

CORRUPTION AND THE LEAST DEVELOPED COUNTRIES (LDCS): AN ANALYSIS OF THE CAUSES, SCOPE, AND IMPACT OF CORRUPTION ON THE LDCS

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ABSTRACT

The article examines the links between corruption and development in the developing world. There is a close relationship between corruption and development, which is why ending corruption needs to be at the core of any developmental agenda for the least developed countries (henceforth LCDs). Moreover, this article includes a discussion on the causes, scope, and impact of corruption on the state and society in the LCDs. As there is a lack of oversight, transparency, central guidance and direction, coupled with institutional deficiencies and incompetence, there is a tendency towards predatory, rentier state in the LDCs. Besides this, there exists a kind of shadow state in the LDCs as corruption leads to the emergence of an informal economy. Furthermore, this article explores the detrimental effects of corruption on equality in society, investment in the public as well private sectors, and on the state budget. Finally, this articles not only sheds lights on the internal ecology of corruption and its external repercussions, but also points out some mechanism whereby corruption can be combated and contained.

Keywords: Corruption, causes of corruption, reasons behind corruption, measures to stop Corruption.

INTRODUCTION

There appears to be little disagreement on the existence as well of the corrosive impact of corruption on the state and society across the globe. The expert on corruption Inge Amundsen is of the view that “corruption is a disease, a cancer that eats into the cultural, political and economic fabric of society, and destroys the functioning of vital organs” of the state (Amundsen, 1999). Transparency International rightly points out that “corruption erodes trust, weakens democracy, hampers economic development and further exacerbates inequality, poverty, social division and the environmental crisis” (Transparency International, nd). Joseph S. Nye observes that “corruption is economically wasteful, politically destabilizing,” and that it also incapacitates governments (to function normally) (Nye, 1967). There is a somewhat agreement on the impact of corruption on the state and society, yet defining it not straightforward.

Corruption is therefore a contested term. Michael Johnston is of the view that “studying corruption is a tricky business: Definitions are controversial, and solid evidence is often elusive. Descriptive accounts may be clouded by self-serving equivocations” (Johnston, 1991). The controversy around the definition is compounded as it “is in itself a many-faceted phenomenon and the concept of corruption contains too many connotations to be analytically functional without a closer definition” (Amundsen, 1999). Another issue is that it can take place anywhere; anyone can indulge in corruption; it happens in secrecy; and it can change its forms and can adjust itself to changed circumstances (Transparency International, nd). Corruption is

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multi-faceted; it can be done by anyone; it is done secretly, and every effort is made to leave no evidence of it, and that what is made it dangerously elusive and extremely damaging for both state and society.

Nevertheless, corruption is defined in various ways in the available in the literature. It is defined as “the abuse of entrusted power for private gains” (Transparency International, nd). Private gains include both financial and non-financial benefits, for Carl J. Friedrich (Friedrich, 1989). One of the classic definitions of corruption is given by Joseph S. Nye, and he defines it “as a behaviour which 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 types of private-regarding influence” (for private gains) (Nye, 1967). Corruption mostly happens in the public realm, so it happens state functionaries misuse their power and position for personal gains (Amundsen, 1999). This discussion also implies that corruption is not a recent phenomenon, rather it has been there since the existence of power relationship in society.

The Persistence of Fraud and Corrupt Practices

Corruption has a long history. It was a topic of research in subjects such as history, political science, and sociology before 1980s, etc., but became a focus of attention of the economists since then (Abed & Sanjeev, 2002). Since the 1990s, there has been a growing theoretical and empirical research on corruption, which has produced a vast amount of literature on its expositions, categories, and remedies (Amundsen, 1999). Governments were seen toppled due to corruption, and military coup were carried out to get rid of corrupt politicians (Johnston, 1991). The practice of corruption, however, did not start in the 1990s— it has much deeper roots.

The practice of corrupting others is not novel. George T. Abed and Sanjeev Gupta have located the roots of corruption in the antiquity. Their research shows that as early as 2000 years ago, the famous India politician, Kautilya, has discussed the issue in his book, *Arthashastra*. Also, Dante’s portrayal of bribers in the lowest levels of Hell over half a dozen centuries ago reflects the mediaeval aversion to dishonesty. Moreover, some of Shakespeare’s plays feature prominently corrupt characters, and bribery is one of only two crimes specifically mentioned in the United States Constitution as grounds for impeaching the president (Abed & Sanjeev, 2002). All this shows that corruption has been there with human beings since long.

