

Anti-Corruption Systems and its Impact on the Economy

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- **What is the first thing that comes to your mind when we mention “CORRUPTION”?**
- **The other way, what is the first thing that comes in your mind when we mention “ANTI-CORRUPTION”?**
- **Anti-corruption systems: national, international.**
- **Anti-corruption assessments.**

1- Definition of corruption

- It is the abuse of entrusted power for private gain. It can be classified as Grand, Petty and Political depending on the amount of money lost and the sector where it occurs.

2- Types of corruption

- **Financial corruption**, that can be divided into 2 categories:
 - **Grand corruption** consists of acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public goods.
 - **Petty corruption** refers to everyday abuse of entrusted power by low- and mid-level public officials in their interactions with ordinary citizens, who often are trying to access basic goods and services in places like hospitals, police departments, schools and other agencies.
- **Political corruption** is a manipulation of policies, institutions and rules of procedures in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth.
- **Administrative corruption** a technical expression means the spreading of infringing on public funds and profiteering from public posts in the society. It comes in the forms of: bribery crimes, profiteering, abuse of authority, embezzlement among public servants.

3- Cost of corruption

- Corruption impacts societies in a multitude of ways. In the worst cases, it costs lives. It costs people their freedom, health, or money. The cost of corruption can be divided into four main categories: Political, Economic, Social and environmental.
- **Politically**, corruption is a major obstacle to democracy and the rule of law. In a democratic system, offices and institutions lose their legitimacy when they're misused for private advantage. It is extremely challenging to develop an accountable political leadership in a corrupt climate.
- **Economically**, corruption deletes national wealth. Corrupt politicians invest scarce resources in projects that will line their pockets rather than benefit communities, and priorities high-profile projects such as dams, power plants, pipelines and refineries over less spectacular but more urgent infrastructure projects such as schools, hospitals and roads. Corruption also hinders the development of fair market structures and distorts competition, which in turn deters investment.
- **Environmentally**, the lack of, or non-enforcement of, environmental regulations and legislations means that precious natural resources are carelessly exploited, and the entire ecological systems are ravaged. From mining, to logging, to carbon offsets, companies across the globe continue to pay bribes in return for unrestricted destruction.
- **Socially**, the corruption can be measured by the loss of output due to the misallocation of resources, distortions of incentives and other inefficiencies caused by corruption that represent its real cost to society. Also, corruption can inflict additional welfare costs in terms of adverse effects on the distribution of income and disregard for environmental protection.
- Most importantly, corruption undermines trust in the government, thereby diminishing its ability to fulfill its core task of providing adequate public services and a conducive environment for private sector development.

- The resulting general uncertainty is detrimental to private business' willingness and ability to commit to a long-term development strategy, lack of which makes sustainable development hard to achieve.

4- Means of corruption

Corruption may not affect output directly, but operates through different transmission channels that have been studied extensively. They include DIRECT and INDIRECT negative effects of corruption on both output levels and growth rates.

These means are as follows:

- Private investment,
- Competition and entrepreneurship, and
- Public governance.

- **Private investment:** by reducing its profitability and increasing uncertainty, corruption will tend to depress the level of business investment. This applies *a fortiori* to the subcategory of foreign direct investment, which is a major vehicle of technology transfer. These effects will in turn reduce the attractiveness of entrepreneurship, diverting entrepreneurial talent to less productive activities, which will negatively impact the pace of innovation and thus economic growth.
- **Impacting both the volume and the composition of government expenditures and revenues, subject to existing tax legislation and incomes:** By reducing both direct and indirect tax revenues, corruption jeopardizes the public sector's ability to provide adequate levels of public goods to facilitate private sector development. Several studies show a particularly damaging effect of corruption on on-going poverty alleviation programs in low income countries.
- Various transmission channels are characterized by a possible two-way causality: for example, **the (negative) correlation observed between corruption and openness to trade may well be due to barriers to trade established for other reasons** (e.g. in support of industrial policies), which then open up opportunities for corruption.

