

# U4 Expert Answer



## Review of literature on the link between corruption, poverty and conflict, and evidence of the impact of corruption on donor interventions

### Query

Can you please provide a literature review of the evidence that corruption is linked with poverty; that corruption is linked with conflict; and of the impact of corruption on donor interventions?

### Purpose

To inform the preparation of a business case for research into corruption and its remedies.

### Content

1. Corruption and exclusion/poverty
2. Corruption and war/fragility
3. Corruption's effect on donors' interventions

### Caveat

The list of resources provided is not intended to be exhaustive but to give a snapshot of existing research on the topics. It is important to note that there is a lack of data on the effects of corruption on donor interventions.

### Summary

This paper compiles publicly available articles and academic papers examining the link between corruption and exclusion/poverty and between corruption and

war/instability. It also features a number of articles on the effects of corruption on donor interventions for which there is only limited available information.

## 1. Corruption and exclusion/poverty

The studies featured in this paper all demonstrate the broad consensus that corruption hampers economic growth and increases poverty. Literature tends to agree that corruption has consequences on economic and governance factors that result in poverty. Therefore the influence of corruption on poverty occurs through its impact on income, access to services, and resource distribution.

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*U4 is a web-based resource centre for development practitioners who wish to effectively address corruption challenges in their work. Expert Answers are produced by the U4 Helpdesk – operated by Transparency International – as quick responses to operational and policy questions from U4 Partner Agency staff.*

## **Correlates of Corruption**

Rothstein, B. and Holberg, S., 2011, The Quality of Government Institute (QoG)

[http://www.qog.pol.gu.se/digitalAssets/1357/1357840\\_2011\\_12\\_rothstein\\_holmberg.pdf](http://www.qog.pol.gu.se/digitalAssets/1357/1357840_2011_12_rothstein_holmberg.pdf)

This paper demonstrates the correlation between control of corruption and GDP per capita, control of corruption and Human Development Index, as well as between control of corruption and levels of poverty, using various variables such as the World Bank Governance Indicators, UNDP Human Development Report etc. The researchers take an inverted approach, trying to see if reducing corruption lowers the level of poverty and inequality. The correlation between poverty levels and control of corruption is relatively weak but it is reinforced by the strong correlation between control of corruption and GDP per capita.

## **Corruption and Poverty: A review of Recent Literature**

Eric Chetwynd, Frances Chetwynd, Bertram Spector, 2003, commissioned by USAID

<http://www.u4.no/recommended-reading/corruption-and-poverty-a-review-of-recent-literature/>

The literature points to the conclusion that corruption, by itself, does not produce poverty. Rather, corruption has direct consequences on economic and governance factors, intermediaries that in turn produce poverty. Thus, the relationship examined by researchers is an indirect one. This paper discusses two major models explaining this moderated linkage between corruption and poverty: an economic model, which postulates that corruption affects poverty by first impacting economic growth factors, which, in turn, impact poverty levels, and a governance model, which asserts that corruption affects poverty by influencing governance factors, which, in turn, impact poverty levels.

## **Poverty and Corruption in Latin America: Challenges for a sustainable development strategy**

Carballo Ana Estefanía, 2010, Revista Opera-Universidad Externado de Colombia

<http://redalyc.org/articulo.oa?id=67522631004>

This article shows a correlation between different poverty measurements and corruption indicators for 18 Latin American countries. Almost every model of regression conducted in this research, with different specifications, as well as with direct and indirect measures of corruption presented a significant negative relation between poverty and corruption levels.

## **The anti-corruption catalyst: Realising the MDGs by 2015**

Transparency International, 2010

[http://www.transparency.org/whatwedo/pub/the\\_anti\\_corrupti\\_on\\_catalyst\\_realising\\_the\\_mdgs\\_by\\_2015](http://www.transparency.org/whatwedo/pub/the_anti_corrupti_on_catalyst_realising_the_mdgs_by_2015)

Corruption – whether petty, grand or political – exacts a high cost on development. Abuses in one sector do not spare the others from collateral damage. This report demonstrates the correlation between levels of corruption and levels of illiteracy using data from 42 countries. It also touches upon the impact of corruption on the health and water sectors, showing that access to safe drinking water is negatively correlated with the level of bribery observed in a given country.. Corruption results in a lack of access to basic public services thus weakening poverty reduction efforts. These findings are based on research conducted in 51 countries.

