CHAPTER 2

A CONCEPTUAL FRAMEWORK-CONTRIBUTION OF NATIONAL AND INTERNATIONAL BODIES

2-1. HISTORY

Two thousand years ago, Kautilya, the prime minister of an Indian king, had already written a book, ‘Arthashastra’ says:¹

‘[The King] shall protect trade routes from harassment by courtiers, state officials, thieves and frontier guards ... (and) frontier officers shall make good what is lost ... Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the King's wealth’.

Hence, there is no clear evidence that corruption has become more widespread today. It has been around, in one form or another, from the earliest days of social organisation. What has changed is that information about corrupt practices has become more available as governments have become increasingly unable to conceal evidence of wrong-doing; the level of public tolerance for corruption has declined; and the spread of democracy seems to afford less fertile ground in which corruption can flourish.

The growth of both the Internet and media conglomerates that are less fearful of taking on repressive regimes has forced

¹ From the treatise The Arthashastra, by Kautilya (chief minister to the king in ancient India), circa 300 B.C -150 A.D.
corruption out into the open. In numerous countries, vigorous media campaigns have helped keep corruption front and centre in the public eye.

Corruption therefore has an old history. Seven centuries ago ‘Dante’ placed the corruption in the deepest parts of Hell, reflecting the distaste for corrupt behaviour. Shakespeare also gave corruption a prominent role in some of his plays. Machiavelli, Montesquieu, Rousseau, Bentham and other philosophers commented on destructive role of corruption. Machiavelli believed that, corruption weakens ethics and righteousness amongst the people and resultanty creates many problems for the communities. Ibn-e-Khaldoon is also another scientist who has discussed about corruption and believed that, strong desire of rulers to luxurious life causes corruption. He states that, luxury lives oblige them to be corrupt.

Accordingly, studying the ancient civilizations reveals that corruption in the human communities is as old as the civilization itself and now is one of the serious problems for the states. Hence, the issue of corruption has been continuously a problem in the mind of the thinkers and elites and they were always searching to find proper ways for preventing it.

2-2. CONCEPT OF CORRUPTION

Corruption has different meanings in deferent societies. One person’s bribe in some societies is another person’s gift in others. A politician or political leader or public official who helps friends, family members, and supporters may seem praiseworthy in some societies and corrupt in others. Therefore,

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2 - Ibn-e-Khaldoon (700-770 AD), the Arabic and Islamic Scholar and Philosopher.
corruption means many things to many people. It not only varies from country to country, but also from one time to another in the same country.

The Oxford English Dictionary says, the word ‘corrupt’ means “influenced by bribery, especially at the time of election”\(^3\). Encyclopaedia Britannica also says a corrupt practice “includes bribery; but has reference to the electoral system”\(^4\).

Tanzi (1994)\(^5\) stated that, the term corruption comes from the Latin verb rumpere -to break-. What is ‘broken’ might be a moral, a social norm or an administrative rule. According to Tanzi, corruption as the “intentional non-compliance with the arm’s length principle aimed at deriving some advantage for oneself or for individuals from this behaviour”.

The principle of arm’s-length demands that, in decision-making, personal or any other relationships between participants in the exchange do not have any influence. This principle is part of the functioning of a perfect market, which is, by definition, depersonalised.

Based on Tanzi’s definition, it can be concluded that there are two necessary conditions so that the violation of the arm’s-length principle can be defined as corruption. First, it is necessary that intent exists accidental undermining of impartiality because, for example, imperfect information, does not represent corruption. Secondly, it is necessary that as a

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result of the named impartiality there is the seizing of a certain benefit, or an acquirement of personal gain. Undermining of impartiality because of, for example, the colour of the skin of the participant in the transaction represents racism, not corruption.

Klitgaard (1988)⁶ also defines corruption as “[A corrupt official] deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain private-regarding behaviour.”

In this connection, Heidenheimer (1989)⁷ defines corruption by three approaches: public office-centred, market-centred, and public interest-centred. He has illustrated these three approaches with the help of authors of corruption-literature.

Public Office-centred corruption: Corruption is ‘behaviour which deviates from the formal duties of a public role because of private-regarding (close family, personal, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence’.

Market-centred corruption: ‘a corrupt civil servant regards his (public) office as a [separate] business, the income of which he will seek to maximize. The office then becomes a — maximizing unit. The size of his income depends upon the

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market situation and his talents for finding the point maximal gain on the public’s [or clients’] demand curve’.

Public Interest-centred corruption: ‘The pattern of corruption can be said to exist whenever a powerholder who is charged with doing certain things, i.e., who is responsible functionary or officeholder, is by monetary or other rewards not legally provided for, induced to take actions which favour whoever provides the rewards and thereby does damage to the public and its interests’.

According to Asian Development Bank (ADB)\(^8\) these definitions are useful but they do not give adequate attention to the problem of corruption in the private sector or to the role of the private sector in fostering corruption in the public sector. As a shorthand definition, ADB defines corruption as the abuse of public or private office for personal gain. According to (ADB), a more comprehensive definition is as follows: “Corruption involves behaviour on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed”\(^9\).

2-3. INTERNATIONAL PERSPECTIVES OF CORRUPTION

Until the 1980s analysts and observers saw corruption as being prevalent mostly in the developing countries, and recognized it as something that undermined development. However, corruption is now becoming an important issue around

\(^8\) - http://www.adb.org/Documents/Policies/Anticorruption/anticorrupt300.asp?p=policies(6/12/05)
\(^9\) - http://www.adb.org/Documents/Policies/Anticorruption/anticorrupt300.asp?p=policies (6/12/05)
the world, regardless of whether countries are developing, developed or industrial.

The World Bank, the United Nation, the Council of Europe, the Organization for Economic Cooperation and Development (OECD), the European Community and a number of international anti-corruption organizations defines corruption as “an abuse of official position for one’s own benefit or for the benefit of another”. Abuse means not only active or passive bribery but any other request, solicitation, intermediation, promise, provocation to bribery or the acceptance of a gift or any other advantage by a public official in undue consideration for the fulfilment or failure to fulfil his official duties.

The following international conventions against corruption have also defined corruption as follows:

**1) Inter-American Convention**\(^{10}\)

The Inter-American Convention Against Corruption (OAS Convention) was the first international anti-corruption Convention when it was adopted in 1996 by the member states of the OAS. It represents regional consensus about what states should do in the areas of prevention, criminalisation, international cooperation and asset recovery. The OAS Convention defines corruption as follows:

a) The solicitation or acceptance, directly or indirectly, by a government official or a person who performs public functions, of any article of monetary value, or other benefit, such as a gift, favour, promise or advantage for himself or for another person

or entity, in exchange for any act or omission in the performance of his public functions;

b) The offering or granting, directly or indirectly, to a government official or a person who performs public functions, of any article of monetary value, or other benefit, such as a gift, favour, promise or advantage for himself or for another person or entity, in exchange for any act or omission in the performance of his public functions;

c) Any act or omission in the discharge of his duties by a government official or a person who performs public functions for the purpose of illicitly obtaining benefits for himself or for a third party;

d) The fraudulent use or concealment of property derived from any of the acts referred to in this article; and

e) Participation as a principal, co-principal, instigator, accomplice or accessory after the fact, or in any other manner, in the commission or attempted commission of, or in any collaboration or conspiracy to commit, any of the acts referred to in this article.

