



*All earthquakes and disasters are warnings;
there's too much corruption in the world.*

– Aristotle

Chapter 1

CORRUPTION FUNDAMENTALS

SUMMARY

We start by looking at corruption from historical and philosophical perspectives, to observe attributes of corruption that are still relevant today. We then consider modern corruption, the influence of war, corrupt regimes, recent globalization and technological changes. We draw on resources provided through the United Nations, Transparency International and the Organisation for Economic Co-operation and Development (OECD) that allow us to consider differences in corruption between least developed countries (LDCs), developing countries and developed countries.

LEARNING OUTCOMES

- Gain an understanding of corruption and the philosophy of corruption in historic and modern contexts.
- Develop an appreciation of how corruption varies between LDCs, developing countries and developed countries. Recognizing the need to vary anti-corruption measures and priorities depending on the context is discussed later.
- Recognize the international agencies that assess corruption, how it is assessed, the limitations in assessment methods, and critically, the forms of corruption that are not assessed.
- Expand our understanding of differences in corruption that arise from countries with a range of judicial systems, governance, financial and regulatory systems, tax systems, and ingrained patterns of corruption.

KEY POINTS

- Corruption is defined by Transparency International as “the abuse of entrusted power for private gain”.
- Levels of corruption are typically assessed using perception indexes, but perception and reality can be significantly different.
- Reporting corruption has varying effects on perceived corruption, with indexes going up due to an increase in awareness, or dropping due to more effective enforcement.
- Financial investigations into corruption are limited, but vital in uncovering real data on the size and types of corruption that occur.

1.1 Historic perspectives

(a) Corruption throughout human history

Corruption can be traced back to the First Dynasty of Ancient Egypt (3100–2700 BC), where ancient accounts tell us the country’s judiciary were highly corrupt. Of course, corruption was not exclusive to Egypt – in fact it has plagued many civilizations for thousands of years and crossed all ethnic, geographic, and chronological boundaries (see Figure 1.1(a)). This is important, because context matters.

The *Oxford Dictionary* tells us “corruption” originates from the Latin word “*corruptus*” meaning to “mar, bribe destroy”.

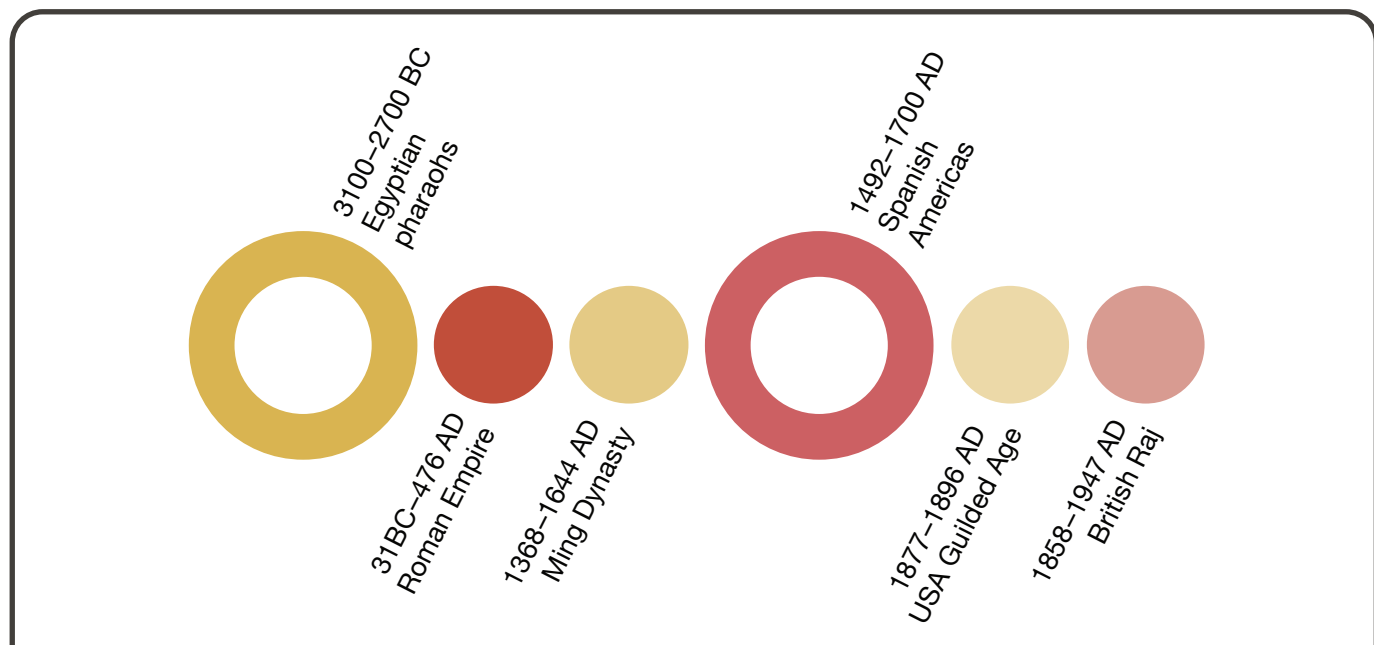


Figure 1.1(a): Timeline of corruption through the centuries

Sources: Ramsey MacMullen, *Corruption and the Decline of Rome* [1.1], Shawn Ni and Pham Hoang Van, *High Corruption Income in Ming and Qing China* [1.2], Kenneth J Andrien, ‘Corruption, inefficiency, and imperial decline in the seventeenth-century Viceroyalty of Peru’ [1.3], Adena Barnette, *The Politics of the Gilded Age* [1.4], Rohit Kumar, *The History of Corruption in India* [1.5]

(b) Corruption and philosophy

Philosophers have considered the origin of corruption and the impact that power and greed have on societies through the ages. A selection of quotes that relate to corruption provide valuable insights into this ongoing challenge.

The many are more incorruptible than the few; they are like the greater quantity of water which is less easily corrupted than a little.

– Aristotle, *Politics*, Chapter XV, 351 BC

A corrupt power source involves political activity motivated by interests that do not aim toward the true human advantage. This is the case for the four types of corrupt political power that Plato schematizes in: (1) military strength; (2) wealth; (3) strength in numbers; and (4) fear or terror amongst the citizens.

– Plato, *The Republic*, 375 BC

In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of.

– Confucius, *Analects VII*, between 475–221 BC

Men are so simple of mind, and so much dominated by their immediate needs, that a deceitful man will always find plenty who are ready to be deceived.

– Niccolò Machiavelli, *The Prince*, 1532

Let all the laws be clear, uniform and precise for interpreting laws is almost always to corrupt them.

– Voltaire, *The Philosophical Dictionary*, 1764

It only too often yields to the temptation to become sycophantic, opportunist and lying, like a politician who sees the truth, but wants to keep his place in popular favour.

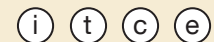
– Sigmund Freud, *The Ego and the Id*, 1923

The technique of acquiring dictatorship over what has been a democracy has been familiar since Greek times, and always involves the same mixture of bribery, propaganda and violence.

– Bertrand Russell,

Power: A new social analysis, 1938

Exercise 1.1(a): Philosophers' view of corruption and relevance



Select a quote above and provide an example of where the quote still applies. In doing this activity provide research references to any works that are used to support your example.

1.2 Main factors influencing corruption

As we've established, corruption has been present to varying degrees through the ages, and it remains as a serious blight on modern society. It occurs in all countries, but it is particularly prevalent where warfare and civil unrest are prevalent, and in states led by corrupt dictators and regimes.

(a) Warfare and civil unrest

Warfare and civil unrest not only destroy lives, homes, and infrastructure, they lead to a breakdown in civil society, and place extreme pressure on law enforcement systems and agencies. When

the population are forced to rely on 'survival-instincts', personal wellbeing becomes all-consuming at the expense of regulations and laws. As a result, corruption increases at all levels of society, from the very poor, facing homelessness and starvation, through to the political and military elite who steal from the oppressed and illegally acquire national assets.

Table 1.2(a) lists international and civil wars from 2000 onwards. Tragically warfare is prominent in the poorest countries in the world and this correlates with many of these countries also being the world's most corrupt.

