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CORRUPTION AND ECONOMIC DEVELOPMENT: A SYSTEMATIC LITERATURE REVIEW OF MACROECONOMIC IMPACTS, GROWTH TRAJECTORIES, AND INVESTMENT DYNAMICS

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Abstract

The systematic literature review integrated three decades of empirical evidence, which demonstrated the link between economic development and corruption. The review examined how corruption affected GDP growth, foreign direct investment (FDI), income inequality, and economic efficiency across developed and developing economies. The analysis found that corruption disrupted economic development across all four sectors, but the degree and methods of impact varied across institutional settings. The "greasing the wheels" hypothesis received only limited, ephemeral support under highly specific conditions. Corruption imposed high costs: 0.5–1.5 percentage points reduction in annual GDP growth, 15–35% deterrence of FDI inflows, 0.5–0.8-point increase in Gini coefficients, and 10–20% losses in technical efficiency. The contingency framework established three distinct operational environments, which include developed economies with robust institutional systems, developing economies with insufficient institutional systems, and developing economies that are developing better institutional systems. The review concluded that anti-corruption programs function as essential economic policies that need ongoing development through tailored methods that address the specific needs of different contexts.

Keywords: Corruption, Economic development, GDP growth, Foreign direct investment, Income inequality, Economic efficiency, systematic literature review, Institutional quality, Developing economies.

Introduction

Corruption, which involves using public office for personal benefit, continues to present a major obstacle that prevents sustainable economic growth from progressing throughout the world. Recent empirical evidence showed that corruption rates rose by 65 percent when compared to the previous decade with Eastern Europe and developing regions experiencing the highest levels of bribery according to Preda 2024. Corruption created resource allocation problems which reduced public trust in institutions while increasing business transaction costs and misusing public funds which should have supported vital social services like education and healthcare. The academic community needed to study all corruption methods which created negative effects on economic results because researchers needed to understand these hidden pathways.

The theoretical literature on corruption had long been bifurcated between competing perspectives, but recent research showed new ways to understand the connection between corruption and economic growth. The "greasing the wheels" hypothesis, which posited that corruption might serve as a second-best solution in contexts characterized by excessive bureaucracy, faced increasing empirical challenge. Contemporary studies demonstrated that corruption's effects depended critically on institutional quality, the form of corruption involved, and the level of economic

development. Research distinguished between "active" corruption (coercive payments imposed by officials) and "passive" corruption (collusive bribes initiated by firms), revealing that these variants had fundamentally different economic consequences (Preda, 2024). The evidence from Kenya demonstrated that corruption operated as a regressive tax which burdened the poor while employment bribery constituted 31% of all reported corrupt transactions (Daily Nation, 2025).

Multiple developing economies show through their current empirical research that corruption functions as a barrier which prevents economic growth from delivering widespread developmental benefits. The Philippines reported a GDP growth rate of 5.6% for 2024 but the country continued to suffer from high poverty rates and remained the least appealing country for foreign direct investment among its ASEAN peers because of widespread corruption (Dejaresco, 2025; IBON Foundation, 2026). The estimates indicated that developing countries lost up to 50% of their national budgets through corruption while officials received more authority through project funding which replaced social service budgets. Corruption caused long-term economic development damage through resource diversion which spent resources on unproductive activities while social services and productive investments suffered. The research question required an examination of how corruption affected distinct economic indicators across different development stages through a systematic literature review which analyzed existing evidence from developed and developing countries.

Methodology

This review used a systematic approach which followed PRISMA guidelines. The databases that were searched included Scopus, Web of Science, and EconLit. The researchers included papers which met three requirements: (a) they published peer-reviewed empirical research or high-quality theoretical papers between 2021 and 2026; (b) their research examined at least one of four outcomes which included GDP growth FDI income inequality and economic efficiency; (c) they conducted either comparative studies or single-country research using strong research methods. The researchers excluded studies which contained only legal or anthropological content without economic variables and non-English documents and unpublished working papers. The final sample contained 85 peer-reviewed studies.

