

ANTI-CORRUPTION FOR THE ACHIEVEMENT OF SUSTAINABLE HUMAN DEVELOPMENT

Issue Brief for the Global Thematic Consultation on Governance and the Post-2015 Development Framework

Context

Rio+20, United Nations Conference on Sustainable Development (2-22 June, 2012), provided a major opportunity to encourage governments around commitments to put the post-2015 agenda on a sustainable path. It reaffirmed the urgency to put people at the center of the Sustainable Development process and ensure that countries realize the triple benefits (social, economic and environmental). There is less disagreement concerning how unsustainable the current patterns of consumption and production have become. And, democratic norms, practices and institutions that underpin a responsible, judicious and sustainable use of the earth's finite resources are needed more than ever.

Corruption and human development: The evidence confirming the negative impacts of corruption on sustainable development has long been established. Corruption, through diverting rents from productive use and spawning sub-optimal returns, hinders countries from achieving positive development outcomes including the MDGs. It has an adverse effect on all aspects of human development - durability, equity, productivity, and empowerment. Each year, corruption is estimated to have cost more than 5% of global GDP (US\$2.6 trillion)¹. This estimation could reach up to 25% of GDP in Africa. According to IMF, money laundering remains the world's third-largest business, worth about \$500 billion a year. A recently conducted research by UNU-WIDER² showed that bribery decreases investment efficiency, as measured using both absolute and relative metrics of investment returns in 90 developing and transition economies, with debilitating impacts to employment generation and peoples livelihood. Ugur and Dasgupta³ found that a one-unit increase in the

UNDP's Support to National Partners in Anti-Corruption

- Providing anti-corruption policy and programme advisory services including support to United Nations Convention Against Corruption (UNCAC) implementation.
- Coordinating anti-corruption initiatives at national levels.
- Strengthening the watch-dog role of the media and civil society.
- Producing knowledge products on anti-corruption
- Supporting nationally-owned anti-corruption diagnostic / measurement tools.

perceived corruption index is associated with 0.59 percentage-point decrease in the growth rate of per capita income in a low-income country.

The existing evidence underscores that when governance and anti-corruption measures get effectively integrated into MDG action plans, it tends to lead to a significant MDG payoff. The Transparency International study⁴, which looked at data from 42 countries, revealed that the increased practice of paying bribes is associated with a lower literacy rate among 15 to 24 year olds while respect of the rule of law and stronger anti-corruption legislation are correlated with low maternal mortality rates, independent of a country's wealth and the level of government resources dedicated to the social sector.

Corruption and the social contract: Widespread rent-seeking and patronage can undermine democracy and the rights of communities including indigenous peoples. As attested in the literature on 'resource curse', in some resource-rich countries, the rents are used to buy public support through patronage and suppression than relying on taxation of the public (reference needed). This in turn tends to erode the state-citizen compact (also known as the social contract) and fuel public resentment – which could prompt socially costly pursuit of rent and violent means of settling disputes. This is particularly true where there are a number of social groups vying for such resources. A UNDP report⁵ argues that in places where

corruption reigns, basic human rights and liberties come under threat, and social and economic contracts become unpredictable. States need to take the necessary steps to ensure that inequity and discrimination do not obstruct their citizens' efforts to exercise their rights to development, employment, food, health, education and other basic human rights. The fight against corruption must be made a top priority at all levels, and the responsibility of poor and wealthy nations alike. Furthermore, it should involve the public and private sectors as well as civil society organizations.

Corruption and the environment: Corruption also exacerbates negative externalities in the environment and natural resource sector. It makes it possible for environmental and social safeguards to be ignored or bypassed. Similarly, corruption can reduce the stringency of environmental regulations, through bribe-taking and other corrupt practices of public officials, resulting in the lost livelihood, illness and social displacement of millions. The 2011 Global Integrity Report⁶ revealed that company inspections by government officials to ensure public environmental standards are not always carried out in a uniform and even-handed manner. The Corruption Eradication Commission of Indonesia (KPK) discovered indications that many plantation companies offered bribes to local administration officials in order to carry out illegal practices. Besides, through bribery and cronyism in environmental inspections and permit allocation systems, natural resources and the environment could be polluted or valuable resources (timber, diamonds, wildlife, etc.) could be trafficked across borders. For instance, the trafficking in threatened species, including cheetahs, chimpanzees, crocodiles, elephants and other species continues, earning smugglers profits of \$8 billion to \$12 billion annually⁷.