2) Convention on the fight against corruption involving officials of the European Communities or officials of the European Union (1997)\textsuperscript{11}

The aims of this convention that were to 1) harmonise criminalisation of active corruption (by the briber) and passive corruption (by the official taking a bribe), in all of the EU

countries; 2) strengthen legal co-operation between the member states in the fight against corruption and to remedy problems of overlapping or non-existent jurisdiction, has defined corruption as follows:

a) The deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties constitutes passive corruption.

b) The deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official for himself or for a third party for him to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties constitutes active corruption.

3) Convention on combating bribery of foreign public officials in International Business Transaction (1997)\textsuperscript{12}

The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, adopted by the Organisation for Economic Cooperation and Development, has defined corruption as “intentionally offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in

\textsuperscript{12} \url{http://www.oecd.org/ocde/oeicd-oeecd-con.html} (19/11/05).
order to obtain or retain business or other improper advantage in the conduct of international business”.

4) **Criminal Law Convention (1999)**\(^{13}\)

The Criminal Law Convention on Corruption, adopted by the Committee of Ministers of the Council of Europe on 27 January 1999, has given a more precise definition of corruption. In this certificate, corruption has been divided into; a) Active bribery of domestic public officials b) Passive bribery of domestic public officials c) Bribery of members of domestic public assemblies d) Bribery of foreign public officials e) Bribery of members of foreign public assemblies f) Active bribery in the private sector g) Passive bribery in the private sector h) Bribery of officials of international organizations i) Bribery of members of international parliamentary assemblies j) Bribery of judges and officials of international courts k) Trading in influence l) Money laundering of proceeds from corruption offences, and m) Account offences.

5) **Civil Law Convention (1999)**\(^{14}\)

The Civil Law Convention on Corruption, adopted by the Committee of Ministers of the Council of Europe on 4 November 1999, defines corruption as "requesting, offering, giving or accepting, directly or indirectly, a bribe or any other undue advantage or prospect thereof, which distorts the proper performance of any duty or behaviour required of the recipient of the bribe, the undue advantage or the prospect thereof”.

\(^{13}\) - http://www1.umn.edu/humanrts/euro/ets173.html (19/11/05).

6) United Nation Convention Against Transnational Organised Crime (2000)\(^{15}\)

United Nation Convention against Transnational Organised Crime on 12 December 2000 with its purpose to promote international police and judicial cooperation to prevent and combat transnational organised crime, in addition to other crimes, has also defined corruption as follows:

a) The promise, offering or giving to a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties;

b) The solicitation or acceptance by a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties.

7) African Union Convention on Preventing and Combating Corruption (2003)\(^{16}\)

The African Union Convention on Preventing and Combating Corruption, adopted by the Heads of State and Government of the African Union on 12 July 2003 held with the following objectives: 1) Promote and strengthen the development in Africa by each State Party, of mechanisms required to prevent, detect, punish and eradicate corruption and

\(^{15}\) [http://www.arabhumanrights.org/cbased/ga/organized-crime00e.html](http://www.arabhumanrights.org/cbased/ga/organized-crime00e.html) (19/11/05).

related offences in the public and private sectors. 2) Promote, facilitate, and regulate cooperation among the State Parties to ensure the effectiveness of measures and actions to prevent, detect, punish and eradicate corruption and related offences in Africa. 3) Coordinate and harmonize the policies and legislation between State Parties for the purposes of prevention, detection, punishment and eradication of corruption on the continent; recognized the following acts as corruption:

a) The solicitation or acceptance, directly or indirectly, by a public official or any other person, of any goods of monetary value, or other benefit, such as a gift, favour, promise or advantage for himself or herself or for another person or entity, in exchange for any act or omission in the performance of his or her public functions;

b) The offering or granting, directly or indirectly, to a public official or any other person, of any goods of monetary value, or other benefit, such as a gift, favour, promise or advantage for himself or herself or for another person or entity, in exchange for any act or omission in the performance of his or her public functions;

c) Any act or omission in the discharge of his or her duties by a public official or any other person for the purpose of illicitly obtaining benefits for himself or herself or for a third party;

d) The diversion by a public official or any other person, for purposes unrelated to those for which they were intended, for his or her own benefit or that of a third party, of any property belonging to the State or its agencies, to an
independent agency, or to an individual, that such official has received by virtue of his or her position;

e) The offering or giving, promising, solicitation or acceptance, directly or indirectly, of any undue advantage to or by any person who directs or works for, in any capacity, a private sector entity, for himself or herself or for anyone else, for him or her to act, or refrain from acting, in breach of his or her duties;

f) The offering, giving, solicitation or acceptance directly or indirectly, or promising of any undue advantage to or by any person who asserts or confirms that he or she is able to exert any improper influence over the decision making of any person performing functions in the public or private sector in consideration thereof, whether the undue advantage is for himself or herself or for anyone else, as well as the request, receipt or the acceptance of the offer or the promise of such an advantage, in consideration of that influence, whether or not the influence is exerted or whether or not the supposed influence leads to the intended result;

g) Illicit enrichment;

h) The use or concealment of proceeds derived from any of the acts referred to in this Article; and

i) Participation as a principal, co-principal, agent, instigator, accomplice or accessory after the fact, or on any other manner in the commission or attempted commission of, in any collaboration or conspiracy to commit, any of the acts referred to in this article.
8) United Nations Convention Against Corruption (2003)\(^{17}\)

The purposes of this Convention were to: 1) promote and strengthen measures to prevent and combat corruption more efficiently and effectively; 2) promote, facilitate and support international cooperation and technical assistance in the prevention of and fight against corruption, including in asset recovery; 3) promote integrity, accountability and proper management of public affairs and public property. This convention has defined corruption as follows:

a) The promise, offering or giving, to a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties;

b) The solicitation or acceptance by a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties.

2-4. TYPOLOGY OF CORRUPTION

As there is no universally accepted definition of corruption, likewise there is no universally valid typology of corruption. The literature on corruption is filled with a wide variety of classifying corruption. The way corruption comes in different forms, shapes and sizes implies complications involved in designing anti-
corruption strategies. Some common types of corruption can be classified into the following categories:

a) Classification based on its distinct forms

The first classification of corruption is based on its distinct forms, namely, bribes, speed money, extortion, influence peddling, fraud, embezzlement, nepotism, and favouritism. These forms of corruption go into the basic definition of corruption.

"Bribery" is the payment (in money or kind) that is given or taken in a corrupt relationship. A bribe is a fixed sum, a certain percentage of a contract, or any other favour in money of kind, usually paid to a state official who can make contracts on behalf of the state or otherwise distribute benefits to companies or individuals, businessmen and clients. There are many equivalent terms to bribery, like kickbacks, gratuities, "commercial arrangements", sweeteners, pay-offs, speed- and grease money, which are all notions of corruption in terms of the money or favours paid to employees in private enterprises, public officials, and politicians.

"Embezzlement" is theft of resources by people who are put to administer it; it is when disloyal employees steal from their employers. This is a serious offence when public officials are misappropriating public resources, when state official steals from the public institution in which he or she is employed and from resources he is supposed to administer on behalf of the public.
“Favouritism” is a mechanism of power abuse implying “privatisation” and a highly biased distribution of state resources, no matter how these resources have been accumulated in the first place. Favouritism is the natural human proclivity to favour friends, family and anybody close and trusted. Favouritism is closely related to corruption insofar as it implies a corrupted (undemocratic, “privatised”) distribution of resources. In other words, this is the other side of the coin where corruption is the accumulation of resources.

