Corruption

Huguette Labelle

Abstract

Notions of corruption and its impact on development have evolved significantly over the last two decades. Corruption has been recognized as one root cause of many of the problems faced by developing countries: the failure of growth strategies, ineffective institutions, barriers to public services, and the lack of respect of human rights.

Because of its illicit nature, this damage is difficult to measure. Its cost exceeds the illegal act itself—from petty bribery that adds to the suffering of the poor to the capture of government policy by special interests. Corruption weakens institutions and reduces the capacity of all
governments and international organizations to tackle challenges like poverty, conflict, economic crisis, and climate change.

Recognizing the multi-faceted challenges of corruption has led to increased efforts to promote good governance by making institutions more transparent, in order to prevent corruption and sanction those who abuse their power.

**Keywords**
corruption, development, transparency, governance, institutions, ethics, accountability

“Corruption is an insidious plague that has a wide range of corrosive effects on societies. . . .

This evil phenomenon is found in all countries—big and small, rich and poor—but it is in the developing world that its effects are most destructive.”

*Kofi Annan, Foreword to the United Nations Convention Against Corruption, 2003*
Introduction

Whether perpetrated by governments, businesses or citizens, corruption is a major barrier to development. When people in power at local, national or international level abuse their position for their own benefit, at the expense of the public good, the costs are high for society at large, but particularly for society’s most vulnerable.

Corruption can happen in many different forms in any country, but whether poor people suffer demands for petty bribes or the destruction of entire public services through embezzlement, the consequences for development are equally damaging.

In the past two decades, there has been growing recognition that corruption undermines development efforts. It skews decisions about budgets and policies, it undermines the effectiveness of policies to grow economies and help the poor, it denies citizens the right to participate in the government of their country, and it diverts public resources into private hands. Most recently, this problem has started to be seen as a social injustice, since it is the poor who most often find themselves at the losing end of this corruption chain. They are not only denied access to public resources but have to pay a higher proportion of their limited income when they
make illegal payments to access them. The poor also suffer further exclusion by losing voice and vote when public institutions—the structures that are supposed to protect them—are corrupted.

Where corruption characterizes the rules of the game, the fault tends to lie in structural weakness in public and private institutions exacerbated by a lack of political will to enforce laws and implement necessary reforms. With the challenges ever more global, good governance challenges cannot be treated by national governments in isolation. Looking at the various barriers to good governance allows a more sophisticated and nuanced view of corruption. No one initiative can by itself prevent corruption, deal with it when it happens, and correct the gaps that allowed it.

**The evolution of thinking about corruption**

Corruption is often thought of as an economic or “white collar” crime. That ignores the greater implications of corruption, namely, the abuse of power at the expense of the many, which perpetuates social injustice and the exploitation of the vulnerable—through denial of healthcare, education, economic opportunity, and justice—and prevents the holding to account of leaders for
the theft of resources. A wider understanding of corruption can help explain why decades of
development efforts are not working for many of the world’s most poor and vulnerable people.

**Definitions**

A simple yet widely accepted definition of corruption is “the abuse of entrusted power for
private gain,” entrusted power being the mechanism by which representative government gains
its legitimacy, as do other positions of power within modern society: the judiciary, political
parties, and corporations.

Early definitions of corruption, however, were confined to *public sector corruption*. Joseph Nye,
one of the first political scientists to address the issue directly, included bribery, nepotism, and
misappropriation in his definition: “Corruption is behavior which deviates from the normal
duties of a public role because of private . . . pecuniary or status gains.” (Nye 1967)

Samuel P. Huntington also limited his definition of corruption to the “behavior of public officials
which deviates from accepted norms in order to serve private ends” (Huntington1968).
According to Huntington, some societies experience more corruption, especially societies at an
earlier stage in development. This was at a time when Rostow’s “stages of development” theory was in vogue (Rostow 1960). According to Huntington’s analysis, corruption served a purpose in these evolving societies: it was a by-product of modernization and a means to “surmounting traditional laws or bureaucratic regulations which hamper economic expansion.”

While later research would expand the definition of corruption, there is still a strand of thought that maintains the focus on the public sector, such as a recent academic study explaining corruption as something that will happen in large public sectors: “an incident where a bureaucrat (or an elected official) breaks a rule for private gain” (Banarjee 2011).