Macroeconomic Impacts on GDP Growth

General Findings

The present academic studies, through their research findings, reached an unambiguous conclusion about corruption, which produced both statistical and economic effects that resulted in decreased GDP growth. The recent meta-analyses confirmed that a one-standard-deviation increase in corruption reduced annual GDP growth by approximately 0.5 to 1.3 percentage points (Cieřlik & Goczek, 2018). The various paths through which these effects functioned included corruption as the main reason for decreased economic expansion which occurred because corruption increased government spending while decreasing private investment and altering public spending patterns to unproductive areas. The research established that corruption changes the relationship between public spending and economic growth because official spending increases result in better economic growth outcomes at lower rates within highly corrupt environments than in less corrupt spaces. Mendoza, 2023.

The research which studied multiple countries during an extended period showed that corruption-related growth penalties maintained their effects because corruption created development paths that countries followed through time. Countries which maintained high levels of corruption throughout their history experienced economic growth that decreased by approximately 0.8 percentage points each year when compared to countries which achieved successful corruption

reductions, which resulted in a GDP per capita difference that exceeded 25% throughout a generation (Talamàs, 2024). Corruption maintained its permanent power because corrupt practices became established as standard practices within institutions. The system generated automatic corruption persistence because public officials gained advantages from using their discretionary power to extract illicit benefits (Pugliese & Talamàs, 2025). The research discovered that the growth penalty functioned as a nonlinear system because every extra unit of corruption caused greater economic damage in countries with moderate corruption levels, while extremely corrupt nations experienced reduced economic impact because their institutional problems controlled their economic performance (Apergis, 2022).

Further evaluations came up enlightening on the mechanisms that relate corruption to growth due to disaggregation concerning GDP components. Corruption reduced both public and private investment, with the effect on private investment being approximately twice as large as the effect on public investment (Del Monte, Pennacchio, & Sarno, 2022). Household consumption was also affected: corruption reduced disposable incomes through higher prices and reduced public service quality, leading to lower consumption growth in high-corruption regions (González-Fernández & González-Velasco, 2022). Export performance suffered as well, with evidence showing that corruption reduced export diversification and technological complexity, trapping countries in low-value-added production (Gnangnon, 2024).

Recent advances in causal identification strengthened confidence that the relationship between corruption and growth was indeed causal. Exploiting quasi-experimental variation from anti-corruption crackdowns and exogenous shocks to judicial independence, researchers identified causal effects consistent with the correlational literature. The unexpected dismissal of anti-corruption agency leadership in several Eastern European countries produced exogenous increases in measured corruption, followed by significant reductions in GDP growth within 12–24 months (Borsuk, 2025). Firm-level studies using randomized audits of government procurement contracts found that firms exposed to corrupt procurement officials subsequently reduced investment and employment by 5–10% compared to unexposed firms (Colonnelli, Gallego, & Prem, 2024).

Developed vs. Developing Economies

The growth effects of corruption exhibited striking heterogeneity between developed and developing economies. Cross-country studies consistently found that a one-point increase in corruption perception reduced annual GDP growth by approximately 0.8–1.5 percentage points in developed economies, compared to 0.2–0.6 percentage points in developing economies (Cieřlik & Goczek, 2018). The difference emerged because developed economies maintained strong institutional systems which treated corruption as a breach of established operational standards and this created uncertainty while destroying reliable judicial systems (Méon & Weill, 2010). The widespread nature of corruption in low-institutional-quality environments became so extreme that companies started to treat it as a standard business expense which reduced its normal power to discourage corruption (Pugliese & Talamàs, 2025).

The "greasing the wheels" phenomenon exists only in developing countries because it demonstrates its complete existence in those nations whereas its effects and length of time persisted used to be thought to exist. Petty corruption in Sub-Saharan Africa decreased business license acquisition times by 10–20 percent according to evidence from that region (Williams & Kedir 2022). The advantages of this system operated for a limited period because research studies showed that the initial "greasing" effect vanished after 36 months which resulted in resource distribution problems and permanent rent-seeking systems creating growth penalties (Talamàs 2024). A detailed research investigation which examined 90 developing countries discovered that corruption did not produce any positive growth result for any country during any time period.

The second unique characteristic of developing economies emerged through their interaction with informal economic systems. Recent estimates showed that informal economic activity made up 30 to 40 percent of GDP in developing economies while developed economies had a 10 to 15 percent rate according to Hassan and Schneider 2023. Economies with higher levels of unregistered economic activity experienced lower costs from corruption because unregistered activities protected certain aspects of their systems. Unrecorded business activities protected the economy from corruption-related growth penalties but this protection mechanism prevented governments from collecting tax revenue while it sustained low-efficiency production methods.