But the unprecedented and extraordinary focus on the problem of corruption at the moment is truly remarkable. Why this much attention? Has something new occurred, or have people finally start to realized that corruption, which had been there for quite some time, was overlooked? Although there is no definite answer to these questions, as there is no adequate, sufficient data to provide a definitive answer.

There is no denying the fact that embezzlement and corruption can be found anywhere in the world, it is, however, also a sad fact that its level and depth in the LDCs (some of the Asia, African, and Latin American countries as well in the post-communist regions (Central Asia, Eastern Europe, etc.,) is dangerously high (Amundsen, 1999). In the recent past, the Union of Soviet Socialist Republic (USSR, henceforth) along with other state-controlled economies were marred by unprecedented corruption (Valenta, 1981). There is evidence that suggests that the state’ role in economy grew exponentially in the second half of the twentieth century, thanks to the bipolar world (USSR-led Socialist versus the US-led capitalist world). It is argued that the role of the state increased role if the economy was necessitated by the following two factors: firstly, governments’ focus on more taxing for meeting citizens’ demands; secondly, an increased public spending (Burman & Phaup, 2012). The more taxes, the more public spending, the more likelihood of corruption in such countries.

The deterrent effect of high taxes, high levels of spending, along with putting regulation in place to minimize corruption. In a country with efficient and effective bureaucracies, public servants can be constrained from embezzling state funds. So, it is tenable to argue that there is more likelihood of corruption in state where there are higher taxes and more public spending where there is no stringent mechanism whereby public servant can be restrained from corrupt practices.

It has become a cultural norm: to have higher taxes, higher public spending, and more regulations, which ultimately lead to some unsavory financial practices such as bribing state officials. Bribers began approaching some government officials on a more regular basis, asking them to break rules or even the law in exchange for a government benefit or to avoid the cost to be imposed by government. There is another

side to this line of argument as well. It is clear from the statement of Michael Kantor in 1996, in which he asserted that, since 1994, American firms incurred a loss of \$45 billion due to bribes paid by foreign contractors for unfair advantage in international agreements (Tanzi V. , 1998). These sorts of cultural norms might be different from one country to the next and change slowly, if at all.

The inexorable growth of corruption during the last few decades can be attributed to many factors, such as the proliferation of international commerce and trade and some of the economic changes that have happened in many countries— especially those countries which are in transition from planned to free market economy. It is generally observed that payoffs work as a lubricant to keep economies running in the age of an economically- and commercially inter-linked world, as getting profitable contracts is extremely difficult without kickbacks (Tanzi V. , 1998). It seems that payoffs have become the norm rather than the exception in the globalized world.

An additional factor related to corruption and bribery in countries where transition from centrally controlled economy to free enterprise is occurring. Enormous amounts of kickbacks are paid to get lucrative overseas deals, have a special access to the international market, or to get some tax-related benefits. There is a link between the illegal tax incentives and the change in the nature of the state: from a centrally planned economy to free market economy (Besley & McLaren, 1993). Some people in these nations have gotten filthy rich exploiting the system of abuses. Consequently, there is a growing skepticism about free market economy—especially against the use and abuse of payoffs for private gains. This phenomenon is more prevalent in those state which are transitioning from state-controlled to free market economy in the least developed countries. So, there are multiple factors such as higher taxes and public spending, increase in international trade, and heightened awareness about bribery, etc., which are responsible for corruption in countries-especially in the least developed countries.

Immediate Variables That Have a Role in the Spread of Corruption

State is the most important actor on world stage. The state functions through rules and regulations. Prior permission of the state is necessary for activities such as registration, issuing of licenses, etc. There are some additional rules to follow in activities such as starting a business, investment, car driving, getting passport of a state, building a house, starting an international trade, etc. There is a procedure for taking permission from state institutions for the above-mentioned items. Such approvals not only provide legitimacy to the state and its functionaries, but also give monopoly over the activities of those who are ruled. Giving or withholding approval by state authorities is an act more of discretion than procedure. This discretion then provides space for bribery in the corridors of powers. For example, issuing licenses for initiating and acquiring any business a “license raj” in India (Sukhtankar & Vaishnav , 2015). What this shows is that there are various tools available to state officials for indulging in bribery and kickbacks.

