

Chapter 2

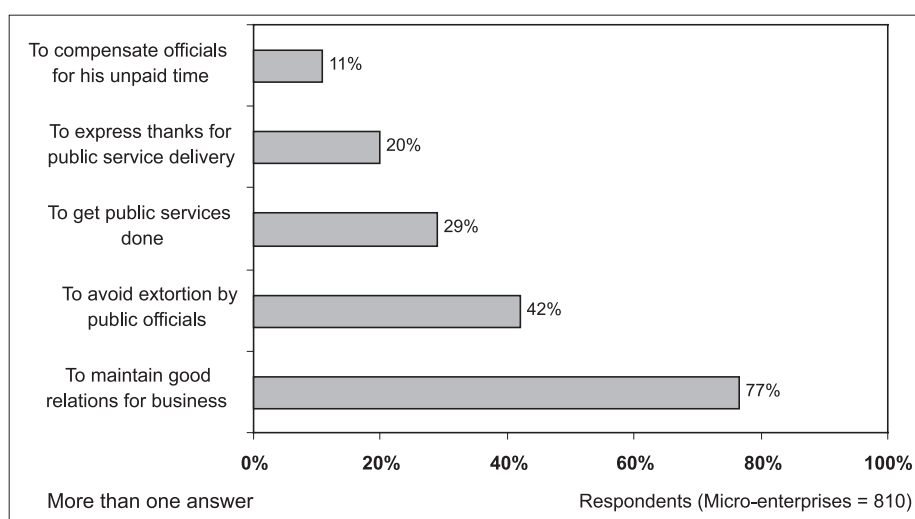
Causes of Corruption in the Private Sector

To have a fair understanding of the causes of corruption in the private sector, the survey refers to the perceptions of two groups of actors - both bribe-givers and bribe-takers. First, the survey depicts the perception of the private sector that basically provides unofficial fees to public officers. Second, the survey considers perceptions of public officers who are involved with soliciting money from the private sector.

2.1. Reasons to Pay Unofficial Fees

Answering why they need to pay unofficial fees to public officials, a vast majority of micro-enterprises (77 percent) acknowledged that they paid unofficial fees to maintain good relations for their business. A micro-entrepreneur mentioned: 'If we don't pay them, when we ask them to do us a favor, they will ignore us. It is a mutual understanding'. Only 54 percent of SMEs and 47 percent of large enterprises believe they pay unofficial fees for the same reason (figure 2.1).

Figure 2.1: Reasons for Micro-enterprises to Pay Unofficial Fees

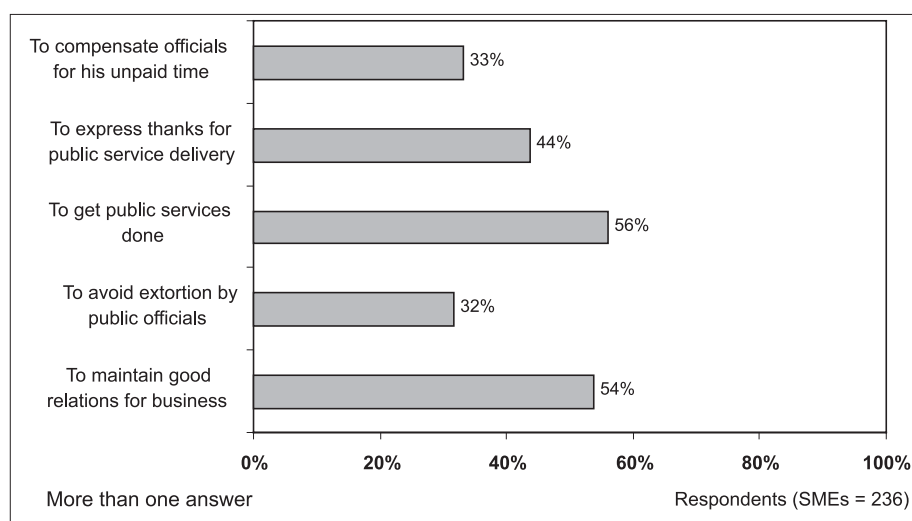


Source: EIC, CAPS survey, April 2006

In fact, in contrast to micro-enterprises, the major reason SMEs pay unofficial fees to public officials is to receive public services¹⁰ (56 percent) and to maintain good relations with those officials (54 percent) (figure 2.2).

