

# Heritage Lectures

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## Fighting Economic Corruption Around the World: Successes, Challenges, and Staying the Course

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**Abstract:** *The anticorruption movement has been making progress—bad guys, from national governments to private corporations, have had their feet held to the fire, being forced to shape up or pay restitution. More and more, the global community is recognizing the scope and devastating effects of corruption. On May 12, 2011, Leonard McCarthy, the World Bank’s Vice President for Integrity, updated the Roundtable on Economic Growth, Development, and Corruption at The Heritage Foundation on some of the World Bank’s successes and challenges in rooting out corruption around the world.*

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I always enjoy a meeting of the minds; the interplay among intellects generates new ideas and keeps us all moving forward. So, thank you to Jim Roberts and The Heritage Foundation for organizing this event, and to Ms. Sheila Herrling, Vice President of the Department of Policy and Evaluation at the Millennium Challenge Corporation, for adding her intellectual firepower. The Heritage Foundation’s latest *Index of Economic Freedom* helps to put corruption front and center in debates in the United States, within other countries, and among development policymakers, so I welcome the opportunity to contribute to this dialogue.

Without a doubt, the anticorruption movement is having its moment; its supporters are changing regimes and shifting how politics plays out around the globe. For those of us who have been in this fight for the long haul, we can feel the lifting of a great burden. We no longer have to struggle to be heard when we talk about corruption, and we no longer have to pretend we can

### Talking Points

- The anticorruption movement is having its moment; its supporters are changing regimes and shifting how politics plays out around the globe.
- The anticorruption movement must focus on identifying and replicating the successes it has had thus far.
- Without concerted, methodic action and an idea of how to maintain momentum, the anticorruption movement risks turning into a trendy movement that peaked all too quickly.
- The World Bank investigates allegations of fraud and corruption in World Bank-financed activities. The bank refers its investigative findings to governments and other institutions so that they can pursue prosecutions or take other action.
- Where the World Bank has enforced rigorous financial disclosures, tough audit rights, and stringent reporting obligations, these measures have had a chilling effect on corruption. Equally important is to find ways to do the basics better.

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fix the failures of dysfunctional systems or institutions, while ignoring the fact that many of these failures are the consequence of corruption run amok.

Events around the world are unfolding with speed and a certain amount of unpredictability. Amid a growing sense of jubilation and possibility, the anticorruption movement must focus on identifying and replicating the successes it has had thus far. The attention span of the global community has shortened considerably over time. The revolution that today galvanized the world is forgotten along with tomorrow's breaking news.

I read something along that vein last week that made me pause: Global Integrity reported that, although they initially pushed to enhance governance and anticorruption standards, some Eastern European countries have slackened their efforts now that they have been accepted into the European Union. Without concerted, methodic action and an idea of how to maintain momentum, we are at risk of the anticorruption movement turning into a trendy movement that peaked all too quickly.

There also remains the sober reality of what still happens on the ground. Many moons ago, I encountered criminals seeking to distort the Malaysian Bumiputra economic model in order to blur the distinction between party and state. Last year, in one of our investigations, a company representative in East Asia told us that it is customary to give cash-filled envelopes to public officials as "meeting allowances." Recently, the Competition Commission of South Africa announced that, "The culture of collusion in the construction sector is so endemic that no single prosecution is going to root it out."

So what is the right thing to do? When you show up at a meeting like that as the World Bank's vice president for integrity, people expect you to have solutions to all those questions that are the most difficult to answer. I can tell you that the past two and a half years have been among my most challenging. But every now and then, an imaginative reporter from the *Guardian* compares you to James Bond, and you get the feeling that you are doing something right.

I am pleased that the World Bank's president, Robert Zoellick, recruited me. He has made fighting corruption a high priority, which makes my job much more rewarding. The World Bank has a clear

vision: a world free of poverty. It stands for results, accountability, and openness, with the impact of development visible in key areas, such as infrastructure, social protection, energy, transport, and stimulus financing. So, as you judge us, ask how we have changed the world.

As part of the World Bank's overall governance and anticorruption strategy, my office investigates allegations of fraud and corruption in World Bank-financed activities. Where bank staff may also be involved, we act. Beyond investigations, we make a rigorous effort to analyze what the bank does right and to share that knowledge with colleagues in operations and borrower countries. We refer our investigative findings to governments and other institutions so that they can pursue prosecutions or take other action. Last year, for the first time, we included a list of all our referrals in our department's annual report in the hope that it will put greater pressure on national authorities to follow up on these referrals. Anyone can find this report and the list on the World Bank's Integrity Web site. I encourage you to take a look. We can all agree that crooks should be caught.

