

# ***Bosnia and Herzegovina 2007***



## **Anti-corruption and Governance Challenges**

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# World Bank – fight against corruption



***“There are more than 1 billion people worldwide surviving on \$1 a day, and corruption threatens their hopes for a better quality of life and a more promising future.”***

***Paul Wolfowitz, President, World Bank Group***

# *In this presentation .....*



- *The World Bank role in the fight against fraud and corruption globally*
- *Regional trends in Eastern Europe*
- *Corruption and governance issues in BH*
- *Development impact in BH*
- *Anti-corruption and governance challenges in BH going forward*
- *World Bank Group's response - new Country Assistance Strategy (FY08 – 11)*

# World Bank – fight against corruption

## *Why it matters so much?*



- **A definition:** “**Governance** refers to the manner in which public institutions acquire and exercise the authority to shape public policy and provide public goods and services.”
- Governance and Anti-Corruption: A well functioning public sector that delivers quality public services consistent with citizen preferences and that fosters private market-led growth while managing fiscal resources prudently is considered critical to the World Bank’s mission of poverty alleviation.
- Corruption sabotages policies and programs that aim to reduce poverty, so attacking corruption is critical to the achievement of the Bank's overarching mission of poverty reduction.
- The Bank has identified corruption as among the greatest obstacles to economic and social development.
- The harmful effects of corruption are especially severe on the poor.

# World Bank – fight against corruption



An effective anti-corruption strategy builds on five key elements:

- 1. Increasing Political Accountability***
- 2. Strengthening Civil Society Participation***
- 3. Creating a Competitive Private Sector***
- 4. Institutional Restraints on Power***
- 5. Improving Public Sector Management***

Since 1996, the World Bank has supported more than 600 anticorruption programs and governance initiatives developed by its member countries

# ***Regional trends***

*Source: Anti Corruption in Transition 3 – “Who is Succeeding and Why?”*



- **Continued improvements in many countries in Eastern Europe and Central Asia (ECA)**
- **Improvements in every sub-region, but not in every country**
  - increased frequency of bribery in Albania, Serbia and Montenegro and the Kyrgyz Republic,
  - corruption a bigger problem for business in 2005 in Azerbaijan, the Czech Republic and Russia.
- **ECA countries remain significantly more corrupt than countries in Western Europe**

# *Regional trends - continued*



***What forces have underpinned this progress?***

- **EU accession – a motivator of governance improvements**
- **Democracy fosters transparency & accountability**
- **Strong leadership essential for successful reforms**

# *Regional trends - conclusion*



**OVERALL TREND IS FAVORABLE**

**BUT BY NO MEANS IRREVERSIBLE.**

**EVEN THE WORLD'S MOST ADVANCED  
COUNTRIES MUST BE CONSTANTLY ON THE  
WATCH TO CONTROL CORRUPTION.**



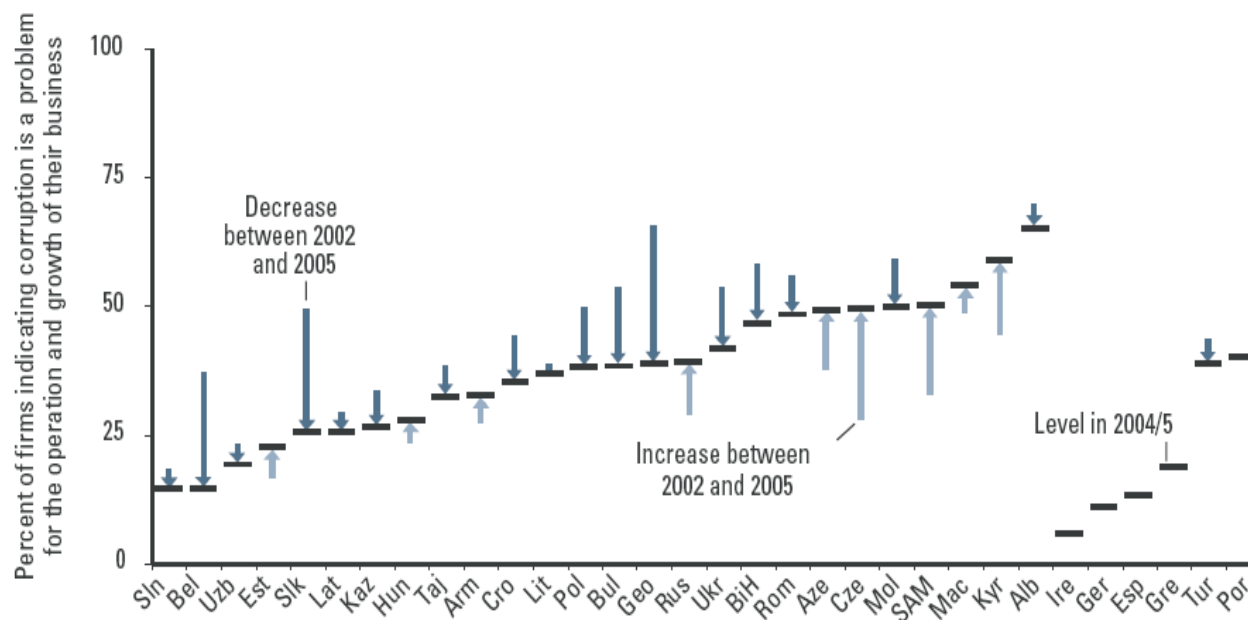
# Corruption and Governance Issues in BH

