

Launch of the Volcker Alliance to Boost Effective Government



Photo/Salzburg Global Seminar

Paul Volcker, former Chairman of the US Federal Reserve (second from left) and Leonard McCarthy, Vice President for Integrity (right), launch the new Volcker Alliance in Salzburg, Austria.

September 27, 2013—Speaking at the launch of the Volcker Alliance in Salzburg, Austria, Vice President for Integrity Leonard McCarthy outlines how corruption negatively impacts public policy implementation. Conceived by former Chairman of the US Federal Reserve, the Volcker Alliance focuses on improving the effectiveness of public policy execution.

Below are McCarthy's remarks as prepared for delivery:

Thank you for inviting me to join you here in Salzburg. Of course, if Paul Volcker asks you to do something, you do it! I met the Chairman in 2008 and still have a hard time believing how someone with such a towering presence in world finance could care so deeply about corruption.

I am not an expert in public policy, but I believe the right policies can keep us safe, healthy, educate us, deliver justice, build communities, enable us to work, travel, communicate, and live full lives. All these things are made possible because there are people deciding what the best policies are and how to carry them out. In other words: public trust.

Natural disasters and security breaches may highlight where human incompetence or negligence derail our efforts to enable citizens to live full lives. But on a day-to-day basis when policies and systems fail, another less savory aspect of human nature is responsible: we are prone to corruption.

A scan of media reports since 2008 points to at least 150 major corporate governance failures in the past five years, mostly involving corruption, but also fraud and insider trading. Most of these companies are multinational firms headquartered in developed countries. This is true for the World Bank's own blacklist—at least half of the debarred firms on the list are from industrialized countries. I make this point because, today one of the biggest obstacles we

are facing in the fight against corruption is the large pockets within society that have become tolerant of corruption. Corruption feeds on complicit behavior and thrives on complacency.

What else perpetuates corruption? There are many factors: some politicians take bribes to fund their elections; senior officials may sell government assets below market value because they have the discretion; companies and wealthy individuals corrupt industry regulations, zoning, and licensing because the economic benefit is huge; officials make bribing an industry and create a network of sycophants; weak internal controls allow theft of cash and government resources; the absence of any effective sanctioning makes corruption in some jurisdiction a high-reward/low-risk crime; officials may not be held accountable, because no one knows what the budget is spent on; citizens have no voice to raise concerns about poor and corrupted services; and government auditors and anti-corruption authorities may be poorly resourced, suffocated, or - in some cases - captured by a corrupt elite.

At the World Bank, I head the office responsible for investigating corruption when it impacts Bank-financed projects. In the course of our investigations, we see interesting fact patterns. We have obtained evidence curiously pointing to the involvement of a prime minister's sister and a president's spouse. We have found buildings, roads, and bridges that were fully paid for but didn't exist, except on maps. We have seen how a cartel operating in a road sector was able to systematically inflate prices by almost 30% across many dozens of contracts, costing the government hundreds of millions of dollars. We have identified drugs completely lacking the active ingredient. Based on our investigations, negotiated bribes on large projects can range from 6-12% of the contract value. These are all examples of large-scale issues, but as was the case in one of our investigations, one's morality can apparently be exchanged for an iPad.

What should be reassuring for you is that at the World Bank, we disrupt the presence of corruption, prevent and stop bribes from being paid, and investigate and "prosecute" major cases.

When corruption threatens the system, chances are it will become the system, even if officially there are excellent policies and laws within a system. I hail from South Africa, a country in which the best and worst of humanity co-exist. After the end of apartheid, everyone wanted to help South Africa move forward. The best experts from around the world came to help write new policies, which have been consistently praised for progressive excellence. That was 19 years ago, and today the country still has not found a cure.

One of my investigators tells a fascinating story about how in the wake of the fall of communism in the USSR, gangsters rushed to send their children to the best schools so that they could infiltrate and appropriate a civil service, establishing a system of corruption in the burgeoning economy.

About 10% of the allegations the World Bank receives come from the growing number of fragile and conflict-afflicted states; considering the difficulties in even establishing reporting mechanisms in such environments, the number is troubling.

