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Corruption in World Bank Financed Projects:
Why Bribery is a Tolerated Anathema

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1) Introduction: The Scourge of Corruption

The term 'corruption' is bandied around very loosely in mainstream development debates. The idea of African leaders diverting huge amounts of aid into Swiss bank accounts, or government officials being paid off with nice cars by oil companies in exchange for their cooperation is widely reflected in the media and public perception. Parallel with this mainstream view, corruption has come to play a prominent role in development thinking and policy. As a dominant part of the 'good governance' development framework, the fight against corruption is now seen as key to reducing poverty and achieving sustained economic growth in developing countries. Concerns over corruption form a significant part of the debates that surround development assistance. This was most recently exemplified at the G8 meeting in Scotland, whose focus was debt relief for the world's poorest countries. Amid all the disagreements over the level and mode of debt relief, one idea that enjoyed universal agreement was that any debt relief, or aid in general, should be conditioned by the need for recipient countries to eliminate the misappropriation of such transfers through governmental corruption.

As the standard bearer of the 'good governance' approach, and arguably the most important and influential development institution in the world, the World Bank[1] has recently made fighting corruption a central part of its development framework (Khan, 2002). During the last ten years corruption has become an anathema to the Bank. This can be seen in the general outlook the Bank espouses which poses corruption as a primary impediment to development, and more specifically in new procedures

[1] In this essay, when referring to the World Bank or 'Bank', I mean specifically the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA).

surrounding the administering of its loans. While the Bank has had a legal mandate to prevent corruption of the funds it loans since its creation, it is only recently that this has translated into concrete action and a ‘zero tolerance’ policy (World Bank, 2004c, pp.2-3). The Bank now views the eradication of corruption as a pre-requisite to a country’s successful development. It has implemented a major reorientation of a large proportion of its activities towards institution building in developing countries, seeing this institutional focus as the key to tackling corruption. The Bank has also produced a mountain of policy documents, operational directives and increased its project supervisory processes; all of which are designed to ensure that its funds are used only for the purposes intended.

However, an analysis of the Bank’s anti-corruption efforts finds them to be extremely wanting. Corruption is a product of the nature of power relations in a country that allow individuals to engage in bribery regardless of laws or agencies designed to stop them (Winters, 2002). In light of this, the Bank’s efforts to rid countries of corruption through an institutional focus of creating anti-corruption laws, commissions and agencies seem doomed to have little success. While preventing many of the more grand types of corruption, the Bank’s procedures in supervising its loans are inadequate and a significant amount of its funds are consistently lost through corrupt payments. If the Bank sees corruption as a major impediment to a country’s development, has a zero tolerance policy in terms of corruption in the projects it supports, and even has a legal mandate to prevent the corruption of its funds, we must ask: Why are the measures it employs to combat corruption so inadequate? Why does it devote 20% of the funds it lends to institutional reform (World Bank, 2005b) that is unlikely to reduce corruption, rather than implementing supervisory procedures to

prevent the corruption of its funds? These are the questions that this essay seeks to address.

Chapter two starts by defining corruption and modelling its occurrence in terms of a principle-agent structure. It then summarises the corruption discourse in development theory. This discourse is dominated by the view that corruption is detrimental to a countries development. There is however a counter-discourse that suggest not only is corruption an unavoidable part of a country's development, but it also serves a functional role in that development that is not necessarily detrimental. The chapter moves on to describe the permeation of corruption into the World Bank's development framework under the 'good governance' paradigm. It concludes by critiquing what Jeffrey Winters calls the Bank's 'meso' or middle level institutional strategy of fighting corruption, on the basis that the Bank's apolitical mandate prevents it from dealing with the power structure that facilitates individuals to be corrupt (Winters, 2002). If the Bank is serious about preventing the corruption of its funds, it must concentrate on supervisory measures at the micro level of project supervision.

In chapter three, the Bank's micro level supervisory processes are described and critiqued. Using evidence from interviews conducted with individuals who have a significant amount of experience as procurement contractors in World Bank projects, these processes are shown to be inadequate at preventing forms of corruption that are common and significant to Bank funded projects. The chapter then goes on to address the questions posed above. It finds that the Bank does not implement project supervision processes sufficient to prevent the corruption of its funds firstly because

of cost. It proves much more cost efficient for the Bank to rely on aiding institutional reform rather than implementing effective supervision processes. The second reason the Bank does not implement these processes is because corruption does play a functional role in the delivery of a successful development project. Implementing the necessary anticorruption measures would also deter countries from taking out loans. The Bank engages in a process of ‘organised hypocrisy’ (Wade, 2005) in order to enable it to decry corruption as an anathema whilst simultaneously tolerating corruption of its funds.

Chapter four concludes by highlighting the fact that, despite the dominant academic discourse, corruption does play a functional role in developing countries that is not necessarily detrimental. This is not to excuse corruption nor is it to deny that a country without corruption would be much better off than a country where corruption is systemic. What it does argue is that a corruption free environment should not be seen as a pre-requisite to development, as the opportunity cost of creating such an environment is significant. In light of this, because of the nature of the pressures on the Bank to eradicate corruption, the most pragmatic course for the Bank to take is to continue to engage in organised hypocrisy.

2) The Role of Corruption in Developing Countries: Definition, Theory and Practice

The focus on corruption in development thinking emerged with the critiques of the state-led development model in the 1970's. It has since come to form a central pillar of the dominant academic and development practice paradigm as to the relative success or failure of developing countries. Led by the World Bank, anti-corruption theory has assumed a central place in development policy through the 'good governance' approach of the multi-lateral development organisations. This chapter starts by defining corruption and modelling it in terms of a principle-agent structure. It then describes the dominant development theory of corruption as an impediment to development, followed by a counter-discourse that sees corruption as an unavoidable and functional part of a countries development. The chapter then charts the rise of corruption within the Bank's policy and development framework. The chapter concludes by describing how the Bank's anti-corruption focus may be misplaced, because its apolitical mandate prevents it from achieving its goal of reducing corruption via an institutional approach.

