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WORLD BANK GROUP

THE IMPACT OF CORRUPTION ON SUSTAINABLE DEVELOPMENT

Think piece by UNODC, OECD and World Bank[1] for the G20 Anti-Corruption Working Group

1 The think piece benefited from IMF staff contributions.

CONTENTS

INTRODUCTION

The United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2023 reveals a widening annual investment deficit that developing countries face as they work to achieve the Sustainable Development Goals (SDGs) by 2030. The gap now stands at about USD 4 trillion per year – up from USD 2.5 trillion in 2015 when the SDGs were adopted. In 2019, IMF estimated a USD 2.6 trillion financing gap in 2030 and a USD 0.52 trillion gap in low-income countries alone. This is particularly important as aid still accounts for more than 10 per cent of GDP in almost half of the low-income countries globally. The World Economic Forum (WEF) estimates that corruption costs developing countries USD 1.26 trillion per year. According to WEF, this amount equates to the size of the economies of South Africa, Belgium and Switzerland and would suffice to lift the 1.4 billion people who live on less than USD 1.25 a day above the poverty threshold for at least six years.[2]

The Addis Ababa Action Agenda, adopted at the 3rd International Conference on Financing for Development in July 2015, reaffirmed the importance of combating corruption at all levels and in all its forms as central to enabling the effective, efficient and transparent mobilization and use of resources. Stressing that corruption is an impediment to the achievement of the 2030 Agenda for Sustainable Development and an obstacle to the efficient mobilization of resources and means for sustainable development, the 2021 UNGASS political declaration[3] dedicated an entire section to anti-corruption as an enabler for the achievement of the SDGs.

The Brazilian G20 Presidency invited UNODC, OECD and the World Bank to prepare a diagnosis of the impact of corruption on sustainable development and present recommendations for the G20 as a group and as individual countries to counter corruption as an obstacle to sustainable development and contributor to social inequalities. This think piece and the recommendations are structured around the axes of the impact of corruption on social inclusion, economic growth and environmental protection.[4]

2 https://www.weforum.org/agenda/2019/12/corruption-global-problem-statistics-cost/.

3 https://undocs.org/A/RES/S-32/1.

4 The present paper does not reflect the views of the contributing organizations. It is intended as a summary of issues and recommendations to inform the discussions of the G20 Anti-Corruption Working Group.

SOCIAL INCLUSION: CORRUPTION AND INEQUALITIES

The impact of corruption on vulnerable populations

Corruption has a disproportionate impact on the poor and most vulnerable, increasing the cost of, and reducing access to, health, education, justice, water, electricity and other basic services, thereby exacerbating inequality. It can distort public spending decisions and weaken the quality of public investments resulting in substandard infrastructure and the bypassing of regulatory systems for quality, environmental control and safety.

Corruption can undermine human capital outcomes in all its dimensions. In the education system, teacher absenteeism, kickbacks for school meal contracts, nepotism and false degrees can weaken the efficacy of learning-related spending. State capture can lead to a diversion of budgetary resources away from health and education because the rents or benefits incurred elsewhere are larger. The use of government-funded programs to extend benefits to relatively wealthy population groups or the siphoning of funds from poverty alleviation programs, including generalized subsidies by well-connected individuals, diminishes the impact of social programs on income distribution and poverty.

Within the health sector, corruption in the procurement of pharmaceuticals or medical equipment can weaken survival rates. Child mortality rates in countries with high corruption are about one-third higher than in countries with low corruption; infant mortality rates and the share of low-birthweight babies are almost twice as high.

Corruption and gender

Corruption impacts women and men differently; many times due to social and cultural norms that tend to view women as responsible for the household and family related matters. Thus, women are disproportionately affected in areas where they are more likely to interact with public officials for their families' and their own sake, such as the education sector, or in the health sector. Furthermore, women are overrepresented in the informal sector, from where they cannot access the formal channels to report corruption and access reparation for the financial and other harm it may have caused them. Data show[5] that women are more likely to encounter sexual corruption, a form of abuse of authority where demands for acts of a sexual nature can replace the customary monetary bribe. This was highlighted in the resolution adopted in December 2023 by the Conference of the States Parties to UNCAC entitled "Addressing the Societal Impacts of Corruption".[6] Research also shows that reducing gender inequalities can contribute to reducing corruption. These mutually reinforcing effects can contribute to improved human capital outcomes as well as increased financial gains, as has also been seen in the private sector where data shows that a greater number of women in C-suite positions boosts revenue.[7]

5 UNODC, Corruption in Ghana: People's experiences and views, https://www.unodc.org/documents/data-and-analysis/statistics/corruption/Ghana/UN_ghana_report_v4.pdf.

6 https://www.unodc.org/documents/treaties/UNCAC/COSP/session10/resolutions/L-documents/2325384E_L.14_Rev.1.pdf.

7 See for example, "The Credit Suisse Gender 3000 in 2021: Broadening the diversity discussion," https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/csri-2021-gender-3000.pdf.

The destabilizing impact of corruption

Systemic corruption can have even broader social impacts.[8] It can trigger political instability, where trust in government's impartiality is fundamentally undermined. State legitimacy is eroded so civil strife and domestic conflict emerge as the main expression of domestic politics. Greed and grievances can be promoted by different social groups and sectors of society leading to conflict. The potential for conflict rises with perceptions of inequality. By eroding confidence in the rule of law as a conflict resolution mechanism, widespread corruption may encourage citizens to resort to violence. In addition, systemic corruption can fuel emigration, especially of more highly trained or qualified individuals, depriving a country of talent, with adverse implication for long-term growth.