## **Corruption and the Costs of Redistribution: Micro Evidence from Indonesia**

Olken Benjamin A., 2005, National Bureau of Economic Research

<http://economics.mit.edu/files/2914>

This paper examines the degree to which corruption in developing countries may impair the ability of governments to redistribute wealth among their citizens. Specifically, it examines a large anti-poverty program in Indonesia that distributed subsidized rice to poor households, estimating the extent of corruption in the program by comparing administrative data on the amount of rice distributed with survey data on the amount actually received by households. The central estimates suggest that, on average, at least 18 percent of the rice appears to have disappeared. Using conservative assumptions for the marginal cost of public funds, the paper estimates that the welfare losses from this corruption may have been large enough to offset the potential welfare gains from the redistributive intent of the program. These findings suggest that corruption may impose substantial limitations on developing countries' redistributive efforts, and may help explain the low level of impact of transfer programs in developing countries.

## **Does corruption affect income inequality and poverty?**

Gupta Sanjeev, Davoodi Hamid, Alonso-Terme Rosa, 2002, Economics of governance

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=882360](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=882360)

This paper provides evidence that high and rising corruption increases income inequality and poverty. An

increase of one standard deviation in corruption increases the Gini coefficient of income inequality<sup>1</sup> by about 11 points and income growth of the poor by about 5 percentage points per year. The paper discusses several channels through which corruption may affect income inequality and poverty. An important implication of these findings is that policies that reduce corruption will most likely reduce income inequality and poverty as well.

### Fighting Poverty and Corruption

Eberlei Walter, Führmann Bettina, 2004, GTZ  
<http://www.u4.no/recommended-reading/fighting-poverty-and-corruption-integrating-the-fight-against-corruption-into-the-prs-process/>

This study is based on the assumption that corruption, by diverting scarce public resources, is a major obstacle for poverty reduction and explores whether, and if so how, the link between poverty reduction and the fight against corruption is included in the Poverty Reduction Strategies (PRS) of the poorest countries. The results of the study leave no room for doubt that the PRS approach introduced five years ago offers key points of departure for the fight against corruption. Conversely, the fight against corruption is a precondition for the success of PRS. The study recommends that stronger emphasis be placed on these interrelationships in the development cooperation of donors and PRS countries.

## 2. Corruption and conflict/fragility

Conflict-affected or post-conflict countries tend to be amongst the most corrupt countries in the world, as illustrated by Transparency International's Corruption Perceptions Index 2012. Despite the lack of significant empirical evidence, there is a general consensus in literature to say that corruption and conflict are linked, but the direction of the causality is debated.

Corruption increases the level of instability and the risk of conflict by undermining the legitimacy and credibility of state institutions and weakening peace-building and peace-keeping efforts. In parallel, conflict creates corruption patterns that might not have existed previously. The papers highlighted below examine various aspects of the impact of corruption on stability and peace, such as the link between illicit diamond

extraction and civil war, or the development of specific corrupt behaviour during the period of armed conflict and their effect on the aftermath of conflicts.

### Corruption and Armed Conflicts: Some Stirring Around in the Governance Soup

Andvig Jens Christopher, 2007, Norwegian Institute of International Affairs  
<http://www.economics-ejournal.org/economics/discussionpapers/2008-3>

The paper discusses the impact of corruption on the probability of violent conflict and traces the shifts in the composition of corrupt transactions during and in the aftermath of violent conflicts. It explores the causal linkages between corruption and conflicts, as well as the analogy of the phenomena with dealing with the modus operandi of the state and the violation of institutional and normative restraints. The author argues that corruption and violent conflicts are basically *co-flux* phenomena caused by the same or closely connected mechanisms.

