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Research and Practice in Corruption: An Introduction

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Corruption has been a feature of human behaviour since the beginning of time. It has been part of the structure of human relationships, and very much bound into the way people live with each other and distribute status and power. While some say that patronage and rent seeking have lubricated social relationships, there is sufficient evidence to show that it is the poorest who are hurt when this behaviour is institutionalized. It is even more distressing when the behaviour is unpredictable, irregular, and random.

International trade has been a feature of human behaviour for millennia. But in recent centuries new transport mechanisms and new technologies have made for economic interdependence. Compounded by digital technologies which move money around the world at the speed of light, and global business moguls who seek advantage opportunistically and capriciously, corruption takes on a new dimension. Political instability has also taken on a cross national dimension, and it is often fuelled by, and in turn fuels corruption.

Corruption has great significance for society and its governance. While the level of corruption varies among countries, the impacts of corruption disproportionately affect the poorest and most vulnerable in any society. When it is pervasive, corruption weakens economic growth and undermines the rule of law for *every nation*, and invariably deters investment. In rich countries corruption pushes taxes to higher levels than they need to be, and services are of lesser quality than they might be.

This book is an edited collection of new, original research and policy analysis dealing with the most important concepts and empirical research in corruption and its prevention. Its focus is international and transnational. It provides a critical analysis of the key areas of

current research interest in corruption and its control and also outlines a potential research agenda for the future. It has a research rather than a practitioner, focus, and seeks to provide a single source-book of current research and discussion on topical and critical aspects of foreign corrupt practices globally.

Corruption manifests itself in many ways and at different levels. Corrupt behaviour causes outrage to victims and those who value civil society, it impedes good government and administrative practice. In 2008 the World Economic Forum (2008) estimated that corruption accounts for about 5 per cent of global GDP (about US \$2.6 trillion) and furthermore it is estimated that every year around \$1 trillion is paid in bribes and \$40 billion is looted by corrupt political leaders

Corruption poses threats to principles of democracy, justice and the economy. It affects all countries regardless of their level of development. Nevertheless some countries experience corruption more than others, and of course some places have more corruption than others. There is a widespread but still non-random distribution of corruption in societies, and thus a challenging field of study for scholars from various disciplines with the ongoing arguments about a uniform definition and measurement of corruption and importantly the limited effect of scholarly work in this area.

The academic literature on corruption is often focused on big picture examples of corruption. Studies of whole regimes and studies of nation states (Chang & Chu 2008; Larmour & Barcham 2006; Transparency International 2009(a), studies of economic development on a grand scale (Levy & Kpundeh 2004; Staphenurst & Kpundeh 1999), studies of the rule of law (Licht et al. 2007; Uslaner 2008). There are global league tables of corruption (Transparency International 2009b), there are indexes of bribe paying (Transparency International 2008a), there are studies of corruption in whole sectors such as in water (Transparency International 2008b), health (Transparency International 2006), climate change

(Transparency International 2010). There are studies of situations such as the context and operations of corrupt subsidy frauds (Passas & Nelken 1993), there are studies of victims of corrupt behaviour (Hunt 2007) whether they be food aid recipients (Deshingkar et al. 2005; Radelet 2006), victims of shoddy construction (Green 2005), or banking victims (Passas 1996 and 1997).

There is a very diverse literature on corruption and a great deal of this is bound within disciplinary categories. In the political science literature Heidenheimer and Johnston (2008) have edited a thousand page volume that covers definitions and perceptions, modernization and development, political processes and comparisons across time and place, as well as specific studies of activities in Africa and Asia, studies in authoritarian regimes and liberal democracies, and also processes in political parties and political campaigns. The themes here focus on distortions of process and the corrupt manipulation of systems structured for the benefit of many that are hijacked for the advantage of the few. Studies of political corruption help us understand the institutions and processes that allocate power and achieve or distort the attainment of well intentioned and articulated political goals.