Table 1.2(a): International and civil wars in the 21st century

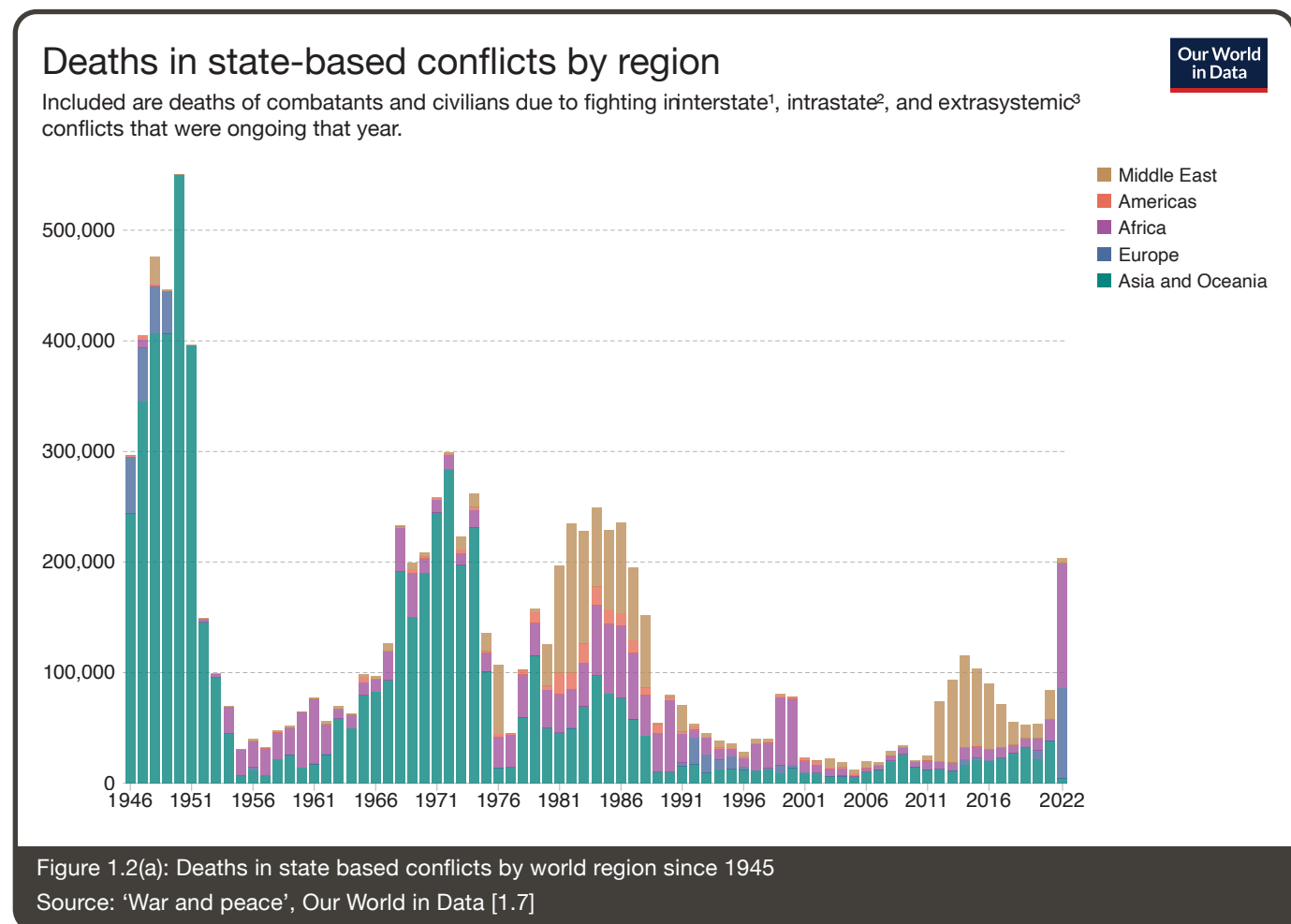
International wars	Civil wars
Ukraine, Russian invasion (2022–present)	Ethiopia, Tigray War (2020–2022)
Israel–Palestine crisis (2021, 2023–present)	South Sudanese Civil War (2013–2020)
Turkey, Coup d'état attempt (2016)	Libya, Second Civil War (2014–2020)
Gaza War, Operation Protective Edge (2014)	Yemeni Civil War (2014–present)
Crimea, Russian annexation (2014)	Syrian Civil War (2011–present)
Ukraine, Donbas War (2014–present)	West Africa, Sahel, Islamist insurgency (2011–present)
Gaza, Operation Pillar of Defence (2012)	Libya, First Civil War (2011)
Libyan crisis (2011–present)	Ivory Coast, Second Civil War (2011)
West Africa, Boko Haram insurgency (2009–present)	Nigeria, Bandit conflict (2011–present)
Gaza, Operation Cast Lead (2008–2009)	Chad, Second Civil War (2005–2010)
Second Lebanon War (2006)	Iraqi Civil War (2006–2008)
Iraq War and Insurgency (2003–2011)	Mexico, Drug War (2006–present)
Global War on Terrorism (2001–2021)	Central African Republic Bush War, First Civil War (2004–2007)
Afghanistan conflict (2001–2014)	Iraq conflict (2003–present)
Israel, Second Intifada (2000–2005)	Sudan, Darfur (2003–present)
North Caucasus, Second Chechen War (1999–2009)	Ivory Coast, First Civil War (2002–2007)
Chad, Operation Epervier (1986–2014)	Sierra Leonean Civil War (1991–2002)
Central African Republic, France (1979–2015)	North Africa, Insurgency in the Maghreb (2002–present)
	Nigeria, Communal conflicts (1998–present)
	DR Congo, Uganda Allied Democratic Forces Insurgency (1996–present)
	Somali Civil War (1978–present)
	Afghanistan, Civil Wars (1978–present)
	Colombia, Columbian conflict (1964–present)
	Myanmar, Internal conflict (1948–present)

'Mapping and fighting corruption in war-torn states', Stimson Center, 2007 [1.6], lays out four aspects of corruption that are unique to war-torn areas:

- post conflict distribution of political and military power
- cross-border trafficking of people and commodities
- post-war economy, and

- wasted, mistargeted or misspent reconstruction aid.

On a more positive note, the number of fatalities from conflicts fell dramatically over the past 30 years, as can be seen in Figure 1.2(a). When we consider this in the context of a world population increase from 5.3 to 7.9 billion people from 1990 to 2021, the decline per-capita is at its lowest rate over the past 700 years.



(b) Corrupt heads of state

Heads of state in highly corrupt and autocratic regimes are commonly involved in kleptocratic activities to embezzle national assets. Some famous cases over the past 50 years are listed in Table 1.2(b). It should be noted that the head of state is only one of a group that includes family, other political and military leaders and associates,

who are likely to be stealing from the state, making the total funds embezzled far higher than what has been attributed to the head of state alone.

Table 1.2(b): Corrupt heads of state and corruption indices

Head of state	Country	Leader	Funds embezzled (US\$)	CPI 2023
1. Mohamed Suharto	Indonesia	1967–1998	\$15–35 billion	115
2. Ferdinand Marcos	Philippines	1965–1986	\$5–10 billion	115
3. Viktor Yanukovich	Ukraine	2002–2014	\$40 billion	104
4. Mobutu Sese Seko	Zaire (now DR Congo)	1965–1997	\$5 billion	162
5. Sani Abacha	Nigeria	1993–1998	\$2–\$5 billion	145
6. Najib Razak	Malaysia	2009–2018	\$4.5 billion	57
7. Slobodan Milosevic	Serbia	1989–2000	\$1 billion	104
8. Jean Claude Duvalier	Haiti	1971–1986	\$300–800 million	172
9. Alberto Fujimori	Peru	1990–2000	\$600 million	121
10. Pavlo Lazarenko	Ukraine	1996–1997	\$114–200 million	104
11. Arnoldo Alemán	Nicaragua	1997–2002	\$100 million	172
12. Joseph Estrada	Philippines	1998–2001	\$78–80 million	115

Source: Transparency International 2023 Corruption Perception Index [1.8] and UNODC Stolen Asset Recovery Initiative, Table 1 [1.9].

(c) Impacts of globalization

Globalization grew following World War II, with improved telecommunications, a surge in the use of container shipping for cargo and aircraft for international travel. This allowed a global expansion in the flow of goods and services and turned much of the world into an integrated market, where resource-rich countries supplied materials to manufacturing hubs, that then sent manufactured goods to international markets.

As a result of this, businesses expanded from international opportunities, and governments sought to import talent to fund projects that would have otherwise been beyond their capabilities. The overall benefit cannot be under-estimated, through globalization there has been a very significant increase in standards of living, worldwide.

According to the International Monetary Fund (IMF):

Increased international trade and capital flows have been a major source of the unprecedented economic growth and a rise in living standards globally in the

postwar period. Evidence shows that countries that have opened up to the rest of the world have done better than those that have not [1.10].

