

Corruption: Dimension and Remedial Measures Towards Development

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Introduction

Corruption now a day is universal. It exists in all countries, both developed and developing, in the public and private sectors, as well as in non-profit and charitable organizations. Corruption can be considered as a major obstacle in the process of economic development and in modernizing a country. Many now feel that it should receive priority attention in a country's development agenda. This greater recognition that corruption can have a serious adverse impact on development has been a cause for concern among developing countries. In a recent survey of 150 high level officials from 60 third world countries, the respondents ranked public sector corruption as the most severe obstacle confronting their development process (Gray and Kaufmann 2013). Countries in the Asia and Pacific region are also very worried about this problem and they are in substantial agreement that corruption is a major constraint that is hindering their economic, political and social development, and hence view it as a problem requiring urgent attention at the highest level. Thoughts and suggestions on possible remedial measures have also been included as it would not be a fruitful exercise to only discuss issues and problems, without coming forward with some solutions as well. The aim of the paper is to create greater awareness of the subject and to explore the potential of an economic development of a society.

Definitions and classifications

Corruption is defined as the use of public office for private gain, or in other words, use of official position, rank or status by an office bearer for his own personal benefit. Following from this definition, examples of corrupt behaviour would include: (a) bribery, (b) extortion, (c) fraud, (d) embezzlement, (e) nepotism, (f) appropriation of public assets and property for private use, and (h) influence hawking. In this list of corrupt behaviour, activities such as fraud and embezzlement can be undertaken by an official alone and without involvement of a second party. While others such as bribery, extortion and influence hawking involve two parties – the giver and taker in a corrupt deal. The two party type of corruption can arise under a variety of circumstances. Often mentioned are concerned with the following:

- (i) **Contracts:** bribes can influence who gets the contract, the terms of the contract, as well as terms of subcontracts when the project is implemented.
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- (ii) **Benefits:** bribes can influence the allocation of monetary benefits such as subsidies, social safety nets and rationed prices etc. Bribes can also be important in obtaining licenses and permits to engage in lucrative economic activities such as importing certain goods in high demand and in short supply. Moreover, bribes can be given to acquire in-kind benefits such as access to privileged schools, subsidized plot, flats etc.
- (iii) **Revenue:** bribes can be used to reduce the amount of taxes, fees, dues, custom duties, and electricity and other public utility charges collected from business firms and private individuals.
- (iv) **Time savings and regulatory avoidance:** bribes can speed up the granting of permission, licenses and permits to carry out activities that are perfectly legal. This is the so-called “grease money” to turn the wheels of bureaucracy more smoothly, speedily and hopefully in the most wanted direction. It is also not difficult to think of a really awful situation where rules and regulations, and the way they are applied, are so complex and burdensome that the only way left to get things done is to pay money to avoid them.
- (v) **Influencing outcomes of legal and regulatory processes:** bribes can be used to provide incentives to regulatory authorities to refrain from taking action, and to look the other way, when private parties engage in activities that are in violation of existing laws, rules and regulations such as those relating to controlling pollution, preventing health hazards, or promoting public safety as in the case of building codes and traffic regulations. Similarly, bribes can be given to favour one party over another in matters relating to legal and regulatory proceedings.

The concept of economic rent (or monopoly profit) occupies a central place in the literature on the subject of corruption. Economic rent arises when a person has something unique or special in his possession. A person who owns such a special asset can charge a more than normal price for its use and earn economic rent or monopoly profit.

What is done? What is to be done?

Official rules need to be properly observed, they must be transparent, that is, must be set out clearly and made known in advance to all concerned, so that they can be understood and obeyed. Apart from being clear, rules must also be applied in an impartial manner with respect to all citizens and must be consistent and not be subject to frequent and arbitrary changes.

Discretionary powers represent another key concept in discussing corruption. They arise because it is not possible to devise rules and regulations that are watertight and foolproof and will take care of all contingencies that can crop up in trying to control or direct an economic activity. Hence, some flexibility and discretionary powers will have to be given to administrators in interpreting and implementing rules.

