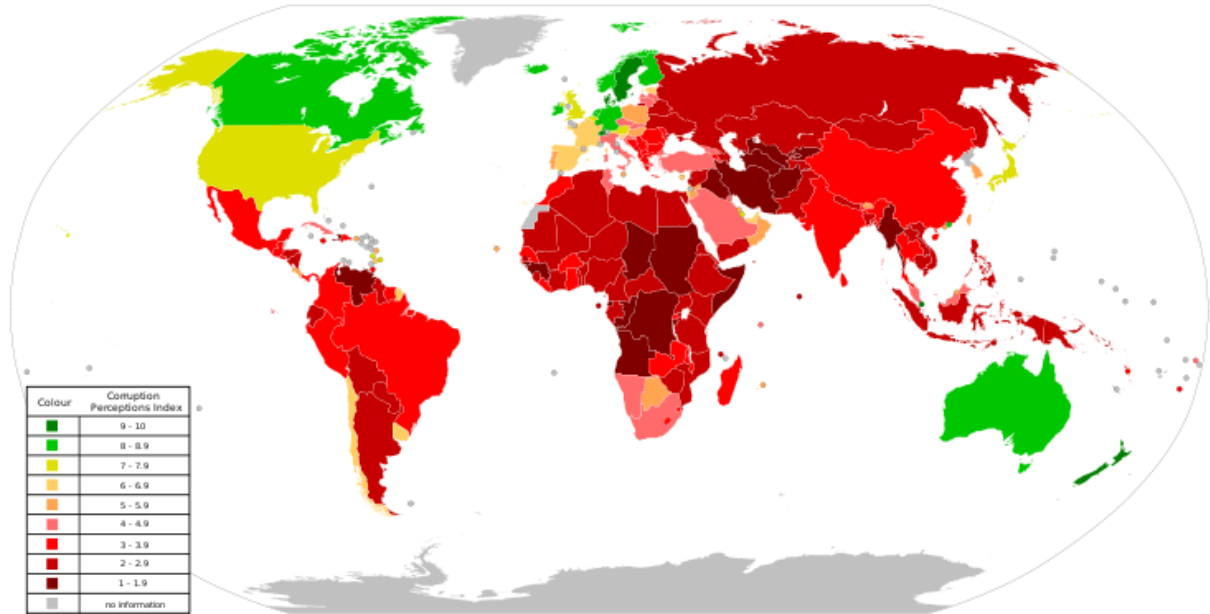


# Economic and Social Council

## Addressing corruption as an obstacle to global welfare



### Description

The negative impact of corruption on development is no longer questioned. Evidence from across the globe confirms that corruption impacts the poor disproportionately. Corruption has several negative impacts:

- it hinders economic development,
- reduces social services,
- and diverts investments in infrastructure, institutions and social services.

As the UNDP puts it: “corruption fosters an anti-democratic environment characterized by uncertainty, unpredictability and declining moral values and disrespect for constitutional institutions and authority. It also undermines efforts to achieve the Millennium Development Goals”.

That we need to address corruption is clear to us all, but the first problem we encounter is a very basic one. Everyone uses another definition of the word corruption. Let’s see what the word can mean.

### Definition

“Giving or obtaining advantage through means which are illegitimate, immoral, and/or inconsistent with one's duty or the rights of others.”<sup>1</sup>

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<sup>1</sup> (www.businessdictionary.com)

The most popular way of differentiating various forms of corruption is the distinction between petty corruption and grand corruption. In general, petty corruption is defined as street level, everyday corruption. It occurs when citizens interact with low- to mid-level public officials in places like hospitals, schools, police departments and other bureaucratic agencies. The scale of monetary transaction involved is small and primarily impacts individuals -and disproportionately the poor-. In contrast, grand (or political) corruption often involves much larger sums of money. It negatively impacts the country as a whole, along with the legitimacy of the national government and national elites.<sup>2</sup>

Another distinction is the difference between personal corruption (motivated by personal gain) and political corruption (motivated by political gain). Lastly you can distinguish individual corruption and organizational or institutional corruption.

### **General Information**

Apart from how you want to define corruption, some experts claim that a lack of political freedom explains 71% of corruption. If you take a look at the Index of Economic Freedom<sup>3</sup>, and you compare it to map of the Transparency International (see above), you can immediately see the correlation. Several aspects are favourable for corruption, like lack of government transparency, lack of freedom of speech, lack of justice and lack of government control. When you want to find a solution you need to combat these points. Furthermore are large, unsupervised public investments, poorly-paid government officials and obliged government licenses for conducting businesses very encouraging factors for corruption.



Underneath I've summed the 3 main area's.

#### *Political Corruption*

There are four parts to any campaign; these included the candidate, the issues of the candidate, the campaign organization, and the money to run the campaign with. Without money one should forget about the other three. It is still a fact that money is needed to pay for office space, staff, salaries, bills, travel expenses, advertising in the mass media etc. As you can understand, corruption is a large risk at countries where (international) neutral observers and control is lacking. It is for such a reason that in the area of financing of political parties and elections strict campaign laws should be enacted. In that way you'll be able to regulate campaign spending and contributions and thus decrease corruption.

#### *Corruption in Business*

Let me give an example of a corruption in the business world: when governments are awarding contracts for large public works, corruption can be present in several stages.

