

# CORRUPTION HINDERS FINANCING SUSTAINABLE DEVELOPMENT

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## INTRODUCTION

Over the last decade the path to sustainable development has taken an unexpected turn. While the world's economies have become closely linked through the free flow of international capital, digital economics, e-commerce and the internet, this has been accompanied by growing rates of corruption.<sup>1</sup> Corruption has become a global issue for the major industrialized countries, with tremendous damaging impact on both developing and transitional economies. Corruption prevents these economies from addressing the challenges of development, undermines financial accountability and impedes the flow of foreign investment. Moreover, corruption weakens their economic performance, reduces confidence in legal and judicial systems and strains the ability to retain highly qualified staff, resources and funds. The cost of corruption is estimated to be more than 5 percent of global GDP or USD 2.6 trillion (OECD, 2014) with more than USD 1 trillion being paid around the world annually as bribes (World Bank, 2017).

### Evolution of Corruption

Corruption has evolved to encompass organized entities threatening global development. As corruption erodes the capital base of countries, it has placed economies on an unsustainable path. Corruption has become one of the main obstacles for achieving the sustainable development goals, as it wanes the process and deprives people from their right to receive a fair share of the benefits, as well as jeopardizing individual freedoms and justice, and thus imperiling prospects for future generations. Moreover, it stalls countries from the formulation of various policies and development plans, hindering their participation in making critical decisions relating to their future.

According to the International Monetary Fund and Transparency International, the costs of corruption can be divided into four main categories: economic, environmental, political and social. The impact can be summarized as decrease in the effectiveness of aid; greater susceptibility of these countries to monetary crises; increase in the rates of poverty; loss of legitimacy; loss of public confidence; reduction in investment (including foreign direct investment); depletion of natural resources; destruction of ecosystems; reduction of

economic growth; a shift in government spending from more productive activities to less productive activities.

In the case of Arab countries, Transparency International's annual report for 2016 showed that they slipped in anti-corruption measures: 90 percent of these countries achieved less than 50 (in an index of 0 to 100, where 0 is the most corrupt).<sup>2</sup> However, both the UAE and Qatar remained above the world average. The 2017 Transparency International annual report demonstrated that Arab countries had witnessed a decrease in the implementation of anti-corruption measures. The 2017 Corruption Perception Index confirmed this result, as it found that, out of 21 Arab countries, 19 have obtained less than 50 degrees.<sup>3</sup>

These indicators reveal that corruption continues to prevail in Arab countries and there is a significant shortage of effective mechanisms to combat it. The main prevailing reason for corruption in Arab societies seems to be that those involved in it feel secure, protected and safe. This has evolved in the absence of adequate regulatory systems and strict job responsibility descriptions for senior officials, and the inability to properly assess risk. This is in addition to weak governance systems, lower ethical standards and ineffective mechanisms of accountability, as well as a decrease in the integrity of the criteria that are used in the selection of high-level employees.

It is noted that all Arab countries achieved less than 50 percent in relation to the following questions, with the exception of the UAE, which scored 57 in the last question: What is the extent of bribery in companies regarding transactions such as those connected to import and export; how accountable are corrupt officials; and how successful are governments in containing corruption.<sup>4</sup>

### Impact of Economic Trends

From 2009 to 2016, Arab countries were affected by a number of factors. There was a weak rate of global economic growth due to the impact of the global financial crisis. This negatively affected the growth of Arab countries' GDP, owing to the decline in production and deteriorating revenue in foreign currencies in some of the main income-

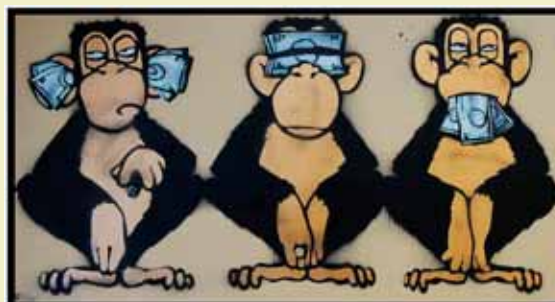
## OVERVIEW

**FINANCING DEVELOPMENT BY FIGHTING CORRUPTION****Najib Saab**

Achieving the Sustainable Development Goals (SDGs) in Arab countries requires filling a USD 100 billion financing gap annually until 2030, according to Arab Forum for Environment and Development (AFED). Countries had agreed on the 2030 deadline to achieve ambitious goals set by the United Nations, including eradicating poverty and hunger, ensuring health care, education, clean water and energy, and providing appropriate housing for all.