Nepotism is a special form of favouritism, in which an office holder (ruler) prefers his proper kinfolk and family members (wife, brothers and sisters, children, nephews, cousins, in-laws etc.). Many unrestricted presidents have tried to secure their (precarious) power position by nominating family members to key political, economic and military/security positions in the state apparatus.

“Fraud” is an economic crime that involves some kind of trickery, swindle or deceit. Fraud involves a manipulation or distortion of information, facts and expertise, by public officials positioned between politicians and citizens, who seeks to draw a private profit. According to Eskeland and Thiele (1999)\(^\text{18}\), fraud is when a public official (agent), who is responsible for carrying out the orders or tasks assigned by his superiors (principal), manipulates the flow of information to his private profit; hence the widely used principal-agent or incentive theory employed by economists to study this phenomenon.

Fraud is a broader legal and popular term that covers more than bribery and embezzlement. It is fraud for instance when state agencies and state representatives are engaged in illegal trade networks, counterfeit and racketing, and when forgery, smuggling and other organised economic crime is propped up by “official” sanction and/or involvement. It is fraud when politicians and state agents take a share for closing their eyes on economic crimes, and it is serious fraud when they have an active role in it.

"Extortion" is money and other resources extracted by the use of coercion, violence or the threats to use force. Blackmailing and extortion are corrupt transactions where money is violently extracted by those who have the power to do it, but where very little is returned to the “clients” (perhaps only some vague promises of exception from further harassment).

"Straddling", the process by which some power-holders systematically use their political office to enter into, secure and expand their private business interests, should be regarded as another form of embezzlement. In some countries the political elite has nationalised foreign businesses, property and monopoly rights, and redistributed these to the members of the ruling families.

"Protection" or "security" money can be extorted in the classical -well-known mafia style- where organised criminals use insecurity, harassment and intimidation to extort money from individual citizens, private businesses and public officials. Corruption in the form of extortion is usually understood as a form of extraction “from below”, by mafias and criminals.
Corrupt practices of this kind can, however, also be “from above”, when the state itself is the biggest mafia of them all. This is for instance when the state, and in particular its security services and paramilitary groups, extorts money from individuals, groups, and businesses. With more or less concealed threats, taxes, fees, and other resources extracted from travellers, market vendors, transporters and other private sector businesses.

Furthermore, various state officials may extract “under the table” fees and “gifts” from individual citizens as they approach the state as clients, customers, patients, school children etc. These practices may be interpreted as “informal” forms of taxation.

b) Political versus Administrative corruption

Heywood (1997)\textsuperscript{19} for defining the political corruption stated that, “it would be impossible to develop one generalizable and uncontested definition of political corruption”, and also “any definition of corruption presupposes a notion of “uncorrupt” politics”.

However, Transparency International (2004)\textsuperscript{20} defines political corruption as “abuse of entrusted power by political leaders for private gain, with the objective of increasing power or wealth. Political corruption need not involve money-changing hands; it may take the form of ‘trading in influence’ or granting favours that poison politics and threaten democracy”.

Therefore, political corruption is any transaction between private and public sector actors through which collective goods are illegitimately converted into private-regarding payoffs. Political corruption is often used synonymously with "grand" or high level corruption, distinguished from bureaucratic or petty corruption, because it involves political decision-makers. Political or grand corruption takes place at the high levels of the political system, when politicians and state agents entitled to make and enforce the laws in the name of the people, are using this authority to sustain their power, status and wealth.

Gould (1991)\textsuperscript{21} defines administrative corruption as "the institutionalised personal abuse of public resources by civil servants".

There are two quite separate categories of administrative corruption: the first occurs where, for example, services or contracts are provided "according-to-rule" and the second, where transactions are "against-the-rule"\textsuperscript{22}.

In the first situation, an official is receiving private gain illegally for doing something which he or she is ordinarily required to do by law. In the second situation, the bribe is paid to obtain services which the official is prohibited from providing. "According-to-rule" and "against-the-rule" corruption can occur at all levels of the government hierarchy and range in scale and impact from "grand corruption" to small scale varieties.


\textsuperscript{22} -http://www.transparency.org/sourcebook/01.notes.html.note9.
Administrative corruption in which individuals or groups provide illicit gains to public officials, in exchange for advantages created by intentionally distorting the implementation of existing laws, rules and regulations. Administrative corruption takes such forms as (i) the exchange of bribes for the unlawful granting of licenses, state bank loans, privatisation awards, court judgments, and infrastructure contracts; (ii) “grease payments” to secure permits, customs clearance, and government services to which the payer is entitled; and (iii) the misdirection of public funds by state officials for their own, families’, or friends’ benefit.

Political or grand corruption takes place at the highest levels of political authority. It is when the politicians and political decision-makers (heads of state, ministers and top officials), who are entitled to formulate, establish and implement the laws in the name of the people, are themselves corrupt. According to Doig and Theobald (2000), with grand corruption we are dealing with highly placed individuals who 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 (often overseas) bank accounts. Political corruption is furthermore when policy formulation and legislation are tailored to benefit politicians and legislators.

Political corruption can thus be distinguished from administrative corruption, which is corruption in the public administration, at the implementation end of politics. This “low

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level‖ or ―street level‖ corruption is what citizens will experience daily, in their encounter with public administration and services like hospitals, schools, local licensing authorities, police, customs, taxing authorities and so on. The sums involved are rather modest (adjusted to local conditions), and therefore administrative corruption is frequently referred to as routine or “petty”. Even so, the sums involved may be considerable in particular cases and in aggregated terms.

The distinction between political and administrative corruption is rather ambiguous. It depends on the Weberian separation of politics from administration, which has proved difficult to implement in most poor countries and hence is difficult to observe. The distinction is nevertheless important in analytical terms. Political corruption is namely something more than a deviation from formal and written legal norms, from professional codes of ethics and court rulings. Political corruption is when rulers abuse laws and regulations, or side step, ignore and tailor laws and regulations to benefit their private interests. It is when the legal bases, against which corrupt practices are usually evaluated and judged, are weak and furthermore subject to downright encroachment by the rulers.

In some cases, political corruption might take place on arenas without the general public coming across it in their daily lives, or even knowing about it. Political corruption might be incidental, controlled or concealed, as in most consolidated liberal democracies. Likewise, administrative corruption may take place at the implementation end of public administration
without necessarily being a part of the political system or having political repercussions.

At the same time, administrative corruption and political corruption tends to go along and to be mutually reinforcing. Political corruption is usually supported by widespread bureaucratic or petty corruption, in a pyramid of upward extraction. And corruption in high places is contagious to lower level officials, as these will follow the predatory examples of, or even take instructions from, their principals.

Graft and rent seeking are not diseases that the responsible politicians are eager to avoid, but a deliberately applied practice. Administrative or bureaucratic corruption can be controlled and restricted when there is a political will and political ability to implement the necessary regulations. History shows a number of successful controls on corruption in liberal democratic countries, where bureaucratic corruption is curbed through auditing, legislation and institutional reforms. In most liberal democratic countries, political corruption is of an incidental and occasional nature, and is dealt with within the existing political system; by reforming, strengthening and vitalising the existing political, judicial and administrative institutions of checks and balances.