Defining Corruption and Modelling the Process

Corruption can simply be defined as the illegal use of public office for private gain[2]. A corrupt payment is one that is "illegally made to public agents with the goal of obtaining a benefit or avoiding a cost" (Rose-Ackerman, 1999, p.9). Opportunities for corruption exist where the public and private sectors interact. Public officials have control over the distribution of a cost or benefit to the private sector and therefore

[2] For a less narrow definition of corruption, see Nye, 1967. My focus here, as an analysis of corruption in World Bank funded projects, is specifically on economic rather than political forms of corruption.

incentives are created for the private sector to bribe them to gain benefits or avoid costs (Rose-Ackerman, 1997). To illustrate this interaction we may use a principle-agent model. The public official is the agent who is entrusted to carry out a task that includes interacting with the private sector, who is the client. The principle is the state or supervisory body that employs the agent and entrusts them with this responsibility. While the agent is supposed to act on behalf of the principle in dealing with the client, in accordance with rules determined by the principle, the agent is also self-interested and may betray the principles interests for his own. This betrayal constitutes corruption and occurs in three broad forms: a payment for licit services to speed the work of the bureaucrat in relation to the client (commonly termed ‘speed-money’); payment for illicit services where the bureaucrat affords the client a privilege or revenue to which they are not legally entitled; and finally bribery as a payment to prevent the bureaucrat from acting in a way that is harmful to the client’s interests (Kiltgaard, 1988, pp.17-24).

The agent will accept bribes if the benefits outweigh the costs. The principle is aware that the discretion afforded to the agent to carry out his task enables him to act in a corrupt manner. The principle may act to reduce the agent’s corrupt activities by reducing this discretion or increasing the potential costs to the agent by increasing the likelihood of him being caught. However the optimal level of corruption the principle aims to achieve is not necessarily zero. The costs of ensuring zero corruption through, say, close monitoring, may outweigh the benefits obtained from doing so (Kiltgaard, 1988). One might still strive for a corrupt free world, but a cost/benefit analysis may show that in many situations a preoccupation with corruption can be overly costly both in terms of the resource spent to control corruption versus the benefits accrued,

and in terms of the opportunity cost of diverting attention and resource away from other areas where they could be more beneficial.

While this model illustrates the interaction between those involved in a corrupt transaction and the way the principle may prevent corruption, it does not acknowledge that the central role of power relations in corruption. In many developing countries extensive formal mechanisms exist, such as laws and anticorruption investigative bodies, to prevent corruption. Corruption still occurs because the structure of power is such that the agent can avoid being detected or prosecuted by the principles anticorruption mechanisms (Winters, 2002). The power structure allows the agent to side-step the principles anti-corruption efforts, so the benefits of corruption still outweigh the costs.

Corruption Discourse in Development Theory

The idea of corruption as a major inhibition to the growth and development of countries emerged hand-in-hand with the neo-liberal critique of the state-led development model in the 1970's. Fighting corruption has since become a dominant part of the mainstream view on how to achieve 'development', and has a central position in the 'good governance' policy prescriptions of development organisations. At the core of this critique is the idea that a free market ensures the survival of the lowest cost producer and the most efficient allocation of resources. Large scale government intervention in the market place, inherent to the state-led model, created a great deal of opportunity for corruption. The neo-liberal critics argued that the resources 'wasted' through this corruption significantly contributed to the poor

economic performance of developing countries using this model (Krueger, 1974; Khan, 2002).

This gave rise to the emergence of a dominant discourse which considers corruption a significant fetter on development and growth. The most common narrative of this discourse is that public resources meant for building infrastructure to enhance productivity or social provision are diverted into the pockets of bureaucrats with an adverse affect on development and growth rates (Bardhan, 1997). Corruption also means that government contracts are not allocated to the most efficient bidder. The quality of projects may also be compromised where bribes are used to allow contractors to skimp on quality (Rose-Ackerman, 1997). Bureaucrats may actively engage in creating red-tape barriers and pursue projects that are unnecessarily large and complicated in order to maximise their opportunity for bribe extraction (Schleifer and Vishny, 1993)[3]. This adverse effect of corruption on efficiency and incentives is argued to have a detrimental effect on economic growth. Mauro's cross-country analysis illustrates a significant correlation between corruption, low investment and poor economic performance (Mauro, 1995)[4]. The resources 'wasted' on corrupt payoffs are seen here as opportunity costs for investment in growth enhancing activities such as production or trade, and other indirectly growth enhancing investments such as education. Corruption thus compromises the prospects of longer term endogenously sustained growth (Ehrlich and Lui, 1999).

[3] This idea echoes one first developed by Mydral, who stated that the possibility of corruption may induce bureaucrats to introduce process that give rise to rents. See Mydral, 1968.
[4] See Ades and Di Tella, 1996 and Ehrlich and Lui, 1999 for other studies demonstrating this correlation.

A Counter-Discourse

There is an empirical puzzle in the application of this argument. While corruption has been present in many countries that have faltered in terms of growth and development, it has also been present at high levels in the recent success stories of the developing world. Transparency Internationals Corruption Index[5] shows South Korea, Taiwan, India and China consistently scoring poorly and being regarded as amongst the most corrupt countries in the world (Transparency International, 2005). Simultaneously, these countries have achieved some of the most impressive growth rates out of all developing and developed countries over the last 20 years. If corruption is so detrimental to development and growth, how can this paradox be explained? The answer may lie in the function and type of corruption.

Corruption may facilitate the participation and representation of marginalised groups, including businessman and entrepreneurs that would otherwise have no formal avenue to achieve governmental action that would facilitate their economic activity (Leff, 1964; Bhagwati, 1982). Corruption may also produce efficient outcomes where excessive government regulation is proving detrimental to growth enhancing economic activity. Bribing public officials to cut through 'red-tape' may enable entrepreneurs to act more efficiently, giving a net social welfare gain rather than loss. In this sense corruption is tantamount to deregulation. As Huntington puts it, "...in terms of economic growth, the only thing worse than a society with a rigid, over-centralized, dishonest bureaucracy is one with a rigid, over centralised and honest bureaucracy" (Huntington 1968, p.386). This 'speed money' helps to encourage underpaid and unmotivated government officials to perform their functions properly.

