

## INFORMATION NOTE

## United Nations Pacific Regional Anti-Corruption (UN-PRAC) Project

# Economic and Social Impacts of Corruption in the Pacific

The Pacific region is rich in natural resources and has great potential for economic development. Several profitable resources, including sugar cane, petroleum and timber, have enabled the Pacific to maintain competitiveness in the global trade market.<sup>1</sup> Fisheries production in the Pacific has also reached around 1.7 million tons – an estimated value of US\$3.6 billion dollars – due to extensive Exclusive Economic Zones (EEZs) that cover 20% of global EEZs.<sup>2</sup> The tourism industry has also made a considerable contribution to the Pacific economy. This economic potential is against the backdrop of relatively high levels of human development.<sup>3</sup>

However, while these resources have the potential to drive growth and development in the region, corruption can inhibit this. High rates of corruption are often linked to lower GDPs per capita, and negative private sector trust, foreign aid and investment.<sup>4</sup> Corruption can also distort competition and the level playing field to help fuel an economy, while discouraging innovation and entrepreneurship.<sup>5</sup>

In 2018, UN Secretary-General Antonio Guterres stated that “corruption robs societies of schools, hospitals and other vital services, drives away foreign investment and strips nations of their natural resources”<sup>6</sup>. Corruption is arguably the single greatest obstacle for both economic and social development.<sup>7</sup> It is estimated that corruption costs the world more than 5% of global GDP (US\$2.6 trillion), increases the cost of doing business by up to 10%

on average, and results in the payment of over US\$1 trillion in bribes each year.<sup>8</sup> Moreover, in developing countries, the funds lost to corruption are ten times the total sum of foreign aid.<sup>9</sup>

In line with the global effort to prevent and fight corruption, a total of 14 countries in the Pacific have ratified or acceded to the United Nations Convention against Corruption (UNCAC). Since their ratification or accession, Papua New Guinea, the Solomon Islands and Kiribati have developed National Anti-Corruption Strategies, Fiji and the Solomon Islands have established Independent Commissions Against Corruption (ICACs), Papua New Guinea has voted unanimously to amend the Constitution to allow for an ICAC to be established, and Tonga has legislated to establish an ICAC.

## Economic and Social Impacts of Corruption in the Pacific

There are many economic and social impacts of corruption. In the Pacific, the following sectors are particularly vulnerable, but not exhaustive:

- **Natural Resource Management** – Due to the Pacific’s reliance on natural resources, corruption in this sector can have a substantial impact on economic growth.<sup>10</sup> Corruption risks may depend on the resource in

1 ADB. 2015. Papua New Guinea: Country Partnership Strategy. [online]. Available from: <https://www.adb.org/sites/default/files/institutional-document/157927/cps-png-2016-2020.pdf>; ADB. 2015. Fiji: Country Partnership Strategy (2019-2023). [online]. Available from: <https://www.adb.org/sites/default/files/institutional-document/495256/cps-fiji-2019-2023.pdf>; WTO. 2019. Trade Overview: Fiji PNG Samoa Solomon Islands Tonga Vanuatu. [online]. Available from: [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm); Extractive Industries Transparency Initiative. 2018. EITI Papua New Guinea. [online]. Available from: <https://eiti.org/papua-new-guinea>.

2 Hugh, G. & The Commonwealth. 2017. Ocean Governance-Our Sea of Island: A Sustainable Future for Small States: Pacific 2050.

3 UNDP. 2018. Human Development Indices and Indicators. [online]. Available from: [http://hdr.undp.org/sites/default/files/2018\\_human\\_development\\_statistical\\_update.pdf](http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf).

4 Ades, A. and R. Di Tella. 2015. Rent, Competition and Corruption. Oxford University. Mimeo; Mauro, P. 1997. The Effects of Corruption on Growth, Investment and Government Expenditure”, in Elliot, K. (ed.), *Corruption and the Global Economy*, pp. 83-108; Wei, S-J. 1997. How Taxing is Corruption on International Investors? NBER Working Paper, No. 6030.

5 UNODC and UNDP. UNCAC: Linking it in. [online]. Available from: [https://www.unodc.org/documents/NGO/UNCAC\\_and\\_Sustainable\\_Development\\_Goals\\_UNDP.pdf](https://www.unodc.org/documents/NGO/UNCAC_and_Sustainable_Development_Goals_UNDP.pdf).

6 UN News. 2018. The Cost of Corruption: values, economic development under assault, trillions lost, says Guterres. UN News. 8 December. [online]. Available from: <https://news.un.org/en/story/2018/12/1027971>.

7 International Chamber of Commerce, Transparency International, United Nations Global Compact and World Economic Forum Partnering Against Corruption Initiative. 2008. Clean Business is Good Business. [online]. Available from: [http://www.unglobalcompact.org/docs/issues\\_doc/Anti-Corruption/clean\\_business\\_is\\_good\\_business.pdf](http://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/clean_business_is_good_business.pdf).