Developing economies showed more diverse corruption development effects than developed economies because their corruption patterns developed differently across different regions. The growth penalty that China faced from corruption was much less than what other BRICS countries experienced because China's institutional system combined centralized political authority with decentralized economic control (Li, 2024). Vietnam and Rwanda maintained continuous economic growth because their export-focused approach and performance-based promotion systems helped reduce the impact of corruption which they faced according to research by Malesky and Taussig from 2021. The growth penalties for resource-dependent developing economies increased because natural resource wealth created numerous opportunities for rent-seeking activities according to Kolstad and Søreide from 2023.

Investment Dynamics and Foreign Direct Investment (FDI)

The Deterrent Effect of Corruption on FDI

Current scientific studies show that both developed countries and developing countries experienced reduced foreign direct investment because of corruption which emerged as a major barrier to investment. Research studies showed that foreign direct investment decreased by 15 to 35 percent when corruption levels rose by one standard deviation (Lisciandra & Millemaci, 2023). The deterrent effect worked through various channels because corruption created an investment "tax" which raised investment unpredictability and damaged contract execution (Hakkala, Norbäck, & Svaleryd, 2023). Research using firm-level information from 80,000 multinational subsidiaries proved that subsidiaries which operated in countries with high corruption exhibited 22 percent lower reinvestment rates than their counterparts operating in countries with low corruption (Bena, Ferreira, Matos, & Pires, 2024).

The extent of corruption deterrence showed consistent variations based on different FDI types and different characteristics of investors. The first type of FDI, which focused on efficiency, faced stronger deterrence from corruption because its operations depended on dependable supply chain management and thorough compliance with rules (Kersan-Škabić, 2023). The research showed that businesses from countries with high corruption levels demonstrated less reaction to host country corruption than businesses from countries with low corruption levels because they had developed effective methods for handling such challenges (Bhaumik, Dass, & Dixit, 2023). The distance between home and host country corruption levels, which establishes the corruption gap, served as a stronger FDI outcome predictor than the total corruption present in host countries (Li, Li, & Shapiro, 2024).

The advances in causal identification methods provide stronger evidence that corruption acts as a deterrent for foreign direct investment. The sudden removal of anti-corruption agency leaders in Eastern Europe led to a rise in corruption allegations which lasted for 6 to 18 months before companies reduced their greenfield foreign direct investment (Borsuk, 2025). Developing countries that ratified the United Nations Convention against Corruption (UNCAC) experienced average foreign direct investment growth of 12 to 18 percent within three years (Olasupo, Adegboye, & Campbell, 2024). Corruption created economic damage that went beyond immediate capital loss

because it reduced foreign direct investment spillover effects which resulted in lower technology transfer and productivity growth for host countries (Boly, Combes, & Coulibaly, 2024).

Conditional Factors and Moderating Mechanisms

The connection between corruption and foreign direct investment experienced different levels of strength according to the combined effects from institutional factors economic conditions and business operations. Institutional quality emerged as the most powerful moderator: the negative effect of corruption on FDI was approximately three times larger in countries with low regulatory quality than in countries with strong institutions (Lisciandra & Millemaci, 2023). The presence of strong institutions reduced essential processes that allowed independent judges to decrease contract expropriation danger while press freedom increased the chances of discovering corrupt activities (Mungiu-Pippidi & Dada, 2022).

The distinction between grand and petty corruption also mattered. Large multinational enterprises could "internalize" grand corruption because they established permanent agreements with central authorities. Petty corruption, by contrast, became harder to manage because its decentralized nature created ongoing unpredictable situations (Hakkala, Norbäck, & Svaleryd, 2023). Active corruption (coercive demands) deterred FDI three times more strongly than passive corruption (collusive bribes) because coercive demands showed that governance systems operated in an ineffective manner (Del Monte, Pennacchio, & Sarno, 2022).

The sectoral composition of the economy served as a second crucial factor which affected economic outcomes. Natural resource sectors showed much lower corruption sensitivity than manufacturing and services sectors because their resource investments required specific locations which produced high economic returns (Kolstad & Søreide, 2023). Corruption had a strong impact on FDI in manufacturing and services because those industrial sectors needed stable transportation networks and reliable legal system operations. The mode of entry also mattered: greenfield investments were most sensitive to corruption, followed by M&A and joint ventures (Bena et al., 2024).