Globalization has both positive and negative effects on the types and extent of corruption. From a positive perspective through globalization the United Nations, Transparency International and other international organizations have introduced anti-corruption initiatives on both a national and an international level. Coupled with this, law enforcement operations from different regions are sharing information to curb international corruption (see Figure 1.2(c)).

Unfortunately, laws and anti-corruption measures are slow to be implemented on a global level, and when they are implemented, it is often not done uniformly.

For example, the United Nations Convention Against Corruption (UNCAC) 2003 [1.11] review process does not require civil society engagement, even though all the member states are encouraged to facilitate discussions with their relevant

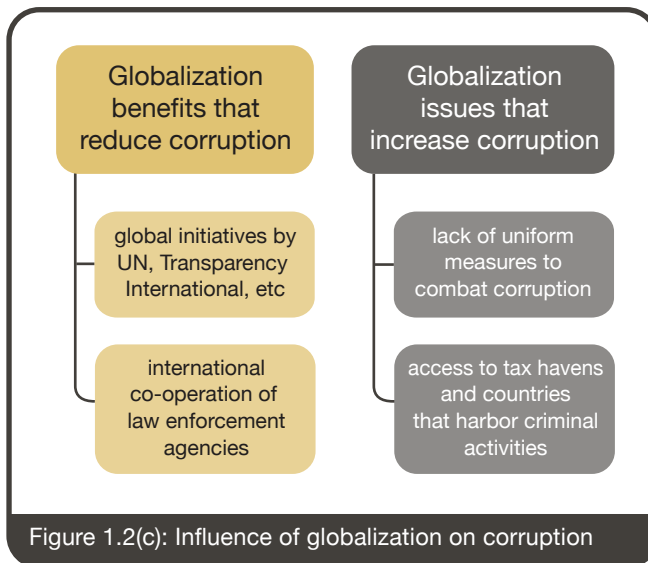


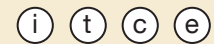
Figure 1.2(c): Influence of globalization on corruption

national stakeholders. Also, it is up to the member states to make the full UNCAC review report publicly available.

A second example involves the implementation of the United Nations Beneficial Ownership Register. It was enacted by the UN in 2021 to reduce tax evasion and corruption through shelf companies and trusts that hide the identity of beneficial owners. It has met with resistance at a national level, as such a register may implicate lawyers, politicians, and bureaucrats.

Globalization has also increased the size and complexity of international organizations that use tax havens. These collectively cost governments between \$500 billion and \$600 billion a year in lost corporate tax revenue [1.12].

Exercise 1.2(c): Impacts of globalization on corruption



Refer to the countries listed below, find their current Corruption Perception Index (CPI), historic CPI data over the past 20 years and review Transparency International historic data.

USA
Hong Kong
India
Indonesia
Kenya

1. Has there been a long-term change to the CPI?
2. Is there an obvious reason?

(d) Influence of technology

The internet, encryption technologies, network surveillance, remote data centers, blockchains and cryptocurrencies have changed the ways the world does business, and the nature of law enforcement (see Figure 1.2(d)).

From a positive perspective, surveillance technologies allow companies and transactions to be monitored for evidence of illegal activities. They also provide a framework for greater transparency and accountability.

Regrettably, these same technologies can be used for nefarious purposes to conceal the flow of money for all manner of criminal purposes, as will be examined in Chapter 2.

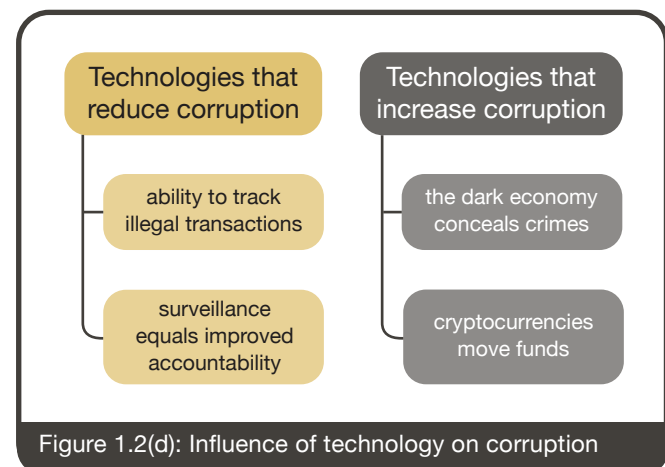
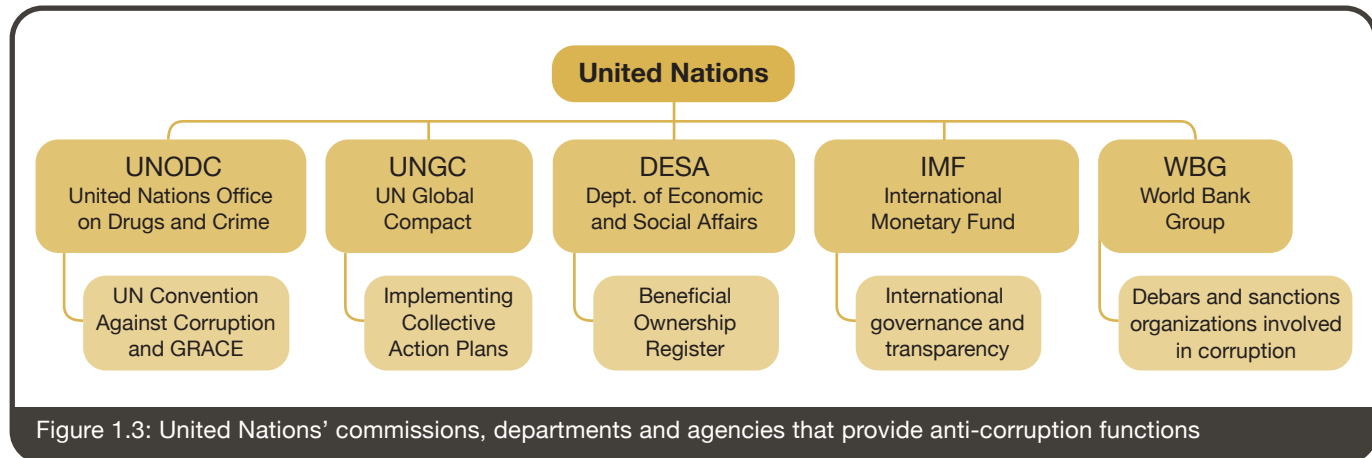


Figure 1.2(d): Influence of technology on corruption

1.3 Anti-corruption resources

A number of outstanding resources are available online from various national and international agencies committed to reducing corruption. The foremost of these is the United Nations, which has various commissions, agencies and departments involved in anti-corruption initiatives (see Figure 1.3). Additionally, some of the most prominent national and international anti-corruption organizations are outlined below, with more complete lists provided in Appendices A and B.



(a) UNODC: Anti-corruption conventions and resources

The United Nations Office on Drugs and Crime (UNODC) is responsible for:

- **The United Nations Convention Against Corruption (UNCAC).** The United Nations' position on corruption is explained in this convention – it is the only legally binding universal anti-corruption instrument [1.11].
- **Global Resource for Anti-Corruption and Youth Empowerment (GRACE).** This provides 13 study modules on various aspects of corruption. Module 4: Public Sector Corruption [1.13] and Module 5: Private Sector Corruption [1.14] relate closely to the scope of this book.

(b) UNGC: Corporate responsibility

The United Nations Global Compact (UNGC) in its framework states that businesses should:

- support and respect the protection of internationally proclaimed human rights
- make sure that they are not complicit in human rights abuses

- uphold freedom of association and the effective recognition of the right to collective bargaining
- eliminate all forms of forced and compulsory labor
- abolish child labor
- eliminate discrimination in respect of employment and occupation
- support a precautionary approach to environmental challenges
- undertake initiatives to promote greater environmental responsibility
- encourage the development and diffusion of environmentally-friendly technologies
- work against corruption in all its forms, including extortion and bribery.

In addressing the final point, the UNGC has implemented strategies for Collective Action initiatives to identify corruption and mitigate potential business risks [1.15].

(c) UNDESA: Economic, social and environmental goals

The United Nations Department of Economic and Social Affairs (UNDESA) works with governments and stakeholders to help countries around the world meet their economic, social, and environmental goals. To do this, countries must be able to receive sufficient tax funding and to minimize losses due to illegal movement of money into tax havens.

This is addressed through Public Beneficial Ownership Registers for taxation, anti-money laundering and law enforcement [1.16].

(d) IMF: Global monetary system and economic developments

The IMF monitors the international monetary system and global economic developments, to identify risks and recommend policies for growth and financial stability. The fund also undertakes a regular health check of the economic and financial policies of its 190 member countries.