Accountability can ensure corruption free society. The following three conditions are responsible for non- accountability:

(i) If there is a large number of laws, rules, regulations, and administrative orders to restrict business and economic activities and thereby creates huge opportunities for generating economic rent, and especially if these restrictive measures are complex and opaque and applied in a selective, secretive, inconsistent and non-transparent way;

(ii) If the Administrators are granted large discretionary powers with respect to interpreting rules, are given a lot of freedom to decide on how rules are to be applied, to whom and in what manner they are to be applied, are vested with powers to amend, alter, and rescind the rules, and even to supplement the rules by invoking new restrictive administrative measures and procedures; and

(iii) If there are no effective mechanisms and institutional arrangements in the country to hold administrators accountable for their actions.

If a community has a large number of wedding receptions, birthday parties, anniversaries, celebrations, rituals, festivals, and fund raising ceremonies for all sorts of worthy causes, the financial burden of these festivities can fall heavily on officials. In this case the general perception is that civil servants with insufficient salaries to meet the living expenses of their families are driven by necessity to engage in corrupt practices. Raising their pay, it is argued, will mean less need to depend on illegal activities to earn a living while they have more to lose if they get caught. This sounds reasonable and there are cases where countries that pay their civil servants well, tend to have less public sector corruption than in those where pay scales are low. But there is no hard evidence to suggest that low level public employees are less greedy than their superiors. The line between “need driven” and “greed driven” corruption is hard to draw and it is difficult to determine where one ends and the other begins. Thus, there are those who believe that increasing pay without other complementary measures is not likely to have a significant impact on reducing corruption. On the contrary, the cost to the government budget of paying employees more, may be much larger than the benefit that may result from reduced corruption. Moreover, when no serious efforts are made to control inflationary pressures in a country, shopkeepers will take an increase in civil

servant salaries as a sign for them to raise prices. Higher pay leading to higher prices and higher costs of living mean there is no increase in the “real” wage of government employees and no improvement in their welfare.

Underground economic activities exist in all countries. They are of two types. First, there are those that are illegal such as engaging in the drug trade or the smuggling business. The second consists of those activities that are legal but are not officially recorded to evade taxes or for some other reason. Corruption gives rise to both these types of activities and contributes directly to the rise of the underground economy. Although underground economic activities exist in all countries, they become pervasive where corruption is widespread. When a large portion of an economy goes underground, official macroeconomic data which mostly cover only the formal sector, become unreliable to assess economic performance or to provide a basis for policy making and analysis.

Income distribution under a corrupt system, the privileged and the well-connected enjoy economic rent. Economic rent, by definition, represents abnormal or monopoly profits and can bestow large benefits. As such, there is a tendency for wealth to be concentrated in the hands of a tiny minority of the population. Income distribution, therefore, becomes highly uneven. In addition, the burden of corruption falls more heavily on the poor as they cannot afford to pay the required bribes to send their children to a decent school, to obtain proper health care, or to have adequate access to government provided services such as domestic water supply, electricity, sanitation and community waste disposal facilities.

Closely associated with an unequal income distribution and concentration of wealth in the hands of a few, there emerges a distorted consumption pattern aimed at meeting the lifestyle of the new and extremely rich urban elite. This involves import of a large variety of luxury goods from abroad – flashy cars, lavish home furnishings, state-of-the-art consumer durables and electronic products, fashion clothing, exotic perfumes, expensive foodstuffs, fine wines and spirits, and fancy goods of all kinds that can be found in supermarkets and department stores.

Adverse impact on investment, both domestic and foreign, is considered to be particularly harmful for a developing economy. Bribes may have to be given before any investment takes place and upon entering into negotiations for the establishment of an enterprise. More payments usually follow in the process of setting up the business. Procurement of leases for land and buildings; permission to engage in activities such as production, transport, storage, marketing, distribution, import and export; obtaining connections for water, gas, electricity, and telephone; having access to telex, fax and e-mail facilities and so on; can involve payment of substantial bribes at various stages and may require the services of agents with specialized expertise on how to get around complex rules

and procedures to acquire these things. Unfortunately, these agents and middlemen, instead of being part of the solution can often become a part of the problem.

