

Anti-Corruption Message

**By Paul Wolfowitz
President, World Bank Group**

Opening of 'Research & Corruption and its Control: The State of the Art' Conference hosted by Wharton School, WBI and CSIS

Introduction

Good morning. It is a pleasure to open this conference on Research on Corruption and its Control. I am especially pleased that the World Bank Institute—the training arm of the World Bank Group—is partnering with the Wharton School and the Hills Program on Governance to discuss the very pressing issue of corruption with leading academics from North America.

I am pleased but not surprised that Rod Hills is addressing this topic. I remember when I was Johns Hopkins many years ago; he told me that corruption is the greatest threat to democracy. I would add that corruption is also the greatest threat to development.

The World Bank Group is taking part in this conference because we share the belief that corruption is a major obstacle to development around the world and that anti-corruption research is critical to improving our understanding of the problem.

We have long known that corruption impedes growth and the effectiveness of our own projects. It is an issue I feel strongly about and I have made addressing corruption one of the priorities of the World Bank.

It is a daunting task that will require cooperation with many stakeholders. When I met with the heads of six multilateral development banks two weeks ago, we agreed on a common approach to fighting corruption. For the first time, this problem has been collectively identified by multilateral development banks as a fundamental obstacle to poverty reduction and development.

Corruption—Obstacle to Development

Today, corruption costs the developing world about \$80 billion a year—an amount equal to the total of all development assistance.

Corruption also hurts private sector growth. A survey of transition economies showed that firms in countries with high levels of corruption achieved half the output growth of firms in countries with lower levels of corruption.

If corruption is not tackled, reforms embraced by developing countries will be much less effective in improving the lives of the poor.

Much has already been written—including by the academics present at this conference—on corruption in the public sector. But it is only recently that we have started to see research linking private firms with public sector corruption.

The fact is every corrupt transaction involves at least two parties—and sometimes more—a bribe-giver and a bribe-taker. Until recently, we focused excessively on one of the parties, the bribe-taker, while not focusing enough on the bribe-giver.

In the developing world, the bribe-giver is very often a private sector company from a developed country. According to one survey, OECD multinational firms reported bribery twice as frequently in developing countries as in other OECD countries so developed countries share a responsibility for dealing with this problem.

World Bank Role in Fighting Corruption

At the World Bank, we are working with countries that request our help to strengthen legislation and institutions so that they can tackle corruption and accelerate growth.

When we encounter serious allegations of corruption in World Bank projects, we will only proceed with loans when those allegations have been investigated and we are convinced that the problems have been resolved. And firms, whether from developed or developing countries, that engage in corruption or fraudulent activities in World Bank projects will be severely sanctioned. We are sending a strong message that the World Bank Group is serious about combating corruption.

Corruption is often encouraged by cumbersome regulations that burden firms with excessive red tape. One of our contributions to addressing this problem is the *Doing Business* report. It is not about corruption but it reviews the regulatory environment in 155 countries.

The report finds that in Burkina Faso, for example, it takes an entrepreneur more than 45 days and one and a half times per capita income simply to register and start a new business. An entrepreneur in Mozambique must fill out 14 separate forms and wait, on average, 153 days to register a new business. Bringing this data forward to governments helps developing countries determine where reform is needed to stimulate private sector growth and reduce opportunities for bureaucratic discretion.

We have done extensive work on the quality of governance and anticorruption efforts through a set of *Worldwide Governance Indicators* covering 200 countries, as well as through data on corruption and governance compiled from surveys in over 100 countries.

The World Bank is committed to supporting research efforts like these which play a vital role in shaping policies and strategies to fight corruption. We are also helping developing countries boost their capacity to reduce corruption by exchanging knowledge and best practices with them.

One such effort involves a partnership between the World Bank Institute, the Wharton School and the Hills Program on Governance, which will deliver an innovative program titled "The Global Classroom," to train future private and public sector leaders. The program links business schools and universities to educate young people in business ethics and the challenges of working in a global business environment.

It is my hope that such partnerships will help us better understand and tackle the root causes of corruption—so that tomorrow's leaders can ensure that scarce resources are used to make a difference in the lives of the poor.

I wish you all the best in this important endeavor, and I look forward to hearing the outcome of your discussions. Thank you for your time and attention.