

THE COST OF CORRUPTION

Corruption impacts societies in a multitude of ways. In the worst cases, it costs lives. It can also cost people their health, education, freedom and money. It can destroy families and communities, undermine our culture and cause environmental destruction.

Below, we present an economic analysis of how much corruption is costing Papua New Guinea, but the costs of corruption are not only economic, they are also political, social, and environmental.

On the political front, corruption is a major obstacle to democracy and the rule of law. The offices and institutions of government lose their legitimacy when they're misused for private advantage. Corruption undermines and erodes the effectiveness of government departments and service delivery and undermines accountability. Those in power become focused on retaining office and personal gain rather than making decisions that benefit the nation as a whole.

Corruption corrodes the fabric of society. It undermines people's trust in the political system in its institutions and its leadership. This occurs at both the national level and at a community level where traditional laws and customs are diminished. A distrustful or apathetic public can become yet another hurdle to challenging corruption.

Environmental degradation is another consequence of corruption. Land grabbing and the non-enforcement of environmental regulations and legislation means that precious natural resources are carelessly exploited, and entire ecological systems are lost. Loss of land also further undermines social and cultural systems. Mining, logging, and large agricultural plantations, such as oil palm, can all cause widescale destruction if not properly regulated.

Economically, corruption depletes our national wealth. Corrupt politicians invest scarce public resources in projects that will line their pockets rather than benefit communities, and prioritize high-profile projects such as new mines, dams, power plants, pipelines and refineries over less spectacular but more urgent infrastructure projects such as schools, hospitals, rural roads and small-scale, renewable energy generation. Corruption also hinders the development of fair market structures and distorts competition, which in turn deters investment.

The global financial services company, Price Waterhouse Coopers (PWC), has developed a simple arithmetic formula that can be used to estimate the economic cost of corruption in any given country.

By analyzing global economic data and cross-referencing it with the annual Corruption Perception Index (CPI) published by Transparency International, PWC economists have calculated that a one point movement in a country's CPI score is worth about US\$380 for each person in the country's population.

"Our analysis shows that a one notch-increase in perceived corruption levels is associated with a \$380 decrease in GDP per capita and so lower standards of living". PWC²

Papua New Guinea's current population is estimated to be over 8 million. Multiplying US\$380 by 8 million, we find that a one point movement in CPI score could be worth US\$3 billion every year.

These figures suggest that when PNG's CPI score slipped in 2018 from 29 the previous year, to 28, the economic cost for the country would have been around US\$3 billion (K10 billion).

If we relate this figure to the overall size of Papua New Guinea's economy we see that a one point change in the CPI score is equivalent to a 14% change in the economy:

Gross Domestic Product 2017:	US\$21 billion (\$2,600 per person)
Impact of a one point CPI change:	US\$3 billion (\$380 per capita)
Percentage change:	14%

We can use these figures to compare Papua New Guinea with some of our nearest neighbours like Australia, Indonesia, New Zealand, the Philippines, and the Solomon Islands

Amongst these countries, PNG's current CPI score of 28 is the lowest (see Chart #1).

Increasing PNG's CPI score to that of our nearest neighbours could have a dramatic impact on our economy.

Increasing our CPI score to match that of the Philippines, which is 36 (8 points higher than PNG), could be worth US\$24 billion or \$3,000 per person each year.

This would more than double the size of our current economy to \$45 billion (or \$5,600 per person) (see Chart #2').

2. *The cost of corruption – too big to ignore?* Accessed on 12 June 2019 at <https://pwc.to/2Z966kR>