### Post-conflict Corruption: A Rule of Law Agenda?

O'Donnell Madalene, 2006, International Peace Academy  
[http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/1740479-1149112210081/2604389-1149699443576/2628502-1150401005955/corruption\\_conflict\\_and\\_rule\\_of\\_law.pdf](http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/1740479-1149112210081/2604389-1149699443576/2628502-1150401005955/corruption_conflict_and_rule_of_law.pdf)

Corruption has quickly become a first-order priority in some post-conflict transitions despite the fact that national capacities are often stretched thin by urgent demands on the ground and the avalanche of international aid and conditionality. Within the international community, there is a renewed acknowledgement of the importance of the rule of law not only to improve the well-being of citizens, but also to reduce the negative spillover effects of state failure for global stability and security. States that can govern well, it is argued, are the key to long-term development, to combating terrorism, and to preventing violent conflict and the resurgence of conflict in post-conflict transitions. Renewed emphasis on efforts to strengthen the rule of law is in large part propelled by this consensus on the importance of statebuilding and governance.

<sup>1</sup> The Gini Coefficient is a statistical indicator of income inequality ranging from 0 (perfect equality) to 1 (high inequality levels).

## **World Development Report**

World Bank, 2011

[http://siteresources.worldbank.org/INTWDRS/Resources/WD R2011\\_Full\\_Text.pdf](http://siteresources.worldbank.org/INTWDRS/Resources/WD R2011_Full_Text.pdf)

Institutional legitimacy is the key to stability. When state institutions do not adequately protect citizens, guard against corruption, or provide access to justice; when markets do not provide job opportunities; or when communities have lost social cohesion—the likelihood of violent conflict increases.

Corruption—which generally has international links through illicit trafficking, money laundering, and the extraction of rents from sales of national resources or international contracts and concessions—has doubly pernicious impacts on the risk of violence, by fuelling grievances and by undermining the effectiveness of national institutions and social norms.

## **Risks of corruption to state legitimacy and stability in fragile situations**

Dix Sarah, Hussmann Karen, Walton Grant, 2012, U4

<http://www.u4.no/publications/risks-of-corruption-to-state-legitimacy-and-stability-in-fragile-situations/>

Examining the cases of Liberia, Nepal and Colombia, this study asks how corruption poses risks to political legitimacy and stability in fragile situations. The report focuses on the key role of elites and their views of the state's legitimacy in determining the extent to which there will be instability or stability. Qualitative interviews of elites show that two particular patronage scenarios are seen as threatening stability. One is when the state or illegal actors sustain a corrupt network by violently eliminating opponents. The other is when corruption benefits few people, the benefits are not distributed "fairly," and the population's basic needs are not met. The impact of corruption on legitimacy and stability is mitigated by other factors. Anti-corruption initiatives potentially strengthen state legitimacy, but undermine it if they fail to deliver or become too far-reaching.

## **Civil Society Organisations in Situations of Conflict**

Poskitt Adele, Dufranc Mathilde, 2011, CIVICUS

[http://www.integrityaction.org/sites/www.integrityaction.org/files/documents/files/cso\\_conflict\\_complete\\_report.pdf](http://www.integrityaction.org/sites/www.integrityaction.org/files/documents/files/cso_conflict_complete_report.pdf)

Civil society organizations consulted state that weak political systems and high levels of corruption have the most significant, negative long-term effect on civil society in situations of conflict. The inevitable

breakdown of systems that occurs in conflict situations seriously impacts the effectiveness of civil society.

This report illustrates the dynamics of civil society in situations of conflict and looks at how the international community and donors can ensure their policies adequately empower citizens and civil society in all stages of peace-building and development.

## **Blood on the Stone: Greed, Corruption, and War in the Global Diamond Trade**

Smillie Ian, 2010, Anthem Press

Mineral wealth has long been linked to tax evasion, money laundering and corruption. In the 1990s they were also used to bankroll wars that claimed millions of lives and caused untold suffering.

This book addresses how diamonds fueled some of the most brutal wars in Africa, exploring the extraction of mineral resources from developing countries and the struggle to force corporate accountability for the abuses and imbalances that have resulted.

## **Corrupting Peace? Peacebuilding and Post-conflict Corruption**

Le Billion Philippe, 2008, International peacekeeping Vol15

[http://relooney.fatcow.com/0\\_NS4053\\_73.pdf](http://relooney.fatcow.com/0_NS4053_73.pdf)

Many conflict-affected countries are among the most corrupt in the world, and corruption is frequently reported as a major concern of local populations and foreign aid agencies during transition to peace.