¹⁰ These public services include services of licensing, inspection and registration provided by public officials.

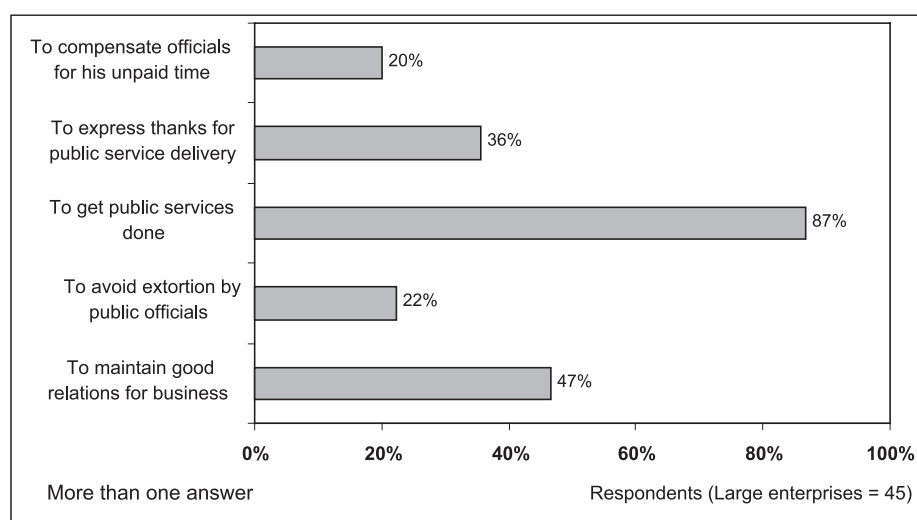
Figure 2.2: Reasons for SMEs to Pay Unofficial Fees



Source: EIC, CAPS survey, April 2006

Large enterprises are more concerned about the results achieved by public officials than their gratitude, or good relations or extortion by public officials since they are dependent on their services because of the formality of their enterprise. This is shown by the fact that a majority of large enterprises (87 percent) make unofficial payments to public officials to receive public services. However, ‘maintaining good relations for business’ was termed by large enterprise as the second reason for unofficial payments (figure 2.3).

Figure 2.3: Reasons for Large Enterprises to Pay Unofficial Fees



Source: EIC, CAPS survey, April 2006

It can be concluded that in paying unofficial fees to public officials, large enterprises are likely to focus more on receiving the required public service.

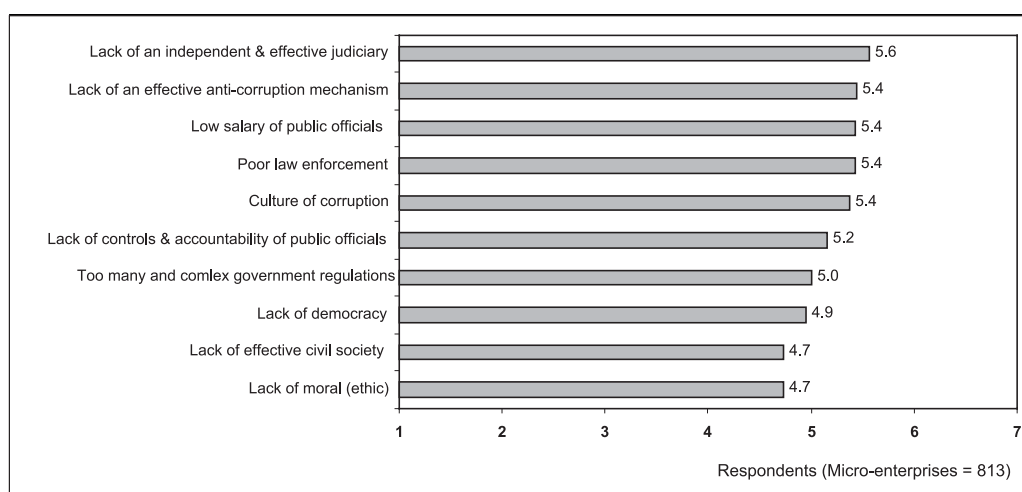
However, maintaining good relations with public officials is very important for all enterprises to do business in Cambodia. In particular, micro-enterprises that often need to deal with public officials need to keep good relations with public officials by paying unofficial fees.

