

Unit 1: Introduction to Corruption

Learning Objectives

What is corruption and where can it be seen?

After studying this unit, you should be able to:

- Define both public and private corruption;
- List and describe the various classifications for corruption;
- List and explain the situations in which corruption occurs;
- Describe the difference between grand and petty corruption;
- Describe some examples of the costs of corruption.

Everyone has an idea that corruption exists but they may not always be able to recognize it when they see it or share the same idea about what it is. Defining corruption and all of its components is important so that people understand why it is bad, how to avoid it, and how to develop rules and regulations to hinder its progress.

This unit attempts to provide an in depth definition of corruption by explaining how it manifests itself in the public and private domains in both administrative and political situations. This unit also explains what classifies corruption and describes the scope in which it occurs.

Finally, and perhaps most importantly, this unit looks at the costs of corruption. Corruption creates an environment in which poverty will grow by disturbing the balance in the economic playing field. It impacts social and cultural norms, can cause environmental degradation, can detract resources from private sector development, and can harm relations with international aid agencies that might have otherwise provided seamless development assistance.

Defining Corruption

When we think of corruption we recognize it as a clearly bad and damaging description for the nations that allow it. Still, the concept may be vague. Because corruption is such a complex concept, it must be explained in terms of classifications, breadth, situations, and the levels in which it can occur in both developed and developing countries.

Types of Corruption

Evidence of corruption can be viewed through more than simple cases of unethical

<p>Box 1 <u>Public Services</u></p> <p>Schooling Electricity Fire service Gas Healthcare Military Police Service Public Transportation Telecommunications Town Planning Waste Management Water Park Services Licensing Post Office</p>

government officials taking money from the public purse for their own benefit. It is also seen in dysfunctional government systems, resulting in a loss of public services for ordinary citizens who are often only able to obtain public services in exchange for a bribe, and as a result progress is slowed. For example, if an individual who relies on a drivers' or building license to fulfill his job responsibilities is unable to obtain these documents without paying a bribe, he is unable to do his work, and a portion of economic progress is stalled.

These are examples of public corruption, or the misuse of a public office for personal gain, in which a government official benefits at the expense of ordinary citizens. Public corruption

can take place in two manners. The first is the obvious example when officials embezzle public money, like tax dollars or money given by development aid organization, or money that has been earned through public profit making initiatives.

Public corruption also occurs when public systems are dysfunctional and citizens are forced to deliver bribes or other compromises in order to receive public goods or services. If these citizens do not give a bribe, they will not receive the services at all. This type of activity perpetuates poverty, slows economic progress, and international

Box 2

When Development Aid Hurts a Nation: The Case of Zaire

Mobutu Sese-Seko, the former Zairean dictator, provides a good example of the threats corruption places on international aid for a developing nation. During his 32-year term as president, he allowed businesses to export the country's natural resources at the expense of the environment, labor force, and good governance. These actions stifled the natural freedoms of Zairian citizens. Later, he allegedly nationalized foreign-owned firms, forcing investors out and, handing control of corporations to his friends and family who stole the assets. He used foreign aid to increase his personal worth to approximately \$5 billion in 1984, while the people of the country he ruled starved. The infrastructure collapsed and public workers were left unpaid. His rule earned him the reputation as the quintessential corrupt politician whose reign was wrought with examples of nepotism.

As a result of examples such as Mobutu, today most foreign aid organizations monitor funding to assure they reach their capacity building intentions.

development.

Private corruption, on the other hand, occurs between individuals in the private sector. This includes organized crime, or even the \$20 tip that someone might pay to the busboy to secure the best table in a restaurant.

Since this module is designed for parliamentarians, it will focus primarily on the more relevant and greater impact of public corruption.