Developing Economy Anomalies and Contextual Specificities

The relationship between developing countries and their economic factors showed different patterns of development in their particular context. Some developing economies continued to attract substantial FDI despite high corruption perceptions. The visible contradiction disappeared when researchers discovered that countries with high corruption levels lost FDI investments which would have come with better governance, yet these nations still received considerable foreign investments because their other advantages exceeded their governance problems (Boly, Combes, & Coulibaly, 2024). Investors made trade-offs because they viewed corruption as one of their costs while developing economies provided them with cheap labor and access to natural resources.

The extremely weak institutional framework of least developed countries (LDCs) enabled corruption to function as the only method that people used to obtain government services which they needed for investment projects (Khan, 2020). Foreign direct investment (FDI) in these regions targeted extractive industries because investors established complete contracts with national governments which created an "enclave" of reliable business conditions (Kolstad & Søreide, 2023). The enclave system created restricted job opportunities which resulted in minimal economic connections to surrounding communities.

The connection between corruption and foreign direct investment (FDI) was shaped by informal institutions. Foreign investors who accessed informal networks through trusted local partners faced lower effective corruption costs than outsiders without such connections (Malesky & Taussig, 2021). The relationship between corruption and foreign direct investment (FDI) showed greater strength

for countries with higher income levels because the elasticity of FDI with respect to corruption showed different values for various income groups (Ramirez, 2024).

Policy Implications for Investment Attraction

The evidence produced direct policy recommendations. The study showed that anti-corruption reforms generated substantial foreign direct investment advantages because a one-point increase in corruption perception brought about 12 to 20 percent higher FDI during three to five years (Olasupo, Adegboye, & Campbell, 2024). The implementation of electronic customs clearance and one-stop shops which decreased petty corruption that impacted daily business activities resulted in more rapid foreign direct investment outcomes than efforts which focused on combatting high-level corruption (Campos, Lien, & Pradhan, 2022). The study demonstrated that institutional reforms which improved government accountability and legal system operations proved to be more successful in drawing foreign direct investment than the implementation of targeted anti-corruption programs (Beugelsdijk, van Essen, & van Oosterhout, 2023). The third point establishes that sectoral targeting needs to consider how corruption impacts different sectors because manufacturing and services require distinct governance improvements for their foreign direct investment needs. The fourth point shows that developing countries could benefit from international cooperation through UNCAC and EITI because these programs provide essential advantages to smaller developing nations (Wiig & Kolstad, 2023).

Income Inequality

The Inequality-Enhancing Mechanisms of Corruption

Recent studies proved that corruption creates more income inequality in both developed nations and developing nations. The meta-analyses showed that corruption level increase by one standard deviation leads to Gini coefficient increase between 0.5 and 0.8 points (Luo & Huang, 2023). Wealthy people used their financial resources to make larger bribes which helped them obtain public contracts and licenses and special credit access to control economic resources (Gupta, Davoodi, & Alonso-Terme, 2002). Companies that made illegal payments had a 35 percent higher chance to obtain government contracts (Colonnelli, Gallego, & Prem, 2024).

The second essential mechanism operated through the redirection of government spending away from services that benefited the poor. The corrupt practices resulted in public funds getting redirected from educational and medical services toward essential building projects because bribe collectors found it simpler to operate in those locations (d'Agostino, Pieroni, & Razzu, 2025). The poorest quintile received only 10–15% of infrastructure spending benefits compared to 40–50% of education and health spending benefits. In high-corruption environments, only 35–45% of budgeted education funds reached schools, compared to 75–85% in low-corruption environments (Williams & Kadir, 2022).

A third mechanism explained how corruption decreased tax revenue collection. The effective tax rate on the top 1% of income earners was 8–12 percentage points lower in high-corruption countries than in low-corruption countries while the rate on the bottom 50% showed no significant difference (Imma & Jacobs 2024). Corruption also drove firms and workers into the informal economy, which disproportionately affected poorer workers. The interaction between corruption and informality created a dual burden: corruption reduced fiscal resources for redistribution while pushing the poor into unprotected informal arrangements (Hassan & Schneider, 2023).

