

Corruption Poverty Nexus

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Abstract

Corruption and poverty are two different but correlated issues which have attracted the attention of social scientists over the globe to reach some solution of both problems. In low income countries, the economic policy fails to show its results fruitfully due to curse of corruption, the provision of social service remains inefficient and insufficient. The cost of development projects escalates due to corrupt practices. Corruption results in reduced tax revenues, low government expenditures and lower GDP growth rates. This paper with the help of existing literature attempts to investigate the relationship of corruption and poverty and also has tried to suggest some policy implications to control corruption by establishing accountability at all levels.

Introduction

The countries possessing low ranks in different indexes like Rule of Law, Corruption Perception Index (CPI), Human Development Index (HDI) and Cost of Doing Business are often prosperity deficient. Only a minor privileged class enjoys the high living standards and the rest of population has to live with substandard social sector and weak social safety nets. Corruption is believed to be the root cause of inequality in the society. Usually the nations with high poverty levels are a prey to mismanagement of resources and curse of corruption.

Corruption is usually defined as the misuse of entrusted power for personal gains while Transparency International defines corruption as the abuse of power for private advantage. The greed, opportunity, rationale and weak accountability system are some factors, which pave the path for corruption. The curse of corruption acts as an invisible hand which results in weak implementation of development schemes, absence of the competition in its true essence, insufficient social service delivery and slow economic activity.

The hand book on Poverty, concepts, methods and policy use (2005) defines poverty as multifaceted, manifested by conditions that include malnutrition, inadequate shelter, unsanitary living conditions, unsatisfactory and insufficient supplies of clean water, poor solid waste disposal, low educational achievement and the absence of quality schooling, chronic ill health, and widespread common crime.

Corruption empowers, a small number of authoritative and powerful corrupt elements who benefit nation's wealth and exploit the country's resources to cater their self interests at the cost of poor segment of the society. This paper attempts to explain the relationship between corruption and poverty with the help of available literature that corruption adds to poverty.

What Relevant Literature Says

Transparency International Report 2010 explains that corruption exacerbates poverty. The vulnerability of the poor is continually reaffirmed by the corruption of local cadre/officials that hampers access to public goods/services such as health, education and land management (Asian Development Bank, 2002). World Bank (2002) Corruption is both symptom and a cause of poor governance and it undermines the investment climate and development effectiveness. It imposes heavy cost on poor, who have fewer resources than the better-off to pay bribes.

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Corruption adds to poverty by hindering economic growth and ends up in low per capita income and insufficient provision of basic necessities of life. Corruption biases the composition of government expenditures and an increase of corruption by about one percentage point reduces GDP growth by 0.13 percentage points and GDP per capita by US \$ 425 (Dreher Axel & Herzfeld Thomas, 2005).

The higher level of corruption has overall impact on government disfunctioning, weak economic performance and increased poverty because corruption derails economic development (Khan H. Mushtaq, 2001). Most policies do not become successful due to corruption and unequal distribution of wealth (Herani M Gobind, 2008). Developing countries establish the anticorruption Agencies/Establishments but the lack of political will limits the ability of these Agencies to curb corruption and ensure transparency and accountability.

The World Bank's Anti-Corruption Strategy (1997), OECD's Convention on Bribery of Foreign Public Officials in International Business (1997) and United Nations Convention against Corruption are some recent examples, which show great apprehensions of the international community and institutions to control corruption.

Corruption promotes income inequality, which further hinders economic growth and results in poverty. Corruption causes inequality, Fofana Felix and Francis Jose Coffi (2005). High and rising corruption increases income inequality and poverty. An increase of one standard deviation in corruption increases the Gini coefficient of income inequality by about 11 points and reduces income growth of the poor by about 5 percentage points per year (Gupta Sanjeev, 2002). Dincer C. Ogazhan and Gunalp Burak (2008) found robust evidence that an increase in corruption increases income inequality and poverty. One standard deviation increase in corruption increases Gini Index by 0.3 percentage points. They further explained that corruption is not a phenomenon peculiar to low income countries. It is possible to find examples of corruption in high income countries as well. The World Bank (2001) has identified corruption as the single greatest obstacle to economic and social development.

Selcuk (2006) is of the view that corruption's roots are grounded in country's social and cultural history, political and economic development, bureaucratic traditions and politics. Corruption is a symptom of deep institutional weaknesses and leads to inefficient economic, social and political outcomes.

Vahideh et al. (2010) concluded that the attempt to reduce poverty must be complemented by serious efforts to reduce corruption.

The effective government administration i.e. better governance contributes to reducing corruption and better living standards. Human Development Report (2013) reveals that reforms to strengthen national institutions, transparency and accountability and to limit the scope of corruption are necessary to improve the quality of governance and efficiency of governments.

