

A MODERN DEFINITION OF THE SCOPE OF CORRUPTION

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November 11, 2017



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THE AFTERMATH OF SNAP ELECTION: WHO'S FORMING THE NEW GOVERNMENT?

By: Erëza Pula and Delfinë Elshani

'Power tends to corrupt, and absolute power corrupts absolutely'
John Acton

While hard to define, corruption can be viewed as the institutional inability to adequately govern and manage society within the framework of economic, social, judicial, and political norms and best practices. Corruption stifles economic and institutional development, rule of law, social services, and investments, erodes confidence in the government and democratic functioning, and perpetuates poverty. As such, it undermines the well-being of citizens and poses serious challenges for well-functioning and developing democracies alike. This blog will attempt to build upon the modern definition of the scope of corruption by tackling its most persistent effects.

As deeply rooted corruption impedes transparency and accountability within institutions and society, it is of crucial importance to enhance governance capacities to combat corruption and accelerate growth. On this note, several global initiatives were developed to support the fight against corruption and illicit financial activities, namely the United Nations Convention against Corruption, the OECD Anti-Bribery Convention, the G20 Anti-Corruption Working Group, and, amongst others, the Financial Action Task Force. Each of these initiatives tackles distinct features of corruption. While these mechanisms have worked to minimize corruption nationally and internationally, corruption still prevails in most countries. According to the 2016 Transparency International Corruption Perception Index, levels of corruption have increase in a majority of countries. Corruption accounts for over 5 percent or roughly \$2.3 trillion of the Global GDP, as reported by the World Economic Forum. Evidence suggests that a percentage point increase in corruption leads to a reduction of GDP growth by 0.13 percent per year and of GDP per capita by \$425 per year. In addition, the [World Bank suggests](#) that, due to white-collar corruption, an estimated \$20 - \$40 billion dedicated to development assistance is stolen from the budgets of developing and transition countries.

The exact cost of corruption and its impact on different sectors is difficult to quantify. Even though hard to measure, it is clear that corruption hinders many economic drivers, including but not limited to private and foreign direct investment, macro-financial stability, education and productivity, and revenue (tax) collection.

Impact on Revenues

Various studies including those by the International Monetary Fund and Transparency International suggest that corruption and revenue collection are negatively correlated. High levels of perceived corruption strongly correlate with lower revenue collection. The World Bank estimated that around \$1 to \$1.6 trillion per year of global proceeds are lost due to corruption and resultant tax evasion. This implies that highly corrupt governments collect fewer taxes, which leads to insufficient public funds and, in turn, thus inadequate social service provisions. In such cases, these insufficient public funds are then mostly allocated to sectors which are highly prone to corruption, such as the construction, extraction and transportation sectors, amongst others. This vicious cycle hinders government spending and its multiplier effect. It should be noted that the multiplier effect is crucial for economic development given that it positively and substantially affects the total output of a country and thus a country's economic growth.

Impact on Investments

Besides the negative impact on revenue collection and government spending, corruption also undermines firms' operational efficiency and increases the risks and costs (e.g. bribes) associated with doing business. Specifically private and foreign investment inflows are hindered by high levels of corruption, particularly as a result of slow and ineffective business environment reforms, poor implementation of legislative frameworks, and lack of transparency, fair treatment, and contract enforcement. On this note, a previous [GLPS report on Foreign Direct Investments](#) found that investors from EU and EFTA countries in Kosovo reported that corruption was a major obstacle for their investment operations, particularly as it contributed to discrimination, ongoing unfair tendering procedures, bribes, clientelism, and, amongst others, politically affiliated businesses. Thus, the unfavorable and corrupt investment climate lead to low levels of private and foreign investments and, in turn, sustained or contributed to high levels of income inequality, unemployment, and poverty.

Impact on Public Services

Corruption also undermines public service delivery by reducing the state budget dedicated to services and goods, making the latter poorer in volume and quality. Findings suggest that corruption undermines the delivery of public services in countries around the world, leading to a low quality of life for vulnerable individuals and societies. As a result, citizens in corrupt states lose their trust in government-run or government-funded public services, particularly in the areas of education, healthcare, transportation infrastructure, waste management, and, amongst others, water and sanitation. It is worth mentioning that low-income households tend to pay bribes more, compared to middle and high-income families, in order to access (supposedly) public services. Moreover, due to lack of financial means, low-income households cannot easily avoid the burdens associated with corruption by switching from public to private services.

Impact on State Capture

Additionally, state capture is another form of corruption through which laws, rules and regulations are manipulated for the benefit of political and business elites. In order to pursue their personal interests, high-ranking individuals influence policy decisions and contracts through bribes and other corrupt actions and deals, thus undermining the democratic principles of transparency and accountability. An epitome of systemic corruption wherein private interests influence state decision-making processes can be drawn from Nigeria where the ex-de facto President looted

around \$5 billion during his mandate, hidden in and outside of the country. Such types of corruption are mostly present in the public procurement sector given it paves the way for corrupt activities by influential individuals, as elaborated by a [Public Procurement Report](#). In non-sustainable private markets, political and business representatives rely heavily on public tenders in order to enrich their private gains.

Impact on environment

Corruption also has environmental consequences including increased pollution, exploitation of natural resources, trafficking of wildlife and, amongst others, deforestation. Corruption can have a direct negative effect on the environment, for example as a result of environmentally damaging policies and practices and their respective implementation, as well as an indirectly negative effect on the environment, for example via the unfair allocation of environmental resources or diversion of funds dedicated for environmental purposes. Globally, those most vulnerable to environmental-related corruption include the forestry, waste management, and oil and gas sectors, endangered species, and amongst others, agriculturally-reliant local communities.

A concluding note

Contemporary corruption is a complex phenomenon which takes multiple forms, well beyond the scope of only white-collar corruption or state capture. The above mentioned forms of corruption represent only a few channels through which corruption impedes economic development, the well-being of societies, and state legitimacy, amongst others. This said, governments and societies should jointly undertake proactive and necessary steps to combat and mitigate the risks and consequences of corruption on a global scale.

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