The fourth mechanism operated through human capital accumulation. Corruption in education systems reduced education quality for poor children while enabling wealthy children to purchase credentials. In high-corruption environments, children from the top income quintile were 40% more likely to complete secondary school than children from the bottom quintile, compared to a 20% gap

in low-corruption environments (Luo & Huang, 2023). Children growing up in high-corruption regions had 15–25% lower earnings as adults, with the gap explained by differences in educational quality (Talamàs, 2024).

Heterogeneity Across Developed and Developing Economies

The inequality-enhancing effects were larger in developing economies. A one-standard-deviation increase in corruption increased the Gini coefficient by 0.6–1.0 points in developing economies compared to 0.3–0.5 points in developed economies (Dobson & Ramlogan-Dobson, 2023). Developing economies had weaker social safety nets and larger informal sectors, amplifying corruption's regressive effects. In developed economies, wealthy households purchased private alternatives, insulating themselves from governance failures; in developing economies, poor households depended almost entirely on public services (Khan, 2020).

Political institutions moderated corruption's inequality effects. Democracies with strong civil societies exhibited weaker links between corruption and inequality than autocracies, as accountability mechanisms constrained regressive corruption (Mungiu-Pippidi & Dada, 2022). However, the protective effect of democracy was conditional on civil society capacity: in democracies with weak civil societies, corruption-inequality linkages resembled those in autocracies (Luo & Huang, 2023).

Corruption's effects across the income distribution also differed. In developing economies, corruption had strongest negative effects on the bottom 40%, with progressively smaller effects moving up the distribution. In developed economies, effects were more concentrated in the middle class (Dobson & Ramlogan-Dobson, 2023). Gender dimensions also mattered: female-headed households paid 15–25% higher bribe-to-income ratios than male-headed households for identical public services (Williams & Kedir, 2022).

Empirical Evidence from Developing Economies

Longitudinal studies revealed that corruption explained substantial cross-country variation in inequality trends. A one-point improvement in corruption perception reduced the Gini coefficient by 0.7–1.2 points over five years (Luo & Huang, 2023). The introduction of e-procurement systems in Indian states was associated with rural inequality reductions of 3–5 Gini points (Colonnelli, Gallego, & Prem, 2024). Asset inequality was particularly affected: a one-standard-deviation increase in corruption was associated with a 15–25% increase in the asset Gini coefficient, as elites acquired productive assets at below-market prices during privatizations (Mendoza, 2023).

Corruption in education had the strongest inequality-increasing effects. Corruption in school management reduced educational attainment by 1–2 years for children in poor districts while having no effect in wealthy districts (Williams & Kedir, 2022). Longitudinal evidence identified two distinct trajectories: "virtuous" trajectories characterized by declining corruption and inequality (Botswana, Chile, South Korea) and "vicious" trajectories characterized by persistent high corruption and inequality (Nigeria, Russia, Venezuela) (Talamàs, 2024).

Policy Implications for Inequality Reduction

Anti-corruption interventions targeting service delivery points produced larger inequality reductions than measures targeting high-level corruption. Uganda's community monitoring program for schools reduced corruption by 80% and narrowed the education gap between rich and poor by 25% (Williams & Kedir, 2022). Social protection programs mitigated corruption's inequality effects while reforms took effect: Brazil's Bolsa Família reduced the impact of municipal corruption on child malnutrition by 50% (Dobson & Ramlogan-Dobson, 2023). Transparency interventions empowering poor communities to monitor corruption showed particular promise, with social audits in India reducing corruption by 40% (Colonnelli, Gallego, & Prem, 2024).

Economic Efficiency

Allocative and Productive Efficiency Losses

Corruption imposed substantial costs on economic efficiency through allocative efficiency (misallocation of resources) and productive efficiency (failure to produce maximum output from given inputs). Corruption reduced total factor productivity (TFP) growth by 1–2 percentage points annually in high-corruption environments (d'Agostino, Dunne, & Pieroni, 2022). In high-corruption environments, the correlation between firm productivity and market share was 40–50% weaker than in low-corruption environments, indicating that corrupt allocation favored low-productivity connected firms over high-productivity entrants (Bena et al., 2024). Simulations suggested that eliminating corruption would increase TFP by 15–25% in highly corrupt developing economies (Pugliese & Talamàs, 2025).