In countries with systemic political and administrative corruption, the formal legal framework of the state is insufficient as terms of reference to assess and judge the problem of corruption. Thus, the degenerative effects of political corruption cannot be counteracted by a legalistic or administrative approach alone. Moral, normative, ethical, and indeed political
benchmarks will have to be brought in. Endemic corruption calls for radical political reforms, a system of checks and balances, and deep democratisation.

Political corruption is an obstacle to transparency in public life. In established democracies, the loss of faith in politics and lack of trust in politicians and parties challenge democratic values, a trend that has deepened with the exposure of corruption in the past decade. In transition and developing states, political corruption threatens the very viability of democracy, as it makes the newer institutions of democracy vulnerable.

Political corruption not only leads to the misallocation of resources, but it also perverts the manner in which decisions are made. Political corruption is when the rulers abuse the laws and regulations, side-stepped, ignored, or even tailored to fit their interests. It is when the legal bases, against which corrupt practices are usually evaluated and judged, are weak and furthermore subject to downright encroachment by the rulers. Therefore, the political corruption is so that no country in the world seems to be immune from it. The problem includes a wide range of acts committed by political leaders before, during and after leaving office.

c) Classification based on volume of corruption

The second popular mode of classification is "petty corruption" vs. "grand corruption". Petty corruptions are also called "speed money" given to speed up or delay the delivery of public services and usually occur at the bottom of the bureaucracy or at the point of service delivery.
Grand corruption takes place at the top level and therefore involves substantial payoffs. World Bank classification of petty corruption and grand corruption is "administrative corruption" and "state capture". If administrative corruption takes place at the time of policy implementation, state capture takes place at the time of policy formulation. The “vested interest groups” capture the policies, laws, rules and regulations and the common people living at the bottom have little idea of this corruption at the top. This classification is also close to bureaucratic corruption vs. political corruption.

“State capture corruption” is the provision of illicit favours to politicians in order to influence the formulation of laws, regulations and policies, so as to secure special advantages.

By contrast, “administrative corruption” refers to the use of illicit favours to distort the implementation of existing policies. This distinction underlies the World Bank’s analysis of corruption challenges and priorities in the transition countries, categorized according to their level (high or medium) of these two broad types of corruption. Thus, in the high state-capture countries, the concentrated power of economic interests obstructs reform and restricts access to policymaking processes.

d) Classification based on systemic and systematic

Another typology is "systemic corruption" vs. "systematic corruption". Systematic corruption is an organized crime, very much like mafia. Systemic corruption is endemic to the system. The difference between the two is that in case of systematic corruption you can eliminate corruption by eliminating the
actors or corruptors while in case of systemic corruption you cannot do that. Corruption continues to thrive even after you remove the corruptor. It is because corruption is endemic to the system.

e) Classification based on Good versus bad corruption

According to Leff (1964)\textsuperscript{24} and Lui (1985)\textsuperscript{25}, corruption can be good if it allows businesses to circumvent bureaucratic obstacles that impair market efficiency by "buying" less red tape. Kaufmann and Wei (2000)\textsuperscript{26}, point out that these models are partial equilibrium models that fail to take into account the fact that bureaucrats may control both the regulatory burden and the delay; accordingly, firms that pay bribes would not necessarily face less harassment.

f) Active versus passive corruption

Active corruption or 'active bribery' is the offence committed by the person who promises or gives the bribe; as contrasted to 'passive bribery', which is the offence, committed by the official who receives the bribe. Active bribery is the supply side, passive bribery the demand side.

According to the Treaty on European Union, Criminal Law Convention on Corruption, active bribery is also the "deliberate action of whosoever promises, offers or gives, directly or through an intermediary, an undue advantage of any kind

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whatsoever to a person, for himself or for a third party, in the
course of the business activities of that person in order that the
person should perform or refrain from performing an act, in
breach of his duties". Similarly, passive corruption is "the
deliberate action of a person who, in the course of his business
activities, directly or through an intermediary, requests or
receives an undue advantage of any kind whatsoever, or
accepts the promise of such an advantage, for himself or for a
third party, for him to perform or refrain from performing an
act, in breach of his duties".

**g) Centralized versus decentralized corruption**

According to Lien, Campos and Pradhan (1999)\(^ {27} \), one
strand of literature argues that corruption does less harm if it is
centralized. Centralized corruption is more predictable and if
businesses can predict the amount that they must pay in bribes,
they can factor it in as any other tax; it is the unpredictability
that cripples business. Shleifer and Vishny (1993)\(^ {28} \) argue that
a centralized authority that determines the amount taken in
bribes will limit bribe amounts so as not to destroy businesses,
which would lower long-term revenue.

**h) Professional corruption and Amateur corruption**

There is professional corruption (predictable corruption)
and amateur corruption (unpredictable corruption). In
predictable corruption you give bribe and you get your services.

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In unpredictable corruption you cannot be sure of service delivery even when you pay bribe.

Researches after research have shown that there is little harm with predictable corruption, though corruption itself is a bad term. It is the unpredictable corruption that had serious impact on the economy. Unpredictable corruption is more dangerous because even when you had paid bribe, you are not sure of service and moreover, you spent sleepless nights thinking that you may be blackmailed for your actions in future.

i) Corruption “according to rule" and "against the rule”

Corruption "according to rule" and corruption "against the rule" is another mode of classification. Similarly, corruption "according to greed" and corruption "according to need" is a subtle way of legitimising corruption. Corruption according to need may further be classified into cultural and business necessity.

Some other popular modes of classification are: by economic functions (procurement, construction, delivery of services etc.), by their location (judiciary, executive, media, civil society, private sector), by the methodology adopted (political connections, nepotism, favouritism, blackmailing, and bribes), by international scale (kickbacks, commissions, money laundering) and by the involvement of the actors (individual vs. institutional corruption).
j) Classification based on elite and mass opinion

Heidenheimer (1989)\textsuperscript{29} has outlined “shades” of corruption, ranging from white through grey to black, depending upon patterns of elite and mass opinion in several kinds of communities. Black corruption is when; it is disgusting in elites and mass opinion, grey corruption is when; it is disgusting in elites opinion, but mass is irrespective about it, and white corruption is when; elites and mass don’t know it as harmful as protest against it.

k) Classification based on national and international

The base of this classification is geographical district of corruption. Some of the corrupt behaviours are limited to the national borders such as bribery and embezzlement in public sector in country and some of the corruptions happen in borders of two or some countries.

l) Corruption in public and private sector

When the public sector is oversize and is dominant on the economy, most corrupt practices are in public sector, but some of the corrupt behaviours are also seen in the private sector; such as smuggling, fraud, fabricating, disrupting in the economic system, etc.

2-5. POLITICAL AND ECONOMIC PERSPECTIVES ON CORRUPTION

Review on literature shows that the issue of corruption has re-entered the current political science debate from the new interest in the role of the state in the developing world, and from the assumption that the state is an indispensable instrument for economic development, redistribution and welfare. In contrast to the largely rejected “state-dominated” and “state-less” development models, there is now much consensus on the need for an efficient medium-sized state apparatus with a political will and adequate economic policies to ensure economic development. More specifically, any assessment of corruption must take a country’s political dimensions into account (Hope 2000)\textsuperscript{30}.