The IMF policy on governance and corruption provides guidance on assessing the nature and extent of corruption and its macroeconomic impact. The policy focuses on both the ‘supply side’ of corruption (the bribe given) and the ‘demand side’ (the bribe taken). Dealing effectively with corruption must include steps to curb corrupt practices, whether by direct means (bribing foreign officials), or indirect means (laundering dirty money) [1.17].

(e) WBG: Reducing world poverty and corruption

The World Bank Group (WBG) provides loans and grants to governments of least developed countries (LDCs) and developing countries through the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The objectives of funding are primarily focused on investments to reduce poverty in developing countries, and much of the funding is on construction projects.

The WBG is not an enforcement body; instead it works with governments to resolve corruption issues. If these can’t be resolved, the WBG can take legal action and disbar organizations and individuals involved in corruption [1.18].

(f) Transnational non-government organizations

Numerous not-for-profit, non-governmental Transnational Non-Government Organizations (TNGOs) address global corruption (see Appendix A). Some of the most influential are:

- **Transparency International**, which consists of 100 global Chapters engaged in fighting perceived corruption, social and economic justice, human rights, peace, and security. It also publishes a Global Corruption Barometer and a Corruption Perception Index (see Figure 1.3(f)).
- **U4 Anti-Corruption Resource Centre**, which is an anti-corruption think-tank that draws on works being carried out through global research networks and universities to develop anti-corruption resources.

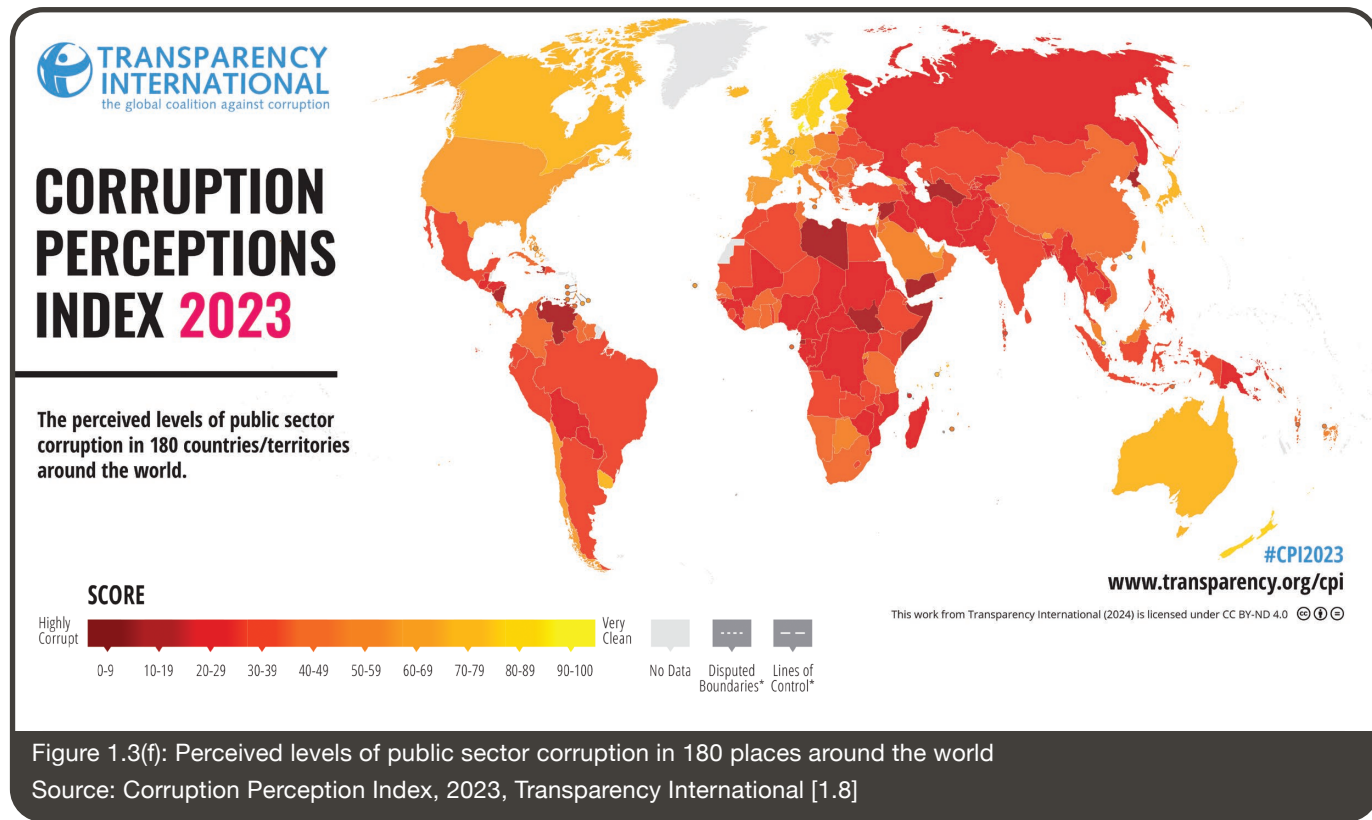


Figure 1.3(f): Perceived levels of public sector corruption in 180 places around the world
Source: Corruption Perception Index, 2023, Transparency International [1.8]

Exercise 1.3(f): Review international resources

Explore the anti-corruption resources from the United Nations, U4, the GRACE program Transparency International and the World Bank and draw a mind-map to capture these entities and the resources they provide.

(g) National anti-corruption organizations

Most nations have national and sometimes state anti-corruption organizations that are involved in education, monitoring, and law enforcement (see Appendix B). Several main national bodies involved in global anti-corruption initiatives include:

- **United States Department of Justice (DoJ)**, which enforces the Foreign Corrupt Practices Act (FCPA) against foreign persons or companies that commit acts such as bribery in the territory of the United States, as well as US or foreign public companies listed on stock exchanges in the United States or which are required to file periodic reports with the US Securities and Exchange Commission.
- **United Kingdom Serious Fraud Office (SFO)**, which pursues criminals and assists overseas jurisdictions with their investigations into serious and complex fraud, bribery and other corruption cases. The SFO has power to investigate and prosecute the new offenses of corporate failure to prevent the facilitation of overseas tax evasion.
- **European Anti-Fraud Office (EAFO)**, which carries out independent investigations into fraud and corruption involving EU funds. The EAFO protects the interests of EU taxpayers from all contributing countries. The EAFO also investigates serious misconduct by EU staff and members of EU Institutions.

Exercise 1.3(g): Review national resources

Refer to Appendix B and examine the resources that are available online for your own nation.

Select a developing country and/or war-torn country and examine their online anti-corruption resources for comparison.

1.4 Methods of assessing corruption

In the preface, we introduced various forms of corruption involving public and private sector participants, and both financial and non-financial forms of corruption. As should be becoming clear, assessing corruption is particularly difficult, due to the nature of corrupt activities being concealed, tracking ownership of hidden assets, and the influence of shadow economies. Nonetheless, agencies are monitoring corrupt activities and providing useful data. This is used as a guide for focusing resources to combat corruption in the most effective ways possible. Various international agencies participate in this initiative (see Appendices A and B).

(a) Transparency International

‘Corruption’ encapsulates the concepts of power, advantage, bribery, the public sector, and crime. While each is an important component of corruption, we shall adopt the broader definition provided by Transparency International, defining “corruption” as “the abuse of entrusted power for private gain” [1.19].

We’ve adopted this definition to address public and private sector participants in corruption where they can make financial and non-financial gains. It includes corruption that grows from minor infractions and poor judgment through to very serious criminal offenses and the establishment of major criminal networks.

Transparency International

transparency.org/en/what-is-corruption

We define corruption as the abuse of entrusted power for private gain.

Corruption erodes trust, weakens democracy, hampers economic development and further exacerbates inequality, poverty, social division and the environmental crisis.

Exposing corruption and holding the corrupt to account can only happen if we understand the way corruption works and the systems that enable it.

Corruption can take many forms, and can include behaviors like:

- public servants demanding or taking money or favors in exchange for services,
- politicians misusing public money or granting public jobs or contracts to their sponsors, friends and families, corporations bribing officials to get lucrative deals

Corruption can happen anywhere: in business, government, the courts, the media, and in civil society, as well as across all sectors from health and education to infrastructure and sports.

Corruption can involve anyone: politicians, government officials, public servants, business people or members of the public.

Corruption happens in the shadows, often with the help of professional enablers such as bankers, lawyers, accountants and real estate agents, opaque financial systems and anonymous shell companies that allow corruption schemes to flourish and the corrupt to launder and hide their illicit wealth.