[5] Transparency International is an NGO dedicated to fighting corruption. Its corruption index is a yearly survey which gauges the perceptions of international businessmen and financial journalists of the corruption levels in countries around the world (See www.transparency.org).

A model by Lui demonstrates the potential efficiency enhancing role of corruption. Better firms are more able and willing to buy the reduction in red-tape or contract award. The bureaucrat may also choose to speed up the delivery of service when bribery is allowed, contrary to the idea that corruption induces officials to delay service delivery to extract more and more payments (Lui, 1985). In situations where the political climate is volatile, speed money provides investors with a degree of certainty that officials will perform their necessary roles without delay (Khan, 2002). Corruption may thus act as a functional substitute for some to the formal lines of influence and access to government services that exist in developed countries.

The type of corruption is also central in determining its effect. Corruption that is decentralised, where agents do not coordinated their bribery demands, will be much more detrimental than a centralised system where officials cooperate. Schleifer and Vishny illustrate that agents who are made by the principle to collude in their corruption demands will maintain corruption at an affordable level for clients. Agents that do not collude and demand payments without reference to each other drive the cost of corruption for the client up to prohibitive levels (Schleifer and Vishny, 1993). Following from Vishny and Schliefer's work, a study by Campos and Liens showed that in terms of attracting investment the type of corruption is as, if not more important than the extent. Politically stable countries that have highly organised corruption which produces predictable[6] outcomes, still manage to attract high levels of investment. Corruption in East Asian countries was organised and controlled so that it was not detrimental to investment (Campos and Liens, 1999; Bardhan, 1997, p.1341).

[6] By 'predictable' Campos and Liens mean the degree to which firms are confident they are able to get the service they are seeking after they make corrupt payments.

Finally, apart from serious econometric and design problems[7] , evidence from studies that correlate high corruption with low growth fail to identify the direction of causality between the two variables. Are low levels of growth a product of high levels of corruption, or is it the other way round? A historical analysis would tend to suggest that when developed countries were going through their early stages of capitalist development, corruption was extremely high. As their economies grew and their populations became more affluent, corruption decreased and democratic accountability increased (Khan, 2002; Bardhan, 1997, pp.1329-1330). Khan points out that a historical analysis suggests "a prior reduction of corruption is a misrepresentation of the conditions that led to developmental success" (Khan, 2002, p.170). In light of the recent development success stories in East Asia and historical evidence from developed countries, corruption seems to form part of the development process of a country and low corruption levels are a result of, rather than a prerequisite to, economic growth and development (Leff, 1964).

Corruption Discourse in Development Practice

Despite this counter argument the anti-corruption discourse was adopted whole-heartedly by the World Bank in the 1990's. A perceived 'crisis' of corruption produced a plethora of research and policy statements and was part of a complete reorientation of the Bank's approach to development assistance (Williams and Beare, 1999). The failure of the Bank's structural adjustment was identified as being due to the presence of endemic corruption in developing country governments and their inability to effectively implement free market reforms (Boas and McNeill, 2003,

[7] See Khan and Jomo, 2000, pp.9-10.

pp.66-72). The emergence of the ‘good governance’ paradigm, as heralded by the 1997 World Development Report, saw the Bank shift from the prescriptions of free markets and minimal government to a position of recognising the importance of having an effective government that could implement and manage free market reform. Corruption became the scourge of developing countries and their prospects for growth, and was seen as a product of weak governmental institutions (Marquette, 2001) The ‘good governance’ agenda focused on strengthening those institutions in order to reduce corruption and increase governments’ ability to effectively administer a free market.

The end of the cold war meant that the dominant group of creditor countries in the Bank, comprised of the western industrialised countries, no longer had any political motive to prop up corrupt and illegitimate dictators. Under pressure from domestic constituents increasingly concerned about dictators squandering foreign aid to the detriment of the people the aid was intended to help, western countries began to push hard for reform and accountability measures in receiving developing countries through bilateral and multilateral aid packages. The Bank responded and its president, James Wolfensohn explicitly signalled a shift of focus in a speech at the Bank’s annual meetings in 1996, describing a “cancer of corruption” that had to be tackled (Mallaby, 2005, p.176). This new focus by the Bank essentially saw the removal of corruption and the presence of ‘good governance’ as a prerequisite to achieving sustained economic growth and development.

This reorientation of the Bank’s focus towards corruption was accompanied by a plethora of working groups, research documents and articles from the Bank,

culminating in the 1997 report titled “Helping Countries Combat Corruption: The Role of the World Bank”. The report set out a framework by which the Bank sought to tackle corruption as a central issue in development. This framework has four core areas: preventing fraud and corruption within Bank-financed projects; helping countries that request Bank support in their efforts to reduce corruption; taking corruption more explicitly into account in all of the Bank’s activities; and adding voice and support to international efforts to reduce corruption (World Bank, 1997a). Pressure from non-governmental organisations (NGO’s) and creditor countries has led to the prevention of corruption Bank funds the most pressing of these pillars. The Bank itself acknowledges that “corruption undermines the effectiveness of aid and threatens to erode political support for it” (World Bank, 1997a, p.5). It is also legally mandated in its articles of agreement to prevent the corruption of the funds it loans. Article III, Section 5, Paragraph C of the IBRD’s articles states[8];

> The Bank shall make arrangements to ensure that the proceeds of any loans are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations (World Bank, 1989)

This legal obligation is in itself enough for the Bank to act to reduce corruption of the funds it loans without the need for predicating such an effort on references to the detrimental effects of corruption on development (Winters, 2002). Combating the corruption in the projects it funds is a central priority for the Bank in its wider battle

[8] The same provision is included in the IDA’s articles. See World Bank, 1960.

with corruption. This is illustrated in the Bank's framework anti-corruption document, where it states: "If the Bank is to have the moral standing to advise countries on the control of corruption, it must be seen to have effective processes to ensure that its loans are, to the maximum extent possible, free of corruption" (World Bank, 1997a, p.29).

