The World Bank's Evolving Recognition of Weak Governance as a Constraint on Borrowers' Development Performance: A Personal View

By

Pierre Landell-Mills[1]

Formerly World Bank Resident Representative/Country Director for Bangladesh (1994-98), Senior Adviser on Public Management (1998-99) and President of the Partnership for Transparency Fund (2000-2010)

Abstract

The purpose of this paper is to trace how over time the World Bank came to acknowledge the role of institutions and poor governance in constraining development, seen from the perspective not of a dispassionate academic, but rather that of a deeply engaged staff member. In its first 35 years the only institutions the Bank was concerned about were project implementation agencies. In the 1980s a small group of staff campaigned for the Bank to give greater attention to the role of institutions more generally. That led to a growing concern about ways to improve public management, especially after the publication of the 1983 World Development Report on Managing Development. In 1989 the Bank's report on Sub-Saharan Africa raised the issue of corruption resulting from poor governance, referring for the first time in a Bank policy document to the mis-use of political power. At this point there was growing and explicit recognition that governance problems were political in nature and could not be addressed simply by pushing governments to undertake technical public management reforms. During the 1990s the Bank struggled to come to terms with the challenge of poor governance which was increasingly recognised as the key constraint to faster and more effective development. There was a fierce debate within the Bank as to whether the Bank should or even could legitimately address issues of poor governance. The fact that many billions of dollars were being siphoned off by predatory officials and their political masters was hard to ignore. The Bank's policy analysis was increasingly outspoken about corruption, but the Bank struggled to come up with a credible operational response. Greatly increased efforts were made from the late 1990s onwards to ring-fence Bank funded projects from corruption, but that did little to address the wider adverse impact of poor governance. This paper sets out how the Bank's policies on governance have evolved up to the present and ends with a set of proposals on how the Bank and other international aid agencies might support citizen driven efforts to demand governance reform. It argues that such reform cannot be imposed by external agencies; instead, reform can only come from political pressures generated within a country. And, it calls on the Bank to do far more to search for smart non-confrontational ways to support and strengthen civil society organisations.

[1] This paper has benefited from the comments and suggestions of Vinay Bhargava, John Clark, Alex Duncan, Daniel Ritchie, Ken Sigrist and Geof Wood. However, I alone am responsible for the present text.

The Challenge

In its early days the World Bank was slow to recognise that citizens' economic, social and cultural wellbeing depends critically on the quality of a country's government. Focussed on project lending, the Bank gave little formal attention to the wider issues of public management—the design and management of state institutions, the capabilities of public officials and the quality of the country's political leadership. We have since learnt that, of all these factors, it is the latter that is the most critical. The concept of *governance* which only entered the Bank's vocabulary nearly half a century after it was established, focusses on this key factor. Measures to improve *public sector management* address the technical issues related to the performance of public institutions—their structure, organisation, legal frame work, staffing, and so on. The concept of *public accountability* stands in between—it can be a technical matter, such as having in place effective systems of procurement, accounting and audit, or it can relate to the much more difficult question of holding political leaders and officials accountable for their actions through elections, the courts and other oversight bodies, and mechanisms to ensure transparency.

When I joined the World Bank in 1973, the quality of a country's governance and its corollary, the extent of corruption, did not form any part of the Bank's discourse on the development performance of countries, either within the Bank or with its member countries. Moreover, the term *governance* was not then even part of the Bank's lexicon. In retrospect, more astonishing still was the almost complete absence in those early days of any general discussion of borrowers' public management. To the extent that the Bank focused on institutional capabilities, these were generally limited to the performance of project implementing agencies.

The reasons for this neglect were multiple and complex. Some senior managers argued that the Bank lacked the expertise to address public management issues. Others argued that the Bank's strength was in providing economic policy advice and technical project expertise and that we should stick to doing that and leave others to address the more complex institutional issues. Underlying these concerns, was a great uneasiness that the Bank risked straying into a political mine field which would reduce its ability to do project lending by undermining its good working relations with senior officials by raising awkward questions.

This seemed to me at that time a major shortcoming in the Bank's approach to its basic mission which was to reduce poverty and improve the wellbeing of ordinary citizens. I had spent the previous ten years working in African countries, for the Tanzanian Government (1963-65) and for the Botswana Government (1965-73), and in both cases I had held line management positions which gave me hands on experience in how things get done or don't get done. I had learned the hard way how simple tasks could be thwarted not so much by incompetence and inexperience—although those weaknesses were present in spades—but much more critically because of deliberate bureaucratic and political obstruction. I came to understand that learning to navigate these latter obstacles skilfully was critical to achieving desired outcomes.

Staff training and technical assistance were readily available to address weak capabilities, but dealing with officials who lacked positive motives and putting in place appropriate incentives was quite another challenge. It became obvious to me that constructive and supportive political and administrative leadership was paramount to successful development. If those calling the shots had a different personal agenda—one related to self-advancement and self-enrichment or retaining political power—which clashed, as they usually did, with the development goals, any program could easily be derailed, and resources diverted to other purposes.

Once in the Bank, I soon realised that my experience in Botswana was misleading. This young country stood out as an exception among poor countries in being blessed with honest political

leaders who were singularly dedicated to doing the best they could to advance their country. Having a mere handful of graduates at independence in 1966, they willingly used external expertise to achieve their goals. They listened to professional advice and generally acted accordingly. And, its economic performance was among the best in the world with an average growth in GDP of 8-10 per cent sustained over more than two decades (1970-90). It helped that the country was endowed with a substantial deposit of diamonds, copper and nickel but, unlike so many resource rich low-income countries, Botswana's political leaders did not squander or steal their country's new found wealth[2].

In the 1970s I worked on African countries as a Bank country economist. I noted that as a result of intensive supervision, with some notable exceptions, Bank supported projects were mostly completed more or less as envisaged in the Bank's appraisal reports, but usually with delays and implementation problems. What happened after project completion was quite another matter. Since there was no systematic review of project impact after 5-10 years, there was no way for the Bank to learn why the impact of its projects was often so much less than had been projected. Also, I found it particularly worrying that staff who had presided over projects which turned out to be disastrous were often promoted into management positions and were not held accountable for the weaknesses of the projects for which they had been responsible.

When I became Bank country director for Bangladesh resident in Dhaka in 1994, I was curious to learn about the projects the Bank had financed over the previous twenty years and to know what had happened to them. I quickly discovered that the Bank's resident mission's staff had for the most part only a very sketchy idea of the history of Bank funded projects, so I put in place a study to find out. The result of this study was both enlightening and dispiriting. A large number of buildings we had put up which were either in disrepair or were being used for something quite different from that originally intended. Roads we had helped build were often in a poor state of repair. Water management schemes we had funded had been abandoned and so on. An effort to build up the country's agricultural research capabilities had floundered. Less obviously, the "software" component of projects had in many instances disappeared altogether; for example, staff who had been trained for one function were often either nowhere to be found or were doing completely different work. This study underlined several issues: the weakness of the Bank's institutional memory, the lack of continuity in addressing Bangladesh's institutional weaknesses, and the adverse impact of changing Bank "priorities" as development fads went in and out of favor and Bank presidents came and went. But what stood out above all other issues was the Bank's failure, along with other donors, to get to grips with the fundamental underlying constraint on Bangladesh's development—that of chronic poor governance, including though not limited to pervasive and systemic corruption.

These issues were eventually set out in a Bank report on Bangladesh published in 1996, after over 30 years of under-performing IDA funded projects, entitled *Government That Works: Reforming the Public Sector*[3], prepared by staff in the Bank's Resident Mission. This was followed in 2001 with an institutional and governance review entitled *Taming Leviathan: Reforming Governance in Bangladesh.* These reports were pioneering for the Bank in the way they addressed openly and head on the weaknesses and failures of a member government, including corruption and poor accountability—both potentially dynamite. The former was largely based on the work of local analysts, while the latter was a combined effort of expatriates and locals.

Significantly, both reports were very well received and extensively discussed by both the public and government. Ironically, since these reports were issued very little has been done to address

[2] Botswana's track record of good governance took a hit when Ian Khama took over as President in 2008

[3] *Government That Works: Reforming the Public Sector* (University Press Ltd, Dhaka for the World Bank, 1996)

the critical weaknesses which they so graphically exposed; the Bangladesh government is every bit as corrupt and unaccountable now as it was twenty years ago. Over the past two decades Bangladesh has effectively transitioned from a plural democratic state to what is effectively an authoritarian one party state with a poor human rights record. Yet, the Bank continues to maintain a large lending program. It is almost as if those of us working on governance reform were operating in a parallel universe quite separate and isolated from the real world of politics, and Bank operations.

This experience of tackling governance reform in Bangladesh has since been replicated across dozens of other poor countries in receipt of development assistance. Given that poor governance continues to detract seriously from the impact of external development assistance, what is now urgently required is a comprehensive reassessment of how the official aid donors can reorient their assistance strategies to better address these issues. The purpose of this paper is to remind ourselves of the Bank's evolving governance strategy since its earliest days in order to provide a context for such a reassessment. Most importantly, we shall see how the Bank's inhibitions in confronting the underlying political factors determining the quality of governance explains its failure to be a more effective global development institution.

The Bank's gradual recognition of the role of institutions in development

During the late 1970s a small group of Bank staff started to raise with their managers the need to have a bolder and more systematic approach to the role of institutions in facilitating development. Up to then the Bank had largely ignored this aspect of development. The group argued that the main constraint to development was not so much in the design and planning of programs and projects, but rather in their implementation— "in getting things done". This discourse was led by Arturo Israel who held the position of project policy adviser. Others involved included, but not limited to, Nimrod Raphaeli, Elkin Chapparo, Francis Lathem, Linda Mueller, Samuel Paul and myself. In 1979, with Bank support, Israel spent a five-month sabbatical at Queen Elizabeth House in Oxford researching the links between institutional performance and development which over the next eight years he turned into a book[4].

In 1977 I joined the development policy staff as part of the Program Review Division which was responsible, under the leadership of Sidney Chernick, for tracking and reviewing country program papers (CPPs) on behalf of the senior management team. This gave me a platform to continue to work with like-minded colleagues behind the scenes to press the case for the Bank to give more attention to institutional and management constraints in borrowing countries. This initially translated into a focus on public *administration* reform which was later reformulated as public *management* reform.

The evolving thinking about public management was prominent at the International Conference on Public Administration held in Mexico in 1980. I was asked to attended on behalf of the Bank, reflecting the Bank's increasing interest in this matter. I started to network with academics who were working on public management issues, such as John Montgomery from Harvard University's School of Government. In these discussions, we were increasingly forced to recognise that the political dimensions of public management reform could not be easily swept under the carpet without losing insight into the true obstacles to accelerated economic development.

Bank staff working in operations—project identification, appraisal and supervision—were only too aware of the political constraints which undermined outcomes. But the Bank's lending was

[4] Israel, Arturo *Institutional Development* (World Bank—John Hopkins University Press, October 1987)

predicated on the false assumption that our local counterparts shared our technocratic agenda, whereas the reality was that those in charge, whether officials or political leaders, often had personal agendas which clashed with those set out in the project agreements. Here I am not referring to genuine differences in judgement about what was needed to deliver agreed outcomes that benefited the population, but rather issues that related to the diversion of resources for personal benefit or that of a particular family, clan, or ethnic group or political party.

I was frequently reminded by Bank lawyers and senior managers that the Bank was required by its statutes to be apolitical. Formally, and in practice, this meant we were to take no account of the political realities in borrowing countries and consequently operational departments did not undertake any in-depth political analysis in order to better understand the context in which they were operating. I was deeply concerned that, in the periodic CPPs presented to the Bank's senior management for approval, there was little if any analysis of the underlying political factors driving borrower behavior.

In 1979, after I had replaced Chernick as chief of the Program Review Division, I persuaded my director, Mahbub ul Haq, to allow me to commission two country 'political economy' studies—one on Mali which was prepared by Michael Carter who had recently returned from a two-year stint as the Bank's resident representative in Bamako, and another on the Philippines by a political scientist who was a well-informed specialist on the Marcos regime. Their task was to lay out in some detail exactly how these two countries worked politically—how power was exercised, what were the motivations of the political leaders, who benefited most from political decision making, and to what extent corruption and misuse of power undermined the country's development efforts. Given that these 'political' matters were regarded by the Bank's Board as strictly off limits, these reports were to be prepared in secret.