Recommendations:

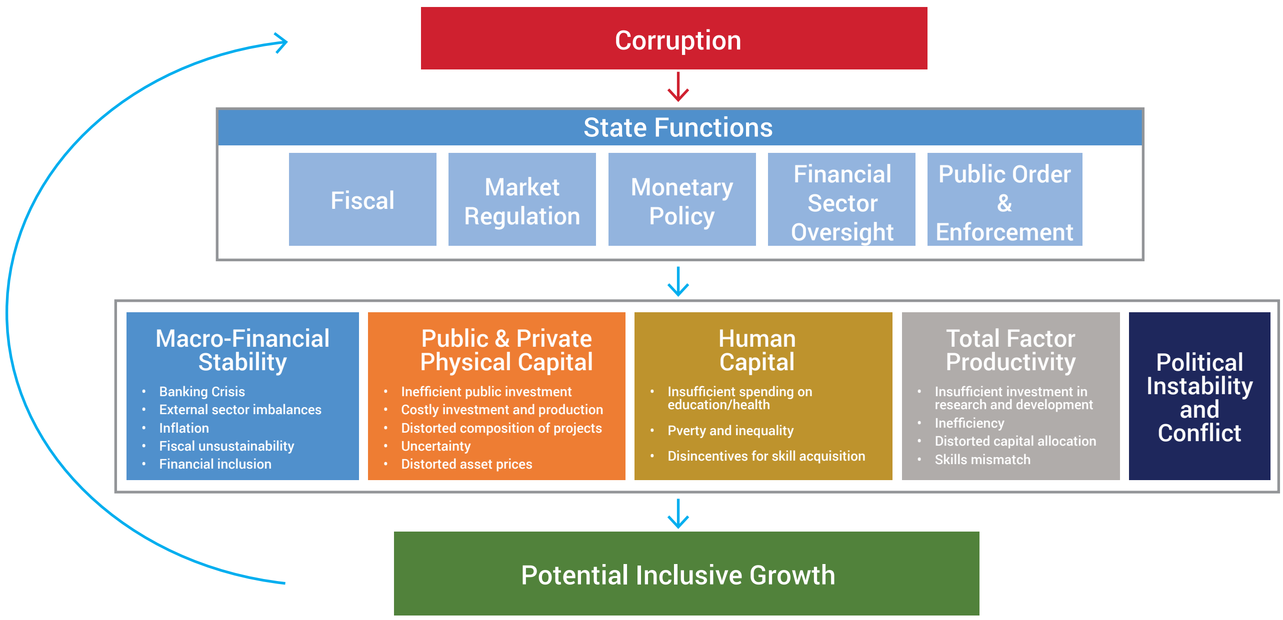
- G20 countries should continually assess the nature and severity of governance weaknesses, and how corruption can impact the most vulnerable populations and the effectiveness of social protection programs and responses, as well as the need for policy and institutional responses to address the gender dimensions of corruption.
- G20 countries should support robust audit controls to ensure that public expenditures for social protection and public services are directed for their intended purposes and not subject to misappropriation or abuse.
- G20 countries should adopt frameworks to strengthen transparency and integrity in lobbying and influence, to ensure that the decision-making and the public policy process are carried out in the public interest.
- G20 countries should continue to advance conflict resolution mechanisms, including non-judicial grievance mechanisms, and ensure effective law enforcement frameworks and administrative sanctions that prevent a culture of impunity for corruption.

THE IMPACT OF CORRUPTION ON ECONOMIC GROWTH

Corruption has significant negative effects on key channels that affect growth.9 Estimates put the annual costs of bribery alone at about USD 1.5 to USD 1.2 trillion (roughly 2 per cent of the global GDP). The overall economic and social costs of corruption are likely to be even larger, since bribes constitute only one aspect of the possible forms of corruption.

Depending on its pervasiveness, corruption affects some or all drivers of potential and inclusive growth, such as macro-financial stability, public and private investment, human capital accumulation, and total factor productivity (see Figure 1 on Corruption-Growth Nexus).[10] Low rates of inclusive growth can also lead to increased incidences of corruption, creating a negative feedback loop that can become self-fulfilling and long lasting.

Figure 1. Corruption - Growth Nexus



Source: IMF, Staff Discussion Note, Corruption Costs and Mitigating Strategies, 2016

9 IMF, Staff Discussion Note, Corruption Costs and Mitigating Strategies, 2016.

10 IMF, Staff Discussion Note, Corruption Costs and Mitigating Strategies, 2016.

Conversely, curbing corruption can yield significant fiscal benefits. IMF research suggests that revenues are higher in countries perceived to be less corrupt. In addition, countries with lower levels of perceived corruption have significantly less waste in public investment projects and collect 4 per cent of GDP more in taxes. Estimates suggest that an emerging market economy in the top 25 per cent of the control of corruption scale wastes half as much as one in the bottom 25 per cent.

Recommendation:

» When assessing economic performance, G20 countries should not only assess monetary and fiscal policies, but also consider the impact of corruption, including for example in terms of reduced tax revenue, wasted public investment, and lower inclusiveness.

Anti-corruption as an enabler for financing sustainable development

Public investment in the necessary transformations for sustainable development is imperative, but it is not achievable without significant domestic resource mobilization. While the Financing for Development Agenda tackles a broad array of topics, it has so far failed to include anti-corruption efforts as an integral, cross-cutting measure essential to ensure that any mobilization or investment of resources achieves its intended purpose.

More can and should be done to address corruption and its connection to sustainable development to ensure that greater investment comes into countries and that funds, including any new investments, are not lost to corruption.