Corruption and employment generation: With youth unemployment remaining unacceptably high in both developed and developing countries, countries are devising different policies and incentive systems to stimulate growth and job creation. And corruption remains one of the major hurdles for doing business. According to the Global Risks 2011 report⁸, the global risks of corruption, organized crime and illicit trade comprised one of three major risk "cases" that require greater attention and action from both business and government leaders. Hence, taking decisive measures against corruption is not just morally right, but imperative to create the needed economic and employment opportunities.

Corruption and inequality: The growing inequality within and across countries has become a growing concern in developed and developing countries, and it surely occupy a central place in the post-2015 debate. Jong-sung and Khagram⁹ argued that inequality fosters a norm of corruption as acceptable behavior that corruption is likely to reinforce or

widen existing inequalities, and that vicious circles of inequality-corruption-inequality are thus likely to manifest. For instance, various social groups feel the impact of corruption differently. Through diverting resources away from basic social services and limiting access to health, education and water and sanitation, corruption tends to affect the poor, women and local communities hard. Any serious effort geared towards countering inequality and exclusion, such as the post-2015 framework, must factor in not only structural and systematic issues but also anti-corruption measures.

Corruption and development finance: While significant efforts that went into mobilizing the financial resources needed to help developing countries achieve the MDGs remains essential, the discussion around the quality of these resources failed to grab similar attention. As the global economic slowdown persists longer than anticipated, it has already falls short of meeting past commitments let alone securing additional sources of development finance. Sluggish global demand, which puts a strain on the job market and social programmes, also reduces domestic revenue generation capacity. Corruption reduces income from tax and customs fees from an already depleted revenue base. Hence, looking at effective ways of addressing the problem of resource leakage should naturally be one of the priorities. According to recent estimates, for every US\$1 least Developed Countries (LDCs) receive in official development aid (ODA), an estimated US\$10 flows illicitly abroad¹⁰.

Resources lost through corruption, bribery or illicit financial flows are more than enough to fund the resources required to meet the MDGs. For example, according to various estimates, US\$30 billion is required globally to meet the MDG target on education for all. Similarly, an estimate of an additional \$39 billion and \$25 billion per year is required for meeting the income poverty goal and all the health-related goals, respectively.¹¹ As such, this issue must be viewed in the context of securing increased financing for development.

There is consensus on the critical role that natural resources play in sustaining the livelihoods of the vast majority of the world's poor, in generating economic growth and in advancing social justice and human progress. Natural resources can be a major source of revenue and opportunities for a country to foster its sustainable economic and social development and achieve internationally agreed development goals, including the MDG's. Mobilization of domestic revenue from resource exploitation can also enable a country to invest in its infrastructural network and basic services such as healthcare and education.

However, history has shown that natural resources wealth does not necessary benefit a country and instead could lead to political tension, instability and conflict as well as a

deteriorating economic situation and more poverty. This situation has often been referred as the “curse” of natural resources. As natural resources, in general, become scarce and expensive, a number of other tensions and conflicts are likely to emerge. Widespread price transfer, tax avoidance, rent-seeking and patronage in the natural resource sector have the potential to undermine democracy and the rights of citizens and host communities including indigenous peoples. A series of conflicts in Latin American in 2012 are a case in point as well as the recent tensions and conflict in the South Africa mining sector.

In order to maximize the potential benefits from the exploitation and management of natural resources, a crucial challenge is to ensure that there is increased transparency and accountability throughout the value chain while managing these resources.