Source: *Anti Corruption in Transition 3 – “Who is Succeeding and Why?”*



- Fewer firms see corruption as a problem for business

Figure 2.1 Corruption as a problem for business, by country, 2002 and 2005



Source: BEEPS 2002, BEEPS 2005.

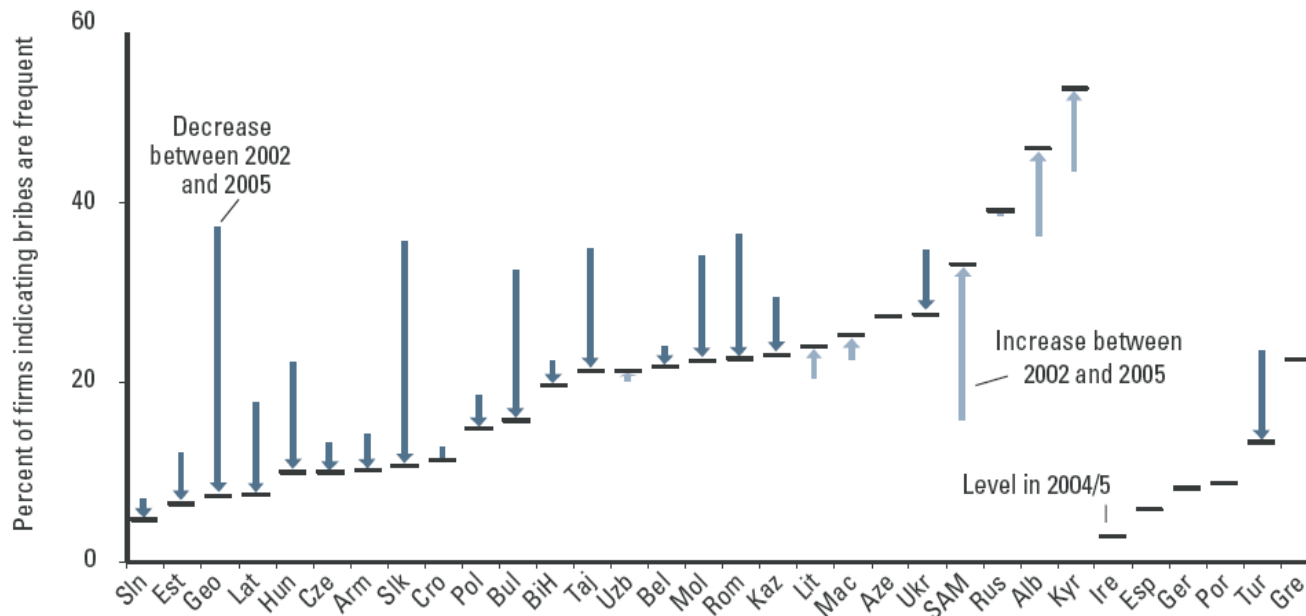
Note: Changes in the following countries are significant: Aze, Bel, BiH, Bul, Cro, Cze, Geo, Kaz, Kyr, Mol, Pol, Rom, Rus, SAM, Slk, Tur, Ukr. See Annex for details.

# Corruption and Governance Issues in BH - continued -



- Modest decline in the frequency of unofficial payments

Figure 2.3 Bribe frequency, by country, 2002 and 2005



Source: BEEPS 2002, BEEPS 2005.