In recent years, economic explanations of corruption have been the most cited and probably also the most influential for policy formulations. However, corruption has also attracted much attention from other social sciences, in particular from political scientists, and more recently from sociologists and anthropologists. To understand corruption, the political factors cannot be ignored.

Taking the political factors into account, political science has approached the phenomenon of corruption in terms of regime type and searched for its causes in authoritarianism versus democracy and in development-oriented regimes versus neopatrimonial rule. Besides, corruption has also been looked at

according to institutional characteristics like the balance of power between the state institutions, judicial independence and the strength of the parliament in counterbalancing the executive branch, different models of hierarchy and bureaucracy including the effect of the numerous civil service reforms, and power de-concentration efforts like privatisation, deregulation and decentralisation. Furthermore, in the struggle against corruption, various institutional control mechanisms have been evaluated, like parliamentary control, executive control, internal bureaucratic controls, audit and watchdog-bodies.

Much of the political science literature on corruption has thus focussed on broad issues of democratisation. Within this broad perspective, three basic mechanisms have been suggested: to strengthen the democratic institutions (including parliaments, judiciaries and the specialised bodies for political participation, supervision and control); to strengthen the civil society (including the media), and general public sector reforms. In political science, the literature on democratisation and institutional reform abounds, although with few contributions on corruption as such, but a number of political science studies have made institutional assessments of anti-corruption agencies, commissions and other specialised bodies of corruption control, in order to evaluate their impact on corruption.

Political science studies of corruption may to some extent be categorised according to their focus on formal or informal aspects of power and political organisation. Political science has traditionally focussed on the formal aspects and institutions of power, and most political science studies of corruption until the
mid 1970s can be labelled classical political science approaches within the school of modernisation, with its roots back to the traditional/modern dichotomy of the mid-20th century development studies. These studies have an explicit focus on the formal state institutions necessary for development and economic “take-off”. Modernisation meant state building and institutional engineering of a kind that could promote industrialisation and economic growth, and the institutions required (and studied) were largely the economic policy oriented institutions. Myrdal (1968)\textsuperscript{31} believes that corruption was seen as caused by an incomplete or unfinished process of modernisation, as the remaining “traditionalism” of modernising countries.

\textbf{2-5-1. Type of political system and corruption}

Studies show that there is significant relationship between the type of government and level and prevalence of corruption in countries. But this relationship is far from simple and there is no straightforward correlation between levels of democracy and levels of corruption. This is partly because both corruption and democracy are contested concepts and difficult to measure. In this connection, the Corruption Perception Index consistently shows that the countries, which appear to be the least corrupt, are all long established democracies. (Appendix 1)

Heywood (1997)\(^{32}\) believes that, “in non democracies, the lack of formal independent mechanisms whereby power can be meaningfully challenged, opens multiple possibilities for corruption by government officials and bureaucrats. In democracies, on the other hand, the institutional structures of the ‘state of law’ are designed to ensure public accountability. In practice, where governments come to feel that their hold on power is unassailable, the distinction between government and state can become blurred in the eyes of those in power, with the consequent risk of acting as if above the law”.

Brunetti and Weder (1998)\(^{33}\) investigate the impact of openness and democracy on the level of corruption in selected countries over intervals of time. Making use of a time series for the level of democracy, the authors report reductions in the level of corruption in South Korea, Paraguay and Bolivia, as measured by the PRS corruption index.

In this connection, Wallace and Haerpfer (2000)\(^{34}\), in their study on the “relationship between corruption and other indicators such as economic growth, democratisation, institutionalisation, increasing freedom and the informal economy as important indicators of change in post-communist Eastern and Central Europe” concluded that, democratisation will make institutions more transparent and more accountable, which should lead to a decline in corruption. Democratisation is important for bringing about the kind of enforceable regulation of economic activity for which there is a consensual agreement.


It is also important for creating a civil society, which would ensure the enforcement of those regulations. Figure 2-2 shows the relationship between Democratisation and Corruption.

Figure 2-1 shows that there is a strong negative association between democratisation and corruption. Poland and Ukraine are at the most extreme points. In Ukraine there was the lowest level of democratisation and the highest level of corruption, while in Poland there is the highest level of democratisation and the lowest level of corruption. Slovenia is close to Poland on both axes, while the rest of the countries are clustered around the middle. FRY and Belarus are also situated with lower levels of democratisation, which appears not much of a surprise, if one is analysing the democratic performance of those states and rather high levels of corruption. Croatia and the Czech Republic have relatively high ratings concerning the democratic transformation, but also comparative low levels of corruption. Hungary, Slovakia and Romania have high levels of corruption as well as higher levels of democratisation and this is particularly the case in Romania. The outcome of this analysis implies that in general, corruption declines with higher levels of

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democratisation. Democracy is an effective weapon in the fight against corruption in societies in transition.

Treisman (2000)\textsuperscript{36} also finds a significant impact for a selection of 64 countries, including only those countries which have been democracies without interruption since 1950. He argues that while the current degree of democracy is not significant, a long period of exposure to democracy lowers corruption. Gerring and Thacker (2004; 2005)\textsuperscript{37} provide significant results using the cumulative number of years a country has been democratic since 1900. Montinola and Jackman (2002)\textsuperscript{38} employ a broader measure of democracy, where the Gastil index (Freedom House) for political rights, i.e. democracy, enters besides an assessment of 1) freedom of group opposition and 2) the effectiveness of the legislative body. They find a non-linear impact on corruption. As compared to autocratic regimes moderate levels of democracy do not decrease corruption. Only after a certain threshold is passed do democratic practices inhibit corruption.

Sung (2004)\textsuperscript{39} tests different functional forms for the relationship between corruption and democracy and finds that a cubic form best fits the data. This form reveals an ambiguous impact for countries scoring between 7 and 2 in the Freedom House index. Only the good score of 1 brings about decreased

corruption. However, he fails to control for income per head, making it difficult to judge on the robustness of the findings. Adsera et al. (2000) obtain significant results for electoral participation. Countries with higher participation elicit lower levels of corruption. This also provides a more intricate picture of democracy.

In sum, democracy reduces corruption, but not the lukewarm type, not the type with little electoral participation and not immediately after its implementation. Before transforming authoritarian systems into halfhearted democracies it is worthwhile considering whether such systems have established their peculiar methods of honoring integrity and how these might be endangered during transition. Therefore, the mentioned relationship partly depends on how firmly rooted democracy is in a particular country. Many modern states claim to be democracies and appear to have some democratic forms and processes but, for most, democracy is still fragile and poorly institutionalised. For corruption to flourish, office-holders must possess the discretion to abuse their public role for their private benefit. But democracies are usually thought to impose limits on the discretion of politicians and possess means of holding them to account for their actions.

As a result, in democracies as political accountability increases, it increases the risks for corrupt officials of exposure and punishment, and finally corruption will be decreased. But in non-democracies, the lack of effective accountability,
transparency and free press opens multiple opportunities for corruption by officials, politicians and bureaucrats.

2-5-2. Free press and corruption

In democratic governments, the free press has an obvious role in deterring corruption. Where corrupt politicians want to keep the public in the dark, a free press can shed light and help inform and empower the public. Where the press is owned or controlled by the state, it will report only information, which is acceptable to the state. State censorship is one mechanism of social control exercised by governments who do not command public trust. Curbing press freedom is an important means of ensuring that corrupt officials are not held accountable.

