

THE BROOKINGS INSTITUTION

THE WORLD BANK AT A CROSSROADS

Washington, D.C.

Thursday, October 11, 2007

**Introduction:**

DAVID DE FERRANTI  
Senior Fellow, Global Economy and Development  
The Brookings Institution

HUGUETTE LABELLE  
Chair, Transparency International  
Chancellor, University of Ottawa

**Moderator:**

ALAN LARSON  
Chairman, Transparency International USA  
Senior International Policy Advisor,  
Covington & Burling, LLP

**Presenter:**

PAUL VOLCKER  
Former Chairman, Board of Governors of the Federal Reserve

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## P R O C E E D I N G S

MR. de FERRANTI: Welcome, all, to this event. And we'll get Labelle, whom I have the pleasure of introducing now, and who will introduce Paul and get us underway. Huguette is the Chair of Transparency International Worldwide and comes with a very distinguished career. Among other things she's Chancellor of the University of Ottawa and has been from Canada and her country, and worldwide making many contributions in the area we'll talk about or areas related to what we'll talk about today as well as other aspects of global development.

So with that, welcome from Transparency International USA, from Transparency International Worldwide, and from Brookings, and, Huguette, over to you.

MS. LABELLE: Well, thanks, David, and thanks to you but thanks to Brookings and the project that you're heading, the Transparency and Accountability Project, for having all of us today, giving us this venue and food as well.

I think it's a great pleasure for me to be here and welcome all of you, along with Al Larson, Mr. Chair of TI-USA, and who will be our moderator this afternoon. And, of course, my main responsibility today is to introduce to you a very special person, Paul Volcker.

It was no surprise to any one of us that the Bank called on Paul Volcker to head up the independent panel of experts, charged to review the Bank's Investigations Unit, that is the Department of Institutional Integrity. And this investigation scheme came at a very special time in the Bank where there was

considerable controversy within the Bank for its role in combating corruption and, in particular, over the mandate of its Investigation Unit to pursue allegations of corruption.

Given this context, I think it was very important to find someone with impeccable integrity, someone with strong credentials and deep expertise. And, of course, all of us in this room know Paul Volcker first from his two terms as Chair of the Federal Reserve System and, of course, as a leading expert on economy.

And that was not enough because then the UN Secretary General invited him to chair the investigation into the UN Oil for Food program. And, of course, all of us have watched that very closely, and he did again a stellar job at that particular -- on that particular panel.

So with this background, of course, a very excellent group of experts were brought together to work with Paul on this panel, and we were very pleased at Transparency International that two of the members of the panel were from our movement, John Githongo from TI-Kenya, and Ben Heineman from TI-USA. And I was also honored to -- I've been invited to participate as a member of the External Advisory Group.

This undertaking was of critical interest to TI. Of course, we have for many years sought to have the Bank play a leadership role in managing the fight against corruption into its development agenda and to build it in. And to have still in 2007 half the world's population living at the edge of survival is totally unacceptable. And we have been saying with many others that this poverty cannot be reduced without a serious attack on corruption. And, of course,

the World Bank has a very key role to play in that respect.

Indeed, TI was the creation of former World Bank development professionals who left the Bank in the early '90s and who were very concerned about the fact that there was not within the Bank the kind of recognition that corruption was creating so much damage in the field to try to alleviate poverty. And I'm very pleased that we have in the audience one of the cofounders of TI, Frank Vogel, who is also a member of our current board. We also have in the audience Nancy Boswell, who is also a member of our board and CEO of Transparency International USA. And we have Validia Merino-Dirani, who is also a member of our board and who comes from Ecuador. So I'm very pleased to have them with us today.

As the Volcker Panel report shows, Paul politely puts it, the anticorruption effort in the Bank was quite slow in developing, but we welcomed Jim Wolfensohn's recognition of the centrality of corruption to the Bank's development agenda and have been deeply engaged ever since in promoting an effective, comprehensive approach in Washington here and to our national chapters around the world, and our most recent effort at focus on the Bank's governance and anticorruption strategy, of course, GAC, and the implementation plan for this strategy.

Now, this strategy, I understand, is being discussed today by the board of the Bank, and we hope that they will give it a very strong support and that it emerges, not only with the support in principle but also with the resources and the political will which is necessary to achieve the objectives that are there.

The Volcker Panel recognized that its work would have to take

account of the broader Bank culture and experience, and particularly of this anticorruption strategy. It's recognized the importance of bringing into concert the disparate units of the Bank and achieving a clear sense of direction to counter the lack of common purpose, distrust, and uncertainty that enveloped the anticorruption work of the Bank.

And Chairman Volcker's review and recommendation come at a very pivotal time. With a new president, Robert Zoellick, at the helm, the panel's findings and recommendations should exert a profound influence on the Bank's broader governance and anticorruption strategy.

In the president's speech on its first 200 days at the National Press Club yesterday, Mr. Zoellick again welcomed Chairman Volcker's report, and we applaud that.

An international working group has been charged taking recommendations forward, and, of course, the Bank website calls for external submissions.

We at TI now urge the Bank to hold public consultation, to provide an exchange on how the Bank intends to implement the report. We believe that the deep analysis and trenchant recommendations on both INT and for the broader Bank anticorruption strategy should be fully implemented, should be implemented promptly across the Bank group, and we hope that by convening this meeting today that we will contribute to this outcome.

We also hope that the Bank will act on our recommendation to follow Chairman Volcker's lead in creating an external advisory group to oversee and promote implementation of his recommendations, as well as implementation of the broader GAC strategy. We feel that it's essential that the Bank take action to be very transparent and inclusive of civil society's views both here in

Washington and around the world where it has very large operations.

TI has strongly supported an independent and accountable investigative function, but only as part of the broader system of prevention, of detection, and remediation. And as the report states, to effectively combat corruption the Bank really needs to do that.

