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Just saying no

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Paul Wolfowitz takes on graft

“CORRUPTION” was once a word that the World Bank did not use. Its staff spoke instead of “implicit taxes” or “rent-seeking behaviour” lest they be accused of meddling in politics. A decade ago James Wolfensohn, then the Bank's president, broke the taboo with a speech about the “cancer of corruption” and began a campaign to improve poor countries' governance. His successor, Paul Wolfowitz, has gone even further. Battling graft is his top priority.

Not everyone thinks Mr Wolfowitz, who took over last June, is going about it the right way. Most recently, he tried to tighten the anti-corruption strings attached to debt relief for the Republic of Congo. That country has a notoriously corrupt elite; the finances of the state oil company are decidedly opaque. Mr Wolfowitz wanted to make full debt relief contingent on a three-year record of anti-corruption efforts, particularly clean audits of the oil company. The Bank's board was sceptical, arguing that Congo qualified under the existing criteria for debt relief and that you could not attach new rules on the fly. After an acrimonious board meeting on February 24th, a compromise was hashed out. Congo would get irrevocable debt relief after “successive annual audit[s]”.

Mr Wolfowitz has already cancelled or suspended several tainted loans, some to powerful clients. More than $800m of money for Indian health care is on hold, following evidence of graft in a project on pre-natal health. A $35m loan for building roads in Bangladesh was axed when it became clear that some bids had been rigged. A project to boost Argentina's social safety-net by giving cash to poor households was suspended after Mr Wolfowitz worried that the money was used to buy votes in the 2003 election. A new version of the loan will be debated by the Bank's board this month.

Mr Wolfowitz has also been busy elsewhere in Africa. He has suspended five loans to Kenya, although two others, included one to battle corruption, have gone ahead. Graft in Kenya was also a worry in Mr Wolfensohn's day, causing him to hold back lending there. In January Mr Wolfowitz suspended all loans to Chad when its president tore up an agreement with the Bank designed to ensure that oil revenues would not be misused.

To lead the anti-corruption drive, Mr Wolfowitz has beefed up the Bank's Department of Institutional Integrity, an internal watchdog set up by his predecessor. The unit now has 22 investigators and will get 12 more. Staff have been told to get involved in the preparation of projects rather than simply react to concerns about graft.

Mr Wolfowitz's campaign has had a mixed response. No one doubts that corruption remains an enormous burden on poor countries, despite the Bank's efforts in the past decade. But many development specialists worry that Mr Wolfowitz's approach is both naive and arbitrary.

Corruption, they argue, is a complex and perennial problem. The virtues of rooting out graft need to be balanced against the Bank's goals of helping the poor. “It's just too easy to sit in Washington and say we should be tough on corruption,” argues Dennis de Tray, a former Bank director in Indonesia and Central Asia. “In the real world there are many shades of grey”.

Mr Wolfowitz's management style has added to the concern. He relies heavily on a small group of advisers he brought with him, none of whom are development experts. Bank insiders complain that the newcomers have no idea how to run the organisation and that their corruption drive is aimed more at impressing America's Congress than at helping the world's poor. Several top veterans have left.

That Bank staff should moan about their boss's style is no surprise. Mr Wolfensohn's relations with his staff were also rocky at first. He brought in a rather larger cadre of outsiders and was notorious for distrusting Bank staff. Top people left and months of paralysis ensued.

It would be a pity if history repeated itself. Mr Wolfowitz is right to focus on corruption, and the task will be hard to get right. No one doubts that better governance is needed to help poor countries grow. For a decade the Bank has sought to promote governance, with reforms from training judges to improving budget processes. But the results have generally been disappointing. Some early fads, such as the creation of anti-corruption commissions, have been mainly ineffective. Overall, graft has not fallen.

If thwarting corruption is to be the Bank's priority, it will need sharper intellectual tools. Many corruption indicators are rankings, based on investors' and experts' perceptions. Some cross-country, objective, cardinal measures, such as how much firms or individuals have to pay in bribes, exist, but more are needed.

Politically too, focusing the Bank primarily on corruption is extremely tricky. As a technocratic body, the Bank is barred from making political judgments. That line has already become blurred, and Mr Wolfowitz's drive will blur it further. A free press, for instance, is a powerful tool against graft. Should the Bank make its lending contingent on greater press freedom? If Mr Wolfowitz is serious about fighting corruption, such questions cannot be ducked—and there will be plenty more controversy ahead.