Effective anti-corruption frameworks and strengthening accountability institutions

The effective implementation of the United Nations Convention against Corruption by its 190 parties, as well as other relevant anti-corruption conventions and standards (including the OECD Anti-Bribery Convention, the OECD Recommendation on Public Integrity and the OECD Recommendation for Development Co-operation Actors on Managing the Risk of Corruption), strengthens integrity, transparency and accountability, which in turn makes countries more attractive investment destinations and reduces the loss of government resources to corruption. Robust anti-corruption measures, including a strategic approach to public integrity, with clear anti-corruption standards and institutional arrangements in place to advance implementation, along with a robust integrity culture and strong accountability institutions to monitor public decision making and enforce sanctions, are all essential elements to ensuring that development funding reaches the designated groups. In crisis zones in particular, such as in conflict-affected or disaster areas, robust anti-corruption measures and institutional oversight are important means by which to ensure that public funds effectively deliver much needed public services and support their intended beneficiaries. Neglecting accountability in fragile contexts risks exacerbating corruption and instability in the long run.

In crisis zones (such as conflict-affected or disaster areas), in particular, robust anti-corruption measures and institutional oversight are important means by which to ensure that public funds effectively deliver much needed public services and support their intended beneficiaries. Neglecting accountability in fragile contexts risks exacerbating corruption and instability in the long run.

Recommendations:

» G20 countries should fully implement the UN Convention against Corruption and continue concrete efforts and share information on actions towards criminalizing foreign bribery and enforcing foreign bribery legislation, including by enlarging participation to the OECD Anti-Bribery Convention, as appropriate. Implementing these conventions and other relevant standards against corruption create an enabling framework for public and private integrity and, in turn, support sustainable development.

» G20 countries should work together to better integrate anti-corruption measures in crisis responses as well as in support to reconstruction and recovery, especially in fragile contexts, disaster areas and conflict-affected settings.

Tax revenue

"Corruption can affect all processes conducted by a state's tax administration, from the registration and removal of taxpayers from the national registry, the collection of tax dues, the identification of tax liabilities and the inspection and prosecution of alleged tax offences. Corruption in tax administration can be either collusive, where tax officials strike deals with taxpayers to allow the latter to underpay taxes in exchange for a share of the money "saved", or abusive, where tax officials use their discretionary powers to extort bribes from honest taxpayers and can take various forms."[11] Unaddressed tax fraud or other forms of tax evasion by the private sector and wealthy individuals deprives the state of revenues and undermines development in low-income countries.

Adopting a whole-of-government approach enables enhanced cooperation between tax and anti-corruption authorities. It can facilitate access and cross-checking of information, such as income and asset declarations, and legal and beneficial ownership, to identify potential tax evasion, money-laundering or illicit enrichment for the purpose of both preventive and law enforcement measures.[12] In addition, OECD evidence[13] shows that the willingness to pay tax is higher when corruption is lower, suggesting a double dividend from addressing corruption.

Recommendations:

» G20 countries should strengthen efforts to fight tax crimes, including identifying areas where changes in law or operational aspects are needed, such as increasing the type of investigative or enforcement powers, expanding access to other government-held data, devising or updating the strategy for addressing tax offences, and taking greater efforts to measure the impact of the work they do, in line with the OECD's Ten Global Principles for Fighting Tax Crime.

» G20 countries should foster an inter-agency approach between tax authorities and anti-corruption authorities as well as other law enforcement agencies.

» G20 countries should recognize the important but complex interlinkages between enforcement, trust in government and the ease of compliance in boosting the willingness of individuals and businesses to voluntarily pay tax.

Public procurement

Public procurement is a strategic tool for sustainable development, covering approximately USD 13 trillion of expenditures every year. An untapped source of economic and social prosperity, public procurement represents 13 per cent of GDP in OECD countries and 1/3 of overall government expenditures. Yet, public procurement remains largely bureaucratic, inefficient and highly vulnerable to corruption. A holistic approach to risk mitigation and corruption prevention is therefore essential, and should include measures to promote integrity and transparency, stakeholder participation, accessibility, and oversight and control. For example, e-procurement combined with the use of data analytics and artificial intelligence are essential tools for detecting and mitigating fraud and corruption risks. Maximizing their potential requires data-sharing agreements between relevant authorities, so that procurement authorities can access essential information to mitigate risks of awarding tenders to entities that pose integrity risks to the process.

Recommendations:

» G20 countries should adopt a data-driven and holistic approach to anti-corruption in public procurement and contract management to ensure that citizens receive quality goods and services and a public infrastructure that is safe and dependable.

» G20 countries should recognize the importance of the sound management of procurement contracts, in building stronger, inclusive and sustainable growth and promoting development outcomes.

» G20 countries should devote harness the potential of digital technologies and open data to strengthen integrity and transparency across the public procurement cycle, in particular as tools for improving the detection and mitigation of fraud and corruption risks.

11 Revenue administration and corruption. Odd-Helge Fjeldstad, OH. Bergen: Chr. Michelsen Institute, 2005. (U4 Issue, 2005:2). http://www.cmi.no/publications/publication/?2558=revenue-administration-and-corruption, via Tax administration and Corruption Topic Guide, Transparency International, 2014. Tax_administration_topic_guide.pdf (transparency.org).

12 OECD (2023), Facilitating the Use of Tax-Treaty-Exchanged Information for Non-Tax Purposes: A contribution to a whole-of-government approach to tackling IFFs, Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD. Paris, https://www.oecd.org/tax/transparency/documents/facilitating-the-use-of-treaty-exchanged-tax-information-for-non-tax-purposes.pdf.

13 https://www.oecd.org/tax/tax-morale-f3d8ea10-en.htm.

» G20 countries to ensure that there is adequate, accurate and up-to-date information on the beneficial ownership and control of legal persons that can be obtained or accessed rapidly and efficiently by competent authorities, through either a register of beneficial ownership or an alternative mechanism, in line with FATF recommendations 24 and 25.

Strengthening civic accountability functions

Greater accountability can increase transparency. Strengthening transparency and access to information frameworks, implementing safe, accessible and efficient whistle-blower protection measures, and ensuring the inclusive and fair participation of stakeholders and participation of advocacy groups, media and “watchdog” organizations, are key for levelling the playing field and reaching informed public decisions.

