



# CORRUPTION AND DEVELOPMENT

‘The money never gets there.’ This is a common refrain in reference to foreign aid. Is it true?

It is true that corruption is endemic in the developing world. But it is also endemic in the industrialized world. The Gomery Commission, the Charbonneau Commission and Senate investigations demonstrate that Canada is far from immune. Canada has more companies than any other country on the World Bank’s list of firms barred from doing business with it because of corruption.<sup>1</sup>

Perceptions of corruption vary, as do its depth and breadth. In very poor countries, salaries are low. The average cost of living in a city in Malawi in 2011 was about US\$328 a month, while 80% of Malawian civil servants earned about \$131 a month.<sup>2</sup> It is not surprising, therefore, that civil servants with opportunity – traffic police, for example – might resort to corrupt practices in order to make ends meet.

Three questions arise:

- How bad is this corruption?
- How does it affect aid programs?
- What can be done to reduce it?

**How bad is it?**

According to the World Economic Forum,

‘Corruption, the abuse of entrusted power for private gain, is the single greatest obstacle to economic and social development around the world. It distorts markets, stifles economic growth, debases democracy and undermines the rule of law.

- Estimates show that the cost of corruption equals more than 5% of global GDP (US \$2.6 trillion), with over US \$1 trillion paid in bribes each year;
- Corruption adds up to 10% to the total cost of doing business globally, and up to 25% to the cost of procurement contracts in developing countries;
- Moving business from a country with a low level of corruption to a country with medium or high levels of corruption is found to be equivalent to a 20% tax on foreign business.’<sup>3</sup>

Tax evasion is commonplace and corruption is especially pronounced in relations between governments and the oil, gas and mining industries.<sup>4</sup> Transparency International (TI) ranks perceptions of public sector corruption in 175 countries and territories around the world. The ‘worst’ 90 are all developing countries, with North Korea and Somalia at the bottom of the list. But among the 80 *least* corrupt there are also developing countries, including Chile, Uruguay,

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Bhutan, Botswana and some Caribbean countries, all of which rank higher than Poland, Spain, Portugal and Israel.<sup>5</sup> Poverty may be a factor in advancing corruption, but corruption in some wealthy countries – Saudi Arabia and Kuwait, for example – is considerably more pronounced than in Ghana, Namibia and Lesotho.

Labelling countries as ‘corrupt’, however, is not very helpful. It usually takes two parties for corruption to occur, one of which is often ‘us’ – Canadian or other Western companies, individuals and organizations. Yet for some reason ‘we’ are not placed in the same category on the TI index.

There are three levels of corruption worth considering. The first is **petty corruption** – small payments, tips, baksheesh – in countries where economic conditions and low wages prevail. This will decrease when economic conditions are addressed. The second is more serious: **systemic corruption**, involving a culture of serious bribes and theft, significant tax avoidance, and criminality. The third, **state capture**, is the outright high-level looting of government revenue for personal gain by powerful officials or heads of state.

In worst-case situations the impact is not simply economic. It can lead to or become the justification for revolution, civil war and terrorism. Regardless of their outcome, countless conflicts over the past four decades in Asia, Latin America and Africa have been justified, at least in part, as fights against corruption.

There is little doubt that the uprisings of the Arab Spring and the growth of jihadism in Iraq, Syria and Afghanistan have been fuelled by popular unhappiness with the corruption of the regimes that have governed these countries. According to *The Economist*, ‘Boko Haram is, first and foremost, a product of Nigeria’s broken and kleptocratic politics which now risks destabilising neighbouring states’.<sup>6</sup> While corruption does not always lead to violence or terrorism, a strong argument can be made that it is more than an impediment to economic development; it is a threat to peace and to global security.

### How does it affect aid programs?

The first part of an answer to this question has to do with how aid programs have actually *advanced* corruption. During the Cold War, economic and military assistance was given uncritically by Western and Soviet bloc countries to some of the most venal regimes on the planet. Western aid money given to Zaire’s President Mobutu Sese Seko in order to maintain his friendship is one of the worst examples. The disintegration of Somalia followed years of ‘aid’ alternating in origin between the West and the Soviet Union. Similar perversions of aid can be seen in the tortured history of dozens of other developing countries.