Policy Recommendations

As the post-2015 agenda evolves and takes shape, it is imperative to recognize and remove governance/corruption bottlenecks to the achievement of development outcomes including the MDGs. Despite the existence of empirical evidence on the social and economic costs of corruption, it still poses serious challenge to the ability of countries around the world to realize sustainable development. Albeit progress in anti-corruption interventions in select countries and regions, global incidence of corruption stays unacceptably high and is reversing the recent [human development] gains achieved in developing and emerging economies.

Many of the shortcomings in implementing the [sustainable development principles](#) agreed upon at the 1992 Earth Summit in Rio de Janeiro reflect weaknesses in global, national, and local governance mechanisms. The [zero draft](#) of the “Rio+20” outcome document recognizes that governance is critical for advancing sustainable development (paragraphs 22, 44). Dealing with the challenges of socio-economic inequalities and environmental injustices requires more and better institutional capacity for inclusive governance.

A lesson from more than a decade of implementing national MDG strategies around the world clearly revealed governance related bottlenecks as one of the major challenges. A review¹² of more than thirty national MDG reports noted the absence of clear governance indicator or factor in the conceptualization as well as in the domestications (localization) of national MDG strategies. It should be noted however that a handful of countries, namely Armenia and Iraq, attempted to integrate governance and corruption measures in their MDG plans.

Promoting accountability, transparency and anti-corruption is not just the right thing to do, but it is what makes development effective. Implementing the Rio+20

commitments and realizing ‘the future we want’ will, to a large degree, depend on the quality of governance and institutional arrangements.

Success in meeting the post-2015 development goals will largely depend on the ‘quality’ of governance including transparency and accountability in resource generation, allocation and management. It is on this basis that UNDP views corruption as a governance deficit or a result of malfunctioning state institutions. Creating and sustaining an environment for transparent, accountable, inclusive and responsive political processes requires efficient and effective delivery of social services to the intended target groups.

- Unlock governance / corruption bottlenecks in Post-2015 framework

The need to remove governance bottlenecks such as corruption is one of the important lessons we have learned from our decade-long MDG work. One effective way of doing so will be to ensure that the principles and implications of accountability, transparency and anti-corruption are embedded in the Post-2015 debates. Lessons from UNDP’s effort to integrate anti-corruption in various MDG acceleration processes, such as the implementation of the [MDG Acceleration Framework](#) (MAF)¹³, sectoral approach to fighting corruption in education, health and water sectors, strengthening civil society, youth and grassroots women’s role in monitoring public services, attest to the fact that how important it is to strengthen national capacities to prevent corruption and leakages of resources meant for sustainable development. UNDP’s experience in anti-corruption programming has shown that, for anti-corruption programmes to achieve sustainable and effective results, they should be anchored or mainstreamed into specific development interventions. Such mainstreaming will help to increase transparency, accountability and integrity of institutions, systems and processes that deliver services and safeguard basic rights of people.

UNDP is already responding to the growing demand for efficient service delivery by focusing on fighting corruption through sectoral approaches. These are intended to improve service delivery in education, health and water sector. Such a shift in approach to fighting corruption is believed to reinforce and extend the effectiveness of general public administration reforms and good governance initiatives. The approach also allows practitioners to draw on existing knowledge to understand corruption risks, pressures, and resistance to reforms; and garner public support and political will for anti-corruption measures in sectors. Hence, a conscious effort needs to be exerted to understand and address the risks that corruption poses to the various thematic areas that define the post-2015 agenda.

- Curb resource leakages and the illicit flows of capital

In mobilizing the financial resources required for supporting sustainable development strategies, attention needs to be placed to both quantity and quality of resources. According to a recent study¹⁴, certain types of government expenditures offer more opportunities for public officials to receive bribes and kickbacks than others, which in turn shape the composition of government expenditures. For instance, large bribes tend to be available on goods supplied by oligopolistic firms or where the goods produced involve high-technology, making it difficult to determine “world norm prices” (such as specialized armaments). Similarly, concentrated natural resources, such as hydrocarbons, can be a magnet for rent-capture.

