

## EarthTrends Featured Article: Undue Influence: Corruption and Natural Resources

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**M**ore than \$1 billion of Angola's state oil revenue goes missing each year, at least a portion of which is apparently siphoned into private bank accounts offshore (Global Witness 2002:3; Pearce 2002). In 2002, a powerful Kenyan cabinet minister seized 1,000 hectares of state forest land to build a memorial to his mother (Walsh 2002:A4). In Sumatra's Jambi province, corrupt civilian and military officials collude with private loggers to illegally harvest and export state timber. The collusion is so widespread and the impact so great that provincial legislators made a rare public appeal in 2000 to military, police, and justice officials to stop supporting the illegal timber operations (FWI and GFW 2002:31).

Whether it is high-profile embezzlement or a low-level bribe to a petty bureaucrat, corruption is a major force undermining environmental equity and destroying ecosystems. It is also the epitome of bad governance. Because corruption thrives away from public view and enriches only those involved, it naturally subverts the transparency, accountability, and inclusiveness that mark good decision-making. By offering special access to resources and decisions to a select few, it denies access to the wider public.

Broadly speaking, *corruption is the abuse of public office or public resources for private gain* (Gray and Kaufman 1998:22; Andvig et al. 2000:11). Bribe-taking, graft, sweetheart deals, political payoffs, influence peddling, cronyism, patronage, and nepotism are a

few of its many faces. Corruption that makes the headlines frequently involves politicians, senior government officials, or military leaders—what is usually termed “grand” corruption. But “petty” corruption involving junior bureaucrats, local officials, or low-ranking military personnel is widespread and just as corrosive of sustainable resource management (Andvig et al. 2000:14–19).

### How is Corruption Measured?

In many countries, corruption is perceived to be rampant, but measuring the degree of corruption in a given country can be challenging. This is because corrupt governmental and business practices are not systematically documented, so it is instead necessary to rely on estimates of corruption.

The Corruption Perception Index (CPI), produced annually by Transparency International, is one estimate used to compare the degree of corruption among different countries. This index is based on a number of respected polls, and reflects the perceptions and opinions of people working with multinational corporations and international institutions (Lambsdorff 2001, Wang and Rosenau 2001). Out of 102 countries rated in the 2002 CPI, 70 scored less than 5 on a 10-point scale (with a score of 0 as highly corrupt). Eight countries—Azerbaijan, Indonesia, Kenya, Angola, Madagascar, Paraguay, Nigeria, and Bangladesh—received a score of 2 or less in the CPI poll (Transparency International 2002). Figure 1

shows a list of the world's most corrupt and least corrupt countries, according to the CPI. The CPI findings and many other studies indicate that the problem of corruption affects all societies, rich and poor, but that the incidence is particularly high in many of the poorest nations (Transparency International 2001:7; 2002).

Perceptions of corruption can be influenced by factors such as culture, ethical standards, and the media. It is therefore important to note that this index is a subjective measurement of corruption (Lambsdorff 2001, Wang and Rosenau 2001). In addition, not all countries are included in the CPI, and some country rankings may be less precise than others (Lambsdorff 2001). Nonetheless, the sampling frame of the CPI is broader than other corruption polls, and the study has served as the basis for a number of research studies (Assiga-Ateba 2001, Goldsmith 1999, Korner et al. 2002, Hisamatsu 2003, Zemanovicova 2003).



## A Natural Target

Natural resources offer a rich opportunity for corruption. Indeed, environmental crime—illegal logging, theft of public lands, diversion of oil revenues, or other illegal appropriations of public assets—is a modern growth industry that is frequently facilitated by corruption. Natural resources often have high commercial value, making them a prime target for plunder. They are often governed by complicated regulations, require special permits for exploitation and export, and must be inventoried and accounted for to determine royalties and taxes—all entry points for manipulation and corruption (Ascher 2000:13–14; FAO 2001:90–91). For example, an official may accept a bribe to favor an applicant's request for a forest concession, speed the approval process, or grant more favorable concession terms or a higher harvest level. In other cases, officials may ignore breaches of the concession contract, allowing overharvesting or timber smuggling. Sometimes they may falsely certify illegally cut timber as legal, facilitating its sale or export (Callister 1999:12).