Furthermore, the very existence of rules and regulations makes it compulsory for citizens to deal with state officials for getting things done. These rules also necessitate an excessive amount of time investment from citizens in dealing with state functionaries in order to get official documents. This is a practice in almost all developing nations. What it entails is that managers of firms and companies have to spend a good deal of time in dealing with bureaucracies for the smooth running of their files in state offices (Martin, 2013). So, lubricants, a euphemism for bribery, is used to get business related files to relevant state offices for a speedy process.

One of the ways to tackle this problem is to put in place a rigorous system of taxation, but that is also not without flaws. According to Vito Tanzi, tax-related laws are unambiguous so there is no need for direct contact between the taxpayer and the tax collector. Problems arise when: a) the tax laws ambiguous and can be interpreted differently, which the taxpayer find it difficult to follow and obey; (b) there is space for direct contact between the taxpayer as well as tax collector; (c) the salaries of the officials of the tax collecting bodies are low hence not sufficient for running the day to day affairs of their families; there is stringent accountability mechanism in place for discovering and punishing those who are involved in corrupt practices; (d) the organizational operational procedures (for e.g. Economists disagree on the best way to combat corruption in this area, but some have suggested creating multiple departments with the authority to issue permits or licenses (Tanzi V. , 1998). So, there is space for corruption in tax collecting bodies if the system is lax enough to be taken for granted by the rank and file of the organization.

Putting stringent measures in place to stop corruption can be a way to break the bureaucrats' monopoly over power. Managing several offices at the same time is always expensive. While it may be possible to privatize certain state functions such as activities the annual vehicle inspections, yet corruption is likely to change shape and size when there is weak control of the state controls over the officials who are charged with carrying out tax collecting function. There is evidence for that. For example, tax collecting offices were closed down in countries such as Uganda and Peru, as there was too much corruption in the offices itself. There are reports about increased job applications for low salary jobs at bodies established for tax collection. What this means is some applicants are aware of the lucrative corruption potential in the administrative arrangements of tax and customs the state.

Moreover, there appears to be a link between the choices in expenditure public funds and corruption. There is evidence that suggests that the rate of embezzlement has increased with the assigning of roles to governments in the provision of public goods and services. There is corruption at the highest level of state offices in the least developed countries. This is more prevalent more in state bodies which are responsible for approving private investment projects, and where there is room for using discretion for state officials. What happens is that some individuals, or firms get a privileged access to the corridors of power than other utilizing a rout—commonly known as paying “commission” (Singh, 2005). The state is deprived of its revenues when state officials act in a self-seeking manner. It is not only the commerce and industries sectors where there is a lot of corruption, but it exists in departments like procurement, tax collecting bodies. (Tanzi V. , 1998). So, it is highly important to keep an eye on the functionaries the tax administration.

More importantly, state offices are up for sale in some states in the developing world. Once an office is bought, it is anybody's guess for whom the office holder will work for. There is a practice of setting up extra-budgetary money accounts, which are legal in some case but illegal in other, as some of the accounts are used help serve some activities (funds for paying pensions, funds for road construction). Their illegality is related to the lack of oversight over such accounts as is the case in budgetary accounts. Additionally, money related external aid and what is earned from trading natural resources such as oil, metals, and natural gas, etc. are put into such “special accounts” which, as discussed earlier, lacks rigorous oversight than other budgetary accounts. It is highly likely that some, if not all money, will go underserving hands (Zakharova, 2008). There are corrupt practices involved as there is little transparency and a robust institutional mechanism whereby corruption can be effectively controlled. This where reforms are needed, if state want to make a course correction.

Methods of punishment

There are many ways to punish those who commit crimes or involved in corruption. One of the most effective ways to stop corruption is the certainty of getting caught instead of physical punishment (Nagin, 2013). There is little accountability involved although there is a good deal of corruption almost in every state institution. Likewise, there is a noteworthy gap between the penalties and the effective implementation of those penalties. There are exceptions there, of course. This is, however, not to suggest that penalties are not effective at all.