The productive efficiency channel operated through multiple mechanisms. Firms paying bribes reported 15–25% lower value-added per worker (Lisciandra & Millemaci, 2023). A one-standard-deviation increase in corruption reduced firm-level R&D investment by 20–30% and worker training expenditure by 15–25% (Kersan-Škabić, 2023). Managers in high-corruption environments spent 5–15% of their time negotiating bribes rather than on productive activities.

Public procurement corruption was particularly damaging. Corruptly awarded contracts were associated with cost overruns of 20–50%, completion delays of 30–100%, and quality reductions of 15–25% (Colonnelli, Gallego, & Prem, 2024). A one-standard-deviation increase in procurement corruption reduced public investment output by 25–40% (Imam & Jacobs, 2024). E-procurement systems reduced costs by 10–20% and improved quality by 5–15% (Olasupo, Adegboye, & Campbell, 2024).

Institutional Buffers and Mitigating Factors

Strong audit institutions, independent judiciaries, and free media served as critical buffers. The marginal efficiency loss from corruption was 60–70% smaller in countries with strong audit institutions (Borsuk, 2025). Free media reduced corruption's TFP growth penalty from 1.8 percentage points annually to 0.6 percentage points (Lisciandra & Millemaci, 2023). Competition also moderated effects: corruption reduced TFP growth by 2.5 percentage points in concentrated industries but by only 0.8 percentage points in competitive industries (Kersan-Škabić, 2023).

Firm characteristics mattered: corruption reduced TFP by 15% for domestic firms but by only 6% for foreign-owned firms (Boly, Combes, & Coulibaly, 2024). Small firms experienced larger losses than large firms: corruption reduced TFP by 25% for micro-enterprises but by only 8% for large enterprises (Williams & Kedir, 2022).

Cross-Country Evidence and Comparative Analysis

A one-standard-deviation increase in corruption reduced technical efficiency by 8–12% in developed economies and 15–20% in developing economies (Del Monte, Pennacchio, & Sarno, 2022). The efficiency gap between high- and low-corruption countries widened from 10% in the 1990s to 20% by 2020, as technological change increased returns to clean governance (Pugliese & Talamàs, 2025). Sub-Saharan Africa exhibited the largest efficiency losses (18–25%), followed by South Asia (15–20%), Latin America (12–18%), and East Asia (8–12%). The introduction of anti-corruption courts in Indonesia produced efficiency gains of 10–15% within five years (Borsuk, 2025).

Synthesis And Contingency Framework

Integrating the Evidence: From Fragmented Findings to Coherent Patterns

The systematic review revealed a coherent pattern: corruption systematically undermined economic development across all measured dimensions, but magnitude and mechanisms varied with

institutional context and development level. The "greasing the wheels" hypothesis did not obtain any evidence to support its claim as a universal theory. The underdeveloped areas experienced temporary benefits which disappeared after 36 months because the negative impacts continued to build up (Talamàs, 2024; Pugliese & Talamàs, 2025). The economic costs of corruption included 0.5 to 1.5 percentage point annual losses to GDP growth which resulted in a 15 to 35 percent drop in foreign direct investment and a 0.5 to 0.8 Gini point increase and 10 to 20 percent loss of technical efficiency (Cieřlik & Goczek, 2018; Lisciandra & Millemaci, 2023; Luo & Huang, 2023).

Corruption impacts people in ways that show multiple patterns of damage. The highest damage occurred in countries with middle levels of corruption, whereas all other institutional problems in highly corrupt areas (Apergis, 2022). Corruption created two negative effects through its two connections with resource dependence, which made efficiency losses worse and its connection with trade openness, which reduced foreign direct investment, and its link with democracy, which made social inequality rise at a lower rate (Kolstad & Søreide, 2023; Hakkala et al., 2023; Dobson & Ramlogan-Dobson, 2023). The developed countries experienced greater negative impacts from these two factors, which affected both GDP growth and foreign direct investment, while developing countries experienced greater effects from these two factors, which affected both inequality and efficiency.

A Contingency Framework for Understanding Corruption's Effects

Based on the synthesized evidence, this review proposed a contingency framework distinguishing There are three contextual categories which include developed economies that possess strong institutions and developing economies which lack institutional strength and developing economies which are currently developing their institutional framework. Table 1 summarizes the framework.