However, corruption is not limited to government officials who hold out their hand for a bribe. Doctors, businesspeople, parliamentarians, and any individual can demand illegal payments for services and jobs that they are supposed to provide. And where there is demand, there has to be a supply side. Surveys of businesspeople show that corruption can also occur between private sector companies, with no public officials involved, such as when suppliers compete within a multinational firm’s supply chain, or when cartels keep prices artificially high (Transparency International 2011).
One of the leading scholars in the field of corruption, Susan Rose-Ackerman, was one of the first to focus on the relationship between business and government as a corruption hotspot. She warned that firms bribe to win contracts, to avoid regulation and taxes, to inflate the price they are paid for their services, or to justify delivery of lower quality (Rose-Ackerman 1978).

The concept of “grand corruption” as a shared crime perpetrated by both officials and businesses (the bribe taker and the bribe giver) was introduced and explained by George Moody-Stuart, in a study that did much to break the taboo in business circles about discussing the problem (Moody-Stuart 1997).

Moody-Stuart elucidated the role of business in corruption by defining two kinds of administrative corruption. While officials often demand to be paid for something that they are ordinarily required to do by law (“according-to-rule” corruption), bribes are also paid to obtain services the official is prohibited from providing (“against-the-rule” corruption) (Moody-Stuart 1997). The bribe payers may include businesses and a wide range of actors that form part of the exchange. Regardless of who pays, the results are the same: “According-to-rule” corruption can be economically wasteful, but “against-the-rule” corruption can cause death—when, for
example, illegal payments are used to endorse sub-par safety standards in buildings, building sites, food, or medicines.

It is important to recognize that corruption can influence the very making of the rules. This political corruption can include the manipulation of policies or abuse of procedures in the allocation of resources and financing by political decision-makers who abuse their position to sustain their power, status and wealth (Amudsen 1999).

A pioneering thinker in corruption, Daniel Kaufmann of the Brookings Institution, and formerly of the World Bank, has made the powerful and compelling claim that looks at a new classification of corruption: “legal corruption.” Here, corruption is understood to involve collusion and bargaining that may be legal in a country but that produce results harmful for broader public welfare (Kaufmann and Vicente 2011). An example would be the powerful role of lobbyists, which is legal in many countries, but which may result in skewed legislation that is not in the public interest.
**Manifestations**

The notion of abuse of power allows many more examples of corruption to emerge, including illegal surveillance, torture, and vote rigging (Alatas 1990).

Other clear manifestations of power abused, whether in the public or private sector, include *clientelism, nepotism*, and *patronage*. A recent report has defined political patronage as “a vertical system of corruption that functions from top to bottom in all public institutions,” warning that such a system is not limited to developing countries but also exists in countries where “politicians, magistrates, and white-collar criminals form closed corruption networks that are not systematic in nature” (Center for the Study of Democracy 2010).

While some may argue that corruption in the form of favoritism or nepotism is human nature, by now it is widely felt to be neither acceptable nor culturally excusable as a way of doing business. While certain forms are more prevalent in some societies than others, it can exist everywhere, causing equal damage to both finances and trust. It can be compounded by years of neglect, as people who come to positions of power by these means use their position to contribute to the exacerbation of the problem.
Few activities create greater temptations or offer more opportunities for corruption than public procurement. The procurement of goods and services can represent between fifteen and thirty percent of an entire national economy. Yet public procurement procedures often are complex, making manipulation of the sums involved hard to detect. The estimated cost of corruption in public procurement ranges from ten to twenty-five percent. Analysts say that in some cases the lost money can amount to as much as forty to fifty percent of the total contract (Transparency International 2006).

Another area prone to risk is the natural resource sector. Dozens of developing countries have seen their chances of economic prosperity undermined because of the lengths to which leaders, officials, companies and individuals will go to maintain their grip over the revenues (also called “rents”) produced from oil, gas, mining, forests, and other extractive industries.

Another manifestation of corruption is the phenomenon known as stolen assets: the money a corrupt leader takes out of a country and parks in fiscal havens or property around the world. One study estimates that dictators have stolen between US$ 100 billion and 180 billion over the
past decades (CCFD 2007). Since this study only looked at leaders, not their families or associates, the actual figure may be much higher.

However, the study was a watershed because it marked the first attempt to calculate the amounts stolen and highlight the complicity of Western banks and other companies in providing a safe haven for illicit monies.