The Mali report came first and was circulated to the President's Council along with the Mali Country Program Paper (CPP) that had been prepared by the country program division responsible for Mali. The impact was dynamite. Robert McNamara, who chaired the meeting, said gruffly that if what the paper described was true, then the Bank should stop lending to Mali as it was self-evident that the funds would be misused. I responded by saying that if we commissioned similar analyses for other borrowers, we would find very many similar situations. Stopping lending altogether would be an extreme reaction; instead, we could seek to leverage our lending to secure public management reform. In the discussion that followed it was evident that the Council was at a loss to know how to deal with the concerns set out in Carter's paper and they decided simply to 'look the other way'; the CPP was approved without qualification. However, at the same time we were asked to continue to send to the Council other such analyses. Thus encouraged, we presented the Philippine political economy study a few months later along with the review of the proposed Philippines CPP.

The Philippines' study turned out to be far more contentious. The Philippines was a much higher profile country and the Marcos regime was a good deal more controversial than that in Mali. The study had not spared any punches, laying out in explicit terms the extent of the corruption in the Philippines and of Marcos' abuse of power. The Bank's management was so nervous about this analysis that we were instructed to limit the copies and to number each page. Despite the care taken to keep the paper secret, within 24 hours of it being circulated, a Filipino secretary had passed a copy to the Philippines' Washington Embassy and all hell let loose. To put it mildly, the Philippines Government was not pleased and objected through its Executive Director in the most strident terms. The preparation of such internal papers was queried by some Executive Directors. We were severely censored, and McNamara instructed Bank staff never again to undertake such analysis. While the Part 1 countries were sympathetic, the large

Part 2 countries such as Brazil, China and India were incensed. The case for political economy work in the Bank was placed off limits for a decade or more. We retreated back to technical work on strengthening institutions and improving public management, but the issue of how to handle corruption and other politically driven malfeasance did not go away.

In the 1970s institutional and management issues were particularly acute in Africa where weak development performance was giving rise to widespread concerns among development agencies. The numbers in absolute poverty remained stubbornly high and despite considerable external development assistance per capita incomes were hardly growing. In 1979 at the World Bank's Annual Meeting, African Bank Governors met McNamara to express their disappointment that the Bank seemed to pay too little attention to Africa's plight, asking the Bank to make a special study aimed at better understanding the constraints to African development with a view to elaborating a more effective assistance program. McNamara agreed and instructed his deputy, Ernie Stern, to put the study in hand as a matter of some urgency. Stern was slow to follow up and by the following Spring meeting of Governors nothing much had been done. McNamara turned to Stern and demanded action.

To my consternation, shortly afterwards, Stern asked me to lead a team to prepare a report on Africa to be ready in time for the next Annual Meeting, allowing less than four months for the task. I told him that the time allowed for this task was unreasonable if we were to do a worthwhile job and, in any event, we should undertake the work collaboratively in consultation with representative Africans. I asked for the deadline to be shifted at least to the end of the year and preferably to the following Spring. Stern told me that McNamara would not countenance any further delay and that what was needed was a "quick and dirty" exercise that would satisfy the African Governors. I said that I thought that a mistake and declined the assignment. I consulted my manager, Mahbub ul Haq, who agreed with me and advised me to stand my ground. Stern sent Stanley Please, a DPS senior adviser, and Bevan Waide a senior adviser in Stern's office to try to convince me to change my mind. I refused which proved, from the point of view of my career in the Bank, to be a serious mistake. Stern never forgave me. Soon afterwards he hired Professor Elliott Berg to lead the team. Berg accepted the deadline and then simply disregarded it, taking well over a year to complete what became the Bank's first Africa Report published in 1981[5]. It became self-evident, even to Stern, that the original timeline was unworkable. Professor Berg, hired as a consultant, was better placed than I would have been to disregard the deadline so casually. He was also more willing than I was to set out the Bank's conventional wisdom without paying attention to the political and institutional factors constraining Africa's development. This was to be put right eight years later.

In the event the Berg report made controversial anti-statist and highly market-oriented policy recommendations which were very much in tune with Bank economic thinking at the time. The report was influential in promoting market liberalization, the privatization of mismanaged state enterprises, and the loosening of government regulation of agricultural markets. It was subsequently used as a basis for pushing for these reforms through structural adjustment lending. These recommendations, which essentially laid the blame for Africa's slow development on poor public policies, were widely resisted by African governments. The report was also criticised by some development scholars for appearing to place too much blame for African economic failures on government economic mismanagement and giving too little weight to external factors such as the 1979 global energy crisis. But none of these critiques addressed the problem of weak institutions and poor public management, nor what were later

[5] *Accelerated Development in Sub-Saharan Africa: A Plan for Action* (World Bank, 1981)

identified as wider political economy issues such as those brought out by Michael Carter's paper on Mali.

In early 1982, in response to these concerns, the Bank's senior management agreed to devote its next World Development Report to the topic "Management in Development". To my surprise, given my criticism of the approach taken by the Berg report, I was asked to head the team tasked with producing the WDR report. However, I was instructed to steer clear of anything that might be reconstrued as 'political'—issues related to corruption and state capture were still not considered legitimate topics for Bank enquiry—so the report focussed instead on technical issues of efficiency, establishing appropriate systems and incentives to improve the performance of public institutions, the reform of state-owned enterprises and, more generally, the reform of public administration. Questions were raised by some senior managers on the wisdom of the Bank "straying" into areas where we were perceived as lacking expertise, but I was helped considerably by having the full support of Hollis Chenery who, as head of Development Policy Staff, was the senior manager responsible for producing World Development Reports.

Half way through the task, in early 1983, Chenery retired from the Bank and was replaced by Anne Krueger. At our first meeting she told me frankly that she was opposed to the WDR topic on the grounds that it implied the Bank supported a statist approach to development. She said: "In my view, the Bank should not be trying to help governments to become stronger. Rather, our aim should be less government, not more". This extraordinary right-wing view caused me no end of trouble in drafting the WDR.

While not seeking at that late stage to change the WDR topic, which had the approval of the Board, Krueger took away from me responsibility for Part 1 of the WDR which in those days was a review of global economic trends and prospects, quite separate from Part 2. She made Helen Hughes responsible for Part 1 and I, as co-ordinating author, was in due course given a draft that was designed to support an extreme laissez-faire approach to economic management backed by data that had been transparently manipulated by Hughes to support her arguments. The success of Asian countries, which included heavy state interventions, was down played. When the WDR draft was submitted to the President's Council for approval, Part 2 was accepted without modification, while Part 1 was rejected out-right after a scathing attack on it from Ernie Stern. I was given ten days to completely re-write Part 1, which I did but in circumstances that made for a nightmarish task.

In the end, the WDR was published on schedule and received favorable reviews. Ironically, Krueger enjoyed the kudos of being the responsible Bank manager. To her credit, though, she sent me a gracious note congratulating the WDR team for its "good work" and apologising for her earlier opposition which she said was based on her "misunderstanding" of the purposes of the report. Subsequently, she and I were sent on a global tour to publicise the report. We ended up spending a week in China—three days in Beijing and three in Shanghai. In each city we were asked to present the report in three morning lectures attended by several hundred officials. Each afternoon each official was expected to return to their respective departments or institutions and repeat the lecture. I hate to think how garbled the themes and messages would have been in these repeat lectures, but no one could question the Chinese officials' discipline and dedication. They were a very attentive audience at a time when the country was embarking on a massive transformation of its economic management policies.

This WDR succeeded in placing the issues of public management at least for a short while centre stage in the Bank. One outcome was a senior management decision in 1983 to establish a Public Sector Management Unit under Arturo Israel's leadership. Unfortunately, this Unit had limited impact as it lacked the operational tools, mechanisms and resources to translate

concerns about weak institutions and management into clear recommendations on how things could be done differently. Moreover, operational departments did not have staff skilled in these areas, though this was to change in the following years.

With support from his manager, Warren Baum, Israel eventually set out the ideas that he had been working on since 1979 in a book entitled *Institutional Development: Incentives to Performance* published in 1987. This drew in part on the Bank's operational experience and in part on the emerging discipline of 'new institutional economics' (NIE) inspired by academics such as Ronald Coase, Oliver Williamson, Elinor Ostrom and Douglass North—all of whom were eventually awarded the Nobel prize for economics.

In the early 1980s NIE slowly gained traction in the Bank, even though a number of senior Bank managers remained stubbornly resistant, preferring a more traditional technocratic view of development, arguing that the Bank lacked the relevant expertise. Managers who were more favourable to the new ideas included Warren Baum, Herman van der Tak, Visvanathan Rajagopalan and Peter Wright. From outside the Bank, Israel received support and encouragement from such well-known development specialists as Robert Chambers (IDS, Sussex), John Montgomery (Harvard) and David Leonard (Berkeley). Nonetheless, his unit's impact on Bank operations during the late 1980s was marginal at best. After an initial burst of interest in NIE, the Bank lost interest and operational divisions continued to function much as before.

Recognition of Poor Governance as a Key Constraint to Development

Concern about poor progress in alleviating poverty in Sub-Saharan counties and a growing awareness that the continent was being left behind led to a decision in 1988 to commission a new report on Africa. The task of leading this study was initially given to Ramgopal Agarwala under the supervision of Stanley Please. A team was assembled and a draft report prepared which in essence was an update of the 1981 Berg report reaffirming the Bank's well-honed market-oriented policy messages. Kim Jaycox, the Vice-President for Africa, decided to submit the draft for review to his Council of African Advisers which he had established with help from Dunstan Wai, his adviser on relations with African leaders[6].

The Council at that time consisted of a number of eminent and experienced African leaders, including Ellen Johnson-Sirleaf from Liberia (who had been Finance Minister and later became the country's president), a former prime minister of Ethiopia, a former governor of the Bank of Ghana, and Harris Mule, a former senior permanent secretary from Kenya. The draft report was severely criticised for not addressing directly the fundamental political constraints to African development which arose from systemic corruption and the abuse of power for personal gain. The Council advised that unless the Bank was willing to address these basic issues, the report would have limited impact. When it was pointed out that the Bank's mandate excluded consideration of such matters, the Council insisted that unless the Bank was prepared to recognise and grapple with the political constraints to Africa's development, then it would be ineffective. The Council urged Jaycox to have the courage to confront the real reasons behind Africa's poor development performance.

I attended this meeting in my capacity as senior adviser in the Africa Region's technical department. Subsequently, Jaycox invited me to take over the leadership of team preparing the

[6] Dunstan Wai had fled Southern Sudan as a young teenage refugee. He was identified as especially talented, sponsored by Tom Mboya (a Kenya Minister), won a place at Makerere University, did post graduate work at Oxford, earned a doctorate in politics at Harvard and had subsequently worked for the Ford Foundation.

report and redraft the report, which I did. I was given a free hand to respond to the guidance we had received from the African Advisers. The result was a report that frankly discussed African countries' weak *governance*—the first time this term had ever been used by the Bank; up to then governance was a recondite term used by political scientists, but it was not part of the lexicon of aid agencies. Its use was suggested by Dunstan Wai. Wai whose role was to advise me on what was likely to be acceptable to African governments in the redrafting of the Africa Report. To be absolutely clear as to our meaning, and after much debate, we defined governance in the Report very simply and briefly as "*the use of* ***political*** *power in the management of a country's affairs*"[7].

The report pulled no punches in addressing core governance issues. "*Underlying the litany of Africa's problems is a crisis of governance*" the report declared. It continued "*Because countervailing power has been lacking, state officials in many countries have served their own interests without fear of being called to account….politics becomes personalised and patronage becomes essential to maintain power. The leadership assumes broad discretionary authority and loses its legitimacy. Information is controlled and voluntary associations are co-opted or disbanded. This environment cannot readily support a dynamic economy. At worst the state becomes coercive and arbitrary. These trends, however, can be resisted. As Botswana has shown, dedicated leadership can produce a quite different outcome. It requires a systematic effort to build a pluralistic institutional structure, a determination to respect the rule of law, and vigorous protection of the freedom of the press and human rights."*[8]I have quoted at length here and below from the 1989 Africa Report because it records a tipping point in Bank policy—a milestone along the road to recognising the importance of the governance and corruption constraints in its operations.

