



# Corruption and development



**1** Corruption is the single greatest obstacle to economic and social development around the world<sup>1</sup>. Every year \$1 trillion are paid in bribes<sup>2</sup> while an estimated \$2.6 trillion are stolen annually through corruption – a sum equivalent to more than 5 per cent of the global GDP<sup>3</sup>. In developing countries, according to the United Nations Development Programme, funds lost to corruption are estimated at 10 times the amount of official development assistance (ODA)<sup>4</sup>. But corruption does not just steal money from where it is needed the most; it leads to weak governance, which in turn can fuel organized criminal networks and promote crimes such as human trafficking, arms and migrant smuggling, counterfeiting and the trade in endangered species.

As a result, corruption affects everyone and can lead to:

- **Less prosperity:** Corruption stifles economic growth, undermines the rule of law, and squanders talent and precious resources. Where corruption is rife, companies are reluctant to invest as the costs of doing business are significantly higher. In corrupt countries which are rich in natural resources, the population often does not benefit from this wealth. Corruption also weakens safety and security structures such as the police services. Ultimately, corruption prevents people, countries and businesses from fulfilling their potential.
- **Less respect for rights:** Corruption undermines democracy, governance and human rights by weakening State institutions that are the basis for fair and equitable societies. Vote buying at election times harms the democratic process and justice is challenged when criminals are able to bribe their way out of trouble. Indigenous peoples and women are particularly vulnerable to corruption. Given their geographic and social exclusion, and lack of access to legal protection available to other members of society, their economic, social and cultural rights are threatened by corruption.
- **Less provision of services:** Corruption diverts funds intended to provide essential services such as health care, education, clean water, sanitation and housing. When officials are cor-



rupt, this represents a major hindrance to a Government's ability to meet the basic needs of its citizens. In countries where international aid is meant to improve the quality of life, corruption denies this and can put future funding in jeopardy.

- **Less employment:** When jobs are given not on merit but through nepotism, opportunities are denied. Often for the poor, women and minorities, corruption means even less access to jobs. Additionally, as corruption discourages foreign investment, this leads to fewer employment opportunities.

Rooting out corruption has become critical to the achievement of targets such as the United Nations' Millennium Development Goals, while fighting this scourge is a major policy priority for development agencies and a rapidly increasing number of countries.

## The UN's anti-corruption convention – an international pact to say no to corrupt practices

As the first legally binding international anti-corruption instrument, the United Nations Convention against Corruption (UNCAC) provides a unique tool to address this global problem. In effect since December 2005, the Convention, of which UNODC is the guardian, covers four main areas: prevention; criminalization and law enforcement measures; international cooperation; and asset recovery. The Convention also contains provisions on technical assistance and information exchange and its Conference of the States Parties established a peer review mechanism in 2009. The Convention now has 164 States parties, meaning that the vast majority of UN Member States have come on board.

Importantly, as the sole universal legal anti-corruption instrument, the Convention contains innovative and globally accepted anti-corruption standards applicable to both the public and private sectors.



## With corruption, we all pay

Everyone can be a victim of corruption. Across the board, where there are corrupt practices, there is a negative impact. As these examples show, with corruption, society suffers.

### Corruption: Building up countries' infrastructure or enriching private bank accounts?

When lucrative contracts are up for grabs, bribery, fraud and embezzlement can plague large-scale infrastructure projects. Corruption can lead to money being stolen and infrastructure not being built or it can result in half-built or sub-standard – and at times dangerous – infrastructure. Money can also be allocated to sectors where needs are not the greatest, but which offer the best prospects for personal enrichment. A hospital, for instance, might be sorely needed, but kickbacks for people in power could result in a far less needed project being given priority. Ultimately, as contracts are awarded to inferior companies, the quality of work is compromised. Economic ruin can result, further perpetuating underdevelopment.

Even the aftermath of disasters can provide opportunities for corrupt operators to thrive. Roads, bridges, tunnels, perhaps entire communities, have to be rebuilt. Surveyors have reported corrupt accounting and tendering practices, poor workmanship, bad planning and design, and issues with land rights in disaster-hit areas, hampering long-term recovery or reconstruction.

### Corruption: Education, fraud and playing with our children's future



Examples of corruption in education abound. Academic fraud, for instance, is rife in many countries and is regarded as a serious threat to integrity and reliability of certification in higher education. Procurement wastage in the education sector, including school buildings, false maintenance costs and text books paid for but never received, costs the public dearly. And “ghost” or absentee teachers who feature on the list of active teachers in schools are a huge drain on public spending. As a result, educational performance among the poorest populations is severely hampered and the system's ability to deliver is harmed.