Indeed, TI's comments on the GAC sound in some ways, Paul, like many of your recommendations. We've said the tone at the top is a prerequisite: the president, the board, and the senior management have to set the tone. There's got to be effective transmitting throughout the organization, that combating corruption is central to the Bank's antipoverty mandate. Staff incentive must be realigned; it's not just distributing resources, it's also having the -- being rewarded for ensuring that the money reaches the purpose intended and, therefore, that when there is corruption that it is detected early, that it's also dealt with forthwith.

And also, we indicated that the lessons learned from the INT operation should be integrated into operations particularly in relation to country systems, and that this also affects the training and the day-to-day operation.

As you can see, Paul has delved deeply into the Bank's internal culture and has important lessons to share with us today with other donors. And, of course, he has done that with the Bank already.

And we really appreciate your time, Paul, to have traveled here today to be with us, and I know that he has promised to share his thoughts, respond to questions, and once he has done that, our colleague, Al Larson, will moderate and complete our time together today. Thank you very much.

Paul. Please welcome.

(Applause)

MR. VOLCKER: I am unchained. I really thank you. I think after that introduction, I simply have to say have you got any questions, and proceed.

But let me say first of all, I do appreciate this chance to talk with all you people who, I'm sure, have some interest in the World Bank and where it's going. I appreciate both Transparency International and Brookings.

I find these years which are passing that I have been involved in a lot of panels, reports, committees on various subjects ranging from baseball to UN, and the World Bank, and other subjects large and small, and most of the time you get involved in something, you make a nice report, you put a lot of work and whatever happens is always a great question. So I appreciate this recognition that something is relevant here and that perhaps something can happen.

Before getting into the report and my recommendations themselves, let me just set a little bit of the background which I'm sure most of you here are familiar with. Development is a tough job under the best of circumstances. I think it's fair to say that theories of development have changed with not every cycle of the moon, but about every 10 years or so there is a different emphasis on what's important and what isn't important.

There has been a lot of development in recent years. Without question, millions of people, tens of millions of people, hundreds of millions of people have been taken out of poverty, largely in China, in India, a few other places in Asia. The connection between all of that and World Bank activity has probably, to put it bluntly, not been crucial; I think it's probably been helpful, but

things were going on in those countries that were beyond the control, mandate, or enthusiasm of the World Bank.

And there has been, with the developments in the International Financial System, as you all know, some question about the relevance of the World Bank in making loans wherein money does not seem to be the problem, or a place that has not seemed to be the problem in many major areas of the world. China is sitting on a billion -- a trillion and a quarter dollars, is not going to rise or fall on the basis of money put into that country by the World Bank or, you could say the same thing in many other former clients of the World Bank and, in fact, continuing clients of the World Bank.

It seems to me to say the World Bank is in crisis may be overstating it, although it didn't seem to be overstating it last summer with the conflict that existed, but there certainly is a question of defining its mission more clearly in this new world that we are in of international financing. Considerable development already accomplished, the focus now on Africa where I think the problems of development are particularly difficult, but yet that is the current challenge.

And if there are changes in fashion and more than fashion in how to approach development, the new strand that I think has become part of the consensus, and that is, as has already been mentioned, the importance of dealing with corruption. And you put it more broadly, the importance of governance, which corruption or attacks on corruption are an important part. It's one of the keys to development and, therefore, necessarily worthy of the Bank's attention, and that, if it's going to continue to lend money as I assume it will, it's got to find

some function for that money in many cases other than simply providing the cash.

What comes with it?

And it's been a traditional part of the Bank's activity to have certain conditions in their lending that seems, at least to me, increasingly important; but one of its preoccupations, an important part of its preoccupations, will be how to deal with corruption in its own projects and corruption, more broadly, in client countries. And those two things I do not think as unrelated.

You know the particular history that—as you put it in the first paragraph or two, because I love to make the point and I thought it made it rather sharply—that the "C" word, corruption, was not permitted in World Bank reports, traditionally. In fact, they actually had a legal perception that corruption was none of their business, and that was a political matter and they were interested in economic development. I think that distinction can no longer be made with a straight face, but I want you know that we edited a very careful report, and I put the sentence in earlier that corruption didn't -- the "C" word didn't appear in any Bank reports. And just a day or two before the report was printed, one of our staff came up to me and said, "They found a memorandum that said 'corruption.' We can't say that."

So I said, Well, I think we can say it if we put the word in "official" before reports. It may have been in some internal reports but no external reports that anybody could find. And it was symptomatic of the attitude which was challenged in 1996-97 when Jim Wolfensohn, a relatively new president, stuck -- and I went back and read it.

It's a long, somewhat turgid speech, but in the middle of it there's a

paragraph, and said, "Corruption is important," and, "Corruption is a cancer on development and it has to be a priority for the Bank." It was three or four sentences stuck in the middle of a long speech, but it made an impact, it got attention. It got attention inside the Bank; it got attention outside the Bank.

And there was a little fellow up in the board and elsewhere saying, "Yes, this is an important subject." But I think it's fair to say I wrote more colorful language originally about the Bank's response, administratively, to this over some years, which we toned down because I thought it wasn't going to be very diplomatic. But the response to the Bank was slow and not completely effective in dealing with this problem. And it is a difficult problem.

And it came to a head once again with the new president, Mr. Wolfowitz, for all his characteristics one way or another. One or two make corruption a stronger issue in the Bank. The investigating arm of the Bank, which had taken some years to be created, was strengthened with new leadership, and it became, whether because of personalities, administrative ineptness, or in part basic difficulty of the subject matter, a matter of very considerable conflict in the Bank, as you know, which rather became evident at the time the last annual meeting a year ago, and became more and more inflammatory as time progressed. It became involved in other issues with which you are well familiar, and altogether presented a very real challenge to the Bank.

Now, I had, partly because of my UN experience I'm sure, had occasion to talk to President Wolfowitz once, as near as I can remember. He is not a -- I had no personal relationship with him -- about the corruption problem, and he was ruminating at that time about maybe they ought to set up some kind of

an outside body or advisory board to review the anticorruption effort of the Bank.