Classifications of Corruption

As it is currently a somewhat in vogue subject of discussion among parliamentarians, you have likely heard many of the classifications and manifestations of corruption in your professional circles, relations with development agencies, international organizations, and throughout the news. But you may not really know the difference between each. The primary classifications of corruption include bribery, nepotism, embezzlement, fraud, clientelism, and rent-seeking. All of these shady behaviors can occur among people in government positions, positions of leadership in the private sector, and among ordinary citizens. It is important to understand what these actions and behaviors are and to recognize when they occur so that parliamentarians and

parliamentary staff can recognize them as negative and learn how to avoid participating in them.

Bribery is the form of corruption that receives the greatest share of reference. It is the essence of corruption. Bribery is an offer of money or favors to influence a public official and can come in the form of a fixed sum, a certain percentage of a contract, or any other favor in money in kind, usually paid to a state official or business person who can make contracts on behalf of the state or business or otherwise distribute benefits to companies or individuals, businessmen and clients. Sometimes the concept of bribery can be hidden under the guise of other terms such as kickbacks, gratuities, sweeteners, commercial arrangements, hush money, pay-offs, and milking. In all cases, these words explain payments that serve to make things pass more swiftly, smoothly and more favorably between two parties who are, in the case of this module, the government and an outside party.

Through bribery corporations and businesspersons can buy political favors, escape the burden of taxes and environmental regulations, and buy protected markets and monopolies, and import/export licenses. Bribery can also be a form of informal taxation when public officials charge additional unofficial payments or expect gifts from clients in order to process a request.

Through bribery business interests can also buy political favors and, for example, escape the full burden of taxation and environmental regulations, buy protected markets and monopolies, import and export licenses, and gain access to large state contracts on capital goods or major civil engineering projects. All of these activities compromise free competition and disturb the national economy. (For more information on ethics violations, see the Ethics Module in this series.)

Nepotism is another common form of corruption that occurs when officials favor relatives or close friends for positions in which they hold some decision-making authority. This type of favoritism is the natural human proclivity to give preferential treatment to friends and families, and occurs in both the public and private sectors. For example, imagine that a student is the headmaster's nephew and his teachers report low marks for his classes. If the headmaster changes the low marks to high marks, he has fallen victim to the temptations of nepotism. Or conceptualize

an elected official who comes to office and fills the posts in the executive branch with his under-qualified friends and family rather than qualified people who apply for the posts. The official is also guilty of nepotism. In the case of the young student, he will likely not learn well the content of the lesson put to him by his teacher, will lose a level of academic self-esteem, and learns that you need not work hard to get ahead, but to have connections to people of power. In the case of the political positions granted to under-qualified friends, the fate of the nation is hampered since unqualified people will be guiding policy and national decision-making process. Furthermore, there is less likely to be a balance of power since the political staff may follow the ideas of the person who gave them the position. As a result, the quality of services provided to the people will be diminished.

Clientelism is at the heart of how corruption is spread through the government. It is characterized by "patron-client" relationships in which relatively powerful and rich "patrons", in the case of parliamentarians, political candidates, promise to provide relatively powerless and poor "clients" with benefits, such as jobs, protection or infrastructure, in exchange for votes. These relations are corrupt because they exploit the poor or disenfranchised to become indebted to the elected, for work that is a part of his job responsibilities. Thus, the democratic principles that define the political process are reduced. The problem is further exaggerated when clients are not only fed promises, but coerced and intimidated so that control is maintained. Furthermore, some politicians fail to deliver on their promises. Obviously, when the criminal behavior of theft is committed by a person of power, they should be convicted just as an ordinary citizen would.

Embezzlement occurs when public officials steal money or other government property, or when disloyal employees steal from their employers in the public and private sectors. When embezzlement occurs in the public sector it affects the innocent citizens because public officials misappropriate resources meant for public services. Embezzlement is not limited to money, but includes all goods that were meant for the people. Sometimes parliamentarians and parliamentary staff, among other public figures, will participate in embezzlement in subtle or accidental ways. When, for example, they forge receipts, or use government property or personnel for personal, unofficial use.

