different worlds. The challenge lies--actually, I first met Dani as an academic when we were both at Harvard, and the challenge goes first to the academic community where a lot of these subjects in my own discipline of political science are still not being studied. It boggles my mind that political science doesn't take seriously the issue of civil service and civil service reform, that it doesn't take seriously of the issue of justice sector institutions--of how to create more effective and efficient justice sector institutions, what institutions, to the justice sector institutions, judges and courts and so forth--or police. So, the academic world has not taken on the challenge the way the economists did in the years when hyperinflation, poor monetary policy, poor fiscal policy, were tremendous challenges. The academic community rose to those challenges and looked for ways--of solution. I don't see yet where we have done the same thing in the social sciences--not just political science, anthropology, sociology, and so forth--to look at these kinds of forms of institutional change.

And to some extent, without that, the World Bank and other development institutions--we're really just translators of the deeper analytical research that's done elsewhere into development policy. And because we don't have that deeper analytical research, we have nothing to translate into better development policy. But as a result, I think we, as development institutions, because the academia, to some extent, I believe, is failing us in this--the development institutions need to push harder on really looking at the sources of research and understanding the process of influence, capture, in the way Dani has done.

And I think what Dani did through his governance indicators and his governance work is that he has essentially created a stream of research through his time at the World Bank. I hope he continues to continue a stream of research now as he moves to Brookings, and he looks in a way unshackled by some of the restrictions of working in the World Bank--not necessarily restrictions that are bureaucratic but restrictions about our mandate as an institution, and also the mandate of all development institutions to get engaged in domestic political issues. But hopefully, at Brookings, he can begin to look at some of the full sources of influence, money, capture, and how they can be rooted out and help us think through, in these development institutions--help to translate some of that interest and excitement and research that we hope he'll generate, and a new generation of work that he does outside the Bank into the work that we do here at the World Bank.

But let me thank Dani for all that tremendous work, tremendous commitment. And I can say, as

someone who has now been working in the field for the last almost ten years, I've seen the power and the enormity of the kinds of work that he's done.

It's interesting, though, one thing I'd say as a last point, that the indicators, which have now become, to some extent, an industry, and have become a very, very high-profile product, but in every single country we work, there's an own domestic industry creating their own indicators, and I think that's the greatest compliment of all. If you go to any country--any country that I've worked in--they--of course, they look at the website, they find that the way in which Dani has done this, and Art, and others have done this work, and then they create their own methodologies, their own development--their own ways of looking at their own surveys, and it's created tremendous richness in the development dialogue in all the countries I've worked, and that's a great testament to his career, and I think a great challenge to him in the future as he moves on to the next stage.

Thank you very much, Dani, and thank you.

SANJAY PRADHAN: Thank you very much, Joel.

We've had a very inspiring presentation and very good comments. We now turn it over to you for your questions and comments. There are microphones there.

Let me just suggest that I'm going to request Randi to take over because I have to catch an outside venue at a country director's retreat, shortly.

So, Randi, I'll put you in--and once again, Dani, thank you very much.

RANDI RYTERMAN: If you'd just state your name and your affiliation when you ask your question.

QUESTION: Yes, hi. Christian Eigen-Zuchi, South Asia, PREM, World Bank.

Dani, thank you very much for the remarkable journey.

The question I have is a bit of a follow-up on what Joel closed with, which is, what are your plans for the future? What do you think you'll be able to do? What do you plan to do differently at Brookings from what you are doing here? And are there things that you anticipate being able to do at Brookings that you weren't able to do here?

RANDI RYTERMAN: Let's collect a couple of questions. Go ahead, Miguel.

QUESTION: Miguel Schloss, Dalbert Assoc., ex World Banker and MD of TI.

I agree with everything that was said, so there's nothing to be added.

My one question, or my one comment, is that, if one compares what has been developed in terms

of studies and reviews and understanding of the issue with what is happening when the rubber hits the road, the reality, one really wonders to what extent doesn't one face--and I'm talking particularly about the Bank and I'm talking about governance, in general--whether there is an inherent structural issue that needs to be addressed, the abilities, the dynamism, the flexibility, the wherewithal on how to game the system, and how the World Bank and the organizations like that are capable of dealing with these things, the imagination that exists in the world around to do around with all these issues, with you--you compare it with the ability and the ponderous ways of the World Bank and organizations like that, one wonders whether there is the incentive structure--the structure in place to even deal with these things.

In fact, I am concerned when I hear that, you know, one needs to push harder to understand the issue. The World Bank keeps understanding and studying and going in greater, and greater, and greater depth while the world is moving at a pace that is zillions times faster, and even the instruments that are being put in place, and I can see them on the ground. I've been in Africa, I've been in Asia, I've been in Latin America. In fact, I'm in the country that is at the highest point of this map over there--I'm from Chile.