- The same is true regarding **various types of government regulations aimed at addressing genuine market failures.**
- **The specific design of the tax system and tax collection procedures** may increase opportunities for corruption, leading to lower tax revenues.
- On the other hand, **government regulations and red tape, including barriers to free trade,** may be excessive because corrupt bureaucrats and politicians want to create and maintain an environment that allows them to extract rents through corruption.

5- How should countries tackle them!

- Since corruption will only exist if it is possible to hide the illegal deals involved or to avoid punishment if they are discovered, **transparency and accountability** are arguably the most important ingredients of an environment aiming at minimizing corruption.
- Policies ensuring sound accounting, internal control, and auditing systems in the public sector are crucial for transparent and accountable institutions that enable sustainable and balanced growth.
- In terms of **public sector governance indicators**, it confirms the importance of the “rule of law”, free from political interference, to facilitate the fair prosecution of perpetrators of corruption, and “voice and accountability” to allow voters to sanction governments which fail to live up to the public’s aspirations to a corruption-free environment. Policies should therefore be crafted to support the legal protection of whistle-blowers as well as the presence of a vigorous and independent media.
- An effective anticorruption policy are **to guide and check bureaucrats’ discretion** in the application of established government policies and to reduce the temptation of corruption by adequate civil servants’ compensation.
- In addition to the broad principles such as “transparency and accountability”, “rule of law” and “regulatory quality”, identified good practices could help countries create or strengthen the institutional environment conducive to reducing corruption. Together with **comparative analysis** they can explain which institutional arrangements work, how, why and under which circumstances.

Internal efforts by the states to tackle corruption

- Raising awareness campaigns that will contribute in changing the mentality of people who are thinking of bribes as a solution.
- Effective monitoring mechanisms.
- Quick prosecution.
- Implementation of justice decisions.
- Media coverage to decisions to work as a deterrent.

6- The role of international organizations

- **International organizations** – both public and private – have become increasingly involved in the fight against corruption. They can play a positive role by providing expert advice and capacity building assistance to countries determined to tackle corruption.
- By disseminating information on – and facilitating access to – best practices in anticorruption policies, they can accelerate and improve on-going reforms. But they cannot substitute for the genuine motivation of local stakeholders and governing elites in particular, as well as cultural change, which is essential for the success of such policies. On the other hand, international cooperation is essential in fighting those aspects of corruption that are outside the control of local policymakers, like international money laundering, denial of opportunities for investment of ill-gotten wealth in financial and real sectors, illicit substance and human trafficking, and repatriation of stolen state property, including tax evasion.

7- Combating corruption internationally

- **The United Nations:** The “United Nations Convention against Corruption” (UNCAC), adopted by the United Nations General Assembly in 2003, is the broadest manifestation of the international community’s resolve to curtail corruption. It serves as a general guideline to anticorruption efforts, and covers a broad range of pertinent issues, including the prevention and criminalization of corruption, the importance of international cooperation, and the principle of stolen asset recovery. Prevention efforts focus on improved governance, while criminalization ensures that businesses can rely on the redress mechanisms laid out in each country’s legislation.

- **OECD:** Signatories of the Convention on Combating Bribery of Foreign Public Officials, so far adopted by 34 OECD Member- and 6 non-Member countries, commit to putting in place and applying legislation that criminalizes the act of bribing foreign public officials.
 - The Convention's monitoring mechanism - based on peer review - not only ensures that countries maintain their efforts to enforce its standards, but also helps countries identify practical steps that should be taken to actively prosecute this form of corruption.
 - The OECD is also involved in a wide range of anticorruption efforts targeting public sector activities. This work puts at governments' disposal policy instruments, practical tools, best practices to provide guidance for preventing corruption and fostering integrity in the public sector.
 - This ranges from standards of conduct for public officials, interaction between the public and the private sector (including public procurement, lobbying and conflict of interest related to revolving doors) to implementation and compliance mechanisms.
 - The Public Sector Integrity reviews for specific countries help policy-makers adopt best practices and implement established principles and standards from both OECD and non-OECD member countries. These Reviews are based on a comprehensive analysis of the functioning of country's institutions, instruments and processes to promote a cleaner public sector, with special attention to "at risk" areas such as public procurement.