Recommendations:

» G20 countries should coordinate and maintain regular dialogue with relevant stakeholders in their efforts to tackle corruption.

» G20 countries can reinforce their commitment to fully leverage the role of civil society in fighting corruption.

Whole-of-society approach

Anti-corruption and integrity are not just an issue for the public sector: individuals, civil society and companies shape interactions in society, and their actions can harm or foster integrity in their communities. As these actors interact with public officials and play a critical role in setting the public agenda and influencing public decisions, they also have a responsibility to promote public integrity. Strengthening integrity and compliance measures in companies and NGOs, partnering with civil society organizations and journalists to raise awareness of corruption risks, and supporting youth engagement are integral components of our global anti-corruption efforts that can and do have a significant impact on sustainable development.

Recommendations:

» G20 countries can support a culture of integrity amongst NGOs through ensuring a clear and enabling legal environment for them to operate in, as well as by promoting measures that support sound governance within NGOs, including clear lines of accountability, integrity standards, internal control and risk management measures, and transparency in activities and the use of funds.

» G20 countries should promote civic education on public integrity, among individuals and particularly in schools.

» G20 countries, particularly in times of economic difficulty or political uncertainty, should maintain their commitment to ensuring strong and accountable public institutions to boost public and investor confidence.

Excursus: The role of the private sector

Private sector engagement in the fight against corruption is critical in promoting economic development, ensuring fair and safe markets and the overall well-being of societies. The private sector - including industry actors (textiles, construction, extractives for example), traders and financiers - is a key partner in the fight against corruption and illicit financial flows. By supporting private actors to embrace ethical business practices, comply with anti-corruption laws and demonstrate a commitment to business integrity, governments can help build more inclusive markets, and enable the private sector to be an important driver of positive change. As outlined above, corruption affects all areas of society, especially the most vulnerable groups. It undermines good governance, erodes trust, wastes resources and stifles overall economic and social development. Engaging the private sector in the promotion of ethical business practices is therefore critical to fostering a culture of business integrity and equal opportunities. The United Nations Convention against Corruption and the OECD Anti-Bribery Convention provide a framework for preventing and combating corruption. By implementing the principles set out in UNCAC and by participating in the UN Global Compact and adhering to its Tenth Principle against Corruption, companies can protect their reputation, reduce operational risks, increase competitiveness, and contribute to sustainable development.

Engaging with the private sector in the fight against corruption is also a matter of policy coherence, including when it comes to vulnerable sectors. The intensifying demand for natural resources, particularly critical minerals, in the context of the energy transition merits particular policy attention, given that it presents both developmental opportunities as well as corruption risks.[14]

Promoting public-private partnerships and collective action to counter the risks of corruption is important to combat corruption in all sectors and locations. Private sector stakeholders have, thus, an active role to play by preventing corruption through the adoption of effective compliance programs and cooperating with law enforcement authorities to address instances of misconduct. This approach is in line with the broader evolution of the concept of business integrity and corporate sustainability, which has evolved to comprehensively include anti-corruption, but also human rights, labour, and the environment, as recognized by the core international instruments on business and human rights, such as the United Nations Guiding Principles on Business and Human Rights, the International Labour Organization's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy and the OECD Guidelines for Multinational Enterprises and related due diligence guidance.

In 2023, the Conference of the States Parties to UNCAC adopted resolution 10/12[15] on providing incentives for the private sector to adopt integrity measures to prevent and combat corruption, which reiterates the need to prevent and combat corruption in all its forms, based on a comprehensive and multidisciplinary approach, and encourages States parties to promote the adoption of comprehensive integrity programmes in the private sector that may take into account, inter alia, sustainable development. The UNCAC resolution is supported by the 2021 OECD Anti-Bribery Recommendation, which encourages governments to consider implementing measures to incentivise enterprises to develop anti-corruption compliance programmes or measures.

Recommendations:

» G20 countries should support integrity in companies by ensuring the relevant legislation is in place to enable effective corporate compliance programs, including on anti-corruption measures and other responsible business conduct measures, as well as on responsible corporate political engagement and lobbying.

» G20 countries should consider providing incentives for the private sector to adopt measures to prevent and counter corruption as well as for the voluntary self-disclosure of corruption and for effective cooperation with national law enforcement authorities.

» G20 countries should strengthen public-private partnerships and collective action against corruption and should develop a strategy for engagement with the private sector to promote a culture of compliance, integrity and legality through education, media and open dialogue between the private and public sector stakeholders.

» G20 countries should offer guidance, training and awareness-raising measures to strengthen business integrity, especially in small- and medium-sized companies.

Enabling environment for financing for sustainable development

The costs of corruption are substantial, but difficult to properly measure. On average, bribes (when paid) equal 10.9 per cent of the value of a transaction and 34.5 per cent of profits in the schemes sanctioned for foreign bribery in international business, according to OECD estimates.[16] In addition to bribes, illicit financial flows undermine financing for sustainable development by undermining economic growth and legitimate trade, reducing domestic resource mobilization and depriving governments of the financial resources needed to deliver public goods. It is estimated that the monetary value of illicit financial flows exceeds that of official development assistance and foreign direct investment. It is also known that the economic, equity and

14 https://www.oecd.org/dac/accountable-effective-institutions/illicit-financial-flows-oil-gas-commodity-trade-experience.pdf.

15 https://www.unodc.org/documents/treaties/UNCAC/COSP/session10/resolutions/L-documents/2325251E_L.17_Rev.1.pdf.

16 Jin, Y. (2021), "Framework to discuss corruption in OECD Economic Surveys", OECD Economics Department Working Papers, No. 1666, OECD Publishing, Paris, https://doi.org/10.1787/d1e523ef-en.

stability effects of corruption are particularly pronounced in some 'high vulnerability' countries; that is, developing countries reliant on immobile/natural assets and already grappling with chronic poverty, fragility and episodic conflict.