In this paper, the author seeks to demonstrate that different forms of corruption have different effects on the likelihood of conflict and peace-building, and that, even though corruption is generally an obstacle to peace, in certain situations it may provide a short term solution to peace. The author argues that peace-building programmes ought to take into account the socio-cultural context not to plan any drastic measures that could potentially worsen the situation.

## **Controlling Corruption in Post-Conflict Countries**

Bolongaita Emil, 2005, USAID

The corrosive impact of corruption on societies is worsened in post-conflict situations because: first, perception of corruption weakens enthusiasm for donor support; second, corruption diverges parts of the post-conflict support creating a vicious circle that discourage further assistance; third, corruption fuels debt and poverty; fourth, corruption feeds conflicts.

The chance that corruption will distort and undermine peace-building, post-conflict peace agreements or settlements is relatively high. This is partly because post-conflict environments present extraordinarily high opportunities and low punitive risks for corrupt activity. The opportunities and scope for corruption are enhanced because post-conflict countries often attract relatively high-levels of aid. Because of the weak governance environment, the incentives for private gain abound, magnified by the lack of disincentives for such illicit enrichment. This is further exacerbated by the absence of actors fostering transparency and accountability (e.g., media and civil society).

### 3. Corruption's effect on donor interventions

Empirical evidence of the negative impact of corruption on donor interventions is lacking. Some studies featured in this paper even argue that aid to corrupt countries has increased. There is however anecdotal evidence of link between corruption and reduced aid volume.

The literature overview suggested in this paper also covers aid fatigue more broadly and the correlation between corruption and aid modalities, as well as possible solutions to bypass corrupt state structures in aid programmes and the importance of the aid transparency and effectiveness agendas.

#### Academic and policy papers

##### Does Corruption Cause Aid Fatigue?

Bauhr Monika, Nasiritousi Naghmeh, 2011, Quality of Government Institute  
[http://www.qog.pol.gu.se/digitalAssets/1357/1357855\\_2011\\_17\\_bauhr\\_nasiritousi.pdf](http://www.qog.pol.gu.se/digitalAssets/1357/1357855_2011_17_bauhr_nasiritousi.pdf)

General explanations for aid fatigue, such as meagre development results and the perception that taxpayers' money is being wasted fail to solve what is called the aid-corruption paradox, namely that the need for foreign aid is often the greatest in corrupt environments. Corruption can be seen as an external impediment on the effectiveness of aid, but also as an internal and important target of aid-driven efforts to improve governments. This paper explores the influence of corruption on support for foreign aid and conditions under which corruption causes aid fatigue. Building on studies of the motives for foreign aid and the social acceptability of corruption, the paper suggests that the relationship between corruption and aid fatigue

substantially depends on fundamental beliefs about the role of foreign aid. The analysis builds on data from the 2009 Eurobarometer survey. The findings have implications for understanding the consequences of the remarkable increase in exposure of corruption in recent years, efforts to tackle global environmental challenges, and fundamental relationships between corruption and aid legitimacy.

##### How Selective is Donor Aid? Governance and Corruption Matter and Donor Agencies Should Take Notice

Kaufmann Daniel, 2012, Brooking Institute  
<http://www.brookings.edu/research/opinions/2012/07/17-donor-aid-kaufmann>

This study looks at how much aid is going to recipients with satisfactory, mediocre or unsatisfactory control of corruption using the most up-to-date and comprehensive foreign aid dataset available from the OECD Development Assistance Committee (DAC). It appears that over the years a lion's share of aid has been disbursed to countries facing serious corruption and governance challenges, such as Afghanistan, Iraq, Nigeria and the Democratic Republic of Congo. Moreover, aid selectivity has tended to deteriorate, particularly in recent years. In the mid-1990s (1995-1998), countries on the two tail ends of governance performance (satisfactory and unsatisfactory corruption control) received nearly the same amount of aid (around \$16 billion, or about 30 percent each of overall aid).