By regressing various indexes of corruption on indicators of press freedom, Brunetti and Weder (2003) show that a free press effectively deters corruption. The latter variables consist of "laws and regulations that influence media content", "political influence over media content", "economic influence over media content" and "repressive actions" as compiled by Freedom House. These four separate indices and an aggregate index of press freedom all impact negatively on the level of corruption in various specifications. This negative association between freedom of the press and corruption is also confirmed by Lederman et al. (2001). Also Sung (2002) reports this result, albeit missing to control for income per head. A free press appears to be a solid deterrent to corruption. However, the

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corruption index used in both studies has been that of PRS (Political Risk Services). But, Brunetti and Weder (2003) corroborate their findings also by using alternative indicators, providing us with some more confidence with respect to their findings.

Corrupt authoritarian regimes may restrict press freedom, suggesting that part of the causality may run the other way. Nevertheless, Brunetti and Weder (2003) show that their findings survive the use of instruments, claiming that a good share of the causality runs from a free press to less corruption. Adsera et al. (2000)\textsuperscript{44} employ data on daily average newspapers per person. These figures vary from 0.7 daily copies per person in Hong Kong to 0 in Mauritania. They show that the amount of newspapers per person is negatively associated with corruption. This equally suggests that a successful media is a strong impediment to corrupt politics by making it difficult for elites to get away with corrupt behaviour.

Hence, a free press can effectively deter corruption. For members of civil society, a free press can be an essential prerequisite for ensuring that government is open and responsive. When the political class has been bought off by corruption, it falls to the press to question, to probe and to act as a watchdog for public integrity. Press reports can force the disclosure of incriminating information and prompt police investigations of corruption.

\textbf{2-5-3. Development and corruption}

According to Theobald (1990)\textsuperscript{45}, “a close examination of the developed societies reveals that by far and large, there is little or no evidence of corruption in the visible, widespread, day-to-day, petty and routine aspects of public administration. In these societies, corruption exists in the upper, less visible, more exclusive domain of the rich, wealthy, senior members of government, bureaucracy and civil society”.

In developing societies, on the other hand, corruption is not restricted to an exclusive elite network alone but extends to different levels of socio-economic and political activity. Corruption in these societies prevails at virtually every point of contact between the state and the market, or the public with the private.

So the perception of a difference between the developed and the developing world in terms of corruption, is not entirely without basis in the sense that corruption 'extends' over a greater range or area in the developing world, though it does not, necessarily involve a greater volume of activity. Nevertheless, the wider area of reach of corruption can explain to some extent the existence of a general impression that there is 'more' abuse of the public office in the developing world.

However, the numerous studies on the relationship between development and corruption claim the negative relationship between them. According to Nielsen and Haugaard (2000)\textsuperscript{46}, stabilization of democracy reduces the level of

corruption in societies. Fisman and Gatti (2002) also investigated that democracy has negative relationship with corruption.

Transparency, accountability, competition among political parties and process of democracy in developed countries is so that, corruption will be automatically controlled. Liberalisation and decentralisation of economic also prevent corruption in developed countries. Centralised economy and over interfering of government in economy, encourages corruption in developing countries.

Developing countries face both real and perceived problems with corruption. They always feature prominently in the lower part of international corruption indexes and developed countries are mostly in the top of the indexes with higher scores. In this connection, Transparency International’s ranking and scoring shows large variations in the perception of corruption among groups of countries at similar stages of development. (Appendix 1)

2-5-4. Liberalisation, privatisation and corruption

Economic liberalisation is seen as a major way of tackling corruption and prompting economic growth but it has also been identified as a source of corruption. It involves redefining the role of government and the relationship between the government and the economy.

The main aims of economic liberalisation are to improve the efficient operation of the market and correcting market

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distortions by reducing state subsidies. It is associated with the privatisation of state enterprises, liberalising trade, lifting exchange controls, reducing the size of the civil service and deregulating industry and commerce.

The evidence suggests that economic liberalisation such as reducing trade restraints, deregulating prices, eliminating subsidies, and privatising state assets may reduce corruption.

By reducing the role of the government in economic activity and transferring discretionary government actions to competitive market choices, privatisation can reduce opportunities for rent seeking. But economic liberalisation policies may actually facilitate corruption in the longer term if, in reducing the size and role of government, it also reduces the capacity of government to identify and combat corruption. Anti-corruption strategies invariably accord a prominent role to state institutions and there is risk that economic liberalisation may reduce further the efficiency and effectiveness of the state. Corruption can be explained in terms of the abuse of state power. A large state machine, which intervenes and regulates intensively and extensively, offers fertile territory for corruption. Politicians and officials will have a great deal of individual power which many are likely to use for personal gain.

Advocates of economic liberalisation argue that, if the state is the main source of corruption, then cutting back the size of the state and restricting its activities will reduce the opportunities for corruption. In this connection, although downsizing the state may appear to reduce the overall opportunities for corruption, but the downsizing process itself
offers new opportunities for corruption. This new corruption may be seen as a transitional and temporary price worth paying for a longer-term reduction in corruption.

In sum, liberalization offers a more straightforward means to limit state authority. Eliminating tariffs, quotas, exchange rate restrictions, price controls, and permit requirements simply strips officials of the power to extract bribes. At the same time, eliminates bottlenecks, and fosters competition. In recent years, accession requirements to the World Trade Organization (WTO) have pushed many countries to liberalise their economies.

Privatisation also offers a clear means to limit the authority of government. By removing the government from economic activities, it eliminates opportunities for recurrent corrupt dealing in sales, employment, procurement, and financing contracts. Kaufmann and Siegelbaum (1996)\(^48\) conducted an informal survey of over 50 privatisation experts from the World Bank, academia and the transition countries. They concluded the following: privatisation transactions are less corrupt than those in the rest of the economy, privatisation programs have helped reduce corruption, and the privatised sectors of the economy have significantly less corruption than non-privatised sectors.

Rose-Ackerman (1999)\(^49\), has also pointed out, proper privatisation requires the widest possible participation and a well-publicized and transparent process, especially for firm evaluation. Furthermore, especially in cases where the

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privatised firm will retain monopoly power, such as in utilities, it is important to create a new, independent, and a political regulatory institution. Also required is a stable legal environment with an independent judiciary and credible law enforcement. Because these conditions frequently are not met, privatisation at times can increase corruption.

In this connection, Manzetti and Blake (1996)<sup>50</sup>, in their study of the market reforms and privatisations of Argentina, Brazil and Venezuela, investigated that "there is nothing inherently corrupt about neoliberal or free-market polices; rather it is the way in which they are pursued that should be scrutinized". Because of the economic crisis plaguing, these three countries in the late 1980s, undertook liberalisation policies.

However, studies show that privatisation programs also provides numerous incentives for corruption, but finally will help to reduce corruption, and the privatised sectors of the economy will have less corruption than non-privatised sectors. For example, bribes may be paid for inclusion on the list of pre-approved bidders or to restrict the number of other bidders. Bribes may also be paid to officials to provide accurate inside information on difficult-to-appraise large enterprises while simultaneously providing misleading public information understating the value of the assets being privatised.

