

# LEGISLATIVE ALERT

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## THE EFFECTS OF CORRUPTION ON DEVELOPMENT

by

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Corruption - defined as 'the abuse of public power for personal ends' - has always existed. During recent decades, however, it has grown both in terms of geographic extent and intensity. Since the mid 1970s, it has infiltrated virtually every country in the world.

It was hoped that the easing of political and economic restrictions that characterised the 1990s after the end of the Cold War would have gone some way to reducing this phenomenon. Through increased openness resulting from political pluralism and the freedom of the press, the process of democratisation should, under normal circumstances, mobilise efforts to overcome corruption. However, emergent democracies are still fragile and seem to find the task of tackling established self-interests a formidable one.

By reducing state intervention and therefore the opportunities for corruption, economic liberalisation should improve matters. In the short term, however, the opposite would appear to be true. Weakened state structures, a lack of appropriate legislation,

powerlessness on the part of the judicial system to combat corruption, the pursuit of easy money - mistakenly perceived by some as being equivalent to a market economy - all these factors together contribute to aggravating the phenomenon, at least in the transitional stages. Such a state of affairs cannot fail to have some effect on those who are involved in and concerned by development issues.

Needless to say, corruption and its effects can be seen from a multitude of viewpoints. There is always the ethical angle-but how can we possibly presume to preach to countries of the South and East when bribery is just as rife in the North and when, as far as corruption within international economic relations is concerned, it is in fact, virtually by definition, the North who is the corrupter and the South and East who are the corrupted? The only possible reply to such an argument - and one which is morally disputable even though economically valid - would be that the rich North can afford the luxury of wasting some of its wealth whereas in the case of developing countries, their sparse financial resources need to be used in the

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best way possible! Other lines of reasoning emphasise the distortions that corruption causes in the fair application of conditions of competition by penalising successful, yet honest, undertakings.

*A major obstacle in the path of development*

In my opinion, corruption should be approached from the point of view of the effects it has on development. I say this because long professional experience has taught me that corruption is one of the major obstacles to progress, and that its effects on development are disastrous.

Some people would no doubt counter this assertion with the 'cultural' argument whereby they would have us believe that, in certain cultures, corruption is quite normal and morally acceptable. Well I do not know of a single place on earth where growing rich through taking bribes is considered lawful or morally acceptable! I should like to quote Olusegun Obasanjo, former President of Nigeria, on the subject: 'In the African concept of appreciation and hospitality, a gift is a token. It is not demanded. The value is in the spirit of the giving, not the material worth. The gift is made in the open for all to see, never in secret. Where the gift is excessive, it becomes an embarrassment, and is returned. If anything, corruption has perverted the positive aspects of this age-old tradition'.

Then there are the cynics - including renowned professors - who claim that corruption oils the wheels of progress and enables development to take place. In this respect again, and putting all ethical aspects aside, it would be worthwhile distinguishing between the small baksheesh which 'helps' certain administrative procedures along ('acceleration fees') and large-scale corruption which perverts the course of development. This does not of course mean that we should underestimate the destructive effects that even small-scale corruption can have on society!

Yet others have simply resigned themselves to the situation. For them, corruption is intrinsically linked to underdevelopment. As long as a person's normal income does not provide him with a decent living, the door will always be open to bribes. It is, therefore, through development that we should be attempting to eradicate corruption. Yet this argument is reminiscent

of the debate on the population explosion. It is only through development, some say, that the problems of population growth will be resolved. But by then, the planet will be inexorably overpopulated! In my opinion, the same argument is just as valid as far as corruption is concerned. We simply cannot wait for it to be stamped out through development. (In any case, development is hardly a miracle cure: true, we have the examples of Singapore and Hong Kong where corruption is extremely uncommon, but we could also mention Italy, where it was precisely at the height of the country's development that corruption became the norm). We must act therefore, and without delay, focusing our efforts on eradicating large-scale corruption.

If we analyse some of the effects that corruption has on development, the first thing we notice is that it increases the cost of goods and services, and not insignificantly either. Although a 5% reduction in the profit margin might, at a pinch, be absorbed by the supplier, corruption levels of 10% to 20%, which have become common-place, will inevitably be reflected in the price and will, consequently, be paid for through the national or foreign (in the case of foreign aid) resources of a country.

It is therefore the national economy that ultimately suffers the consequences of an unjustified surcharge on the goods or services, with the difference being pocketed by some government official or politician who has abused his power for his own personal gain. Given that such operations are generally financed by bank loans or, in the case of foreign aid, by concessional loans, these surcharges inevitably bring about a proportionate increase in that country's debts. In fact it is now assumed that the exchange value of sums paid out in backhanders makes up a considerable proportion of the foreign debts of developing countries.

However, the damaging effects of such practices do not stop there. The corrupt decision-maker may well be tempted to accept a substandard quality of service which will make his personal profit all the greater. Thus, with a road-building project for example, complicity between government departments and contractors may result in corner-cutting with regard to agreed standards of quality so that the savings made

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may be shared out between the two parties.

At their very worst, the disastrous effects of corruption mean that the conception of a project, and ultimately its very choice, are determined by corruption. As far as conception is concerned, a good example would be the purchase of a technology which is wholly unsuited to the particular needs of a country or the choice of a capital-intensive project - more lucrative in terms of corruption - rather than a labour-intensive one which would nevertheless be far more beneficial to that nation's development.

The absolute peak of perversion, however, is when the very choice of priorities - and therefore of projects - is determined by corruption. What we are referring to here are those situations in which the real development priorities of a country are neglected in favour of operations which generate the greatest personal gain for the decision-makers. At this point I would like to quote R mi Godeau, writing in *Jeune Afrique*: 'These currency-guzzling abortive projects have become a graveyard of white elephants.'

