The cost of corruption: an economic perspective

6th Seminar “Global Challenges”
Instituto Alti Studi per la Difesa

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Quiz

• How do you see corruption in your country?
• Do you consider it a national security issue?
What is Corruption...

“The abuse of entrusted power for private benefits”

World Bank
Explaining corruption

MONOPOLY

+ 

DISCRETION

ACCOUNTABILITY

CORRUPTION
Corruption as a field of study....

- End of the Cold War
- Globalization
- Privatization
- Rapid expansion of “off-shore” centers/banks
- Global media coverage
- New legislation and initiatives
“We need to address transparency, accountability and institutional capacity. And let’s face it: we need to deal with the cancer of corruption”
... a development issue

”Corruption traps millions in poverty”-  
Transparency International

“Corruption is no longer a local matter but a transnational phenomenon that affects all societies and economies”

United Nations Convention Against Corruption.

“We have identified corruption as the single greatest obstacle to economic and social development”

The World Bank
The color of Corruption

CORRUPTION PERCEPTIONS INDEX 2014: RESULTS
Relationship CPI- WGI

Perception of Corruption, 2013

Control of Corruption, 2013
World Governance Indicators
(percentile rank 1-100)
Corruption and (In)security

- Countries with severe corruption tend to suffer conflict or state failure.
- 12 of the 15 lowest ranking in TI’s CPI 2012 countries pose threats to international security.


<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>157</td>
<td>Zimbabwe</td>
<td>21</td>
</tr>
<tr>
<td>160</td>
<td>Cambodia</td>
<td>20</td>
</tr>
<tr>
<td>160</td>
<td>Eritrea</td>
<td>20</td>
</tr>
<tr>
<td>160</td>
<td>Venezuela</td>
<td>20</td>
</tr>
<tr>
<td>163</td>
<td>Chad</td>
<td>19</td>
</tr>
<tr>
<td>163</td>
<td>Equatorial Guinea</td>
<td>19</td>
</tr>
<tr>
<td>163</td>
<td>Guinea-Bissau</td>
<td>19</td>
</tr>
<tr>
<td>163</td>
<td>Haiti</td>
<td>19</td>
</tr>
<tr>
<td>167</td>
<td>Yemen</td>
<td>18</td>
</tr>
<tr>
<td>168</td>
<td>Syria</td>
<td>17</td>
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<td>Turkmenistan</td>
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<td>Uzbekistan</td>
<td>17</td>
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<td>171</td>
<td>Iraq</td>
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<tr>
<td>172</td>
<td>Libya</td>
<td>15</td>
</tr>
<tr>
<td>173</td>
<td>South Sudan</td>
<td>14</td>
</tr>
<tr>
<td>174</td>
<td>Sudan</td>
<td>11</td>
</tr>
<tr>
<td>175</td>
<td>Afghanistan</td>
<td>8</td>
</tr>
<tr>
<td>175</td>
<td>Korea (North)</td>
<td>8</td>
</tr>
<tr>
<td>175</td>
<td>Somalia</td>
<td>8</td>
</tr>
</tbody>
</table>
Figure 3. Corruption Related Security Incidents Since 2008

- **Sudden regime change or war due to anti-kleptocracy protests**
  Egypt, Kyrgyzstan, Libya, Syria, Tunisia, Ukraine, Yemen

- **Serious violence due to corrupt alliances with trafficking networks**
  Colombia, Guatemala, Guinea-Bissau, Honduras, Mexico, Paraguay

- **Insurgency or coup traceable in part to outrage at corruption**
  Afghanistan, Burundi, Indonesia, Mali, Niger, Nigeria, Pakistan, Philippines, Somalia, Tajikistan, Thailand

- **Severe electoral violence sparked by corruption/corrupt state institutions**
  Bangladesh, Burundi, Cameroon, Colombia, Cote d'Ivoire, Guinea, Indonesia, Kenya, Nepal, Nigeria, Philippines, Sierra Leone, Zimbabwe

- **Widespread, serious popular protest or coup attempts against corruption**
  Bahrain, Bangladesh, Brazil, Bulgaria, China, Equatorial Guinea, Iceland, India, Morocco, Romania, Slovenia, South Africa, Thailand, Venezuela
Corruption and Political Stability