For a poorer economy, talented local business people, managers, entrepreneurs, and industrialists represent a scarce and valuable resource. Their talents should not be wasted in rent seeking activities. They should be doing productive work. Surveys have also revealed that business people have to spend a lot of management time in discussions, negotiations and waiting for appointments with bureaucrats and public officials in corrupt regimes than in countries where there is less corruption (Gray and Kaufmann 2011).

In any society, there are laws and regulations to serve social objectives and to protect the public interest, such as building codes, environmental controls, traffic laws and prudential banking regulations. Violating these laws for economic gain through corrupt means can cause serious social harm. Violating building codes through the connivance of corrupt officials and building contractors has resulted in collapse of apartment buildings, department stores and hotels in some countries. Failure to observe proper fire prevention and safety regulations has caused supermarkets, garment factory, hotels filled with shoppers and customers, workers to go up in flames. Overloaded ferries and passenger ships have sunk in seas and rivers all over the region. Paying bribes to operate un-roadworthy and poorly maintained public vehicles have led to accidents on the highways and buses plunging down ravines and gorges due to mechanical failure are common in many countries.

Shoddy workmanship, use of substandard materials and disregard for proper design and engineering specifications, due mainly to corruption, have caused bridges to collapse and dams to burst, resulting in heavy loss of life and property. Obscure insider trading practices and financial scams that can result from poorly supervised financial systems also have serious economic and social consequences. People have lost their life savings and fortunes in financial scams.

It is a common practice in many developing countries to institute price controls and to provide essential goods and services at subsidized prices to consumers. The official price for a key food item, such as rice, is fixed by paying a low administratively set price to farmers, while gasoline, electricity and charges for public transport and other essential items are provided at low subsidized prices. These mostly benefit city dwellers as they are the main consumers of these subsidized goods and services. Fixing prices at artificially low levels lead to demand exceeding supply for the subsidized goods so that the all too familiar shortages, rationing, corruption and black markets result.

Unfortunately, corruption places severe constraints on a country's capacity to undertake economic reforms. This is because reforms require greater transparency, accountability, free and fair competition, deregulation, and reliance on market forces and private initiative, as well as limiting discretionary powers, special privileges, and price distortions – all of which will reduce opportunities for economic rent on which corruption thrives. The rich and the powerful, the main gainers of a corrupt system, will therefore oppose reforms.

“Fry some big fish”, means that is to publicly try and punish some well-known corrupt people in the country. Some highly publicized trials and convictions of important officials and businessmen on charges of corruption need to be demonstrated that the fish is fried from our own pond.

A responsible press to gather, analyze, organize, present and disseminate information is considered vital to create greater public awareness and to provide the momentum for undertaking reforms to overcome corruption.

Views on the effectiveness of anti-corruption oversight or watchdog bodies are mixed. There are instances where they have proved useful. For example, the Independent Commission Against Corruption in Hong Kong, China, and similar institutions in Botswana, Chile, Malaysia and Singapore are regarded as having done a good job.

This is a very large area and only brief mention can be made of the relevant issues. It involves such things as improving the legal framework; smoother, less time-consuming and less burdensome ways to conduct business in the functioning of law courts and in the administration of justice; promoting efficiency of the police force; strengthening the auditor general's office; and appointment of responsible and effective Commissioners empowered to investigate and prosecute corruption.

The main conclusion to be drawn is that undertaking reforms by reducing institutional weaknesses offers the best hope to overcome corruption. Corruption will not disappear because of reforms. But reforms will bring it under control and minimize its adverse consequences so that the country can proceed with its efforts to become a modern, developed nation with a good chance of attaining the SDG's.

Having looked at some of the ways in which corruption damages the social and institutional fabric of a country, we now turn to reform options open to governments to reduce corruption and mitigate its effects. Rose-Ackerman (2008) recommends a two-pronged strategy aimed at increasing the benefits of being honest and the costs of being corrupt, a sensible combination of reward and punishment as the driving force of reforms.

If public sector wages are too low, employees may find themselves under pressure to supplement their incomes in “unofficial” ways. Van Rijckeghem and Weder (2011) did some empirical work showing that in a sample of less developed countries, there is an inverse relationship between the level of public sector wages and the incidence of corruption.