Chart #1: CPI scores of PNG and some of its nearest neighbours

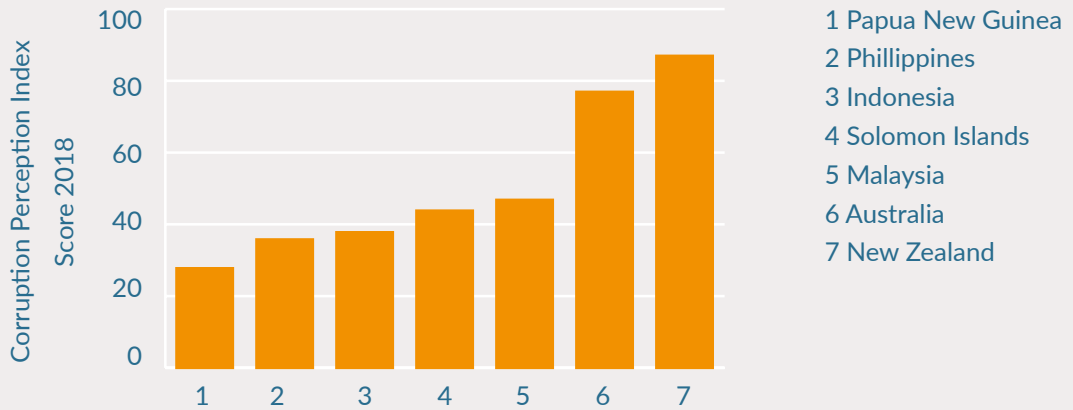
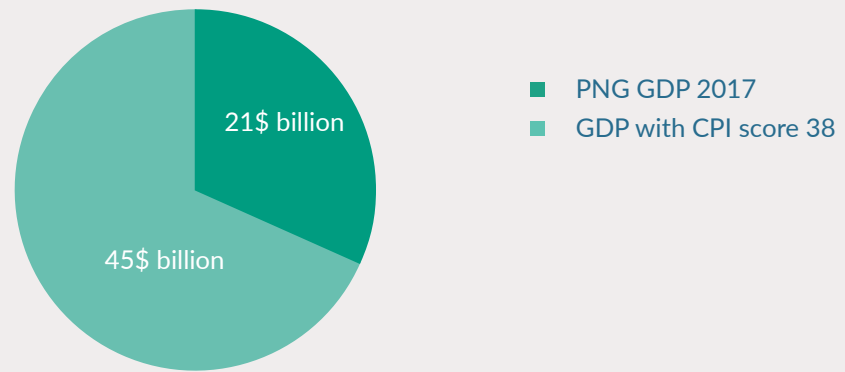
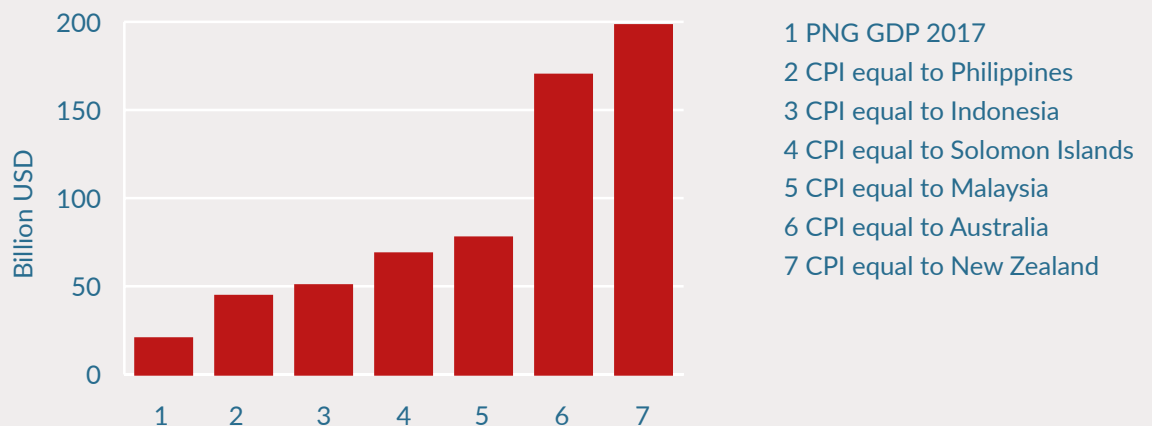


Chart #2: Impact on GDP of increasing CPI to match the Philippines (USD)



The chart below shows how increasing PNG's CPI score to match the scores of Indonesia, 38, the Solomon Islands, 44, Malaysia, 47, or even Australia, 77, and New Zealand, a top ranking 87, could totally transform the value of our economy and our standard of living.

Chart #3: Impact on GDP of increasing CPI to match neighbouring countries



This analysis provides a compelling economic rationale for immediate and serious efforts to be made to tackle corruption. Although, of course, such dramatic economic transformations cannot be achieved overnight, and the full impacts will take time to accrue, the effects will be permanent and the sooner we start to implement some serious reforms the sooner we will begin to see and feel positive change.