Corruption- Political Stability

Corruption Perception Index, 2013

Transparency International

Political Stability and absence of violence/terrorism

World Governance Indicators, 2013

More stable

Less stable

More corrupt

Less corrupt

Afganistan

Albania

Italy

Ukraine

New Zealand
Commonalities of Corruption

• Insufficient Political Will
• Ineffective Rule of Law
• Inefficient Governance
• Inefficient Education
• Insufficient Anti-Corruption Resources
• Lack of transparency and Accountability
• Poverty and Inequality
• Gender inequality
Corruption and Rule of Law

The graph illustrates the relationship between the perception of corruption (CPI 2013) by Transparency International and the Rule of Law (RoL) as measured by the World Bank. The x-axis represents the Perception of corruption CPI 2013, while the y-axis shows the Rule of Law, 2013. The scatter plot indicates a positive correlation, suggesting that countries with a stronger Rule of Law tend to have a lower perception of corruption.

- **Strong RoL**: The upper part of the graph, indicating less corruption.
- **Weak RoL**: The lower part of the graph, indicating more corruption.

The line represents the trend, with points scattered around it indicating the variability in the data.
Corruption – A Global Threat

Cost of corruption exceeds by far the damage caused by any other single crime.

- World Bank – More than **US $1 trillion** is paid in bribes a year
- World Economic Forum – **US $2.6 trillion** – the financial cost - **5%** of the global GDP
Corruption hinders development

- Reduced investment
- Poor allocation of resources
- Fiscal instability
- Reduced Aid
- Inequality/Welfare

Low welfare
More than 70% of the GDP lost to corruption

50% of GDP lost to corruption

Financial cost of corruption

More than 70% of the GDP lost to corruption


GDP Figures: World Bank, 2010
Corruption and Poverty

Perceptions of Corruption and GDP per capita

Perception of Corruption, 2013
Transparency International

GDP per capita, USD 2013
World Bank

Wealthy

Poor

More corrupt

Less corrupt
Economic performance....

<table>
<thead>
<tr>
<th>Countries</th>
<th>TI CPI 2013</th>
<th>Doing business 2013 (World Bank)</th>
<th>GDP per capita USD (2013) UNCTAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>1 (91)</td>
<td>4</td>
<td>58,771</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1 (91)</td>
<td>2</td>
<td>40,514</td>
</tr>
<tr>
<td>Finland</td>
<td>3 (89)</td>
<td>9</td>
<td>47,373</td>
</tr>
<tr>
<td>Singapore</td>
<td>5 (86)</td>
<td>1</td>
<td>52,604</td>
</tr>
<tr>
<td>Germany</td>
<td>12 (78)</td>
<td>14</td>
<td>43,874</td>
</tr>
<tr>
<td>United States</td>
<td>19 (73)</td>
<td>7</td>
<td>52,222</td>
</tr>
<tr>
<td>China</td>
<td>80 (40)</td>
<td>96</td>
<td>6,726</td>
</tr>
<tr>
<td>Russia</td>
<td>127 (28)</td>
<td>62</td>
<td>15,011</td>
</tr>
<tr>
<td>Ukraine</td>
<td>144 (25)</td>
<td>96</td>
<td>4,073</td>
</tr>
<tr>
<td>Venezuela</td>
<td>160 (20)</td>
<td>182</td>
<td>12,696</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>175 (8)</td>
<td>183</td>
<td>703</td>
</tr>
<tr>
<td>Somalia</td>
<td>175 (8)</td>
<td>---</td>
<td>128</td>
</tr>
</tbody>
</table>
Relationship corruption-competitiveness

Global Competitiveness Index, 2013
World Economic Forum

Corruption Perception Index, 2013
Transparency International

More corrupt

Less corrupt

More competitive

Less competitive

More corrupt

Less corrupt

Correlation between corruption and competitiveness.
FDI in transition countries

Corruption- FDI relationship

Foreign Direct Investment per capita, 2013

Control of corruption, 2013

World Bank, World Governance Indicators

Less control

More control

0
10
20
30
40
50
60
70
80
90
100

0
2000
4000
6000
8000
10000
12000
14000
16000
18000

0
10
20
30
40
50
60
70
80
90
100

Estonia
Czech Rep
Hungary
Latvia
Bulgaria
Romania
Georgia
Armenia
Uzbekistan
Turkmenistan
Kazakhstan

UNCTAD

Control of corruption, 2013

World Bank, World Governance Indicators

Less control

More control

FDI in transition countries

Corruption- FDI relationship

Foreign Direct Investment per capita, 2013

Control of corruption, 2013

World Bank, World Governance Indicators

Less control

More control

Estonia
Czech Rep
Hungary
Latvia
Bulgaria
Romania
Georgia
Armenia
Uzbekistan
Turkmenistan
Kazakhstan

