



U4 Brief 2021:1

Curbing grand corruption in ethnically plural societies

The role of corporate responsibility

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Series editor: Inge Amundsen

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A tractor transporting rice in Auchlyne, Guyana.

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Keywords

private sector - business - small and medium sized enterprise - collective action - procurement - grand corruption - Guyana - Latin America

Publication type

U4 Brief

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Under what circumstances can firms favourably contribute to curbing grand corruption in ethnically plural societies? It can be argued that the most practical and strategic entry point is through small and medium-sized enterprises. Compared with larger firms, their distance from the centres of power and relatively high level of ethnic diversity in ownership means it is easier to encourage this group of entrepreneurs to engage in collective action against corruption and ethnic clientelism.

Main points

- Small and medium-sized enterprises (SMEs) have a strategic role to play to contest corruption and ethnic clientelism, and a collective-action approach has the best potential to accomplish this goal.
- If SMEs are organised into formal associations, they can be the vehicles through which contestations and collaborations are successfully achieved. Formalisation would aid the development of SMEs, and could represent and articulate their combined interests.
- As formal associations, SMEs are in a position to educate, advocate, and collaborate to contribute to the reduction of corruption and the establishment of a fair and attractive business environment.
- SMEs can pressure larger firms and the state to adopt a more transparent and competitive procurement system, if they engage with other stakeholders to facilitate a conducive business atmosphere characterised by anti-corruption hypernorms. This increases the opportunities for them to successfully compete with larger firms.
- Forging alliances under the framework of a professional association means that SMEs could tackle collective-action problems by enforcing social and organisational norms that prohibit corruption. However, there remains the difficulty in ensuring its members embrace – and comply with – these norms, as there is the risk that individual firms might find they gain more from corruption.
- SMEs have more to gain and less to lose than the larger firms by drawing attention to and opposing instances of corruption – especially in public procurement. If they are persuaded that there are benefits from such actions, such as enhanced business opportunities and higher income, they will be more willing to be part of a collective movement against political corruption.
- While a low formality rate presents a hindrance to collective action by SMEs, it can also be considered as an opportunity. It is highly likely that SMEs will be driven into a survivalist mode because of the uncompetitive nature of their business environment and the concentration of large cash flows among a small number of favoured firms.

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How the business community can help to reduce corruption

Most of the development literature¹ shows a widespread agreement on the inimical effect of corruption on developing countries. Informed by this abundant literature, many policymakers and opinion shapers propose and implement various solutions. These range from the reduction of the role of government in the economy;² the changing and updating of legal, political, and economic institutions,³ and of the incentive structures;⁴ to the reorganisation of the political and socio-economic structures of the society. The role of other social groups has also been emphasised, for example the media and freedom of speech⁵ and civil society organisations.⁶

Some studies have highlighted the roles of the business community in curbing corruption, and they propose various methods by which that community can reduce corruption in both the private and public sectors. Proposals include the formation of private sector associations to serve as industry watchdogs, collective-action initiatives to influence positive change in the governance context, and competition in the private sector.⁷ Internal business measures to strengthen individual corporate compliance are also proposed.⁸ Powerful and self-interested business interests, which are capable of challenging the abuse of political power, are also important means to contribute to the establishment of constraints on the use of state power.⁹

Using Guyana as an example, we propose some suggestions on how firms can contribute to changing the status quo, in a context of political corruption and ethnic divisions, and specify under what circumstances this might be possible. Guyana is a new oil and gas frontier country that has scored comparatively low on the Corruption Perception Index. It is also an ethnically divided country, where businesses have various ethno-political bases.

1. Eg Aidt 2009; Swaleheen 2008; Akcay 2006; Cooper Drury et al. 2006; Abed and Davoodi 2000.

2. Gerring and Thacker 2005.

3. Acemoglu and Robinson 2015.

4. Khan 2010.

5. Fell 2005.

6. Johnston 2005.

7. Dávid-Barrett 2019.

8. OECD et al. 2013.

9. Mungiu-Pippidi and Johnston 2017; Johnston 2014.

Corruption and ethnic clientelism: Guyana as a case study

Guyana is a Caribbean country located at the northern coast of South America, and which gained independence from Great Britain in 1966. Before independence, the country was structured along ethnic lines, as the British brought in indentured labourers from India, China, Madeira, and other countries to supplement and replace formerly enslaved labour from Africa. These ethnic groups became associated with different occupations, and lived in separate communities.

