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Chapter 1 : Corruption and Governance

levels of corruption, and hence poor environmental governance. â€¢ The institutions and governments which provide economic assistance to developing nations, whether in the form of foreign direct investment or foreign aid, have the.

It increases the cost of creating new businesses and staying in business within the formal economy - unofficial payments and unpredictability of their size and frequency drive the costs and risks so high that the entrepreneurs prefer to move their businesses underground to avoid bribes that they have to pay for services such as registration licensing, permits. Corruption in social services makes them less affordable and leads to creation of alternative services in the informal sector. Corruption at high levels of government such as capture of the state by vested interests has even a more profound impact on the degree of informality in the economies: Weaknesses in governance â€" governance being defined as the way in which public institutions perform their functions in a country â€" are strongly correlated with deficiencies in development. Bad governance is associated with corruption, distortion of government budgets, inequitable growth, social exclusion, lack of trust in authorities. Inefficiency of formal governance institutions leads to creation of informal institutions that substitute for the functions that the formal ones are unable to perform. Quality of Governance and the Size of the Informal Sector: Shleifer The Unofficial Economy in Transition. In many of the economies of Central and eastern Europe and the Former Soviet Union, the transition has been accompanied by the rise of unofficial sectors, in which firms avoid official taxes and regulations and whose output generally is not measured in official statistics. The authors examine how the interplay of politics and economic and institutional incentives influences the growth of the unofficial economy, and in turn how the unofficial economy affects economic performance. The outcome is described as a "bad equilibrium": In a later work by S. World Bank Policy Research Working Paper , PDF it is demonstrated that ineffective and discretionary administration of tax and regulatory regimes, as well as corruption, increases the size of the informal economy. Exploring in detail the role of taxation and bribery and using data from 49 Latin American, OECD, and transition economies, the authors found that the unofficial economy accounts for a larger share of GDP where there is greater bureaucratic inefficiency and discretion, and where firms experience a greater tax and regulatory burden as well as more bribery and corruption. The unofficial economy is also much larger where there is less state revenue and where the rule of law is weak. Measuring the Quality of Governance The emphasis on governance in development work requires operationalizing the concept of governance and creating a set of governance indicators. The site describes two broad types of institutional measures available for large samples of countries: Performance measures provide assessments of the quality of governance. For example, governments are rated with respect to corruption levels, or predictability of policymaking. Process measures describe the institutional "inputs" that produce governance outcomes. Unlike performance measures, process measures have no normative content. One example of a process measure is the average pay of civil servants relative to the private sector or to per capita income ; whether or not the election of national legislators is governed by proportional representation PR is a second example. Another approach to creating governance indicators is presented by D. In this work, the authors identified a strong positive association between development outcomes per capita income, adult literacy, infant mortality and aggregate governance indicators. The latter are constructed on the basis of several hundred governance indicators. Primarily measured in qualitative units, these indicators are produced by a range of organizations commercial-risk-rating agencies, multilateral organizations, think tanks, and other nongovernmental organizations using polls of experts and surveys of residents, officials, business managers as well as objective data and covering a wide range of topics political stability and the business climate, the efficacy of public service provision, experiences with corruption, and so on. The authors define governance as traditions and institutions by which authority in the country is exercised. This definition of governance is used to organize indicators in six clusters: The processes by which governments are selected, monitored and replaced: Voice and accountability - measures various aspects of political processes, civil liberties, and political rights and the extent to which citizens are able to participate in selection of governments and monitoring of authority; Political stability and lack of violence - measures perceptions of likelihood that the government will be overthrown by nonconstitutional means. The capacity of the government to effectively formulate and implement sound policies: Government effectiveness - quality of public service provision, quality of bureaucracy, competence and depoliticization of civil service, credibility of the government commitment to policies; Regulatory framework - incidence of market-unfriendly policies e. The respect of citizens and the state for the institutions that govern economic and social interactions among them: Rule of law - the extent to which the agents abide by and have confidence in the rules of society â€" efficiency and predictability of judiciary, enforceability of the contracts, perceptions of the incidence of crime; Graft - measures level of corruption and related institutional distortions. The corruption perception index, which TI first launched in , is a poll of polls, this year drawing on 14 surveys from seven independent institutions. The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the CPI without results from a minimum of three surveys.

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Chapter 2 : Corruption and the environment

States need to integrate anti-corruption strategies such as transparency and accountability into environmental legislation and policies and enhance democracy and good governance. Policymakers and governments in resource-rich countries can strengthen the legal framework and relevant institutions and improve transparency in procurement and.