Evaluating the Bank's Anti-Corruption Focus

Jeffrey Winters describes the Bank's efforts at combating corruption in the projects it finances as focusing on a middle or 'meso' level of strengthening borrower country institutions in order to reduce corruption (Winters, 2002). This is opposed to a micro level of Bank project supervision and a macro level of international coordination to tackle corruption. The Bank states that "it is not…[its]…role to identify and prosecute individual offenders, but rather to address the various aspects of policy and institutional reform that are likely to be critical in reducing corruption" (cited in Hanlon, 2004, p.756). The Bank identifies corruption as a "symptom of underlying weaknesses in public sector institutions" (World Bank, 2000, p.2) and describes building strong institutions as "a central challenge of development and…key to controlling corruption" (World Bank, 1997a, p.39). The Bank has heavily invested in this strategy. Approximately 20% of the Bank's new lending goes to governance and public sector reform (World Bank, 2005b). This focus is aimed at engineering a professional and well motivated civil service that resists corruption through good pay and meritocracy, strengthening a country's civil society and media in order to increase surveillance of government activities and legal and judicial reform to ensure those involved in corruption are caught and punished (World Bank, 1997a, pp.39-46).

While there is much evidence that these sorts of reforms are, in themselves, inadequate, there is a more fundamental reason why the Bank's meso level focus is misplaced. Winters points out that "corruption occurs in societies because power is held and maintained in such a way that individuals or groups who steal or misallocate public resources understand they can act with near impunity" (Winters, 2002, pp.103-104). Because power relations lie at the heart of corruption, the Bank's apolitical mandate[9] means it is unable to address corruption effectively through this institutional focus. It may provide loans to train bureaucrats and provide them with better pay, or strengthen the public prosecution department. What the Bank cannot do is redress power concentrations that allow individuals to avoid detection and prosecution when they engage in corrupt practices, because these power concentrations are inherently political. The Bank even admits this fleetingly in it its 1997 anti-corruption framework document: "In some countries the primary reason for divergence [from adhering to anti-corruption laws] may be political, a manifestation of the way power is exercised and maintained. This limits what the Bank can do outside the framework of its projects" (World Bank, 1997a, pp.13-14). Even if the Bank was not restricted in this way, it is hard to conceive how an external agent could change institutions in such a way as to reorient a society's power structure so corruption no longer took place. As Winter's points out, "it is the proper task of groups and actors in each society where corruption is rampant to challenge the power relations that make the abuses possible" (Winters, 2002, p.104).

In the last ten years, after a long period of seeming indifference, corruption has apparently become an anathema to the Bank. Along with its legal obligation to

[9] The Bank's apolitical mandate means it can address corruption only as an economic concern, preventing it from addressing the political aspects of corruption (World Bank, 1997a, p.25).

prevent the corruption of its funds, the Bank has made fighting corruption a central part of its ‘good governance’ framework. It chooses to focus its efforts at a meso level of institution building despite the fact that this focus is unlikely to ever prevent the corruption of Bank funds by itself. If the Bank is going to prevent the corruption of its funds, it must implement procedures in the delivery of those funds that ensures they are only used for the purposes intended. The jurisdiction the Bank has over the funds it lends and the way they are used means that it is best positioned to tackle corruption at this micro-level of project supervision (Winters, 2002). In light of corruption being an apparent anathema to the Bank, the question arises as to why its micro level strategies, as the next chapter describes, are so deficient in preventing corruption.

3) Corruption in World Bank Funded Projects and the Bank's Response

The Banks has a stated policy of zero tolerance of corruption in its projects (World Bank, 2004c, pp.2-3), but just how effective are its efforts in fulfilling its legal mandate and preventing corruption of the funds it lends? Using evidence from interviews and examinations of multiple World Bank funded investment projects in sub-Saharan Africa, the first part of this chapter addresses this question. After describing the Bank's efforts in preventing corruption this chapter goes on to demonstrate their inadequacy. It then describes an apparent paradox whereby the Bank talks a 'no corruption' talk but plays a 'tolerate corruption' game. This paradox exists because it is too costly for the Bank to implement measures to eradicate corruption of its funds. Corruption also plays a functional role in making the projects the Bank funds a success. The Bank therefore tolerates a level of corruption; however it must also convince influential constituents that it considers corruption of its funds unacceptable. The Bank engages in a process of 'organised hypocrisy', whereby it says one thing, does another and all the while tries to conceal the fact that it is being hypocritical.

Evaluating the Banks effort: The (In)Effectiveness of Bank Processes

The argument put forward by Jeffrey Winters in the previous chapter suggests that if the Bank is serious about preventing corruption of the funds it lends, it cannot rely on a meso level focus of affecting institutional change in borrower countries. The Bank must utilise the leverage it has as lender and supervisor for the projects it finances to focus on micro level anti-corruption strategies of supervision and detection. An

analysis of the Bank's efforts on this micro level shows them to be extremely inadequate in preventing corruption.

The World Bank approves approximately 250 IBRD and IDA funded projects each year, resulting in the award of about 40,000 procurement contracts with a total value of approximately US$20 billion (World Bank, 2000). Around 10,000 of these contracts, 60 per cent in value, are awarded through a process of international competitive bidding with the remainder being awarded through local competitive bidding. Although the responsibility for project implementation and the management of such procurement is with the borrowing country government, the Bank plays a supervisory role and has strict rules on how procurement is conducted. Those rules stipulate that bids for contracts are to be evaluated on the basis of quality and cost (World Bank, 2004d, pp.34-36). The Bank's procurement guidelines also contain a section specifically on corruption. This details that the bank will "reject a proposal for an award if it determines the bidder recommend for an award…has engaged in corrupt,…practices", and may declare a firm or individual ineligible to compete for future Bank finance contracts (World Bank, 2004a, p.9). The Bank may also declare 'mis-procurement' and withdraw the relevant parts of the loan if it finds that representatives of the borrower or contractor have engaged in corrupt practices. The Bank details the ways corruption may occur in the project design, procurement process and financial management stages of the project cycle (Aguilar et al, 2000, pp.4-8). In terms of its micro level focus, the Bank seeks to prevent corruption through supervisory and auditory processes of these various stages. It describes these processes as "powerful deterrents to bribery" (World Bank, 1997a, p.29).