There is a slight problem in the implementation of penalties, as in many cases, the implemented penalties are less harsh than the legally sanctioned ones. There are long, complicated and difficult standard operating procedures in place to punish a public servant for corrupt behavior. Additionally, it takes much longer to effectively implement punishment due to challenges such as cultural, administrative as well as political. Additional difficulty includes furnishing a case with irrefutable evidence. Witnesses can withdraw from the process as it is not lengthy but risky as well (Mauro, 1997). Some states try short and quick trial for those involved in grafting.

For example, China, in the recent past, has started to enforce death penalty for those who are accused and charged with corruption related cases, and remarkably, there is a widespread acceptance for death penalty for those involved in embezzlement (Keck, 2014). There is still, however, a chance that those who committed corruption could go scot-free. This then leads to a perception that penalties are meted out unjustly and unequally. Also, judges who deliver the penalty decrees can be biased as well, so may put hurdles in the implementation process of the penalties. That is why, it is difficult to punish those who are involved in corruption (Mijatović, 2021). All this put the whole accountability process into question.

Limits Imposed by Established Institutions

Institutional check and balances, alongside deterrence, also plays a role in containing and addressing the problems of corruption. Institutional checks— a stringent regulatory system— is a must for minimizing corruption. The higher ups need to keep a check on the lower ranks, and there needs to be a body to hold the higher ups accountable as well. That is why institutional checks and balances are key to combatting corruption. It is however apt to note here that corruption is exposed by outsiders, especially by investigative journalists, while it needs to be exposed from within (Tanzi V. , 1998). It would be tenable to argue that checks and balances along with a vigilant media can be an effective tool to fix corruption.

Besides checks and balances, there are anti-corruption bodies which look into the case of corruption. For example, a number of countries, including Singapore, Hong Kong, Uganda, Argentina, etc., have established anti-corruption commission to investigate corruption related cases. These commissions can function properly if there is system in place whereby, they can be kept immune from any political interference. It is also important to note that funding is secure, and such commissions have the authority to recruit the best candidates for the job. Additionally, Furthermore, they have the capacity to enforce their decisions without any fear or favor. That said, there are examples where office holders of such commission deem themselves accountable to their political bosses (prime minister, cabinet ministers, etc.) rather than to parliament (Sachar, n.d). The role of politicians in such commissions the lead to the politicization of the whole accountability process, which ultimately diminished their credibility as well as their efficiency.

One must keep in mind that corruption exists and grows in an environment where there is a contestation going on between various state institutions. Additionally, corruption grows faster in states where there is no agreement on the text, interpretation, and implementation of the rule and regulations (The Organization for Economic Cooperation, n.d). In order for states to control corruption, what is important is to have a comprehensive legal— that is, laws need to be conceptually clear and linguistically unambiguous. There is evidence that suggests that there is some opaqueness in the process of policymaking. For example, states, such as New Zealand, have taken some noteworthy steps towards a responsive and accountable government (Tanzi V. , 1998). This is a laudable step, and such steps need to be taken by most, if not all, states.

Growth and Corrupt Practices

Corruption cannot be justified in any way, yet there is a divided opinion about its role in developmental projects, and even some financial experts even point to some of its benefits. In the late 1990s, there was a general understanding in some of the Southeast Asia nations that development and economic growth cannot be fully delinked from corruption. Investors pay kickbacks to provide the vehicle of files with some solid tyres. It, unfortunately, leads to the institutionalization of corruption in some of the Southeast states (Indonesia, etc.) (The Organization for Economic Cooperation, n.d). Moneyed people know where to go to get things done.

The following points are put forward by those who advocate that corruption is not always negative. Firstly, governments contracts if provided to the right kind of people, even a little payoff, is involved, it will pave the way for productivity. Moreover, those investors who value time more than money will pay money (bribe officials) if that reduces the time of applying for and getting state contracts. They thus play around the bureaucratic process involved in state contracts, so they get contracts quickly, start it, and completely it on time. There is also a correlation, a negative one though, “between corruption and openness to trade” and the adoption of some industrial policies, which ultimately provide space for corruption (The Organization for Economic Cooperation, n.d). According to this school of thought, corruption brings and maintain economic certainty and political stability, as it helps provides employment to jobless people and plays a role in the continuation of policies.