Addressing frontally the scourge of corruption, the Report stated: "*Hundreds of millions of dollars have been siphoned off to private bank accounts outside Africa. The cost is not just the waste of funds, but also more seriously the profound demoralization of society at large."* Donors and expatriate companies were not let off the hook. The Report argued that *"foreign aid has greatly expanded the opportunities for malfeasance exacerbated by the venality of many foreign contractors and suppliers."* Turning to the role of donors, the Report insisted that *"donor governments also have a responsibility to prosecute their own firms when they pay bribes"* which presaged the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions adopted in 1997. For their part, African governments were urged to eliminate unnecessary controls that allowed scope for "rent seeking". The Report called for "*Transparent procurement procedures, scrupulous and prompt accounting, the publication of audits, and the vigorous prosecution of those misusing public funds*." Never before had the Bank so explicitly belled the cat of corruption and so firmly addressed the need for governments to take serious action to stop public officials accepting bribes and stealing public funds.[9]

More broadly the Report went on to call for political renewal; "*There is an evident popularly felt need for renewal—bordering on desperation—that is widely expressed. ….The widespread perception in many countries is that the appropriation of the machinery of government by the elite to serve their own interests is at the root of this crisis of governance".* At the same time, the donors were taken to task including by implication the Bank itself: "*The willingness of the donor community to tolerate impropriety—by failing to insist on scrupulous conduct by their own suppliers, by not ensuring that funds are properly used, by overlooking inadequate*

[7] *Sub-Saharan Africa: From Crisis to Sustainable Growth, p.60* (World Bank, Washington DC, 1989)
[8] Ibid, p.60-61
[9] Ibid p.61

accounting and auditing, by tolerating generally lax procurement procedures—aggravates the malaise."[10]

The 1989 Africa Report represented a major departure from the Bank's previous approach. How did we get away with it? The short answer is we took a chance, went out on limb, and were not stopped. Ibrahim Shihata, the Bank's General Counsel was incandescent but, before he could intervene, we had moved fast to secure the enthusiastic endorsement of the Council of African Advisers. Fortunately, they expressed great satisfaction at the way we had responded to their earlier critique. Buoyed up by this senior African support, Kim Jaycox took firm ownership of the draft and submit it to the President's Council for approval before Shihata could block it. In light of the well documented support from our African advisers, whose high status could not be disputed, the Bank's senior management agreed that the report should be submitted to the Bank's Board without amendment. During the Board's discussion of the Report, several Executive Directors representing large developing countries in Asia and Latin America criticised the Bank for so openly addressing governance issues—the political constraints to development which they regarded as both unpleasantly close to home and certainly none of the Bank's business—but, without the support of the Bank's African Executive Directors, their objections fell away.

The favorable reaction of African governments was surprising and needs explaining. All were only too aware of the accuracy of the diagnosis and, since the report was careful to avoid citing individual country cases except in a positive way (e.g., the good governance performance of Botswana), all seemed willing to pretend that the Bank had others, not them, in its sights. Corrupt governments have an amazing capacity for brazen denial and to act as if they believe their denial—in today's world Putin is a classic example of this phenomenon. An additional factor was simply insouciance; they didn't that much care, provided they were not directly targeted with sanctions. They disliked conditional aid, but most did not believe that donors would dare impose governance conditions and if such conditionality were attempted, they were confident that they could simply work around it while complaining loudly of donors' political interference.

The Bank's Board ended its discussion of the report by approving the document, which subsequently received wide circulation and a favorable press. Years later, Shihata disingenuously claimed that he had taken the lead in getting governance onto the Bank's agenda; nothing could be further from the truth, as I knew only too well from a difficult encounter I had with him. Throughout the 1980s he was firmly opposed to any direct discussion of corruption with the Bank's borrowers, taking the view that it was a country's sovereign right to establish what government it wanted and it was the Bank's duty to work with that government and not to question its chosen governance system. But once he had lost the argument, he showed himself to be an adept politician; unhappy to be bettered, shortly after the 1989 Africa Report was published, he sought to regain the initiative by setting out a legal basis for the Bank to address governance issues to which Bank staff subsequently often referred.[11] His fallback aim at this point was to limit the scope of the Bank's incorporation of governance concerns into its operations.

In truth, the prohibition against interfering in country's political system incorporated into the Bank's statutes had happened when the Bretton Woods institutions were established in 1944 in the context of the looming cold war, reflecting the perceived need for international institutions to remain neutral in the ideological battle between western democracies and socialist states.

[10] Ibid, p192

[11] Legal Memorandum to the Bank's Board on *Issues of "Governance" in Borrowing Members—the Extent of their Relevance under the Bank's Articles of Agreement* (World Bank, 1990)

But it was certainly not intended to protect the predatory behavior of kleptocratic officials of despotic governments from international scrutiny. Nor was it ever intended to exclude the Bank from addressing institutional and public management obstacles to development. Shihata's Memorandum argued that the Bank's concern with governance "*seems to have come as a logical step in its gradually expanding involvement in policy reform through structural adjustment lending*". The Memorandum then proceeds through a set of tortuous arguments to conclude that while the Bank's purpose was "*not to substitute itself for the peoples and governments of its borrowing countries in deciding how these countries are to be governed"*, nor should it be involved in political reform in borrowing countries "*however badly needed such reform may be*". Shihata nonetheless also concluded that Bank staff could focus on issues of governance in dialogue with its borrowers. Moreover, he claimed that the Bank was free to acquire knowledge of the political situation in these countries in order to "*gain insight on the underlying social and cultural factors behind such a situation*" which is exactly what we had done in the case of Mali and the Philippines ten years earlier (noted above) that had given rise to a furore and at that time ruled out-of-order. The Shihata Memorandum included a long list of things of a "*political character*" that the Bank should not do. Nonetheless, the Memorandum ended by listing legitimate areas of enquiry and dialogue such as: civil service and legal reform, and accountability for public funds. But it explicitly warned against pressure from NGOs to encourage popular participation in decision-making, an exhortation the staff subsequently ignored. Indeed, the promotion of participatory development was enthusiastically embraced by the Bank[12] not long after. Shihata's Memorandum was approved by the Bank's Board in April 1991 and has been used ever since as the legal basis for the Bank raising governance issues in its dialogue with its borrowers.[13]

From Diagnosis to Action

The next step in the Bank's saga in dealing with poor governance was the preparation of a discussion paper on the issues of governance that were considered to lie within the Bank's mandate. A large task force was appointed by the Bank's senior management to undertake this task in 1991. The task force was chaired by Sarwar Lateef and there were 31 members drawn from all possible interested departments. While not a member of the task force, I had frequent exchanges with its members as their deliberations proceeded. Through the work of the task force, the Bank began explicitly to formalise its policies regarding the governance issues raised in the 1989 Africa Report, building on related work done in the 1980s to reform public management. Country departments were encouraged to promote the participation of beneficiaries in the design of projects and structural adjustment measures. The concept of *governance* was gaining currency and helping focus the dialogue on a more informed and realistic ways to tackle public management weaknesses.

The participation of Legal Department staff in the Task Force was intended to ensure that the draft was consistent with Shihata's Memorandum. The Task Force produced a Discussion Paper for the Board in 1991[14], which was followed by a longer booklet in 1994[15]. In many

[12] See, for example, *The World Bank Participation Source Book* (1996), *Voices of the Poor: Crying Out for Change* (World Bank, June 2000), and John Clark, *The World Bank's Evolving Relationship with Civil Society* (MS 2020). As early as 1992, the World Bank's *Poverty Reduction Handbook* mentioned the valuable role of popular participation no less than 11 times.

[13] A fuller, less personal, account of the role of Shihata's Memorandum can be found in a WDR Background Paper entitled *Evolution of the World Bank's Thinking on Governance* by K. Sarwar Lateef (World Bank, 2016)

[14] *Managing Development: The Governance Dimension,* (World Bank, August 1991)

[15] *Governance: The World Bank's Experience* (World Bank, May 1994)

ways this was a landmark paper for the Bank describing bluntly in an official document the huge damage caused by poor governance and pervasive corruption in a large number of the Bank's borrowers.

The definition of governance used in the Discussion Paper involved a small but important shift from the one we had adopted in the 1989 Africa Report. For Bank purposes governance was defined as "*the manner in which power was exercised in the management of a country's economic and social resources for development*". Significantly, the word "*political*" was dropped. This was in reality little more than window dressing—what other kind of 'power' might the task force have had in mind other than political?

Although the 1989 Africa Report had made it clear that the issue of poor governance was in a fundamental sense a *political* failure, rather than a consequence of weak public management capacity, this 1991 Discussion Paper failed to grapple with this core issue. To its credit, the paper did set out in direct terms that the root causes of the problem were lack of accountability and widespread corruption, but it still looked for technical managerial solutions. The paper proposed that the Bank should focus its efforts in four areas, namely: economic and financial accountability, predictability, the legal framework for development, and information and transparency. All were discussed as though they were practical public management systems issues, rather than recognising that the true fundamental problem was that senior officials and political leaders in borrowing countries frequently had quite different priorities from those of the external aid agencies. While the latter sought to expedite economic and social development, officials were too often bent on self-enrichment while the politicians were primarily focussed on keeping themselves in power which was achieved by state capture and looting the state not just to enrich themselves, but also to buy off political competitors and keep allies on side[16]. Had this been frankly recognised, then the debate on the appropriate policy response might have been better focussed and the outcomes very different. I address just how later in this paper.

Notwithstanding this critique—after all the task force was all too aware of the intense political pressures within the Bank from borrowing countries' executive directors who represented the corrupt and undemocratic political elites in these countries—the task force was courageous in laying bare the extent of corruption and lack of accountability. It is often claimed nowadays that the Bank never mentioned the 'C' word until Jim Wolfensohn arrived as President of the Bank in 1996, but a quick reading of the 1989 Africa Report, the 1992 Board Discussion Paper, and 1994 booklet on Governance, reveals that the Bank was openly exposing and discussing corruption with its borrowers long before Wolfensohn set foot in the Bank. The difference Wolfensohn made was, as president of the Bank, personally and openly to embrace the issue of corruption. This meant that the operational parts of the Bank could no longer so easily ignore the topic, as they mostly had up to then in their dealings with borrowers. Yet the steps taken were exceedingly cautious, relating almost entirely to promoting technical ways to improve the transparency of budget, accounts, audits and procurement.

Frustration at the Bank's limp approach to corruption led a small group of Bank staff in 1990 to discuss establishing an international NGO with the aim of mounting a global citizens' initiative to fight corruption. In the end Peter Eigen, a Bank country director, offered to quit the Bank to lead this initiative. He garnered sufficient support from a significant number of influential supporters to launch Transparency International in 1993. TI went from strength to strength with the establishment of a steadily growing number of quasi-independent national chapters. The Bank, to its shame, declined to offer support until sometime after Jim

[16] See for example Hayes, Sarah *Thieves of the State* (Norton, 2015); Kenyon, Paul *Dictatorland: The Men Who Stole Africa* (Head of Zeus, 2018); and Klitgaard, Robert *Tropical Gangsters* (I B Tauris, 1991)

Wolfensohn became President. By initially distancing itself from the TI project, the Bank' senior management revealed its timid and ambivalent position on corruption in the early 1990s.

Because the plague of corruption had been extensively discussed in the wider public for years, if not centuries, and stopping corruption was often the principal reform proposed by new leaders when despotic governments were overthrown, the Bank's mention of corruption came as no revelation. However, in the face of much evidence to the contrary, almost all governments for years had repeatedly claimed that *they* were not corrupt and that *they* agreed with the need to root out corruption, so they could hardly take the Bank to task publicly for raising the issue, always provided the allegation of corruption was made about other governments, not them. And the Bank found itself initially in practice accepting that fiction in its dealings with individual countries. It was initially left to Transparency International to publish a country-level corruption index[17] which exposed the most egregious offenders. A year later in 1997 later the Bank started to publish its own Worldwide Governance Indicator[18] which included control of corruption as one of its six components. The TI index and WGI have always attracted a lot of hostility from the governments that were ranked low on the index/indicator. Over the years, those governments have become increasingly shameless, either challenging their ranking or simply deriding the accuracy of the index and indicator.

Since the early 1990s the debate on the practicality of addressing governance directly raged throughout the Bank and in various aid agencies, with most managers being deeply cautious, and only a few being willing to stick their necks out. Everyone involved in the Bank's operational work knew that political constraints were binding. We were all aware that very many political leaders and senior officials, with some notable exceptions, simply did not share the same agendas as those outsiders seeking to support development. They challenged the Bank's right to interfere in a matter which they claimed was solely their internal sovereign perogative. With this challenge in mind, I was asked by the organisers of the Bank's 1991 Annual Conference on Development Economics to present a paper[19] that sought to define the core characteristics of good governance and suggest how such characteristics might be effectively fostered in poor countries by aid agencies. Although I was the author of this paper, Ismail Serageldin, as my manager, added his name to it to provide Bank managerial endorsement to what could be seen as a set of personal and highly controversial views. The paper set out at some length the arguments justifying the Bank and aid agencies engaging in a policy dialogue with governments on ways to address governance weaknesses. The paper addressed such matters as limits to sovereignty and aid conditionality—matters that the Bank's 1991 Discussion Paper had not touched on. I encountered no subsequent dissent from the Bank's senior management regarding the opinions elaborated in this paper but for the most part it was simply ignored.

Somewhat emboldened by the favorable reception given this paper, in 1992 I discussed with counterparts in the IMF a proposal to hold an informal joint symposium on how best to address high levels of military expenditure in some borrowers in the context of the structural adjustment policy dialogue. Public sector management measures, such as procurement reform or making budgets more transparent, were by then already being included in the conditionality attached

[17] Transparency International has published an annually updated Corruption Perception Index since 1995 which ranks countries "by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys".