Supervision during project design is relatively comprehensive. The Bank's project team aids the borrower government directly in the project design, taking into account assessments of the level and type of corruption that exists within a country and the institutional capacity of the government to carry out the procurement (World Bank, 2000). The Bank appraises this design and the Loan Agreement[10] is agreed on this basis. The Loan agreement details the purpose of the loan, the process by which it is to be implemented and any specific measures to combat corruption. This process ensures the project addresses a specific developmental goal, preventing borrower officials having unfettered discretion to divert significant proportions of the project funds through white elephant projects or other such grand scale mechanisms.

When the project comes to be implemented, 'Prior review' is the main tool employed by the Bank to supervise the procurement process. This consists of the Bank country project team auditing the contract bidding process at various points[11]. If the Bank project team is satisfied that the process is compliant with its procedures it issues a 'letter of no objection', allowing the contract to progress (World Bank, 2004a, pp.46-47). The Bank supervises the project's financial management by requiring the borrower to provide yearly fiduciary audited statements for each project. The Bank also conducts specialised procurement audits on a small sample of project contracts to ensure compliance with the Bank's procurement guidelines (World Bank, 2000). Such audits evaluate all the contract documentation and may even involve site visits to ensure expenditure tally's up with the equipment procured (World Bank, 2001, p.181-189). Disbursement of loans by the Bank is increasingly done through special accounts set up by the borrower. The Bank releases funds into these accounts after

[10] The Loan Agreement constitutes the legal agreement between the Bank and the borrower.
[11] This includes evaluating the bidding documents, contracts and bid evaluation and selection process.

receiving and auditing a statement of expenditure from the borrower (World Bank, 1997a, pp.32-33).The Bank has recently introduced the Loan Administration Change Initiative (LACI), under which the Bank disperses the appropriate portion of the loan against reports submitted by the borrower detailing the process of the project. (World Bank, 2000, pp.10-12). While the LACI enables the Bank to monitor the implementation of a project against the loan disbursement in a more integrated way, it essentially gives more project supervision responsibility to the borrower government resulting in less direct supervision by the Bank.

When the Bank's supervision processes are actually utilised, they may well prevent many of the more obvious or grand forms of corruption. Prior review ensures the procurement process is being followed in accordance with the Bank's rules and project specific objectives as defined in the Loan Agreement. It prevents inappropriate procedures such as equipment specifications aimed at benefiting a particular manufacturer, and excessively short bidding time which favours an informed preferred bidder[12]. A special procurement audit will ensure that the equipment procured and accepted is of the quality and quantity specified in the original bidding documents. Provision of fiduciary audits and loan disbursement against statements of expenditure will uncover records that have been ill-kept or falsified, or the occurrence of ineligible expenditure.

However, despite prior review being the main procurement supervisory tool, it is only utilised on a quarter of Bank contracts[13]. Special procurement audits are even rarer;

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[12] I use the terms 'bidder' and 'contractor' interchangeably.

[13] Prior review only occurs for contracts above a certain value threshold, which is country specific and determined by an evaluation of the risk of the ability of the borrower government to implement the procurement effectively (World Bank, 2004b). Of the 40,000 procurement contracts awarded each year,

only 26 special procurement audits were completed in 1999, finding 22 instances of mis-procurement (World Bank, 2000, p.15). The Bank's disbursement procedures are also limited in their ability to prevent corruption. Checking statement of expenditure with the actual progress of the project on the ground is rarely done due to staff resource constraints (World Bank, 1997a, p.33). Even when these various supervisory mechanisms are used what none of them are able to do is detect or prevent corruption in the form of 'speed money', or corruption that helps determine which bidder is awarded the contract. Evidence from interviews conducted with several individuals holding a wealth of experience as contractor project managers suggest that these forms of corruption are highly pervasive in World Bank projects, but are rarely detected by the Bank (Interviewee A, 2005; Interviewee B, 2005; Interviewee C, 2005). The Bank's project processes can be followed exactly, be supervised and approved through prior review and fiduciary audit even go through a special procurement audit and yet still, apparently unbeknownst to the Bank, involve significant corruption.

Function, Process and Concealment of Procurement Corruption

How does this happen? All the interviewees described the function, process and concealment of corruption in the projects they were involved[14]. While each had seen a few cases of 'grand' corruption which completely undermined the project outcomes,

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prior review takes place on only around 10,000 of them (World Bank, 2005a). For contracts not subject to prior review the Bank employs ex post reviews, a process similar to prior review but only undertaken for a small, random sample of project contracts (World Bank, 2001, pp.176-202).

[14] The interviews were held on the assurance of confidentiality. The interviewees had all managed Bank procurement contracts for firms won under international competitive bidding, mostly in the health and education sectors, and mostly under International Development Association (IDA) credits in sub-Saharan Africa. Between them they have over 30 years experience on approximately 90 contracts, under 70 projects in over 20 countries. The combined value of those contracts is approximately US$90 million, and the combined value of the projects is approximately US$1.04 billion. The author also had access to all files relating to those contracts, including the bidding documents, bids submitted, contracts and communications between all parties.

the corruption that most commonly occurred was at a lower and more discreet level, and had a functional role. After submission, bids are evaluated by the borrower project team on the basis of cost and quality. When these evaluators have discerned the best three or four, approaches are made to those bidders to establish the level of corrupt payment they would make if awarded the contract. Bidders that get to this stage and then refuse to offer a bribe would be unlikely to be awarded the contract (Interviewee A, 2005). That does not mean however, that the level of bribe is the sole determining factor in who is awarded the contract. If for example, a lower quality bid offers a higher level of bribe than a higher quality bid, as long as the higher quality bid's bribe offer is of a satisfactory amount it is likely to win the contract (Interviewee A, 2005). In this sense then, contracts are awarded through a consideration of level of bribes offered *and* cost and quality. Because the bids that make it through to this stage are of similar cost and quality, and variance between them will be largely technical, the bid evaluators can justify the bidder they choose to the Banks project team on this basis. The Bank project team will therefore, through its prior review of the bid evaluation and contract award process, be unable to discern the fact that corruption has played a part in the contact award.