After independence, Africans represented 33% of the population, East Indians 38%, mixed races 12%, indigenous peoples 5%, and other groups made up the remaining 12%. This laid the foundations for the current composition of the country, as the relative size of each group remains largely the same: the Afro-Guyanese make up 29%, the Indo-Guyanese 39%, the indigenous groups 10%, and the mixed groups 16%.

Since the era of mass-migration from India around the 1830s, the two largest groups (Afro-Guyanese and Indo-Guyanese) have been locked in political and economic competition. The people associated with each group throw their support behind their political elites with the hope that political power will translate into better life chances.

In terms of its economic profile, the country depends on the export of a few primary commodities: sugar, timber, gold, bauxite, shrimps, and rice.¹⁰ Since independence, there has been little economic transformation capable of bringing about any social transformation to upset the pre-independence composition – with the exception of urbanisation. However, the urbanisation rate of Guyana remains relatively low, at less than 1% per annum.

Guyana is an interesting case of political corruption, as it combines corruption and ethnic clientelism. Edwards¹¹ argues that the dynamics related to corruption in ethnically differentiated societies are in contrast to those in ethnically homogeneous societies. The fact that many ethnically differentiated societies are also ethnically stratified (some ethnic groups have higher economic and political status than others) presents another dynamic related to the spoils of corruption.

In the case of Guyana, political leaders collude with private actors of their own ethnic group. In many cases, selected businesses are recipients of large transfers from the state

10. See for instance: https://www.indexmundi.com/guyana/economy_overview.html.

11. 2017.

to the private sector, and the state actors themselves benefit from this process through kickback mechanisms. The ‘crowding out effect’ of this patronage system¹² – the skewing of the playing field in favour of businesses with ethnic links to the political elites – negatively affects the businesses that are not part of this small circle. This presents both opportunities and problems for the excluded businesses in contesting the status quo.

When a political party that consists predominantly of the same ethnic group is in power, there is hardly any contestation by the business classes on matters relating to corruption

This ethno-political nature of its society and economy is a factor that partly prevents contestation. For example, the Private Sector Commission (PSC) in Guyana is an association of private businesses that are owned mostly by the Indo-Guyanese ethnic group. Whenever a political party which is predominantly made up of the same ethnic group is in power, there is hardly any contestation by the commission on any matter, let alone those related to corruption. This is because the political and the business classes belong to the same ethnic group, and the business elites who make up the membership of the commission benefit directly from the economic programmes of the government in power, and vice versa.

Guyana’s recent discovery of large amounts of offshore oil has the capacity to increase the likelihood of the transference of wealth from the state to a small ethnic elite. As seen in other oil-rich countries, this could enhance ethnic and social conflict as the economic stakes in the country get higher.¹³ Subsequently, we endeavour to propose ways by which the private sector – a critical group in society – could, as a collective, contribute to a fair and attractive business environment.

What drives corruption in the corporate sector, and what are the solutions?

There is a growing literature on the role of the corporate sector in combatting corruption, not only within the sector itself but also between the corporate and public

12. Khemraj 2013.

13. Le Billon 2006.

sectors.¹⁴ Some of these attempts have been directed towards understanding how corporate actors conceive their roles in relation to corruption. Mitchell and Campbell¹⁵ argue that in states with high levels of corruption, businesses will take a survivalist rather than innovative approach.¹⁶ People will choose business activities with immediate returns, as opposed to setting up businesses that require large capital investments and long-term returns. Thus, in these countries, businesses are more likely to engage in corrupt acts.

In states with high levels of corruption, businesses will take a survivalist rather than innovative approach

Researchers have proposed different solutions, which are based on various understandings about what drives corruption. These include procedural fairness,¹⁷ improving the frequency and effectiveness of audits,¹⁸ and setting up specialised anti-corruption courts.¹⁹ One popular solution proposed is the establishment of industry-specific associations that can aggregate and articulate the interests of the various industries and establish what are called hypernorms.