Collectively, the world has no problem acknowledging the pitfalls of corruption. Even those who are corrupt know the best way to denounce their opponents is to call them corrupt. And at least on paper, we are tougher on corruption.

We are all here because we want to figure out how we get from what we say we want on paper to what we do—and see—in our everyday lives.

Paul Volcker came to the World Bank in 2007 to do an independent review of an office that was then known as the Department of Institutional Integrity. The report he and his panel wrote became the blueprint for how that office, now known as the Integrity Vice Presidency, or INT, operates. Among many other pertinent recommendations, the panel's review increased transparency around investigations, established a preventive services function, and created an Independent Advisory Board to advise the Bank on how INT operates. In hindsight, none of these recommendations seems especially groundbreaking, and yet the impact they have had on the World Bank's efficacy and credibility has been profound.

I believe the Volcker Alliance can have an astute role and impact in countries. Drawing on the credibility and expertise of those gathered here, the Volcker Alliance can help governments identify where their policies are failing, how to get around certain obstacles, and develop a ten-point performance checklist. On an annual basis, the Alliance could then consult with heads of state and governments to see how they are performing and offer additional advice.

Willing partner governments would inspire other countries. If we identify countries which can serve as champions, replicate their successes from one country to the next, we can essentially build an assembly line of effective interventions. In countries where leaders have been elected on a platform of anti-corruption, we should interact with them as early as possible to hold them to their promises.

Over the next few days as we think about how corruption impacts public policy and effective governance, we should address the following points:

- We need leadership through a “moral renaissance”, with the type of activism advocated by World Bank President Jim Kim. This idea should permeate at the highest levels. We need more leaders with real courage, competence and charisma. Importantly, we need broader leadership from intellectuals, prominent businessmen, philanthropists, celebrities, and community leaders.
- The rule of law must be front and center. International organizations, strong national, regulatory and law enforcement authorities, and donor institutions can all play a decisive role in breathing life into surveillance and judicial systems in environments tainted by systemic corruption, by providing technical assistance; sharing evidence; coordinating investigations; and seizing stolen assets. There is no reason why embattled anti-corruption bodies should feel that they stand alone.
- Governments must be more transparent about quality of service, make it easier for citizens to file complaints, and disclose how complaints are resolved and show what they do with public money. This might just be enough to create a social media-led revolution: a shot in the arm for public trust.
- On the private sector side, we need to increase the cost of capital for firms engaging in unethical conduct by changing how institutional investors make portfolio decisions. This may just be enough to move the debate into the Board rooms, and make anti-corruption a “corporate pillar” that translates into reputational capital.

As this seminar has rightly identified, a deficit of trust among the public in their institutions is responsible for a large number of ills plaguing countries, both developed and developing. Unfortunately, the consequences in developing countries are often more immediately problematic. At the World Bank we’ve framed our work around achieving two goals: shared prosperity and eliminating extreme poverty. Underpinning these objectives is a zero tolerance policy toward corruption in our projects and activities, as articulated by the President of the Bank.

I recently found myself in a debate with an esteemed international policymaker over the cost of corruption and its impact on the development enterprise. This person believed that if 80% of allocated development funds can achieve 100% of a project’s objectives, the 20% of the funds that were lost to corruption or other “slippage” did not detract from the project’s success. She failed to account for the damage done to public trust. According to the work of World Bank senior economist Steve Knack who has been analyzing the economics of trust, “If you take a broad enough definition of trust, then it would explain basically all the difference between the per capita income of the United States and Somalia.” We only need to look at countries in the Middle East, Brazil and others to see that there is a periodic groundswell of agitation simmering across the world, illustrating the true social and economic value of public trust.

There is an African saying: “*leso la hao le e mphidisa*” loosely translated as “thy death is my life.” The Volcker Alliance comes at the right time. We have opportunity, and if we act with velocity, the results will show.

[Help](#) • [Feedback](#) • [Site Map](#) • [Publishing Guidelines](#) • [IFC](#) • [MIGA](#) • [IDA](#) • [ICSID](#) • [WB External Site](#)