[18] The Worldwide Governance Indicators project reports aggregate and individual governance indicators for over 200 countries and territories covering the period 1996–2019, for six dimensions of governance (https://info.worldbank.org/governance/wgi).

[19] Landell-Mills, Pierre and Ismail Serageldin, *Governance and the External Factor* (Proceedings of the 1991 World Bank Annual Conference on Development Economics, published in 1992);

to structural adjustment assistance. Querying disproportionately high levels of military expenditure had been seen up to then as a step too far. To my surprise, the IMF agreed to host a meeting with one or two outside scholars, specialists in security and defence matters, taking part. Most of the discussion was on technical issues, such as how in practice to bring defence expenditures into the borrowers' budgets when the matter was surrounded by considerable secrecy and often massive corruption. The context for this discussion was one where NGOs had become highly critical of structural adjustment conditionality, which they saw as the Bank and Fund forcing poor countries to cut expenditures on the social sectors to reduce budget deficits. In practice, decisions on budget allocations were taken by governments who tended to be very reluctant either to cut military expenditure or reduce inflated public service payrolls—a key source of patronage—which tended to be the main reasons for unmanageable budget deficits. Country program managers were nervous about querying defence expenditures. In the event, Bank and Fund efforts to pressure borrowing governments to curb such expenditure in order to protect expenditure of social services were largely unsuccessful.

Likewise, in the following years, there was marked reluctance on the part of the Bank's country departments to engage with borrowers on ways to tackle corruption. Here, too, few program managers were willing to raise this contentious issue with their government counterparts knowing the hostile response they would likely get. It was a brave Vice-President who would bring up the issue of corruption in meetings with government leaders and, in my experience, this reluctance extended to Jim Wolfensohn, too. For example, Wolfensohn was unwilling to raise the matter with the Prime Minister of Bangladesh, Sheikh Hasina when he visited Dhaka in 1997 despite the Bank's country office urging him to do so and despite the fact that Bangladesh was ranked among the ten most corrupt countries in the world by the Bank's own governance index. I thought this hypocritical. It was not good enough for Wolfensohn to urge Bank staff to engage in a dialogue with borrower governments on sensitive governance issues and then duck the topic when he came face to face with the responsible prime minister.

In my own meetings with Sheikh Hasina, I was surprised to find I was able to talk about corruption without being thrown out. For example, I recall discussing with her in 1997 corruption in Bangladesh's main port, Chittagong, pointing out that the abuses there were costing the country billions of dollars a year owing to inflated demurrage charges. She didn't get angry with me, but simply responded as follows: "Pierre, you over-estimate my power. Chittagong Port is controlled by local *mastaans*[20] and my party would lose local control if I attempted to put a stop to their corrupt activities". I suggested that she give the local political bosses $5 million each to run a clean shop which would save Bangladesh billions of dollars. She thought about this, but considered it to be impractical—such an initiative, she said, would quickly give rise to dozens of similar requests. On this, she was no doubt right. However, I was not convinced that she lacked the power to clean shop, but rather that she believed she did; in any event she chose not to try. Perhaps she genuinely did lack the power or, alternatively, she did not dare to use it, or more likely took account of the funding that flowed to her party from this source. We will never know.

In the 1990s, instead of confronting the true underlying cause of poor governance—the misuse of political power—the Bank's preferred approach was to support technical initiatives to improve public management. So, there were many Bank supported projects that included components that would help strengthen particular institutions related to financial management—public procurement, accounting and audit—which almost always encountered implementation difficulties from obstructionist bureaucrats. For example, the Bangladesh government frustrated the joint efforts of UK Department for International development (DfID)

[20] Thugs managed by the local political strongmen or *mafiosi*

and UNDP to reform management of public finances which dragged on for well over a decade with singular lack of success. It resembled a game of chess—the Bank or DfID funded a technical team to help design and install various new systems, the Bangladesh government officials were sent away for training and everyone appeared keen, but in the final analysis the politicians and top officials resisted making the new systems work. And, of course, why should they if the objective was to make them more accountable and to stop them stealing? Part of this effort involved computerising the budget and final accounts. Once this had been achieved, I asked the Minister of Finance, Shah Kibria, why he had not posted this information on the government's website, as had been agreed, so that citizens and the Members of Parliament who represented them could find out exactly how the government had spent its revenues compared to the approved budget. He replied that he thought that a very bad idea as it might give rise to questions from MPs or the general public about actual budget allocations among different public services and limit his scope for reallocating funds. Aid agencies showed incredible naivete in believing that the problems of governance could simply be addressed by a technical 'fix'. Where there had been a will there would have been a way, quite simply, but in such cases there was no "will".

Bank policy statements on governance and corruption since 1991

After the Bank issued its pathbreaking Discussion Paper *Managing Development: The Governance Dimension* in 1991, there was little follow-up until May 1994 when it published a booklet in its Development in Practice series entitled *Governance: The World Bank's Experience.* This summarises the considerable amount of Bank assistance for improving public sector management initiated in the preceding three years and describes the way the Bank's policy dialogue with borrowers had started to address issues of accountability, participation, transparency, and weaknesses in the administration of justice. Furthermore, it is clear from this account that the Bank's operational staff were attempting to engage with borrowing governments on matters Shihata would have considered very "sensitive" such as corruption, human rights (for example, in connection with resettlement arising in Bank-funded infrastructure projects) and military expenditure.

Governance: The World Bank's Experience described the range and variety of the Bank's public sector management/governance related support activities, but made no assessment of their impact. The study did attempt to extract a number of useful lessons that addressed the question of appropriate performance incentives and how the opportunities for corruption might be reduced, including taking more fully into account local cultural norms. It also explored how the Bank's lending program might better reward improved governance. At this time the Bank, as leader of various country aid consortia, was using the periodic donor consultative group meetings to impress on aid recipients that the amount of assistance they might get was a function of the government's commitment to governance reform. In my experience—for example, with Senegal, Cote d'Ivoire, Cameroon, and Bangladesh—governments were fiercely resistant to these pressures or, more cynically, played along with false promises with little intention of fulfilling the commitments they made. They were like experienced anglers reeling in the donors with enticing bait. They were generally much more politically astute and much more ruthless than their Bank counterparts. They were like mafia bosses negotiating with the mayor of Chicago in the 1930s. The same was true of the conditionality attached to structural adjustment lending. It was often a game where the main winners were corrupt officials and political leaders.

While at this time there was some recognition in general policy discussions that poor governance was a major obstacle to tackling poverty, at the same time in the wider public

development discourse the crisis in development effectiveness was increasingly attributed to donor agencies foisting poorly designed programs onto weak governments who were seen as beggars, not choosers. Out of this came the idea that development programs would be more 'owned' by aid recipients if they were less donor driven. This was formalised in the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action. The former called for donors to "*commit to respect partner country leadership and help strengthen their capacity to exercise it*" and for "*increasing alignment of aid with partner countries' priorities, systems and procedures*" while disregarding the huge discrepancy between what the donors wished for (a focus on poverty alleviation, the rule of law and respect for human rights) and what many of the recipient government leaders priorities were (namely, to consolidate their power[21] and siphon off national resources[22]). The Accra Agenda for Action three years later ignored this conflict, calling instead for "*deepening the implementation*" of the Paris Declaration. The advocates of the Paris Declaration were argued for putting aid recipients in the 'driver's seat', while paying little attention to the direction in which the vehicle of state was headed.

Some INGO critics of official aid policies even argued that donors should simply provide budget support in the form of unencumbered cash payment, and leave governments to decide how the additional resources could best be used. This concept of "country driven assistance programs" simply ignored the elephant in the room—poor governance. In a game of cat and mouse, the aid recipients were the cats and the donors were the mice and the INGOs were naïve bystanders.

For the Bank, there was at this time a heightened preoccupation with ensuring that the projects it helped finance were not tainted with corruption After the arrival of Wolfensohn as its President, the World Bank made increasing efforts to ring fence its loans. Corruption was a Diocletian sword poised over the institution threatening its reputation. This led to setting up an Integrity Department in 2001 as an independent unit to investigate and impose sanctions related to fraud and corruption in Bank financed projects. The department became a Vice-Presidency in 2007 to emphasise its importance. Since inception, the unit has sanctioned over 900 companies for fraud, barring them from participating in World Bank funded projects[23]. Many more will have escaped undetected. This initiative targeted only those projects or programs directly funded by the Bank with the consequence that public officials and their governing elites simply shifted the focus of their rent-seeking to those areas where the Bank was not involved.

The Bank's growing public management agenda inevitably increased the attention paid to the corruption that was seen to be so pervasive among the Bank's borrowing countries. With the impetus coming from Wolfensohn's insistence in 1996 that action to curb corruption should be 'on the table', the staff responded in September 1997 with a PREM[24] policy paper entitled *Helping Countries Combat Corruption: The Role of the World Bank.* In many ways, this represented another leap forward for the Bank, setting out with great candour the damage done to development by widespread corruption. It pointed out that the Bank has "*long recognized its fiduciary responsibility to ensure that fraud and corruption are minimized in the projects it finances*" and goes on to discuss how the Bank can help countries to combat corruption. For the first time in a Bank policy document, it sets out how civil society has a key role to play,

[21] A recent example is Museveni's brutal suppression of opposition prior to the presidential elections in Uganda in January 2021. Manipulated elections gave him yet another term in office; he has already been President for 35 years.

[22] See Chayes, Sarah *Thieves of the State* (W.W. Norton, 2015)

[23] *World Bank Group Sanctions System: Annual Report for FY2019* (World Bank 2020)

[24] Poverty Reduction and Economic Management Department

stating "*Corruption is only controlled when citizens no longer tolerate it. Private organizations, religious leaders, and civil groups all have a stake in the outcome of anticorruption activities and an interest in the process….as watchdogs of public sector integrity*". The paper goes on to explore how the Bank can help strengthen the role of civil society in this process and emphasised the importance of greater government transparency. It concluded by arguing that "*Corruption should be explicitly taken into account in country risk assessment, lending decisions and portfolio supervision."* There is not much evidence that the Bank's operational departments took this injunction to heart for the simple reason that to do so would probably have greatly limited Bank lending and led to considerable conflict with its borrowers. For the most part the Bank continued to do business as usual. But as a statement of high-principled intentions, this policy paper is hard to fault.

The Bank's preoccupation with corruption at this time risked conflating poor governance with corruption, which was a mistake. Corruption is just one adverse consequence of poor governance, but there are many others—for example, inefficiencies or failures in the delivery of public services, injustice and human rights abuses, and an absence of public trust that can lead to a break-down in civil order. But corruption is the oil that lubricates poor governance; it provides the resources to sustain dishonest leaders in power. The damage done by corruption is immense as has been so well documented[25]. Hundreds of billions of dollars have been salted away annually by predatory governing elites in poor countries, never mind the even larger sums that are misappropriated in rich countries. But the damage done by bad governance is much more than simply the public resources stolen. Firstly, the victims most harmed are the poor who are the least able to cope—deprived of access to the basic services to which they are entitled. Then, there are all those who suffer violence, who are tortured, imprisoned without justice, even killed. And, finally, citizens are effectively disenfranchised, denied a voice in choosing their rulers, as we have witnessed most recently in Uganda, Belarus and Myanmar.

Also in 1997, the Bank devoted its annual World Development Report to exploring "*the role and effectiveness of the state*"[26]. This report addressed the whole gamut of issues related to the design of state institutions and public sector management reform needed to support accelerated development and it discussed the interactions between the state and the private sector. Of particular note was its emphasis on the role of citizens' voices in policy formulation and their participation in decision making. All of this was consistent with the Bank's efforts to build more collaborative relations with the NGO sector that have been well described by John Clark[27]. WDR 1997 was also pathbreaking in setting out a political economy analysis of the factors contributing to borrowers' resistance to governance reforms, including a discussion of the pros and cons of different political regimes and of the critical role of leadership and vision in carrying forward reforms. Sarwar Lateef describes how outside critics of this WDR saw the Bank as placing the onus for governance weaknesses on borrower countries, underplaying the role of large multinational corporations and implying that somehow public sector management

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[25] Cockcroft, Laurence *Global Corruption* (I. B. Taurus 2012), Vogl, Frank *Waging War on Corruption* (Rowman & Littlefield 2012), Chayes, Sarah *Thieves of the State* (Norton, 2015). World Bank (2020) estimates that "the cost of capital investment projects being consumed by corruption ranging from 10% to 30%, with repercussions that go far beyond the price tag of capital projects as it impacts the poorest sections of society disproportionately. Corruption in procurement creates the wrong incentives for firms and distorts competition and economic growth. The estimates of losses to bribery in construction, i.e., downstream from procurement, are as high as 45 percent of construction costs

[26] *The State in a Changing World* (World Bank, 1997)

[27] Op. Cit.

should be purged of "politics"[28]. How these ideas were to be translated into the Bank's operations was never made clear.