Nevertheless, the above line of reasoning about justifying corruption can be countered in many ways. Rules and regulations cannot be imposed on a state from without and they are not unalterable either. Behavior is not necessarily inherent, so it can be learned. Character building along with a stringent system of checks and balances and a holistic enforcement of laws can make development possible and disincentivize corruption.

Moreover, corruption is tempting— it provides the opportunity to move up the ladder of the riches— and makes member of a different class. It can provide a quick fix to some of the money related problems, but it is damaging in the long run. For example, the Mobuto-led Zaire made some progress while being corrupt, yet it caused massive problems in the long run, as such states cannot balance their budget— their budget is a deficit one, as the amount of money to private pockets exceeds the amount that goes to the national exchequer. As a result, state policies cannot be completed on time, so it lags behind in terms of economic growth and political stability (Tanzi V. , 1998). Prevention of corruption is therefore key to addressing some of the challenges such as economic disparities, class difference, and making a room for a wholesome development of both state and society.

Corruption Prevention Efforts and the State's Role

This article has shed a good deal of light on some of the causes of corruption. Corruption is more prevalent in the least developed countries, yet it exists in the developed nations as well. However, the least developed countries are more vulnerable to corruption and bribery. It is common knowledge that professionals like doctors do not shy away from taking bribes in developing countries, which often badly affect the healthcare system in those countries. There is a link between poverty and corruption in these countries as it is difficult for people to make their ends meet in their salaries. So, one can argue that the ratio of corruption in a country's will fall over time as their economy improves.

For example, some states—especially Singapore, Hong Kong, Portugal—have been able to significantly reduce corruption in the public offices, thanks to strong, stable economies (Tanzi V. , 1998). What this implies is that corruption is not inevitable, so it can be contained and addressed. It is correct to argue that corruption cannot be fully eliminated from the state and society, yet there is no evidence that suggests that it cannot be contained and minimized. What is needed is a concerted, committed effort to achieve the goal of corruption-free state and society, economic growth and a just distribution of resources. Furthermore, there is no single factor responsible for corruption. It could have been easier to minimize it if it was a uni-causal phenomenon. The complexity of the phenomenon points to the fact that a holistic approach is required to fight corruption. In terms of timeframe, it cannot be significantly minimized in the course of months even years, if the right kind of approach is not adopted. Although quick fixes might not work, however, steps such as increasing the salaries of the public servants, raising the salaries of public sector employees, making penalties for corruption harsher and their enforcement more effective, and establishing a robust anti-corruption system, etc., will help in longer terms.

The first step in the accountability process must include getting confession from those civil servants who are involved in corrupt practices. Bribery has almost become part of the norms, as it is not considered bad anymore. Individuals and interested investors pay money to get special favor. State officials take risks by indulging in bribery so as to financially compensate themselves for the risk taken. There is also no single criterion for measuring the quality and quantity of corruption in the world— especially in the developing world (Olken & Pande, 2012). An enabling environment for corruption is thus provided by states and some of its policies.

Bureaucracy is meant to implement decision of the policy makers in an effective and efficient manner. There is however a problem of innovation in state bureaucracies as it is too much a status quo force (Styhre, 2007). States lose legitimacy if their citizens start to believe that the state and its functionaries work for their own selfish interests rather than for the people. There are various organs and bodies in a state, which are responsible for policies in their assigned domains. There is, in most cases, discrepancy between policies formulated and implemented by state bodies, hence problematic in the sense of subject to competing interpretations.

The reason being that it is highly likely that some high-level policymakers either lack the capacity to come up with clear, implementable ideas, or they do not want total transparency in their actions. In such circumstances, the onus of burden in implementing ambiguous policy directives to the lower state officials who are tasked to implement such directives. Additionally, there is secrecy to policies making process as well as to policies, as no state wants its public know each and every aspect of its policies (OECD, 2013). What is argued here is reforms cannot be delinked from anti-corruption drive, as it is futile to implement reforms without rooting out, or at least, minimize corruption first.