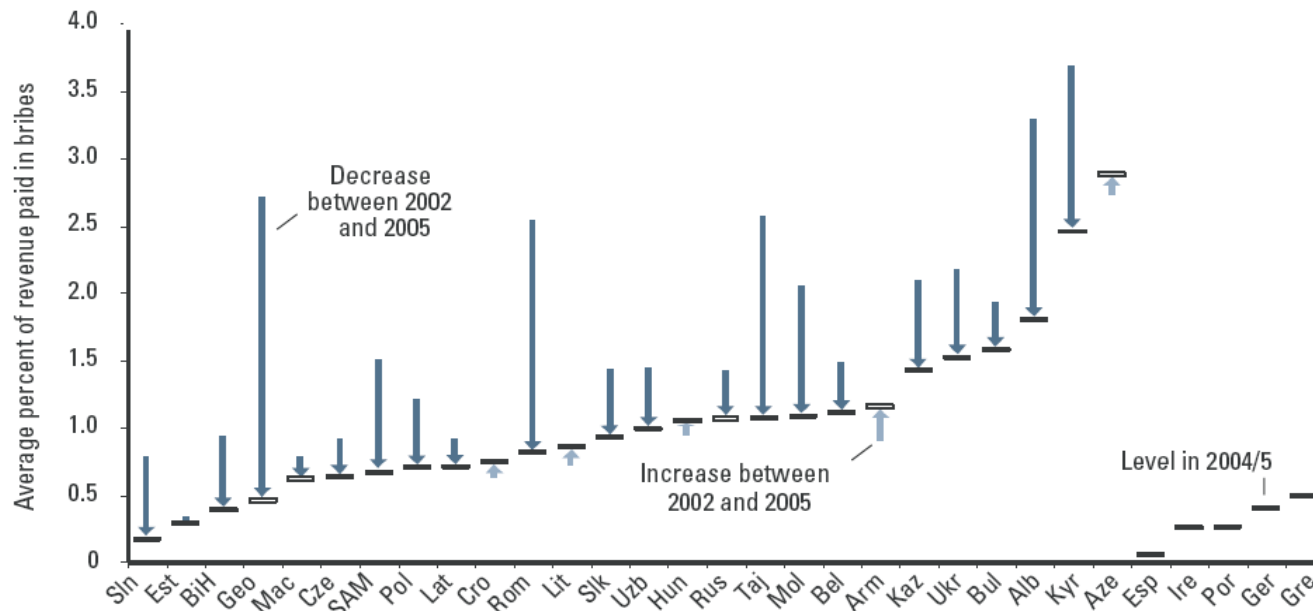
Note: Changes in the following countries are significant: Alb, Bul, Est, Geo, Hun, Kaz, Kyr, Lat, Mol, Rom, SAM, Slk, Taj, Tur, Ukr. See Annex for details.

# Corruption and Governance Issues in BH - continued -



- The average percent of revenues paid in bribes (the “bribe tax”) declined substantially

Figure 2.9 Bribe tax by country, 2002 and 2005



Source: BEEPS 2002, BEEPS 2005.

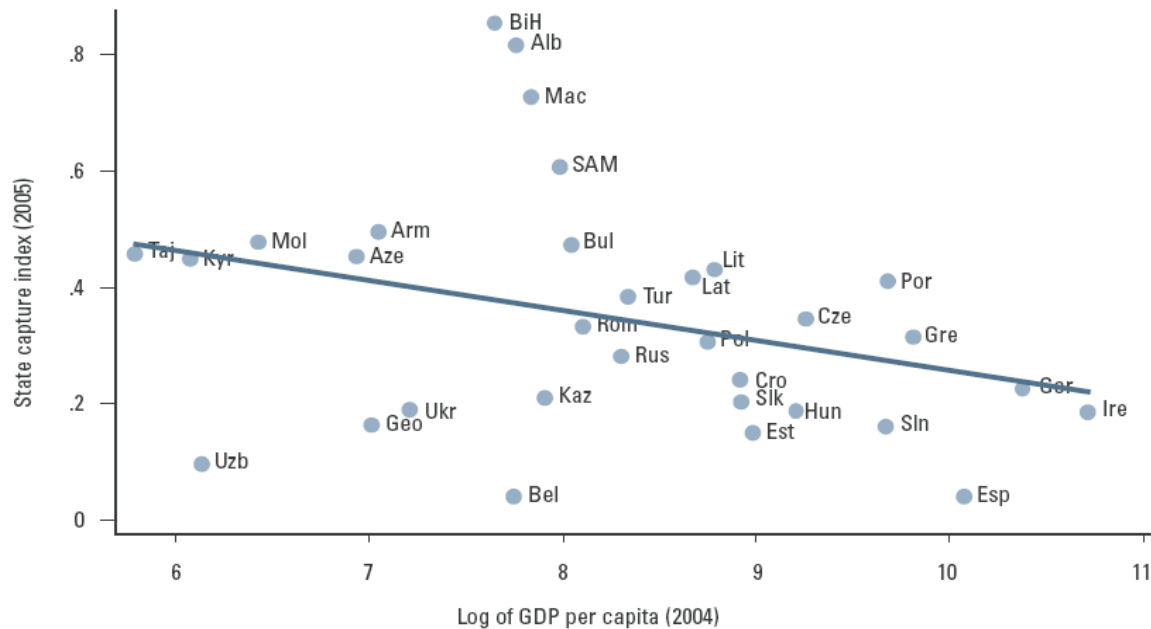
Note: Changes in the following countries are significant: Alb, BiH, Cze, Geo, Kaz, Kyr, Mol, Pol, Rom, Rus, SAM, Slk, Taj, Ukr, Uzb. See Annex for details.