Illicit flows can also include ill-gotten profits from tax evasion, organized crime, the illicit trade of natural resources, and trafficking (of people, weapons and drugs), aided by the bribery of enforcement bodies, from customs officials to judges.

What does this mean for developing countries? Often, a massive loss of money that could be invested in development. One study estimates that the forty-eight poorest countries lost US$ 197 billion from 1990–2008 (GFI/UNDP 2011). Further analysis suggests that when the estimated illicit outflows from the developing world to the leading financial centers ($500–$800 billion a year, according to Baker (2008)) are compared to the development aid inflows to developing countries from donor governments ($50–$80 billion), it appears that for every $1
received from the West, $10 are flowing back out of the developing countries (Baker and Joly 2009).

**Efforts to quantify impact**

Corruption generally comprises illegal activities, which mainly come to light only through scandal, investigation or prosecution. It is thus difficult to assess absolute levels of corruption in countries or territories on the basis of hard empirical data, as the true figures are “off the books.”

However, many efforts to take on the challenge of measuring the scale of corrupt acts, and their wider cost, have helped better understand and address the impact of corruption.

A wave of efforts started in 1995 that analyzed the impact of corruption, and its control, on the economy, especially developing economies. The findings were significant: some reported that increased corruption leads to reduced growth, others that it slowed rates of poverty reduction (Mauro 1995). In 1998, an International Monetary Fund (IMF) working paper based on two decades of income levels established the considerable impact of corruption on income inequality (Gupta et al. 1998). This finding has been confirmed by a 2011 systematic review of evidence on
corruption’s negative impact on economic growth in low-income countries, highlighting indirect consequences such as reduced investment, human capital, and public expenditure (Ugur and Dasgupta 2011).

This makes it hard to support the argument that highly corrupt countries can sustain strong economic growth. These studies based their measurement of corruption on the amount of red tape, the efficiency of the judicial system, and various categories of political stability for a cross section of countries.

Econometric analysis also shows that governance and growth are correlated. Interpretation of growth rates from Latin America and the Caribbean shows that when growth takes place without governance, the result is new forms of state capture, another abuse of power. Forms of state capture such as undue influence on politics can explain why indicators show rising perceptions of corruption in many developed countries. Countries such as Singapore, Hong Kong, and South Korea have experienced rapid growth from a starting base of poor governance. However, that growth was accompanied by specific anti-corruption measures that were in many respects successful.
This research made it harder to ignore the economic costs governments would face if they failed to tackle corruption. One study graded corruption on a scale of one to ten and found that moving up one point on that scale could reduce foreign investment flows by sixteen per cent. It went even further by positing that corruption’s impact on investment could be even greater than the impact of raising taxes (Wei 1997).

In 2004 the World Bank Institute published research that put a price on corruption, in which they estimated the total cost of bribery worldwide at US$ 1 trillion annually (Kaufmann 2004). While it is important to note that bribery is only one form of corruption, quantification of this sort had a major impact on the public consciousness and succinctly remade the economic case for greater international action.

Correlating corruption measurements with other indicators, the same World Bank research said that controlling corruption would increase per capita income four times over: a “400 percent governance dividend.” A later paper argued that poverty was closely correlated to countries where governments have low levels of accountability, passing policies and budgets without consultation or consequences (Moore 2006).
Because it is hard to measure corruption, it is also hard to measure the impact of fighting it. Countries can be ranked, for example, based on how corrupt their public sector is perceived to be, and global surveys can measure people’s experience of corruption and its impact on their daily life. These surveys tend to consistently show two things: corruption, especially in the shape of petty bribery, hits the poor hardest; and political parties are perceived to be the most corrupt sector.

**An impediment to development**

Corruption limits the capacity of governments to govern, of development organizations to aid development, and of people to live without being excluded from opportunities.

The negative drain that corruption exerts on development offers some explanation for the below-average standard of living in countries that have valuable natural resources. In looking at key indicators of human development and corruption, resource-rich countries such as Equatorial Guinea and Angola fall toward the bottom of the list. Correlations between levels of perceived corruption and human development substantiate this finding (Transparency International 2008).
While there are many other factors behind the persistence of income inequality, poverty, social injustice, and political instability, understanding corruption can help explain the barriers that have limited the success of decades of development efforts.