Furthermore, there is evidence that suggests that increase in the salaries of civil servants an effective antidote to corruption in the state and/or government offices. For example, Singapore, which is one of the least corrupt countries, pays its civil servants much higher salaries, not comparable to any other state that pays that much salaries to state officials. It has one of the smallest yet the most elite civil service in the world. The role of leaders such Lee Kuan cannot be discounted, however (Quah, 2022). Low public sector salaries and low performance are inherently linked with each other as compared to higher salaries and higher performance in the private sector.

This phenomenon— low salaries, low performance, is more prevalent in those states where the economy is centrally planned. The pressure to work hard, proper, and with passion is unfortunately not as intensive on public sector employees as is on the private sector employees. Public sector jobs thus become opportunities for those who do not want to work to the extent their potential warrant them to do. So, the provision of public goods and services is badly affected. What is needed by states is to recruit competent people, as “an efficient, motivated, and effective civil service” is a must for good governance, distribution of resources as well as for economic and fiscal policies and their implementation (Schiavo-Campo, Tommaso, & Mukherjee, n.d). Such policies will not only help ameliorate the lives of the people, but also attract competent, confident people to work for the state. Public and private sectors need to work hard to recruit smart people. Private sector needs not to be the catchment area for smart and competent people. This is one of the surest paths to progress.

There is also a line of argument that suggests that harsh punishment leads to low rate of corruption, although not without problems. Some of the issue with this line of thinking is that it would bypass the due process part of the rule of law; it can be (ab)used by states to gag those who deviate from the official position on some issues— especially some states’ position related to human rights violation. Also, political opponents can be falsely accused of corruption and punished on trumped- up charges. There is neither due process nor proper judicial mechanism to mete out justice fairly and justly, as is the case in democratic societies. Punishment coupled with due process and an autonomous judicial system can play an effective role in minimizing corruption in any state. (Nawaz, 2010).

Another effective step can be to put an effective taxation system in place. It is apt to note here that levying taxes is not always a bad policy. In some states such as Sweden, Canada, Denmark, etc. the tax rates are some of the highest ones, yet they are the least corrupt nations in the world. While countries like Pakistan, Indonesia, Nigeria, Venezuela, etc., occupy top slots in the list of most corrupt nations, while their tax-to-GPD ratio is lowest in the world (Tanzi V. , 1998). Punishments, regulations, and effective service constitute a strong bulwark against corruption.

CONCLUSION

This article has explored the challenge of corruption— that is, its causes, scope, and impact of corruption— which is prevalent across the globe—especially in the least developed countries (LDCs). This article has shown light on the ways corruption erodes the confidence of the people in democratic processes and free market economy. The defence of democracy and free market economy pales into insignificance when corruption is linked with democratic processes and economic policies. The prevalence of corruption in the developing world is sometimes mistakenly attributed to the failure of democracy and free market, which has then led to dissatisfaction and disillusionment among the citizens of these states against both the free-market economy and democracy. It needs to be kept in mind that the promise free the state of corruption is often used to justify grabbing of power by dictators. Some people mistakenly believe that democracy is a lax system, so it means less discipline, hence prone to corruption.

In addition, there is a close link between democracy and free market economy in today’s world. Corruption is added to the combine of democracy and free market economy. There is however a counter-argument to this line of reasoning where democracy and corruption are linked with corruption. On the contrary, it is the state undue intervention in the economy that leads to the spreading of corruption in those countries. What is therefore needed is to change the nature and behavior of the state in order to contain, minimize, and defeat corruption. Reforms and reduction in corruption go together: no number of reforms will work as long as there is corruption in a state. In order to minimize, if not eliminating it altogether, the

following four policy measures can be taken by a state: Firstly, there is a need to fight corruption at the highest level of government, so that the lower cadre look up to the higher ups to learn lessons from them. Secondly, there needs to a stringent system of checks and balances in the state institutions, so that no functionary is able to take arbitrary decision for their own selfish ends. Thirdly, we can lessen the availability of corrupt practices by raising wages in the public sector, provide extra incentives for exemplary moral conduct, and penalize those involved in corruption without any fear or favor. Overall, corruption is an issue that pervades across the globe— both in the developed and in the developing world, but, unfortunately, more in the developing states. What is therefore important to be done is to carry out holistic political and economic reforms in the developing world where citizens feel that the state works for them, not for the few, who wield power, and the developed world provides resources for the effective implementation of such reforms.

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