And I am sure I indicated some sympathy for that idea, but it was about as vague as that until I was traveling in India in February and read in *The Financial Times* that I was appointed as the head of the panel to investigate—investigate" is not the right word. Let me make clear—to review particularly the operations of the Internal Investigative Unit, INT, and make appropriate recommendations.

It was somewhat narrower than we had discussed very vaguely earlier and the concept which reflected the conflict in the Bank is to, I think, how broadly they wanted their position reexamined. In any event, I was told there were a few other people that the Executive Board would like to put on this panel, none of whom I knew, but you can go add some people if you want to.

Well, it turned out -- and I want to emphasize that the people that are on this panel, the ones that were sort of given to me, was a Sir John Vereker from Britain, and Britain had been very active within the Bank in resisting what they saw as the excesses of the anticorruption effort in the Bank. So this was the British representative, so to speak.

Gustavo Gaviria, who is a prominent Colombian who had been involved in both the IMF and in the Bank recently, and was very familiar with the internal workings and was a representative from an emerging economy in Latin America.

And Walter van Gerven, who is a distinguished lawyer who had been interested in corruption in Europe and, particularly, an expert on mechanisms of the European Commission, had once been banking supervisor in

Belgium. And so it brought some very relevant experience, and I thought we needed another person from the developing world, and I -- well, I didn't know him -- I understand some of you know John Githongo, who is a prominent rebel -- is that the right word? -- in the Congo. I guess he's involved with Transparency International, for whatever reason is now in Oxford rather than in Kenya where he is a somewhat controversial figure.

And, finally, I asked -- the only other initiative I took -- Ben Heineman, who I had met once or twice, who has a -- is very well known in the corporate community in United States. He was General Counsel for many years of General Electric, and you can't get an organization that is much more involved in business activities around the world and familiar with the challenges and threats, and operating in corrupt environment and with competitors who may be less punctilious than General Electric believes they are. He's very proud of their anticorruption programs and efforts. And I thought it was an interesting prospective.

So we all got together. And the one thing I want to say is despite this lack of familiarity to start with, it proved to be a very harmonious group, and we probably have stronger convictions expressed in the report than some members of the group started out with. But the report, I believe, is not just unanimously accepted in form, but it is very much supported in substance by these people drawn from quite different backgrounds, which is important considering the amount of controversy that surrounds this issue.

Now, so far as the report is concerned, there are really two parts. And I was a bit concerned when we started out because the mandate we were

given, the terms of reference, went on in enormous detail considering there were terms of reference about the specifics of how INT operated: its internal protocol, its staffing, its methods of review, on and on for a page of rather specific comments.

But it did say at some point in the introductory section that, of course, you had to consider how INT fit in with the rest of the Bank. And we took that as a license -- whether or not that sentence was in there, we would have taken it as a license that you could not really deal with INT without considering how it fit into the whole anticorruption effort and dedication and administrative arrangements to deal with the questions of corruption and governance within the Bank and in client states.

And there was an immediate -- among this rather diverse group. I remember in our very first meeting everybody said, "Of course, that's what we have to do." So the first kind of hurdle was surmounted in terms of collective judgment that we could not deal with this issue without dealing with the whole question of the Bank's approach.

So the report, essentially, is divided up into two sections: The first 10 pages or so really deal with the significance of this issue for the Bank, the significance for development, and the Bank's philosophical and administrative approach toward this subject, and the degree of seriousness and effort which is taken throughout the organization to deal with this area. Then the second part does indeed cover the particular questions that arose about the organization, structure, and relationships with INT with the rest of the Bank.

I was, I think, gratified, if that's the right word, when we circulated

a draft of the report to some of the people who had been advising us, including Europe, and one response came back from one of the experienced, high-level operational officials of the Bank, retired for some years. He came back and said, "In my opinion, the important part of this report is the first 10 pages."

So it was a question of what that person was saying, was you've really got a problem here with attitudes within the Bank and approaches within the Bank, and that has to be dealt with. And all the detailed recommendations are interesting, but how they're dealt with and how effective they are depends upon the leadership of the Bank going at the top -- to use that expression. The regular word which this mission is accepted within the Bank are not accepted with the Bank.

And there isn't any doubt that attitudes have changed in the Bank over the past 10 years since Wolfensohn made his statement, but have they completely changed? They have not. In my observation there's still a split in the Bank between those that think this is an important part of the mission and those who wish it would go away. And those that wish it would go away, I think the attitude is, I suppose, understandable. These are people who have dedicated their professional careers to development. They think they know something about it.

In some cases, that's probably true. There are certainly a lot of experts, and they're the experts in particular areas. They work very hard on developing projects, selling the projects to the countries, encouraging participation with the World Bank in these lending projects, and that is the mission. And they kind of have the feeling that somebody's coming in late and looking over and saying all this hard work to did for some years is, unfortunately,

riddled with corruption is not a very happy circumstance. And it may be a necessary part of the effort but it, obviously, rolled for conflict and uncertainty and concern.

In general, investigators are not popular people in any organization, and in this particular area I think some of those concerns were exacerbated; some were inevitable, but the heart of our report in a sense is to try to develop some arrangements that surmount those particular interests on either side and come out with some kind of cohesive result.

The report was warmly welcomed by President Zoellick when it came out. While there was no official response, as there should not have been from the Executive Board. The response, I can tell you, when I presented the report to them and we had a considerable discussion, I thought was one of considerable understanding and warmth, and a possibility here -- I won't put it any higher than a possibility -- of bridging the philosophical, and procedural, administrative, tensions in the Bank surrounding this subject by recognizing what I believe is that the report can be a constructive documentation of a way forward that will permit the Bank to proceed more effectively.

I think that's important beyond the World Bank, if I may say so, for the World Bank is certainly respected as a leading development institution in the world. In this particular area, there has certainly been an intellectual leader, and the unit of the Bank which is not operational the World Bank Institute, which has produced, I think, the best so far as I know, and the most comprehensive analyses of the problems of corruption and attitudes toward corruption in the emerging world, and in the world that is yet to be emerging.

