

# Chapter 30

## Corruption, Economic Development, and Insecurity in Colombia

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### ABSTRACT

*This research evaluates the connection between corruption, economic development, and insecurity in several Colombian departments. This chapter explores the dynamics of these variables using two empirical techniques: the Data Envelopment Analysis (DEA) and the Dynamic Panel Data Model (DPDM). DEA is performed to evaluate social performance in terms of corruption, economic development, and insecurity in Colombian departments with a higher level and risk of corruption and insecurity. Dynamic panel data analysis is performed to define the variables that affect corruption, insecurity, and economic development. The DEA model provides evidence that corruption and insecurity have different trends where economic development, natural resources, and political instability are key factors. The dynamic panel data model applied shows that Colombian departments with a higher level and risk of corruption and insecurity have lower economic growth, development, and social conditions, but higher levels of mineral resources and illegal drug activity, as well as the presence of irregular armed groups.*

### INTRODUCTION

Corruption creates slow economic development, weakens democratic institutions and generates governmental instability and insecurity, which can lead to violence. Moreover, this phenomenon affects the legitimacy of democratic institutions by altering electoral processes, distorting the rule of the legal system and motivating multifarious

bureaucratic processes with the aim of soliciting bribes e.g. economic development is weakened because foreign direct investment decreases due to the higher transaction costs (Svensson, 2005, Kahn, 2006, Podobnik et al., 2008, UNODC, 2011, Banerjee et al., 2011).

The main objectives of this study are i. to assess social performances in terms of violence, corruption and economic development using data envelopment analysis to determine relative

DOI: 10.4018/978-1-4666-8195-8.ch030

efficiency comparisons among these variables between the Colombian departments with a higher level and risk of corruption and insecurity using a set of multiples inputs and outputs in terms of violence, corruption and economic development, and ii. to establish the key factors that determine social performance based on violence, corruption and economic development with dynamic panel data techniques.

In this chapter, we will empirically analyse the relationship between violence, corruption, and economic development for 1993 - 2007. We will focus on the trends and results of violence, corruption, and economic development using various indicators and econometric techniques. The motivation of this study is to analysis several determinants of corruption and violence and their effects on economic development over time in a developing country like Colombia. The hypotheses that guide this research are the following: *i.* the zones with low economic and social development are more prone to higher corruption and violence. *ii.* Institutional aspects determine corruption and violence in Colombia. *iii.* Zones rich in natural resources (oil, coal, gold, etc.) are more prone to higher corruption and violence.

To probe these hypotheses, we use the government departments of Colombia characterized a higher level and risk of corruption and insecurity as a case study for the time period of 1993-2007. The chapter is structured as follows. Section 2 shows a literature review on the relationship between violence and corruption. Section 3 explains the data and methodology used in this study. Section 4 examines the social performances in terms of violence, corruption and economic development using the cluster analysis and data envelopment analysis (DEA). Section 5 investigates the main drivers behind the variations observed across Colombian departments with a higher level and risk of corruption and insecurity from the DEA results through an econometric model. Lastly, section 6 discusses the conclusions and future research that can be drawn from this study.

## **LITERATURE REVIEW ON VIOLENCE AND CORRUPTION**

In the literature, the relationship between violence and corruption has been analysed from various perspectives, including Chandler and Graham (2010)'s research. Their study particularly focused on the role of violence and bribery using the Partial Least Squares (PLS) form of a structural equation model to analyse the role of corruption in preventing international market success. Chandler and Graham determined that exporters are less successful in penetrating foreign markets with higher levels of corruption and violence. Andvig and Fjeldstad (2008) studied crime, poverty and police corruption in developing countries and found that the relationship of these three features led to slow economic growth, decreased foreign investments and increased inequality. Powell et al., (2010) studied corruption crime and economic growth. They found that adequate rule of law, political stability and economic freedom could promote growth and decrease corruption.

The studies on corruption and economic growth and development have shown different results; however, all of the studies concur that corruption is one of the factors that cause slow economic development and higher levels of poverty and inequality. Ugur and Dasgupta (2011) determined the relationship between corruption and economic growth using meta-analysis and panel data techniques and demonstrated that corruption has an overall negative effect on per-capita GDP growth. Therefore, it is important to increase anti-corruption interventions by increasing the quality of government institutions and the promotion of meritocracy in public and private employment. Moreover, Blackburn et al. (2011) developed a dynamic general equilibrium analysis of corruption in public sector and economic growth and determined that corruption is higher in poor countries than in rich countries, it can be persistent and it can influence development by altering public expenditures, which can lead to

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