UNCTAD

Control of corruption, 2013

World Bank, World Governance Indicators

Less control

More control
Lost business due to bribery

Percentage of business people who believe they lost business due to bribery:

By country:
- Mexico: 48%
- Brazil: 34%
- Czech Republic: 41%
- Egypt: 42%
- Pakistan: 37%
- Russia: 39%
- South Africa: 34%
- Indonesia: 47%
- Malaysia: 50%

By sector:
- Telecommunications: 35%
- Utilities: 37%
- Public Works Contracts and Construction: 38%

Source: Transparency International 2012
Quiz

Which of these emerging economies is perceived to have the most corruption in the public sector?

A. China
B. Russia
C. Brazil
D. India
Corruption in the European Union

- 120 billion Euros/ year
- New accession of countries
- Euro area economic crisis
- Reforms of the existing EU anti-corruption policy
- EU Anti-Corruption Report (2014)
Corruption in the EU

• Perception of corruption: 74% EU average

![Bar chart showing the perception of corruption and bribe payers in European Union countries, with groups 1, 2, and 3 listed.]
Corruption in the United States

- 25,000 convictions of public officials for violation of federal corruption laws between 1976-2008
- Government spending different from less corrupt states
- Corruption on the state level is costing citizens in the 10 most corrupt states $1,308 more taxes per year.

Study of Indiana University and University of Hong Kong, 2014
Corruption in Africa ....

CPI 2014

- Corruption in the economy **150-250 billion $** annually
- **25%** of GDP
- **15-20%** ends up if foreign banks
- Loss of **50%** of tax revenue
- Greater than some country’s foreign debt
- The lowest share of FDI in the world
Countering corruption

- The Lawyer’s approach
- The Economist’s approach
- The Businessman’s approach

- Which approach works better?
Comprehensive Approach

- Tax administration
- Anti-money laundering
- Whistleblower protection
- Media

- Legislation
- Regulation
- Competition
- Judiciary
- Development

- Criminalizing bribery
- Asset recovery

Sharp Detection

Healthy Governance

Prosecution and Recovery

Effective Prevention
**Legal Framework**

- OECD Anti-Bribery Convention [1997]
- Inter-American Convention Against Corruption [1997]
- Council of Europe Criminal Convention on Corruption [2002]
- UN Convention Against Corruption [2003]
- G20 Anti-Corruption Action plan [2010]
- Bribery Act [UK 2010]
- Amendment No.8 to Article 164 [China 2011]
- Federal Law No. 97-FZ [Russia 2011]

Timeline:
- 1975
- 1980
- 1985
- 1990
- 1995
- 2000
- 2005
- 2010
Sources of change

• GOLDEN TRIANGLE
  – Governments
  – Businesses
  – Civil Society

• Open Government Partnership (2011)
  – Transparency
  – Education
  – Legislation
  – Enforcement
Shaping the future

• Formalization of the economies / reduction of the shadow economy
• End of “secrecy jurisdictions”
• Elimination of corruption in world trade
• Effective curbing of organized crime
• New legislation to consider corruption as a violation of human rights: International Criminal Court
THANK YOU!
Corruption- Democracy

More democratic

Democracy Index, 2014
Economist Intelligence Unit

More corrupt

Corruption Perception Index, 2013
Transparency International

Less democratic

Less corrupt

Afganistan
Italy
China
Sweden
Germany
United States
Corruption across institutions

Source: Global Corruption Barometer 2013, TI
Complexities of Fighting corruption

- Both parties want to hide the crime
- Investigations are complex and lengthy
- High investigative capacities are required
- Opportunities for political interference are high
Can it really work?

• Georgia – 1st in the world in for relative reduction of corruption
• 2003 CPI 1.8 in the 124 place of TI
• 2013 CPI 49 in the 55th place
• 78% of the population evaluate government efforts as effective
• 3% of people declare to have paid bribes in the last year
• Aggressive anticorruption reform “zero tolerance”

2001-2011 on average 9% increase every year on GDP per capita

2003 – FDI per capita US $ 305
2013 – FDI per capita US $ 2690
Anti-corruption strategies

- Nearly every country has an anti-corruption strategy
- Most strategies are quite good
- Few anti-corruption strategies succeed

The Question is WHY?
Top 20 countries’ cumulative illicit flows, 2001-2010 (in billion of U.S. dollars)

Source: Global Financial Integrity 2012