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<sup>2</sup> A Users' Guide to Measuring Corruption (by the UNDP)

<sup>3</sup> [http://en.wikipedia.org/wiki/Index\\_of\\_economic\\_freedom](http://en.wikipedia.org/wiki/Index_of_economic_freedom)

Firstly, a firm may pay to be included in the list of pre qualified bidders and to restrict the size of the list. Secondly it may pay for inside information. Thirdly, bribes may induce officials to structure the bidding specifications so that the corruption firm is the only qualified supplier. Moreover, a firm may pay to be selected as the winning contractor. Finally, once a firm has been selected as the contractor, it may pay to set inflated prices or to skimp on quality.

#### *Donor aid*

Although a lot of Less Economically Developed Countries (LEDC's) are dependent on international aid, huge sums of money leak away through means of corrupt government officials and business owners. This is a very serious problem which largely influences the Donor Aid programs. Currently Haiti is a very hot topic, since a lot of money is donated, but as the country is struggling with corruption, it is unlikely that the funds will end at the right place.

Underneath I've summed up some reasons why stopping corruption is so important.

- Corruption slows down investment and economic growth
- Corruption raises the cost of doing business. Officials may introduce certain conditions to ensure that they get bribes, through delays and unnecessary requirements.
- Corruption discourages new ideas and innovations.
- Corruption leads to the decline in real per capita incomes, inflation, a widening budget and balance of payment deficits, and declining official production and exports:
- Corruption promotes inequality among firms
- Corruption leads to a reduction in the quality of products.
- Corruption diverts funds from investment and other production activities.

### **Fighting Corruption**

Many anti-corruption efforts have failed for a variety of reasons. One is the imbalance between prioritizing short-term and long-term solutions. The short-term, immediate visible targets that create momentum in fact merely scratch the surface of the problem. The long-term solutions are more difficult to pursue, because they are per definition more resource intensive. A well-thought anti-corruption reform strategy requires a long-term vision and a clear understanding that fundamental change can take place, at the earliest, in the next and not in the present generation. But on the other hand we should not underestimate the psychological effect of immediate actions, because those will influence future thinking in a positive way.

When you are trying to find a good approach to combat corruption, you have to take several things in mind. Most of the time, when aiming at institutional reforms, you should as well include culture change. Please consider that the required integrated and holistic approach should fit the specific country and culture. Every nation is different and 'best practices' in country A might not work in country B. One of the best institutions to focus on however is education. You'll understand that when the youth participates as well, culture change is possible and the public will be well informed.

## Measuring Corruption

When you read on the internet about corruption, you'll find a lot of Indices that show how corrupt a country or a list of countries is. A very good article that easily tells you the problem and current situation in Forbes <sup>4</sup> uses the Transparency International index called "Corruption Perceptions Index"<sup>5</sup>. TI also publishes the Bribe Payers Index (BPI)<sup>6</sup>, that focuses on the likelihood of foreign firms paying bribes. The European Bank and the World Bank publish the BEEPS (Business Environment And Enterprise Performance)<sup>7</sup>, which compares countries with regard to investment climate, competitiveness and governance in specific areas.

Please beware that all these indices measure in a different way and all have their strengths and weaknesses. But it can give you a good overview of the problem.

## Parties Involved

Besides the UN member states, there are a lot of organisations that are involved in monitoring, researching and fighting corruption. An overview:

### GRECO

The Group of States against Corruption (GRECO), the Council of Europe's anti-corruption monitoring body, established in 1999, as an enlarged Partial Agreement by 17 Council of Europe member States. GRECO has currently 46 members, including the USA.

### OECD

The Organisation for Economic Co-operation and Development (OECD) is a global leader in the fight against corruption, taking a multidisciplinary approach to combating corruption in business via the OECD Anti-Bribery Convention, taxation, development aid, and governance in its member countries and beyond.<sup>8</sup>

### Transparency International

The international watchdog focusing on corruption publishes several indices used all over the world.

### World Bank

As the World Bank is a large aid donor (regulator), it profits a lot when corruption is decreased especially for the donor aid programs.

### IACC

The International Anti-Corruption Conference is a place where all the institutions and parties involved in addressing corruption are brought together. It is the right conference for these people to exchange ideas and information

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<sup>4</sup> [http://www.forbes.com/2007/04/03/corruption-countries-nations-biz-07caphosp-cx\\_da\\_0403corrupt.html](http://www.forbes.com/2007/04/03/corruption-countries-nations-biz-07caphosp-cx_da_0403corrupt.html)

<sup>5</sup> [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009](http://www.transparency.org/policy_research/surveys_indices/cpi/2009)

<sup>6</sup> [http://www.transparency.org/policy\\_research/surveys\\_indices/bpi](http://www.transparency.org/policy_research/surveys_indices/bpi)

<sup>7</sup> <http://www.ebrd.com/country/sector/econo/surveys/beeps.htm>

<sup>8</sup> [www.oecd.org/corruption](http://www.oecd.org/corruption)

## **UN involvement:**

The UN has taken many actions in the field of combating corruption. A very important event was the United Nations Convention on Corruption in 2004 in New York (please find the text via the link in the sources). It was the first legally binding international anti-corruption instrument. The Convention provided a unique opportunity for mounting a global response to a global problem, for instance by establishing the International Anti-Corruption Day and the UNODC Global Programme against Corruption.

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*A Users' Guide to Measuring Corruption:*

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