



THE SOURCES OF CORRUPTION

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Corruption in public and private sectors

This lecture will focus on sources of corruption in public and private sectors in the MENA [Middle East and North Africa] countries. Fittingly, I would like to start out by focusing on the definition of corruption and identifying its causes. One would suppose that understanding what corruption actually means is a prerequisite to recognizing cases of corruption when they occur. According to Transparency International, corruption is defined as follows: any act, which involves abuses of a public post in order to serve personal interests or those of others. This definition suggests that forms of corruption could be too many to be fully ascertained. Of course, as we all know, bribery, whether in cash or in kind, is the more famous form of corruption. And it is probably the most widely known, especially in developing countries. But there are other serious forms as well, such as nepotism, whether in favor of individuals or families, or favoritism, whether on political or religious or even regional grounds. Another widely spread form is abuse of public assets, such as cars. In some communities, outright extortion and blackmail is also common, which is of course a particularly serious form of corruption.

Causes of corruption: the demand side

So much for understanding of what corruption could look like. But how about its causes and predisposing factors? Obviously, the causes vary from one case to another, but broadly speaking the causes of corruption can be classified into two major categories: those relating to the demand side, and those relating to the supply side. Let me start by discussing those causes on the demand side. These include a [range] of dismal socio-economic factors such as poverty, ignorance, and severe unemployment. In some cases, corruption is prompted by the limited supply of public services and utilities, which may drive people to use devious means to access those services. They bribe officials. Another factor could be the presence of huge disparities in income between people in the same community.

The problem of bribery in business conduct

A widely common cause, also, on the demand side of corruption is when businessmen seek vital services through corrupt means. In some cases, it could be that the requested services are illegal. Alternatively, it could be that applicants are not eligible to receive those services. In either case, many businessmen get the service they need simply by



paying for it. I mean this, of course, is a very serious violation of business ethics. It may take several forms and the common name is that this is bribery. As we talk about the business community, one very common form of corruption is bribery in tendering. Ironically, such kinds of illegal payments are often disguised under more respectful names describing them as commissions or consultancy fees. But it is clear that in reality these are simply bribes. Yet it is shocking to admit that they are becoming increasingly common and enter even at the international business level. In fact, it is noted that in some cases boards of directors in major companies and CEOs go as far as recruiting people on the basis of how far they can bend in order to accommodate the whims of the boards of directors, and how they could get involved in murky financial and banking operations.

Causes of corruption: the supply side

Okay, so much for the causes on the demand side, but how about the causes on the supply side? Again, there are several such causes. One of the most widely common causes in the public sector is that public sector [employees] are underpaid. They are terribly underpaid in some countries and their salaries are too low, especially when compared with the private sector. So their low income prompts some public sector officials to corruption. This is noted also, in particular, at the higher echelons in the government. And in the private sector, it provides strong excuses for workers in the lower echelons to follow suit, whether they are in the public sector institutions or the private sector.

Other contributing factors

Another factor is weak oversight institutions. This is very important because weaknesses in oversight institutions pave the way to making corruption easier. Corruption is also greatly facilitated by having weak and un-independent judiciary, or by having ineffective or even non-existent legislative bodies, like in Palestine at the present. The absence of effective civil society organizations is another predisposing factor, like in most countries of the MENA region. Here I should note one exception: Palestine. I mean I think that Palestine has got a vibrant civil society, far more than any country in the MENA region.

Cultural and systemic obstacles

But in addition to the problems we have highlighted, whether on the demand or on the supply side, one should also admit that there are problems coming from certain distortions in the local cultures and political systems in those countries. [Due to these distortions] they have become more vulnerable to corruption. For instance, just to make you understand what we are talking about, strong family connections and tribal loyalties are an important cause of corruption in many countries in the region. I mean this kind of loyalty of the public sector worker to his family, to his tribe makes him more vulnerable to corruption.



Other factors contributing to corruption

The predominance of ineffective and unfree media is also another key factor. The countries of the region here, again with very few exceptions, notably Palestine, do not have a free press by any definition. One very serious cultural distortion, which is rather specific to the Gulf countries – I hesitate to name any one of them – is the deep-rooted sense of ownership. In those countries, the ruling families own the wealth of the country. I mean this is amazing, this is absurd. And you don't find this anywhere in the world that the rulers own the wealth. I think this is also a major factor, cultural factor, in making those countries more vulnerable to distortion.