Corruption adapts to different contexts and changing circumstances. It can evolve in response to changes in rules, legislation and even technology.

(b) Perception studies

Knowing that corruption exists and quantifying it is difficult when so much of what is going on is not reported. Surveys are carried out that look at how much corrupt activity is believed to be occurring based on the perception of study groups. These indexes are developed based on reported feelings about corruption, rather than hard evidence and they include the following.

Perception indexes

A range of perception indexes are used to evaluate and rank different countries to gauge relative performance and improvements. These include:

Corruption Perception Index (Transparency International) ranks 180 countries around the world based on their perceived level of public sector corruption.

Control of Corruption Index (World Bank) aggregates individual governance indicators for six dimensions of governance: Voice and Accountability; Political Stability and Absence of Violence/Terrorism; Government Effectiveness; Regulatory Quality; Rule of Law; Control of Corruption.

Global Organized Crime Index (US Government, ENACT) measures levels of organized crime in a country and assesses resilience to organized criminal activities.

Global Peace Index (Institute for Economics and Peace) ranks 163 independent states and territories in terms of their peacefulness.

Safety Perception Index (Lloyd's Register Foundation) ranks jurisdiction safety based on five factors: food and water, violent crime, severe weather, mental health, and workplace safety.

Corporate Tax Haven Index (Tax Justice Network) ranks jurisdictions most complicit in helping multinationals underpay corporate tax income.

A review of corruption in developing countries [1.20] highlights types of corruption and difficulties in realistically assessing the extent of corruption using Transparency International and World Bank perception indexes. Examples of these studies are summarized below.

A secret police payments investigation [1.21] examined secret police payments under President Alberto Fujimori in Peru, which included bribes to judges, politicians, and the news media to support the Fujimori regime. The estimated cost of bribing various government officials ranged from \$3000 to \$50,000 per month.

A freight charges study [1.22] examined transportation and looked at the size and number of bribes paid in Indonesia, finding 13 percent of the cost of a road shipment from Jakarta to Aceh was in bribes (the driver's salary only represented 10 percent of the cost).

Stocks linked to heads of state studies [1.23] were carried out examining the value of shares on the stock-exchange, and the welfare of the head of state. This was undertaken to assess the level of the president's influence on share prices. Studies in Indonesia of President Suharto revealed a 20 percent fall in some stocks when he fell sick. The study was repeated in 2006 in the USA for Vice-President Dick Cheney following his heart attack, but there was no perceived movement in stock prices of companies linked to Cheney.

A study of politicians moving to board positions [1.24] found that having a board member become a politician had no perceivable effect in countries with low levels of corruption. However, in countries that rated highly on the Transparency International Corruption Index, the appointment resulted on average in an increase in share price of 4.32 percent.

A rural road construction study [1.25] investigated rural road construction and benchmarked community cost estimates against the actual cost for a controlled sample with no corruption. They found the actual cost was only 24 percent of what the government had estimated, leaving an eye-watering markup due to corruption of 76 percent.

(c) Partnering Against Corruption Initiative (PACI)

The Partnering Against Corruption Initiative (PACI) was formed by the World Economic Forum to engage business leaders in committing to a zero tolerance policy towards bribery and corruption. The aims of PACI are to improve competitiveness, transparency, accountability, and ethical business via:

- selectively engaging in global policy-shaping activities, leveraging the CEO-level voices of PACI to define a truly level playing field
- engaging in high-impact Collective Action initiatives in partnership with governments and PACI members

- continuing to facilitate the development and sharing of best-practice case studies.

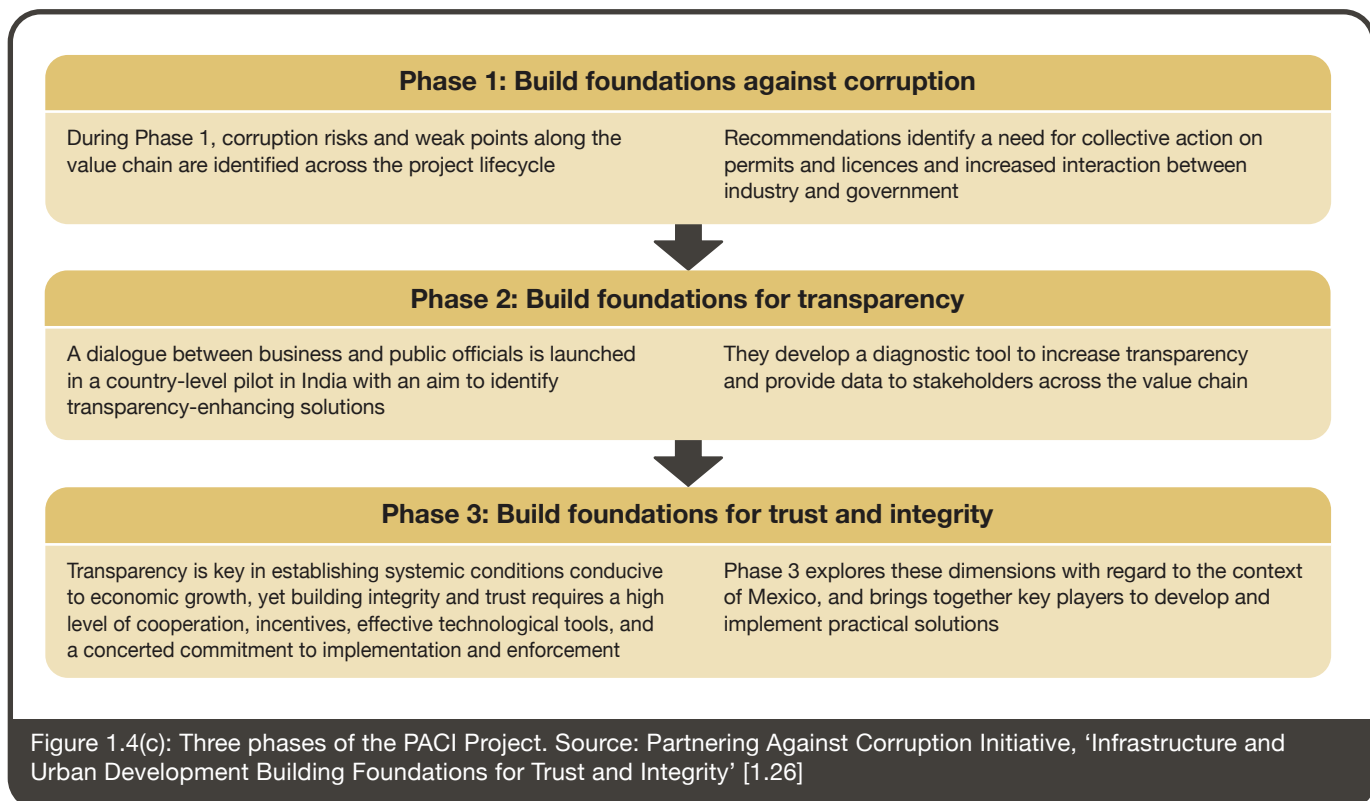
PACI is being developed in three phases as outlined in Figure 1.4(c).

(d) UNCAC: Returning proceeds of corruption

The United Nations Convention Against Corruption (UNCAC) provides a legally binding framework that countries can adapt to their civil and criminal laws to facilitate tracing, freezing, confiscating, and returning funds and other property obtained through corrupt activities [1.11]. The convention covers five main areas:

1. preventive measures
2. criminalization and law enforcement
3. international cooperation
4. asset recovery
5. technical assistance and information exchange.

