Corruption as a Last Resort

McMann, Kelly M.

Published by Cornell University Press

McMann, Kelly M.
Corruption as a Last Resort: Adapting to the Market in Central Asia.

For additional information about this book
https://muse.jhu.edu/book/42601

For content related to this chapter
https://muse.jhu.edu/related_content?type=book&id=1663697
Providing ordinary citizens with alternatives to corruption can be an effective anticorruption strategy. To the extent that markets, groups in society, and family members can meet individuals’ basic needs, individuals are less likely to engage in corruption with government officials. Creating market-enhancing institutions and reducing restrictions on groups in society can increase the availability of essential goods and services from these other sources.

These recommendations for reducing corruption depart in vital ways from existing anticorruption strategies. The new recommendations rest on a fundamental observation: corruption is a two-party exchange that can be a coping strategy for citizens, not just a scheme for officials to boost their income. For these reasons, it is important to determine how to influence citizens’, rather than just government officials’, calculations about engaging in corruption. Other approaches propose reducing resources available to officials, decreasing their discretion, and increasing their accountability. However, these strategies do not address the root problem of corruption to meet everyday needs: citizens must be able to acquire essential resources through means other than illicit exchanges with government officials. Reducing the resources available to officials does not guarantee that substitute resources are available elsewhere. In fact, it only guarantees that competition, and thus incentives to engage in illicit exchanges for those remaining government resources, will be greater. Substitute resources need to be available from the market, groups in society, or extended family in order to stem corruption. Regarding the expansion of substitute resources, the outlook for Central Asia, the geographic focus of this book, remains rather bleak.
CHAPTER 7

Acknowledge the Incentive of Ordinary Citizens

Because ordinary citizens, not just government officials, have an incentive to engage in corruption, an anticorruption strategy has to address each side’s motivations. Focusing on both sets of incentives would enable a two-front attack on corruption. Unfortunately, existing recommendations concentrate exclusively on influencing the incentive of government officials.¹ The recommendations are directly or indirectly derived from scholar Robert Klitgaard’s formula in Box 7.1.

**Box 7.1 Robert Klitgaard’s Formula**

\[
\text{Corruption} = \text{Monopoly} + \text{Discretion} - \text{Accountability}
\]


Specifically, these approaches devise means to reduce officials’ monopoly on resources, decrease their discretion, or increase their accountability.

Advocates of combating corruption by reducing government officials’ monopoly on resources propose downsizing the state. Ideas include decreasing public spending, abolishing licenses, and reducing or eliminating government programs.² Advocates suggest that with fewer resources government officials will have fewer opportunities to engage in corruption. This approach is likely to be helpful in circumscribing grand corruption. In fact, the statistical finding in this book that market reform diminishes corruption to some extent supports this idea. However, these recommendations to downsize the state wrongly imply that citizens do not need government services. Governments have to provide certain regulatory and large-scale functions. Moreover, those who advocate downsizing the state overlook the fact that government officials still effectively have a monopoly if markets and groups in society cannot generate and distribute substitute resources. Downsizing the state will not reduce corruption to meet essential needs if people have no other sources for the goods and services they require. On the

---

¹. Susan Rose-Ackerman advocates for this to be the focus, in *Corruption and Government: Causes, Consequences, and Reform* (Cambridge: Cambridge University Press, 1999), 5.

contrary, downsizing will only increase competition and thus corruption for remaining state resources.

Recommendations to increase constraints on government officials aim to reduce their discretion and thus limit their opportunities to engage in corruption. These constraints include laws to combat corruption, effective law enforcement, an independent judiciary, a separation of powers, and anticorruption commissions or officials who report only to a legislature or an executive. Yet this approach does not acknowledge that not only government officials but also ordinary citizens have an incentive to engage in corruption. This strategy does nothing to address the problem of limited substitute resources to meet everyday needs. Constraints are likely to discourage some government officials from accepting bribes and other favors that citizens offer, yet they are not likely to significantly reduce corruption.

Reducing officials’ discretion is not even essential if they have no incentive to engage in corruption. For this reason, some scholars and policymakers have advocated increasing government officials’ salaries as a way to reduce corruption. The thinking is that economic need encourages government officials to demand and accept bribes and other favors, and if their needs are met, then they will not engage in corruption. This approach does not tackle ordinary citizens’ economic needs and thus overlooks the fact that not only officials but also citizens can

---


initiate illicit exchanges. Higher salaries could meet officials’ economic needs, but greed may nonetheless encourage them to accept a bribe or other favor a citizen offers.