One of their interesting findings which we do quote in the report is they have participated in, or at least reported on, surveys of opinion in client countries, and response to a rather open-ended question: What kind of values can the World Bank bring to your development challenge? The plurality of answers was deal with corruption. It wasn't, "Give us money," that came in second. And there were a lot of other subsidiary things -- expert advice, and so forth and so on.

More of a quarter of the respondents' number one response was deal with corruption. And I just say this kind of confirmed -- this personal experience that I've had recently in talking with reformers in these countries is the importance that they attach to the corruption issue. It was a plurality of the responses.

One of the other rather amusing things -- we put it in the report -- the plurality of was to deal with corruption, and for some reason, it surprised me, the European members of the panel said, "Plurality. What does that mean? I don't recognize that word." And I thought, particularly in Britain where you win an election by having a plurality of the votes, but they said they'd never heard of it. "You got to be more specific."

What we put in is "more than a quarter," which is accurate but it also happened to be the plurality. But we didn't -- we didn't use that word.

In any event, that is the setting of the report. I would agree that the first 10 pages are the most important part. They're also the part that's less specific, and it's the part that will be in question -- I hope less question than it was before, because I really do think this is an opportunity for the Bank to move together and put this particular behind them in the sense of quarreling over the

role that corruption should have in their programs. And then the second part follows.

Now, the Bank is examining internally as they always do. There's one thing this Bank is very capable of, I have learned, is setting up a review group or an internal commission to subject -- to examine every subject that comes before the Bank, and that process is underway. I suspect -- it's been intimated to me that the particular recommendations in the report which do deal with INT, you can expect a result, I think, that will importantly incorporate those recommendations in the structure of the INT effort.

Now, let me just say two of those that I think are most important and most indicative of the past problem and the future opportunity are these: There is no question that the tension surrounding this whole area have partly been reflected in mismanagement of the process within the Bank after an investigation is completed.

It was an interesting fact that -- and the people that we interviewed, many of them very critical of the investigative effort, if not the anticorruption effort which everybody says they're in favor of -- would have a stated admission, you know, a technical investigative conducting a particular investigation. We have no complaint. They do a good job. The problem is all in their personal relationships with the rest of the Bank, the way they've handled the reporting, the failure to cooperate with other parts of the Bank and so forth, many of them certainly legitimate.

But as professional investigators, it's okay. But what happens to the investigations when they are completed? Well, the case that just stood out

and precipitated -- it's fair to say, I think, the crisis in this effort was Indian, where there are some Indian health programs that had been investigated. The finding was that some of them at least were pretty well infected with corruption. The report said so, and then what happened.

Well, the Indian government was notified, as near as I know, in three or four different ways by three or four different people in the Bank, by the investigators, by the president himself, by the country officer in charge of India and probably his senior. The result was each of those people had their own spin on the investigation and what should be done.

The Indians were upset with conflicting reports. It is a very difficult, obviously, and sensitive part of this process, when you find corruption what happens to the relationship with the government itself? It's a difficult circumstance, particularly difficult on the part of the people that part of the corruption involves the government itself with which you were dealing. So it's bound to be a very sensitive area, and I think by general consent both relations within the Bank and relationships with India, obviously an important client country, were disrupted by what happened following this investigation.

So the key recommendation that we make -- it sounds almost ridiculous that you have to make it as a recommendation because you wonder why it didn't always exist -- but when an investigation is complete, a relevant senior official in the Bank, and we would think the relevant senior official in the Bank at this point ought to be the managing director who is responsible for the relationships with the particular country involved, ultimately, be accountable and be given responsibility for managing the process once the investigation is

completed, including relationships with the country, including what Bank policy should be in response, what lending policy should be changed as a result, what lessons should be learned for the rest of the Bank, who should be punished or not punished if that's a relevant question, and that official ought to be responsible and clearly know he's responsible to the president for dealing with the results of an investigation. That simply has not been the case in any coherent way in the past.

Now, the second recommendation which I think the panel all agreed that these are the two most important recommendations, and some of which said the second one is the most important, that INT has to develop message and ability to deal with the rest of the Bank on a continuing basis and in a more cooperative vein than it has in the past.

Now, the reasons that that have not happened are probably varied, but certainly one of the problems is the staff itself, the staff of investigators, is pretty heavily overburdened with the number of investigations they have. They offer professional investigators, they have not always had a lot of experience in the Bank, and it was a ready-made situation for misunderstanding. So the suggestion is that some additional unit has to be created within INT with particular responsibilities for relationships with the rest of the Bank, and two-way relationships.

And that unit should have investigators, certainly, so they know what that's all about, but it should also have people with operating experience, with legal experience within the Bank, with auditing experience, various relevant experiences with the Bank. Any unit that can maintain continuing liaison with the operating areas of the Bank working with them to describe vulnerabilities to

corruptions, measures that can be taken to minimize the risks for corruption, keeping them aware and abreast of the latest thinking in this area, the problems that are arising, and the progress of investigations.

And I say progress of investigations, not the details of investigation but the fact that an investigation is going on, what the timing might be, what's an estimated date of arrival and so forth, all of which has been rather muddy in the past. Those two recommendations which are, I think, keys are hard to challenge, frankly, and I suspect that they will be adopted.

Now, we did conclude and reaffirm that independence of the investigative effort certainly has to be defended. You know, these are not people that have any legal authority. They can't go subpoena people; they can't demand testimony from people. It has to work on kind of a voluntary basis. They have to respond to whistleblowers; they have to get cooperation from people who observe in the field corruption.

These are people in the Bank whose identity has to be confidential, and people outside the Banks whose identity often has to be confidential. And you have to have a mutually trusting relationship which implies a high degree of confidentiality and independence from outside influence, either within the Bank or outside of the Bank. I think that lesson just has to be understood through the Bank.

At the same time, is this some kind of rogue group out here undermining our development efforts without any sense of responsibility? Where is the accountability? In dealing with these kinds of problems, we say, yes, the direct reporting line to the president, which is the present situation, should be

maintained and is the typical situation for investigating bodies. There was confusion existing because the present Director of INT also had a label of Counselor to the President, which she inherited from an earlier position. That title was maintained. I'm not sure what it meant, but I'm sure it meant there was a lot of confusion in the Bank whether she had a particular line to the president for areas outside her investigative responsibilities where she should have responsibility. We said let's get rid of that title.

