

»» What do we know about the link between corruption and development or development assistance?

No. 4, 8 March 2018



Author: Dr Sebastian Prediger
Editor: Dr Julia Sattelberger

Representative surveys in many countries that provide development assistance show that corruption is generally seen as a central, if not the most important obstacle to development in developing countries. They further reveal that many people believe corruption significantly undermines the effectiveness of international development cooperation.

But what exactly is corruption and how well are these assumptions substantiated by research findings?

What is corruption and how can it be measured?

Corruption is defined as the abuse of entrusted power for private gain. It ranges from "petty corruption" (e.g. bribes for the use of public services) to manipulation of public tenders and nepotism, all the way to embezzlement of public funds and illegal influence on legislation and jurisdiction. Corruption is difficult to measure because it typically takes place behind closed doors. Most research studies use indices to capture the subjective assessment of entrepreneurs, citizens or experts (e.g. Corruption Perception Index from Transparency International, Control of Corruption/World Governance Indicators).

Ambivalent theoretical evidence: is corruption a central impediment to development or does it stimulate economic activity?

There are ambivalent theoretical hypotheses on how corruption affects development: the mainstream sees corruption as a central obstacle to development because it acts like a tax and leads to "suboptimal" decisions (higher prices, lower returns on investments, poorer quality of services and investments, or "unfair" distributional effects). It can also undermine confidence in state institutions and weaken democracy and the rule of law. Some authors, on the other hand, point out that corruption can even have positive development impacts

under certain circumstances: particularly in contexts with excessive bureaucracy and dysfunctional social security systems, corruption may trigger and accelerate growth processes. Corruption can also act as an alternative social network for the beneficiaries and ensure political stability through patronage.

The link between corruption and development assistance is discussed in a similarly ambivalent manner: on the one hand, some parties argue that the influx of development funds often creates additional opportunities for illegal gain, reduces the government's accountability to local taxpayers ("development funds instead of taxes"), stabilises corrupt regimes and thus slows down any necessary political reforms. Meanwhile, others believe that donors of international development assistance in particular will pay more attention to preventing corruption (creation of corruption-free spaces), call for political reforms and promote anti-corruption measures.

Empirical findings: no systematic relationship between corruption and growth or aid

The hope that empirical analyses can shed more light on the nature and strength of the interrelationships than theoretical considerations has so far only been fulfilled to a limited extent. Here, too, results are ambiguous and sometimes contradictory. The following statements can be made about tendencies based on the current level of knowledge:

a) Corruption and development

- Corruption is more widespread in poorer countries than in richer ones (strong and robust evidence)
- There is no clear link between corruption and economic growth – some studies suggest a negative relationship, others show a positive or no systematic link. China is seen as an ex-

ample of the fact that sustained growth is possible despite corruption.

- Some studies suggest that corruption has negative distributional effects (weak evidence).
- b) Corruption and development assistance
 - Success rates of development assistance tend to be lower in countries with poor governance than in countries with good governance. However, the extent of corruption does not appear to be a key determinant of aid effectiveness.
 - There is no clear evidence for a systematic relationship between the level of development assistance (ODA) and the extent of corruption in recipient countries. Some studies suggest that ODA fuels corruption, others come to the opposite results or report no relationship at all.
 - Development assistance can help fight corruption. Measures proven to be particularly effective are those that increase the transparency of government action (e-governance), strengthen public financial management and promote national audit offices.

Corruption is a societal evil, even if it does not necessarily impede growth and aid effectiveness

Empirical evidence suggests that corruption is neither an insurmountable impediment to development nor does it decisively undermine aid effectiveness. In some cases corruption doubtlessly constitutes a major obstacle to development. But on average, it rather appears to be one of many development challenges. However, particularly due to its negative distributional effects and the loss of confidence in state institutions, corruption remains a societal evil and the fight against it an important development goal. ■