8 UN News. 2018. Pervasive corruption costs \$2.6 trillion: disproportionately affects ‘poor and vulnerable’ says UN chief. UN News. 10 September. [online]. Available from: <https://news.un.org/en/story/2018/09/1018892>.

9 UNDP. 2011. Fighting Corruption in the Water Sector: Methods, Tools and Good Practices. [online]. Available from: <https://www.undp.org/content/dam/undp/library/Democratic%20Governance/IP/Anticorruption%20Methods%20and%20Tools%20in%20Water%20Lo%20Res.pdf>.

10 UNODC. 2019. Rotten Fish: A Guide On Addressing Corruption In The Fisheries Sector. [online]. Available: [https://www.unodc.org/documents/Rotten\\_Fish.pdf](https://www.unodc.org/documents/Rotten_Fish.pdf).

question; for example, in the fisheries sector, corruption may take the form of bribing licensing officials to forge licenses and permits, or bribing port officials to knowingly allow businesses to import mislabelled species to evade higher tax rates;<sup>11</sup>

- **Public Service** – Corruption in the public service sector will affect citizens in the Pacific, particularly marginalized groups, who are more reliant on essential services such as health, education, social care, law enforcement and customs administration.<sup>12</sup> Corruption usually occurs in this sector when rent-seeking or similar behaviour misdirects funds away from their intended destination (e.g. for public health, education) and therefore reduces the available budget and disrupts equitable access to these services;<sup>13</sup>
- **Public Finance Management** – Weak control structures outside of capitals can be particularly vulnerable to public finance corruption.<sup>14</sup> Pacific Governments are often decentralized, with local governments given extensive control on spending; for example, in archipelagos.<sup>15</sup> Public finance management encompasses the whole of the budget cycle, public procurement, audit practices and revenue collection; therefore, corruption can take many forms in this sector. For example, corruption may involve bribes and kickbacks in public procurement, undue advantages to certain providers of services, or distortion of public investment projects for rent-seeking or similar purposes;<sup>16</sup>
- **Foreign Aid** – The Pacific is a large recipient of foreign aid to support its overall development efforts,<sup>17</sup> and foreign aid is particularly susceptible to corruption. According to the former United Nations Secretary-General Ban Ki-Moon, 30% of all development assistance or aid money never makes it to its final destination due to corruption.<sup>18</sup> Corruption in foreign aid may involve contractors and consultants paying bribes to government officials for project contracts, or bid rigging to exclude other competitors followed by fraud to recover the costs of the bribe;<sup>19</sup> and

- **Foreign Direct Investments (FDI)** – Due to their small domestic markets and lack of economies of scale, Pacific Islands countries are particularly reliant on FDI to enable economic growth.<sup>20</sup> While FDI can be subject to corruption in the same ways as foreign aid can (e.g. bribing particular officials within a foreign company to seek their investment), it is a country's overall level of corruption (or the perception of that country's level of corruption) that primarily affects FDI, as foreign investors may not be attracted to investment opportunities in countries where uncertainty, induced by arbitrariness in corruption, is pervasive.<sup>21</sup>

## Key Lessons and Recommendations

To alleviate adverse economic and social impacts caused by corruption in the region, Pacific Governments may consider the following recommendations:

- All Pacific Governments should accede to UNCAC and actively participate in the inter-governmental peer review process, as part of the UNCAC review mechanism, on their implementation of the Convention;
- A whole-of-society approach should be considered to prevent and fight corruption that includes governments, Parliamentarians, civil society organizations, the private sector, media and other non-State actors. This may include the development and implementation of National Anti-Corruption Strategies, as well as addressing the UNCAC review recommendations;
- The Action Plan of the Boe Declaration on Regional Security and other corruption-linked regional initiatives should be supported;
- The collection of disaggregated quantitative data on corruption (e.g. in the National Census) should be fostered and, where appropriate, corruption risk assessments in vulnerable sectors should be conducted; and
- All Pacific Governments should foster greater Pacific collaboration and beyond to address corruption holistically and for the benefit of Pacific Islanders.

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11 Ibid.

12 Barcham, M. 2007. Corruption in Pacific Island countries. UNDP Pacific Center.

13 Gupta S., Davoodi H. & Alonso-Terme R. 2002. Does corruption affect income inequality and poverty? Economics of Governance: 23-45; Olken, B. 2006. Corruption and the Costs of Redistribution: Micro Evidence from Indonesia, *Journal of Public Economics* 90(4-5): 853-870.

14 Ibid.

15 UNODC. 2016. Procurement and Corruption in Small Island Developing States: Challenges and Emerging Practices. [online]. Available from: <https://www.unodc.org/documents/corruption/Publications/2016/V1608451.pdf>.

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21 Woo, J. 2010. The Impact of Corruption on a Country's FDI Attractiveness: A Panel Data Analysis, 1984-2004. *Journal of International and Area Studies*. Vol. 17, No. 2, pp. 71-91.