On the other hand, corruption could be also triggered by the supply side whereby foreign investors bribe public officials in developing countries to obtain short-term business gains, while at the same time compromising the integrity of the countries' public institutions and hampering long-term sustainable economic growth perspectives. The OECD Anti-Bribery Convention can offer a reference point in this regard from which efforts could be expanded: Since coming into force, 25 Parties have, collectively, convicted or sanctioned at least 687 natural and 264 legal persons for foreign bribery through criminal proceedings. These figures indicate that the Convention is reducing opportunities for illicit gains and IFFs that can be obtained through corruption.

As co-custodians of SDG indicator 16.4.1, UNCTAD and UNODC are taking important steps to support countries to produce transparent, robust and globally comparable statistics on IFFs, so as to shed light on the activities, sectors and channels most prone to illicit financial flows. Indeed, the issue of IFFs and development will be at the centre of international policy action during the Fourth International Conference on Financing for Development (FfD), scheduled for June 2025 in Spain.

The presence of corruption, either at the country or public institutions levels, and whether that threat is perceived or real, is likely to lead to reduced investor confidence and undermines the global level playing field for business. Focusing on anti-corruption and eliminating the real and perceived risks of bribery, collusion, kickbacks and even extortion can therefore help increase private investment in national economies, as it mitigates their exposure to risk and establishes a fair enabling environment.

Public investment: Corruption increases the cost and lowers the quality of public investments.[17] Corruption can distort the selection of public investment projects through bribery, rent seeking and cronyism, resulting in poor investment outcomes that do not respond to public needs. This undermines efforts to reduce infrastructure gaps and boost growth. It could also result in inadequate allocations for nonwage expenditures, such as operations and maintenance, thereby affecting the productivity of existing infrastructure. Countries with higher corruption tend to have relatively lower infrastructure access and quality for a given level of public capital stock.

Private investment: Corruption also reduces private investment.[18] For example, the bribes necessary to obtain a license act as a tax on a firm's investment decisions. Corruption raises firms' uncertainty—how likely it is to obtain the license by paying the bribe—which can be particularly problematic when seeking to access a foreign market. In fact, corruption has been shown to reduce foreign direct investment, a strong promoter of growth in recipient countries. According to a survey of CEOs of major multinationals on the role of the rule of law when taking decisions about foreign investment, the prevalence of corruption emerged as their biggest concern ahead of political or social instability and lack of transparency in rulemaking.[19] Corruption further harms countries' access to international credit markets, further curtailing the development opportunities of low income and fragile states. Countries with higher levels of perceived corruption tend to have a higher default risk, thereby raising their borrowing costs. Lastly, countries with high levels of corruption and illicit financial flows can be subject to de-banking, which can further work to deter private investment and reduce accessibility of financial services locally.

Legal framework regulating FDI: Cross-border flow of foreign direct investment is based on international investment agreements (IIAs). Some of these agreements include 'legality requirements' with explicit references to corruption, requiring foreign investments to be made or owned 'in accordance with' or 'in conformity with' the laws of the host State. Failure to abide by such requirements can result in withholding treaty protection from investments tainted by corruption. Other IIAs contain obligations for the parties to implement effective anti-corruption policies and measures, or they include anti-corruption provisions as part of the corporate social responsibility requirements for foreign investors. However, the scope and clarity of those provisions vary greatly, and their effects remain unclear and largely untested.

Recommendations:

» G20 countries should prioritize addressing the enablers of illicit financial flows to prevent the unlawful diversion of economic gains and their outflow from countries, which can nullify financial inflows and reduce domestic investment capacity. Particularly key, in this regard, is to address the legal instruments, enabling professions and offshore, transnational networks that contribute to IFFs.

17 IMF, Staff Discussion Note, Corruption Costs and Mitigating Strategies, 2016.

18 IMF, Staff Discussion Note, Corruption Costs and Mitigating Strategies, 2016.

19 Risk and Return – Foreign Direct Investment and the Rule of Law, British Institute of International and Comparative Law (2015), p. 23.

- Public financing from international sources, including concessional finance (and official development assistance) must adhere to anti-corruption standards to preserve integrity and align with and support enhanced country corruption risk management systems. This is key to expanding financing from both public and private sources.
- G20 countries should take into account the anti-corruption agenda in the process of reforming international investment agreements and reassessing the definition of investment to ensure that investments tainted by corruption are prohibited and cannot benefit from treaty protection.

Monetary and financial sector operation

Corruption hinders the formulation and implementation of sound monetary policy. As corruption erodes the state's ability to collect revenue, the government becomes more reliant on seigniorage finance. This can lead to fiscal dominance, undermining the independence and credibility of the central bank in conducting monetary policy. As a result, inflation tends to be higher in countries with higher levels of perceived corruption.

Corruption also discourages financial sector development and inclusion. Countries with higher levels of corruption tend to have lower deposits from the public and less credit to the private sector, both of which are associated with financial sector development and inclusion. This arises from the fact that a weakened state is unable to address policy distortions that hinder financial development and inclusion.

Corruption further weakens financial oversight and stability. Corrupt lending practices, weak banking supervision, and regulatory forbearance can threaten the stability of the financial system. A rising share of nonperforming assets in the portfolio of the banking sector can diminish its ability to advance credit with a significant impact on growth and poses fiscal risks to the government's budget.

More generally, through high-level bribery and influence peddling, powerful financial companies can bend the regulatory, policy, and legal institutions for their private benefit.