**Impact on human development**

Corruption deprives citizens of access to the basic goods and services they need to live: healthcare, education, and water. It can also see them robbed of the right to land, and stuck in unemployment without equal opportunity to build a better life.

Demands for illegal payments reduce access to services like education, denying people a means to improve their social and economic standing, thus perpetuating the cycle of stagnated development. As corruption also reduces the quality of services, the impact on needy households is equivalent to an insidious sort of double taxation. Survey work in Mexico suggests that one-third of a poor family’s income is spent on bribes. Surveys in India have reported that poor people have paid more than US$ 200 million in bribes annually to access eleven “free” services, including police services, hospitals, schools, and unemployment benefits (Transparency International India 2008).
Findings across the world show that corruption has undermined development advances. The dangerous relationship between higher levels of reported corruption and reduced development has been demonstrated in education, maternal health, and access to water (Transparency International 2010). The results for improved access to drinking water are the most striking. They suggest that when it comes to improving access to clean water, having a higher level of per capita income has the same statistical effect as lowering the level of bribery. Similarly, stronger anti-corruption legislation and rule of law have successfully reduced maternal mortality rates. A correlation is also evident between higher literacy rates for a nation’s youth and greater public access to information.

The impact of corruption on development has been substantiated by other studies. In 2005, Swedish researchers found that in Africa, between thirty and seventy-six percent of all funds other than wages going to primary education are lost, warning that higher corruption is correlated to children spending fewer years in school (Reinikka and Svensson 2005). Other researchers said that an increase of one point in the index of corruption reduces school enrolment by almost five per cent and life expectancy by more than two years (Dreher and Herzfeld 2005). Based on
research from the Philippines, corruption affects health and education outcomes by reducing test scores, lowering school rankings, and reducing satisfaction ratings (Azfar and Gurgur 2005).

Corruption, whether in public services or other sectors, harms vulnerable groups most: the poor, women, youth, and those without influence over institutions. Thanks to studies highlighting the impact of corruption on women, it is increasingly recognized that gender acts as a lens magnifying the impact of corruption, particularly when it comes to service delivery. Corruption in the provision of basic services such as healthcare and education can have disproportionate and negative consequences for women and girls (as greater users of public services), exacerbating existing inequalities (Chene et al. 2010).

As seen in the case of women, the cost of failed governance in public services can be the misallocation of public resources, of which the brunt is also borne by those most dependent on them. Paul Collier’s seminal work on poverty, *The Bottom Billion*, cites a study tracking money intended for rural health clinics in Chad, which found that only one percent actually reached its intended destination (Collier 2007).
These findings about governance breakdowns have important repercussions for development organizations. Already in 2000, empirical research was pointing to a direct link between the quality of governance in recipient countries and positive aid outcomes (Knack 2000).

**Justice denied and impunity tolerated**

In the past, efforts to tackle corruption have often failed because of corruption in the justice system. When there are factors that encourage the judiciary to take action contrary to the public interest, it can be very difficult to create a strong disincentive to corrupt behavior: politicians, businessmen and criminals can be encouraged to break the law, safe in the knowledge that justice can be evaded. Conversely, if the judiciary lacks authority it may not be able to serve its role as a check on government power. Many times, independent judges who do their job well have been pushed aside, reassigned, or even fired (Buscaglia 2006).

It is important to recognize the marginalization that poor communities and individuals experience when justice fails and their governments are not accountable. Corruption denies access to the institutions that people need to protect their human rights: the police and the courts. A Human Rights Watch report in Nigeria warned that citizens do not expect help from the
police: payments are often necessary to see an investigation completed. While senior officials embezzle budgets, underpaid traffic police set up roadblocks for the sole purpose of extortion (Human Rights Watch 2010).

When the justice system is corrupt, people can be pushed off their land, denied employment, or abused and extorted by local officials or security forces without hope of redress. In Cambodia, for example, land grabs occur because of the high incidence of failure by the local courts to uphold laws regarding state land concessions, which have found their way into the hands of the country’s political and economic elite (UN Cambodia Office of the High Commissioner for Human Rights 2007).

When police corruption occurs, it can extend to protecting, supporting, or turning a blind eye to organized crime. The UN Office on Drugs and Crime (UNODC) has warned that such connivance can reach to the highest levels, pointing to evidence implicating senior police officials in Guatemala, Mexico, and El Salvador (UNODC 2011).