- **FATF:** The Financial Action Task Force (FATF) is an inter-governmental policy-making body established by the G-7 Summit held in Paris in 1989. It was founded in response to mounting concern over money laundering. Since then, the financing of terrorist activities and the financing of the proliferation of weapons of mass destruction have become other key preoccupations.
 - The mission of the FATF is to safeguard the integrity of the international financial system by setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering (ML), terrorist financing, the financing of proliferation, and other related threats.
 - The founding members included the G7, the European Commission, and eight other countries. Since then, membership has grown to 34 jurisdictions

and two regional entities. The FATF includes all but two members of the G20.

- The FATF's focus on the integrity of the financial system reinforces the objectives and benefits of other international instruments, including the UNCAC and the OECD Convention. The FATF seeks to ensure that the principles of transparency and anticorruption are successfully implemented throughout the international financial markets.
- **IFIs (World Bank and IMF):** The World Bank and the International Monetary Fund (IMF) have reacted – and contributed - to the mounting evidence and recognition that corruption is a major impediment to sustainable growth and a threat to international financial stability. Both organizations support the Extractive Industries Transparency Initiative, an international NGO established in 2003, aiming to increase transparency regarding payments to public sector entities by companies in the oil and mining industries, as well as transparency regarding the use of these revenues by host country governments.

International tools to evaluate the level of corruption in a state – never accurate

- The state manipulates the real data.
- Means differ from evaluation mechanism to the other.
- Political reasons.
- Difficulties in measuring assets stolen and transferred outside a country.

8- Case study

- **Singapore:** In 2011 Singapore had the 9th highest control of corruption ranking among 212 countries (96 percentile), and the indicator changed little over the observation period. The origins of the country's persistently superior performance in corruption control can be traced to the radical reforms designed and implemented by the People's Action Party (PAP) during the period 1959/60, which transformed the country from one plagued by corruption to one of the "cleanest" in the world. The key characteristics of these reforms included: (a) Unconditional support from the top political leadership, which indeed initiated the process; (b) Transparent legal codifications of what constitutes corruption and associated sanctions; (c) Thorough implementation of the

legislation and application of sanctions; (d) Strict adherence to meritocracy in the appointment and financial compensation of civil servants. It should be noted that the anticorruption reforms were accompanied by similar drastic improvements in other areas of public sector governance.

9- Egypt, National Coordination Committee for Combating Corruption

- In late 2014, Egypt unveiled a new and official strategy to fight corruption. As Egyptians see it, civil servants and senior government officials have been largely to blame for the amount of corruption in the country. And many Egyptian citizens acquiesced, greasing the palms of government officials—about half of those surveyed two years ago admitted to having paid a bribe for a permit or to process a document.
- The problem in Egypt, according to WJP data, was not so much that the country lacked the regulations needed to crack down on corruption but that it failed to enforce them. Civil servants were rarely punished. Data (collected in 2012) indicated that nothing happened to civil servants caught accepting a bribe for a license in 19 per cent of such cases; in another 41 per cent, investigations would be opened but not concluded.
- Research by Egyptian institutes and the World Bank in 2009 again illustrated the public's complicity: the vast majority of Egyptians believed that paying a bribe—or even a tip for services rendered—virtually guaranteed the delivery of a public service or resolved a problem they had with the government, particularly in urban areas.
- This has changed since the new government came to power in 2014.. many officials are being arrested for different corruption cases..including recently the arrest of a sitting Minister of Agriculture who is currently attending trial. This has improved the level of Egypt in corruption level by transparency international.
- From an economic development perspective, though, corruption halts growth. Good governance and anti-corruption are keys to the World Bank's goals of reducing the amount of poverty in the world.

10- References

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