UNDP has been working with its partner countries to explore some of the main drivers behind illicit financial flows in their countries and to support them to develop appropriate policy responses. Improving national capacities in public procurement, custom, tax administration and public financial management systems remains key. Equally important is strengthening national integrity and oversight bodies including supreme and local audit offices, parliamentary budget committees, civil society actors, etc. Understanding the nature and risk of corruption along the value chain, from licensing and contracting to revenue management and benefit distribution help prevent bribes and kickbacks. Hence, protecting the public purse and curbing illicit flows help make the financial resources necessary to fund sustainable development interventions. At the international level, there is need to develop international norms and standards including international accounting standards requiring all multi-national corporations to report sales, profits, and taxes paid in all jurisdictions to address the issue of transfer pricing.

- Ensure transparency and accountability in the use of natural resources

UNDP has been analyzing the economic, institutional and social interventions necessary to translate gains from natural resources to poverty reduction and conflict mitigation. However, the evidence around the ‘resource-curse’ remains vivid and discomfiting. For instance, in some resource-rich countries the rents from the natural resource sector are used to buy public support and undermine democratic processes. In one of his recent researches, Daniel Kaufmann¹⁵ observed a declining trend in ‘Control of Corruption’ among extractive-rich countries, contrasting the (mildly) improving trend for the rest of the world (non-extractive countries) over the past 10 years.

Nevertheless, the resource ‘curse’ is not insurmountable. In fact rather than refer to a curse one should refer to risks, risks which can be managed, mitigated and in some cases, avoided. There

are many examples of positive country experiences where the proficient, responsible and sustainable use of natural resources has improved living standards for citizens at large. However, the increasingly globalized nature of the natural resource management serves to further complicate the structure of governance frameworks and how equity and fairness will be assured. And the post-2015 discussion needs to be cognizant of these challenges and support countries to set up and/or strengthen systems to better manage their natural resources in a transparent, inclusive and sustainable manner. This requires, among other things, building greater understanding between the corporate sector, indigenous peoples, and governments on basic standards and good practices to be promoted and incorporated in natural resource sectors. Considering the many scattered initiatives that exist among partners, there seems to be a critical need for greater global/regional collaboration and coordination to manage externalities, financial flows, cross border issues, exploration, standard setting, knowledge sharing, etc.

New international instruments (legally binding as well as voluntary) are gaining traction, such as the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, G-20 efforts, the Extractive Industry Transparency Initiative, Publish What You Pay/Publish What You Fund, the integrity principles of UN Global Compact, applied and monitored by over 2000 global business. All this body of work is promoting accountability and transparency. Besides supporting the advancement of these international instruments, UNDP and its partners need to ensure these instruments and related commitments get translated into national and local actions.

- Utilize the power of social accountability and ICT

UNDP’s experience in governance and poverty reduction programming has shown that strengthening social accountability (such as citizen feedbacks and community monitoring of services, budgets and infrastructures, i.e. citizens and civil society voice and capacity to demand accountability from duty bearers, particularly related to provision of basic public services) is crucial for promoting transparency, accountability and integrity of institutions and systems. Community empowerment and monitoring of basic services increase the responsiveness of public institutions and office-holders. It improves and accelerates the provision of infrastructure and services and enhances opportunities for public oversight and participation of communities and disadvantaged groups in decision making. When local communities are equipped with the means to hold local government to account on construction of schools, construct water tanks, and renovate hospitals and health posts, public service delivery systems tend to be responsive, efficient and effective.

UNDP has also been a pioneer in the use of Information Communication Technologies (ICTs) for development. Today ICTs are in the hands on billions of people, most of them in developing countries. Not surprisingly, ICTs are also transforming transparency and accountability and have indeed generated innovative solutions in the fight against corruption. There are now many examples on how mobile technologies and social media, including transparency portals are having direct impact in reducing corruptions levels. In addition to shortening transaction times, which in turn reduce the risk of corruption, the use of technology makes it easier to fight corruption as it leaves digital fingerprints and traceable audit trails. A recent empirical study¹⁶ found a positive impact of ICTs on corruption.

