



# The <u>Corruption</u> Dilemma: Causes, Challenges & Change in Developing Nations

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SUBJECT: CULTURAL DIVERSITY & BUSINESS ETHICS

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## Agenda

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- Root Causes of Corruption
- Existing Legal Frameworks
- Challenges in Implementation
- Combating Corruption
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## **INTRODUCTION**

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#### **DEFINITION**:

CORRUPTION REFERS TO THE ABUSE OF ENTRUSTED POWER FOR PRIVATE GAIN, ENCOMPASSING ACTS LIKE BRIBERY, EMBEZZLEMENT, AND FAVORITISM. (JOHNSON, 2024)

## IMPACT ON GOVERNANCE AND DEVELOPMENT:

CORRUPTION WEAKENS GOVERNANCE STRUCTURES, REDUCES ECONOMIC GROWTH, AND PERPETUATES INEQUALITY AND INJUSTICE. [SIMONE & ZAGARIS, 2014]

## **Types of Corruption:**



- **Political Corruption:** Bribery and abuse of power by public officials.
- Corporate Corruption: Fraudulent practices affecting organizational governance and operations.
- **Systemic Corruption:** Corruption embedded in institutional structures.[Runde & Metzger, 2020]

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## **Research Questions**

- 1. What are the major causes of corruption in developing countries, and how do they hinder the effectiveness of anti-corruption laws?
- 2. How can different sectors work together to identify, prevent, and combat corruption?

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## LITERATURE REVIEW

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## **LITERATURE REVIEW**

#### • Johnson, L. (2024):

- Anti-corruption laws in developed nations (e.g., USA, UK) have improved transparency and accountability.
- Institutional weaknesses and socio-economic factors limit the effectiveness of these laws in developing economies.

#### • Ahmed A. Sarhan & Christopher J. Cowton (2024):

- Corporate anti-corruption commitments influence audit efforts, with governance mechanisms moderating this relationship.
- Auditors play a critical role in identifying corruption risks, though audit effort varies with corporate transparency levels.

#### • Francesco De Simone & Bruce Zagaris (2014):

- Foreign bribery laws (FBLs) in developed countries help combat transnational corruption but have mixed outcomes for developing nations.
- Donor agencies are crucial for bridging capacity gaps and fostering policy coherence.

#### • Ming Bai, Yanru Chen, Ye Hong, and Zhongqi Yang (2024):

- Executive corruption significantly inhibits corporate innovation by exacerbating financing constraints, limiting access to resources, and decreasing innovation inputs and outputs.
- The effect is more pronounced in firms with weak internal controls, strong political affiliations, and low institutional investor shareholdings.

## **ROOT CAUSES OF CORRUPTION**

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#### Cause:

"A cause is an insufficient but necessary part of an unnecessary but sufficient condition for the effect" (Huberts, 2007).

#### **Characteristics**:

- Corruption is influenced by political, economic, and social circumstances.
- Rooted in perceptions of unfair power and wealth distribution.

Source: https://www.vecteezy.com/free-vector/corruption

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### **MAJOR CAUSES**



#### **Economic Causes:**

- Low GDP, income inequality, and inflation.
- Lack of competition and policy distortions amplify the issue. Lambsdorff (2007)



#### **Political Causes:**

- Weak Governance.
- Poor accountability, inefficiency and lack of transparency.
- Excessive regulations create opportunities for bribery. (Montinola & Jackman, 2002,p. 153)



#### **Public Sector Wages & Taxation:**

- Poorly paid officials are incentivized to accept bribes.
- Complex tax laws and frequent taxpayer interactions.(Tanzi, 1996, p. 572)



#### **Cultural & Individual Factors:**

- High power distance societies often normalize corruption.
- Individual morals, influenced by cultural norms, impact acceptance of corruption. (Lambsdorff, 2007, pp. 85-88)

## **Point to Ponder:**

"Is corruption a moral failure that influences inequality, or is inequality an ethical injustice that fosters corruption?"



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## **EXISTING LEGAL FRAMEWORK**

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### **Anti-corruption Frameworks in Developing countries**

#### **INDIA**

The Prevention of Corruption Act, 1988.



सत्यमेव जयते Goverment Of India

#### Kenya

The Anti-Corruption and Economic Crimes Act, No. 3 of 2003.



#### **Mauritius**

The Prevention of Corruption Act 2002.



#### **Tanzania**

The Prevention and Combating of Corruption Act.



Source: https://www.hranker.com/blog/wp-content/uploads/2021/03/government-of-india.jpg; retrieved, 21.01.2025

Source: https://en.wikipedia.org/wiki/Coat\_of\_arms\_of\_Kenya; retrieved, 21.01.2025

Source: https://en.wikipedia.org/wiki/Government\_of\_Mauritius#/media/File:Coat\_of\_arms\_of\_Mauritius\_(Original\_version).svg; retrieved,

Source: https://en.wikipedia.org/wiki/Tanzania#/media/File:Coat\_of\_arms\_of\_Tanzania.svg; retrieved, 21.01.2025

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### <u>Anti-corruption Frameworks in Developed countries</u>





**United Kingdom** 

**United Kingdom Bribery Act 2010** 

**Netherlands** 

Dutch Criminal Code (DCC) Anti-Corruption.