In terms of development, the result of justice systems being weakened by corruption is that people become disempowered, losing their ability to seek justice in courts or hold politicians to
account. This not only makes them further impoverished, but also sows the seeds of conflict by dissolving any ties of loyalty between people and a state seemingly captured by private interests. The World Bank’s 2011 World Development Report showed that countries with better performance in terms of governance indicators are at lower risk of civil war by a margin of thirty to forty-five percent.

One explanation for this correlation is that corruption of state institutions that should act as a check on executive power makes it easier to rule without citizens’ consent. Another explanation is that a prolonged period of unaccountable rule is likely to build up social tension and exclusion, reducing loyalty to the state and making people more likely to resort to violence to meet their ends.

This was demonstrated during the popular protests that took place in North Africa and the Middle East in early 2011. Although there were many contributing factors to the “Arab Spring,” corruption was a common denominator. Leaders in countries where economic growth has not been accompanied by equitable distribution of resources, the development of transparent public institutions, and the rule of law can find themselves faced with popular anger and demands for greater accountability.
The wealth of natural resources denied

Instead of prosperity and development, resource-rich countries often show high levels of poverty, illiteracy, and inequity, and a tendency towards political instability and violent conflict. This scenario, often called “the resource curse” or “the paradox of plenty,” arises when business and political elites influence policies and manipulate the state apparatus to maintain their advantageous position over the control of natural resources (Bantekas 2005).

It is estimated that two-thirds of the world’s poor live in resource-rich countries. An IMF study of thirty-one oil-exporting countries from 1992–2005 revealed that more oil rents mean increased corruption and fewer political rights (Arezki and Brueckner 2009). It does not have to be that way.

This sort of activity is usually facilitated by bribes to officials, which weakens government institutions and encourages those making ill-gotten gains from their control to hold onto these by all means necessary: a complete capture of the state by private interests.
Few countries have seen the harmful impact of the “resource curse” more than Nigeria. The role of massive foreign bribery in lining the pockets of the corrupt cannot be ignored. Several U.S. companies have admitted paying Nigerian officials hundreds of millions in bribes for engineering, procurement, construction and exploitation contracts related to oil and gas extraction (Transparency International 2011).

**Lack of trust in the political system**

Citizens give their governments the power to act on their behalf, entrusting them with the management of the public good. Many things can undermine this trust: the financing of political parties by powerful private entities, the capture of the state and the pushback on regulation, leaders living in opulence while their citizens live on less than two dollars a day.

Because it blocks attempts to carry out government policy—whether in the form of stronger prosecution, more transparency, or higher taxes—state capture by private interests is a fundamental barrier to development. As Hellmann and Kaufmann write, “state capture has become not merely a symptom but also a fundamental cause of poor governance” (Hellman and Kaufmann 2001).
Attempts at regulatory capture in any public sphere can result in inefficient public spending, overpriced public tenders, and a gnawing mistrust of politics among citizens. All of this produces “social damage” for a country and its government.

“Social damage” is a newly emerging concept that seeks to estimate the cost of corporate bribery of foreign officials to a country’s development (Olaya et al. 2010). In Costa Rica, Alcatel-Lucent, the Franco-American communications company, agreed to pay US$ 10 million to the Costa Rican state as a compensation for the “social damage” caused to Costa Rican society after a scandal that involved US$ 2.5 million in bribes to win cell-phone contracts. To estimate social damage, Costa Rican authorities cited reduced investors’ confidence in the national economy, damage to government financial management, and undermined credibility of politicians and political parties, illustrated by increased abstention rates in the 2006 elections.

*Countries left with weakened infrastructure*

Several studies correlating public services with corruption indicators have demonstrated the empirical argument: corruption significantly increases the cost and reduces the quality of
infrastructure services that are vital to any economic development (Collier and Hoeffler 2005). Studies have found, for example, that corruption negatively impacts the delivery of electricity, raising the cost of both connecting to and operating a network (Dal Bo and Rossi 2004).

The most debilitating infrastructural corruption problem occurs in the construction sector, which is naturally an area of big expenditure for a developing economy. It is difficult to compare costs and timeframe of large and often unique construction projects. This makes it easier to hide and inflate additional expenditure. It is also a particularly technical and fragmented industry, often involving contractors and sub-contractors, making the tracing of payments and promulgation of standards more complex.