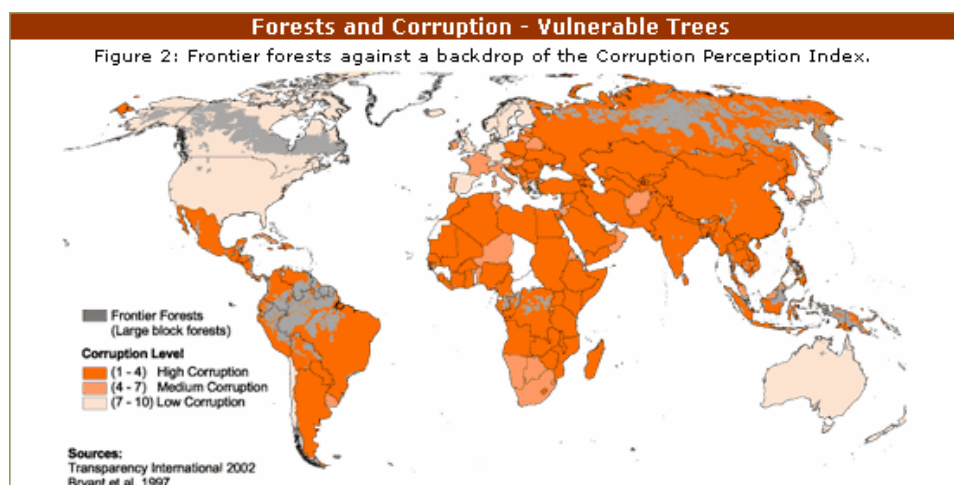
An added inducement to corrupt behavior is that there is

often a low risk of being caught. Most natural resource exploitation takes place far from public view, in remote regions where monitoring and media scrutiny are low. The areas at issue may be physically vast and sparsely populated. Even if one is caught in the act, the penalties are commonly minimal relative to the potential returns. The people being victimized by the economic distortions and bad management that corruption brings are often the rural poor, who wield little political power and therefore pose little political danger (Ascher 2000:13–14; FAO 2001:90–91).

By their nature, corruption and environmental crime are hard to quantify, but available evidence makes it clear that the dimensions of natural resource corruption are large. The global timber trade, for example, is plagued by high rates of illegal logging in many important timber-producing nations, abetted by corrupt officials. Illegal timber comprised an estimated 80 percent of all harvested timber—some 25.5 million of a total 30 million cubic meters—in the Brazilian Amazon in 2000, according to IBAMA, the Brazilian Environment Agency (Smith 2003:Table 2).

In Indonesia, estimates of the percentage of illegal logging

range from 50 to 70 percent; research shows that, in the mid-1990s, 84 percent of Indonesian timber concession holders were not in compliance with forest laws. Analysts believe that at least 20 percent of Russia's timber is harvested in violation of current laws, and that could increase to 50 percent in parts of Siberia and the Russian Far East. In Cambodia, where a robust illegal logging trade has flourished since the mid-1990s, payments to government officials in the form of bribes are estimated at \$200 million for 1997 alone. That is more than 13 times the \$15 million in revenue the Cambodian government took in from legal forest operations that year (Smith 2003:Table 2). Though corruption may not be implicated in every single incidence of illegal forest practice, the correlation between corruption and forest crime is believed to be remarkably high in many countries (Contreras-Hermosilla 2001:4). Figure 2 maps frontier forests according to risk of mismanagement from corrupt behaviors, by showing the world's frontier forests mapped against country CPI ranking.



## **The Roots of Corruption**

A combination of economic, social, and administrative factors creates favorable conditions for corruption. In developing countries, for example, low salaries for civil servants—those responsible for the routine management of natural resources and enforcement of regulations—increase the motivation to earn additional income through corrupt activities (Andvig et al. 2000:112). In fact, bribes and other gifts and favors may form a significant percentage of a public employee's total income in societies where civil service pay is low (Mbaku 1996:100). Other aspects of public administration play a part as well. Hiring and job advancement, for instance, may be determined more by connections and payoffs than by merit, reducing the professionalism and competence of the bureaucracy and strengthening the cycle of corruption.

Corruption flourishes where the mechanisms of accountability and oversight are weak. These mechanisms can include independent audits, special investigative units or government inspectorates, NGO watchdog groups, a robust press, and vocal political opposition parties. When these institutions of detection and enforcement are lacking or are themselves corrupt, the chances of exposure are slim. The complexity of government regulations and the amount of discretionary power bureaucrats exercise factor into the corruption equation as well. Where rules are complex, vague, or frequently changing, administrators have more opportunities to use their influence to exact bribes (Kaufmann 1997:119; Gray and Kaufman 1998:26).

Expectations about the prerogatives of authority also vary. In many African countries,

for example, corruption is common and quite visible, with most of those engaging in it believing they are entitled to the benefits they reap. Indeed, civil service is frequently seen as a legitimate opportunity to enrich oneself and take care of one's family or other social obligations (Mbaku 1996:104; Andvig et al. 2000:63, 68–9).