Box 3

Examples of Fraud in the Public Domain

It is a serious fraud when parliamentarians and other government officials have an active role in these criminal activities, such as:

- Depositing public money into untraceable, personal off-shore accounts;
- Liquidating banks to steal from the people;
- Printing large amounts of money through the central bank to pay civil servants and create the impression that the economy is doing well, when it is not;
- Receiving private loans that will never be paid back;
- Issuing falsified certificates of country of origin and of brand names of commercial goods;

In all cases of embezzlement, the public is deprived. Often, though, citizens do not know they are and do not know their legal rights. Therefore, in order to overcome embezzlement, many governments instill an independent judiciary with the legal capacity to stymie embezzlement. When public embezzlement occurs, it disturbs the balance of the national budget and cheats people of the goods and services to which they are entitled by virtue of their citizenship.

Embezzlement is a form of corruption and power abuse that can develop in more confined environments, secretly without the public's knowledge, or opportunities for public sanctions. Embezzlement presents a threat to corrupt countries, as it is sometimes one of the quickest ways to gain wealth. For example, some power-holders use their political office to build their private business interest. In some countries businesses and property are nationalized and given government officials or their families. The trend may be further expanded when a government aims to expand its privatization efforts and sells former state enterprises and parastatals under cost to friends and family members of parliamentarians, ministers or presidents.

Fraud occurs when a person cheats another through deceit. It is usually a financial crime in which someone manipulates or distorts information and facts. For example, false advertising, identity theft, illegal trade networks, counterfeiting and racketeering, forgery, smuggling, confidence tricks and other actions of deceit are

examples of fraud. In the public domain, a public official who commits fraud manipulates the flow of information for his personal profit.

In cases of extreme fraud, government employees facilitate economic crimes by “official” sanction. Even when they are not actually involved in fraudulent activities, government officials who ignore the fraud are set to be passively participating in the fraud that is committed by others.

Extortion is another example of corrupt behavior in which one person coerces another to pay through money, goods, or favors for an action. In government, extortion occurs when government agencies do not provide services quickly, and as a result individuals will offer money to make the application or service be delivered more quickly. As a result, those who pay receive preferential treatment, making the service not really public.

According to *The Economist* magazine, Rent seeking is cutting you a bigger slice of the cake rather than making the cake bigger, or trying to make more money without improved productivity. Technically speaking, that is just a part of the definition as it can manifest itself in many different ways. It is the process by which an individual, organization, or firm seeks to profit by manipulating the economic environment, rather than improving and expanding economic activity. Often times rent-seeking behavior is considered corrupt because it implies that money, or potential earnings, are reallocated in a manner that is not beneficial to or approved by all stakeholders. Rent seeking also occurs when monopoly privileges are sought, for example a major media company is engaged in rent-seeking behavior when it seeks to change the media ownership laws in its favor or against other companies because it benefits not by producing something that others want to pay for through the market, but by the force of law. When there is a redistribution of wealth by shifting the government tax burden or government spending, it is also sometimes considered rent seeking. Whether legal or illegal, as they do not create any value, rent-seeking activities can impose large costs on an economy.

Conflict of Interest as Corruption

Box 4
Examples of Conflicts of Interest

Conflicts of interest can be divided in the following manners:

- Self-dealing, in which privately held business interests collide with the public's interests, for example issues involving, outside employment, in which the interests of one job contradict another;
- Family interests, in which a close relative is employed or where goods or services are purchased from such a relative;
- Gifts or services from friends who also do business with the person receiving the gifts.

Corruption also occurs when there is a known conflict of interest between a decision-maker's policy duties and his or her personal self-interest. Even if there is no evidence of improper actions, a conflict of interest can create an appearance of impropriety that can undermine confidence in the ability of that person to act properly in his/her position. The United Nation's uses an example of how this can

happen through influence peddling in the following example: "With the intent to profit from secret information, a public official buys land in the area where a large development is planned to be built. This official votes in favor of granting permission to the real estate developer to build its project. Regardless of whether or not this project is in the best interest of the public, this official has exploited a conflict of interest for personal enrichment."