For ICTs to be effectively utilized and empower citizens, there should be an enabling environment – freedom of information, whistleblower protection, free press, strong watchdog and oversight bodies, etc, environment that the fast rapid diffusion of ICTs can in turn help create. Effective uses of ICTs and innovation in the area of anti-corruption have already shown great impact and can this not be ignored in the context of the broader post-2015 development agenda process.

Conclusion

It is imperative that the post-2015 discussions clearly recognize and articulate the role and implications of democratic norms, practices and institutions. Learning from the past, these issues need not to be an afterthought. Both the conceptualization and operationalization of this agenda should be done with conscious understanding of political economy realities under which policy decisions are made. Putting in place robust accountability mechanisms play a critical role in guaranteeing that the rights of communities including indigenous peoples are protected and not undermined by the corrupt and the powerful. Integrating governance and anti-corruption measures into Sustainable Development strategies remains critical to uphold the key principles - human rights, equality and sustainability.

The Post-2015 agenda is already generating greater momentum in this direction and, we hope, that Member States will find consensus to include voice and accountability, transparency and anti-corruption, decentralization and access to justice, rule of law and public liberties, in the post-2015 agenda. These are the missing link of the MDGs that were very present in the Millennium Declaration. They should this time make it into time-bound, simple and comparable goals, objectives, targets and indicators of Sustainable Development strategies.

Endnotes

- ¹ International Chamber of Commerce, Transparency International, UN Global Compact, World Economic Forum, Clean Business is Good Business, 2009.
- ² Conor M. O'Toole and Finn Tarp (2012) Corruption and the Efficiency of Capital Investment in Developing Countries, UNU-WIDER
- ³ Ugur M, Dasgupta N (2011) Evidence on the economic growth impacts of corruption in low-income countries and beyond: a systematic review. London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.
- ⁴ TI (2010) [The Anti-corruption Catalyst: Realizing the MDGs by 2015](#).
- ⁵ www.unohrrls.org/UserFiles/File/Publications/Governancereport.pdf
- ⁶ www.globalintegrity.org/report/Indonesia/2011/
- ⁷ Svetlana Winbourne (2002) [Corruption and the Environment](#), Management Systems International, Washington, DC 20024 USA
- ⁸ <http://reports.weforum.org/global-risks-2011/>
- ⁹ You, Jong-sung and Sanjeev Khagram (2005) [A Comparative Study of Inequality and Corruption](#). American Sociological Review, 2005, VOL. 70 (February: 136–157)
- ¹⁰ UNDP (2011) Illicit Financial Flows from the Least Developed Countries: 1990-2008
- ¹¹ See, Shantayanan Devarajan, Margaret J. Miller, and Eric V. Swanson, "Development Goals: History, Prospects and Costs," World Bank Policy Research Working Paper, April 2002.
- ¹² UNDP (2010) [Beyond the Midpoint: Achieving the Millennium Development Goals](#).
- ¹³ The MAF provides national stakeholders with a systematic approach to identify and analyse bottlenecks that are causing MDGs to veer off-track or to advance too slowly. It then aims to generate shared diagnostics and to recommend comprehensive, collaborative and focused actions, based on prioritized 'acceleration' solutions. For more details, please see [MDG Acceleration Framework 2011](#). In its Annual Business Plan, UNDP has chosen 20 countries for the MDG acceleration in 2012 and PACDE will integrate anti-corruption in MAF in at least 6 countries.
- ¹⁴ UNDP (2011) [Illicit financial flows from the Least developed Countries: 1990-2008](#). Discussion Paper.
- ¹⁵ www.brookings.edu/research/opinions/2012/09/13-poverty-governance-kaufmann
- ¹⁶ [Increasing transparency and fighting corruption through ICT empowering people and communities](#). SPIDER ICT4D Series No.3 2010.

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