

# Working Paper

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## Poverty and Corruption

The year 2007 marked a milestone in the fight against poverty and corruption. It represented the midway point on the road to meeting the Millennium Development Goals (MDGs), the ambitious global pledge to end extreme poverty by 2015. It also signalled that ten years had passed since the anti-corruption movement had signed the Lima Declaration, promising to address poverty as part of their efforts.<sup>1</sup>

However, actual accomplishments have fallen short of expected progress. In practice, donors and governments still treat poverty and corruption as separate — rather than integral — components of the same strategy. The continued lack of policy integration has undermined efforts to fight both poverty and corruption. Poverty continues to plague more than a half of the world's citizens, with nearly three billion people living on less than two dollars-a-day.<sup>2</sup> Data on the MDGs show the current development trend not keeping pace with earlier projections. Bottlenecks have developed in certain regions and key countries, creating sizable challenges to meeting the 2015 timeline.<sup>3</sup>

## Corruption's Tax on the Poor

Corruption acts as a regressive tax on the poor that robs resources from already hard-pressed households.

A recent study in Mexico revealed that approximately 25 percent of the income earned by poor households went to petty corruption.<sup>8</sup>

Results from the TI Global Corruption Barometer for 2007 showed that poor respondents consistently pay more bribes than other income groups, whether to receive medical services, attend schools or seek police assistance.

Those who cannot afford to bribe are further marginalised, left without access and turned into forgotten citizens.

**As the World Bank has aptly warned, corruption is 'the greatest obstacle to reducing poverty'.**

## 1. Introducing the concepts

A stocktaking of both past and current efforts to reduce poverty suggests that corruption has been a constant obstacle for countries trying to bring about the political, economic and social changes desired for their development. Across different country contexts, corruption has been a cause and consequence of poverty.

Corruption on the part of governments, the private sector and citizens affects development initiatives at their very root by skewing decision-making, budgeting and implementation processes. When these actors abuse their entrusted power for private gain, corruption denies the participation of citizens and diverts public resources into private hands. The poor find themselves at the losing end of this corruption chain — without state support and the services they demand.

At the same time, corruption is a by-product of poverty. Already marginalised, the poor tend to suffer a double level of exclusion in countries where corruption characterises the rules of the game. In a corrupt environment, wealth is captured, income inequality is increased and a state's governing capacity is reduced, particularly when it comes to attending to the needs of the poor. For citizens, these outcomes create a scenario that leaves the poor trapped and development stalled, often forcing the poor to rely on bribes and other illegal payments in order to access basic services. For a country, the results produce multiple and destructive forces: increased corruption, reduced sustainable growth and slower rates of poverty reduction.<sup>4</sup> As the World Bank has aptly warned, corruption is 'the greatest obstacle to reducing poverty'.<sup>5</sup>

Each of the paper's following sections builds on understanding this cause-and-effect relationship between poverty and corruption and outlines the processes that serve to reinforce — as well as undo — their connection.

## 2. Understanding the poverty-corruption nexus

Being poor does not only mean falling below a certain income line. Poverty is a multi-dimensional phenomenon that is characterised by a series of different factors, including access to essential services (health, education, sanitation, etc.), basic civil rights, empowerment and human development.<sup>6</sup> The MDGs recognise this broader concept of poverty and the reality that it must go beyond pure income measurements. Its core document — known as the Millennium Declaration and signed in 2000 — promotes the values of freedom, equality, solidarity and tolerance for tackling the key development challenges to reducing poverty.

Corruption undermines these development pillars, an individual's human rights and the legal frameworks intended to protect them. In countries where governments can pass policies and budgets without consultation or accountability for their actions, undue influence, unequal development and poverty result.<sup>7</sup> People become disempowered (politically, economically and socially) and, in the process, further impoverished.

Corruption also siphons off goods and money intended to alleviate poverty. These leakages compromise a country's economic growth, investment levels, poverty reduction efforts and other development-related advances. At the same

time, petty corruption saps the resources of poor people by forcing them to offer bribes in exchange for access to basic goods and services — many of which may be ‘free’ by law, such as healthcare and education (see sidebar on page 2). With few other choices, poor people may resort to corruption as a survival strategy to overcome the exclusion faced when trying to go to school, get a job, buy a house, vote or simply participate in their societies.