2.2. Reasons to Ask for Unofficial Fees

All enterprises were also asked to rate the causes of corruption in the private sector. Almost all the answers offered in the questionnaire were acknowledged as causes of corruption in the private sector. However, some causes in particular were considered to be the most significant.

Micro-enterprises believe that a ‘lack of an independent and effective judiciary’ was the most prevalent cause of corruption, followed by ‘lack of effective anti-corruption mechanism’, ‘low salary of public officials’ and ‘poor law enforcement’ (figure 2.4).

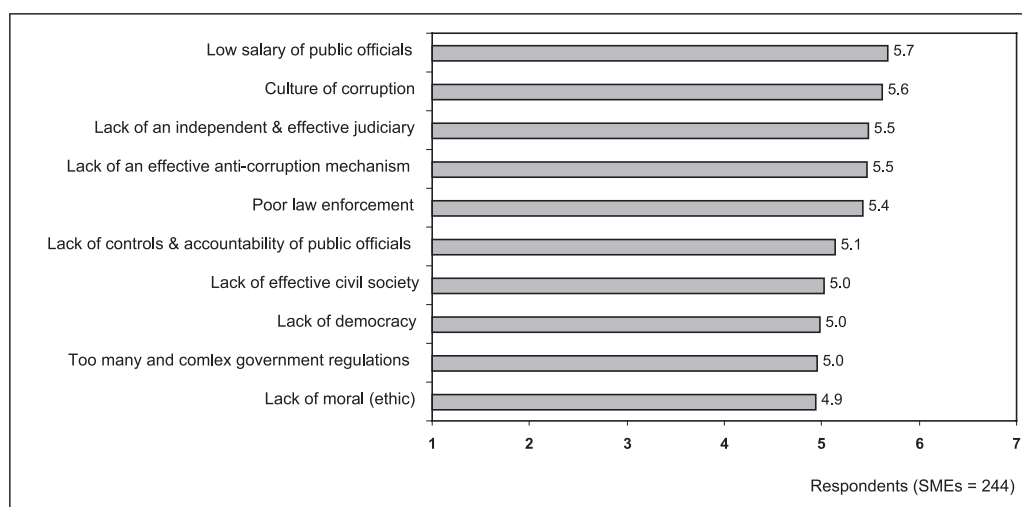
Figure 2.4: Perception of Micro-enterprises on Reasons for Unofficial Fees
(1 = Not the reason, 7 = The most likely reason)



Source: EIC, CAPS survey, April 2006

SMEs viewed that ‘low salary of public officials’, and then ‘culture of corruption’, ‘lack of an independent & effective judiciary’ and ‘lack of an effective corruption mechanism’ were the primary causes of corruption (figure 2.5).