Situations for Corruption

While discussing the different types of corruption, an important distinction must be made between administrative corruption and political corruption. Administrative corruption is corruption that alters the implementation of policies, such as getting a license even if you do not qualify for it. Political corruption, on the other hand, influences the formulation of laws, regulations, and policies such as revoking all licenses and gaining the sole right to operate the beer or gas monopoly.

Levels of Corruption

It is also important to distinguish between grand corruption and petty corruption. Grand corruption involves substantial amounts of money and usually high-level

officials, while petty corruption involves smaller sums and typically more junior officials.

With grand corruption highly placed individuals exploit their positions to extract large bribes from national and transnational corporations, who appropriate significant pay-offs from contract scams, or who embezzle large sums of money from the public treasury into private bank accounts. It is also when politicians design legislation to work in their favor. Grand corruption mostly occurs in large procurement projects such as the building of roads, dams, hospitals, airports, mining, oil/gas concessions, construction projects and in arms and defense contracts, in new weapons technology, aircraft purchase, warships, and artillery pieces. Grand corruption involving public officials is referred to as kleptocracy.

Petty corruption, on the other hand, is the low level corruption that citizens will face every day in their encounters with corrupt public officials, in the struggle to obtain public services such as health care, education, paying taxes, and obtaining licenses. This type of corruption is referred to as petty because the amount of money required in petty corruption is lower. However, even though the sums are low in stand-alone cases, petty corruption will often add up to quite a large sum of money. So even in case where there is very little grand corruption with the elite, a large amount of petty corruption in the lower offices of government or outside of government can do just as much harm, if not more.

The Costs of Corruption

Corruption is damaging for the simple reason that important decisions are determined by ulterior motives with no concern for the consequences to the wider community, and its costs reach just about every sector of a government and society where corruption occurs. Even if you do not come into direct contact with corruption, it affects you. From increasing poverty to changing social norms, to environmental degradation, to impacting the economy, corruption proves a very dangerous vice that raises the costs of goods and services and increases the debt of a country.

High levels of corruption can threaten economic stability, slow down growth, weaken institutional capacity, and reduce resources available for social programs. But where institutional capacity is weak, governments cannot effectively implement their poverty eradication policies and programs. For example, if the government is unable to make accurate budget forecasts, it is hard to see how appropriate spending decisions can be made. However, corruption undermines public institutions and distracts officials from their duties.

Corruption & poverty

Corruption's impact on a nation's economy and developmental growth is great. It reduces the overall wealth in a country, often discouraging businesses from operating in the instability that defines it.

- The average income is about three times lower than in less corrupt countries.
- Reduces the amount of money the government has to pay good workers and purchase supplies for government operations.
- Distorts the way the government uses its money;

As a result, schools, health clinics, roads, sewer systems, police forces, and many other services that governments provide are worse than they would otherwise be as the government doesn't have trust, economy or the workforce to ensure that supply meets demand. Citizens are therefore less healthy, less educated, unsafe, and unable to grow their economy. In addition, corruption allows money or connections to determine whether rules or laws are enforced. For example, they can pay off judges through bribery to divert resources to their land, or pay off police to prevent personal conviction. For these reasons, corruption harms the environment and undermines trust in government.

Corruption is also an enormous contributor to poverty in a nation or community. Politically, corruption creates an environment for unsound economic policies, unpredictable processes, distorted public expenditures. In business corruption will often result in unnecessary payments and the misallocation of talent. Administrative barriers and weak property rights will also hit the poor harder. Healthcare and education are also unequally distributed due to low government revenues, poor service delivery, and less money for bribes, causing the poor to also be denied those

basic human rights due to corruption. Finally, in a corrupt environment the elite have power over judicial decisions, with decisions often made to the detriment of the poor.