To address these obstacles, policies and interventions supported by governments and donors must integrate initiatives that recognise how poverty, inequality and corruption are inter-related (see sidebar):

- 🌐 The fight against poverty and corruption is only sustainable and successful when the two phenomena are addressed together, particularly in the poorest countries.
- 🌐 Political, economic and social inequality causes and exacerbates poverty and corruption.
- 🌐 Pro-poor anti-corruption strategies — initiatives that assess the benefits and risks for the poor — are most effective when they promote citizens’ basic rights. In addition, tackling corruption where it begins — prior to elections, after public officials have just taken office and when policies are conceived and planned — increases the effectiveness of interventions.

### 3. Breaking the cycle

Combating poverty and corruption means addressing and overcoming the barriers that stand in the way of citizen engagement and a state’s accountability. While most developing countries claim that the equal participation and rights of citizens exist, they rarely apply to the poor in practice.

TI’s Global Corruption Report (2004) signalled that corruption can be used to manipulate a country’s political institutions, parties and processes to maintain the status quo — violating the rights of poor citizens and perpetuating poverty. As noted, the poor are most frequently forced to resort to corrupt practices where marginalisation and political, economic and social exclusion are highest. This presents an enormous challenge for the development community. If anti-corruption programmes are not linked to alternative means of legitimately accessing basic services, they will have a negative impact on the people they are meant to help.

To be effective, pro-poor anti-corruption strategies must look more closely at the larger context that limits opportunities for poor citizens to participate in *political, economic* and *social* processes.

*Political participation and accountability.* Linking the rights of marginalised communities and individuals to more accountable governments is a fundamental first step for developing a pro-poor anti-corruption strategy. A country’s policies are shaped by citizens giving their governments the power to act on their behalf (e.g. the accountability cycle). Corruption by public and private sector actors taints this process, distorts constitutions and institutions, and results in poverty and unequal development. By strengthening political accountability, policies ensure that the poor are seen not as victims but rather as stakeholders in the fight against corruption (see sidebar). Such a refocusing of the issues raises

### Correlating Corruption and Human Development

When there is corruption, key drivers in the fight against poverty, such as political accountability, transparency and inclusiveness, are significantly undermined and at times even absent.

A comparison of the countries listed at the top (Denmark, Finland, New Zealand and Singapore) and bottom (Somalia, Myanmar, Iraq and Haiti) of the Corruption Perceptions Index (CPI) compiled by Transparency International provides a starting point for unravelling some of the linkages between poverty, inequality and corruption.

When the CPI for countries is compared with their human development rankings, a strong correlation emerges between corruption and development, as measured by the Human Development Index (HDI). Countries with lower corruption tend to have higher HDIs, and vice versa.

The HDI, produced by the United Nations Development Programme, looks at indicators such as education and adult literacy, life expectancy and household income to come up with an indexed score to show where 177 countries fall on the development spectrum (high, medium or low).<sup>9</sup>

### Citizen Accountability Tools

The TI movement supports the need for millions of citizens — particularly the poor — to hold their political representatives accountable for the decisions they take.

In ‘face the people’ programmes organised by TI Bangladesh, citizen committees have been organised to call governments to account for their development promises.

In other TI national chapters, help desks, called Advisory and Legal Advocacy Centres (ALACs), support citizens on direct corruption-related cases. TI-Georgia has used these facilities to open channels of communication between citizens and parliamentarians and to ensure elected officials are held responsible for their policy choices.<sup>10</sup>

No member government in the Organisation for Economic Cooperation and Development (OECD) has yet linked its aid flows according to whether recipient countries have established more accountable political processes or have begun implementing the United Nations Convention against Corruption (UNCAC).

The state's withdrawal has been starkest in many developing cities' slums — whether called *favelas* in Brazil, *bidonvilles* in Burkina Faso or *bastis* in India. In these communities, both democratically-organised and criminally-linked groups have stepped in when governments have not. Where underworld forces are in control, codes are based on fear, extortion and intimidation.

questions about how to address key development frameworks, including Poverty Reduction Strategy Papers (PRSPs), which have been criticised for insufficient accountability and citizen participation.<sup>11</sup> Until now, a consensus on how to strengthen these elements in practice has remained elusive within development cooperation circles.<sup>12</sup>

*Economic inequalities and market failures.* Designing an anti-corruption strategy that is pro-poor involves recognising how wealth and poverty are created — and how abuse of power conditions the process. Corruption on the part of public and private sector actors facilitates market failures, which can generate and perpetuate income inequalities. Most countries in Latin America, Southeast Asia and Sub-Saharan Africa present highly unequal income distributions along with elevated levels of corruption. In comparing the CPI rankings for the world's 10 most unequal nations, half the countries fall within the bottom 40 percent of the index.<sup>13</sup> When corruption occurs in the economy, breakdowns and abuses are often attributable to the inadequate regulatory and anti-corruption frameworks used by governments and companies. The passage of UNCAC and other global guidelines — as well as the push for more stringent regulation of the financial sector — has been an attempt to address this side of the corruption equation.