*Africa is littered with vast deserted motorways which are being eroded by the savannah, with fully functional but empty factories which have been left to fall into ruin only a few years after they were opened, with railway lines which are now impassable through a lack of maintenance, and with hydroelectric dams abandoned because they cost too much to run*. Let us pick up on the point about empty factories. These 'follies of development' are to be found in many developing countries and in Africa in particular. Some have never produced, others have failed to reach full production capacity while others still face such prohibitive costs that big state subsidies are needed to keep them going.

If we follow the thread right back to the beginning we find, more often than not, that factories have been sold without ensuring real competition between suppliers. Admittedly, such projects usually have only private-sector backing (they are rarely financed through official aid), but the funding is nonetheless backed by state-controlled bodies. The existence of corruption in such cases must be more than mere presumption - what other reason could there be for making decisions which run so counter to the interests

of development? In his work 'Grand Corruption in Third World Development', George Moody-Stuart identified those areas which are especially vulnerable to corruption. These are most notably, the procurement of military and other technically sophisticated equipment, and large-scale works (in other words, any major, capital-intensive project and any scheme where objective valuation and comparison is hampered because of the technical sophistication involved).

It is worthwhile mentioning at this point that a country which borrows money to finance projects that do not satisfy its real needs, and which may indeed be considered economically futile or absurd, will see its debt burden increase - and not simply by the 10% to 20% that is used to fund 'backhanders'. The loss will ultimately be 100% if one views it in terms of the cost of the unproductive investment to the national economy. Discussions about the debts of developing countries rarely focus on the mechanisms which have produced these debts. Yet in most cases, they have become unserviceable on account of the ineffective use of overseas aid - the sort of bad management to which corruption contributes considerably.

What is more, by deflecting the sparse resources which do exist towards non-priority or low-priority areas, corruption contributes to a large extent to ensuring that fundamental needs such as food, health and education, are not met. It is therefore one of the causes of underdevelopment and of poverty in general. Needless to say, official aid is often called upon to make good the deficit left by the irresponsible management of otherwise available resources. Is it any surprise if, in the long run, public opinion in the countries of the North begins to grow weary of bridging gaps which efficient management of resources should never have allowed to appear in the first place? How are we to convince European taxpayers that it is they who need to provide the money to fund bush clinics in countries which put their funds in prestige projects, if not directly into Swiss bank accounts?

#### *A vicious circle that must be broken*

Effectively, we find ourselves in a 'catch-22' situation. Corruption is one of the causes of underdevelopment and poverty, yet poverty is in part responsible for its

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continuation. If a person cannot earn an honest living for himself and his family, then he is more or less forced into earning it by less honest means. Hence corruption is both the cause and the consequence of underdevelopment. In order to break the pattern we must therefore combat large-scale corruption inasmuch as it is a significant cause of underdevelopment and we must work gradually to eradicate the reasons for its propagation in society, and in particular to remedy the notorious lack of adequate income to ensure a decent standard of living.

In general terms, we can say that corruption also kills off the spirit of development. Nothing is more destructive to a society than the pursuit of 'a fast and easy buck' which makes honest people who work hard appear naive or foolish. That is why, in the context of economic reforms under the heading of 'structural adjustment', it is vital that the model advocated be one of a market economy based on a sound framework of legislation and on an efficient state. It should not allow free rein to the sort of ruthless capitalism which is aimed at immediate profit at all costs. The example of certain transition countries in the East, where a market economy has become synonymous with the law of the jungle, the Mafia and corruption, really should make us stop and think.

In the final analysis, an economy undermined by corruption has the effect of discouraging potential foreign investors and public donors. Yet if development is to succeed, countries have to be able to attract a flow of capital. As Serge Michailof put it: 'Success attracts money. Waste, failure and chaos drive it away'. And although investors are very keen to do business, with the exception of a few opportunists, they all look for host countries that have a stable and predictable climate. Entrepreneurs have been known to withdraw from certain African countries - which are nevertheless rich in resources - because of the constraints imposed on them by corruption on a scale which they considered to be unacceptable. As for public donors, they are increasingly reluctant to offer financial aid to those countries that manage their own resources

poorly. It is precisely this failing which is one of the causes of what we now refer to as 'aid fatigue'. Financial aid institutions should go as far as suspending their cooperation in blatant cases of corruption and bad management, just as they do in cases of serious violation of human rights. Conversely, 'good governance' should be the determining factor when allocating aid, and it would appear that Article 5 of the revised Lomé IV Convention does in fact foresee such an approach.

In conclusion, far from reserving the foregoing criticisms for countries of the South, I believe that the partners of the North have their part to play in the ravages wrought by corruption, be it only as a result of the inconsistencies between their development cooperation policies and their export promotion policies. Basing our assumptions on the principle that cooperation efforts are genuinely motivated by concerns for development - and I can attest that this is precisely the motivation behind the policies of the European Union, which I have served for a great many years - we should not forget that Western countries have a tendency to promote exports, by other means, without any consideration for the effects this has in terms of development.

They thus contribute to the dishonest practices which we have been discussing. The fact that they tolerate, or even go as far as to encourage corruption as a means of promoting exports - restricting the application of the criminal law to acts committed on their own territory and allowing corruption to be tax-deductible under the heading of 'necessary expenses' - seems to me to be absolutely scandalous. In the North too, the battle against the canker of international corruption is a formidable one. But it is a fight to which we are committed in the context of '*Transparency International*'.<sup>1</sup> This NGO, which was created in 1993, makes its services available to any country which genuinely wishes to eradicate the scourge of corruption.

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