Chand and Karl O. Davoodi, and Erwin R. Sanjeev Gupta, Hamid R. Abed and Hamid R. An Overview George T. Abed and Sanjeev Gupta I. Introduction Until the s, scholarly research on corruption was largely confined to the fields of sociology, political science, history, public administration, and criminal law. Since then, economists have also turned their interest to this topic, largely on account of its increasingly evident link to economic performance. Much of the early research 1 focused on weaknesses in public institutions and distortions in economic policies that gave rise to rent seeking by public officials and the incubation of corrupt practices. It also highlighted some positive effects of corruption, which were discounted in the subsequent literature. Since the early s, there has been a virtual explosion of academic writing on the economics of corruption. The initial thrust for this work came from the transformation of the socialist economies of the former Soviet Union, 2 awareness of the costs of corruption in both developed as well as developing countries, and the construction of indicators of corruption that could be used in empirical studies. The flood of writings has continued unabated. There are several reasons for the burgeoning interest of Bretton Woods institutions, and the economics profession in general, in this topic. One factor is the accelerating trend of globalization and world economic integration. Together with an associated drive for economic liberalization, notably in the area of international trade, globalization has increased the pressure on countries to be more transparent and accountable in the management of their economies. More to the point, it created incentives for policymakers to reform policies and institutions for countries to benefit from the rising international flows of capital, technology, and information. While the countries most eager to exploit the widening opportunities were initially the larger emerging economies, other developing countries also sought to access markets and attract investment flows in the new environment. Data on the size and composition of international capital movements in the s underscore this point. Since the mids, the composition of capital flows to emerging and developing countries began to shift markedly in favor of the private sector, with multinational corporations, and financial markets more generally, dominating the field and eclipsing the role of official transfers. Not surprisingly, private capital flows to developing countries declined in the wake of the financial crises of the late s, but they remained at levels that are a multiple of official transfers. The importance of this development to growing interest in the economics of corruption is compelling, if at first not so obvious. Official flows to developing countries had been motivated, since the early postwar period, by the exigencies of the Cold War and the desire by the superpowers and their allies to maintain political influence in various strategic areas of the globe. The strict criteria of economic performance and commitment to reform played only a minor role, if at all, in the distribution of bilateral official aid. In this environment, the pressure to reform was absent or minimal in many developing countries. A number of countries operated their economies under the protection of high tariffs and pervasive state intervention with only a minimum of transparency and accountability. However, they suffered neither the displeasure of aid givers nor the retribution of the markets, whose influence was too small to matter anyhow. Moreover, many countries were governed by regimes that, to say the least, did not adhere to the strictures of good governance, and most bilateral and to some extent multilateral donors and creditors often refrained from asking too many questions. The economics profession, with notable exceptions, lacking the requisite information or the will to challenge the prevailing political order, went on to other pursuits. With the end of the Cold War, the breakup of the former Soviet Union, and the consequent unwinding of regional conflicts, many developing countries lost their privileged position in the global geopolitical game and were suddenly exposed to the more exacting requirements of market discipline. In the increasingly globalized and private-sector-driven world of the s, developing countries including the newly industrialized countries of Asia and the transition economies of Central and Eastern Europe found themselves in a highly competitive environment where financial flows were now driven, above all, by expected rates of return on investment. The breakup of the former Soviet Union also brought on one of the most profound and far-reaching transformations of the twentieth century. The disintegration of the command structures in the old regimes triggered some of the most chaotic economic, political, and social changes in modern history. Absence of the rule of law and accountable systems of governance led to rent seeking, corruption, and outright thievery. While some governments, notably in Eastern Europe, quickly found their bearings and developed the institutional and policy frameworks needed for the operation of markets, others took much longer. In the meantime, professional economists could not help but be struck by the importance of sound policies and institutions for better performance in the newly created market economies. This "discovery" triggered a wave of research on rent seeking, the role of the state, governance, and corruption. While the awakened interest of researchers in corruption in the transition economies was somewhat