Unlike recommendations to reduce government monopolies and discretion, strategies that aim to increase officials’ accountability do consider the role of citizens. However, they consider citizens only as watchdogs, not as individuals who may also have an incentive to engage in corruption. According to these recommendations, increased transparency helps citizens to uncover corruption. Measures to increase transparency include a free press, civic organizations, competitive elections, conflict of interest and financial disclosures, independent auditing, freedom of information acts, information about fees for government services, and monitoring of party financing.\(^5\) Advocates of this approach add that educating citizens about their rights and establishing laws to protect whistleblowers make people more likely to publicize corruption that they have discovered.\(^6\) The underlying idea is that by enabling citizens to uncover corruption and punish their leaders for it, the officials will be less likely to engage in it. The evidence presented in this book, that citizens prefer not to engage in corruption and instead to search for other ways of meeting their needs, bodes both well and poorly for this anticorruption strategy. On the one hand, the evidence suggests that citizens are opposed to corruption and thus may be willing to serve as watchdogs. On the other hand, anticorruption campaigns that merely inform citizens that they have a right not to engage in corruption may have little effect as citizens already consider corruption repugnant. Most important, efforts to increase government accountability do not deal with the problem that citizens themselves have an incentive to engage in corruption, namely, to meet everyday needs. Increasing citizens’ role as watchdogs can help in reducing grand corruption but it will be less useful in decreasing corruption to meet everyday needs.

---


A weakness of all of the existing recommendations is that officials often prefer not to change a system in which they personally benefit. Who is willing to implement the recommendations? Some advocates have suggested that international organizations and foreign countries can help. International anticorruption efforts independent of the target country seem most promising. Laws ending tax write-offs for bribes and prohibiting bribery outright can discourage foreign businesses from engaging in corruption. International efforts to reduce money-laundering can also be helpful.\(^7\) Direct international pressure on countries to reduce corruption, through foreign aid conditionality,\(^8\) is likely to meet with fewer successes because countries can refuse aid or hide corruption. For the same reason, it makes sense to focus attention on citizens, who would rather not engage in corruption and would instead prefer to meet their basic needs through other means.

**Reduce the Incentive of Ordinary Citizens**

For an anticorruption strategy to be effective it must not only acknowledge that ordinary citizens have an incentive to engage in corruption but also identify that incentive. This book found that meeting everyday needs is an incentive for citizens to engage in corruption and that an absence of resources from the market, groups in society, and family members strengthens that incentive. To reduce ordinary citizens’ incentive to engage in corruption, it then follows that the market, groups in society, and extended family must be able to generate and distribute goods and services that individuals need. Creating effective market-enhancing institutions and reducing government restrictions on political groups are two ways to help achieve this.\(^9\)

Market-enhancing institutions—“[r]ules, enforcement mechanisms, and organizations . . . [that] transmit information, enforce property rights and contracts, and manage competition”—can create substitute resources.\(^{10}\) For example, credit registries facilitate lending by private banks and other financial institutions and thus meet the need for credit. This credit enables development and enlargement

---

9. Citizens’ needs could also be met by introducing or reintroducing extensive state welfare programs. However, this approach expands opportunities for grand corruption. It is also not compatible with the market philosophy of international financial institutions, which can be important resources for anticorruption programs.
of private businesses and groups in societies, such as charities. Antimonopoly policies, another example of a market-enhancing institution, reduce the prices of inputs, freeing private businesses’ capital for expansion. With expansion, private businesses hire more people, and thus meet their needs for employment and money. A successful entrepreneur or an employed individual is more capable of meeting the needs of his or her own household, providing for extended family, and making donations to groups in society. When the market, groups in society, and extended family can meet everyday needs, individuals do not need to offer bribes and other favors to government officials to try to obtain limited state resources.