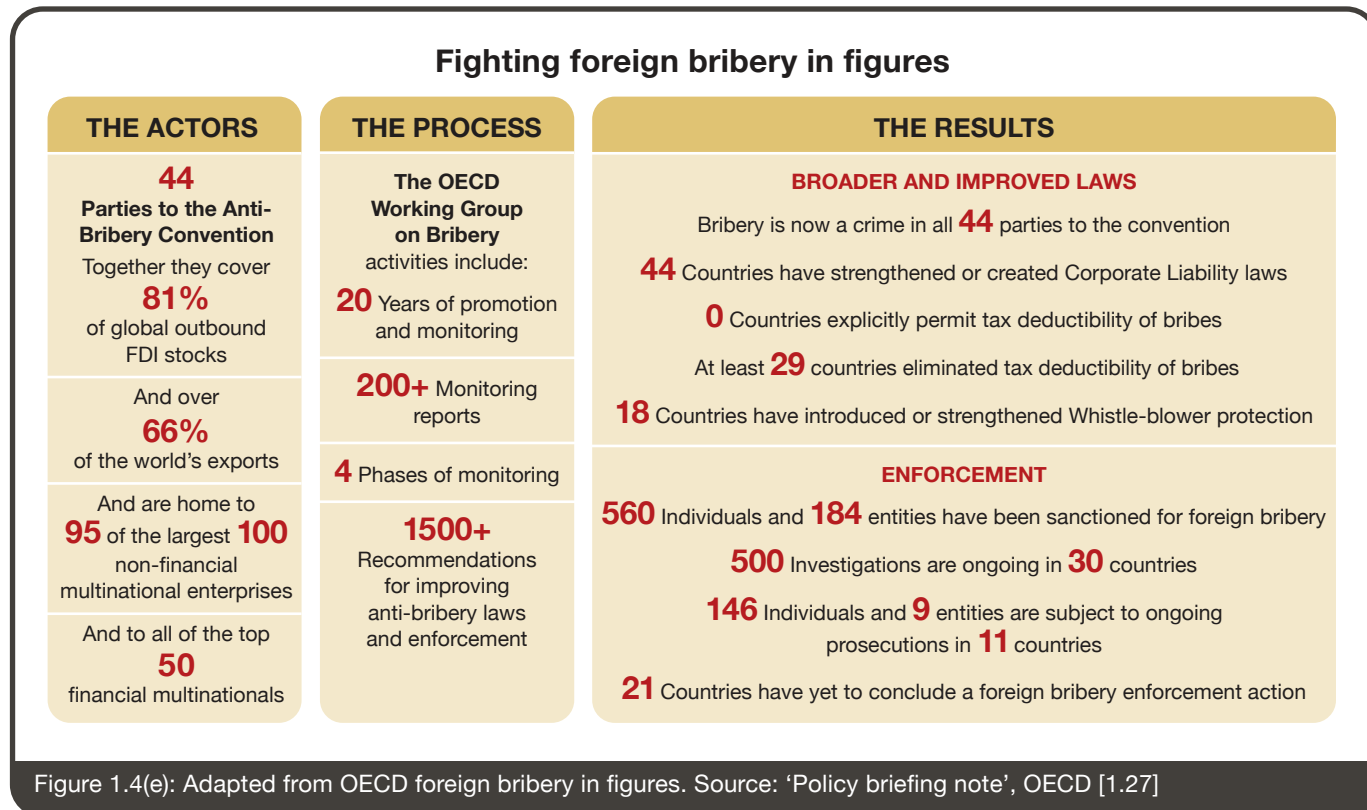
The Convention covers many different forms of corruption in the public and private sectors including: bribery, trading in influence, and abuse of functions.



One hundred and forty United Nations members out of a total of 190 countries/states were signatories to the UNCAC as of October 2023.

(e) OECD: Anti-bribery

The OECD Anti-Bribery Convention makes the bribing of anyone in the public sector and the bribing of a foreign government official, illegal. It has been endorsed by 44 signatories, all 38 OECD countries plus Argentina, Brazil, Bulgaria, Peru, Russia and South Africa.



(f) The value of human life

Corruption studies such as the ones above address financial indicators of corruption. However, as Aristotle so aptly stated, “All earthquakes and disasters are warnings; there’s too much corruption in the world” – other metrics for assessing corruption are largely overlooked. These include reports on deaths and injuries from disasters such as earthquakes, building failures, the deterioration of assets such as bridges, roads, and dams as well as fatalities caused through construction accidents. When we stop to account for the value of human life we’re served with a poignant reminder: combating corruption is far more than a monetary exercise.

In February 2023 over 59,000 people died in Turkey and Syria from the Kahramanmaraş earthquake, with corrupt building construction identified as the main reason so many buildings collapsed. Then in September 2023, over 11,000 people died in Derna, Libya when two unmaintained dams collapsed. In addition to these two major disasters, smaller incidents such as bridge, stadium and building collapses occur each year and fatal accidents caused by corrupt construction occur on a daily basis. Global fatalities from corrupt construction have not been quantified to date to my knowledge, but are likely to exceed 100,000 deaths annually.

1.5 LDCs, developing and developed countries

Corruption occurs in all countries irrespective of political factors, religious orientation, and wealth. However, the extent of corruption varies significantly due to socio-economic factors, the stability of government and the effectiveness of governance.

Generally, the following patterns are observed by reference to corruption studies including the Transparency International, Global Corruption Perception Index: LDCs and developing countries have higher levels of corruption than developed countries; corruption is higher in countries with lower median wealth per capita; countries that have experience war both currently and recently report the highest levels of corruption.

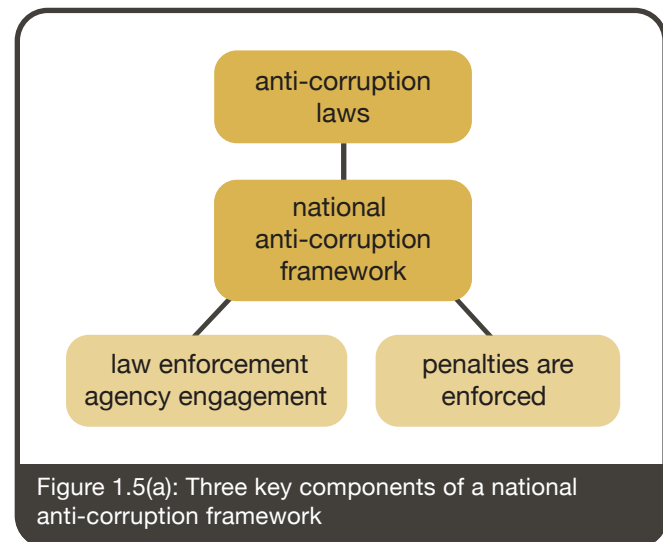
(a) A symptom of deeper problems

Why does the extent of corruption vary so significantly around the world? A study by Myint [1.28] found corruption to be a symptom of deep-seated and fundamental economic, political, and institutional weaknesses and shortcomings in a country.

Myint stated that emphasis must be placed on preventing corruption by tackling its root causes through undertaking economic, political, and institutional reforms. Anti-corruption enforcement measures such as oversight bodies, a strengthened police force and more efficient law courts would not be effective in the absence of a serious effort to address the fundamental causes.

Corruption is most prevalent where other forms of institutional weaknesses, such as political instability, bureaucratic red tape, and weak legislative and judicial systems exist; so identifying those weaknesses is key. Myint's findings suggested that the best hope to overcoming corruption would be to undertake economic and political reforms by reducing institutional weaknesses.

This isn't a miracle cure; corruption will not disappear because of reforms. But reforms should bring it under control and minimize its adverse consequences so that the country can proceed with its efforts to become a modern, developed nation with a good chance of attaining that goal [1.28].



(b) Judicial systems

Judicial systems comprise three key elements that need to work together to create an effective framework for law enforcement. They include robust anti-corruption laws and frameworks, a law enforcement agency that is suitably resourced to address the enforcement of anti-corruption laws, and penalties that are sufficiently robust to be an effective deterrent (see Figure 1.5(a)).

Robust anti-corruption laws

Certain common principles are provided through the United Nations. However, in being a member of the OECD anti-bribery and anti-corruption conventions, anti-corruption laws are not applied consistently. As a result, key differences can occur. See for example, inconsistent national anti-corruption legislation highlighted by the treatment of private sector corruption in Table 6.1(b).

This is illustrated in the Siemens Case study 10.2(b), where facilitation payments were allowed as a tax deduction in Germany in the 1990s, but they were illegal in the USA.

Law enforcement agency engagement

A range of management and operational considerations can limit the role of enforcement agencies in pursuing corrupt individuals and companies. These considerations include:

- other more pressing law enforcement priorities
- a limited budget to pursue corruption cases
- inter-jurisdictional complexities
- risks of evidence tampering and intimidating whistle-blowers
- a poor track record of success in prosecuting cases
- a large backlog of cases to be managed
- government pressure not to pursue certain cases.

Sufficient penalties

Penalties that are enforced need to be sufficient to be a serious disincentive for corrupt organizations and individuals, to make them unwilling to get involved in corruption. Let’s look at a few examples.

Banning an organization from government contracts may be of limited benefit when the organization can secure work from other government and private sector clients.

In another example, being disbarred by the WBG on World Bank funded projects for two or three years may have been factored in as a business risk when the decision to pay a bribe was made.

Also, guilty parties being issued with a warning rather than a fine or imprisonment does not send a strong enough message.