distinct from that which focused on developing countries, the two developments were not entirely unrelated. Another factor underlying the rising importance of transparency in government operations is the spread of democratic practices in the late s and throughout the decade of the s. Although not necessarily immune to corruption, electoral democracies have been found to foster a vigilant civil society, increased government accountability, and a higher degree of transparency. During the s, new statistical surveys of households, enterprises, public officials, and others became available to researchers. This led to the construction of summary governance indicators, such as the indices of "perception of corruption" that were then widely used in the empirical analysis. International Organizations Another factor that heightened interest in the economics of corruption, and more generally the promotion of good governance, is the growing role of the international financial institutions IFIs as well as trade and regulatory organizations in defining international standards as a basis for transparent policy formulation and implementation. Stimulated in large part by the desire to prevent the occurrence of global financial crises, such as those of Mexico, East Asia, and Russia in the middle and late s, the IFIs took a number of initiatives to promote greater transparency and accountability in member countries. These initiatives were reinforced by the promulgation of codes and standards embodying good international practice in economic management and by newly created obligations for countries to widely disseminate statistical information on fiscal, monetary, and financial developments in a timely manner. In this regard, the IMF has taken the lead in work on standards and codes in the fiscal and statistical areas and jointly with the World Bank and the Bank for International Settlements on the promotion of standards and codes in the monetary and banking area see below. Moreover, the World Bank has recently adopted a framework for addressing corruption as a development issue, in the context of assistance it provides to member countries. The framework has the following components: Interest in research on corruption and governance in IFIs was also stimulated by concern that public spending and aid were not having the desired impact on poverty and social outcomes. Questions have been raised on the extent to which budgetary allocations for unproductive programs or inefficiencies in public spending are attributable to corrupt practices. In fact, as the present volume demonstrates, these issues have received special attention from IFIs. Nongovernmental Organizations Other players on the international scene also became interested in more transparent and accountable conduct of economic management. Nongovernmental organizations NGOs and other organs of civil society, including the media, showed greater interest in the economics of corruption and in the conduct of officials entrusted with the management of public funds. A variety of motives spurred this awakened interest. For the media, the demise of the once overarching ideological confrontation of the Cold War created room for a wider coverage of economic news. Economic prosperity in a number of countries and regions became headline news Japan and Europe in the s, the United States, the Asian tigers, and peripheral Europe in the s , stimulated by the technology and information revolution, fascinated large portions of the globe and made for good copy in the press. The growing reach of the Internet spread the news of economic success, as well as of economic failure. In the midst of all of this activity, stories of corruption and malfeasance fed the curiosity of a global audience and brought questions of good governance and economic performance to the forefront of academic and policy debate. Other interested parties incorporated the problems of corruption into their agendas for yet different reasons. NGOs in industrial countries took up the cause of monitoring aid spending of their own governments, while seeking to enhance the capacity of the recipient countries to use such aid more effectively. This enterprise invariably involved the NGOs in questions of transparency and accountability of the donors and the institutions through which they channel the bulk of their aid funds , and in the drive for instituting good governance and anticorruption safeguards in recipient countries. In time, many NGOs were brought into the deliberations of the IFIs on questions of debt relief and its use, development assistance, and governance. Other NGOs took up the fight against corruption directly. It has grown to be a visible presence on the world economic scene, pressing its campaign in global forums such as the biennial International Conference on Corruption and through chapters in an increasing number of countries. Other organizations that have expanded their coverage of country assessments to include important indicators of transparency, accountability, and good governance are the Political Risk Services Group, which publishes the International Country Risk Guides; the Switzerland-based International Institute for Management Development, which publishes the World Competitiveness Report; and other credit-rating agencies. The International Chamber of Commerce has also added its voice and influence to combat corruption in international transactions through revised Rules of Conduct on Extortion and Bribery in International Business Transactions and through the creation of standing committees of business executives, lawyers, and academics to mobilize support for adherence to the