Corruption and illicit financial flows also create disruptions in cross-border payments systems which disproportionately affect the most vulnerable countries and communities and undermine financing for development. This is apparent through the phenomenon of de-risking, where financial institutions retreat from jurisdictions perceived as high risk (including corruption risks). This can lead to the closure of correspondent banking relationships and the de-banking of money transfer operators or fintechs operating cross-border payments. Of particular concern in this regard are remittance flows. Official remittance flows to low- and middle-income countries reached USD 656 billion in 2023. Remittances have been following a continuously increasing trend and climate-related migration and shocks will only increase their magnitude and development significance.

Recommendations:

- Risk-based responses to corruption and illicit finance are needed to prevent and mitigate de-risking, further reduce costs of cross-border payments and leverage the full potential of remittances, which are estimated as the largest external resource flow to developing countries.
- G20 countries should address governance vulnerabilities associated with corruption risks in fiscal governance, central bank governance, financial sector oversight, market regulation and other related areas.
- G20 countries should involve financial institutions and strengthen regulation and supervision over financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs), as without access to the illicit financial system it is more difficult for corrupt public officials and businesses to launder or hide the illicit proceeds of corruption.
- G20 countries should continue taking efforts to fight foreign bribery and prevent concealment of foreign corruption proceeds, including considering volunteering for the assessment of transnational aspects of corruption in IMF bilateral surveillance.

Asset recovery and sustainable development

SDG 16.4 requires States to significantly reduce illicit financial flows and strengthen the recovery of stolen assets. While asset returns can only fill part of the critical financing gap for the achievement of the SDGs, corruption deprives States of vital resources, and sometimes specifically provided for stable and sustainable development, including for basic public services such as food, housing, health care, education, or infrastructure. As outlined above, the lack of domestic resources (or revenues) for public service delivery can lead to rising inequality and social exclusion and can deter foreign investment. In addition, stolen assets can be used to finance further criminal activity, such as illegal trade in weapons or drugs, human trafficking, or even violent extremist activities, which can destabilize countries by undermining governance structures and the rule of law.

Support needs to be provided to countries for recovering those assets that have already been transferred abroad, which in many cases amount to a significant percentage of countries' GDP. Yet, according to the analysis of asset returns, which is continuously conducted by the UNODC/World Bank Stolen Asset Recovery (StAR) Initiative, only a fraction of confiscated funds has been returned to the countries of origin, and the gap between the assets confiscated and assets returned remains substantial. Keeping in mind that, in turn, the assets confiscated only amount to a tiny part of the assets siphoned off by means of corruption, more needs to be done to identify, trace, seize and ultimately confiscate stolen assets, as well as to prevent the laundering and transfer of proceeds of crime.

Commitments such as those contained in the Addis Ababa Action Agenda, the 2017 Global Forum on Asset Recovery (GFAR) Principles, the 2021 UNGASS political declaration as well as numerous UN resolutions all highlight the importance of asset return for fostering sustainable development and promoting justice and the rule of law at all levels. Both the UNGASS political declaration and the "Addis process", a UNODC-led series of expert meetings that brings together financing for development practitioners and asset recovery and return experts to discuss the impact that asset recovery can have on achieving the Sustainable Development Goals, have underscored the usefulness of flexibility in asset recovery processes: Having a wide range of tools available for asset recovery enables practitioners to choose the most suitable tool for each individual case. Flexible options such as the use of non-conviction-based confiscation orders, the enforcement of foreign non-conviction-based orders or civil litigation allows for confiscation even in cases where procedural hurdles may otherwise delay processes. Considering all available avenues for investigation and cooperation, such as opening a parallel money-laundering investigation in the requested State to enable law enforcement authorities to make use of all domestic investigative tools when responding to an MLA request, can further help accelerate cases or overcome procedural obstacles.

A 2023 UNODC report prepared for the tenth session of the Conference of the States Parties to UNCAC, which analysed responses from 98 States parties involved in 153 international asset recovery cases from 2010 to 2023, found that only 30 per cent of all reported cross-border asset recovery cases involved non-conviction-based forfeiture and a mere 4 per cent of asset returns involved an enforcement of a foreign non-conviction-based confiscation order (compared to 12 per cent involving a foreign criminal confiscation order). Similar to the case of foreign non-conviction-based confiscation orders, the data collected showed that other legal bases, such as private civil actions, administrative confiscation, court-ordered compensation, or restitution or damages awarded to a foreign jurisdiction, likewise had a very small percentage of use by States parties for cross-border asset recovery.[20] Enabling the effective use of these flexible measures would also require more active international cooperation between States in civil and administrative proceedings relating to corruption. However, such cooperation is lacking a basic international legal framework unlike in criminal proceedings where international cooperation takes place on the basis of UNCAC, the OECD Anti-Bribery Convention or other criminal law-based international instruments.

Recommendations:

- G20 countries should support the use of the full range of mechanisms for the recovery of proceeds of corruption, including the use of civil or administrative remedies for the recovery of assets, including through direct recovery, to increase the amount of assets recovered and returned in cross-border cases.
- G20 countries should further promote the use of recovered assets to finance the achievement of the Sustainable Development Goals. Countries should continue to promote, support and strengthen good practices and mechanisms for the return of assets that foster sustainable development.
- G20 countries should adopt and promote the adoption of transparent agreements and mechanisms for the return of assets to help ensure the transparent and effective use, administration and monitoring of returned proceeds and to improve data collection and accountability as well as the participation, where possible, of non-governmental stakeholders.

20 The data collected in this project is available through the StAR Asset Recovery Watch Database (https://star.worldbank.org/asset-recovery-watch-database), a public database that tracks efforts by country authorities worldwide to recover and return proceeds of corruption. The database covers data from 141 jurisdictions involved in asset recovery cases and documents over 560 international asset recovery cases. The cases cover a total value of USD 16.5 billion of assets (either frozen, seized, confiscated or returned), out of which USD 10.1 billion have been returned internationally.