But counting the impact of corruption in education goes beyond adding up immediate financial costs. Ensuring that educational funds are invested and administered in a fair and

transparent manner protects a country's most valuable asset, its children. If young people come to believe that school or university admission and marks can be bought, a country's economic and political future is in jeopardy and this entrenches a culture of corruption. Students may graduate with poor skills and thus contribute less to the economy and public sector.

### Corruption: Not good for your health

Corruption results in the loss of enormous amounts of limited public health resources. For example, in developed countries, fraud and abuse in health care has been estimated to cost individual Governments between \$12 billion and \$23 billion per year<sup>5</sup>.

In the pharmaceutical sector, vast amounts of money – up to \$50 billion – are spent every year on products: a market so large that it is extremely vulnerable to corruption<sup>6</sup>. Recent estimates from the World Health Organization have shown that as much as 25 per cent of medicines which are procured can be lost to fraud, bribery and other corrupt practices<sup>7</sup>.



In certain countries, the public health system is perceived as the most corrupt public service institution – an issue which undeniably affects development. According to the World Health Organization (WHO), countries with a higher incidence of corruption have higher child mortality rates<sup>8</sup>.

A well-functioning health sector is one of the most crucial services that a Government provides to citizens. However, corruption leads to national health budgets being depleted, reducing Government capacity to provide essential medicines, while increasing the risk of unsafe or ineffective products on the market. It also diverts investments in necessary infrastructure such as hospitals, clinics and medical schools.

In some developing countries, pharmaceutical expenditure accounts for up to 50 per cent of total health spending<sup>9</sup>. Given the high market value of these products they are a magnet for theft, corruption and unethical practices. Fraudulent and substandard preparations, as well as medicines that are granted unwarranted registration, cause patients needless suffering, with potentially fatal consequences.





## Corruption: Tax bills are up — and you might not even be aware

The World Economic Forum estimates that corruption increases the cost of doing business by up to 10 per cent on average<sup>10</sup>.

Corruption hinders economic development, damages private sector integrity and siphons off the finances intended to reduce poverty. Acting as a hidden “tax” or illegal overhead charge, corruption deters investors which leads to job losses and ultimately keeps a country locked in poverty. Corruption also hinders the establishment of small and medium enterprises, which can generate wealth for countries. As business trust is eroded, profits suffer, prices increase and the quality of services falls.

## Corruption: Planet earth being sold out

In spite of the significant potential of the extractive industries to generate development finance, the risk of resource leakage and corruption remains high and it needs to be tackled. Evidence suggests that the extractive sectors are associated with high levels of illicit financial flows.

Resource management is extremely important for addressing these risks. Instituting strong financial management systems with open and transparent disclosure of information on production, revenue and payments reduces the risk of embezzlement and corruption. Promoting transparency and accountability in both multinational corporations and the State is the most effective way to ensure the accountable management of revenues by the extractive sector.



**7** The world is facing daunting environmental challenges, many exacerbated by corruption. A number of the planet’s protected species are disappearing rapidly, due in part to the illegal trade in flora and fauna, and corruption comes into play as traffickers often rely on fraudulent paperwork to move parts from endangered species and illegal timber across borders.

Illegal dumping is often a result of public officials being paid off. One development consequence is that rivers may be polluted, leaving entire communities struggling to meet their daily water needs. Meanwhile corruption in the water sector puts the lives of billions of people at risk and slows development and poverty reduction efforts. Large water infrastructure projects

such as dams, canals, tunnels, wells and drains, are vulnerable to bribery and procurement fraud, or contracts can be awarded to inferior firms.

## The solutions – What can be done?

Preventing and combating corruption requires a comprehensive approach, but only in a climate of transparency, accountability and participation by all members of society is this possible. Governments, the private sector, the media, civil society organizations and the general public need to work together to curb this crime. Here are some examples of how these sectors of society can make a difference.



### Governments

At the international level important conventions have been put into place to combat corruption such as the United Nations Convention against Corruption and the United Nations Convention against Transnational Organized Crime, as well as regional and sectoral instruments such as the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. At the national level, Governments can stimulate legislative reform that will establish legislative and institutional frameworks against corruption with robust enforcement and punitive measures.