All experienced bidders know that they must offer bribes in order to not just win the contract, but also successfully implement it. Collective action on the part of the bidders to resist the paying bribes is not possible for several reasons. Firstly there is the common collective action problem of Prisoner's Dilemma, whereby even if all bidders agree not to offer bribes one cannot be sure that the rest will adhere to that agreement. The rational action for each bidder is then to offer bribes in order to have a chance of winning the contract (Rose-Ackerman, 2002). Even if bidders were able to

overcome this collective action problem, the risk exposure contractors face after the contract award, and the function of bribes in mitigating that risk makes them a necessity. This risk stems from the fact that under the Bank's procurement rules, bidders must submit a performance security in the form of an unconditional bank bond typically worth about ten per cent of the contract value. This bond is forfeited if the contractor fails to meet the contract terms of delivering the specified equipment in the time agreed (World Bank, 2004a, p.26-27). The contractor also only receives payment once delivered goods have been through a 'sign-off' process that verifies their quantity, specification and condition. This verification is undertaken by the borrower government's officials. The contractor's risk lies both in the forfeiture of its performance security and in the fact that they purchase the equipment and pay for shipment, but are not remunerated until the equipment has been signed-off and the documents facilitating payment have been processed. This puts a lot of power in the hands of the borrower officials, as they may use refusal to sign-off or delays in processing payment documents as a means to extort money from the contractor[15] (Interviewee C, 2005). Corruption payments function as 'speed money' and a contractor must engage in them if it is to fulfil the contract in a timely manner and thus minimise its risk exposure.

Bribes are usually between 10-15% of the value of the contract, depending on the country and size of contract. The payments are most commonly made by the contractor's country agent (Interviewee A, 2005). The Bank requires agent's

[15] These actions may be easily justified to the Bank project team. Delays in processing documentation can be put down to high workload. Refusals to sign-off delivered equipment may be blamed on an range of non-compliance issues, including the specified model being delivered, the packaging it was delivered in or the way it was stored in transit (Interviewee B, 2005). While upon investigation it may be found out these non-compliance reasons are found to be erroneous, it still represents a significant delay and therefore extended risk to the contractor.

commission to be detailed in the bid (Aguilar et al, 2000, p.10). However in terms of the price structure of the bid, the payments are not included in the agents' commission. Bribes are recovered and concealed in the mark-up the bidder places on the unit prices of the procurement items. This means they remain largely concealed in the bids. No bribes are made prior to the contract award; only guarantees are given as to the extent of the payment. The payments are made just after the borrower officials sign-off the delivered items. This ensures the contractor and the official honour the payment agreed to when bidding; the contractor pays enough and the official does not try to extort more. Payments are usually made in a single transfer to an individual who then distributes the money to all the other relevant officials[16] (Interviewee A, 2005). This form of corruption will not be detected through the Bank's supervisory processes, as it does not involve any noticeable deviation from the Bank's procurement procedures or falsification of borrower procurement records. The diversion of funds is concealed in the original bid, so all funds that go to bribes appear in borrower fiduciary records as a proportion of the legitimate payments for goods specified and then delivered by the contractor. The evidence from the interviewees suggests corruption of this type is endemic in Bank financed projects in sub-Saharan Africa. Interviewee A, for example, stated that in the 22 contracts in 10 countries he had been involved in since 1997, corruption of this form occurred in *every* one. Of those 22 contracts, all but six were subject to prior review, and all were supervised through the fiduciary audit process. No corrupt practices were discovered by the Bank as having taken place in those projects[17]. All of the interviewees stated that in all the contracts they had been involved in, the Bank had never declared mis-procurement

[16] Interviewee C stated that funds were distributed throughout the borrower project team and associated department, often right up to the senior ministers.
[17] This was originally stated by the interviewee and confirmed by cross referencing the contracts with the information on the contracts database on the Bank's website.

due to corruption, despite corrupt practices having taken place in the every one of them.

The only conceivable way that the Bank could detect and prevent the forms of corruption described above is to conduct a comprehensive audit of contractors. This would include auditing the contractor’s accounts, their purchasing agreements with manufacturers, and also a full audit of their country agents. The procurement guidelines and the General Conditions of Contract, included in all procurement contracts, requires contractors to permit the Bank to inspect their accounts and other documents relating to the bid submission and contract performance (World Bank, 2004a, pp.9-10; World Bank, 2004d, p.71). The Bank only invokes this right following specific reports of corruption. The Department of Institutional Integrity (INT), established in 2001, investigates allegations of corruption in Bank financed projects. While these investigations are much more thorough and likely to uncover the type of corruption described above, they are relatively rare. In the first year of opening the Bank’s corruption hotline received only 46 calls relating to allegations of corruption (Thornburgh et al, 2000). The INT opened only 203 investigations relating to external corruption for financial year 2004, 72 of which went through a full investigation (World Bank, 2004c). Even with this apparently light reporting of instances of corruption, the INT is severely under-resourced. With a staff of 47 and an annual budget of US$10 million, the INT in its 2004 report admits that for external cases “the number of cases clearly exceeds the resources that would be needed to conduct a full investigation into every case” (World Bank, 2004c, p.9). These statistics demonstrate that the presence of the INT does not constitute much of a weapon against the pervasive corruption in Bank financed projects.

Tolerating the Anathema: Why the Bank's anti-corruption efforts are inadequate

The Bank has a stated policy of zero tolerance of corruption in its projects. It has a legal mandate to prevent the corruption of its funds and gives fighting corruption in its projects a central position in its wider battle with corruption and framework for successful development. Therefore we must ask: Why are the actual measures it employs to combat corruption are so inadequate? Why does it rely on 'meso' level initiatives of institution strengthening rather than micro level supervision and detection measures? The evidence from the interviewees suggests that in sub-Saharan Africa at least, a sum of 10-15% of contract value is lost through corruption. Surely if the Bank was serious about fighting corruption it would devote more resources to ensure prior review occurred on every contract. It would mainstream the type of in-depth audits conducted under INT investigations into standard project processes, rather than only conducting them upon receiving reports of corruption. Auditing a significant proportion of projects in greater depth would constitute a powerful deterrent to officials and bidders to engage in corrupt practices.