These professional associations could tackle collective-action problems by enforcing social and organisational norms that prohibit corruption. However, it will still be difficult for associations to ensure that their members embrace (and comply with) these norms, as individual firms might find they gain more from corruption – especially in a survivalist business environment. Even organisations that fund development, such as the World Bank, find it difficult to ensure corruption is kept to a minimum.²⁰

With respect to the prevalence and nature of corruption, Guyana exhibits similar symptoms to many other developing countries. However, of special interest in Guyana is political corruption (ie corruption that involves the interaction between the public and private sectors), and particularly corruption in procurement. While bureaucratic corruption is perceived to be endemic in Guyana and attracts a lot of public

14. O'Higgins 2006; Mitchell and Campbell 2009; Rose 2007.

15. 2009.

16. For a detailed definition of the two approaches to business venturing, see Chirisa, I., Dumba, S., and Makura, T. 2012: Innovative, adaptive and survivalist strategies by small business enterprises in Zimbabwe (1990 – 2009): Implications for policy and planning. *International Journal of Academic Research in Business and Social Sciences* 2(5):114–132.

17. Akech and Kirya 2020.

18. Mitchell 2020.

19. Stephenson 2016; Schütte 2016.

20. Williams 2007.

consternation, political corruption has been very pronounced because of the specific nature of the economy and ethnic plurality.

While these proposed solutions might work in other countries, they do not seem to work in Guyana. Many agencies have been established in Guyana with the aim of tackling corruption, but they have been rendered ineffective by various strategies of the government in power. This points to the need for solutions which go beyond strengthening procedural, institutional, and administrative capabilities.

Edwards²¹ attempts to explain this tendency in Guyana by highlighting the relationship between the social structure of society, ie the way the ethnic groups are organised, and the prevalence of political corruption. He argues that because of the ethnic divisions, as well as the political and economic competition along ethnic lines, the state will be used as a means of transferring resources to the ethnic elite that controls it. His thesis is supported by earlier work which attempts to characterise the state in Guyana as an elected oligarchy and as an elected dictatorship.²² The common thread is the tendency by political actors to seek ways to extract resources from the state to enrich themselves and to distribute them in favour of private actors, invariably a close network of friends and relatives.

Promoting a collective-action approach: The role of SMEs

Given these realities, the key question is what options are open to the private sector – both as individual firms and collectively – that can make procurement systems more competitive? Combining insights from the literature review and from a qualitative analysis of responses given by business owners in a small survey we have conducted, we observe that there are certain issues surrounding the kind of actions that firms can take.

Competitive ascent (the comparative advancement of the elites of one ethnic group in competition with the elites of another ethnic group) is a principal driver of corruption in an ethnically particularist society.²³ Any attempt at targeting corruption by any section of society must take this important factor into consideration. Marquette and Peiffer²⁴ argue that ‘...effective anti-corruption efforts need to be tailored to context, which also

21. 2017.

22. Khemraj 2016; Kissoon 2010.

23. Edwards 2017.

24. 2015.

means that investment must be made so that contextual factors are deeply understood.’ Without an understanding of these contextual factors, they argue, anti-corruption efforts are highly likely to not only fail but also produce opposite results to those expected.

SMEs lose out through big businesses dominating the procurement process and the strong tendency of political leaders to collude with (co-ethnic) big businesses

Thus, in the context of Guyana, a practical and strategic way for the private sector to contest corruption is through small and medium-sized enterprises (SMEs). The multi-ethnic nature and economic interests of this group differ from the privileged elite group previously described. Today, this subset of the private sector loses out through big businesses dominating the procurement process and the strong tendency of political leaders to collude with (co-ethnic) big businesses. Therefore, SMEs have more to gain and less to lose than the larger firms by individually or collectively highlighting and contesting instances of corruption, and especially corruption in public procurement.

However, this subset also faces a key collective-action problem. A survey by the International Labour Organization (ILO) found that there is a very high informality rate among SMEs in Guyana,²⁵ which they attributed, partly, to attempts at avoiding and evading paying taxes. The high level of informality is also very likely attributed to a skewed system where the distribution of contracts and privileges is based on clientelism and ethnicity. This is pushing the SMEs into a survivalist strategy.

If the group of small and medium-sized businesses became more formalised, it could present a practical route through which a collective, private-sector action approach to curbing corruption would be likely. Also, if the procurement system was more competitive, the likelihood of small firms being able to successfully compete with larger ones would increase, and provide an incentive for SMEs to organise themselves into formal associations. Such formalisation would aid the development of SMEs, and could aggregate and articulate their interests. These associations could also specifically advocate for the reduction of corruption and ethnic clientelism generally.

