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**The Wharton School of Business  
CSIS Hills Program on Governance  
World Bank Institute**

On March 3<sup>rd</sup> and 4<sup>th</sup>, the CSIS Hills Program on Governance, in partnership with the World Bank Institute and Wharton School of Business, brought together leading academics on corruption for a comprehensive workshop entitled: **“Research on Corruption and its Control: The State of the Art.”** The principal outcome objective of the workshop was to better understand existing research on corruption and to identify needed research for the purpose of significantly improving the quality and quantity of curricula on the subject and to assist in efforts to reduce corruption.

The Workshop dealt with corruption in practical terms recognizing that free markets are distorted by corruption and that rule of law is rendered ineffective when bribes are paid to police, prosecutors and law enforcement officials. Notice was made of a survey of developing economies that suggests that firms in countries with high levels of corruption achieved half the output growth of firms in countries with far lower levels of corruption.

At the Workshop’s opening dinner on March 3<sup>rd</sup>, His Excellency Ernesto Zedillo, former President of Mexico, stressed that the rule of law, with an impartial judiciary, is the most important weapon in the war against corruption. He noted that democracy, less important than the rule of law in fighting corruption, may need to await economic progress as was the case in East Asia.

The day-long workshop on March 4<sup>th</sup> was held at the Jon M. Huntsman Hall at the Wharton School of Business, University of Pennsylvania. The panels featured presentations followed by an in-depth discussion in the four areas of academic research: *Corruption and Economic Development; Human Behavior, Trust & Corruption; Political Corruption; Business Development & Corruption.*

William Laufer, Director of the Carol and Lawrence Zicklin Center for Business Ethics in the Wharton School and Roderick M. Hills, Chairman and Founder of the CSIS Hills Program on Governance opened the conference. Paul Wolfowitz, President of the World Bank, offered remarks via video, emphasizing the World Bank’s shared mission with the Hills Program on the need to address corruption as a major obstacle to development around the world.

Wolfowitz noted that the World Bank estimates that corruption costs the developing world about \$80 billion a year – an amount approximately equal to the total of all development assistance. Notice was made of the enormous loss to corruption from the administration of the \$64 billion oil-for-food program in Iraq between 1996 and 2003, as well as the estimated \$80 billion spent in reconstruction efforts in Iraq which cannot be accounted for to date.

The first panel, “Corruption and Economic Development,” discussed the importance of empirical research. The panel referred to studies demonstrating how business and political connections encourage corruption and referred to experiments that used monitoring of business activities to discourage corruption. Examples were given of the use of private firms in anti-corruption efforts. Specific studies of road building in Indonesia and medical supplies procurement in Argentina demonstrated that various types of monitoring can significantly effect corruption.

The second panel brought together experts from a range of disciplines including sociology, political science, philosophy and law to examine how “Human Behavior and Trust” affect efforts to deal with corruption.

A working lunch panel addressed anti-corruption efforts at multi-lateral development banks (MDBs) such as the World Bank, Inter-American Development Bank, and the International Financial Corporation. Panelists commented on corruption found within these institutions, and noted the absence of regulatory frameworks to govern how MDBs deal with corruption. They also discussed the impact of corruption on the lending process. The recent canceling of a World Bank contract with Chad was examined. Questions were raised about how lending policies are affected by corruption, and could potentially be restructured to deal with the realities of corrupt practices.

The third panel on “Political Corruption” examined corruption from a political science dimension. The panel analyzed the relationship between political corruption and democracy; examined the politics of political corruption through the local, bilateral and multilateral levels; questioned methods of measuring accountability; and, traced anti-corruption measures in Asian countries as a model for other countries. The ensuing discussion focused on the social networks, clienteles and patronage inherent in many developing countries, as well as corrupt networks both within and outside of the official realm.

The final panel, entitled “Business and Corruption” was conducted in a Socratic method- case-study style where the Chair led the discussion using real experiences of U.S. companies investing in countries where many business practices fell within a “gray area.” The Chair assumed the position of an assistant to the CEO of a U.S. company establishing operations in an Asian country. In the process, he consulted with his Board of Directors (the Panel) on business and investment strategies, as well as legal and ethical risks and behaviors. Business and legal dilemmas including payments to government officials, extortion demands and the hiring of consultants with political influence were raised and dissected in the discussion period.

A record of the Wharton Workshop discussions will be disseminated in a monograph to a wide audience, accompanied by an edited, visual DVD record of the event prepared by the World Bank Institute and the CSIS Hills Program on Governance.

On April 10-11, 2006, the Hills Program will participate with the World Bank Institute in an international conference entitled: “Business, NGOs and Development: Strategic Engagement Towards the Millennium Development Goals.”