Cost is the most obvious reason for prior review not taking place for every contract, and for a lack of an increased level of scrutiny in audits. As noted in the previous chapter, the optimal level of corruption is not zero as the costs of fighting it may outweigh the benefits accrued. In terms of the principle-agent model the Bank is the principle trying to induce the borrower country officials (the agent) and the bidders for the contract (the client) to reduce their level of corruption. Of course according to this model the principle can always reduce the autonomy of the agent to act, which in the most extreme would mean the Bank taking over the role of the borrower country

officials in the project implementation. This is of course is not possible; the Bank after all is a Bank, lending money to borrowers who are responsible for paying it back and therefore responsible for administering the spending of the money. While the Bank helps determine how that money is used and supervises its expenditure, it cannot spend the money on the countries behalf. Nor would many countries want to borrow from the Bank if they had no control over its use. In this case the principle must respect the agent's autonomy to a point, but it may supervise the agent to a lesser or greater degree to ensure it carries out the principle's wishes; using the loan for the purposes intended. But the principle must determine on a cost/benefit basis, the optimal level of supervision and therefore the optimal level of corruption. The Bank recognises that the cost of using prior review and more comprehensive audits in every contract will be much more than the 10-15% of contract value saved in doing so[18]. The Bank therefore settles for less micro level strategies of detection which are costly, and instead direct its funds towards the meso level focus in order that it may prevent corruption through strengthening of the country's institutions.

This meso level focus proves cost effective for several reasons. Firstly, under its 'good governance' framework, the Bank identifies fostering strong institutions as essential for wider economic and social developmental goals (World Bank, 1997b, pp.79-142). The Bank also identifies strong effective institutions as the key to combating corruption, which in turn is considered central to a country's development. Tackling corruption in borrower countries, and therefore in its projects, becomes a by-product of money loaned for the 'good governance' initiatives of institution building. This means the Bank can seek to fulfil its legal mandate of preventing fraud and

[18] For example, the Bank admits that "smaller, decentralised contracts…are not cost-effectively handled through prior review" (World Bank, 2000, p.15).

corruption of its funds without significant spending on micro level supervision and auditing, as fighting corruption is mainstreamed into its development framework focus of institution building. Secondly and more importantly the money the Bank spends on this meso level focus is not actually spent by the Bank but loaned, so fighting corruption does not consume the Bank's budget; instead it provides another reason for the Bank to lend. Micro level strategies of increasing and intensifying Bank supervisory procedures would come out of its administrative budget, which the Bank does not have an abundance of. Using the meso level strategy means borrower countries pay for to Bank to fulfil its legal obligations of preventing corruption of its funds. The Bank is seeking to reduce corruption in its projects at minimal cost to itself.

The Function of Corruption and a Hypocritical Bank

There is however, a more fundamental reason why the Bank does not devote more resources to micro anti-corruption efforts. In many of the countries the Bank lends to, corruption is systemic, and as the evidence from the interviews demonstrates, plays a functional role in the process of delivering successful development projects. The Bank recognises that in order for its projects to be successful and delivered in a timely fashion it must accept a certain amount of corruption to facilitate that delivery. The success of its projects is crucial for the Bank to continue to justify itself to creditor countries and thereby ensure their support and financial contributions. Project success is also crucial in maintaining its credibility to debtor countries. The Bank relies on debtor countries to borrow its funds and therefore maintain its existence. Having a comprehensive set of procedures and regulations on every contract would delay or jeopardise the successful implementation of contracts and make Bank loans much less

appealing. The Bank tolerates a significant amount corruption because the cost of ensuring no corruption is prohibitive and is necessary for its projects to be successful. If tolerating corruption is necessary for these reasons, why does the Bank present corruption as a major impediment to development and states that it has a ‘zero tolerance’ policy towards it in its projects.

Robert Wade describes how the Bank’s ‘authorising environment’ consists of creditor states who control the Bank and debtor countries that the Bank relies on to borrow its funds and therefore maintain its existence (Wade, 2005). NGOs also influence this environment by directly lobbying the Bank and indirectly influencing the creditor states, holding the Bank to account over its policies on matters such as the environmental impact of its projects. This environment is also characterised by a bifurcation between the Bank’s creditors and NGOs, who value primarily the Bank’s intentions and policies, and borrowers who value the Bank’s action ‘on the ground’. The demands placed on the Bank by these different constituents are not always convergent and where they diverge, the Bank, as Wade points out, “must face both ways” (Wade, 2005, p.9). The Bank must act in a hypocritical way; producing stated policy and procedures (or “talk” as Wade describes it) to appease creditor governments and NGO’s, whilst acting in an almost opposite manner to appease borrower governments. However this hypocrisy gives ammunition to the Bank’s critics. It must therefore ‘organise’ this hypocrisy in order that it remains as much as possible unnoticeable.

‘Organised hypocrisy’ can be seen explicitly in the case of corruption. Faced with mounting pressure from creditor countries and NGOs in the mid-1990’s the Bank,

after years of indifference, made tackling corruption central to its development goals. It introduced new policy and procedures in the form of procurement guidelines and staff guides, and created new investigative departments and telephone hotlines as an overt display of its tackling of the issue. It made its central focus the strengthening of institutions through vastly increasing its lending for government and public sector reform. All this took place in order to pacify those clamouring for the Bank to rid its funds of corruption. However the Bank must also appease debtor countries, as it relies on them continuing to borrow its funds for survival. Intense micro regulation of its projects would delay implementation and make the Bank's facilities less desirable for debtor countries. The success of the Bank's projects is essential in terms of both its creditors and debtors, and in many developing countries corruption facilitates that success. Along with the prohibitive cost of ensuring no corruption of its funds takes place, this authorising environment leads the Bank to engage in a process of organised hypocrisy. It produces multiple reports, policies and procedures, departments and even loans all designed to demonstrate to one half of its authorising environment, creditor countries and NGO's, that it is tackling corruption. At the same time the Bank's actions see it failing to implement the micro level supervisory strategies that could actually prevent corruption. The Bank knows implementing such strategies is prohibitively expensive. It also jeopardises the successful implementation of Bank contracts and is unacceptable to the other side of its authorising environment, the borrower countries. Corruption for the Bank is then a tolerated anathema; an anathema when it has its creditor country/NGO hat on, and tolerated when it has its borrower country hat on.