Johnston (2005) takes the analysis further in his book *Syndromes of Corruption* where he documents, with strong data, how groups exchange wealth and power and do so in the shadow of the strengths and weaknesses of the state. By identifying 'influence markets', 'elite cartels', 'oligarchs and clans' and 'official moguls' he shows how reform can be applied, building on the evidence of operations of these syndromes in different political environments

From the seminal work of Susan Rose-Ackerman (1975) on the economics of corruption to more recent comprehensive analyses of corruption, economists have examined corruption in virtually every aspect of macroeconomic and microeconomic behaviour and in the allocation, distribution and delivery of goods and services. Aidt (2003) for example covers issues such as incentives, rents, welfare effects, institutional capacity, self reinforcing

corruption, while Khan and Sundaram (2000) have a focus on the specifics of corruption in economic development. The World Bank <http://www.worldbank.org/> has focused on development issues and has a massive literature on corruption measurement and control (Kaufman et al. 2006) and governance options (Kaufman, 2005). The World Bank Institute www.worldbank.org/wbi, a research unit within the World Bank currently undertakes economic analyses of seven topics: climate change; growth and crisis; governance; fragile and conflict affected states; health systems; public-private partnerships; and urban studies. Rose-Ackerman (1999) weaves many threads together by examining the economic impact of corruption and how high level officials manipulate political power and civil service processes, especially in the development context.

Historians have documented ancient and recent manifestations of the phenomenon. Anthropologists have studied gifts, bribes and patronage in different cultures while lawyers have written extensively on the rule of law and the jurisprudence surrounding corruption. International agencies such as the United Nations, the World Bank, Transparency International and a host of NGOs have made extensive studies of corruption and gone the extra step to propose positive responses to its control. However, many of these reports focus on whole countries or are at a very high level of abstraction.

Specific works such as Quah's (2003) *Controlling Corruption in Asia*, and Larmour and Wolanin's (2001) *Corruption and Anti-Corruption* propose practical institutional responses. Passas (1998) has written about how transnational organized crime has fuelled corruption and how illegal markets have been manipulated by criminal operators, thus weakening social control. Numerous specific studies focus on preventing and controlling economic crime (Grabosky 2001), money laundering, (Levi et al. 2007), and building organizational integrity (Boardman & Klum 2001). Anechiarico and Jacobs (1996) issue a note of caution and argue

that the pursuit of absolute integrity, the proliferation of mechanisms to root out corruption can sometimes be counter-productive and make it much more difficult to govern.

To begin with, nearly everyone has views about what activities and behaviours are corrupt – but in many respects corruption is like an elephant – it’s easier to identify than it is to describe! Definitions abound – most commonly the Transparency International (2010) definition ‘the abuse of entrusted power for private gain’. Also useful is Robert Klitgaard’s (1991) formula $C = M + D - A$ (corruption equals monopoly plus discretion minus accountability). This provides a basis for shaping culture and work activities.

The measurement of corruption has always been problematic due to several reasons such as the hidden nature of corruption, the lack of consensus on the definition of corruption and last but not the least the multifaceted nature of corruption. Still in general, activities that involve bribery and graft, extortion, kickbacks, misappropriation theft and fraud by virtue of one’s position, self-dealing, patronage, abuse of discretion, creating or exploiting conflict of interest, nepotism, clientelism and favouritism, as well as political manipulation are all generally agreed to constitute corrupt behaviour. These various corrupt behaviours occur in different activities and different sectors of all societies. Most commonly these apply in:

- buying things (procurement processes, issuing contracts etc.);
- appointing personnel;
- delivering programmes or services;
- making things (road construction, major capital works, housing developments etc.);
- controlling activities (licensing/regulation/issuing of permits etc.); and
- many forms of administration (justice mostly, but also health, environmental services etc.).

As can be understood from this classification every sector that delivers services to the public is vulnerable, and different societies may be expected to have vastly different experiences.

And again this is the case in both rich countries and poor countries. Despite this fact a great deal of the literature on corruption focuses on poor countries and sets admirable strategies that develop means and methods for:

- criminalization, investigation, prosecution, sanctions;
- the workings of anti-corruption agencies;
- structural reform (civil service, legislature, judiciary etc); and
- capacity building (education, strengthening integrity, mobilization of the public etc.).

Rich countries generally have these controls in place and yet there are still many examples of petty and serious corruption (minor incidents, scandals, and state capture) even where there is legislation and enforcement, structural integrity and a vigilant press.

Implementation of these uniform strategies does not always yield successful results as corruption can take many forms with regard to its nature, focus, and scope. Therefore as McCusker (2006) states, with our background of inoperative and/or disintegrated controls, every anti-corruption strategy should focus on the sophisticated relationship between the initiators, participants and targets of the corrupt act.