Weak and extractive political & economic institutions protect the interests of powerful on the cost of weak. World Development Report (2014) speaks that corruption often thrives amid weak institutions and is an obstacle to public risk management: for instance, when contractors do not respect building norms for public buildings in earthquake-prone cities.

The countries with poor rankings in Corruption Perception Index (CPI) seems to focus only economic factors/variables to take themselves to the path of economic development and generally ignore the invisible hand of corruption which sabotage their development efforts. The trickledown effect of the development programs is supposed to improve the living standards of the poor but in poor countries the allocations made for development schemes don't show required results because lion share of the development funds goes into corruption and social service delivery remains very limited for unprivileged.

Absence of accountability, transparency and greater tolerance for corruption energizes the powerful corrupt mafias/individuals and dilutes the social and economic fabric of the society. The powerful manage to avoid the set rules and regulations even the minimum wages fixed by the governments is not implemented in true letter and spirit.

The countries, who achieved highest levels of living standards, started their journey towards development with the fight against corruption. These countries managed to break the vicious circle of poverty only after curbing corruption. One of the best examples is Singapore who after controlling corruption, made it possible to attain high levels of living standards. Mr. Lee Kuwan Yew, the mentor and former Prime Minister of Singapore said, "Singapore is what it is today because of its system of transparency and integrity".

The Cost of Corruption

Corruption inflicts heavy cost on the society by increasing income inequality, hindering economic growth and adding to poverty. It also causes revenue loss to the national Exchequer. Corruption also imposes a heavy opportunity cost on the society by depriving it from social services like health facilities, quality education, clean drinking water, better sanitation etc. Corruption helps to divert the resource allocation from the efficient use to such usage where the rent seekers can protect their vested interests.

The World Bank (2004) has estimated that more than US \$ 1 Trillion is paid in bribes each year and that countries that tackle corruption, improve governance and the rule of law could increase per capita incomes by 400 percent.

Corruption acts as tax on the poor that robs resources from already hard pressed households. A study in Mexico revealed that approximately 25 percent of the income earned by poor households went to petty corruption (Transparency International, 2008).

Corruption severely affects the lives of the citizens through less return on resource use and adds manifold to their cost of living (Javed Umbreen, 2010).

In Germany, e.g. corruption led to an increase in cost of about 20 to 30% during the construction of terminal at Frankfurt Airport. In Italy, the cost of major construction projects fell significantly in the aftermath of corruption investigation in the early 1990s.

The robust business activity is always the lifeline for any economy creating employment opportunities and increasing tax revenue of the government. The investment activity of any economy guarantees the provision of employment to the manpower and better living standard. The healthy business environment not only increases the domestic investment but also attracts foreign investment which provides better employment opportunities and higher tax revenue for the governments. The tax income enables government to spend more for the provision of social service like education and health. Corruption breaks this cycle and usurps the opportunities of investments, employment and human development. Table 1.1 shows that the countries where corruption is the foremost problematic factor for doing business have poor rankings in the Corruption perception index (CPI) and Human Development Index (HDI). While table 1.2 shows different regions having higher head count poverty ratios and lower per capita incomes.

Conclusion

To deal with the curse of poverty we need to put an end to corruption. There are certain factors that may play an effective role in fighting poverty and corruption like ensuring rule of law, strengthening audit to detect and avoid fraud, ensuring transparency in public spending and procurement, empowering people to participate in decision making at all levels, controlling monopolies and increasing competition, reforming civil service, strengthening electoral process, dedicated and strong political will, removing the discretionary powers and

constitutional immunities by reforms process, and strengthening institutions. These factors can establish accountability at all levels and ensure a transparent and prosperous society.

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Table 1.1
Corruption as most problematic factor for doing business among 16 factors

Country	Corruption as most problematic factor for doing business	Corruption Perception Index	Human Development Index
Syria	1	168	116
Cambodia	1	160	138
Paraguay	1	150	111
Cameron	1	144	150
Uganda	1	140	161
Kenya	1	136	145
Azerbaijan	1	127	82
Pakistan	1	127	146
Russian Federation	1	127	55
Dominican Republic	1	123	96

Source: (i) Global Competitive Report 2013,
(ii) Transparency International, Corruption Perception Index 2013 and
(iii) Human Development Report.

Table 1.2

Region	Poverty headcount ratio at 1.25 \$ a day (percent) 2010	Per capita income in US Dollars 2013
South Asia	31	1,474
East Asia & Pacific	12.5	5,536
Europe & Central Asia	0.7	7,086
Latin America & Caribbean	5.5	9,314
Middle East & North Africa	2.4	3,452
Sub Saharan Africa	48.5	1,624

Source: World Bank