And I see the realities, and I see the distance--every time bigger--question to Dani, particularly since he's leaving the Bank. Is there anything that can be thought about, maybe not pushing harder, but pulling further so that these institutions can act and respond to the changing demand in a better way, and if so, what could these be the steps? If you don't have an answer, maybe that's the next step of your studies program.

Thank you.

RANDI RYTERMAN: We're going to take one more question.

QUESTION: My name is Antonio Gayoso. I am a refugee--I mean, retired from USAID--and a professor at George Washington University.

You presented us with a map of attitudes vis-à-vis very corrupt countries, whether we should give aid, or how we should give aid.

Are you a proponent, in your own view, of speaking softly and carrying a big stick, or if you are--for example, a country that is really corrupt, that is really ungoverned, should be denied aid? And then, how do we deal with the issue that poor people in those countries don't have the power to change things and they are still suffering under poverty?

RANDI RYTERMAN: Dani, do you want to respond?

DANI KAUFMANN: I think some I will pass these ones to you (in jest).

I mean, these are very difficult questions. And again, the fact that we sit on the podium sometimes gives the false impression that we have the answers to the questions from the audience, but Joel and Randi put it clearly, and I'm also the first to admit that I can only venture some answers.

Some are more factual and straightforward. Let me first, also, give acknowledgment--the first two people who asked: Christian, again, who first asked, I have an enormous debt to his family and particularly to his father, Peter, who basically started the movement of anticorruption. It's a good opportunity to acknowledge that today, on International Anticorruption Day.

And the story I told during my presentation about the work on Tanzania and the Government of Zambia, I got an enabling environment of being very tough and doing the data work and collaboration from a division chief, and that happened to be Miguel Schloss, who asked the second question.

So, it goes to what was said by Sanjay at the beginning and I try to reiterate that: Nothing can be done here by one person. This has been a collaborative journey, and I deeply appreciate that. Even in the difficult moments, there've been, always, at least two, three, four of us on this, and we have been coconspirators. So, that's very important.

On what will I do in Brookings? Give me two weeks to decompress and I'll see. One thing for sure I can say, there will be less meetings...

And to be perfectly frank, I've been Director, Administrator for a very long time, and there are certain aspects of that which I look forward not to have to do. So, to be in this new position and to be able to spend all this time on the intellectual endeavors, it's fascinating.

And as Joel suggested, some other constraints for political reasons may not be there, although, overall, over the decades I've been here, just to imagine if I was in other organizations, it would have been much more difficult to do that, in spite of some of the--sometimes constraints we have faced.

Miguel, you raised such a basic issue. I hope you don't expect me to have a full and crisp answer. And also, it's--some is more left to the people who live here.

From my side, let me just suggest something that I didn't have time to emphasize enough in terms of the change. First, if we are serious about taking the issue of selectivity, that we really want for higher impact, we will need to be more focused. Yes --the Bank is a multilateral organization, with a multilateral character, so the World Bank is going to continue working with a vast majority of clients (and we'll discuss Antonio's question in a second), but the modality of working is very important, and to basically figure out what's going to have the highest impact, and how to align what kind of product that highest impact in each country, and letting go the rest.

But for that, and Joel has said it very eloquently, and I only skimmed the surface--for that, there has to be a serious pondering and thinking about the Business Model that is needed: how to align the incentives for selecting country directors for instance. Basically, the issue of governance should factor in, and also feature in how they are evaluated for results on the ground on this area, and so on. And if governance in so many of these countries is so important and to achieve results it's going to be important, there are going to be some sectors or some types of operations that just don't make sense in some countries (while they make sense in another)

And in terms of attaining much more selectivity and for the institution changing and adapting to the new reality faster, I have a great hope (and I'm involved in, even if not from as an expert)--in the IT revolution. And I think the IT revolution either is key, and not only we have to fully jump aboard, but also to listen very carefully what's going on there. And it is a great anticensorship tool, including on the issues of data or any--if there's any possibility of any censorship in the future, if our data is going to be censored, well, IT can come to the rescue – what is officially censored out should go as a shadow report into the blog.

On reports, transparency -- Why not suggest--and it was done with some WDRs--that early drafts of important reports, the staff should have the ability of speaking their mind and saying, "This is the way I see it." They would not be official World Bank reports yet in first draft in the web or blog, yet, the views of the team or author instead. Understandably, after the vetting process, there may also be differences, mistakes, legitimate mistakes. Changes may have to take place before finalizing the report, as always for improvement reasons, but there may be other political constraints.