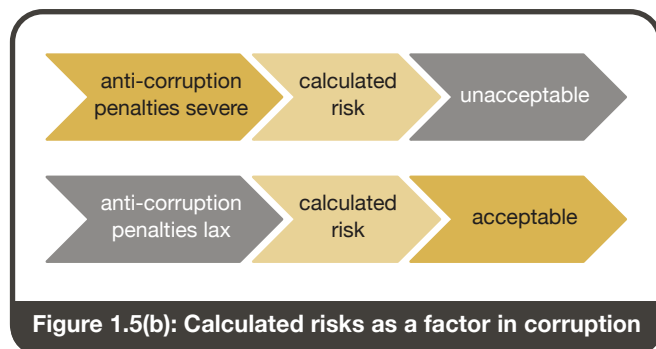


Figure 1.5(b): Calculated risks as a factor in corruption

Other disincentives to corrupt behavior

Other disincentives to corrupt behavior include reputational damage with existing clients and an unwillingness of new clients to consider any dealings with the corrupt organization; internal reputational damage that results in the best staff leaving, in the knowledge that others are criminal; personal reputation where family and friends distance themselves from corrupt individuals; being banned from national and international work, or through a blacklisting from global funds such as the WBG.

(c) Inadequate financial and regulatory systems

Earlier we stated that corruption is a symptom of deep-seated and fundamental economic, political and institutional weaknesses in a country. Weak financial and regulatory systems are one piece of this corruption picture.

In a modern, developed country the recording of births, getting ID papers, registering a bank account, recording academic qualifications, tracking employment and tax records are tightly controlled. On the other hand, in LDCs and developing countries every monitoring system and record

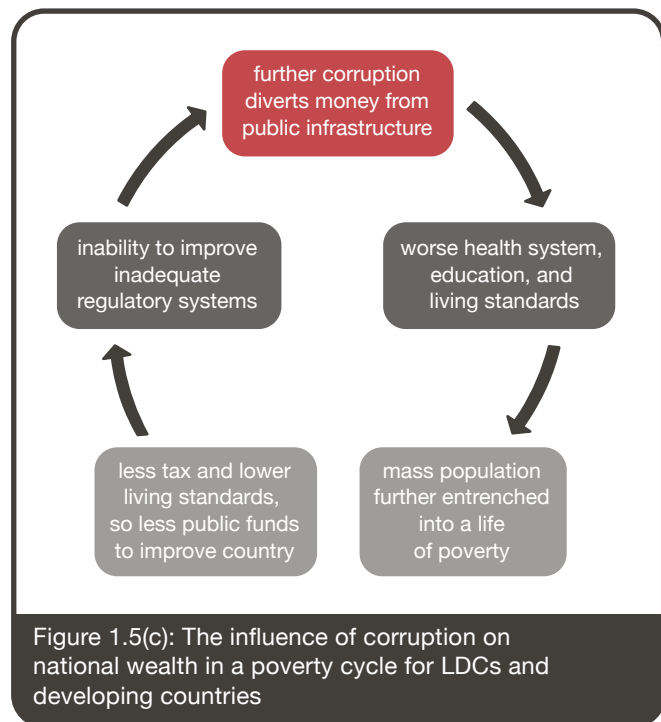


Figure 1.5(c): The influence of corruption on national wealth in a poverty cycle for LDCs and developing countries

can be missing or subject to abuse, particularly for those in poverty and with a very limited education. The perpetuation and deterioration of social infrastructure is tied into a poverty cycle (see Figure 1.5(c)).

Without an effective system to fairly derive taxes to run the government and public utilities, workers need to fend for themselves by using trade and cash payments to survive, rather than lose money to the government in taxes.

Public servants (including the police) supplement their limited salaries by taking bribes. As a result, low level bribery reaches epidemic levels in many undeveloped countries.

Higher up the social order, politicians and senior public sector employees are starved of taxes, but they need money to survive and to exert influence on others. In these circumstances they receive money through the distribution of limited resources, networks of bribes or through the sale of sovereign assets for personal gain.

(d) Improving governance

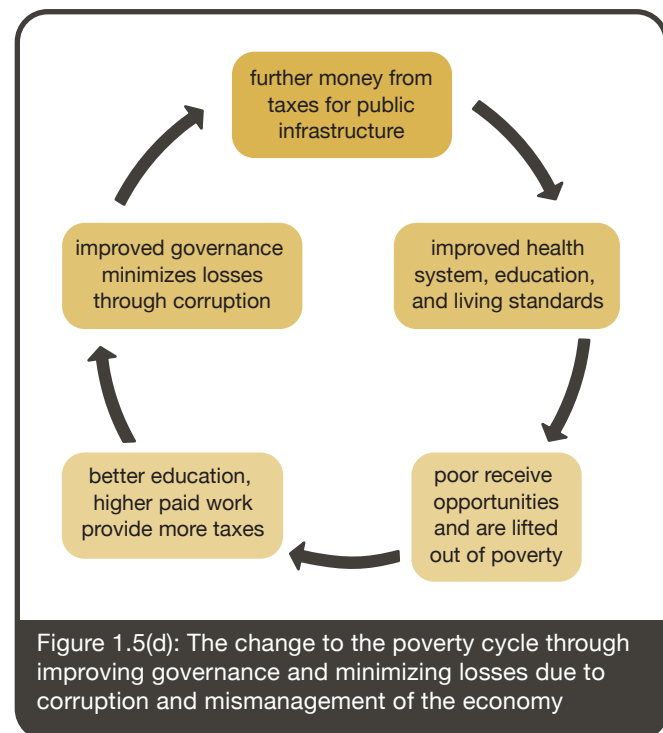
The WBG defines good governance in terms of the traditions and institutions by which authority in a country is exercised. This includes: the process by which governments are selected, monitored, and replaced, the capacity of the government to effectively formulate and implement sound policies, and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

The poverty cycle looks entirely different if an effective governance system can be developed. This brings about an upward change to living standards (see Figure 1.5(d)).

This isn't simply a theory; one example (China) shows the effects of a country-wide shift in governance that has had lasting effects.

(e) China: Two Pillars Policy

The most successful example of improving governance can be seen in China between 1978 and 2021 when an estimated 770 million people were lifted out of extreme poverty [1.29].



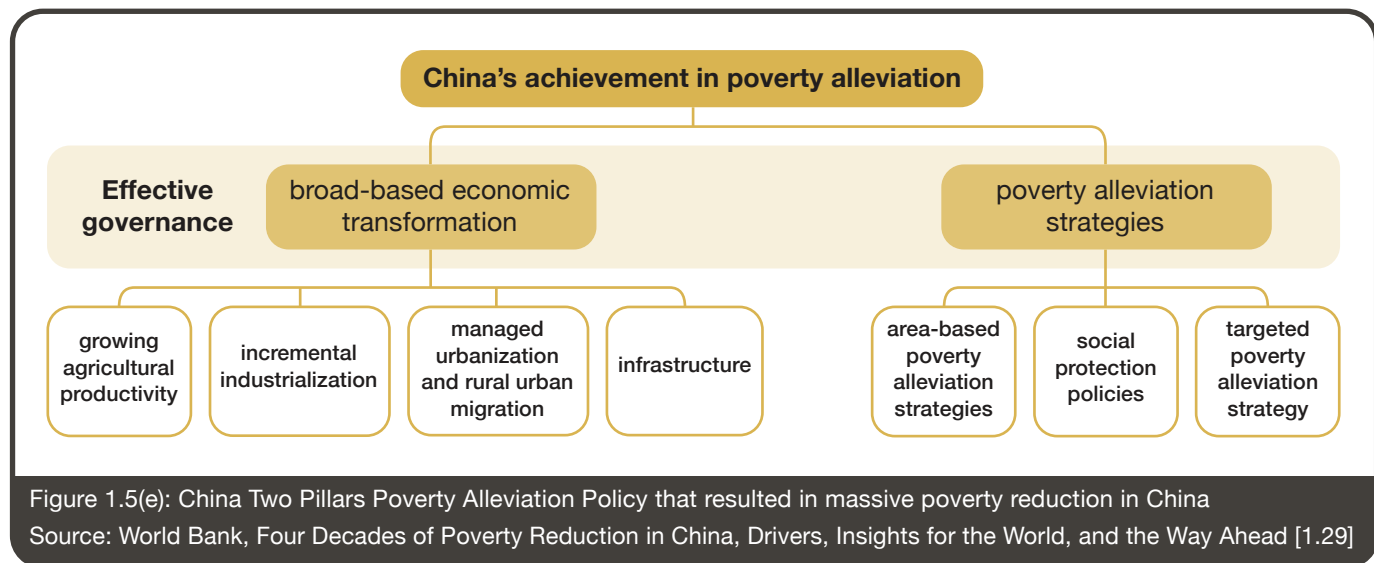
According to a study by the WBG, this massive reduction in poverty was achieved through a 'Two Pillars Policy' for governance, the first being a broad-based economic transformation and the second the development of poverty alleviation strategies.