new rules. Multilateral Action Since the passage of the U. Foreign Corrupt Practices Act in , pressure on the international community has been mounting for multilateral action not only to specifically outlaw the bribery of foreign public officials but also to take measures to fight corruption in general. One of the more far-reaching efforts in this regard is that of the Organization for Economic Cooperation and Development OECD , which, beginning in , sought to end the tax deductibility of bribes and to criminalize the bribing of foreign officials. Compared with earlier recommendations, the Revised Recommendation was far more concrete and prescriptive, covering broad areas related to the conduct of international business and establishing a mechanism for monitoring implementation. The adoption of a Convention on Combating Bribery of Foreign Officials in International Business Transactions obligated signatory states, all 30 OECD members plus a growing number of nonmembers, to make bribery a crime under their laws. The Role of the IMF The IMF has paid increasing attention to the importance of good governance in member countries in support of macroeconomic stability and noninflationary sustainable growth, the promotion of which is central to its mandate. The IMF is contributing to strengthening governance in member countries through various means. The first is by supporting economic policies and structural reforms that limit the scope for ad hoc decision making, for rent seeking, and for preferential treatment of individuals or organizations. A more proactive approach in advocating policies and development of institutions that promote governance. An evenhanded treatment of governance issues in all member countries. Enhanced collaboration with other multilateral institutions, in particular the World Bank and other IFIs such as the regional development banks, to make better use of complementary areas of expertise. What forms have governance issues taken in IMF policy advice? In general, the IMF has required greater transparency and accountability in the management of public funds, including strengthening revenue administration, enhancing the financial accountability of state enterprises, monitoring the use of public resources for poverty reduction part of the enhanced Heavily Indebted Poor Countries HIPC Initiative , consolidating extrabudgetary funds into the budget, enhancing transparency of tax and tariff systems, reinforcing central bank independence, strengthening prudential bank supervision, and improving the quality and timeliness of economic and financial statistics. Where issues of poor governance may have affected macroeconomic performance, the IMF has also urged member countries to address specific instances of poor governance and corruption e. These measures have led to inquiries directed at central bank actions in Russia, Ukraine, and Indonesia. In its approach to governance, the IMF has increasingly taken a proactive role along with the World Bank, stressing the importance of country ownership of policies for improving governance. According to the strategy, participation in initiatives to strengthen governance, including the adoption of standards and codes, is voluntary. Furthermore, the strategy recognizes the importance of timely and well-targeted technical assistance to help alleviate constraints on institutional capacity. The second principal means through which the IMF is contributing to strengthening governance in member countries is by promoting transparency in financial transactions in the government budget, the central bank, and the public sector at large. This is being done by developing standards and codes of best practices. They include Data dissemination standards. These standards guide member countries in the dissemination of their economic and financial data to the public, and consists of two tiers: Established in March for those members that have, or that might seek, access to international capital markets. Established in December , it applies to all member countries and guides them in the dissemination of comprehensive, timely, and reliable economic, financial, and socio-demographic statistics to the public. Adoption of this code is voluntary, and diversity across countries is fully recognized. One of the key objectives of the code is to promote open budget preparation, execution, and reporting. These reports summarize the extent to which countries observe certain internationally recognized standards in the areas of direct operational concerns to the IMF. Good governance calls for central banks and financial agencies to be accountable, particularly where the monetary and financial authorities are granted a high degree of autonomy. These instruments help countries assess vulnerabilities in the financial sector and identify the needs for corrective action. The IMF has also adopted, in collaboration with the Financial Stability Forum and the World Bank, experimental modalities for its approach to financial sector practices in offshore centers concerning financial system abuse, financial crime, and money laundering. Since April , the IMF has strengthened its efforts to counter money laundering, as well as terrorism financing. Together with other financial institutions, it has a key role in preventing the abuse of financial systems as well as protecting and enhancing the integrity of the international financial system. Third, the IMF contributes to improved governance in member countries by helping them through technical assistance to strengthen their capacities for effective public resource management, as well as the design and implementation of economic policies.