### Private sector

Companies should take a zero-tolerance attitude towards corruption and put policies in place covering issues such as gifts, supply chains and whistleblowers, in order to promote a fair and just environment. Through their actions and attitudes towards corruption, the business community can promote fair competition by working together and supporting countries in developing and strengthening the public anti-corruption infrastructure.

### Media

By using the often unique position that they occupy in society, the media can provide checks and balances on Government and private sector involvement in corrupt practices. The media also offer an essential service in informing the public about the positive progress being made and giving support to those who take a stand in the fight against corruption.





## Citizens and civil society

Many civil society organizations are working hard to raise awareness, channel information from citizens to the State and exert pressure for political commitment against corruption.

As people become increasingly weary of corrupt leaders, they are demanding more accountability. Ordinary citizens, including many young people, are increasingly showing they are committed to fighting corruption in their communities and Governments. As part of this process, people can – and should – inform themselves about what their Governments are doing to tackle corruption and hold elected officials responsible for their actions. Actions are also key – reporting incidences of corruption to the authorities, teaching children that corruption is unacceptable, and refusing to pay or accept bribes.

The numbered symbols in the text refer to the relevant Millennium Development Goal.

Photos: Ioulia Kondratovitch; UNODC.

## Our common purpose

We all have a stake in fighting corruption.

Corruption undermines Governments' ability to serve their people by corroding the rule of law, public institutions and trust in leaders. Corruption acts as a brake on development, denying millions of people around the world the prosperity, rights, services and employment which they desperately need – and deserve.

When corruption prevails, democracy, a prerequisite for development, is threatened. Sustainable development is therefore not only an aim in itself, but the most effective antidote to corruption.

With the United Nations Convention against Corruption, the world has a powerful tool to fight a global ill. Let us use the Convention's far-reaching measures to help kick-start development, lift countries out of poverty and build fairer, more just societies.

### Disclaimer

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<sup>1</sup> International Chamber of Commerce / Transparency International / United Nations Global Compact / World Economic Forum Partnering Against Corruption Initiative. 2008. 'Clean Business is Good Business'. [http://www.unglobalcompact.org/docs/issues\\_doc/Anti-Corruption/clean\\_business\\_is\\_good\\_business.pdf](http://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/clean_business_is_good_business.pdf).

<sup>2</sup> World Bank. 'Six Questions on the Cost of Corruption with World Bank Institute Global Governance Director Daniel Kaufmann'. <http://go.worldbank.org/KQH743GKF1>.

<sup>3</sup> International Chamber of Commerce / Transparency International / United Nations Global Compact / World Economic Forum Partnering Against Corruption Initiative. 2008. 'Clean Business is Good Business'. [http://www.unglobalcompact.org/docs/issues\\_doc/Anti-Corruption/clean\\_business\\_is\\_good\\_business.pdf](http://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/clean_business_is_good_business.pdf).

<sup>4</sup> UNDP. 2011. 'Fighting Corruption in the Water Sector: Methods, Tools and Good Practices'. [http://www.undp.org/content/undp/en/home/librarypage/democratic-governance/anti-corruption/fighting\\_corruptioninthewatersector.html](http://www.undp.org/content/undp/en/home/librarypage/democratic-governance/anti-corruption/fighting_corruptioninthewatersector.html).

<sup>5</sup> World Health Organization. 2009. 'Medicines: corruption and pharmaceuticals (Fact sheet N°335)'. <http://www.who.int/mediacentre/factsheets/fs335/en/index.html>.

<sup>6</sup> WHO. 'Why is good governance relevant to the pharmaceutical public sector?'. <http://www.who.int/medicines/areas/policy/goodgovernance/why/en/>.

<sup>7</sup> World Health Organization. 2009. 'Medicines: corruption and pharmaceuticals (Fact sheet N°335)'. <http://www.who.int/mediacentre/factsheets/fs335/en/index.html>.

<sup>8</sup> World Health Organization. 2009. 'Medicines: corruption and pharmaceuticals (Fact sheet N°335)'. <http://www.who.int/mediacentre/factsheets/fs335/en/index.html>.

<sup>9</sup> World Health Organization. 2012. 'Why is good governance relevant to the pharmaceutical public sector?'. <http://www.who.int/medicines/areas/policy/goodgovernance/why/en/>.

<sup>10</sup> World Economic Forum. 'Fighting Corruption Makes Good Business Sense'. <http://www.weforum.org/issues/partnering-against-corruption-initiative>.