A fundamental difference in governance can be seen by comparing China and India's development.

China went through a major upheaval from 1966 to 1976 when the Cultural Revolution caused immense hardship and a decline in national prosperity. Addressing mistakes resulted in a realignment of the country from 1978 onwards. The governance of communities was established through Beijing and a range of community productivity targets had to be met (see Figure 1.5(e)). As a result, local communities had to satisfy broad based economic transformation targets that were used to fund poverty alleviation strategies. This coupled with opening China to international trade and by utilizing their massive, low-cost workforce drove strong economic growth that made this transition possible.

By contrast in India, the establishment of local leadership occurs through a democratic electoral process that has been abused through expensive elections and vote buying. Successful politicians are corrupted through a need to payback community and religious groups that control a large block of votes. As a result, funds are diverted away from improving social outcomes and the poor remain trapped in a poverty cycle (see Figure 1.5(c)).

This comparison highlights some of the shortcomings of both communist and democratic systems of government, but also the benefits that can be achieved through a commitment to improve governance. Consequently, poverty alleviation increases prosperity for the poorest members of a community through changing overall wealth distribution.



The improvement in prosperity for the poor is reflected in an improvement in the median wealth per person. This can be seen through a comparison of countries in Table 1.5(e). While you will find anomalies, a country with low corruption relies on good governance and equitable wealth distribution, which is reflected in a higher median wealth per person.

Table 1.5(e): Transparency International, Corruption Perception Index 2023 versus median wealth of adults per capita (part only)

Country	CPI 2023	Wealth PP	Country	CPI 2023	Wealth PP
Afghanistan	162	\$1028	Norway	4	\$132,482
Australia	14	\$273,900	Russia	141	\$6919
Brazil	104	\$3743	Saudi Arabia	53	\$19,323
China	76	\$28,258	Syria	177	\$556
India	93	\$3457	USA	24	\$93,271

Source: Transparency International UK, Corruption Perception Index 2023 [1.8] and OECD, Better Life Index [1.30]

Exercise 1.5(e): Examine correlation between corruption index and mean wealth

Refer to the Transparency International Corruption Perception Index (CPI) and the OECD wealth per the 'Better Life Index' and investigate the following:

1. For each of the countries listed in Table 1.5(e) see if there is a difference in correlation between the CPI country rating and median wealth compared with mean wealth.
2. Refer to the CPI and take three countries currently dealing with a war in their country, compared to three countries that had a war in their country in the second half of the 20th century (1950–2000) and three countries that haven't experienced a war in their country in the past 100 years. What does this comparison show about the influence of war on corruption? See Table 1.2(a) for a list of countries to choose from.

(f) Influence of governance on corruption

The correlation between governance and corruption is addressed in the UNODC Module Series on Anti-Corruption, Module 2 Corruption and Good Governance [1.31].

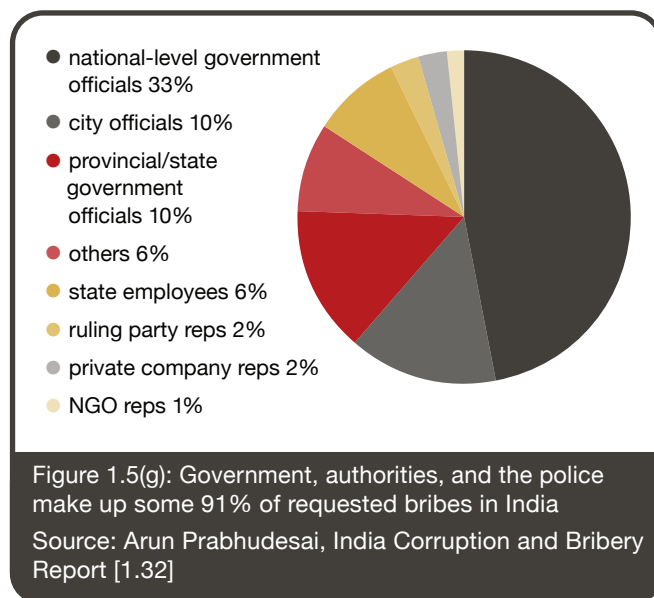
Table 1.5(f) provides a summary of key differences in societies that result from good and poor governance.

Table 1.5(f): Corruption in countries with good and poor governance

	Country with poor governance	Country with good governance
Leader of country	Relies on powerful support of country's elite, and vote buying at elections	Fair democratic election, or strong representative party support
Senior government politicians and bureaucrats	Are largely remunerated for their support for the government through the proceeds of corruption and the sale of sovereign assets	Are remunerated through government salary. With anti-bribery polices in place
Sources of revenue	Low tax base due to money being diverted to a corrupt minority	High tax base for revenue is balanced against spending on public health, infrastructure and education to raise living standards
Police/enforcement	Poorly paid, or not paid at all, so rely on corruption through fines and bribes to cover their wages. Are not generally trusted	Moderately paid so they are at risk of being corrupted. However, the majority are uncorrupted and trusted
Public infrastructure, health and education systems	Most funding is eroded through various forms of corruption, and as a result public infrastructure spirals downward	Public spending gradually improves the quality of life, reducing poverty, and increasing the profitability of the country
Aid for the poorest and most vulnerable	No funding is available to help the poorest due to corruption, even foreign aid is greatly reduced through corruption	Significant inroads are made to reduce poverty as family earnings improve

(g) Accepting ingrained patterns of corruption

LDCs and developing countries with inadequate tax revenue still have a need for healthcare, education facilities, a police force, utilities supplying power, water, roads, and sewerage systems. The money for these utilities must come from somewhere, which explains why systems of payments through bribes, facilitation payments and under-the-counter transactions occur.



Over many generations these systems become ingrained in society. This is most apparent in countries such as India where bribes to government, authorities, and the police, make up some 91 percent of all bribes (see Figure 1.5(g)). A highly regulated and poorly paid bureaucracy, complicated taxes, and numerous government departments result in a highly inefficient government that is plagued with a high level of corruption.

(h) Challenges for international companies

International companies that operate in highly corrupt countries face a series of complex challenges that include:

- **Lack of understanding of market risks:** Including a failure from the outset to realize that it is impossible to be successful in securing

certain contracts without paying bribes. Not knowing this and losing successive tenders can put a bid team under substantial pressure to survive, and it is at this point that the team is most vulnerable.

- **Rogue directors from within the international organization:** The honesty and integrity of senior management cannot be guaranteed, even with screening and reporting processes in place. It is made particularly difficult if illegal activities are endorsed, or a blind-eye is turned to them from the top, due to exceptional financial success.
- **Lack of control over local management:** With different language, legal and approvals frameworks and even accounting procedures, local management may have a different appetite for corrupt activities, noting for some local staff they may see it as 'business as usual'.
- **Not understanding what facilitation agents are doing:** Recognizing that being well connected and successful as a facilitation manager, is a good indicator that the agent is adept at paying off senior government officials.
- **Insufficient transparency over financial operations:** This may include paying for materials or services that never existed, and that were used as a cover for bribes. Forward and delayed payments, depreciation schedules and changes to working capital can be used as mechanisms to conceal illegal activities from one year to the next.
- **Having different sets of accounts:** Some may appear legitimate, while others may conceal operations in the shadow economy involving undeclared earnings, or cash and cryptocurrency that provide a slush fund for bribes and other illegal activities.

Exercise 1.5(h): International contract where \$10 million in bribes is expected

(i) (t) (c) (e) (d) (r)

Brainstorming session: Let's assume that it is extremely difficult for an international contractor to secure a large contract in a certain country without paying \$10 million in bribes. How does the international contractor secure the contract when they have an anti-corruption policy in place with audits and mandatory reporting? In considering this question note the following:

- The client and the international contractor manipulate the contract.
- Facilitation agents and/or local partners handle government pay-offs.
- Complex structures are established to handle the payment of bribes.
- Non-financial inducements are provided to the client.
- Time delayed benefits flow through years after the project is awarded.

In each case what measures can be taken to combat the payment of these bribes?

CONCLUSION

In this chapter, we have considered corruption from a historic perspective, then looked at how it has evolved in a modern world, how it is influenced by wars, political instability, dictators, and the technology that is used. In the next chapter, we will look at the magnitude of the problem, how to assess the extent of corruption, how it is reported, and the influence that the global financial system and tax havens have on illicit flows of funds around the world.

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