Despite the relative inadequacy of a meso level focus in preventing corruption (Winters, 2002) the Bank has good reason to direct its efforts here and not use its resources to enhance its micro level strategies. This meso level focus, plus high profile but inadequate micro level initiatives, shows the Bank is playing a clever game. It can convince creditors and NGO's that it is fighting corruption, tolerate the existence of corruption and allow it to play a functional roll in its projects and yet still convince everyone that it is not being hypocritical.

4) Conclusion

Despite the Bank's apparent efforts and focus on eradicating corruption in the projects it funds, evidence suggests that it still persists to a significant extent. This is because the Bank does not implement sufficient supervisory processes that would ensure corruption of its funds does not happen. The absence of those processes is a result of two factors. The first is simply that it is too costly for the Bank to supervise all or a majority of its projects to the extent that would ensure no corruption. The second is that despite all the Bank's rhetoric, introducing these anticorruption measures would make its projects less successful and deter countries from borrowing funds. Because of the continued pressure from creditor countries and NGO's for the Bank to tackle corruption, it must engage in a process of organised hypocrisy. On the one-hand it produces rhetoric and policy, valued by the creditor countries and NGOs, that seek to demonstrate the Bank does not tolerate corruption of its funds. On the other hand, through its (in)action, the Bank tolerates corruption as it plays a functional role in its projects. Borrowers would be deterred from using Bank funds if they were tied down with anticorruption measures that delayed or even jeopardised projects.

Inherent in the World Bank's employment of 'organised hypocrisy' is the recognition that corruption has a functional role in developing countries. Where power relations exist that enable individuals to engage in corrupt practices, corruption will persist. In this context, while ultimately undesirable, corruption will not necessarily be the bane to a countries development that many suggest. The evidence from the interviewees suggests that in many cases corruption does not have the consequences outlined by the anti-corruption discourse. That discourse holds corrupt practices obstruct government

contracts being allocated to the most efficient bidder (Rose-Ackerman, 1997). Bureaucrats may also actively engage in creating red-tape barriers in order that they maximise their opportunity for bribe extraction (Schleifer and Vishny, 1993). However, the function and process of corruption described by the interviewees shows that for the most efficient bidder to win, they must engage in the bribery process. Because of the need for the borrower officials to justify their bid selection on the basis of quality and cost to the Bank, it is not necessarily the case that if a poor quality bid paid a higher bribe then it would win. The bribe essentially gets bidders 'into the running', and engaging in bribery enables the most efficient winner to win the contract. Corruption also helps the contract to be implemented effectively and in good time by motivating officials to conduct their duties in a timely and proper manner. The payment of the bribe after the official has carried out his duties prevents them from seeking to increase barriers and delays in order to extort more money.

The Bank's 'meso level' initiatives will be ineffective in changing the power structure that allows corruption to persist (Winters, 2002). While the Bank seems compelled to continue with its current strategy, it may change the nature of its institutional focus in order to produce more realistic and developmentally beneficial outcomes for borrower countries. As noted in chapter 2, the type of corruption is as, if not more, important than the level of corruption. It was the control of the type of corruption in the East Asian countries that allowed them to experience high growth while corruption remained at very high levels (Campos and Liens, 1999; Bardhan, 1997). The Bank should seek to understand the institutional structure that enables the type of corruption to be controlled. It may then use its meso level focus to help reform institutions in a way that minimises developmentally detrimental corruption, without wasting time and

funding on other types. This would help to negate the opportunity cost of spending funds on institutional reform that will not result in the eradication of corruption.

The argument here is not that corruption is more beneficial than a situation of no corruption. Rather, corruption is an unavoidable part of the process of development and its presence does not necessarily compromise that development. The World Bank is right to aim for a society where corruption is minimised, however it is wrong to view the absence of corruption as a prerequisite to a country's development. Viewing the optimal level of corruption for developing countries as zero means a huge opportunity cost in terms of the resources required to achieve such a situation. These may far exceed the benefits accrued and be a detrimental distraction from policy and projects that could otherwise be much more developmentally beneficial (Leff, 1964). So the Bank's tolerance of corruption, despite its public assertions that corruption is an anathema to development is, in many situations, the most pragmatic and developmentally beneficial position to take. The Bank should persist in supervising its funds to ensure that corruption on a grand scale does not take place, but should not devote huge resources to trying to eradicate corruption completely. Corruption will persist, and in many instances play a functional role, in developing countries as long as power remains structured in a way that allows individuals to engage in it.

Wade argues that "Anyone concerned to protect and expand the scope of international organisations and international public goods has to be concerned with how either to improve the ability of IO's to be hypocritical and get away with it, or to reduce the need for organised hypocrisy. Or both" (Wade, 2005, p.3). In terms of corruption and organised hypocrisy at the Bank, the strategy will probably need to be the former. The

pressure from creditor countries and NGO’s for the Bank to eradicate corruption is part of the reason the Bank engages in organised hypocrisy. This pressure, at least on the part of creditor countries, has been interpreted as a response to pressures from their global corporate constituents. Corruption is problematic to global corporations because it represents a source of additional cost when doing business in that environment. Corruption exists as an impediment to global corporate and creditor country desires for a free global economy, where restrictions and risks to corporate global investments are minimised (Williams and Beare, 1999). This corporate pressure is backed up by a dominant academic discourse that sees corruption only as an impediment to development. The Bank’s Articles of Agreement provide a legal requirement for the Bank to prevent any corruption of its funds. As such, it is unlikely that there will be any abatement in the pressure on the Bank to rid its funds, and developing countries at large, of corruption. The Bank will have to continue practicing organised hypocrisy in order that it may meet the requirements of this side of its authorising environment while still attracting borrowers and implementing successful projects.

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