But at the same time the importance of this role should be respected, and the Director of INT ought to be at a level of the Vice President of the Bank so that they can talk to the rest of the Bank from a position of administrative strength rather than as, to push it off, you're just another office director, and you're down a rank or two and presumably less influential than the Bank's counsel.

So take away this counsel to the president business, but give appropriate administrative title in strength, continue reporting to the president with associated reporting to the Auditing Committee of the Board which also exists.

The innovation that we proposed is that an advisory oversight group be established to accomplish several things. First of all, by its mere existence manned by people of full credibility in this area, intentionally, would provide protection for the independence of the function, but at the same time bringing the kind of experience and oversight that ought to provide some assurance that its procedures, methods of approach were reasonable, and there was accountability in that respect.

Now, that all depends on how it's managed, of course, but we think that that is an important function, and given the problems that have been in the Bank in past years that exploded last winter and spring, we were pretty convinced that some kind of neutral outside body, apart from the Bank itself, could have played a constructive role in ending some of the disagreements, misunderstandings, real problems that existed.

Now, you hope that that situation doesn't rise again, but this provides some kind of protection, I think, against the extreme misunderstandings that existed.

So those are the kind of more important recommendations that we made. We have a series of recommendations about speeding up the investigation, administratively encouraging speedier results, getting more diversity in staff. We reviewed all the very detailed protocols they have in dealing with Bank staff members -- when they're entitled to counsel, when they're entitled to have people accompany them when they are interviews, how much notice they should have of interviews, how much they should be told about the nature of the investigation, on and on in some substantial detail.

There's no doubt the staff had substantial protections before. The weight of our recommendations to at least fit the margin, further improve the protections for the staff against illicit or unwarranted pressures by investigators.

I might say that, and you don't know, these international institutions have their peculiarities -- I don't know how else to express it. It's true of the World Bank, certainly true with the IMF, it's certainly true with UN. But you have a group of people here in Washington drawn from around the world,

many of them leaders in their profession dedicated to this work over very many years and proud of what they do, but at the same time a certain insecurity pervades the place partly because, if not American and the lose a job in the Bank, they can no longer stay in the United States.

And some of them would have someplace to go and some of them may not have someplace to go. But it is a situation a kind of, frankly, a degree of insecurity that I think goes beyond most administrative organizations that I have been involved with. All staffs, bureaucratic staffs, tend to want strong protections, but in this case it's even stronger.

And they are a community. My sense is that in many cases the whole world is the World Bank because they have been taken out of their own cultures, they've been taken out of their own countries. They haven't got any roots in Washington and the United States. They may develop them over time, but it is a, by its nature, somewhat ingrown community that affects their sensitivities and what they think is important in terms of defense of their own rights and responsibilities. So it's just a complication that exists, and these organizations, I think, it has to be understood and respected.

But let me just conclude. I won't go over all the other recommendations. We can discuss whatever you want to discuss, but the main point is I think the really important part is that, generally: Will there be some cohesion of the whole attitude of the Bank and its personnel and its senior personnel toward the importance of the subject, the importance not only as part of the fiduciary responsibility of the Bank to protect the use of its own money, which is actually part of the Articles of Agreement that is their responsibility? It's a

practical responsibility if they want to get funded, as they must periodically for IDA in particular.

But the responsibility goes beyond that if corruption is in fact a cancer on development, to use Mr. Wolfensohn's word. How can you use the Bank's own operations, the Bank's own investigative processes, and the Bank's anticorruption effort in its own programs as a demonstration to the client countries as to the nature of the problem and how to deal with it? I think the latter is as important as the former, although by its nature it's more difficult. But it's got to be part of the good governance program of the Bank. Everybody's in favor of good governance. The question is how's that's implemented.

I might say in that respect that the Bank's own investigations, own review of their efforts, I've come to the conclusion that while money is given in very general terms for improving governance, improving administrative processes generally, improving budgetary processes generally, it is hard to see any constructive result when you look at it over time.

You see more results the more pinpointed the program is. If you've got a grant for improving the police force in a city, or particular budgetary programs in particular areas of the country, you then can see results. The more precise, the more appointed it is, the better the results. And I think it's in that context that this concern about corruption in particular projects can have an impact and a bigger impact than saying, We're going to give you \$100 million to improve your anticorruption programs. To see results of that general a grant is pretty difficult.

So I would leave with that emphasis the expectation that many of

the detailed recommendations will be adopted. I'll be very disappointed if that projection is disappointed. But it comes back, really, to the opportunity, as I see it, for the Bank to have a more cohesive enthusiastically implemented anticorruption effort than has marked for 10 years since Jim Wolfensohn put it on the agenda.

So with that much, let me stop and be assaulted.

(Applause)

MR. LARSON: Mr. Volcker, I think everyone who read your report thought it was terrific, candid, to the point, a model of clarity and cogency.

MR. VOLCKER: Hopefully.

MR. LARSON: Your exposition -- but to hear from you first hand about the process by which this report was drafted is just fantastic, and so thank you very much for that opportunity.

We have just under 30 minutes for discussion. There are microphones. We invite you to do the usual, state your name and any relevant affiliation and make a short question, and I see a questioner right up in front.

MR. OWEN: I'm Henry Owen

MR. LARSON: Henry? Well, hold on one minute, Henry.

MR. VOLCKER: Henry Owen, himself.

MR. LARSON: Sit down, we know who you are.

(Laughter)

MR. OWEN: You spoke about the Bank's operation. Of course, most of the lending and investment developing areas goes, as it should, from the private sector. Does the Bank take an interest in corruption in the private sector?

The bank for which I work, CitiGroup, recently fired two very high officials because it's not that they were corrupt, but they didn't prevent corruption. Does the Bank take an interest in what the private sector does on the corruption?