Traditional sources of financing sustainable development in developing countries are international institutions, multilateral and bi-lateral funds and foreign direct investment. However, regardless of the importance of securing additional external financial resources, emphasis should be placed on mobilizing and reorienting existing domestic and public financial resources, such as integration among non-official sectors in Arab economies, public-private partnerships, tax reforms and adjustment of price support systems, charities, remittances, and private investments.

Over the past several decades, national and regional development institutions have played an important role in providing development and humanitarian assistance



to Arab and other developing countries. Currently, the Coordination Group for Financing for Development includes eight national and regional Arab development institutions, in addition to the Islamic Development Bank and OPEC Fund for International Development (OFID). These institutions have substantially contributed to the financing of the Millennium Development Goals and have made a strong commitment to providing assistance to finance the SDGs. Arab recipient countries can attract more funding for their sustainable development objectives from development financing institutions in the region by streamlining their strategies towards the sustainable development goals. They should also prioritize their agenda accordingly and

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generating sectors. In addition, there was a decline in global oil prices from mid-2014, and by the end of 2016, oil had lost about 60 percent of its value in accordance with OPEC's benchmark. This led to a significant decline in Arab countries' growth rates, which averaged 3.3 percent in that period, as compared to 5 percent during the period 2000-2008. This was combined with a rise in inflation rates, which resulted in increasing prices of commodities in some Arab countries in the beginning of 2011. This reflected negatively in Arab financial balances, and thus diminished financial discipline in those countries, leading to high levels of deficit. In contrast with the surplus recorded in the public balance of Arab countries, which reached 4.1 percent of the GDP during the period from 2000 to 2008, a deficit of 1.2 percent of GDP developed during the period 2009-2016. Many Arab countries had to borrow, and that led

to a huge rise in the public debt, which reached USD 654 billion in 2016. The internal debt increased from USD 235 billion in 2008 to USD 416 billion in 2016. This increase undoubtedly affected the credit granted to the private sector according to crowding out effect.<sup>5</sup>

It is expected that the Arab countries will continue to be affected by a number of factors. Most notably, the developments in the global economic environment, especially with regard to the world oil markets, will negatively affect the growth of GDP at a constant value in most Arab oil countries. On the other hand, the impact of the non-oil sectors in these countries will continue with measures to control the fiscal situation in light of the relatively high level of deficits in the public balances, which rose in relation to GDP in Arab countries, reaching

in a sequential manner on the basis of well-developed and implementable development processes and projects.

But attracting regional and foreign aid, as well as attracting private sector funding, depends on policy reforms, the reorganization of price support practices and tax collection, in addition to enhanced transparency and public participation in decision-making. Although many Arab countries have already begun to shift in this direction, serious action in the fight against corruption is still slow, especially in poorer countries and those facing wars and conflicts.

Figures of the Corruption Perceptions Index, produced by Transparency International are alarming. They show that only five Arab countries ranked above the global average score: the UAE, Qatar, Saudi Arabia, Jordan and Oman. All remaining Arab countries achieved very low scores, among which five countries ranked the worst. It is worth mentioning that the most corrupt countries were also the poorest.

According to reports by the World Bank and the World Economic Forum, the world's combined losses from bribes and theft of public funds were estimated at between USD 1.5-2 trillion last year, representing 2-3 percent of the world's GDP. This exceeds ten times the amount spent annually on external development assistance to developing countries.

10.5 percent in 2016. In addition to the above, some Arab countries, whether in the group of exporting or importing oil, are still affected by the internal developments witnessed since 2011, and their effects extend to neighboring countries. Such developments have affected the growth paths of Arab countries and their ability to attract the international investment and financing flows needed to support development levels and achieve sustainable development goals (Arab Monetary Fund, 2017).