Analysis of corruption, and strategies to prevent and or control corruption activities can take place on a sector by sector basis. We can study economic institutions and global trade, we could examine international conflict and the trade in weapons. We know that justice systems that unfairly deny the rule of law have severe consequences as well as international implications. Much the same can be said of corruption in agriculture, energy and resources and environmental and climate change matters. The nation state used to be the main unit for analysis, but this is clearly no longer the case. Corruption has global impacts, and while much legislation is limited by national borders, nefarious activities cross borders with impunity, and law enforcement is often severely constrained by jurisdictional limits.

Through rigorous analysis and theoretical foundations, this book provides a multi-disciplinary and international account of corruption and its control from the perspectives of public policy, criminal law and criminology, as well as considering principles of prevention and control of corruption in both the public and private sectors across the globe. We include research and analysis from countries representing all continents, thus providing a unique opportunity to examine how legal and policy responses have been created to deal with the problems of corruption that arise not only in new and developing economies, but also in Western democratic regions that, despite their best efforts, continue to fall prey to corrupt practice in government and business.

This book has a tri-partite structure that begins with a review of corruption in its historical perspective and a comparative analysis of research into corruption which has developed, globally over time, particularly since 1990 when there has been increased awareness of the relevance of corruption to economic and social development. Consideration is then given to the global dynamics of corruption control and the work conducted at the World Bank in which the design and implementation of governance and anti-corruption reforms are based on micro-data and greater ownership of the diagnostic process by individual countries.

Part two explores corruption as it occurs in practice in varying sectors, markets and jurisdictions. In relation to public sector activities, the risks of corruption that arise in government procurement are presented and solutions given for minimizing such risks, especially for the largest economies. A case study is then presented of how the sanctions against Iraq in the Oil For Food programme were circumvented. There are lessons for governments in how to avoid procurement-related corruption in global aid programmes.

Turning to the major environmental challenges facing the 21st century, evidence is presented of how corruption has arisen in connection with major environmental change programmes globally. Some of the governance challenges within climate finance flows are considered and suggestions made for overcoming such challenges through enhanced safeguards and measures to ensure better transparency, accountability and integrity. One environmental approach, Reducing Carbon Emissions from Deforestation and Forest Degradation (REDD+), is examined and consideration given to the more general risks of corruption that have arisen in connection with the forestry industry.

In relation to the business world, we examine the relationship between corruption and financial crime and, in particular how fraud and financial crime are facilitated by corrupt practices, including opportunities for corruption created by the global financial crisis and government stimulus payments. The ways in which corruption can be facilitated through the use of international financial transactions is explored in a chapter which examines the presence of corrupt practices involving off-shore financial centres. A specific case study is also provided of corruption in the global diamond trade and another chapter reviews the many corrupt practices that have arisen in connection with the global trade in art and antiquities. Part two concludes with an analysis of how information and communications technologies have not only facilitated conventional corrupt practices, but created new opportunities for corruption within the information technology industry itself.

Part three explores the avenues that exist for corruption to be prevented and controlled and provides illustrations of some of the more successful developments in a variety of countries. It begins by exploring how preventive measures can best be monitored and evaluated, and how monitoring progress in the fight against corruption takes place in multi-project, multi-stakeholder organizations. It then describes the international normative approaches that have been taken to the control of corruption, especially the United Nations

Convention Against Corruption and then examines some of the specific legislative responses that countries have used to prevent corrupt conduct and, more particularly, to follow the financial proceeds of corrupt conduct. An example is provided of how one anti-corruption measure, the OECDs Convention against Bribery, has been implemented in the United States, the United Kingdom and Australia.

Consideration is also given to how the global anti-money laundering regime and the laws that enable the confiscation of the proceeds of crime and criminally-derived assets can be used in the fight against global corruption. One particular issue that is explored concerns the question of whether an activist regulatory stance can overcome legislative problems in preventive anti-corruption agencies such as those present in Montenegro. A case study of one of the world's first, and most successful anti-corruption agencies is then presented with an examination of Hong Kong's Independent Commission Against Corruption, and how this has evolved over time.

Part three then turns to an analysis of how cultures of integrity can be promoted within both the public and private sectors, and also how educational measures can be used to minimize risks of corruption occurring. Of course, it is apparent that raising awareness of corruption requires systems and procedures to be created that enable individuals who become aware of illegality to report it in the public interest. We examine a number of innovative approaches to whistleblowing in Australia, in this regard. Finally, we end with an examination of the methods and politics of performance measurement in anti-corruption agencies and the extent to which performance indicators affect institutional survival

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