MR. VOLCKER: Well, I think the Bank's leverage is in its own lending programs, but in the course of its own lending programs corruption is found with the private participants. The vulnerable place in all these programs is with procurement processes, and bribery that's involved, occlusion involved in procurement projects.

There is a procedure which we suggested some modifications for which just has been changed in response to, I'm sure -- I should have mentioned earlier -- reviews by Dick Thornburgh, which were very valuable and useful, not fully implemented in spirit. But if you find corruption by a private company, it goes through a process within the Bank where that finding is reviewed to see how strong it is, how credible it is. It then goes to a review body which used to be a Bank Group, which is now a review body mostly of outsiders. It's a panel involving outsiders and the Bank personnel.

The suggestion that we made was that the chairman of that group may be one of the outsiders, but the president is one of the insiders. And the complaint has been -- concern has been that the insiders would be too protective of the Bank programs and too reluctant to deal with the problem straightforwardly. So make that little shift.

And that, a lot of companies have been debarred over the years. Were there enough -- the remedy that they have is saying, you can't participate in any more the Bank programs. Whether that's been done aggressively enough is

the question, but there has been -- that is an established procedure which has to some degree worked.

You know, one of the interesting questions -- I'm a little bit out of, beyond what I know, but, you know, the world is changing in attitudes toward corruption due to Transparency International, I'm sure, with the help of the OACD and the UN and whatever.

And that is reflected in a marked change in attitude by the German government toward bribery by their own companies, which a decade ago was sort of legal in Germany. It wasn't explicitly legal, but it was legitimate expense for -- it's no longer legitimate expense. And Siemens, as you have seen, has been literally, I guess, admitted to a billion dollars or more bribes over the years. And a lot of it is in countries, of course, that are of interest to the World Bank. And there's no doubt that they were involved in World Bank programs and bidders, and sometimes successful bidders in areas that may be tainted. And with that out in the open, that may be a -- it is, I think -- a big step forward.

The Bank has just introduced a program which we had not much to say about because it's so new where a company -- let's say the company's name begins with "S", comes forward and says, yes, mea culpa, we have been involved in bribery, in World Bank programs, we admit it, we'll tell you the whole story, and since we admitted it and give our pledge, and you can review it and we'll not do it again, don't debar us.

And after much thought, that program has been adopted. It is not -- it's too early to say the process is just beginning; there are a few countries -- companies. So we said that's -- it's worth nothing at this, see whether it works

over a few years. But we didn't have anything to add to what's been done. But, yes, there are the private companies get involved, and the implications I am sure go beyond the, you know, the World Bank programs themselves.

Very typically, they find -- and what makes it so difficult -- a lot of these World Bank projects have a big series of small procurements. And when they look at it closely, they find the same companies appearing with different names but somehow the same telephone numbers and the same relatives, and so forth. And that's beginning to get publicized. It happened in India quite frequently, and that's one of the big discoveries in India.

There is -- I'll just make one more point -- there is something called a DRI -- Detailed Implementation Review, yes. These are -- you look at a UN report, the first two pages are just a list of acronyms. DRIs are again a new initiative that says, Let's not wait for accusations of corruptions in particular programs, let's find some program area and go and look at it *ab initio* and see if we can see any patterns of corruption. Ideally, we'll do that and most productively if the country itself asks or cooperates, because it's a good indication, you know, that they really want to do something.

But we said, yes, it's a good idea, and they shouldn't always wait for a country to ask; that if the situation looks questionable enough, the World Bank ought to do it on its own initiative. There is a big DRI, probably the biggest DRI in the works right now in India, and I don't know what the results are and how it would be handled, but that is a very big issue for the Bank right now.

MR. LARSON: Thank you very much. I've got a question in the back row. We're waiting for the microphone -- well, go ahead, and what I was

going to say, Mr. Volcker, is that, you know, progress can be made. And you mentioned the OACD Agreement and Siemens. Ten years ago it not only was not illegal in Germany to pay a bribe, but you got a tax deduction. Thanks for the OACD Agreement, over time the German government is investigating and prosecuting these cases, so there's tremendous --

MR. VOLCKER: I think that the German government copies are much more vigorous here and in UN investigations as well than in the British government --

MR. LARSON: Yes.

MR. VOLCKER: -- which activities used to rise all sorts of --

MS. IRIS: Actually, my question and comment is actually built on these couple of points. First of all, thank you very much for your leadership on this whole issue. I think it's a valuable contribution, and we hope that it will all lead to more positive action in dealing with a more concerted effort on improving governance and focusing on corruption as a core element of that.

I'm Mary Iris with the National Foreign Trade Council, and we have been quite concerned about how this issue of governance is perhaps being addressed in the area of procurement at the Bank and through this whole movement of country systems. It's, as you so eloquently said, procurement is an area where corruption is most easily, you know, able to occur. You have highlighted, certainly, the supply side of that equation, but there's also a demand side, and it goes both ways.

So one way to combat that is through the good work the Bank has done on the World Bank procurement guidelines and standards, and it's really

moved towards best practices. But, unfortunately, what we're seeing is a movement in the opposite direction. It's a movement to devolve any strong oversight or encouragement and hands-on encouragement towards best practices on procurement by moving it to the level of what the country has in place in terms of its national systems.

So moving away from sort of cohesive best practices in trying to improve those and helping these countries to sort of lift their practices, instead we're seeing an effort to have pilot projects where whatever system you have, you can assess it, you can evaluate it, and if you think it's good, then here's the money, you do your procurement the way you want. We probably will review this later on under certain criteria, not very strict in some ways. You have to meet some goal posts, but they're also not comprehensive or perhaps sufficient in many ways.

So my question is -- I look forward to reading the report in more detail -- but did you look at this whole movement towards country systems and how we can somehow make sure that a best practice focus is really at the heart of that kind of effort?

MR. VOLCKER: I'm sure we haven't looked at it in the detail you've looked at it. I can imagine those attitudes that you describe are present in some cases, and it's kind of related to the point I made of general admonitions about improving practice. They're not going to be very successful unless you get on top it.