As a result of these important factors and their negative implications on the development process, a strong trend has emerged in Arab countries. It is a trend towards reforming the structural imbalances in the development model to provide a decent life for future generations with the transformation of a sustainable financial

According to a group of economists working on a new AFED report on financing sustainable development in the Arab world, the cost of corruption in Arab countries ranges between 2-3 percent of the GDP. This means that between USD 60 and USD 90 billion a year is lost as a result of corruption and bribery. In other words, fighting corruption alone can save most of what Arab countries need to fill the gap in the additional funds needed to achieve sustainable development goals.

It will not be possible to eliminate corruption completely or to save money from corruption immediately. That is why there is a continuing need for support from external sources, whether from international organizations or development funds. Most importantly, there needs to be a rapid launch of serious anti-corruption programs, as this is a prerequisite for attracting international support and foreign investment. The private sector will also be deterred by corruption and the lack of transparency. Only serious reforms will provide confidence to invest in projects that lead to sustainable development, especially in the energy, food and water sectors.

Achieving sustainable development and enhancing environmental protection in the Arab region begins with fighting corruption. Although it does not end there, the road ahead will become easier when this goal is achieved.

system, especially through market-based national and international initiatives.<sup>6</sup> In view of achieving sustainability, most Arab countries adopted goals until 2030 consistent with the SDGs. However, achieving these goals and maximizing the benefits, as well as meeting long-term huge financial commitments and easing their burden on future generations, depends on the ability to fight corruption during the implementation phase, including strict controls on all aspects of the financing process.

### **Definitions and Control of Corruption**

The control of corruption and addressing its impacts on sustainable development goals in Arab countries is part of a broad process to establish good governance and transparency. This requires

stable, confident and strong state institutions that are capable of enacting and implementing fair legislation abiding by the rule of law. This is, also, accomplished through responsible legislative and executive bodies that are accountable to the public and capable of sound democratic change. This can only be achieved through free and fair media and civil society organizations, which play a key role in exposing corruption and mobilizing society against perpetrators. They are also determined by whether people are aware of the impacts of corruption on the future of their countries.

### **Roadmap for Effective Financing of Sustainable Development Projects**

Arab countries need to maximize the benefits of all forms of financing for sustainable development in light of prevailing challenges, which are mostly linked to the growing levels of corruption. A roadmap to reduce the growth of corruption and promote the development of adequate governance systems capable of achieving sustainability is necessary, comprising major measures:

- Ensure effective political will to meet international contractual obligations to combat corruption. Take appropriate action to promote transparency and integrity, alongside accountability in the management of public funds, as stipulated in the United Nations Convention Against Corruption (UNCAC).
- Properly plan projects related to the implementation of the approved goals of the development plans, in terms of how to finance them, the most appropriate areas of funding taking into account cost and repayment period, and the development of criteria for projects to be financed through loans, reflecting the size of the public debt of the country as a percentage of its national GDP.
- Develop a clear and professional vision for sustainable development projects according to the priorities of each country until 2030. Ensure this is co-drafted by the legislature, with special emphasis on integrated approach, which combines financing methods with economic, environmental and social feasibility.
- Governance can reduce corruption when financing sustainable development plans, through strict adoption of internationally stable governance principles. This covers all aspects of management, including internal audit, risk assessment, disclosure and reduction of conflicts of interest. These principles should be implemented by both the public and the private sectors, through binding legislation. Governance is one of the main determinants in the evaluation of the performance of the public sector and one of the evaluation criteria for companies when contracting them to implement projects.
- Adopt funding programs for sustainable development projects<sup>7</sup> with a goal of achieving pre-estimated results and clear criteria for the measurement, monitoring and accountability. This will link disbursement of funding to results, thus enhancing the capacity of Arab countries to reduce corruption associated with such projects.
- Review tender laws and procedures related to Arab countries (in light of the UNCAC) to ensure the promotion of the principles of transparency, fairness, competition, and open procedures. Make evaluation criteria clear, particularly technical ones, and have a code of ethics for those responsible for the public tenders. The conditions of the tender should be subject to internal audit and public scrutiny. Also, use modern methods in making qualifications for the tenders and awarding them, as well as contracting, employing various electronic methods. The judicial departments should be empowered to resolve complaints and appeals of all decisions regarding qualification and awarding processes, in addition to all allegations of corruption. This has to be combined with the creation of strict penalties for conflict of interest, collusion and fraud among those directly or indirectly involved in tenders, taking into account the protection of whistleblowers on corruption.
- Prepare periodic reports on the status of the projects, their costs and how they are

financed, be it from the state's budget or through partnership with the private sector. Those should be transparent and easily accessible to civil society organizations.