Chapter 3 : Ecology and Society: Is Corruption Bad for Environmental Sustainability? A Cross-National Ana

1 The role of corporate governance in fighting corruption John D. Sullivan, Ph.D., Executive Director, CIPE Andrew Wilson, Deputy Director, Strategic Planning, and Regional Director, Eastern.

The IMF Executive Board has just endorsed a new framework for stepping up engagement on governance and corruption in our member countries. Let me talk about why this is important and what it means for our work. Costs of corruption We all know that entrenched corruption is economically pernicious, undermining the ability of countries to deliver inclusive and sustainable economic growth. The paper we have just issued presents empirical results showing that high corruption is associated with significantly lower growth, investment, FDI, and tax revenues. Our results also show that corruption and poor governance are associated with higher inequality and lower inclusive growth. It is not hard to understand these findings. We know that it acts as a tax on investmentâ€"or worse, because of the uncertainty about demands for future bribes. We also know that corruption causes young people to underinvest in skills and educationâ€"because getting ahead depends on who you know not what you know. We know that corruption hurts the poor, hinders economic opportunity and social mobility, undermines trust in institutions, and causes social cohesion to unravel. Corruption is a major obstacle to attaining the Sustainable Development Goals. Importantly, this work on corruption will be embedded in our general work that promotes good governance in key areas such as public financial management, financial sector oversight, and anti-money laundering. This broader focus is necessary. Governance weaknesses are harmful in their own right, but they also open the door to widespread corruption. To be truly effective, anti-corruption strategies must go beyond merely throwing people in jail. They require broader regulatory and institutional reforms. I should point out that this is not a new topic for us. We have had a governance policy in place since , and it is a good policyâ€"our review found that its principles are the right ones. This policy calls upon us to address governance and corruption issues when they have a significant macroeconomic impact. It calls upon us to work with partner institutions, especially the World Bank, in areas of their expertise and not to interfere in politics or in individual enforcement cases. Yet while these principles are sensible, our review found that implementation was uneven. We did not always hold members to the same standard for similar actions. Our analysis too often lacked clarity. This is going to change. We have now adopted a framework for enhanced engagement on governance and corruption that aims for a more systematic, evenhanded, effective, and candid engagement with member countries. As a first step, we are developing a clear and transparent methodology for assessing the nature and severity of governance weaknesses. We will be looking at a broad array of indicatorsâ€"the quality of the budgetary institutions that handle taxing and spending; the soundness of financial sector oversight; the integrity of central banks; the transparency and impartiality of market regulation; the predictability of those aspects of the rule of law that are vital for economic health, especially contract enforcement; and the adequacy of frameworks to fight money laundering and terrorism financing. We will also assess the severity of corruption directly, of course. The next step will be to assess the economic impact of these identified governance and corruption fault lines and provide country-specific policy recommendations in response. Importantly, we will consider this over a longer time horizon, given that poor governance and corruption harm the economy not just through short-term disruption, but also through slow institutional decay. For our lending programs, we will be looking at whether problems hinder the ability of countries to implement their economic reforms. Supply side of corruption There is one additional element. It is a basic truism thatâ€"to adapt a phrase from Milton Friedmanâ€"corruption is always and everywhere a two-handed phenomenon. The flip side of every bribe taken is a bribe given. And funds received through corruption are often funds concealed outside the countryâ€"often in the financial sectors of major capitals. To truly fight corruption, therefore, we need to address the facilitation of corrupt practices by private actors. To do this, we will be encouraging our member countries to volunteer to have their legal and institutional frameworks assessed by the Fundâ€"to see whether they criminalize and prosecute foreign bribery and have mechanisms to stop the laundering and concealment of dirty money. I am gratified that nine countriesâ€"the entire G7 plus Austria and the Czech Republicâ€"have already volunteered for this assessment. This is a major vote of confidence in the new framework. Now that we have the full support of our members, we must turn to implementation. In our surveillance and in our lending programs, expect to see more assessment and discussion of governance and corruption. We will also be stepping up our capacity development in these areas, to help countries strengthen their regulatory frameworks and institutions. Our goal here is to be candid, rigorous, transparent, and evenhanded. In turn, that gives us more credibility and allows us to do our job even better. To hark back to Brandeis, I am confident that this stepped-up engagement will do for governance and corruption what investment in solar technology does for the environmentâ€"harness the immense power of sunlight to put the global economy on a healthier and more sustainable path. If it works as planned, there should be progressively fewer dark corners left for corruption to hide. I look forward to working closely with our member countries to make this a reality.

Chapter 4 : Governance, Corruption, and Economic Performance

corruption, environment and the united nations convention against corruption iii This publication is a compilation of papers presented at the special event entitled "Impact of corruption on the environment and the United Nations Convention against Corruption as a tool to address it", organised by UNODC.

Chapter 5 : Environmental rights and governance | UN Environment

Study Guide Series on Peace and Conflict 2 Governance, Corruption, and Conflict Preface The international system has witnessed dramatic changes in the recent past.

Chapter 6 : About environmental rights and governance | UN Environment

Transparency, Governance, and Anti-Corruption Share As part of its efforts to support global economic growth and stability, the Bureau of Economic and Business Affairs recognizes the critical linkages between transparency, governance, and anti-corruption efforts.

Chapter 7 : Research - Corruption Q&As - Environmental crime and corruption

Corruption and Governance Corruption has a direct impact on the size of the informal economy. It increases the cost of creating new businesses and staying in business within the formal economy - unofficial payments and unpredictability of their size and frequency drive the costs and risks so high that the entrepreneurs prefer to move their businesses underground to avoid bribes that they have.

Chapter 8 : Shining a Bright Light into the Dark Corners of Weak Governance and Corruption | IMF Blog

1 The Challenge of Poor Governance and Corruption Susan Rose-Ackerman1 All political systems need to mediate the relationship between private wealth and public.

Chapter 9 : The Ten Principles | UN Global Compact

While corruption is not environmentally destructive in a general sense (Robbins) poor governance results in bad policy formulation, management, and enforcement, and this can become apparent through problems with environmental sustainability (Damania et al.).