Creating market-enhancing institutions is a plausible approach to combating corruption. International financial institutions began advocating the development of market-enhancing institutions in the early twenty-first century, as part of what has come to be termed the post-Washington Consensus.\(^\text{11}\) This recommendation, and the broader idea of the necessity of state economic involvement, has endured and even strengthened through the global economic crisis beginning in 2008. According to a World Bank report, “\([O]\)n the question of the respective roles of the market and state, the crisis reinforces the past decade’s movement toward a balanced, less ideological approach. This approach gives primacy to the private sector as driver of growth, employment, and productivity, but recognizes that government may need to create the road network, metaphorically and literally, on which private firms can drive.”\(^\text{12}\) Although the primary goal is to increase economic growth, employment, and productivity, the development of market-enhancing institutions should also help generate substitute resources and thus reduce corruption.\(^\text{13}\) Because campaigns to develop market-enhancing institutions have economic aims, they are likely more palatable to leaders who may take offense at outright foreign efforts to reduce corruption in their countries.


\(^\text{13}\) One market-enhancing institution, an independent judiciary, has been identified as useful by those who call for constraints on officials. Karklins, *The System Made Me Do It*, 112; Rose-Ackerman, *Corruption and Government*, 151–59; World Bank, “Anticorruption in Transition,” 41. Michael Johnston proposes establishing other market-enhancing institutions as a way to reduce political and economic elites’ insecurity and, thus he argues, reduce corruption. Johnston, *Syndromes of Corruption*, 208.
For groups in society to reap the full benefits of market-enhancing institutions, an additional anticorruption strategy may be necessary in some countries. Governments will have to reduce restrictions on religious organizations and secular charities as well as other groups in society. Although not the main obstacle in Kazakhstan and Kyrgyzstan, laws and government harassment prevent individuals in other countries of the world from forming groups and providing essential goods and services. To the extent that the groups are simply charities and not also political groups, international development organizations can more effectively convince government leaders to allow them to operate. Advocating for freedom of organization in the name of poverty relief is less controversial than advocating for freedom of organization to combat corruption.

Citizens’ preference to avoid corruption to meet everyday needs bodes well for these two anticorruption strategies. If the market, groups in society, and extended family can meet their needs, individuals will avoid illicit exchanges with government officials. However, this begs the question: Will individuals use similar techniques to secure goods and services from nongovernmental institutions, particularly markets and societal groups? Will reducing corrupt exchanges between citizens and government officials simply shift illicit practices to the private sector? Conceivably individuals could offer bribes and use personal connections, for example, to try to obtain credit from private banks or charitable organizations. Promises of political support, by contrast, would only be useful if market actors and representatives of societal groups sought political office. However, the risks and implications of corruption in the nongovernmental sphere are not as great. Citizens would have less incentive to use illicit strategies in their interactions with market actors and societal groups because of the existence of multiple sources for obtaining essential goods and services. This is in contrast to the present where limited alternatives to the state encourage citizens to use illicit techniques to gain an advantage in the competition for government goods and services. To the extent that corruption does occur in citizens’ interactions with market actors and societal groups, the negative political consequences are minimized. Private financial institutions, religious organizations, and charities are not government bodies, so illicit exchanges with them are less likely to reduce government legitimacy and effectiveness, as political corruption typically does.

Because corruption to meet everyday needs is not the only form of corruption, strategies to create alternative sources of essential goods and services cannot eradicate all corruption. Some individuals, whether ordinary citizens or government officials, engage in corruption not to survive, but to gain an advantage. Moreover, corruption can be grand, involving exchanges of large amounts of money and goods between businesses and political elites. Corruption can also
exist outside of the spheres of politics and basic needs, for example, in universities. Because of the varieties of corruption, other strategies are also needed.

In fact, even to combat corruption to meet everyday needs, a multipronged approach can be useful. Both citizens and officials can initiate corruption, so it is important that anticorruption programs address both parties. Prior anticorruption recommendations do not directly address the problem of corruption to meet everyday needs, and they focus on government officials’ motivations, as described above. Some recommendations were developed with only grand corruption in mind, and some of these can actually promote petty corruption. Other recommendations are applicable to both types of corruption, and, by focusing on government officials’ incentive, may serve as a useful complement to those presented in this book.

When multiple anticorruption strategies are used to reduce corruption to meet everyday needs, in what order should they be introduced? The strengthening of markets and groups in society should precede reforms of the government. This approach would address the root causes of this form of corruption. Changes to the government, such as further downsizing, can actually increase corruption for meeting everyday needs when substitute resources are not available. Moreover, increased salaries would be wasted, at least on government officials who seek income beyond their needs; they would continue to be receptive to citizens’ offers of bribes and other favors. And citizens will not hold government officials accountable if, in order to survive, they need these officials to participate in illicit exchanges. Only once substitute resources are available to citizens should reform turn to decreasing the resources available to officials, reducing their discretion, and increasing their accountability.