In the last 30 months, the World Bank has completed 553 external and internal investigations, and generated close to 200 combined sanctions applications and debarments, to deter wrongdoing and protect public funds. Most of our investigative findings in 150 substantiated cases have been referred to the relevant authorities to let them take charge of affairs in their own countries and institutions. We have completed our first Global Roads Review, a comprehensive analysis of a sector often troubled by corruption for nearly as long as there have been roads.

Through our work in the last two and a half years, we have assisted the bank in preserving hundreds of thousands of dollars through suspended disbursement and securing significant returns in repayments. When companies are in a confessing state of mind and want to clean up their past, we settle equitably. When they pay—like the \$100 million settlement with the German company Siemens, or the \$350,000 restitution payment by Italian company Lotti—it is in part a refund for restoring consumer and public confidence for the long term.

These are the results of hard work, straightforward strategies, and a desire to assure donors that

every development dollar, especially in times of fiscal restraint, is spent to overcome poverty and boost growth and opportunity.

It is important not to forget the basics: Where the World Bank has enforced sound administration through rigorous financial disclosures, tough audit rights, and stringent reporting obligations, these measures have had a chilling effect on corruption. This holds true at a country level, where countries that make information about budget decisions easily accessible to the public greatly reduce opportunities for corruption and greatly increase private-sector interest.

Equally important is to find ways to do the basics better. Great ideas are often simple ideas, and that is no less true when it comes to fighting corruption. Last April, the World Bank signed an accord with four other multilateral development banks, whereby all signatories agreed to honor the debarments of any other signatory. While cross debarment sounds like a simple idea, in all the years that multilateral development banks have existed, it had never been done. The accord greatly enhances our ability to jointly crack down on fraud and corruption, and sends a strong message that, when you steal from one, you steal from all.

Within the context of today's dynamic world, the World Bank's competitive advantage is paramount. Our integrity work is made infinitely more difficult by the fact that fighting corruption means dealing with criminals who do not play by the rules. What the World Bank has, though, is significant convening power and a top-bracket network of resources and knowledge.

In December 2010, the World Bank hosted national authorities—"corruption hunters," as we like to call ourselves—286 senior representatives from 134 countries. Our aim was to improve cooperation and thereby help resolve those cases of transnational bribery which might otherwise fall through the jurisdictional cracks that surround individual entities. By engaging national authorities from around the world, we can maximize the impact of our and their investigations, and build a cadre of crime fighters vested in protecting the interests of development. On April 13 this year, we released a results matrix that can be used to mea-

sure the activities of anticorruption authorities in order to increase our collective global effectiveness in the fight against crime.

As a young prosecutor in South Africa, I learned to litigate against small-time fraudsters, gangsters, and dishonest bureaucrats. Later, I graduated to organized-crime syndicates, market manipulators, and corrupt politicians who abused public office for personal gain. It became abundantly clear to me that when you deal with criminals, you have to be cleverer than they are, so that you can play by the rules and still come out ahead.

Recently, *The Economist* ran a piece about "harassment bribes," or the small bribes citizens in India must pay in order to receive routine public services. Under the current system, someone who makes this kind of payment is equally liable under the law as the person who accepts the bribe. The proposed law change would allow citizens to file complaints, free from fear of prosecution, and to also receive a refund for their coerced payments. The *payer* of a harassment bribe would no longer face legal penalties (hence the legalization of the bribe-giving); the receiver of the bribe, however, would still be engaging in illegal activity. It is an untested and provocative idea that tries to weaken the demand side of corruption and repay its victims. The approach demonstrates how old problems can be addressed from a new perspective.

What other ideas lurk just outside our consciousness and are worth exploring? Should public institutions funnel the ill-gotten proceeds of corruption into a well-managed fund that compensates victims? If social media can mobilize protests against corruption, how can it also trigger, what Mr. Zoellick has called for, "a moral revulsion as well as a legal reaction to corruption"?

As you may have surmised from my remarks, while I like to push boundaries, I have utmost respect for the rule of law. Back in 1776 amidst another revolution, Adam Smith advocated the rule of law as an indispensable prerequisite for a society to flourish. It is a theme that has resonated throughout American history, and lies at the heart of economic recovery and prosperity.

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