There's something else. One of the things that we do emphasize in the report that they should have emphasized earlier is the importance of as much openness, not in the investigatory process itself which has to be confidential in

large part, but in terms of the findings and what you do about it. And notification of the country itself which sometimes has not been notified, notifications within the Bank, which have been slipshod, public notifications, notifications even to the Executive Board.

The Executive Board is put in a very odd situation of all these institutions. They are -- they're responsible for managing the institution, presumably, but they are officials of a government, and their probably primary allegiance is to their government, not to managing the Bank. And their interest is in who's getting along under what terms; it's not in the management of the Bank in practice. And that's probably the reason why we think they need that outside review board.

But the greater emphasis on disclosure -- I mean it used to drive Sir John Vereker wild -- because in this Indian business that I mentioned, a bigger funder of those projects was the British government. They were bigger than the World Bank, but the World Bank never told the British government about the investigation. And they learned about it, finally, but they weren't involved in the notification process, they weren't involved in knowing there was an investigation, and the process of the investigation.

And that kind of thing, you know, shouldn't happen. We made some pretty strong recommendations in that respect.

MALE PARTICIPANT: A very good point.

MR. VOLCKER: And I take your -- well, that's part of -- this getting good practice is part of the idea of having this advisory board in INT. And they know the Bank has its own procurement things and never the twain did

meet. And that's what we -- do you want --

MR. LARSON: Question? Right here, the second row, left.

MR. BIRKMAN: Yes, thank you. Steve Birkman, a former Bank employee, 12 years with the Africa Region, and I was one of the first members of the Investigation Unit when it was formed within the internal Audit Department.

One of the things that has concerned me in watching this evolution -- I was with INT before I retired for a second time in 2002 -- there seems to be an aversion to quantifying the amount of money that is being embezzled from Bank Funds. And I have done quite a bit of research on this, and I can safely say it's many millions of dollars pre day, in my estimation, that's being stolen.

Do you get a sense, or have you gotten any sense of whether management is interested in these numbers? They study everything else.

MR. VOLCKER: I suspect you get a mixed view from management, but I suspect, as in many other areas, there's not great enthusiasm from the people in the field to quantify all this, and there hasn't been much quantification.

One of the frustrations that we had which would apply not just to the World Bank, but how little information there is to quantify the losses for corruption. There was a kind of estimate -- "estimate" isn't the right word -- but kind of figures going around which apparently came from some World Bank guy that on the average is 20 to 40 percent of project funds are lost.

So I, in one draft I stuck that in the report, and I talked some very strong anticorruption people at the Bank. They said, "Well, that's very nice, but we have no -- we have no evidence for that number whatsoever." And these are

from people that think it's a tragedy, but they've just said, you know, that number was pulled out of the air, and you shouldn't give it credence.

And, you know, we have a comment or two in the report that they should, in the Bank but outside the Bank, too, do a little work on quantification of what the losses are. And the Bank is in a position to do that. They ought to be able to make some estimate when they complete one of these investigations. Probably, you know, not -- it can't be very exact but give you some order of magnitude.

I kept thinking we probably have a warped view because in, you know, having presentations by the INT people, they would show us cases where the losses were very large. But, presumably, they were picking some of the worst cases to investigate. They have a triage system which we didn't have any particular reason to question. But they do not investigate most of the cases that are referred to them. They make some judgment, is this a really important one of some significance both in the amounts or otherwise? We'll investigate that and some others that we should be investigating, which we'll get to when we finish the prime cases, and most of them are too small -- we'll never get to it.

And they're kind of put back to their division and say, Do what you can. Again an area where this advisory group can help, but, you know, they are picking off relatively few projects for investigation given the potential that's out there in so many projects. But they ought to quantify those, and they ought to get, over time, build up a kind of base to make a better judgment.

MR. LARSON: On the right-hand side, yeah.

MS. OSA: (Inaudible) Osa. I am a foreign correspondent here in

Washington with the (inaudible) Services, which is (inaudible) from Spain.

You mentioned that you see a division, I think you said, inside the Bank between people who are in favor and against the implementation of the anticorruption strategy. What about member countries who have a seat in the Executive Board? Where do you see the biggest resistance coming from? Thank you.

MR. VOLCKER: You put what I said very starkly, and I understand that, but everybody -- almost everybody in the Bank, when you talk anticorruption say, "No, I'm against corruption." You know, they all, "I'm on board with this." But whether they really were or not, that's another question. Or to what degree their energies were engaged was the question.

So, but I think it is important that nobody in the Bank now is going to say corruption is not our business, which is 10 years ago what they would have said. So that is a big change.

Now, having made that response to your question, what --

MS. "OSA": Yeah, amount member countries in --

MR. VOLCKER: Oh, yeah, what happens in the Executive Board. Look, I look at this as an outsider, but I -- it's kind of interesting. When this, the important (inaudible) by the unfortunate handling of the Indian investigation in the summer of 2006, and the clash with the president's heavy-handedness and so forth, and the critics' (inaudible), they developed, were in the point of developing an anti -- good governance, anticorruption strategy. And I never saw that language before I got involved, but there was a lot of reaction to it at that time against the background, that it was too aggressive or whatever.

And it was the big issue at the Development Committee meeting in Singapore last year. And you've got two reports coming out. Wolf concern -- or Wolfowitz rebuffed, Wolfowitz won. Wolfowitz got the idea that we're going to have such a report, but it was clearly going to be watered down from what he had approached. And in just reviewing that, I'm enough of an experienced bureaucrat -- and you could read the report -- to know what happened.

You read the first 30 pages, and it was full of the kind of wishy-washy language. Yes, we're against corruption, but be careful about this, be careful of that, don't -- the favorite phrase is, Don't penalize the poor twice. I never knew quite what that meant, but the idea was, Even if it's corruptive, get some money out there. Some of it'll rub off on the poor people. And that's literally what it meant, I guess.