**Continued Corruption in Central Asia**

The likelihood is slim that corruption to meet everyday needs in Kazakhstan and Kyrgyzstan will diminish in the near future. Efforts to develop market-enhancing institutions have been minimal: the governments have neither established public credit registries nor offered incentives for the development of private credit bureaus. Moreover, government competition policies have not improved. The growth of predatory lending has made credit available to a larger number of people but this will not be a long-term alternative to state assistance. Furthermore, neither government has made a genuine effort to tackle everyday corruption. Anticorruption efforts by the government of Kyrgyzstan have focused on grand corruption, and many anticorruption pronouncements have merely been plays to retain
or acquire political power. The government of Kazakhstan has done even less to fight corruption.

Credit, which is important to meeting basic needs, has been more readily available in both countries thanks to predatory lending. Poor coverage by credit registries and credit bureaus and weak regulation of the microcredit industry has enabled this expansion. Unscrupulous microcredit companies lend to individuals who otherwise have not been able to obtain credit. They lend at exorbitant rates and often in a nontransparent manner. This credit is only a short-term alternative to state assistance, however. Microcredit industry watchers predict widespread loan defaults and microcredit company bankruptcy. Under this scenario borrowers not only lose their alternative to the state assistance but also face greater impoverishment.

Fortunately, a rosier scenario is imaginable because the governments of Kazakhstan and Kyrgyzstan have recognized the dangers of predatory lending. The Kazakhstani parliament is considering legislation to regulate the industry, and the Kyrgyzstani National Bank has closed some unscrupulous microfinance companies. These efforts may help the countries to avoid a bursting microfinance bubble. However, if government regulation increases, credit-lending will likely contract, also robbing many citizens of their alternative to state assistance.

The governments could compensate for the likely decrease in credit-lending by developing credit registries or offering incentives to lenders to do so. Credit information about potential borrowers would enable financial institutions to lend to more people responsibly. As people have borrowed through private and government microcredit programs, they have begun to develop credit histories. With this information, private banks can evaluate which individuals pose a sufficiently low risk to be worth lending to. Even with improved coverage, all individuals will not be eligible to obtain credit, as some potential borrowers may nonetheless be too risky. However, improved credit registry or credit bureau coverage would expand the number of eligible borrowers.

Unfortunately, little evidence indicates that the government will promote credit registries or credit bureaus. So far the governments have not developed public credit registries, even though officials have been aware that their absence has stymied economic growth, particularly in rural areas. The best hope is for private credit bureaus: private credit bureaus have begun to grow, covering approximately 46 percent and 32 percent of the adult populations of Kazakhstan and Kyrgyzstan, respectively, in 2013.14 The nonprofit microcredit institutions

have contributed to this growth; however, other players in the microcredit and banking industry, including the governments, have been reluctant to share information. A dramatic expansion of private credit bureaus coupled with sound government restrictions on predatory lending is the most likely way citizens will be able to obtain the credit they need to meet their everyday needs and thus to avoid engaging in corruption with government officials.

Whereas the slow development of market-enhancing institutions is discouraging, the trend of decreasing poverty bodes well for a reduction in corruption. People who are financially secure can help their extended families. From 2002 to 2009, the latest year for which statistics are available for both countries, the proportion of people living on less than 2 USD per day dropped from 22 percent to 1 percent in Kazakhstan and from 67 percent to 22 percent in Kyrgyzstan.\(^\text{15}\)

The global economic recession may, however, reverse this trend, particularly in Kyrgyzstan. Farmers in Kyrgyzstan have had greater difficulty obtaining credit during the recession, even with the growth in predatory lending. Furthermore, prices for their products, particularly meat, fell, because people in Kazakhstan, a major market, began to eat less. Migrant workers lost their jobs in Russia and Kazakhstan and returned home to Kyrgyzstan. Even when Russia began to recover and job opportunities returned, migrant workers faced a new obstacle to finding employment in the country. Those who seek citizenship in order to work in Russia encounter additional paperwork and a year-long process, instead of three months. And applicants cannot leave Russia during that period.\(^\text{16}\) Most recently Russia adopted a law requiring migrants to pass a Russian-language exam to work in service industries. With the decline of the education system after the collapse of the Soviet Union, rural Kazakhs and Kyrgyz receive inadequate or no Russian-language instruction in their home countries making this new work requirement daunting.\(^\text{17}\) Even if they cannot mitigate the effects of the new Russian policies, the governments of Kazakhstan and Kyrgyzstan may be able to stem some of the gloomy effects of the global recession. Kazakhstan’s government created an 18 billion USD stimulus package, mostly from its oil fund, and Kyrgyzstan’s agreed to a 100 million USD stimulus package from the International Monetary Fund.\(^\text{18}\)