In 1998 the Bank published another seminal governance report, this time on Latin America entitled *Beyond the Washington Consensus: Institutions Matter* which discussed the political economy constraints to institutional and public management reform. This study explored for the first time in a Bank publication the social, cultural and political factors within countries that influenced the demand for reform and made suggestions on how to encourage civil society pressure for change[29], including:

1. Electoral reforms to enhance accountability
2. The use of "*voice*" mechanisms such as score cards, client surveys and other participatory tools to "*circumvent the poorly functioning chain of accountability*";
3. Formalization of property rights, deregulation of business practices and tax reforms to "*to have the result of better incorporating the excluded into the political system".*

Under "*guidelines for reform*", the study proposed that attention should be given to:

1. Identifying the nature of prospective winners and losers of reforms;
2. Crafting compensation schemes that are politically viable;
3. Empowering the beneficiaries of public social and economic services and providing them with choices;
4. Public information campaigns;
5. Identifying the political support for reforms among the key political leaders and political party organizations; and
6. Reforming the incentive structures to support good policies.

In short, this report proposed placing political economy at the centre of the Bank's country dialogue. In practice, this did not happen for the simple reason that the Bank's government counterparts did not allow it. These proposals put into play political factors that go to the very heart of how corrupt governments retain power; the vast majority of borrower governments were and remain deeply corrupt and have no incentives to adopt these kind of reforms—indeed, quite the contrary. The LAC report never addressed this constraint.

During the late 1990s and the early 2000s, in addition to strengthening its public sector management assistance, the Bank also hired social scientists who promoted the idea of "listening to the poor" to get a better understanding of how deprivation is reproduced among the poor. In 1996 the Bank published a *Participation Sourcebook*[30] which provided guidelines for involving beneficiaries in the design and implementation of anti-poverty programmes. In the years that followed, a substantial research effort was led by Deepa Narayan, Robert Chambers, Meera Sha and Patti Petesch, which resulted in an important publication in 2000 entitled *Voices of the Poor: Crying out for Change*[31]. This presented a searing account of what it was to be poor as told by poor people. It is sobering to read on the subject of governance and accountability of state institutions that "*poor people by and large do not experience local government or local representatives of central state institutions and priorities as either enfranchising or responsive to their needs. Rather, what poor people perceive seems to be unrestrained abuse of the power of the state. Reports of officials using their positions for economic gain are common across countries, and poor people feel*

[28] Op. Cit. p.12

[29] Burki, Shahid Javed and Guillermo E> Perry *Beyond the Washington Consensus: Institutions Matter* (World Bank Latin American and Caribbean Studies, 1998) p. 121-137

[30] *The World Bank Participation Sourcebook* (World Bank, 1996)

[31] *Voices of the Poor: Crying Out for Change* (World Bank,2000)

powerless to take action." This report concluded with a "*Call to Action"* which set out in 24 pages of detail what governments needed to do to empower poor citizens to overcome their deprivation. There is little evidence that these proposals were ever adopted by either the concerned governments or donors, except in a few isolated cases. What little has been done is largely due to the initiatives of local and international NGOs. Deepa Narayan followed up her earlier report with a book entitled *Voices of the Poor: Can Anyone Hear Us?*[32] Sadly, the answer was "no".

In April 2000 the Bank' Operational Evaluation Department published a report in its Working Paper Series[33] that argued that the Bank should pay much closer attention to the financial accountability systems in its borrower countries, pointing out that a narrow focus on project finance accounts and audits was insufficient. It noted that the Bank had used the term "*financial accountability*" too narrowly and had not focussed sufficiently on high-risk areas such as procurement, budgeting, and ethics. Extending the criticism to all donors, the report stated that "*donors must foster the will of country officials to embrace the benefits of accountability, support borrowing countries' fiduciary relationships with their citizens, and forge new kinds of stakeholder alliances*". How this was to be achieved in countries run by predatory elites was not explored. "Will" was sadly lacking and calling for it was like whistling in the wind. There was no talk in the report of donor conditionality to make aid transfers dependent on there being greater financial accountability.

The theme of financial accountability had been raised already in the mid-1990s by Jules Muis, an experienced auditor who had been brought in by Lew Preston as the Bank's Controller to strengthen the Bank's own internal financial management following the large cost over-run incurred in the construction of the Bank's new office building on 1818 Street. Muis quickly concluded that the Bank's internal financial management was inadequate and that, in consequence, it faced a serious reputational risk. He argued that this risk extended to the Bank's loan portfolio, pointing out that very few staff had the training needed to properly assess the quality of borrowers' project accounts. Word on this had evidently got out, as the US government auditors gave notice of its intention to conduct a review of the Bank's financial management. At this point, the Bank's senior management started to panic and the new president, Jim Wolfensohn, instructed urgent steps to be taken to strengthen the Bank's financial management capacity[34]. Over the previous decade the Bank had shed many of its trained accountants, recruiting in their place staff with what were at the time regarded as higher priority skills; this policy was rapidly reversed. Moreover, Wolfensohn concerned that there was a general gap in the institution's knowledge base, instructed that all senior Bank staff should attend a special training program at the Harvard Business School *inter alia* to build greater awareness of financial management. I attended this program in 1999. I am not aware that the effectiveness of this awareness training has ever been assessed. One outcome was for the project accounts submitted by borrowers to be more carefully scrutinised.

Also, in April 2000, the World Bank Institute, together with the European Bank for Reconstruction and Development, published a policy research working paper proposing instituting measures to tackle governance, corruption, and state capture[35] which took account of the links between private businesses and government officials. This brought out the

[32] Narayan, Deepa *Voices of the Poor: Can Anyone Hear Us?* (Oxford, 2000)

[33] Sahgal, Vinod and Chakrapani, Deepa *Clean Government and Public Financial Accountability* (World Bank Operational Evaluations Department, 2000)

[34] *Transcript of Interview with Jules W. Muis* (World Bank Archives, Oral History Project 14 September 2000)

[35] Hellman, Joel, Geraint Jones and Daniel Kaufmann *Measuring Governance, Corruption, and State Capture* (World Bank, April 2000)

importance of surveys in revealing the extent of bribery and extortion. I had found in Bangladesh that, in raising these matters with political leaders in the Bank's borrowing countries, it was extremely potent to counter their routine denial of corruption with solid empirical evidence, such as "an independent survey records 40 per cent of businesses in *your* country as reporting having paid bribes" to get a court to accept a case, or an official to grant a permit, and so on. Having established beyond question that corruption *was* taking place, and that this went beyond hearsay and unsubstantiated allegations, the conversation could then go on to discuss what actions might be taken to stop it. In this way Transparency International's annual *Corruption Perception Index* was an invaluable tool in country policy dialogue. In my experience, few things caused greater embarrassment to a government than being rated highly corrupt either by the WDI or by the widely publicised TI CPI.

In the same month, April 2000, the Bank's management submitted to the its Board a report on *Helping Countries Combat Corruption: Progress at the World Bank since 1997* prepared by two Bank units: Operational Core Services and PREM. This report noted that governments and businesses lost on average a conservatively estimated 6 per cent of annual revenue through fraud and corruption each year. It reiterated its commitment to "*eliminating corruption from the projects it supports and to helping countries build transparent and accountable government institutions".* The report discussed in detail all the various initiatives being taken to fulfil this pledge, but no assessment of these measures. At no point was there any discussion of the political economy of corruption.

Around this time, following yet one more policy paper on institutional reform[36], a PREM initiative was launched to undertake a set of pilot political economy country studies managed by the relevant regional public management team. The first to appear was an institutional and governance review for Bolivia[37] prepared by a team led by Yasuhiko Matsuda, a political analyst, and included local public sector management consultants. This report introduced the concept of "*informality"* which was a euphemism for the irregular, corrupt and nepotic processes that permeated the Bolivia government. It attempted in a limited way to explore the political dynamic underlying Bolivia's crisis of governance. The report concluded that: *"there are signs of reform fatigue among Bolivians, whose quality of life has not improved dramatically despite 15 years of fairly consistent reform. Unless the state's ability to respond to citizens' needs for better public services and more effective poverty alleviation efforts (improves), the credibility of the current regime can be threatened."* The authors might have added "and Bank/IDA lending, too", but they didn't. Specifically, the report called for instituting greater transparency in government processes and enabling citizens to have "voice" but, in reality, what was needed was a citizen' uprising to overturn the entrenched rule of the old established elite, which is exactly what happened in 2006 when Eva Morales, who came from native subsistence farming stock, was elected President.

Shortly afterwards, in 2001, I was asked to lead a team to undertake a similar study in Bangladesh. The team included Geof Wood, who had spent a lifetime researching Bangladesh's social and political processes, and a number of Bangladeshis who were well versed in Bangladesh's political realities. Our report—*Taming Leviathan*[38]—which built on a 1996 Bank report entitled *Government That Works*[39]*,* was very explicit in exposing governance

[36] *Addressing the Challenge of Reforming Public Institutions* (World Bank, July 1998)

[37] *Bolivia: From Patronage to a Professional State (*World Bank Institutional and Governance Review, August 2000)

[38] *Taming Leviathan: Reforming Governance in Bangladesh—An Institutional Review* (World Bank, March 2002)

[39] *Government That Works: Reforming the Public Sector* (University Press Limited for the World Bank, Dhaka July 1996)

weaknesses. This exercise was inevitably circumscribed by our awareness of the sensitivities of Bangladesh's corrupt ruling elite. The study team was treading a fine line between setting out how the system of government actually worked and maintaining an open dialogue with senior officials. Nonetheless, the report was able to highlight the way political clientelism operated within public institutions, the nature of the well-organised interest groups that opposed reform, and the "*major discrepancy between the private agendas of the principal public actors and their formal public agendas*". The report included a comprehensive discussion of how civil society might be strengthened to demand governance reform. The donors failed to follow up in any meaningful way and the government was content to allow matters to rest.

Over the next few years, the Bank's regional offices conducted a number of institutional and governance reviews; for example, in Paraguay in 2005, in Ethiopia and Argentina in 2006, Mexico in 2007, in Nicaragua in 2008, and in Honduras in 2009. Each of these attempted to understand the political context of governance as a basis for a better-informed assistance strategy. I am not aware of any assessment ever being made of the impact of these IGRs on the Bank's policy dialogue or its operations.

In 2002, the Bank devoted yet another WDR to discussing the institutional constraints to development, this time tackling the topic *Building Institutions for Markets.* This drew on the evolving academic literature on new institutional economics. The report argued *inter alia* that having good governance, meaning "*the presence of effective political institutions that restrained arbitrary actions by ....bureaucrats*", was critical for the private sector to prosper. The discussion here focussed once again on providing officials with appropriate incentives, but failed altogether to deal with situations where the political leadership was more interested in self-enrichment and bolstering its grip on power than in promoting national development. Consequently, much of the discussion was a world away from the realities of the power politics dominating the way institutions functioned in practice in most of the Bank's borrower countries.

During 2001-2 the Bank's IDA Deputies prepared a report for the Bank's Board on the thirteenth replenishment of IDA resources. I was invited to prepare an OED paper on *Review of Governance—The Critical Factor, IDA 10-11* which fed into the drafting of the section on building capacity for improved governance and combatting corruption. In this paper, I raised the issue of how IDA might support the internal demand for better governance and for action to combat corruption when the political leadership in the borrowing country was uncooperative. I pointed out that, given the highly politicised nature of these matters, external assistance agencies' efforts to support public management reforms had largely failed and I argued for setting aside a small part of IDA resources, say 1 per cent, to be placed in a fund available to the heads of the Bank's country offices to be used discreetly to fund modest grants to support the strengthening of local civil society organisations which were active in working for better governance and fighting corruption. This proposal was turned down, partly because it was heavily criticised by Nancy Birdsal, Vice-president of IADB, and Kwesi Botchway, a former Finance Minister for Ghana, who served on the expert review team, on the grounds that the Bank lacked expertise in this matter. This was a weak argument given that the Bank had a long history of creating expertise where and when it needed it. However, the Deputies' report did propose that IDA expand its support for governance reform and measures to discourage corruption. Significantly, the report also stressed the importance of "bottom-up" empowerment, emphasising the need for IDA to "*work closely with clients to understand the situation on the ground and design approaches that take better account of institutional realities, taker a longer-term approach, selecting Bank instruments that allow time and space for institutional changes"*. This latter injunction was innovative in recognising that the donors,

driven by their budget constraints and political agendas, had all tended to take a short-term approach that was inimical to nurturing institutional reform. Given that institutional reform is a long-term endeavour, I had suggested that a ten-year framework made more sense than a three year one, but nothing came of that idea.