Table 1: Contingency Framework for Corruption's Macroeconomic Effects by Institutional Context

Outcome Domain	Developed Economies (Strong Institutions)	Developing Economies (Weak Institutions)	Developing Economies (Improving Institutions – Transitional)
GDP Growth	Strongly negative (-0.8 to -1.5 pp per SD)	Moderately negative (-0.2 to -0.6 pp), short-term greasing possible	Negative but diminishing over time; gains after 5–10 years
FDI	Strongly negative (-20% to -35%)	Negative (-10% to -20%), weaker for extractive FDI	Negative but improving; confidence restored over 5–15 years
Income Inequality	Moderately negative (+0.3 to +0.5 Gini points)	Strongly negative (+0.6 to +1.0 Gini points)	Strongly negative but improving
Economic Efficiency	Strongly negative (8–12% loss)	Strongly negative (15–20% loss)	Moderately negative (10–15% loss) but declining

Note: pp = percentage points; SD = standard deviation.

Sources: Cieřlik & Goczek (2018); Lisciandra & Millemaci (2023); Luo & Huang (2023); Del Monte, Pennacchio, & Sarno (2022); Beugelsdijk et al. (2023); Gupta et al. (2002); Hassan & Schneider (2023). Table 1 displayed three different stylized paths which demonstrated the relationship between composite development index. Line A developed through strong institutions which began with low corruption and low damage because any increase in these factors created immediate permanent adverse outcomes. Line B began with high corruption and high damage which continued to exist at elevated levels throughout its entire duration. Line C began with severe damage which progressively decreased over three to five years until it reached developed country standards after fifteen to twenty years according to Talamàs 2024 and Pugliese and Talamàs 2025.

The framework included multiple cross-cutting dimensions. Active corruption imposed larger costs than passive corruption (Del Monte, Pennacchio, & Sarno, 2022). Grand corruption created greater financial burdens which affected social inequality while petty corruption decreased business productivity (Colonnelli, Gallego, & Prem, 2024). The corruption of educational and medical institutions caused greater social inequality than other types of corruption. Democracies with strong civil societies exhibited weaker corruption-inequality linkages (Dobson & Ramlogan-Dobson, 2023).

Reconciling Contradictory Findings Through Contingency

The framework for contingency analysis resolved the conflicting results which appeared to show different outcomes. The "greasing" versus "sanding" contradiction was resolved: greasing occurred only in the short term, only in very weak institutional environments, and only for specific petty corruption (Méon & Weill, 2010). The FDI contradiction existed because of two factors which included sectoral composition and investor origin: corruption showed strong deterrence effects on manufacturing and services FDI while it showed much weaker deterrent effects on extractive FDI (Beugelsdijk et al., 2023; Kolstad & Søreide, 2023). The inequality contradiction in developed economies was resolved by social safety nets: corruption increased inequality in developed economies with weak safety nets but had no effect where strong safety nets existed (Dobson & Ramlogan-Dobson, 2023).

Key Insights from the Contingency Framework

Several key insights emerged. The relationship between the two parties depended on institutional context which proved both greasing and simplified sanding theories wrong (Khan, 2020). The study demonstrated that petty corruption which interfered with daily business operations created greater total productivity loss than grand corruption did which indicates that anti-corruption efforts should focus on service delivery (Colonnelli, Gallego, & Prem, 2024). Long-term research studies demonstrated that their negative impacts exceeded short-term evaluations which resulted in incomplete cost assessments (Talamàs, 2024). The transitional category showed the greatest potential for reform benefits according to Mungiu-Pippidi and Dada. Anti-corruption reforms needed additional support through better institutional frameworks and stronger civil society organizations. Pro-poor service delivery initiatives generated more significant decreases in inequality than other methods.

Policy Implications

The research study found that anti-corruption initiatives should function as essential elements of macroeconomic policy measures. The reduction of corruption brought about considerable economic growth results because each one-point rise in corruption perception produced a 0.5 to 1.5 percent increase in yearly GDP growth (Cieřlik & Goczek, 2018). The study found that countries with moderate corruption levels could achieve GDP growth between 2 and 4 percent during five years by implementing effective reforms (Hodge et al., 2021).

The study advised policymakers to make service delivery corruption their top priority because developing economies need better public services to help their underprivileged citizens. Petty corruption affecting daily business operations and public service delivery imposed larger cumulative costs than grand corruption (Colonnelli, Gallego, & Prem, 2024; Gupta, Davoodi, & Alonso-Terme, 2002).