---

The decrease in poverty, growth of private credit bureaus, and the expansion of credit have so far not been significant enough to reduce corruption, at least as measured by Transparency International’s Corruption Perceptions Index. Since private credit bureaus emerged in the mid-2000s, Kazakhstan’s corruption rating has hovered between 2.1 and 2.9, on a scale of zero to 10, or 21 to 29, as Transparency International began to present its scores in 2012 on a scale of zero to 100. Kyrgyzstan’s has oscillated in the range of 1.8 to 2.4 (or 18 to 24).\(^{19}\) It is important to keep in mind that Transparency International’s ratings capture both grand and petty corruption.

Kyrgyzstan periodically undertakes national anticorruption efforts, but they have not yet reduced petty corruption. The target of the campaigns has been grand corruption, and the purpose often has been to undermine opponents of the regime as much as to actually reduce corruption. Frustration over political elites’ corruption, as well as creeping authoritarianism, fueled the popular protests that ousted President Kurmanbek Bakiyev in 2010, as well as President Askar Akayev in 2005. In response, interim president Roza Otunbayeva initiated an anticorruption campaign. Criminal cases were opened against top officials in the Bakiyev administration for stealing state assets including hundreds of millions of dollars in Russian aid.\(^ {20}\) Anticorruption efforts in economic sectors with foreign investment, such as mining, show some signs of success. Foreign businesspeople have reported that bribes are less essential to negotiating and implementing transactions.\(^ {21}\) Two small glimmers of hope are evident for reducing both petty and grand corruption. First, a few public advisory councils, voluntary watchdog groups legislated by the government to monitor ministries and state agencies, have increased transparency and improved services, although most have had no effect.\(^ {22}\) Second, the government plans to fill positions in the state agency responsible for granting mining licenses with specialists instead of patronage appointees.\(^ {23}\) Connections to government officials would no longer guarantee positions in this agency.

---


The likelihood that these anticorruption measures or any others will enjoy great success is small, however. The corruption allegation as a political tool has returned in full force after a brief hiatus under Otunbayeva. Upon selection as interim president, Otunbayeva agreed not to compete for the regular position so anticorruption allegations were less useful to her. Since her administration, political elites have been slinging charges of corruption at one another once again. Their aim is to retain power or secure political positions in order to protect their business interests. Most recently, a flurry of corruption accusations brought down Prime Minister Omurbek Babanov in 2012. In Kyrgyzstan, the extent to which any anticorruption measure is genuine is questionable.

By contrast, in Kazakhstan anticorruption measures and allegations have been less common. Struggle among political elites has been minimized in part because President Nursultan Nazarbayev has managed to maintain relative ethnic harmony among Kazakhs and the significant Russian minority and has distributed some of the gains from the country’s profitable oil industry. When carrots do not work, the administration has used sticks. For example, in 2012 the government seized the property of the only healthy opposition force, the Alga! political party, and sentenced its leader to jail. The alleged crimes were that the opposition sought to overthrow the government and incite protests among oil workers. Perhaps another political entrepreneur will try to harness growing discontent among oil workers as a means to secure power. In this scenario, competition among political elites could grow and anticorruption efforts as a political tool could become prominent. However, it is likely that before that came to pass the individuals would face prison time.

In Kazakhstan and Kyrgyzstan, as in other parts of the world, multiple factors can fuel corruption. However, in order to understand and combat corruption it is important to recognize that neither officials’ demands, the absence of sanctions, convention, nor economic need automatically propels citizens into illicit exchanges with government officials. Rather, ordinary citizens engage in corruption when market actors, groups in society, and family members cannot provide the resources they need. When market reform occurs in countries with a legacy of significant state economic intervention and absent or weak market-enhancing institutions, goods and services from nonstate sources are limited. By creating these substitute resources we can reduce corruption.