The Bank devoted its next WDR[40] in part to transforming institutions for sustainable development. It was notable for the complete absence of any discussion of governance issues related to achieving sustainable development. For example, it included a section on sustainable forestry without once mentioning corruption which is the principal cause of illegal deforestation and a critical environmental issue. However, the report did argue for measures to compensate for the failure of markets to take account of externalities that damaged the livelihoods of poor people such as pollution and environmental degradation. While the report identified many factors that good *government* should take into account, it did not address the related *governance* issues—the political abuses that in practice drive decision making in borrower countries.

In early 2004 the Bank's Operations Evaluation Department published an assessment of the Bank's assistance to economies in transition[41]. I was invited to contribute a background paper on *Governance, Public Management and Institution Building in the Transition Economies* (February 2003) with the key points being picked up in the main text. The final report noted that the number of public sector management projects had increased and that governance issues had been raised with a number of East European and Central Asian countries. The report pointed out that WBI governance indicators had recorded some improvement between 1996 and 2002, with uneven progress across the different components of the index. "Voice and accountability", "political stability" and "rule of law" had improved in 16 countries. Whether the Bank's assistance or policy advice contributed to this improvement was hard to assess. It also noted that in 2000 the Bank's ECA Region had published a policy paper entitled *Anticorruption in Transition*[42] which had sought to put this topic on the country policy dialogue agenda. For example, the OED evaluation of assistance to the Kyrgyz Republic concluded that "*the most recent projects take a comprehensive approach, using structural adjustment and TA….covering a wide set of inter-related issues, including civil service reform, accountability and civil society voice and access*". Whether any of this made any lasting impact was not assessed.

The WDR 2004—*Making Services Work for the Poor*—was a step forward in taking note of the political economy issues. It followed the example of the 1998 LAC study in addressing the political reality of poor governance. It proposed that ways should be found to enable citizen groups (the "*clients*" of public service providers) to use their "*voice*" to make their needs better understood and to directly demand more accountable services. In this context, the report discussed the pervasive principal-agent problem and the tools of what had become known as *social accountability,* such as citizen report cards, citizen charters and the like, associated with the evolving concept of participatory development and the work being pioneered at that time by civil society organisations such as the Partnership for Transparency Fund[43]. How the corrupt political elites present in most borrower countries were to be persuaded to embrace proposals

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[40] *World Development Report 2003, Sustainable Development in a Dynamic World: Transforming Institutions, Growth, and the Quality of Life* (World Bank, 2003)

[41] *Economies in Transition: An OED Evaluation of World Bank Assistance (*World Bank, 2004). The countries reviewed included Albania, Hungary, Kazakhstan, Kyrgyzstan, Russia and Ukraine.

[42] *Anticorruption in Transition: Corruption in Enterprise-State Interactions in Europe and Central Asia, 1999-02*. (World Bank, Washington. 2004)

[43] Landell-Mills, Pierre, *Citizens Against Corruption: Report form the Frontline* (Partnership for Transparency Fund, 2015)

to hold them more accountable was not well explained. Shanta Devarajan, who led the WDR 2004 admitted in retrospective comments ten years later that report failed to recognise the reality of politics. He wrote: "*Why should we think that a politician who is not interested in delivering services to poor people would allow programs that strengthen provider accountability?"*[44]—a critical question, indeed.

Subsequent WDRs increasingly recognised the political dimensions of poor governance, but struggled to go beyond recognition to identifying a way forward. The reports have many useful technical proposals for improving public management, but it is not obvious how governments can be persuaded to adopt them. The 2006 WDR[45] on *Equity and Development* identified the link between institutions and the politics of inequality, noting that the possession of assets and income was linked to access to political power, but again there was no discussion how reform might be made attractive to those in power.

By this time there were already signs of push back from a number of borrowing countries. A draft Bank strategy paper on governance and anti-corruption, endorsed by the Board came under heavy criticism at the next meeting of the Bank's Committee on Development Effectiveness held in Singapore in September 2006. The Bank's then president, Paul Wolfowitz made a strong statement in favor of the Bank hardening its approach to poor governance and corruption. Quoting a DfID paper on the matter—"*Good governance is not just about government. It is also about political parties, parliament, the judiciary, the media and civil society. It is about how citizens, leaders and public institutions relate to each other in order to make change happen…God governance requires three things: state capability, responsiveness and accounbtability.*"—Wolfowitz stated that the Bank's proposed strategy matched this approach. Alberto Carrasquilla, the Development Committee chairman responded on behalf of the Ministers present, stating that "the Bank's strategy must be differentiated and participatory". He noted that "some minsters urge caution in engaging with "champions" of good governance and with the media, which they feel should be limited to outreach with respect to Bank operations in the country". A Bank staff member who was present reported that feelings ran high, with ministers from Part 1 countries urging a greater role for civil society in demanding better governance and Ministers from several Part 2 countries objecting strongly to this idea. The Bank's management was asked to revise the strategy to take account of this discussion. The result was the new strategy approved by the Board in 2007.

The 2011 WDR on failing states struggled valiantly to formulate proposals for the development aid community on how to help break the cycles of violence related to internal conflict and to support the rebuilding of public institutions. These are the more extreme cases; where there has been a comprehensive breakdown of the state as occurred in a number of countries—for example, in Cambodia, Liberia, Sierra Leone, and Timor Leste—the role of outsiders has been inevitably highly circumscribed. Ultimately, each country has to depend on its own political leaders to put humpty together again, usually in response to an irresistible demand from civil society, possibly egged on by the international community. In some cases, the UN can play an intermediary role, as was the case of Cambodia (1980-90) and in Timor Leste (1999-2002). But UN involvement has not prevented the subsequent unravelling of the institutions of accountability in these countries.

WDR 2016[46] on the development potential of digital technology mentions using it to enhance government accountability: "*the internet helps citizens to connect online and organize for*

[44] Devarajan, Shanta, *What the 2004 WDR Got Wrong* (http://blogs.worldbank.org/future development, March 11, 2014)
[45] *WDR 2006: Equity and Development* (World Bank)
[46] *WDR 2016: Digital Dividends* (World Bank)

collective action in order to put pressure when government performance falls short of people's expectations", but the report gives little attention to what could be a major tool for greater public accountability. The report was downbeat on using digital technology to improve governance, seemingly reconciled to governance abuses: *"Under clientelism, policies are more likely to be adopted if they generate immediate and highly visible service improvements to citizens without reducing the rents of vested interests. In patronage-based bureaucracies, reforms are more likely to succeed if they do not require significant changes in administrative processes or much collaboration across agencies, or threaten the bureaucracy with staffing and budgetary reductions."*[47] This report begs the question of how civil society might be empowered to use digital technology to hold service providers accountable. For example, in the Philippines, a civil society organisation called *Ecolink* encouraged people with smart phones to photograph local officials misusing government vehicles and posting the pictures on the internet, effectively forcing the authorities to curb such corrupt behavior[48].

Finally, WDR 2017[49] addressed the troubling issues related to weak and corrupt judicial institutions. This report is a major step forward in the analysis of governance, taking on board North, Wallis and Wingast's ideas about *limited access states*[50], and similar work by Acemoglu and Robinson[51], further developed by Francis Fukuyama[52]. In WDR 2017 the World Bank is uncustomarily bold in confronting the core issue of the mis-use of political power which undermines so many countries' developments efforts: "*The distribution of power is a key element of the way in which the policy arena functions. During policy bargaining processes, the unequal distribution of power—power asymmetry—can influence policy effectiveness. Power asymmetry is not necessarily harmful, and it can actually be a means of achieving effectiveness—for example, through delegated authority. By contrast, the negative manifestations of power asymmetries are reflected in capture, clientelism, and exclusion."*[53] The report has a whole chapter on citizens as agents of change, yet is somewhat dismissive of the role of civil society organisations in demanding greater accountability from public agencies, not just in the provision of services, but also on in the letting of large contracts and challenging corruption in the courts, as demonstrated, for example, by the 200 or more projects supported by the Partnership for Transparency in over 50 countries[54] which had funding support from the World Bank's development grant facility. Another example is the ongoing initiatives of the many national chapters of Transparency International across the world. The report has no clear messages to external development agencies as to how to translate what is a very rich and detailed analysis of the governance challenges into a set of measures that could be incorporated in donor countries' development assistance strategies. In short, the governance problems are complex, critical for development outcomes, and hard to address.

The Bank's latest Governance and Anticorruption Strategy

Alongside the evolution of the Bank's policy work on governance described above, the Bank's country departments have been pressed to incorporate the emerging ideas into their operational work. In March 2007 the Bank's Board approved a new Governance and Anticorruption (GAC)

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[47] Ibid, p.181

[48] Landell-Mills, Pierre *Citizens Against Corruption* (Partnership for Transparency Fund, 2015) p.93

[49] *WDR 2017: Governance and the Law* (World Bank)

[50] North, Douglas, John Wallis, and Barry Wingast *Violence and Social Orders* (Cambridge, 2009)

[51] Acemoglu, Daron and James Robinson *Economic Origins of Dictatorship and Democracy* (Cambridge, 2006)

[52] Fukuyama, Francis *Political Order and Decay* (Profile Books, 2014)

[53] Op. Cit. p. 7

[54] Idem

strategy. This aimed to make governance and anticorruption an integral part of the Bank's work across all sectors in all borrowing countries. The approach focused on "*enhancing development effectiveness through either expanding or creating a range of mechanisms, including: strengthening country systems; enhancing transparency and access to information; engaging stakeholders in the design and implementation of development operations; and supporting activities that have a 'good fit' with country-specific institutional realities"*. The Bank allocated US$27 million from its core budget to ensure this happened and established with the support of several donors a US$65 million Governance Partnership Facility aimed at "strengthening institutions of accountability, transparency and civil society oversight" in selected IDA countries.

I have not been able to find out how much of these funds found their way into the hands of CSOs fighting corruption, but I suspect that the bulk of the funds went to traditional 'supply-side' governance activities. Nonetheless, the Bank had come to the view that: "*Poor governance is…..a binding constraint on development and the delivery of services, and the overall governance environment is shaped by deeply entrenched political and institutional factors*"[55] and was now increasingly highlighting the critical role of civil society oversight. By 2009, the Bank was asserting that: "*Capable, accountable and inclusive governance is at the heart of World Bank's twin goals of ending extreme poverty and boosting shared prosperity. Countries with strong institutions prosper by creating an environment that facilitates private sector growth, reduces poverty, delivers valuable services and earns the confidence of their citizens—a relationship of trust is created when people can participate in government decision-making and know their voices are heard*." [56]

In October 2020 the Bank produced a monumental report on *Government Effectiveness and Transparency* which ran to 368 pages and was a consolidated statement of what the Bank had learned from the GAC over a decade. The report grasped the political nettle when it stated that: "*countries remain "stuck" in sub-optimal development trajectories because well-positioned elites are unwilling to risk their loss of power. Change is nearly impossible to achieve unless influential actors agree for it to happen. However, all is not lost, as elites may voluntarily agree to limit their influence in their own self-interest. Citizens can play an important role in applying pressure to influence the outcome."*[57] It will be interesting to see how this process plays out, for example, in Russia and Myanmar in the months and years ahead.

The report contains a rich menu of approaches, methods and tools that willing governments and activist CSOs may adopt in seeking to make public procurement more transparent, the management of state-owned enterprises more accountable and customs administrations more honest. And it sets out some of the policy responses that government and civil society may employ for corruption prevention and detection. Of the 21 case studies presented in the report, CSOs are important partners in just two. Despite all the talk of citizen involvement, it is still not centre stage.

This account would not be complete if I omitted reference to the work done by the Bank's Social Development Department on *social accountability*[58]. After 2000 demand-side governance and social accountability approaches—most prominently "citizen participation," "citizen demand," and "voice"—steadily gained prominence in the development community as a way to improve development outcomes. The World Bank Institute supported the creation

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[55] Turkewitz, Joel *Strengthening GAC in Projects* (GAC Background Paper No.6, World Bank 2019)
[56] *Improving Governance and Fighting Corruption for Development Effectiveness* (World Bank, July 2009) p.1
[57] *Government Effectiveness and Transparency*: *The Fight Against Corruption* (World Bank, September 2020)
[58] O'Meally, Simon *Mapping Context for Social Accountability* (World Bank, 2013)

of Affiliated Networks of Social Accountability in south and East Asia, Africa and the Arab World[59]. And in 2012 the Bank established a Global Partnership for Social Accountability (GPSA) with the purpose of promoting initiatives to strengthen citizens' voice and support the capacity of governments to respond. The Bank's support for the Partnership for Transparency in 2003-8 was also essentially in aid of projects promoting social accountability and I like to think we helped to inspire subsequent initiatives.