Undermining Environmental Policies & Laws

Box 5

OPEC Countries	Confidence Range
Iraq	1.6-2.1
Indonesia	2.2-2.6
Iran	2.3-3.1
Kuwait	4.0-5.4
Libya	2.4-3.2
Angola	1.9-2.4
Algeria	2.7-3.6
Nigeria	2.0-2.3
Qatar	5.6-6.5
Saudi Arabia	2.2-3.7
United Arab Emirates	5.6-6.9
Venezuela	2.2-2.4

Where natural resources are abundant, the incidence of corruption appears to increase. Corruption encourages the over-exploitation of forests, fisheries, and farmlands for profit without considering the long-term impact this exploitation will have on livelihoods and the sustainability of these environmental gifts. For example of the 12 OPEC countries, only two have a confidence on Transparency

International's Corruption Perception Index beginning above a 5 from a zero to ten scale.

Most developed governments will have a policy for protecting their nation's natural resources and environment.

However, sometimes these laws are not well monitored and people are paid off to ignore the laws so that the land or resources can be over harvested at amounts that can hinder the environment, thus impacting economic growth. Even in cases where there are not national environmental policies, there are

international environmental policies, though most people do not know they are there to protect them. Finally, corruption often allows corporations to get away with *not* following the same environmental accountability standards as small companies and individuals. Instead, they manage to bypass inspections and monitoring systems by justifying that, despite the environmental harm, their business is good for the

Box 6

Examples of International Environmental Treaties

Framework Convention	Vienna Convention
Montreal Protocol	Basel Convention
Convention on Biological Diversity	Convention on International Trade in Endangered Species
UN Law of the Sea Convention	Rio Declaration
Kyoto Protocol	And many others

economy. Ultimately, though, this will hurt the economy and quality of life for the people when the environmental harm catches up with them.

Development Assistance and Aid

The relation between corruption and development assistance is somewhat paradoxical. Usually today, when development aid is granted to a needy country, it is monitored quite closely to avoid corruption. A threat for corruption occurs because development assistance provides new resources to plunder. But the problem can be more complex because when money goes in for one purpose, say improving civic education, it frees up the previously earmarked funds for another, potentially corrupt use. In addition, corruption can appear at all stages of aid from the design and bidding stages to the implementation and auditing stages. Therefore, without the pillars of good governance in place, aid effectiveness declines.

Development assistance and aid is also worth noting because with increasing frequency, development aid organizations will not give funding to a country *unless* there is a clearly stated anticorruption platform (see unit six.)

Since corruption encourages and rewards selfishness and denigrates collective action, it can be disempowering to the people and encourage their sense of alienation by undermining respect for authority and increasing cynicism about leaders at all levels of society. Corruption also impacts social and cultural norms as it discourages participation in civil society. Finally, corruption's tendency to divert resources from the poor also impacts social norms, for example, by reducing the quality of education, literacy levels and civic empowerment. As a result of corruption, researchers believe that the poor will be marginalized and social exclusion will increase.

Conclusion

This Unit looked generally at how corruption takes form and how it impacts every sector of the society that it governs. The next unit considers what causes corruption and will begin to show you appropriate responses to corruption.

Unit 1 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

1. From your experience, as parliamentarians, parliamentary staff, or as ordinary citizens explain examples of public and private corruption?
2. Provide an example of each of the major classifications of corruption, bribery, nepotism, clientelism, etc.
3. Explain how embezzlement and extortion are different.
4. How has corruption impacted your nation most markedly?

Select Bibliography

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Gray, C.W., Kaufman, D. (1998), "Corruption and development", *Finance & Development*, World Bank, Washington, DC.

Internet Resources

United Nations Manual on Anticorruption Policy

<http://www.unodc.org/pdf/crime/gpacpublications/manual.pdf>