#### Measures taken by International organization to fight against corruption



#### **United Nations Convention against Corruption (UNCAC)**

The United Nations created a treaty in October 2003 known as the United Nations
Convention against Corruption, 186 states parties came forward and signed this treaty.
(Huter& Dell, 2019)



#### **United States Foreign Corrupt Practices Act (FCPA)**

 A landmark U.S. law that prohibits bribery of foreign officials and mandates accurate corporate financial record-keeping to combat corruption globally. This Act is applicable to all the based U.S business even when it operates in the foreign land also. (Runde & Metzger, 2020, p.3)



#### **Open Government Partnership (OGP)**

• The open Government partnership was established in 2011 with Eight countries following Brazil, Indonesia, Mexico, Norway, the Philippines, South Africa, the United Kingdom, and the United States. It's aim is promoting transparency, accountability, and citizen participation in governance to strengthen public trust and combat corruption. (Francoli & Paré, 2024, p.88)

## **CHALLENGES IN IMPLEMENTATION**

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## **Institutional Weakness**

## Weak Institutions

Institutional weakness is the inability of systems and organizations to function effectively due to poor governance, insufficient resources, and systemic inefficiencies. (Johnson, 2024)



#### **LEGAL FRAMEWORK GAPS**

- Loopholes enable exploitation, weakening accountability.
- Inadequate penalties fail to deter wrongdoing.
   (Johnson, 2024 & Nwosu, 2023)

#### **WEAK ENFORCEMENT**

- Bureaucratic delays hinder investigations and trials.
- Inconsistent law enforcement undermines anticorruption efforts. (Johnson, 2024 & Nwosu, 2023)

#### **POLITICAL INTERFERENCE**

- Anti-corruption bodies lack independence due to political influence.
- Damages the credibility of anti-corruption efforts.
   (Singh, 2022)

#### **RESOURCE CONSTRAINTS**

- · Underfunded agencies lack staff and training.
- Limited tools hinder tackling complex corruption cases. (Nwosu, 2023 & Singh, 2022)

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## **Social and Cultural Norms**



## **Cultural Acceptance of Corruption**

- Acts such as gift-giving or nepotism may be seen as normal due to ethical relativism.
- What is considered a "favor" in one society may be viewed as bribery elsewhere.

(Sharkey et al., 2017)



## Clash of Standards

- International anti-corruption laws often do not align with local customs and ethical perspectives.
- Causes enforcement challenges, especially in cross-border cases.

(Cates, 2024)



## Resistance to Change

- Citizens may fear retaliation or social stigma for reporting corruption.
- Deep-rooted cultural norms make it difficult to challenge long-standing practices of corruption.

(Ramada et al., 2024)

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## **Combating Corruption**

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## United for Ethics and Accountability



- Estonia's e-governance reduced complaints by 50% and saved 2% of GDP annually. (Vassil, 2016)
- In India, under 'I paid a bribe' (IPAB Portal), users can document first-hand experiences of petty corruption throughout the country. (Martini, 2014)
- Youths for Integrity Fiji is a network made of around 150 young Fijians that focuses on awareness raising activities including through arts and culture. (Schutte, 2017)

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## Organizations for Ethical Standards



- Siemens established a global compliance system with strict anti-corruption policies. (Shah, 2012, p.43)
- 42% of corruption cases detected through whistleblowing.(Association of Certified Fraud Examiners, 2022)
- Blockchain ensures secure and transparent transactions, preventing tampering and fraud.

## **Ethics Beyond Boundaries**

- Collaboration across sectors and borders amplifies the impact of anti-corruption efforts.
- The Partnering Against Corruption Initiative (PACI), launched by the World Economic Forum, helps companies fight corruption by promoting collective action, sharing best practices, and providing a framework for implementing anti-corruption measures.
- Donor countries can help developing countries fight corruption by providing financial support, technical assistance, and promoting transparency and good governance initiatives. (Martini, 2014)
- The GlobE Network is a rapidly expanding global community of practitioners dedicated to countering corruption.

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## Conclusion

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The main causes of corruption include economic instability, political influence, cultural factors, and a lack of individual morals.

To combat corruption, countries have developed their own legal frameworks. Additionally, international organizations have stepped forward with initiatives such as the United Nations Convention Against Corruption (UNCAC), the Foreign Corrupt Practices Act (FCPA), and the Open Government Partnership (OGP).

However, implementing these legal frameworks faces significant challenges, including Loopholes in the frameworks, Weak enforcement mechanisms, Political interference, Social and cultural differences, and Resource shortages.

To overcome these challenges, policies should promote ethics, organizations must adopt and uphold strong ethical standards, and cross-border collaboration is essential to effectively combat corruption.

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## Thank you

**QUESTIONS?**