The driving concept of all these initiatives was to encourage constructive engagement between governments and civil society in order to create an enabling environment in which citizen feedback is used to solve fundamental problems in service delivery and to strengthen the performance of public institutions. Today, most—if not all—development agencies invest in the promotion of various forms of social accountability. Even though the concept remains contested, there is really no other credible game in town that has demonstrated comparable impact on improving governance. In saying this, I recognize that demand-side initiatives need to be accompanied by supply-side reforms; the two go hand-in-hand. Governments mostly only act, or rather react, when subject to well organised civic action and are only likely to respond constructively if that civic action is itself constructive.[60]

As a footnote to the above account of the Bank's progress in recognising the critical role of institutions and the quality of governance in determining development outcomes, I searched the official history of the Bank's first half century published in 1997[61] and could find almost no reference to either. This is a stunning omission that perhaps reflects a major gap in the authors' (retired Bank staff) understanding of the obstacles to development, along with that of the bulk of Bank staff in those days.

Is there a way out of the abuse of political power impasse?

Compared to the 1970s, the development discourse among aid development agencies today has taken a giant step forward in recognising the social and political complexities of transforming poor countries with weak public institutions into modern developed societies with strong, effective and accountable institutions. Yet progress in moving towards what Douglas North described as an "open access" state has eluded the majority of countries. Moreover, even the most developed nations struggle to retain and defend their governance achievements. We must never take democratic accountable government and the rule of law for granted, witness Germany's descent into fascist barbarism in the last century, the damage done to democratic government by the Trump administration in the Unites States in the past four years, and the recent backsliding in India under Modi and in Turkey under Erdogan. There are several European countries (e.g., Hungary) where the rule of law is not assured today, and Russian has become a mafia state. China has a highly successful economy, but is beset by serious human rights abuses and high levels of corruption and has so far not succeeded in establishing either government accountable to ordinary citizens or the impartial rule of law. Some may argue that this is a price worth paying for rapid development and national stability, but is it sustainable?

While the damage done by poor governance is obvious wherever it is encountered—children denied education or health care because paid staff are allowed to skive-off, transport disrupted by road blocks where police extract bribes, major public investments that cost 10-30 percent more than they should owing to corrupt procurement practices and so on; the list is almost

[59] The original idea of establishing ANSA emerged at a conference on social accountability held in Accra in 2006
[60] McNiel, Mary and Carmen Malena *Demand for Good Governance: Lessons from Social Accountability Initiatives in Africa* (World Bank, 2010)
[61]

endless. Nonetheless, there are those who point out that some highly corrupt countries, such as Bangladesh or China, have achieved surprisingly good development outcomes so, they argue, corruption is not a critical constraint. The answer to this is two-fold. Firstly, it ignores the other consequences of poor governance such as human rights abuses and the harm to communities resulting from, for example, buildings destroyed by earthquakes or dams that collapse when the construction regulations are subverted by bribery. Secondly, even in countries with rapid growth, without corruption they would have developed even faster. For example, when I was working in Bangladesh in the 1990s, its GPD was growing at a relatively impressive 4-5 per cent per annum. However, we estimated that corruption reduced the GDP growth rate by 2-3 per cent per annum which meant that, without corruption, real per capita incomes would have grown approximately twice as fast. If one made the same calculations for Nigeria, it is likely that over the past 50 years, instead of stagnating, per capita income would have been comparable to that of South Korea, that is about ten-fold higher. No one should argue that poor governance does relatively little to damage human wellbeing; the harm done may be hard to calculate, but it is immense.

Recognition of the problem is but the first stage. With governing elites resisting being held to account and with the massive levels of corruption unabated, the unmet challenge remains to come up with a credible strategy to help strengthen governance and to curb corruption that recognises the political impasse. Some have argued—notably Jeffrey Sachs[62]—that corruption and poor governance is the unavoidable concomitant of under-development which will only diminish as countries develop and institutions mature. I don't believe that. On the contrary, there is evidence that the level of corruption has increased in the last two decades in a number of highly developed countries (e.g., the United States and the UK) and the rapid development of China since 1980 has been accompanied by an extraordinary growth in corruption. The need to build effective citizen resistance to these abuses is pervasive, yet neglected.

Confronting bad governance is not something new. It is a struggle that started when humans first organised themselves into polities and has gone on ever since. It is a continuous never-ending existential struggle; all we can hope for is to reduce step by step the abuses of those who wield political power, a little at a time, and tirelessly to demand accountability and transparency from public officials. This implies a constantly renegotiated political settlement which incorporates progressive reform.

The lessons of the last 30 years for the World Bank and for other development aid agencies is that the role of outsiders in promoting governance reform is very limited. The Bank is governed by its member countries based as far as possible on achieving unanimity. Its members are in so many instances governments led by corrupt politicians who have no intention of embracing the reform of a system of governance which they perceive as benefiting themselves—a system that generates resources they can use to retain power, as well as to enrich themselves. The role of the bilateral donors is severely circumscribed both by their short-term geopolitical interests and the lack of effective instruments. Consequently, reform if it is to come about and be sustainable must come from *within* a country. In the past, powerful countries have for a while imposed by force their will on others, but this is almost never genuinely aimed at improving governance in the weaker country. Even when it happens, it is generally self-interested and unsustainable over the long term as nations seek to reassert their independence.

Violent revolution is certainly one way to oust corrupt leaders, but is all too likely to result in one tyranny being replaced by another as happened with the French Revolution in 1789 and in Russia in 1917, in Indonesia in 1965, and in Ethiopia in 1974 and is often the result of a coup

[62] Sachs, Jeffrey *End of Poverty* (Penguin, 2005)

d'état led by the military, as has happened repeatedly in Nigeria and Pakistan. More recently, we have witnessed corrupt regimes toppled by popular mass movements as in the case of the Arab Spring uprisings and the Orange Revolution in Ukraine, and we have seen similar street demonstrations recently in Belarus and Russia in the past year that have yet to succeed. Too often such internal regime changes resulting from citizens' uprising led to a period of chaos that is only resolved when a new authoritarian leader—a Napoleon, a Stalin, a Franco or an Al-Sisi—emerges to impose a new tyranny on their citizenry. However, occasionally (rather rarely) an uprising results in real improvements in governance as happened in Tunisia after 2010. More often they fail, as did the Peasants Revolt in England in 1381 or the attempt to out Lukashenko in Belarus last year. Or they may bring about regime change but, as we saw in Egypt in 2011, do not succeed in establishing a more accountable state because of the absence of well entrenched traditions and institutions of accountability and an appropriate political culture to sustain them.

So, we are forced to look for mechanisms where the governed can be helped to take modest measures to hold their political leaders and public officials more accountable and moving forward cautiously, a step or two at a time, without challenging entrenched power too confrontationally in a way that triggers heavy-handed push-back. This may be achieved by the progressive renegotiation of the political settlement as happened in European countries spaced over centuries and as happened more recently in South Korea over decades. It is this type of reform process that donors could hope to support if their actions are discreet and sensitive to the local political dynamic and can be sustained with wisdom and persistence over a long period, all of which is a hard ask. The strategy here is not to simply to assist a reluctant government with the management techniques for making public institutions more effective—though this is important—but more importantly to work to strengthen civil society organisations of all types—civic associations, NGOs, professional and business associations, policy research centres, religious groups who can monitor government's actions and push for greater accountability. In the right circumstances, over time all of these non-state actors can be drawn into building the political culture that allows space for putting in place more accountable government. The recent set-back in Myanmar illustrates how fraught this process can be.

Growing awareness of these political realities has given rise to a number of helpful initiatives. First, there is a growing appreciation by external actors that they need to be much better informed about local political economy in order to be smart—much smarter than in the past—in the design of any assistance they may offer to support governance reform. This has given rise to the commissioning of country political economy studies[63] undertaken by individuals, both local and expatriate, who are deeply knowledgeable of local politics. The goal is to build understanding. Second, there has been an exponential growth in academic research on political economy, governance, corruption and new public management topics[64] which has helped broaden development agency staff's knowledge and awareness of the complexities of governance issues. For example, the Development Research Group of the World Bank has published papers on the determinants of political incentives to pursue economic development. Staff conducted research on issues such as the sources of political credibility in democracies and autocracies, and the influence of political parties on conflict, political budget cycles, and

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[63] For example, the World Banks series of *country institutional and governance reviews* undertaken in the period 2000-05; UK DFID and the Dutch Ministry of Foreign Affairs have commissioned a number of such studies over the past 20 years.

[64] WDRs 1997, 2000, 2002 and 2016 include comprehensive bibliographies

public sector reform all of which have fed into Bank operations[65]. The Bank's Governance Global Practice Unit now runs a blog on governance for development[66].

Starting around the turn of the century, a debate emerged among both public management practitioners and governance researchers as to the relative merits of *supply led* or *demand driven* governance reform initiatives. As described earlier, over the previous 40 years development agencies (including the World Bank) had advised and cajoled governments to undertake public management reforms. This was essentially a technocratic approach bringing in public management experts to design reforms, most often drawing on the experience and practice in more developed countries, ignoring the great differences in administrative and political cultures. These initiatives had a high failure rate and led to firm push-back by public officials who were meant to implement the reforms. If anything, the extent and sophistication of corruption grew at the same time as government leaders escalated their hypocritical public rhetoric about their "commitment to rooting out corruption wherever it occurs".

As the more open public discourse against corruption gained momentum from 1990 onwards, governments signed up to a succession of anti-corruption conventions. This movement was led by the US, which had got ahead of the game when Congress passed a Foreign Corrupt Practices Act as far back as 1977. But for a long period afterwards no other rich country followed suit. US business leaders felt disadvantaged by the new law in competing for overseas contracts and lobbied hard for others to follow suit in order to create a "level playing field". This was a slow process, but eventually resulted in the 1999 OECD Anti-Bribery Convention, followed by the 2003 United Nations Convention Against Corruption (UNCAC). Almost every government, other than North Korea, are signatories of UNCAC even though many have been slow to implement the measures set out in the Conventions.

In response to this experience, a group of us have argued that governance reform would only succeed if the initiatives were conceived and promoted from *within* countries, with non-state actors demanding reform. The term "non-state actors" has gained currency as encompassing all types of civil society organisations, and private, business, religious and professional associations. In the absence of a deep rooted democratic civic culture, we must accept that establishing accountable government is a long-term endeavour, decades not years, with a reform trajectory of small incremental gains and some inevitable set-backs. This process is unlikely to succeed unless accompanied by the building up of a complex bedrock of civic and professional associations as discussed by Robert Putnam in his seminal study *Making Democracy Work*[67]. Putnam argued that for democracy to be successful there needs to be a level of mutual trust among citizens and a not too hierarchical system of governing. To achieve this, a society needs to deepen and broaden associational life.

I have often wondered how different development outcomes might have been if external donors had over the past half century invested significant resources in helping to strengthen a wide range of non-state actors instead of wasting resources funding public management reforms in the face of uncooperative ruling elites. It was this idea that led a small group of us (mostly retired World Bank staff) to establish the Partnership for Transparency Fund (PTF) in 2000. This was a modest initiative, inspired in part by the experience of the national chapters of Transparency International in the 1990s. PTF's approach was to make small grants available

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[65] For example, Keefer, Philip *Political Parties and Public Sector Reform* (World Bank, November 2010)

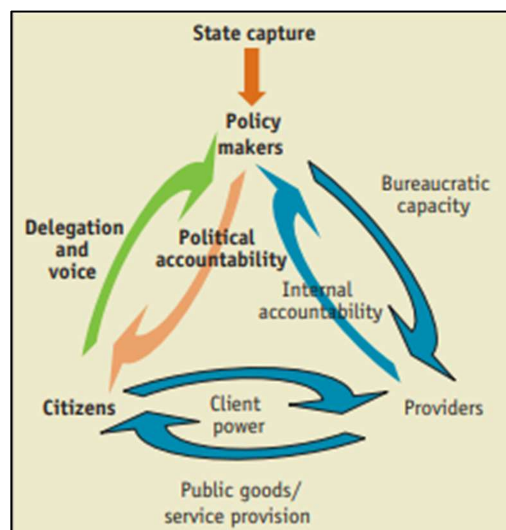
[66] https://blogs.worldbank.org/governance

[67] Putnam, Robert ***Making Democracy Work: Civic Traditions in Modern Italy*** (Princeton University Press, 1993)

to local CSOs in less developed countries to support projects they had designed to fight corruption and to hold public service providers accountable to their intended beneficiaries.