However, as many privatisation programs have revealed, the process of privatising state-owned enterprises and

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government services itself is vulnerable to corruption. To ensure the integrity of the process, privatisation requires special measures of transparency. In addition, successful privatisation programs require adequate regulatory and commercial legal frameworks to protect consumers and investors and to create conditions for competition. Without these frameworks in place, privatising government operations may only shift rent-seeking from the public to the private sector. Indeed, in many developing and transitional countries, unregulated or poorly administered privatisation has enriched insiders through skewed prices and corruption. Rather, it presents a framework for conversion of public monopolies to private ones.

2-5-5. Globalisation and corruption

Ideas of 'globalisation' are so broad, so diverse and so changeable that it sometimes seems possible to pronounce virtually anything on the subject. Thus, globalisation has become a buzzword. It has also become a key idea for business theory and practice, and entered academic debates. Then, for better understanding the interaction between globalisation and corruption it will be defined first.

Held et al. (1999)\footnote{D. Held, A. McGrew, D. Goldblatt, and J. Perraton. “Global Transformations - politics, economics and culture”. Cambridge: Polity Press, 1999, p. 16.} define globalisation as a “process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions - assessed in terms of their extensity, intensity, velocity and impact - generating transcontinental or inter-regional flows and networks of activity”.

For defining the term globalisation, Scholte (2000)\textsuperscript{52} has argued that, at least five broad definitions of 'globalisation' can be found in the literature:

- **Globalisation as internationalisation:** Here globalisation is viewed 'as simply another adjective to describe cross-border relations between countries'. It describes the growth in international exchange and interdependence. With growing flows of trade and capital investment there is the possibility of moving beyond an inter-national economy, (where 'the principle entities are national economies') to a 'stronger' version - the globalised economy in which, 'distinct national economies are categorised and rearticulated into the system by international processes and transactions'.

- **Globalisation as liberalization:** In this broad set of definitions, 'globalisation' refers to 'a process of removing government-imposed restrictions on movements between countries in order to create an "open", "borderless" world economy'. Those who have argued with some success for the abolition of regulatory trade barriers and capital controls have sometimes clothed this in the mantle of 'globalisation'.

- **Globalisation as universalization:** In this use, 'global' is used in the sense of being 'worldwide' and 'globalisation' is 'the process of spreading various objects and experiences to people at all corners of the earth. A classic example of this would be the spread of computing, television etc.

- **Globalisation as westernisation or modernization:** Here 'globalisation' is understood as a dynamic, whereby the social structures of modernity (capitalism, rationalism, industrialism,
bureaucratism, etc.) are spread the world over, normally destroying pre-existent cultures and local self-determination in the process.

- **Globalisation as deterritorialization (or as the spread of suprateritoriality):** Here 'globalisation' entails a 'reconfiguration of geography, so that social space is no longer wholly mapped in terms of territorial places, territorial distances and territorial borders.

  Vittal (2003)\(^{53}\) also believes, “globalisation means that four element of the economy move across the borders very fast. These are: a) physical capital in terms of plants and machinery, b) financial capital in terms of money invested in capital markets and FDI, c) labour and d) technology”.

  Thus, Globalisation as a term refers to the growing interaction of countries in world trade, foreign direct investment and capital markets. The globalisation process has been abetted by technological advances in transport and communications, and by a rapid liberalization and deregulation of trade and capital flows, both at the national and international levels.

  Globalisation in terms of its implications for trade, productive investment and finance, is an increasingly important dimension of international economic relations. It has been spurred by reduced transport costs and advances in communications and other technologies, and has fostered greater interdependence and cross-border linkages between the countries of the world.

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The anti globalisation movement uses corruption as an argument against the globalisation. It considers that besides the globalisation of business, there is a globalisation of crime facilitated by the disappearance of state controls and by the high technology, which permits the rapid circulation of money.

In this connection, Kaufman (1997)\textsuperscript{54}, has opined that, “there is no empirical evidence to suggest that increasing globalisation has led to increasing corruption”.

In the matter of interaction between globalisation and corruption, Kaufmann also argues that, fewer regulatory and trade interventions, macroeconomic stability; and moderate; simple tax regimes with little discretion will do much to reduce the opportunities for corruption. He also states that, analysing data from many countries by economists Alberto Ades and Rafael Di Tella found that trade openness and product competition reduce corruption and that liberalising an economy delivers even more corruption-reduction where judicial institutions are not yet well developed. In this regard, Kaufmann also opined that, survey responses from elites in emerging economies also reject the notion that economic reform fuels corruption. The vast majority of respondents report that corruption would be ameliorated by further economic reform in the areas of deregulation and liberalisation, the budget and the tax regime.

The significance of globalisation to economic growth and poverty, however, can be expected to vary for different categories of countries. While some countries will lose from the

globalisation process, some will benefit and some benefit more than others, and a number of countries with initial conditions that make them less suited to take advantage of globalisation will lose out and become more marginalized in relation to other countries.

Therefore, globalisation is a sociological or political economy concept describing world economic, and cultural integration. Growth effects of it affect both absolute poverty, through poverty reduction, and relative poverty, through changes in a country's income distribution. Resultantly, although globalisation can be useful for some countries and will have so many benefits for them, for some countries, especially countries which corruption is endemic in them, it is like a double edge sword. The countries that can manage corruption, will be benefited by globalisation and globalisation reduces corruption for them, but countries that cannot manage corruption, globalisation can bring new risks to them even increasing corruption.

2-5-6. Poverty and corruption

It is largely believed that there exist a strong connection between corruption and poverty in a country, at least for certain groups of countries. Poverty is worsening in many nations and populations. It is an issue that has been of international concern at least since the establishment of the United Nations. The corrupt activities of many public officials and private business people contribute significantly to the perpetuation of poverty and the continuation of the underdevelopment of nations.
Poverty is also a complex phenomenon. It is usually defined in relation to income and often measured in terms of per capita gross domestic product (GDP). A broader definition treats poverty as ‘multidimensional, including (1) low income, (2) low levels of education and health, (3) vulnerability (to health or income loss, natural disaster, crime and violence, and education curtailment) and (4) voicelessness and powerlessness (feeling discrimination, lack income earning possibilities, mistreatment by state institutions, and lack of status under the law)’.

However, contemporary discussions of poverty have broadened the concept from a narrow income-based definition to a more inclusive notion of 'capability' poverty, which addresses issues of health, literacy and social exclusion. But whatever definition is used, petty and grand corruption has direct and indirect impact on poverty.

Corruption perpetuates and exacerbates poverty in a variety of ways including:

- Diverting resources and benefits towards the rich and away from the poor.
- Disturbing the pattern of public spending and investment by encouraging large capital-intensive projects to maximize bribe receipts. This reduces the resources available to governments to reduce poverty through education and social programmes.
- Imposing an additional unofficial 'tax', which the poor are least able to pay.
- Reducing tax revenues to governments and thus a reduction in public services that benefit the poor.
Chapter Two

- Undermining social and political stability with consequences that leave poor people more insecure.
- Reducing economic growth and thereby reducing the opportunities for the poor to escape from poverty.
- Perpetuating social exclusion and preventing the poor from acquiring the capability to challenge inequalities of power and resources.
- Depriving the poor of their legal rights and entitlements.
- Corruption reduces public sector productivity.
- Corruption distorts the composition of government expenditure, away from services directly beneficial to the poor and the growth process, e.g., education, health, and operation and maintenance.
- Better health and education indicators are positively associated with lower corruption.