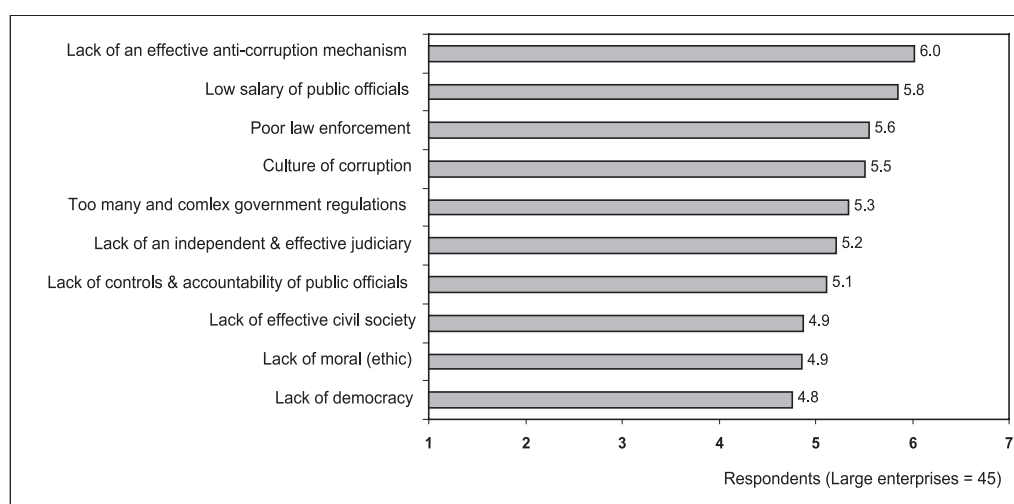
Figure 2.5: Perception of SMEs on Reasons for Unofficial Fees
(1 = Not the reason, 7 = The most likely reason)



Source: EIC, CAPS survey, April 2006

Large enterprises tend to believe that the main causes of corruption came in this particular order: 'lack of an effective corruption mechanism', 'low salary of public officials', 'poor law enforcement' and 'culture of corruption' (Figure 2.6).

Figure 2.6: Perception of Large Enterprises on Reasons for Unofficial Fees
(1 = Not the reason, 7 = The most likely reason)



Source: EIC, CAPS survey, April 2006

In spite of differences in ranges of the primary causes of corruption perceived by different categories of enterprises, there was no statistical significant difference among the answers. One can conclude that even though all the given answers were considered causes of corruption in the private sector (rated more than

4), the main causes of corruption in the private sector are: 'low salary of public officials', 'lack of an independent & effective judiciary', 'lack of an effective corruption mechanism', 'culture of corruption', and 'poor law enforcement'.

Parallel to the above answers, the most common answer provided by participants in FGDs of both micro-enterprises and SMEs was primarily the low salary of civil servants. According to a micro-entrepreneur in Kampong Cham: *"They have a low salary, so they have to demand unofficial fees to support their living."* MSMEs were of the same opinion that given the current situation, public officials lack the means to support their living costs, so they have no choice but to be corrupt.

Apart from the living wage of public officials, the other most commonly identified causes of corruption in the private sector include: Culture of corruption where paying unofficial fees has become a societal bad habit, weak law enforcement, nepotism and a patronage system where lower ranking officials are required to give money to their superior in order to maintain their position. Respondents compared the corrupt situation to a Khmer proverb, *'a big wild ox eats grass in the big forest and a small wild ox eats grass in the small forest,'* which refers to the patronage system.

Almost all interviewed public officials agreed with all the causes mentioned above. Yet, public officials primarily blamed their 'salary' as the major cause for them turning to corruption. A public official said, *"When we get thirsty while walking, we must drink water, whether the water quality is good or bad. But if we are not thirsty we will not drink."*

While accepting their mistakes in taking bribes from entrepreneurs, civil servants highlighted the issue of collusion between the private sector and civil servants, saying: *"Clapping one hand does not make noise."* Collusion may frequently happen when an enterprise is in the wrong or is linked to illegal or informal activities or does not fully comply with the imposed regulations or law, tax evasion, etc. In these cases, businessmen need to pay unofficial fees to public officials to avoid extortion, if any.

In addition, complicated rules and regulations were also considered by public officials as grounds for unofficial fees. Normally, businessmen do not have enough time for the complicated bureaucracy, and some of them wish to avoid the time constraints imposed by following the formal procedures, such as acquiring a business license. They, therefore, seek assistance from public officials. Many public officials accept assisting the businessmen in return for money (usually for gasoline, tea, breakfast, etc.).