*Social cleavages and exclusion.* Social exclusion that limits citizens' access to political and economic decision-making is inconsistent with pro-poor anti-corruption efforts. The marginalisation of groups of citizens from society is contrary to the concept of good governance and theoretically has no place in democratic societies. It leads to rules that are applied with a double-standard, even if countries claim to embrace democratic equality. Cleavages arise and the social fabric of society is threatened. As TI has cautioned 'one system for the rich and another for the poor fractures communities'.<sup>14</sup> When corruption is involved, these divisions can turn into a source of conflict that undermines the state's credibility, legitimacy and effectiveness and which locks the poor in a cycle of ungovernability, inequality and corruption (see sidebar).

#### 4. Taking next steps

Pursuing a comprehensive approach to tackle both poverty and corruption means that policies must start by enabling the poor to fight corruption on equal terms. This translates into the poor having an equal right to be the principle stakeholders and beneficiaries of anti-corruption strategies — and not their main victims. Empowering the poor to combat corruption can make these efforts more effective at helping citizens overcome their marginalisation and impoverishment.

For initiatives to have a pro-poor focus, it is useful to target a country's *policy cycle* and *development process*. For example, the *policy cycle* could be anchored in a government's political commitment to its citizens. Poor citizens would be included as key actors during the policy formulation stage. Their involvement could be aligned with and support the role of legislators in approving policies and budgets and serve to counterbalance the government's potential lack of accountability.

Specific activities could focus on each step of the *policy cycle* and run throughout:

- 🌐 **Setting objectives:** Working with the poor to express their development priorities and linking them to electoral pacts can help to elicit development and accountability promises prior to elections and before the planning begins.
- 🌐 **Policy and planning:** Participatory poverty and social impact assessments can be useful tools at this step. They can help to include the perspectives of the poor in determining key integrity cracks and in formulating anti-corruption initiatives that are integrated into the national development strategy. Participatory policy and budgeting exercises are one option for ensuring pledges are funded and that poor citizens have a seat at the planning table.
- 🌐 **Implementation:** Institutional structures, particularly at the local level, can be set up to formalise poor citizens' roles in implementing decisions that affect their lives, such as the delivery of basic services. Many examples, including community councils, exist for how institutional arrangements can be made more accountable to citizens.
- 🌐 **Monitoring:** Various, low-cost techniques to engage citizens can include the use of report cards and the designation of a local/national ombudsperson. Community engagement in corruption mapping and election monitoring also are other viable activities.

At the same time, a country's *development process* could help to integrate what are often distinct national agendas on corruption, politics and development. As indicated above, this means changing practices, attitudes and perceptions in how the policy cycle is carried out. Two guiding principles for supporting these efforts include:

- 🌐 **Partnership:** Work would be done by and with the poor — and not for the poor. Each step of the process could promote their engagement and community involvement. Community action at the local level could be used to demonstrate the power of and need for collective citizen action.
- 🌐 **Rights-based:** Development frameworks would be viewed as a way to provide all citizens with a level playing field, regardless of income, race, gender, religion, education or ethnicity. Ensuring the poor participate in political processes and that a country's development policies uphold their human dignity reflects the need to respect the human rights of all citizens as agreed under UN conventions.

By embracing partnership and a rights-based approach, corruption could be more effectively addressed as a collective solution to a collective problem — rather than through the efforts of individuals or parts of the system alone. Nationally, the different branches of government, private sector and civil society could devise entry points for engagement on how development processes would be carried out and the results monitored. Globally, international donors, multilateral agencies and civil society organisations (CSOs) could integrate anti-corruption platforms into a broader understanding of their development efforts.