Therefore, corruption contributes directly to poverty by depriving the poor of public services and benefits, by denying them political, social and legal rights and by distorting development priorities. Corruption encourages the poor to see government as predatory and oppressive rather than enabling and their sense of powerlessness and exclusion is reinforced.

Peter Eigen (2005)\(^{55}\) believes, “corruption is a major cause of poverty as well as a barrier to overcoming it and the two scourges feed off each other, locking their populations in a cycle of misery”. Gupta et al. (1998)\(^{56}\) undertook one of the first studies of this issue. They ran a series of cross-country regressions alternatively for 38 to 63 countries for the period

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1980-97. They found that high and rising corruption has a considerable impact on income inequality and poverty. For example, their evidence suggests that a worsening in the corruption index of one standard deviation is equivalent to a drop in average secondary school education of 2.3 years which, in turn, would slow the income growth of the poor by 7.8 percentage points a year. They further found that high and rising corruption worsens income distribution and poverty by reducing the progressivity of the tax system, by lowering the level and effectiveness of social spending, and by perpetuating unequal access to education. Regarding education, they conclude that income inequality can be reduced more effectively by policies aimed reducing illiteracy rather than policies rising the average years of education. Finally, in terms of causation, they infer that corruption is the cause, and not the result, of income inequality and corruption.

Gupta et al. (1998)\textsuperscript{57} in their study also investigate the income growth of the bottom 20 per cent of society. While controlling for various influences, they report that growth of corruption exerts a significant and negative impact on this variable. Mauro (1995)\textsuperscript{58} also found that corruption especially reduces investment expenditures on health and education, which can be especially critical for the poor. Furthermore, corruption may direct health and education expenditures toward programs favouring the wealthy, such as substituting high technology medical equipment favouring the elite in place of


widespread inoculation programs benefiting the poor. Also, education expenditures may be channelled away from literacy programs and primary education and toward university education.

In this connection, the literature on corruption states that, corruption by itself, does not produce poverty. Rather, corruption has direct consequences on economic factors, intermediaries that in turn produce poverty. Figure 2-1 shows the indirect affects of corruption on poverty:

**Figure 2-2: Relationship of corruption and poverty**

![Diagram showing the relationship between increased corruption, reduced economic growth and increased income inequality, leading to increased poverty.]

However, the cost of corruption relative to income has a tremendous negative impact on the lives of the poor compared to wealthier segments of the population. Money spent on bribes can reduce resources for shelter, food, water, health and education and other necessities of life.

Moreover, most corruption rewards the already relatively rich but some poor people are themselves engaged in corruption and thereby receive some material benefit. Where bureaucratic salaries are low and paid irregularly, or not at all, and officials have many dependents, they have a strong incentive to accept bribes. In these cases, poor officials may benefit but the poor in general suffer and the overall impact of corruption is to damage the prospects for development and thus the prospects of the poor.
Hence, corruption and poverty are not just two sides of the same coin, but rather corruption is the main cause of poverty in countries in transition. That is why reducing poverty, without undertaking prompt measures to combat corruption would be an attempt to have an impact on the consequences rather than on the cause. Tackling corruption means, first of all, helping the poor strata of population. Figure 2-3 shows the impact of corruption on social indicators where corruption is found in low and high levels:

**Figure 2-3: Impact of corruption on social indicators**

Finally, in a corrupt environment, resources may be directed towards non-productive areas - the police, the armed forces, and other organs of social control – as the elite move to protect themselves, their position and their material wealth. Resources otherwise available for socio-economic development will be diverted into security expenditure. This, in turn, can cause the weakening of investment and economic growth, which resultantly affects the poor and poverty.

**2-5-7. Religion and corruption**

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La Porta et al. (1997)\textsuperscript{60} investigated the relationship between religion and corruption. They suggested that hierarchical religious structures, such as the Catholic, Eastern Orthodox, and Muslim faiths, which often act in symbiosis with the government, discourage the formation of trust. They reasoned that such religions emphasize vertical bonds of authority rather than the horizontal networks between citizens that promote cooperation, trust and civic involvement. In their study of 33 countries, they found a positive relationship between the percentage of the population belonging to these hierarchal religions and corruption.

In a later study of 114 countries, La Porta et al. (1999)\textsuperscript{61} found weaker results linking religion and corruption, especially when the GDP per capita variable was included. Treisman (2000)\textsuperscript{62} also obtained a strong association between religion and corruption. He regresses corruption on the percentage of Protestants in the total population in a sample of up to 64 countries and obtains a highly significant negative impact of this index on corruption, controlling for other variables such as GDP per head.

In another study, Paldam (2001)\textsuperscript{63} provided a more in-depth analysis of the impact of religion. He identifies 11 different groups of religions and tests their impact on corruption, controlling for other variables. While in countries


with a large fraction of Reform Christianity and Tribal religion corruption is lower, higher levels of corruption can be found in countries with a large influence of Pre-Reform Christianity, Islam, Buddhism and Hinduism.

However, the impact is only significant for Reform Christians (Protestants and Anglicans). In line with the argument by La Porta et al., the idea that hierarchies contribute to corruption has been supported by Husted (1999), who used a totally different set of data.

Based on the surveys by Husted, he employs the resulting data on cultural values. One variable defined there is called "power distance" which measures "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally". This variable is shown to have a positive impact on the level of corruption in a sample of 44 countries in various regressions, while controlling for other explanatory variables.

2-5-8. Gender and corruption

Gender studies in countries in transition became very popular during the last few years. Swamy et al. (2001) and Dollar et al. (1999) have investigated the impact of gender on corruption. The authors determine the percentage of women in the labour force and in parliament. Both indicators negatively impact on the level of corruption in a cross-section of up to 66

countries. The influence is large in magnitude, highly significant and robust throughout a large variety of regressions, controlling for various variables. Similar results are reported by Sung and Chu (2003)\textsuperscript{67}.

A study of the Centre for Institutional Reform and Sector of the Maryland University as well as World Bank proves that, there is a perceived tendency that, women are less corrupt than men. Countries with a higher share of women in the top level of the government structures and Parliament are usually less corrupt. Table 2-1 shows the relationship between percent of women in parliament and corruption in countries. In this connection, studies show that, women are often more severely affected by corruption than men. Osborne (1998)\textsuperscript{68} investigated that; women usually bear additional financial responsibilities, for example, for the health and education of children, and yet do not have the same earning power as men. Having to bribe, therefore, takes a large bite out of their already limited resources. Moreover, women's livelihoods are often home-based enterprises operating in the informal sector. The discretionary enforcement of regulations on them can force them to pay bribes that eat into their profits. Women are also more vulnerable to threats to their security, including rape, and will more often have to resort to bribes to avoid risk.

\textbf{Table 2-1: Relationship between gender and corruption}\textsuperscript{69}

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\textsuperscript{68} - Denis Osborne. "Learning Module on Corruption". UNDP: 1998, p. 10

2-6. SUMMARY

In this chapter reader is provided with conceptual framework of corruption. History, definition and typology of corruption has also been discussed. Political and economic perspectives on corruption have elaborated the interaction between corruption and some political and socio-economic issues like political system, free press, development, poverty, liberalisation, privatisation, and globalisation.