Research carried out in Nigeria by Human Rights Watch explains some of the corruption risks in large projects. Corrupt officials favor large construction processes over basic public services, since the former offer greater opportunities for surreptitious misuse of funds. The report warns that half of large public investment projects are not completed, suggesting that many local officials have no interest in seeing projects completed, since that would see the funding, and opportunities for graft, dry up (Human Rights Watch 2007).
Chronic corruption can lead to under-investment in infrastructure due to the lack of resources both domestic and foreign. Corruption is often marked by the flight of capital from the country by domestic investors and an increased wariness by international investors to invest in local projects. The perception that corruption is a part of doing business in a country can be a strong disincentive to foreign investment, especially when corruption has an impact on that country’s politics and stability. In 2011, a World Bank report looked at the impact of corruption and tax evasion in Malawi and Namibia. In both countries, corruption and tax evasion amounted to more than ten per cent of the size of the national economy—funds which normally would have entered national accounts for use in investments and service delivery (Yikona et al. 2011).

**Responding to corruption**

Governments can pursue greater economic development, but their capacity to implement their policies depends upon the integrity of institutions. Strong checks and balances are needed, as well as a general culture of transparency and accountability. The participation of local government, judiciary, civil servants, citizens, and the business sector has to be an integral and
constant feature of governance initiatives. Without these, the goal of cleaning up government can be quickly diverted by interests other than the public good.

To determine where to improve governance, one has to analyze where the problems are. In more than seventy countries, Transparency International has assessed the “National Integrity System:” the key institutions (“pillars”) of good governance, such as the executive, legislature, judiciary, private sector, civil society organizations, media, and anti-corruption agencies.

The performance of institutions is critical to development. While most countries have laws and related institutions, the problem remains the enforcement of those laws, which is often a matter of political will and having the necessary measures and systems in place.

**Judicial reform**

The impact of laws depends on a state’s ability to enforce them. This means developing countries must prioritize the building of integrity in their institutions, especially the judiciary. An independent, impartial, professional, and well-resourced judiciary has been recognized as being at the top of the agenda to ensure that there is no tolerance of perpetrators of corruption and other
wrongs in our societies. Individual judges are also accountable for the manner in which they discharge their responsibilities. Unfortunately, informality in legal systems remains a fact of life in a number of countries, primarily at the lower court level, where bureaucracy can make it faster to pay a bribe than to go through regular channels. The cost of such a system is that it is harder for justice and the public interest to prevail.

At the heart of a system that protects the people, therefore, is a fair and open system for the appointment, promotion, and removal of judges. Jurisdictions with a well-performing judiciary tend to have transparent criteria for the selection and promotion of judges (Rose-Ackerman 2006). In an increasing number of jurisdictions, an independent judicial council is responsible for these processes.

International standards such as the UN Basic Principles on the Independence of the Judiciary and the Commonwealth Latimer House Principles on the Three Branches of Government concentrate on securing judicial independence by insulating judicial processes from external influence.

Relying primarily on judiciaries, rather than the state, for implementation and enforcement, the Bangalore Principles recognize the judiciaries’ wider role in promoting accountability
throughout society. The principles set out six core values that should guide the exercise of judicial office: independence, impartiality, integrity, equality, propriety, and competence and diligence. While not a binding international legal instrument, they provide an excellent guidance document, and the UN has encouraged judiciaries to use them as a model.

**Collective action**

When the U.S. Congress took the historic step in 1977 of passing the *Foreign Corrupt Practices Act*, it was the first time any country had made it a crime to bribe foreign officials. It was hoped that other industrialized countries would adopt the idea. It took another twenty years before the idea took hold. Far from punishing foreign bribery, in the early 1990s the tax system in fourteen member countries of the Organization for Economic Cooperation and Development (OECD) counted many facilitation payments as tax-deductible business expenses.

Many businesses were themselves unhappy with this situation. In 1997, sixteen European business leaders wrote an open letter calling on European governments to criminalize international corruption and to end tax deductibility of bribes paid to officials abroad. As
Peter Eigen, founder and at the time chair of Transparency International, argued in 1997, anti-corruption efforts also had to tackle those who offer bribes.