But it was a big, typical full-back form, and all this was 100 pages of single-spaced type. And so, as you read it -- I finally felt I had to read it, and I knew it was heavily edited because that was the whole thing -- when you got by the first 30 pages, the language suddenly became sharper, and more definitive, and more construction. You could just tell the Executive Board got tired of this after the first 30 pages.

(Laughter)

And I accused them, I'm sure that's what happened. I think the first 30 pages were an executive summary. That showed you how long the report was.

But, you know, it showed both things. There's a lot of constructive thinking going on in the Bank but a lot of quibbling -- more than quibbling. And

it wasn't completely split down between the Part 1 and Part 2 countries. It was clear that many of the Part 2 countries would say, you know, you've got to respect that we have different cultures, it's growing in the way we do business, we've got to have our own procurement processes, and you can't be too tough.

But some of the -- a couple of the Part 1 countries -- I think particularly including the British at that point -- pushed in that direction, too. And it's a tough position. This is a tough area. What's a member of the Executive Board do when his own country might be involved but, if not his own country, one of his constituent countries is involved? What attitude should they take to a report that is critical of one of our own constituents? You can take your pick: You can say, Well, that's the way it is. Or they can turn defensive.

That comes up quite openly, as you may have seen in the reports that this World Bank Institute makes on corruption and governance around the world. And these nice multicolored charts they have as to whether you're green, or blue, or red, and what degree. There's a lot of resistance on -- I say "a lot," there is resistance in the Board and by some other countries -- to publication of that stuff. Why should we go on some kind of a gray list, if not a black list? And who are you to say that X-country is better than we are.

So there are a lot of issues here, it's very tough. But I think, on balance, it's a constructive effort, and I think if this torch is going to be carried, Transparency International can do a lot, the OACD could do a lot, the UN can do something. But the operational responsibility is the World Bank. Give them a leg up at both the prestige of the organization and the manner of intellectual work

they put into this, and the fact they make loans and can do something about it ought to make this institution at the center of this effort, in my opinion. It's where -- they're looking for functions these days. So people questioning what their function should be, they should be one of it in my opinion.

MR. LARSON: Could I ask a specific question right here, because it relates -- you mention as one of the top recommendations the creation of an INT advisory unit. John experiences -- provides advice on prevention. And I'm assuming that that is going to be implemented.

But the other side of that coin, as I read the report, was that there should be another locus within the more operational side of the Bank to be responsible over all for prevention and to really drive that.

Now, I'd be interested to, in the sort of further elaboration you could offer, and what do you think, whether you have any indications at this stage that that receiving operation within the more operational part of the Bank is going to step up to the task of devising more effective prevent programs?

MR. VOLCKER: I think that is a matter that's going to be, basically, up to the president and the senior managing directors and the vigor with which they push this thing, not (inaudible) and views.

Now, we --

PARTICIPANT: (Off mike)

PARTICIPANT: We can't hear you.

MR. VOLCKER: That other question was raised is really, you know, is the effort going to be pushed in the Bank, and imbued into the Bank, and my answer, you know, who knows? It's up to the -- I think it's got a much better

chance now than before, but it's up to the president and the people he puts in the top job. And if he puts somebody like Ngozi in there, I would hope that that is a sign that this is going to get a lot of constructive attention.

But we deliberately -- we debated for awhile whether to say more structurally, or administratively, about precisely the point you're raising, and we decided again, look, we were not deputized to reorganize the Bank.

We did make -- which doesn't go deeply into the organization or the review group -- but we -- a possible organizational approach is to say, Look, somebody in the Bank -- and not just "somebody" -- a senior official right next to the president should be put in charge of the whole ethical side of the Bank, so to speak: the anticorruption effort, the ethical standard, the personnel procedures for maintaining complex -- or avoiding conflicts of interest, all that kind of thing. Somebody. That should be his responsibility, his only responsibility. And it's an important enough function that to be effective it's going to have to be effective against the operating managers, so to speak.

MR. LARSON: Umm-hmm.

MR. VOLCKER: So it's going to have to be somebody that's up there, basically, sitting on the lap of the president to make this effective. And there's a lot to be said for that, I think, but it involves so many other implications to the organization of the Bank. We say, Look, that's not our job. The president ought to be thinking about that, and the management ought to be, and the Board ought to be thinking about it. But it's not our job.

And, I can -- you know, you can do it without that, but that is one way to try to assure INT, the Auditing Department, the Ethics Department, the

whistleblowers' effect, all could be put in one unit and separate but under one direction.

But I, you know, we just --

MR. LARSON: Terrific. We have to be out by 1:00. We have time for one more quick question right there.

MR. : Mr. Volcker, I spent a lot of time in Africa doing business, and I note that talking to government people that their implementation of World Bank rules and implement on procurement and contracting is pretty good. In fact, they hear a lot of them expressing fear: "I can't do that because the World Bank won't like it."

I think that in Africa that's more or less solved. Where the real corruption lies in siphoning off money from government-owned corporations. And privatization is very slow because of that reason, and where the leverage is, is the IMF. The IMF says, You cannot have debt relief unless you have more transparency in your government-owned corporations. So it seems to me that the emphasis in Africa, at least -- I don't know about the rest of the world -- should be more privatization, more transparency through IMF pressure, and the pressure on privatization should come from the World Bank. And I think their basic corruption problem on World Bank money is really a minor one in Africa.

MR. VOLCKER: Well, you may be right, quantitatively. I don't think the whole problem of corruption, generally, is a minor problem, and I think the World Bank can contribute to that, as I said.

But I'm not looking for any other Commissions to get involved in myself, so I --

(Laughter)

MR. LARSON: Well, thank you very, very much.

(Applause)

If I could just add one sentence, your -- the last sentence of your report says, in effect, that the challenge in opportunity for the Bank, which is to show the way in attacking corruption and enhancing global governance. And I think your report gives some terrific guidelines for how the Bank could do this. It's terrific to have so many interested, involved people who can help the Bank and help Transparency International monitor this process and, where we can, prod it going forward.

Thank you.

MR. VOLCKER: Thank you.

(Applause)

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