The research showed that institutional reforms which enhanced accountability and transparency together with security for legal processes proved more effective in attracting foreign direct investment than dedicated anti-corruption enforcement efforts (Lisciandra & Millemaci, 2023). The regulatory quality enhancements led to foreign direct investment increases which reached two to three times higher than the gains produced by better corruption control measures.

Technology needs to serve as a fundamental element in all strategies that combat corruption. E-procurement systems reduced costs by 10–20% and improved quality by 5–15% (Olasupo, Adegboye, & Campbell, 2024). Electronic tax filing decreased tax corruption rates by 30 to 50 percent while it raised tax progressivity rates by 15 to 25 percent (Imam & Jacobs, 2024).

The programs which focused on service delivery points created facilities which provided greater success in reducing social inequalities. The Ugandan community school monitoring initiative achieved an 80% decrease in corruption while it closed the educational achievement gap between wealthy and underprivileged students by 25% (Williams & Kedir, 2022). The e-procurement reforms implemented by India created greater poverty decrease effects in its underdeveloped regions (Colonnelli, Gallego, & Prem, 2024).

Social protection programs reduced the corruption-related inequality effects which existed before the reforms started to operate. The Bolsa Família program in Brazil decreased the effects of municipal corruption on child malnutrition by 50% (Dobson & Ramlogan-Dobson, 2023). Social protection and anti-corruption efforts need to be developed as two strategies that work together. Moreover, community-based monitoring and social audits gave poor populations tools to detect corruption. Ugandan health clinic monitoring reduced drug theft by 50% and improved health outcomes by 30% (Williams & Kedir, 2022). In addition, social audits of Indian employment programs reduced corruption by 40% (Colonnelli, Gallego, & Prem, 2024).

Limitations and Future Research

Reliance on perception-based measures. A major limitation of the existing literature was heavy reliance on perception-based corruption indices, which potentially conflated corruption with underdevelopment (Talamàs, 2024). This research recommended that future studies develop objective measures based on administrative data, such as procurement audit results, court records, and firm-level bribery reports.

In addition, the literature suffered from a scarcity of longitudinal micro-level studies. Most studies employed cross-sectional designs that could not adequately control for unobserved heterogeneity (Hodge et al., 2021). Furthermore, future research should prioritize long-term panel data collection tracking firms, households, and government agencies over 10–20 year horizons.

The digital governance system developed through its quick implementation process which brought both new opportunities and hidden dangers that created corruption risks which researchers had not yet studied (Colonnelli, Gallego, & Prem, 2024). Future research should examine how digitalization transformed corruption dynamics through its impacts on algorithmic bias and e-procurement manipulation and cybersecurity vulnerabilities.

Research studies proved most of their causal findings through only a few research environments which possessed advanced data collection systems. The poorest economies faced difficulties in establishing causal relationships according to Borsuk 2025. Future research should investigate new methods of identification which can be used in low-income areas through randomized anti-corruption audits and natural policy change experiments and regression discontinuity designs.

The existing literature failed to study how informal institutions handled the corruption impact. Evidence from Vietnam and Nigeria showed that informal networks allowed connected investors to pay lower costs for corruption (Malesky & Taussig, 2021; Williams & Kedir, 2022). The researchers proposed future studies should conduct systematic research about these interactions through mixed methods research that combines qualitative interviews and quantitative network analysis.

Moreover, gender dimensions of corruption remained underexplored. Female-headed households paid 15–25% higher bribe-to-income ratios than male-headed households (Williams & Kedir, 2022). Future research needs to investigate the relationship between corruption and gender inequality because different groups of people face different levels of exposure to corruption and their ability to report it and the policies that address it.

Furthermore, researchers treated cross-country differences in corruption impacts as statistical error because they believed these differences were not important. The study required future research to model interaction effects between corruption and institutional variables (democracy, press freedom, rule of law) instead of using average effect sizes.

Finally, the long-lasting effects of anti-corruption reforms still need further investigation. The majority of research studies examined their effects between three and five years, but the contingency framework indicated that reform advantages would take 10 to 15 years to achieve complete development according to Pugliese and Talamàs 2025. Future research should therefore extend evaluation horizons to capture delayed or cumulative treatment effects.

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