However, the only realistic way to address the problem of bribery in international business and its impact on development is multilaterally. As most multinational companies came from OECD countries, that body was best placed to tackle foreign bribery. In 1994 it set up a working group on bribery, which over the next three years turned its initial recommendations into the OECD Convention on Combating Bribery of Foreign Public Officials in International Business. The convention was adopted on November 21, 1997 and signed a month later by twenty-nine OECD member countries and five non-members. By 2012 the number of signatories had risen to 39, including Brazil and Russia. Between them, the signatory countries represent more than two-thirds of world exports. In addition, although not a formal member, China has modified its domestic legislation to be in compliance with the global convention.

The OECD has also worked to improve cooperation between tax authorities. Under the 2011 Multilateral Convention on Tax Information Exchange, countries agreed to share tax information, which can be an effective tool in the fight against money laundering and the loss of domestic revenues that could otherwise have been channeled towards development.
Another example of collective action in the fight against corruption is the UN Convention against Corruption, which entered into force in 2005. The convention has been widely hailed as a major breakthrough, establishing a comprehensive global framework for combating corruption. It provides a global model for anti-corruption legislation and a framework for mutual assistance and information exchange. This includes articles on criminalizing foreign bribery, transparency in financial management, and public procurement reforms. Many countries have used the treaty as a model for developing national anti-corruption strategies.

Regional collective action against corruption is also happening. The New Partnership for Africa’s Development (NEPAD), created by African leaders in 2001 to address the challenges (such as increasing poverty) facing the African continent, created the momentum which led to the signing in 2003 of the African Union Convention on Preventing and Combating Corruption. This convention was expected to assist African leaders in living up to NEPAD’s promises in terms of good governance.

In the wake of numerous corruption scandals in different parts of the Americas, the First Summit of the Americas and the Organization of American States undertook the creation of the first
international convention aimed at combating corruption. The Inter-American Convention Against Corruption, signed in 1996, deals with both domestic corruption and foreign bribery by companies, while providing a framework for regional cooperation through mutual law enforcement assistance, notably in extradition and investigations.

Individual countries are also working together across regions to redouble anti-corruption efforts in voluntary agreements. In November 2010, the Seoul summit of the Group of 20 leading economies agreed to an ambitious anti-corruption action plan modeled in many respects upon the UN convention. The action plan committed to the adoption and enforcement of laws and other measures against international bribery, such as the criminalization of foreign bribery. If the world’s leading economies take strong anti-corruption measures, there will hopefully be a follow-the-leader effect, with other countries following suit.

Collective action can also take the form of voluntary initiatives. For example, the Global Compact, a benchmark for corporate social responsibility created in 2000, added an anti-corruption principle in 2004 that opened the way for cooperation with companies, governments, and civil society to improve the transparency, accountability, and integrity of the private sector. Another example is the Extractive Industries Transparency Initiative, a simple mechanism for
systematic payments and revenue disclosure by both natural resources companies and governments.

**Oversight**

Oversight institutions can be a first line of defense against corruption within an organization, state, or company. They are a vital part of an integrity system’s checks and balances, providing an independent assessment, thus promoting accountability and the opening of institutions to scrutiny. In a country, they can take the form of an office of the ombudsman, anti-corruption commission, or supreme auditor.

In a company or organization (like the World Bank, which provides US$ 43 billion of funding annually), they may be set up as an ethics office or independent auditing unit. They respond to problems and allegations raised by individuals but also identify departments and bodies vulnerable to corruption. In some instances, they may even provide training and conduct investigations to rectify the situation. For oversight bodies to work effectively, they need to have full independence, be well-resourced, and publicly disclose their findings.
At the height of the first wave of anti-corruption literature, Susan Rose-Ackerman wrote that combating corruption is not an end in itself but is part of the broader goal of creating more effective, fair and efficient government (Rose-Ackerman 1997). This view belongs to a general school of thought that the goal of preventing corruption within the public service cannot be achieved without promoting integrity, transparency, and accountability both among public servants and among other pillars of society, whether within the public or private sector.

The more recent trends in building integrity involve increasing access to information and putting in place mechanisms to flag problems early. At the time of writing, more than eighty countries have put access to information laws in place. This includes making information on budgets easily accessible to citizens, from central government right to the point of delivery. Another recent trend is protection of whistleblowers, with new measures introduced in the United States, South Korea, and several European countries in 2011.
Despite these gains in the name of transparency, for anti-corruption measures to run throughout an organization there is also a need for political will and someone to set the tone at the top. This means having a zero tolerance policy on corruption.