- Provide support to increase the efficiency of the internal control systems in all branches of the public sector, which are responsible for implementing sustainable development projects. Provide periodic reports on the safety and efficiency of these systems. Urge the public sector to develop these systems continuously in light of the best practices and the development and diversification of anti-corruption methods.
- Enact standards of professional conduct to bind relevant parties from the public and private sectors, especially in the areas of disclosure of negative bribery, conflict of interest, professionalism and independence. These are important for reducing corruption, especially when financing large projects such as those related to sustainable development. Standards of professional conduct that include accountability are important for maintaining the confidence of investors, finance and the society in general.
- Projects that involve partnerships for financing require governments, the private sector and international organizations to have clear and specific legislation that enables efficient implementation with appropriate costs. This should match the expected benefits and the cost of similar projects. Conflict of interest has to be barred to enhance confidence and cut waste.
- Re-examine the role of supervisory agencies in the protection of public funds and the implementation of development goals in an efficient manner and at the required level. It is no longer sufficient that the Organization of Supreme Audit Institutions (INTOSAI) issues its anti-corruption control manuals. There needs to be a partnership between the INTOSAI, the United Nations and the world's leading anti-corruption organizations. They have to focus on the implementation of institutional programs for combating corruption in the execution of development plans. In addition, work needs to be done to strengthen accountability and reform administrative systems to increase their efficiency. The regulatory bodies at the level of the Arab Organization of Supreme Audit Institutions (ARABOSAI) must cooperate in combating corruption, which is often present across more than one country.
- Support freedom of expression and independent media, especially in the field of economic journalism and civil society organizations. This should be done when analyzing technical issues related to the implementation of the sustainable development plans and how they are financed, and their impact on public debt.
- Encourage civil society organizations to develop mechanisms to monitor corruption, using internationally agreed indicators. This should be conducted by qualified staff, and appropriate mechanisms will be needed to publish the results of any subsequent follow-ups.
- Support mechanisms that ensure integrity and proper conduct in the selection of those who work in the public sector, particularly those in leadership roles, through the development and application of the code of ethics within the scope of institutional and legal systems.
- An independent third party is necessary to monitor projects or purchases related to the implementation of sustainable development projects, covering all phases, from the contractual terms to the completion and delivery process. This will apply to all types of projects, whether financed through multilateral development banks or other sources of foreign aid (especially in green economy, including renewable energy). This requires that the recipient government agrees to the designation of a third party to monitor and report on such projects and purchases, including other projects financed through loans. The third party monitoring is not limited to the above, but extends to ensuring that there are no dubious payments and that the techniques used, their efficiency, quality of goods, services and other contractual obligations are compliant with the contracted specifications.

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- Transparency International Corruption Perception Index is based on 13 sources of information, but not all countries cover all sources.
4. Measurement Sources: Global Insight Country Risk Ratings, Bertelsmann Foundation Transformation Index.
  5. Arab Consolidated Economic Report, Arab Monetary Fund, 2016, p. 195.
  6. Expanding how to move to a sustainable financial system: World Bank Group, Sustainable Financial System, November 2017.
  7. Including the mobilization of local resources, those related to the state budget, national or regional development banks, the national banking system, or the private sector through direct investment or partnership with the public sector.

## NOTES

1. Transparency International has defined corruption as an abuse of public power for private gain.
2. The Corruption Perception Index (CPI) was launched in 1995 and has become one of the most important publications of Transparency International and the most important global indicators to assess the spread of corruption in the public sector. The index gives an annual overview of the relative degree of corruption spread by ranking countries around the world.
3. This indicator, which provides an overview of the perceived levels of corruption in a country's public sector does not reflect the full and diverse picture of corruption. The