Cost of corruption

Okay, so much for the causes of corruption. How about the cost of corruption? It is undoubtedly very high and multifaceted. The following is only a partial list of the bitter harvest. To start out, at the firm level, corruption causes loss of revenue. And it leads to inefficient use of scarce resources. But at the broader level, it leads to societal deterioration, which could take a multitude of forms, such as frustration, hopelessness, and widespread survivalist forms of behavior. The second becomes like the first, and survival is the name of the game. These distortions have reflected heavily on work ethics: they caused loss of interest and the waning of performance among public sector workers. But probably more importantly it has imparted devastating consequences on the investment climate in those countries.

The devastating impact of corruption

The overriding conclusion here is that the impact of corruption is devastating not only on an investment climate, but it is also devastating a country's political stability. We noticed that because of corruption these regimes have become increasingly paranoid and their level of corruption gets worse and worse. They start compromising on democracy because they institute reforms, which, in effect, are not reforms. I mean they just plunge deeper into corruption. And it paves the way to petty loyalties and back-scratching patterns of relations in the society. With this kind of bitter harvest, one should expect that corruption is ultimately conducive to social unrest and political upheavals.

How to fight corruption

Let's now turn to something more positive, how to fight corruption. We have talked about the consequences of corruption. How to fight corruption? Let's start with the public sector. What is needed first and foremost is a clear and firm commitment at the leadership level. This constitutes an indispensable basis to the anti-corruption strategy in any country because it helps achieve the following: it establishes appropriate institutions; it promulgates required legal frameworks; and it promotes a credible anti-corruption



culture. The commitment at the top, as you know, is important, but not enough. Another vital prerequisite is removing the incentives for corruption. Here we talk about a wide range of policies and measures.

The need for better public sector governance

Foremost is improving governance in public sector institutions, especially those which provide utilities and licenses. Among other things, this should lead to enforcing transparency and accountability in those public sector institutions. Another policy target is eliminating, or at least reducing distortions in the salary scale of public sector servants because this, like we noted earlier, is conducive to corruption. One indispensable element in the anti-corruption recipe, or strategy, is installing effective programs to address poverty and minimize income disparities. Fighting corruption also requires installing appropriate monitoring institutions such as monitoring parliamentary committees, or oversight financial and administrative bureaus, or boards, as they are called differently in different countries. These should play a key role in the monitoring process. No less important is to activate the role of internal auditors in public sector institutions. That's very important.

The need for effective judiciary

But monitoring bodies will be useless without creating effective judiciary systems. Whitewash in institutional judiciary reform is useless. You can have the best court buildings, the best computers – that is not enough. It is not enough to create an effective judiciary. You need an independent judiciary system, a system, which has to be constantly monitored by the media and by the legislative bodies.

Fighting corruption in the private sector

As you can see, we have talked so far about fighting corruption in public sector institutions, but this is not enough. We have to talk about reform also in private sector institutions. The private sector has its own obligation and it has its own homework to do. Business firms and business institutions have to do a lot in this connection. The basic requirement here lies in modernizing their corporate governance structures and complying with modern governance and business ethics. Most importantly, this should entail a clear commitment to financial and administrative transparency, including the setting of an effective system of internal audit, which is viewed, in fact, as a front line of defense in these institutions. The role of external auditors is also critical. External auditors should be qualified and probably most importantly, they should be commissioned properly, i.e. by the general assemblies and not by executive directors. It's also important that they – I mean external auditors – comply with recognized international standards, not just local standards.



Conclusion

Let me now conclude my lecture by emphasizing an overarching conclusion. In order to get to the desired reform end, i.e. fighting corruption, we have to institute fundamental reforms. And the underpinnings of the reform package is having real reform ethics in the society, not only mechanical recipe of doing this and doing that. The business community has to develop the reform culture and to believe in the reform culture; otherwise the reform process will be stalled indefinitely. Thank you.

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