##### Rhetoric versus Reality: The Best and Worst of Aid Agency Practices

Easterly William, Williamson Claudia, 2011, World Development  
[http://williameasterly.files.wordpress.com/2010/08/61\\_easterly\\_williamson\\_rhetoricvsreality\\_prp.pdf](http://williameasterly.files.wordpress.com/2010/08/61_easterly_williamson_rhetoricvsreality_prp.pdf)

This paper attempts to monitor the best and worst of aid practices among bilateral, multilateral, and UN agencies. It creates aid practice measures based on aid transparency, specialization, selectivity, ineffective aid channels and overhead costs, and assesses trends in best practices overtime. The authors find no evidence of improvements (and partial evidence of worsening) in specialization, fragmentation, and selectivity, despite escalating rhetoric to the contrary. More importantly, the paper finds that allocation to corrupt countries is increasing, not decreasing.

## **A joint response to corruption in Uganda: Donors beginning to bite?**

De Vibe Maja, 2012, U4 <http://www.u4.no/publications/a-joint-response-to-corruption-in-uganda-donors-beginning-to-bite/>

Given the need to consolidate accountability reforms ahead of the inflow of oil revenues, international development partners in Uganda developed a Joint Response to Corruption in early 2009. Among the four elements of the joint response, features stronger responses, encouraging development partners to “bite” when they bark. A graduate response approach is envisaged, looking at traditional as well as new methods, including: traditional action such as the withholding funds (either in the sector, Joint Budget Support Framework, or both); new responses, including action to track, freeze and recover illegally acquired assets in home countries; travel bans, etc.; and reputational responses such as raising the issue of lack of follow-up in multilateral and bilateral dialogue forums at national and international levels, etc.

## **Donor responses to corruption in deteriorating governance environments**

Chêne Marie, 2008, U4 <http://www.u4.no/publications/donor-responses-to-corruption-in-deteriorating-governance-environments/>

This paper relates some examples of donors disengaging, suspending or reducing aid to a country on account of corruption, human right abuses or undemocratic regimes. These cases have been extensively covered by the media, such as in Zimbabwe, Chad, Kenya, Uganda, Tanzania and Malawi.

It also covers the difficulties faced by development agencies when disengaging from a country, be it political pressure due to the burden that aid withdrawal puts on certain segments of the population or the challenge disengagement creates for future disbursement capacity.

## **Donor Transparency and Aid Allocation**

Faust Jörg, 2012, German Development Institute [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1644704](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1644704)

In recent years, the transparency of foreign aid has received substantial attention among aid practitioners. This analysis shows the impact of political transparency in donor countries on those countries' formal promotion of aid transparency and on their concrete aid allocation patterns. Political transparency as measured by

standard corruption indices not only impacts on the engagement of bilateral donors in the International Aid Transparency Initiative. Differences in political transparency in donor countries also explain a large part of their varying aid selectivity patterns. Donors with higher levels of political transparency allocate aid more according to recipients' neediness and institutional performance.

## **Corruption and aid modalities**

Fritz Verena, Kolstad Ivar, 2008, U4 <http://www.u4.no/publications/corruption-and-aid-modalities/>

The introduction of 'new' aid modalities – and in particular general budget support – has increased the interest in the relationship between corruption and aid modalities. This U4 Issue reviews the information that theory and empirical studies provide on the prevalence of corruption in relation to various aid modalities, the degrees to which corruption distorts the developmental impact of different aid modalities, and whether aid modalities affect the governance environment and corruption in a country differently. It concludes that the choice of aid modality will not affect aid allocation nor accountability in countries with relatively low levels of aid, regardless of the level of corruption. With high aid dependency, however, donors have some more control over aid allocation with project support than with budget support. It is suggested that where this is the case, and corruption is high, there are strong reasons for not choosing budget support as an aid modality.

## **Greater aid transparency: crucial for aid effectiveness**

ODI, IBP, 2010 <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/5722.pdf>

This paper sets out and explores the link between donor aid and recipient country budgets, and the role that greater transparency about aid can play in improving budget transparency, the quality of budgetary decisions, and accountability systems. The paper goes on to explore how current initiatives to improve aid transparency can best support better budgets and accountability in aid dependent countries. The key points of this paper are the following: publishing better information on aid requires compatibility with recipients' budgeting and planning systems; recipient budgets bear many similarities, but this is not reflected in current formats for reporting aid; the poorest countries will lose out if donors do not publish aid information that is easy to link with recipient government budget systems.