But at first, it comes out in draft in the Web with the names of the authors, and it's a very clear disclaimer, "This is not (yet)the official policy or report of the World Bank or approved by the Board of Directors." At least, every citizen, anybody-- would be able to compare what was the early draft with what comes out officially at the end. If every institution and the donors will read that, I think there will be more reticence, also, of spinning and massaging. So, I think the IT revolution nowadays, in that sense offers an enormous opportunity for more transparency, for more pressure to also change something. Things get to the media and the press much faster and so on. And that type of pressure may offer something along that.

Antonio from USAID asked a very similar question that the one that has come in through the Web, also. Some other questions have come through the Web which we won't have the time to look, but I want to recognize them, that there's a lot of activity going on in the Web. It is our commitment that every question will be answered, but some will be followed electronically later.

But one from a professor of University of Ottawa, Elroy Mendes also asked, "Given that corruption undermines aid effectiveness and that the root cause of corruption is failing governance structure, should all development assistance be conditional on governments first addressing the systemic failures in their governance structures before all other aid starts flowing?"

Well, it's a major question and obviously a very difficult debate. Let me just suggest a few pointers which happens to be my private view.

I think bilaterals and private donors have the luxury and ability of being extremely selective for countries, and say, "I'm going to work on these five or eight countries," and so on.

We are a worldwide--the World Bank--a multilateral character organization. So, our bar is different. We should try to be engaged, essentially, in every country, in every client country in the world, and find ways of engaging. The strategic question, is, how to better engage in the

future so we do not suffer what I call, in my frank time, always too much of ‘governmentitis’, that so much is focused on funding the central government. We need to think more--and something is happening in some countries-- about different ways of delivering aid if there's a lot of high-level corruption and such corruption happens to be in central government – though at times it is also very much at local government.

And there was a great case, Indonesia, and the whole community development program is very pioneering. We should learn more from that. This whole community development, grassroots program needs to be looked at further, and the Bank have got involved and should be recognized. So, there are ways to be engaged even in very difficult settings.

And also working with outside of the government stakeholders much, much more: AID and others, DFID, do that. So, and then there are also important non-lending instruments, and knowledge and technical assistance, capacity building. WBI is involved in this. So, there are sufficient degrees of freedom to be engaged. Engagement should be very much considered, but let's not be too narrow, always focusing only on central government.

RANDI RYTERMAN: Thank you, Dani. We're about 20 minutes past the session. So, what I'd like to do--if it's okay with you, Dani--is to invite people with other questions to come up here and we can have a conversation around here. Is that okay?

DANI KAUFMANN: Yeah, that's okay. I wanted to just say, if you allow me--because I didn't have a chance to thank Randi and Joel for their very probing comments, and I wanted to echo a couple of things and also leave with a challenges to one of my co-conspirators.

Now, the acknowledgement is what Randi mentioned on some initiatives, like what has been happening with INT, with asset recovery—progress. I think we can do much more and better and we shouldn't shy away from looking at the big fish with the big money. It doesn't make sense to have a major asset recovery program, which the Bank and trust funds put millions and millions of dollars and at the end will recover even less than those millions of dollars that it costs the Bank or trust funders to finance. People are going to ask the Bank questions eventually. So, we should also ask the tough questions, there, and about INT as well. There are strategic challenges coming ahead there as well. But yes, compared with 15 years ago, now there is such an INT investigation unit, there's no question of enormous progress on that.

But what you said Joel, two comments. One, Joel didn't give the answer, but I know the answer of "Why?" What is the reason that the academic profession in political science basically is not taking up, for instance, civil service reform and other governance issues? It's because Joel was captured by the World Bank. So, that's the simple answer. It's another case of capture.

But less jokingly, —in ending on your other point Joel, I think we should be careful about this notion that institutional change takes forever. Maybe you didn't mean that--and that every change is imperceptible. And perhaps I'm speaking too personally as a Chilean. What Chile did between 1989 and for 15 years, going from a country when Pinochet leaves, when 46 percent of the population is below the poverty line. Fifteen years later, it was 13 percent below the poverty line. And in terms of what has happened on governance, and development, that's nothing

perceptible? And that's a speck of time.

So, when there is leadership, when there is reform (ok,even if no country can go overnight or even in five years from Equatorial Guinea to Norway,) there can be very dramatic change in a short period of time.

But we should overshoot a bit more in being ambitious.

I think now is the time for the era of impatience, and not of patience, because otherwise we're going to be stuck even further behind where we are.

RANDI RYTERMAN: Dani, thank you very much. And again, I invite you to come up here and speak to Dani.

[End recorded session.]

Transcript done by B&B REPORTERS -- some edits by WBIGP.