

# Corruption and Poverty



Corruption is a major cause of poverty as well as a barrier to overcoming it, ... The two scourges feed off each other, locking their populations in a cycle of misery. Corruption must be vigorously addressed if aid is to make a real difference in freeing people from poverty.

Peter Eigen

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# CORRUPTION

- Images of people **getting rich**
- **Connections** to poverty more **numerous** and **pervasive**
- *Delay, distort* and *divert* **economic growth**

# CORRUPTION IN PUBLIC SECTOR

- **Misuse of public office for private gain**
- Exacerbating conditions of **poverty** (*low income, poor health and education status, vulnerability to shocks and other characteristics*)



# CHRONIC POVERTY

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- Natural **breeding ground** for **systemic corruption**
- Social and income **inequalities**
- *Perverse* **economic incentives**



# CORRUPTION

- By itself **do not produce** poverty
- Direct consequences on **economic and governance** factors that produce poverty

# CORRUPTION

- Corruption **cause** and **thrive** upon weaknesses in key **economic, political** and **social institutions**
- *Self-serving* **influence**
- Benefit **'haves'** at expense of **'have-nots'**



# CORRUPTION

- **Poor people and economically strapped** businesses have few economic alternatives
- More **vulnerable** to exploitation



# CORRUPTION

- No "petty"
- **Keep *poor people poor***

# CORRUPTION

- **Low-level officials**
- *Trouble earning honest living*
- *Underpaid*
- *Provide payments to **patrons** at higher levels*
- ***Bribery, extortion and theft** matters of survival*



# CORRUPTION

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- **Businesses**
- Corruption formidable **costs**
- **Tempting** and **fashionable** to think of bribery as '*grease for the wheels*'



# CORRUPTION



- **In markets and public bidding processes**
- Inefficient firms and dishonest bidders have **major advantages** over honest competitors
- **‘Connections and cash’** not **‘innovation and excellence’** ways to win contracts

# LINKAGE BETWEEN CORRUPTION AND POVERTY

- Affect both **individuals** and **businesses**
- Run in **both directions**:
- *Poverty invite corruption*
- *Corruption deepen poverty*

# LINKAGE BETWEEN CORRUPTION AND POVERTY

- **2 models:**

- 1. Economic Model**

- *Corruption affect poverty by impacting **economic growth factors**, which, in turn, impact **poverty levels***
- *Direct **causal link** between corruption and economic growth*

# LINKAGE BETWEEN CORRUPTION AND POVERTY

- **Corruption impede economic growth by :**
- *Discouraging foreign and domestic investment*
- *Taxing and dampening entrepreneurship*
- *Lower quality of public infrastructure*

# LINKAGE BETWEEN CORRUPTION AND POVERTY

- *Decreasing tax revenues*
- *Diverting public talent into rent-seeking*
- *Distorting composition of public expenditure*

# LINKAGE BETWEEN CORRUPTION AND POVERTY

- **Corruption exacerbate income inequality**
- *Distort economy and legal and policy frameworks*
- *Allowing some to **benefit** more than others*
- ***Unfair distribution** of government resources and services*

# LINKAGE BETWEEN CORRUPTION AND POVERTY

- *Reduce **progressivity** of tax system*
- *Increase **inequality** of factor ownership*
- *Lower income households (and businesses) pay **higher proportion** of income in **bribes** than do middle or upper-income households*

# LINKAGE BETWEEN CORRUPTION AND POVERTY

## 2. Governance Model

- *Corruption affect poverty by influencing **governance factors**, which, in turn impact poverty levels*
- *Corruption reduce **governance capacity** - weaken political institutions and citizen participation and lead to lower quality government services and infrastructure*



# LINKAGE BETWEEN CORRUPTION AND POVERTY

- **Poor** suffer disproportionately from reduced public services
- Reduced **public trust** in government institutions

# CORRUPTION

- *Long-suffering* **citizens** not get what they **pay for**
- **Pay for** what they get: *Waste, shoddy performance and phony cost overruns* all covered by bribes
- **Human costs** emerge later - *bridges crumple and large buildings collapse*

# REFORM

- No one has **all the answers**
- *Good idea for country A*
- *Irrelevant in country B*
- *Impossible in country C*
- *Harmful in country D*

# REFORMS

- Enabling citizens and businesses to **insist on:**
- *Basic rights*
- *Rule of law*
- *Hold accountable those who govern*
- **Justice!**

# REFORMS

- **Address** economic growth, income distribution, governance capacity, government services in health and education, and public trust in government
- Reduce **corruption**
- Reduce **poverty** as well!



“ **CORRUPTION IS  
PAID BY THE POOR.** ”

—  
Pope Francis

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