CORRUPTION AND THE PLANET: THE EFFECT OF CORRUPTION ON ENVIRONMENTAL PROTECTION

Corruption poses a critical barrier to addressing the triple planetary crisis - climate change, biodiversity loss, and pollution - which fundamentally threatens achieving the SDGs by 2030. For G20 countries, which have a significant influence on global policies and economic systems, effectively countering corruption is not only a matter of national interest but also a global imperative to ensure the continued existence of all species.

Corruption and climate change

Corruption poses a risk to climate adaptation and mitigation, and in the response to climate emergencies. Corruption poses significant risks to effective climate action as it can severely undermine the international commitments and National Determined Contributions (NDCs)[21] aimed at mitigating and adapting to climate change. As the world increasingly demands energy and transitions away from fossil fuels, there are heightened concerns around lobbying efforts to delay this transition and corrupt practices slowing or distorting the introduction of renewable energy sources. For example, procurement of green technologies and green infrastructure will require specialized knowledge and new regulations might open windows to favour certain companies over others. In turn, this can lead to substandard procurement outcomes, posing safety risks and introducing economic inefficiencies. Further, a growing demand for critical minerals could result in the unlawful use of public office to benefit private actors at the expense of local communities.

21 https://www.un.org/en/climatechange/all-about-ndcs.

The United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol and the Paris Agreement call for financial assistance from Parties with more financial resources to those that are less endowed and more vulnerable. To date USD 85 billion has been committed to climate action according to the COP28 UAE Climate Finance Commitment Counter.[22] However, as financial commitments grow, so do the opportunities for corruption, introducing significant threats to the effectiveness and integrity of climate finance. Corruption has not been factored in as a significant deterrent for these funds to fulfil their intended purpose. However, embezzlement, bribery, and other forms of corruption can deny communities opportunities to adapt to the effects of climate change in a timely way.

Furthermore, climate action requires policy decisions and new regulations across different sectors to avoid the risk of creating silos that hinder effective action and increase the risk of corruption. The lack of regulation or enforcement of rules in certain carbon offset schemes, such as voluntary carbon credit markets, make them increasingly susceptible to corruption. Companies can claim environmental compliance while misinterpreting or exaggerating emissions reductions without any public oversight or recourse. Meanwhile, interest groups exert undue influence to avoid any regulations, call for lax regulations or promote low quality research that favours their interests.[23]

Further, climate adaptation measures are often linked to significant public expenditures and public project financing,

22 https://www.cop28.com/en/.

23 UNODC & World Bank, Discussion draft for CoSP10: Addressing the links between corruption and the response to climate change, December 2023.

making them vulnerable to public investment management weaknesses which can lead to significant inefficiencies and opportunities for corruption.[24] The World Bank has developed a set of diagnostic tools to support governments in building the capacity of public sector institutions to respond to climate change challenges. The Climate Change Institutional Assessment (CCIA) identifies the strengths and weaknesses of public sector institutions for addressing climate change governance challenges, with Pillar 5 focused on accountability, and the PEFA Secretariat has issued a Supplementary Framework for Assessing Climate-Responsive Financial Management.

The longer-term nature of climate change measures makes them particularly vulnerable to governance issues such as vested interests, incomplete or non-functional accountability systems, other institutional weaknesses, and the resulting lack of ownership by policymakers,[25] the inefficient use of resources, promoting elite capture of government processes, and excessive influence of vested interests. Attempts to unduly influence the design and implementation of climate policies (such as regulations, public investments, subsidies, tax incentives or carbon-offset mechanisms) for private gain could endanger the effectiveness of the response and potentially derail national authorities' entire policy agenda.[26] These climate-focused accountability measures should also be reflected in national anti-corruption strategies.

In resource dependent fragile economies, supporting state-owned enterprises (SOEs) involved in management and sales of natural resources is an important area of focus given the risks in this sector for contributing to illicit financial flows.[27] Specific support for SOEs engaged in the energy transition could include assistance to strengthen public financial management and procurement capabilities, support for their ability to trade and market their assets, where they have the responsibility to trade the country's renewable or non-renewable resources, due diligence, compliance and risk management in the negotiation, trade and sale of those assets.

Overall, corruption can perpetuate a vicious cycle where climate change contributes to food insecurity, population displacement and stress on natural resources, leading to the potential for even more corruption.

Recommendations:

» Nationally determined contributions (NDCs) of G20 countries, the plans and targets that countries commit to reduce their greenhouse gas emissions and adapt to the impacts of climate change, should integrate anti-corruption considerations tailored to their role as high or low CO2 emitting countries.

» G20 countries should implement climate budget tagging and promote transparency in the policymaking processes concerning climate-related policies and expenditures to ensure accountability and public trust.

» G20 countries should foster the implementation of green procurement practices that call for transparent bidding processes that take into account environmental considerations, stringent oversight, and ensure that procurement serves the public interest and adheres to the principles of fairness and accountability.

» G20 countries should develop and support the enforcement of robust regulations for climate funds and carbon offset markets, grounded in scientific evidence, with sufficient anti-corruption safeguards and monitoring, and cooperative efforts with the private sector and civil society, ensuring that communities most vulnerable to the consequences of climate change reap tangible benefits.

» G20 countries should streamline corruption risk management arrangements into climate finance and concessional finance instruments, including for example through measures to detect and prevent corruption in official development assistance projects, internal audit, third party monitoring, accessible and confidential reporting and whistle-blowing mechanisms, and by providing technical assistance and resources to recipients to strengthen their own corruption risk management.

» G20 countries should encourage collaboration across various sectors to prevent the creation of isolated operational frameworks and to guarantee the effective implementation of policies.

» G20 countries should build robust accountability mechanisms, including supreme audit oversight of climate tagged and related expenditures, efficient and effective law enforcement operations and administrative sanctions, to ensure the integrity of climate responses.

» Climate-focused accountability measures in public financial management and audit should be reflected in and supported by national anti-corruption strategies.