Without these changes, the twin agendas to combat poverty and corruption are likely to continue their parallel, unsuccessful paths.🌐

**In order to meet the MDGs by 2015, the coming years will present enormous challenges for the international community, governments and citizens. They also will present opportunities for better understanding the obstacles that poverty and corruption pose — and for reconsidering ways to address them.**

## Poverty and corruption

This Working Paper was prepared by the TI-Secretariat's Global Programme on Poverty, in collaboration with the Policy and Research Department.

To learn more about TI's work on poverty, development and corruption, visit: [http://www.transparency.org/global\\_priorities/poverty](http://www.transparency.org/global_priorities/poverty). All related queries can be sent to: [poverty \[at\] transparency.org](mailto:poverty[at]transparency.org).

For more information about this working paper and others in the series, please contact Craig Fagan at the TI-Secretariat: [plres \[at\] transparency.org](mailto:plres[at]transparency.org).

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- <sup>1</sup> See: *The Lima Declaration. International Anti-Corruption Convention, 7-11 September 1997.* [www.transparency.ca/Reports/Readings/SR-B16-e-limadeccl.pdf](http://www.transparency.ca/Reports/Readings/SR-B16-e-limadeccl.pdf).
- <sup>2</sup> See: [www.worldbank.org/data/wdi](http://www.worldbank.org/data/wdi).
- <sup>3</sup> For more information on the global progress of the MDGs, see: [mdqs.un.org/unsd/mdg/Resources/Static/Products/Progress2007/MDG\\_Report\\_2007/Progress\\_Chart\\_en.pdf](http://mdqs.un.org/unsd/mdg/Resources/Static/Products/Progress2007/MDG_Report_2007/Progress_Chart_en.pdf).
- <sup>4</sup> See: Paolo Mauro, "Corruption and Growth," *Quarterly Journal of Economics*, 110, 681-712 (1995); Sanjeev Gupta, Hamid Davoodi and Rosa Alonso Terme, "Does Corruption Affect Income Equality and Poverty?" IMF Working Paper 98/76 (Washington, DC: IMF, 1998); Paolo Mauro, "The Effects of Corruption on Growth and Public Expenditure," Chapter 20 in Arnold J. Heidenheimer and Michael Johnston (eds.), *Political Corruption: Concepts and Contexts*. 3rd ed. (New Brunswick, NJ: Transaction Publishers, 2002).
- <sup>5</sup> See: [www.worldbank.org/anticorruption](http://www.worldbank.org/anticorruption).
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- <sup>7</sup> See: M. Moore, "Signposts to More Effective States." Paper prepared for the Seventh Annual Global Development Conference. (St. Petersburg, Russia: Jan. 19-21, 2006).
- <sup>8</sup> According to the Índice Nacional de Corrupción y Buen Gobierno (INCBG) undertaken by TI-Mexico in 2005, approximately 25% of the income in households earning one minimum wage goes to petty corruption. See: [www.transparenciamexicana.org.mx/documentos/ENCBG/2005/Folleto\\_INCBG\\_2005.pdf](http://www.transparenciamexicana.org.mx/documentos/ENCBG/2005/Folleto_INCBG_2005.pdf).
- <sup>9</sup> The statistical correlation between the CPI and the HDI (2005) is 0.7156 at  $p < 0.01$ . For 1995, the correlation was 0.7546 ( $p < 0.01$ ).
- <sup>10</sup> For more information on these projects, visit: [www.ti-bangladesh.org/index.php?page\\_id=207](http://www.ti-bangladesh.org/index.php?page_id=207) and [www.transparency.ge/index.php?lang\\_id=ENG&sec\\_id=10150](http://www.transparency.ge/index.php?lang_id=ENG&sec_id=10150).
- <sup>11</sup> See: W. Eberlei, "Accountability in Poverty Reduction Strategies: The Role of Empowerment and Participation", *Social Development Papers: Participation and Civic Engagement (104)*. (Washington, DC: The World Bank, 2007).
- <sup>12</sup> See: OECD, "Overview by the DAC Chair," *In Development Co-operation Report. Vol.8(1), chapter 1* (Paris, France: OECD, 2007).
- <sup>13</sup> The comparison is based on 2007 data on Gini coefficients from the World Bank. See: World Bank, *World Development Indicators* (Washington, DC: World Bank, 2007). Further analysis shows, however, that it is difficult to statistically prove a correlation between corruption as measured by the CPI and the Gini coefficients reported by the World Bank.
- <sup>14</sup> See: Transparency International, *Global Corruption Report*. (Oxford, United Kingdom: Oxford University Press, 2007).

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