Subsidies, tax exemptions, public procurement of goods and services, soft credits, extra-budgetary funds, all are elements of the various ways in which governments manage public resources. Governments collect taxes, tap the capital markets to raise money, receive foreign aid and develop mechanisms to allocate these resources to satisfy a multiplicity of needs. Some countries do this in ways that are relatively transparent and make efforts to ensure that resources will be used in the public interest. New Zealand, which is consistently one of the top performers in Transparency International’s *Corruption Perceptions Index*, is a pioneer in creating transparent budget processes, having approved in 2014 the Fiscal Responsibility Act, providing a legal framework for transparent management of public resources.

The high correlation between the incidence of corruption and the extent of bureaucratic red tape as captured, for instance, by the *Doing Business* indicators suggests the desirability of eliminating as many needless regulations while safeguarding the essential regulatory functions of the state. The sorts of regulations that are on the books of many countries—to open up a new business, to register property, to engage in international trade, and a plethora of other certifications and licenses—are sometimes not only extremely burdensome but governments have often not paused to examine whether the purpose for which they were introduced is at all relevant to the needs of the present. Rose-Ackerman (2008) suggests that “the most obvious approach is simply to eliminate laws and programs that breed corruption.”

Because in a globalized economy corruption increasingly has a cross-border dimension, the international legal framework for corruption control is a key element among the options open to governments. This framework has improved significantly over the past decade. In addition to the OECD’s Anti-Bribery Convention, in 2005 the UN Convention Against Corruption (UNCAC) entered into force, and by late 2013 had been ratified by the vast majority of its 140 signatories. The UNCAC is a promising instrument because it creates a global framework involving developed and developing nations and covers a broad range of subjects, including domestic and foreign corruption, extortion, preventive measures, anti-money laundering provisions, conflict of interest laws, means to recover illicit funds deposited by officials in offshore banks, among others. Since the UN has no enforcement powers, the effectiveness of the Convention as a tool

to deter corruption will very much depend on the establishment of adequate national monitoring mechanisms to assess government compliance.

Just as public-induced distortions provide many opportunities for corruption, it is also the case that frequent, direct contact between government officials and citizens can open the way for illicit transactions. One way to address this problem is to use readily available technologies to encourage more of an arms-length relationship between officials and civil society; in this respect the Internet has been proved to be an effective tool to reduce corruption (Andersen *et al.*, 2011). In some countries the use of online platforms to facilitate the government's interactions with civil society and the business community has been particularly successful in the areas of tax collection, public procurement, and red tape. Perhaps one of the most fertile sources of corruption in the world is associated with the purchasing activities of the state. Purchases of goods and services by the state can be sizable, in most countries somewhere between 5-10 percent of GDP. Because the awarding of contracts can involve a measure of bureaucratic discretion, and because most countries have long histories of graft, kickbacks, and collusion in public procurement, more and more countries have opted for procedures that guarantee adequate levels of openness, competition, a level playing field for suppliers, fairly clear bidding procedures, and so on.

Chile is one country that has used the latest technologies to create one of the world's most transparent public procurement systems in the world. Chile Compra was launched in 2003, and is a public electronic system for purchasing and hiring, based on an Internet platform. It has earned a worldwide reputation for excellence, transparency and efficiency. It serves companies, public organizations as well as individual citizens, and is by far the largest business-to-business site in the country, involving 850 purchasing organizations. In 2012 users completed 2.1 million purchases issuing invoices totaling US\$9.1 billion. It has also been a catalyst for the use of the Internet throughout the country.

In many of the measures discussed above aimed at combating corruption, the underlying philosophy is one of eliminating the opportunity for corruption by changing incentives, by closing off loopholes and eliminating misconceived rules that encourage corrupt behavior. But an approach that focuses solely on changing the rules and the incentives, accompanied by appropriately harsh punishment for violation of the rules, is likely to be far more effective if it is also supported by efforts to reinforcement the moral and ethical foundation of human behavior.

Possible task for policymakers could be to improve the transparency of interactions between public and public officials. That could reduce the discretionary power of officials, lower the preferential gains from corruption, and decrease both the mean and dispersion of bribery.