Over a period of ten years, PTF funded over 200 projects in more than 50 countries which had remarkably positive outcomes. PTF was able to demonstrate that with just a few thousand dollars (usually grants of US$25,000 to US$40,000), corruption estimated to cost the public purse or citizens or both many multiples of the money spent, in some case millions of dollars. For example, a project in the Philippines using scouts to track the printing and distribution of school text books resulted in annual savings in excess of US$3.6 million. In India, PTF support for 15 local CSOs succeeded in mobilising village vigilance committees to end the siphoning off of funds available under three national social safety net schemes in 1000 villages benefiting some 250,000 villagers. If more funding had been available, the scheme could have been replicated across India. In Pakistan PTF supported an 'integrity pact'[68] that prevented corruption in the contracting of a large project by the Karachi Water and Sewerage Board, thereby saving over US$16 million. And so on. These projects demonstrated dramatically, if only small scale, what may be achieved by citizen activism. The World Bank, through its Development Grant Facility was a major funder of PTF, but the program's success was not enough to persuade the Bank to move away from its predominantly supply approach to governance reform to a demand approach, even though the latter had been shown to be vastly more cost-effective[69].

To its credit, in its analytical work, the Bank did take on board the underlying argument that reform needed to come from within countries, and could not be imposed by outsiders. In a Bank report published in 2005 on economic growth in the 1990s, there was a chapter entitled *Improving Public Sector Governance: The Grand Challenge*[70]. This report states that "*Fundamentally, public sector governance is about the nature and quality of three principal relationships: between citizens and politicians, between politicians and policy makers and the bureaucracy….and between the bureaucracy as delivery agents and the citizenry as clients*". These relations are presented schematically in the following diagram.



World Bank, 2005

[68] An integrity pact is a mechanism whereby all the participants in the procurement process commit themselves to full transparency
[69] Landell-Mills, Pierre *Citizens Against Corruption: Report from the Frontline* (Matador for Partnership for Transparency Fund, 2013)
[70] *Economic Growth in the 1990s: Learning from a Decade of Reform,* Chapter 9 (World Bank, 2005)

In countries with poor governance, the formal institutional lines of accountability between policy makers and citizens are weak to non-existent. Consequently, the focus of effort of reformers must be on increasing citizens' voice and client power. This was what PTF with World Bank support was successful in doing.

All this work points to four ways for external aid agencies to improve their effectiveness in addressing poor governance, corruption and public management in their development assistance activities: *first*, requiring governments in receipt of their aid to put in place effective mechanisms for citizens to participate in tracking the way programs are implemented; *second*, that that all procurement should follow clearly established best practice formal rules, be transparent, and be monitored by citizen representatives; *third*, citizens should have local fora for voicing their concerns and that the relevant government officials should be present in these fora to respond to the issues raised; and *finally,* to make aid disbursements conditional on effective compliance with these requirements. Were such an approach to have been adopted, there would have been some hope of significantly reducing corruption and other governance abuses. In their absence, we can expect programs to continue to be undermined by corruption and swamped by a wide range of other abuses, undiminished year after year, strangling development, harming the poor and brutalising those brave enough to challenge grasping oppressive officials doing the bidding of despotic and predatory elites.

For this approach to have a reasonable chance of success, all important donors need to work together. In my experience, in the area of governance reform donor co-operation has been patchy at best. More recently, one particularly important funder, China, has not participated in donor coordination for the simple reason that it embraces a quite different and highly idiosyncratic concept of governance that is extremely hierarchical, with accountability exclusively upward to the Chinese Communist Party leadership and with no independent judiciary to act as a check on official actions. This is rooted in an administrative culture that goes back many centuries like no other. It has delivered a uniquely rapid rise in living standards, but has not prevented high levels of corruption despite the draconian punishments meted out in ways that appear to outside observers as being highly arbitrary. Nonetheless, the Chinese model does make clear that there is no single exclusive road map for governance reform, as do the unique experiences of Singapore, Botswana, and Rwanda. Each country needs to discover the route that suits its own cultural history and social and economic circumstances.

One of the more surprising findings of PTF after working more than a decade with CSOs was how successful they often were in situations which one would have tended to regard as unpromising. This was true even in countries with governance as poor as it is in countries like Pakistan or Cameroon. This was due to two factors. First, governing elites are rarely monolithic; there is usually intense intra-elite competition. Second, and partly related to the first factor, there are often members of the elite that have more far-sighted and reformist views on governance than their colleagues, which allows space for CSOs to operate if the donors are smart and not too confrontational. In PTF supported projects, CSOs have shown repeatedly that they can successfully enlist the support of these "drivers of change" to their mutual advantage.

PTF's experience is supported by the detailed research on this topic undertaken by Shaazka Beyerle[71]. She identified over 25 examples of well organised citizen resistance to corruption, analysing 12 in depth. Her work contains a very thorough investigation of the factors that contributed to the success and failures of these initiatives and concludes with a rich menu of

[71] Beyerle, Shaazka *Curtailing Corruption: People Power for Accountability and Justice* (Reiner, 2014)

suggestions and recommendations derived from the lessons of experience. The final section of her book offers the following excellent advice to external funding agencies:

1. Empower country offices to incorporate engagement with local bottom-up initiatives targeting corruption and building accountability;
2. Condemn government initiatives that reduce civil society space and breaches of international and regional conventions relating to governance;
3. Target external corruption 'enablers';
4. Help strengthen CSO capacities through organisations such as Partnership for Transparency Fund[72];
5. Do not attempt top-down efforts to foster civic initiatives that may undercut bottom-up initiatives—they aim should be to carefully nurture citizen empowerment.[73]

The great fear of kleptocratic elites is that growing popular dissatisfaction presents an existential threat. This means that these elites may look favorably on initiatives that improve service delivery if it helps bring them some grassroots support, always provided the reforms do not drastically curtail their rent-seeking activities. We, in PTF, have seen this phenomenon in India when we have assisted village vigilance committees to hold local officials to account in the distribution of food rations under the Public Distribution System or in Uganda where primary school parents monitoring committees have stopped contractors from getting away with shoddy work[74]. Thus, in the continuous renegotiation of a country's political settlement, there is scope to achieve modest gains that benefit ordinary citizens which, over the years, can amount to significant improvements in governance. Progress is by no means assured and, in almost all cases historically, there have been serious setbacks, some temporary and some enduring. But usually persistence is rewarded. Effective government that delivers rapid social and economic development can arise with smart leadership as we have seen in Singapore and China or more recently in Rwanda, but may not be durable over the long term without the full engagement and endorsement of citizens. Accountable governance, to be sustainable, must be rooted in a bedrock of deeply held societal traditions, values and norms of democratic practices, inculcated over generations. Transiting from effective but autocratic government to accountable governance with full citizen engagement and respect for human rights has never been easy. But it is not impossible if the process is gradual, wisely led and avoids any major disjuncture.

I am not naïve enough to believe that predatory or authoritarian governing elites will yield easily to efforts to hold them accountability. Indeed, even in countries with long traditions of accountable government such as the UK or the USA, citizens are engaged in an endless and only partially successful struggle to hold public officials and their political masters to account. Human DNA has deeply imbedded in it a tendency to greed and the misuse of political power. The old adage that power corrupts and absolute power corrupts absolutely may be a cliché, but it is one which needs to be constantly repeated lest we forget—observe how the political mafia that have control in Russia, Brazil, Egypt, the Congo and so many other countries behave today. In these cases, those in power are constantly on the alert to supress any sign of citizen activism aimed at holding them accountable. Consequently, the donors need to make the tolerance of an active civil society to be a pre-condition for their financial support, and they need to watch out

[72] Op. Cit. p.283-4

[73] See also Edwards, Michael *Civil Society* (Polity Press, 2014) for an elaboration of these ideas. For an in-depth analysis of civic action see Green, Duncan *From Poverty to Power: How Active Citizens and Effective States Can Change the World* (Oxfam International, 2008)

[74] See Op. Cit.

for any moves that diminish civic space. Likewise, those donors whose principal aim is to help reduce poverty should show little tolerance of corruption in the projects they fund, aware that corruption almost always harms the poor the most.

All donors should have a clear long-term strategy for supporting the strengthening of civic, business and professional associations, and more broadly, civil society organisations. This may mean that in some countries, the only aid offered is that channelled directly to non-state actors and the more egregious offending governments should be refused official external aid altogether. If, for a while, this approach dramatically reduces the flow of external aid directly to these governments, so be it. The support to non-state actors should be hugely increased, even though that would not be without some risks of embezzlement and misuse. The one caveat here is that World Bank support, and that of the major donors, should not be mainly channelled directly to local CSOs, but rather where possible intermediated through a wide variety of NGOs, both local and international, with a much lower profile and much lower transaction costs[75]. This reduces the scope for confrontation between the Bank/donors and the governments concerned. UK DfID used its Governance and Transparency Fund in 2008-13 to achieve this objective but, despite its success, was not replenished when the Tories took power. In Bangladesh UK DfID channelled some £50 million through a local NGO called Manusher Jonno Foundation to support local CSOs, which is an excellent model of what donors could do in this area[76].

An illustration of how the Bank, working with bilateral donors, can support CSOs is the Citizen Action for Results, Transparency and Accountability (CARTA) Program launched in 2011. This was funded by a US$1.9 million grant from the Japanese Social Development Fund. The grant was managed by the World Bank. and was completed 2015. The World Bank chose the Partnership for Transparency Fund to implement the CARTA Program. The Program's main objective was "to enhance the development impact, sustainability and client ownership of pro-poor projects financed by the World Bank in Bangladesh and Nepal, by promoting civil society organizations' engagement, experience and capacity to demand better governance." There were twelve subprojects, six in Bangladesh and six in Nepal, covering 11 World Bank financed projects. These implemented citizen monitoring of Bank-funded project activities and strengthening grievance procedures and feedback mechanisms to address misbehaviour of officials. Once again, this was a successful innovative initiative which has not been followed up. The best explanation I can come up with is that the CARTA programs which I have described were essentially bottom-up initiatives by committed groups within the development agency which never gained traction from their senior managers partly because there was limited buy-in by the Bank's senior management.

I should not end without addressing what some Bank critics have regarded as the cultural ethno-centricity of "western-trained" analysts who give too much weight to human rights in the discussion of what constitutes good governance[77]. Some even go so far as to argued that since neo-patrimonial corruption and nepotism may be acceptable in some cultures, the Bank should be wary of imposing its "western" ethical standards across countries. Human rights abuses pose a more worrying challenge. My 1991 paper to the World Bank Annual Conference on Development Economics, referred to early argued that, since all the Banks member countries were signatories of the UN Charter of Human Rights, all we were doing was to ask countries

[75] Partnership for Transparency Fund would be one on a number of candidates.

[76] http://www.manusherjonno.org/what-we-do/grant-making/

[77] See Wood, Geof and Joe Devine *Qualified Progress in a Drifting State: Is Bangladesh a Paradoxical Development Case,* paper presented at a Conference at Yale University, March 2019

to respect their commitment to the principles set out in the Charter. Setting aside this perhaps somewhat academic argument, I would simply observe that the citizens of countries where corruption is rife and human rights abuses are common have shown in countless huge demonstrations—such as the Arab Spring or Tiananmen Square uprisings or that going on right now in Myanmar—that they do not accept such abuses. The argument about cultural exceptionalism to justify poor governance cannot honestly be sustained.

It would be mistake for me to disregard in this paper the truth that “deep culture” which sanctions neo-patrimonial ethical norms is a critical obstacle to establishing good governance. Citizen activism has to take this constraint into account. Nonetheless, this debate takes place in countless local meetings, such as village vigilance committees, or school committees and the like, where corrupt behavior is identified as undermining local service delivery. Citizens come together in these fora to decide what behavior is acceptable and what is not. The experience of PTF demonstrated, for example, again and again that citizens were very clear about their dislike of corruption and other types of abuses perpetrated by public officials.

In Conclusion

Despite all the national and international initiatives to curb corruption and other features of poor governance, the latter remain major global cancers eating away at the legitimacy of governments, harming citizens, and undermining development efforts. All the funding provided by the official aid agencies pales into insignificance compared to the hundreds of billions of dollars of public resources salted away annually by oppressive public officials and predatory political leaders. The economic and social cost of corruption is far greater even than this figure suggests in terms of lost opportunities, wasted resources and damaged lives. Thus, it is time for the World Bank and all the other aid agencies and their governments to do business differently, recognising that reform comes primarily from political pressures within countries and that therefore external assistance for governance reform needs to support programs that are citizen led, not donor driven. The role of outsiders must be primarily to search for ways to nurture and support local citizens’ initiatives where this can be done constructively. Very often, this means working discreetly through third parties, as well as finding and supporting reform champions within governments.

31st March 2021