Together, these factors can lead to an entrenched “culture of corruption,” where the social stigma attached to such practices may be lower and tolerated by the public as part of everyday life and normal business practice, even if it does not wholly approve. An extreme example of this occurred when one African government eliminated the wages of its customs officials for six months, assuming they would earn sufficient income through bribes to support themselves (Tanzi 1995 as cited in Andvig et al. 2000:112).

A final and critical factor in the corruption cycle is the bribe-giver—the “supply side” of corruption. Bribe suppliers are frequently not simply victims of greedy officials, but active partners in the fraud (Vogl 1998:55). They may be local or international, since modern corruption is global in scope. In fact, complicity by multinational companies is often cited as a major factor in facilitating corruption in developing and transition nations (Transparency International 2002). On the World Bank's list of firms ineligible to receive Bank contracts due to fraud and corruption, more than half were based in the United States or the United Kingdom as of November 2002 (World Bank 2003).

## **Confronting Corruption**

Since the early 1990s, public recognition and discussion of the problem of corruption has grown. From the World Bank, to

watchdog groups like Transparency International, to the heads of state of the G-8 nations, calls for stronger action to confront this ingrained behavior have shattered the taboo on speaking out about a public scourge. In part, this new interest reflects the realization that corruption is bad for a nation's economic health. Research shows that corruption imposes significant costs and interferes with the pace and direction of development (Kaufmann 1997:118–120; Tanzi and Davoodi 1998:33–42; Andvig et al. 2000:91–102). For example, it discourages foreign investment by increasing the overall costs of doing business much like a new tax—a “corruption tax,” so to speak (Kaufmann 1997:120; Andvig et al. 2000:94). As a result, international leaders now openly speak of directing aid and investment packages to nations with better records of transparency and financial accountability (Gray and Kaufman 1998:21–22).

The effort to combat corruption involves action on several fronts. Perhaps first and most difficult is the effort to change public expectations. Unless such practices are seen as unacceptable to practitioners and to the public at large, anti-corruption laws and procedural reforms are difficult to implement (Andvig et al. 2000:79). The media, and public advocates such as Transparency International and Global Witness are key players in exposing corruption and raising societal norms with regard to bribe-taking and abuse of public resources. Investigative reporting and independent assessments of public performance heighten the visibility of questionable practices and introduce a measure of transparency to the actions of decision-makers. For this reason, press freedoms and reform of

overzealous libel laws that can muzzle watchdog groups go hand in hand with corruption reform (Schloss 1998:15; Andvig et al. 2000:36–37).

Improvements in public administration and natural resource laws are certainly necessary parts of any attempt to reduce systematic corruption. These aim for greater financial transparency through such steps as simplifying procedures for issuing permits and granting concessions, reforming contracting practices for large infrastructure projects, or mandating independent audits (FAO 2001:96; Contreras-Hermosilla and Rios 2002:11–12, 33–36).

Other changes in public administration are important as well, such as higher pay and higher standards for civil service employees. Research shows that when hiring and advancement decisions are made on the basis of merit, corruption levels go down (Andvig et al. 2000:114).

Action against the supply

side of corruption is also imperative. Some progress has already been made with the signing of the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. This international treaty makes it a crime to bribe any foreign official and outlaws the practice of money laundering that often accompanies bribery. It also forbids the practice of deducting the cost of foreign bribes as business expenses on tax returns, a distressingly common practice in many developed nations until a few years ago. As of October 2002, 34 nations had ratified the treaty and all but two had adopted national legislation for its implementation (OECD 1998:1–18; 2003).

If it were strictly enforced, the treaty could be a significant tool against global corruption, since the signatory nations account for more than 90 percent of all foreign direct investment. Unfortunately, the Anti-Bribery Convention has yet to prove its

usefulness, according to critics. Transparency International chairman Peter Eigen contends that since the treaty came into effect in 1999, it has not been responsible for a single fine or prison sentence, because of lack of enforcement (Eigen 2002:6).

Where the political will to act is strong, strict enforcement of anti-corruption laws brings results. In Singapore, for example, severe economic penalties against foreign bribes have contributed to the nation's successful cleanup campaign. In 1996, prosecutors convicted a middleman of paying nearly \$10 million in bribes on behalf of five large international companies. The government banned those companies from bidding on government contracts for five years. It also banned any new firm the companies might set up to circumvent the penalty (Hawley 2000:18).

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