Members of the NATO Alliance may have complained about the enormous and overt corruption of the Hamid Karzai regime in Afghanistan, and the post-Saddam regimes in Iraq, but in the face of political and military imperatives, little was done to curb it.

Only in more limited and select cases have efforts been made to deal with cases of overt corruption, as in the case of an SNC-Lavalin bribery case in Bangladesh,<sup>7</sup> allegations of company misconduct in Afghanistan,<sup>8</sup> and Canadian criminal charges in connection with Libyan construction projects.

In cases where corruption has been aided or abetted less knowingly, the problem is often exacerbated by the lack of knowledge that outsiders – investors, aid officials and NGOs – bring to the equation, and by the fact that they usually want something done that they cannot do themselves: a project accepted, a regulation changed, an investment approved.

### What can be done to reduce corruption?

Robert Klitgaard, a guru of academic anticorruption research, posits that *Corruption = Monopoly of Power + Too Much Discretion – Accountability*.<sup>9</sup> This idea has resonance, but it may not be universally true. A civil servant being held *accountable* for results may use corrupt means to achieve them. He will get away with it,

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of course, if he has an overabundance of discretion and no viable alternative options (the monopoly factor).

Clearly, however, public accountability is an important factor in controlling corruption. Singapore, synonymous in the 1950s with corruption, is ranked today as the seventh least corrupt country in the world, ahead of Canada, Australia, Germany and 165 others. The change resulted from clear and decisive government action, which in essence changed the ratio between risk and reward. The government made the rewards of corruption more risky, while at the same time making the rewards of probity more generous. Competitive salaries, better oversight and tougher consequences for criminal behaviour made all the difference.

### What Canada Can Do

The Canadian government and civil society organizations can reduce the possibility of corruption in aid programs by getting to know the people and organizations they work with. This can best be done through continuity in programs and in the personnel who work on them. There is no substitute for historical, cultural and contextual knowledge, and partnerships that are built on mutual understand and trust.

Canada can help to improve the risk/reward ratio by:

- Avoiding the temptation to provide aid for political and commercial reasons. Canada's *Official Development Assistance Accountability Act* requires development assistance to contribute to poverty reduction. This should come first.
- Strengthening investigative capacities and penalties related to Canada's *Corruption of Foreign Public Officials Act*. Canada has been criticized by the OECD and TI for its weak enforcement of this 1999 law, which did not bring a single case to trial until 2013.
- Continuing and increasing Canadian support for the UN Office on Drugs and Crime, which has a strong anti-corruption and asset-recovery mandate.<sup>10</sup>
- Promoting democracy and transparency by supporting civil society and the media in monitoring public expenditure, and developing government capacity to manage open public accounts committees.
- Promoting improved governance more directly with willing partners. Canada's support to the Tanzanian government's Ethics Secretariat is a good example.<sup>11</sup>
- Promoting transparency in Canada's own dealings with the governments of developing countries and through initiatives like the International Aid Transparency Initiative.<sup>12</sup> Canada has been a member since 2011, but does not yet publish a full set of financial data.
- Supporting the work of organizations like Publish What You Pay,<sup>13</sup> which promotes transparency in the extractive sector, arguing that secrecy has promoted corruption and retarded development.
- Playing a more meaningful role in the Extractive Industries Transparency Initiative,<sup>14</sup> which promotes openness and accountable management of natural resources. Canada is not yet an EITI Compliant Country; it is merely a 'supporter'.
- There is increasing evidence that China is becoming a major contributor and supporter of corruption, especially in Africa where Chinese officials are urging countries to forego Western and World Bank/IMF governance initiatives with unconditional Chinese aid. Canada's foreign and aid policies should be developed in concert with OECD partners to counter this growing threat to good governance.
- The Canadian government has threatened to bar Canadian companies from procurement contracts here for proven bribery and corruption abroad. The powerful corporate backlash suggests the need for a contractual prohibition against bribery by procurement-seeking companies anywhere in the world, *along with a clear, due-process adjudication framework*.