It also means setting out a broader agenda of reform. Successful governments have a merit-based system for entry and promotion in the public service based on clear criteria and open appointment procedures. Building integrity also involves adopting codes of conduct and conflict of interest rules. Compliance (including training), enforcement, and sanction mechanisms must be adopted concurrently.

Integrity must also extend from the national to the local level, where service delivery is critical to ensure that everyone—not just the capital city—benefits from development. Local spending usually goes to projects that are fundamental to daily life and development: homes, water and sanitation systems, bridges, and roads. People must be able to see project budgets and revenues, and compare them to make sure revenues and spending match. Local authorities must make information available, and must make sure budgets are disclosed on time.
Some of the greatest risks for private interests overriding the public good take place around government spending on public contracts, often for public works and development projects. Governments, companies, and civil society have a responsibility to ensure tendering processes are characterized by integrity. Bidders and contractors alike must live by high standards, of which the benchmark is transparency. They can also oblige that all departments and local offices appoint independent oversight of major projects. In Mexico, for example, social witnesses participated in over 120 public procurements in 2010, valued at approximately US$ 14 billion (Sheppard and Cantera 2012).

**The private sector**

Private sector integrity is particularly important given the ever-expanding list of business activities that intersect with government. Whether the sector is transport, defense, land use, energy, procurement, customs, or public works, governments and business are constantly intersecting, frequently with huge sums of money at stake. When there is a risk that those representing governments and companies in these interactions have their priorities confused, the potential danger for the state is not only financial loss, but security, safety, and trust in the system.
The regulatory initiatives at international level envisaging the supply side of corruption described above have placed significant new obligations on business.

Indeed, more and more companies in all sectors are introducing codes of conduct, anti-corruption programs, and compliance measures, and some are adopting disclosure policies.

Governments are continuing to add to requirements for company transparency, with new laws passed in the United States (part of the Dodd-Frank financial reform bill) and, at the time of writing, being legislated in the European Union. This will create a situation where companies listed on stock markets are legally obliged to disclose financial and technical information on a country-per-country basis, and in the extractive sector, on a project-by-project basis.

**Development cooperation**

Recipient countries and donors—bilateral donor agencies, multilateral organizations, foundations, development NGOs, and others—must be on board to effectively fight corruption in development.
Anti-corruption efforts became a more visible and official part of the development community’s agenda in 1996, when James Wolfensohn, then President of the World Bank, addressed what he termed “the cancer of corruption.” The Bank has since taken steps to combat corruption by taking a zero tolerance approach. It has debarred over 400 firms and individuals from its contracts since 1999. Its common debarment approach, adopted in 2010 with other regional banks, is a major step forward.

The positive change at the World Bank has been mirrored elsewhere. Aid agreements between the European Union and African, Caribbean, and Pacific aid recipients include specific clauses aimed at fighting corruption in the general conditions for all contracts financed through the European Development Fund since 1990, with an agreement in 2000 that recognized the importance of transparency.

Transparency in aid means making the information provided more comprehensive, comparable, timely, and accessible. This is a perfectly achievable goal and key requisite for delivering on broader aid effectiveness principles set out in Paris (2005), Accra (2008), and Busan (2011). Aid transparency is happening thanks to political will on all sides that has been channeled through
the International Aid Transparency Initiative. Set up in 2008, the initiative is a multi-stakeholder attempt to adopt a uniform and agreed standard for reporting aid flows.

**Conclusion**

The imperative for transparency in government is hardly new. In 350 BCE, Aristotle suggested in his *Politics* that “to protect the treasury from being defrauded, let all the money be issued openly in front of the whole city and let copies of the accounts be deposited in various wards.”

However, it is over the last two decades that the value of transparency in public life has become widely accepted, as has the fact that laws, and the institutions to enforce them, are vital to protecting the public good from the temptation of those in power to cut corners or engage in unethical behavior for personal gain. Only this can ensure that mistakes and misdeeds are prevented, and that corruption does not flourish with impunity.

---

1. The two countries rank 172nd and 168th respectively out of 183 countries on Transparency International’s Corruption Perceptions Index, and 136th and 148th on the Human Development Index.
References


Transparency International India (2008). *India Corruption Study*,