Associations of SMEs are more likely to be broad-based in membership and adhere to democratic principles than larger firms, because they attract a higher number and greater variety of firms. This would protect the associations and their members in two

25. ILO 2017: 42.

important ways. First, it would protect the associations from being captured and subverted from the inside by powerful interests. Second, because they are ethnically diverse,²⁶ the SMEs are more likely to escape being ethnically branded (ethno-political branding is a strong feature of the Guyanese society) and this would protect an association from being treated unfavourably based on public perceptions.

By working with other stakeholders, SMEs could create an environment in which larger firms and the state would be pressured to adopt a more open and competitive procurement system

Such a group of entrepreneurs could also be more inclined to work with international civil society and corruption watchdog organisations in raising political demands for good governance, and in educating other social actors of the negative consequences of ethnic clientelism and political corruption. By working with other stakeholders in creating a conducive business atmosphere characterised by anti-corruption hypernorms, SMEs could create an environment in which larger firms and the state would be pressured to adopt a more open and competitive procurement system.

With the above conditions met and a conducive environment created, large firms are then more likely to join in the contestation of the status quo with regards to corruption. But even as they attempt to conform to the emerging norms and engage in both private and public activities aimed at contributing to a more competitive environment, they should understand that this is best done through a collective-action approach. This approach would be one in which the interests of the large firms are articulated and advocated through industry-specific or general business associations as a way of protecting individual firms from political or other reprisals.

Opportunities to increase awareness and strengthen partnerships

In order to successfully contribute to curbing grand corruption, the SME associations will need to engage in the following roles. Although specifically crafted with Guyana in mind, these recommendations could serve as useful starting points for analysis of those countries with similar dynamics.

26. ILO 2017.

Education

The associations would have a central role in increasing public awareness of the benefits of transparency and accountability, and the negative consequences of corruption. Education should be aimed at industry players – specifically, the management and staff of firms. This is the most practical way of creating an industry-level normative environment that conforms to the expectations of society. Public awareness should be pursued with the aim of raising the public’s consciousness at large, thus creating a political demand for good governance, accountability, and transparency.²⁷

In addition to these broad undertakings, an association should also be a critical player in disseminating information to both public and industry participants on procurement policies and methods. This would include the laws and institutions which govern the processes; the legal and established mechanisms; the rights and privileges of tenders; and the penalties stipulated for violations.

Advocacy

Such associations should advocate stronger regulation of the procurement act, as well as effective and efficient functioning of enforcement mechanisms. Additionally, they should support the timely updating of laws, a shift from manual to digital processes, and technologies which would facilitate rapid access to data and information.

Collaboration

Collaboration with government should be an important element of an association’s policy and practice,²⁸ and could be achieved in many ways. For example: the organisation of fora (eg a government industry forum on corruption reduction), and encouraging and pursuing anti-corruption agreements and joint activities with government. Private and public sectors should also come together to understand each other’s limitations and positions, and work towards a common goal to counter corruption. Additionally, collaboration between associations and civil society is endorsed – not least because it would strengthen existing support between the parties.

27. De Jesus Soares 2015.

28. Coetzee, 2012: 103.

Conclusion

The most practical and strategic entry point with regards to engaging the private sector in reducing corruption is through the framework of SMEs. Because of their relatively high level of ethnic diversity in ownership as compared with larger firms, it is easier to encourage this group of entrepreneurs to engage in collective action against corruption and ethnic clientelism.

The low formality rate is one hindrance to collective action by this group. This low rate could, however, also be considered as an opportunity since it is highly likely that SMEs are driven into this survivalist mode by the uncompetitive nature of the business environment and the concentration of large cash flows among a small group of favoured firms. If SMEs are persuaded that there are positive returns in terms of increased business opportunities and higher income from formalising into associations and from advocating a more competitive business and procurement environment, they should be willing to be part of a collective action against political corruption.

SMEs that are more formalised and transparent could be the vehicles through which contestations and collaborations are accomplished, as in the construction of a conducive normative environment while shielding individual firms from political branding and reprisals. Such SMEs could also create both the demands and conditions for the involvement of larger firms in the effort to achieve a more competitive business environment and lower levels of political corruption.

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