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### NOTES

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<sup>1</sup> The Bank has barred over 700 companies; 117 of these are Canadians, almost all of them representing SNC-Lavalin and its affiliates. See Armina Ligaya, “Canada now dominates World Bank corruption list, thanks to SNC-Lavalin”, *Financial Post*, September 18, 2013, <http://business.financialpost.com/2013/09/18/canada-now-dominates-world-bank-corruption-list-thanks-to-snc-lavalin/>.

<sup>2</sup> Stuart Yikona et al., “Ill-Gotten Money and the Economy: Experiences from Malawi and Namibia”, Washington, DC: World Bank, 2011, [http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/ill\\_gotten\\_money\\_and\\_economy.pdf](http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/ill_gotten_money_and_economy.pdf).

<sup>3</sup> International Chamber of Commerce et al. “The Business Case against Corruption”, [www.iccwbo.org/Data/Policies/2008/The-Business-Case-against-Corruption/](http://www.iccwbo.org/Data/Policies/2008/The-Business-Case-against-Corruption/).

<sup>4</sup> See, for example, Eleanor R.E. O’Higgins, “Corruption, Underdevelopment and Extractive Resource Industries: Addressing the Vicious Cycle”, *Business Ethics Quarterly*, vol. 16, no. 2, April 2006, pp. 235-254, [www.pdcnet.org/pdc/bvdb.nsf/purchase?openform&fp=beq&id=beq\\_2006\\_0016\\_0002\\_0235\\_0254](http://www.pdcnet.org/pdc/bvdb.nsf/purchase?openform&fp=beq&id=beq_2006_0016_0002_0235_0254).

<sup>5</sup> See Transparency International, *Corruption Perceptions Index 2014*, <http://www.transparency.org/whatwedo/publication/cpi2014>.

<sup>6</sup> “The Black Flag in Africa”, *The Economist*, January 24, 2015, [www.economist.com/news/leaders/21640348-only-if-government-tackles-misrule-and-endemic-corruption-will-jihadist-group-be](http://www.economist.com/news/leaders/21640348-only-if-government-tackles-misrule-and-endemic-corruption-will-jihadist-group-be).

<sup>7</sup> Dave Seglins, “Former SNC-Lavalin VP charged in Bangladesh bribery probe”, *CBC News*, September 18, 2013, [www.cbc.ca/news/former-snc-lavalin-vp-charged-in-bangladesh-bribery-probe-1.1858961](http://www.cbc.ca/news/former-snc-lavalin-vp-charged-in-bangladesh-bribery-probe-1.1858961).

<sup>8</sup> Joanna Smith, “CIDA to ban SNC-Lavalin Inc. from bidding on contracts”, *Toronto Star*, April 25, 2013, [www.thestar.com/news/canada/2013/04/25/cida\\_to\\_ban\\_snc\\_lavalin\\_inc\\_from\\_bidding\\_on\\_contracts.html](http://www.thestar.com/news/canada/2013/04/25/cida_to_ban_snc_lavalin_inc_from_bidding_on_contracts.html).

<sup>9</sup> Robert Klitgaard, *Controlling Corruption* (Berkeley: University of California Press, 1975), p. 75.

<sup>10</sup> See [www.unodc.org/](http://www.unodc.org/).

<sup>11</sup> See project profile at

[www.acdi-cida.gc.ca/cidaweb/cpo.nsf/vWebCSAZEn/B497BD201B7CB49885257960003742E1](http://www.acdi-cida.gc.ca/cidaweb/cpo.nsf/vWebCSAZEn/B497BD201B7CB49885257960003742E1).

<sup>12</sup> See “About IATI”, [www.aidtransparency.net/about](http://www.aidtransparency.net/about).

<sup>13</sup> Publish What You Pay, [www.publishwhatyoupay.org/](http://www.publishwhatyoupay.org/).

<sup>14</sup> See “What is the EITI?”, <https://eiti.org/eiti>.