# Corruption and Governance Issues in BH - continued -



- **BH has the highest level of “state capture” in all of ECA**

Figure 3.3 State capture and GDP per capita, 2005



Source: BEEPS 2005, World Development Indicators.

# *Corruption and Governance Issues in BH*

## *- continued -*



<b>Governance indicator</b>	<b>Year</b>	<b>Percantile rank (0-100)</b>
Voice and accountability	2005	43.5
	2004	41.5
Political stability	2005	24.5
	2004	26.4
Government effectiveness	2005	33.5
	2004	35.4
Regulatory quality	2005	31.7
	2004	31.5
Rule of law	2005	30.4
	2004	26.9
Control of corruption	2005	46.3
	2004	38.2

# *Development Impact of Corruption in BiH*

*Source: Doing Business 2007*



<b><i>Ease of</i></b>	<b>2006 rank</b>	<b>2005 rank</b>	<b>Change in rank</b>
Doing business	95	91	-4
Starting a business	141	136	-5
Dealing with licenses	160	159	-1
Employing workers	95	96	+1
Registering property	139	142	+3
Getting credit	7	7	0
Protecting investors	83	81	-2
Paying taxes	111	98	-13
Trading ac. Borders	56	53	-3
Enforcing contracts	117	114	-3
Closing a business	69	68	-1

# ***Corruption and Governance Issues in BH*** ***- Conclusion –***



***Some progress in BH:***

***Fewer firms see corruption as a problem,  
frequency constant, bribe tax is low and  
sinking, control of corruption is improving***

***but***

***Levels of Corruption are still high and  
“State Capture” remains the biggest  
concern***

# *Anti-corruption and Governance Challenges in BH*



- **A large share of public expenditures is still outside the budget** (road directorates, power companies, telecoms)
- **High number of SOEs which are not privatized** (490 in the FBH and 1058 in the RS)
- **The SOEs are exposed to external pressures often tied to single source procurement**
- **Capacity to enforce existing laws is still weak**
- **Fighting corruption in BH needs leadership at the top – not another strategy**



# *Anti-corruption and Governance Challenges in BH*



In its fight against corruption, BH should:

- facilitate competitive, transparent sale of state assets to private investors;
- watch infrastructure – planned investments in Corridor VC and in energy sector could amount to 50% of GDP. Considerable risks if these investments are not made transparently;
- strengthen public procurement agency;
- establish procurement review body;
- strengthen internal controls;
- establish internal audit departments.

# World Bank's Response

Governance will be “mainstreamed” in the new CAS



**The WB's new worldwide Governance Strategy aims to ensure:**

- More systematic and consistent treatment of governance issues across countries, tailored to country context, to attain measurable and demonstrable improvements.
- Better integration of governance and anticorruption concerns into the Bank's sectoral programs (including the private and financial sectors).
- Expanded Bank engagement with a wider range of institutions.
- More effective harmonization and collective action with other development partners.
- The highest fiduciary standards in Bank's operations.

# World Bank's Response New CAS (FY08-FY11)



- “Client Survey” reminder of the importance of promoting anti-corruption beyond Bank-financed projects.
- **Governance and anti-corruption at the heart of new CAS.**
- Bank’s analytical work as well as lending will be aimed to **help the country address identified governance and corruption issues (“state capture”)**.
- **Caveat**: forces that have underpinned anti-corruption successes in other ECA countries have only been partially present in BH. EU integration is an important carrot, but recent events demonstrated that it may not be sufficient. Democratic institutions are still weak and fragmented. Leadership has lacked a clear commitment to fight corruption.

# World Bank's Response New CAS (FY08-FY11)



- **Guiding principles:**
  - (i) **selectivity**
  - (ii) **graduation to Middle-Income Status (IBRD lending);**
  - (iii) focus on: ***governance, state building and anti-corruption;***
  - (iv) regional approach - **explore opportunities for regional projects in SEE;**
  - (v) **results focus.**
  
- **Analytical work underpinning the new CAS:** Doing Business 2007 - Jobs and growth; PEIR - Sustainability and State building; Labor Market Review; Fiduciary Update; Debt Sustainability Analysis.

# New CAS (FY08-FY11) – cont'd



## Likely CAS themes:

- ***JOBS***

- corporate restructuring;
- business environment;
- labor market; and

- ***IMPROVEMENT OF PUBLIC SERVICES***

- Strategic, medium-term approach in the transport and energy sectors;
- municipal services - comprehensive approach

***EU Integration = a cross cutting theme***

(complement EC efforts in developing governments' capacity)



***But the most important ingredient:  
Local leadership !***