24 IMF, Resilience and Sustainability Facility— Operational Guidance Note, September 2023.

25 IMF, Resilience and Sustainability Facility— Operational Guidance Note, September 2023.

26 IMF, Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance, April 2023.

27 https://www.oecd.org/tax/policy-guidance-on-mitigating-the-risks-of-illicit-financial-flows-in-oil-commodity-trading-4ab9053e-en.htm.

Corruption and biodiversity loss

Corruption significantly contributes to biodiversity loss by undermining efforts to manage natural resources sustainably. Corruption can skew policy decisions towards economically profitable but biodiversity destructive projects, catering to private interests and disregarding scientific information on how to manage them more sustainably and in ways that accommodate interests of local communities. For example, bribery can facilitate deforestation, poaching, and fishing, exceeding sustainable levels and threatening species survival. In turn, these activities degrade habitats, reduce biodiversity, disrupt ecological balance and put higher pressure on vulnerable communities that depend on these resources for survival. The Food and Agriculture Organization of the United Nations (FAO) estimates that about 600 million livelihoods depend at least partially on fisheries and aquaculture and 90 per cent of the people living in extreme poverty are dependent on forests for at least part of their livelihoods.[28]

Furthermore, corruption can undermine conservation efforts as dedicated funds can be embezzled or otherwise siphoned off, resulting in underfunded and poorly executed conservation initiatives. The diversion of conservation funds also undermines the trust and cooperation of communities and international partners, which is crucial for successful biodiversity conservation.

International efforts for the sustainable management of resources can also be undermined by corruption as criminals may bribe officers to counterfeit or disregard fake documentation to illegally export wildlife and forest resources. Criminals may also bribe senior bureaucrats and politicians to change, not update or manipulate, lists of threatened species.[29]

In 2017, under the German Presidency, the G20 High Level Principles on Combatting Corruption Related to Illegal Trade in Wildlife and Wildlife Products[30], alongside resolution 17.6 of the Conference of the Parties to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), underscored the role of corruption as a critical facilitator of wildlife trafficking and put this issue on the global agenda. In 2019, the Conference of the States Parties to UNCAC adopted resolution 8/12 on preventing and combating corruption as it relates to crimes that have an impact on the environment calling, inter alia, for parties to strengthen anti-corruption frameworks, promote ethical practices, integrity and transparency, and endeavour to prevent conflicts of interest, with the aim of preventing corruption as it relates to crimes that have an impact on the environment. An important step taken in some jurisdictions is the recognition of environmental crime as a predicate offence for money-laundering.

Once lost, natural resources often cannot be fully restored, and no legal penalties can reverse this damage. Therefore, G20 countries should prioritize corruption prevention.

Recommendations:

- G20 countries should implement corruption risk management processes within the institutions mandated to or involved in the management of natural resources. This strengthens institutional procedures and normalizes discussions on corruption risks among public officials.
- G20 countries should enhance transparency in the management of natural resources and improve due diligence processes for imported natural resource products and commodities.
- G20 countries should broaden international dialogues focused on forests, extending beyond only advocating action against timber trafficking, to also address corruption linked to land usage and industrial agriculture frameworks.

28 FAO, State of the World's Forests, 2020.

29 UNODC, Rooting Out Corruption: An introduction to addressing the corruption fuelling forest loss, 2023.

30 https://www.unodc.org/documents/corruption/G20-Anti-Corruption-Resources/Principles/2017_G20_High_Level_Principles_on_Combatting_Corruption_Related_to_Illegal_Trade_in_Wildlife_and_Wildlife_Products.pdf.

Corruption and pollution

Pollution directly threatens humans and biodiversity through the release of greenhouse gases and chemical pollutants such as pesticides, plastic and heavy metals. Corruption can exacerbate pollution by intentionally creating regulatory loopholes, weakening the implementation of regulations and enabling illegal activities to go unpunished. In many cases, corrupt practices involve the collusion between private and public actors, which can lead to the under-enforcement or non-enforcement of pollution controls. This enables industries to discharge pollutants into air, water and soil with impunity. Waste and e-waste trafficking is yet another illegal activity that is fuelled by corruption.31 For communities living near polluted areas, this results in continued exposure to hazardous conditions, which can lead to chronic health problems and a degraded quality of life. Thus, combating corruption is essential not only for upholding the rule of law but also for ensuring environmental justice and sustainable development.

Recommendations:

» G20 countries should enforce stringent transparency requirements on waste management and pollution control processes. This can include mandatory reporting of waste quantities, disposal methods, and pollution levels by industries. These reports should be publicly accessible and audited by independent bodies to ensure accuracy and compliance with environmental standards.

» G20 countries should foster training and capacity-building for law enforcement and regulatory bodies. This would equip them with the necessary tools and knowledge to detect, investigate, and prosecute corruption linked to waste-related offences.

» G20 countries should establish corruption reporting mechanisms to encourage public participation in monitoring environmental compliance and protecting whistle-blowers who expose corrupt practices in pollution and waste management.

31 UNODC, Cash in the trash: the role of corruption, organized crime and money laundering in waste trafficking, 2024.

CONCLUSION

The international organizations welcome the inclusion by Brazil of anti-corruption as an enabler of sustainable development on the G20 agenda. As large and leading economies, G20 countries have a responsibility to address obstacles to the achievement of the 2030 Agenda and should take the lead in accelerating progress on the SDGs. Countries should implement measures domestically and assist developing countries in addressing corruption through international cooperation and the provision of technical assistance.

In addition, G20 countries could contribute to closing the financing gap for the achievement of the SDGs. With five years left until 2030, action needs to be taken now. Integrity and anti-corruption form the cornerstone of well-functioning financial markets and cross-border payments systems. Thus, they must serve as fundamental pillars within strategies geared towards attracting essential financing for sustainable development.

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