

Appendix I

OVERVIEW OF CORRUPTION ENVIRONMENT IN CAMBODIA

1.1. International Corruption Index

Cambodia was included for the first time in the Corruption Perception Index (CPI) in 2005 by the Transparency International (TI), the leading international anti-corruption NGO. Based on four surveys of the business environment conducted by the WEF in conjunction with EIC, by the World Markets Research Center, by the Economist Magazine and by the Merchant International Group¹, Cambodia's CPI score was 2.3, placing Cambodia amongst many developing countries listed at the bottom of the index. TI ranked Cambodia at 130 out of 158 countries², while neighboring countries were ranked higher, such as Thailand at 59, Lao at 77, China at 78 and Vietnam at 107.

However, the methodology used by the TI has led to some questioning the reliability of CPI. Critics often invoke the significant methodological shortcomings when the data was being used by the TI to rank the listed countries. These shortcomings include: multi-faceted set of behavior towards corruption in different countries that may lead to different definitions of 'corruption'; a wide variety of sources of data sets used for the CPI, depending on what was available for each country.³

1.2. Some Existing Data on Corruption in Cambodia

In general, corruption in Cambodia has become part of citizens' every day life. People view that in Cambodia corruption practices are at all levels ranging from the very simple public officials to high level public officials throughout the country's public institutions. There is no clear evidence about whether problems of corruption have increased or declined as there are no surveys on corruption that have been regularly conducted. However, certain conducted surveys on corruption, notwithstanding their inconsistency, would allow one to gain a general idea of corruption in Cambodia. The following is a summary of key findings of major previous studies on corruption:

1.2.1. Overall Picture of Corruption

A corruption assessment report by Casals & Associates, Inc. (C&A) commissioned by USAID/Cambodia provides a very comprehensive picture of corruption in Cambodia. The report explains how corruption takes place in Cambodia; normally, according to the authors, the environment of corruption in Cambodia encompasses a corruption of survival. This survival corruption is a way of life for the poor and the middle class. Large scale corruption is a ticket to wealth for the powerful public officials.

¹ Cambodia Daily, October 21, 2005, Vol. 32, issue 88, p. 13

² See the whole TI 2005 CPI at <http://www1.transparency.org/cpi/2005/2005.10.18.cpi.en.html#cpi>, May 8, 2006

³ See more at: USAID: Assessment of Corruption in Mongolia, final report, 2005, p. 8-9

Authors used many strong words, such as a ‘corruption-ridden state apparatus’, to describe the corrupt situation where corrupt practices occur from the start of the process of government generating revenues through taxation and donors’ assistance, managing resources, until the end of dispersing the public spending through the application of power and patronage system.

In spite of these facts, the report raises some critical challenges to counter the arguments about corruption made by civil society, the private sector, the media, political parties, other international organizations, especially WTO, and other various programs initiated by donor communities towards accountability and transparency of the public institutions. A large variety of recommendations were eventually offered to various donors.

1.2.2. Corruption and Households/Citizens

The Center for Social Development (CSD) has been active in researching social related issues, particularly corruption. The organization has carried out various studies on corruption.

The first CSD survey on *Public Attitude towards Corruption* was successfully conducted in 1998.⁴ The survey’s findings can be summarized as follows:

- A large number of Cambodians believe that corruption is a normal way of doing things; corruption has been thus accepted as part of official transactions and everyday social relations.
- Although corruption is accepted as a custom, Cambodians agree that corruption should be stopped, with a large majority of people suggesting that ending corruption at the higher levels should be a priority. People also view corruption as hindering the national development of the country.
- The often-mentioned ways of ending corruption are: a living wage for civil servants and the adoption of counter-corruption legislation.

Another survey conducted by CSD in 2005, also demonstrates that in general people do not perceive corruption as a major threat to their lives. The high cost of living/poverty, followed by poor infrastructure, safety, cost and quality of health care were listed as serious concerns for households, especially remote rural households. In terms of how corruption occurs, the report reveals that in case of gift-giving and bribery, givers usually initiate it.

The report also finds that personal relationships help cushion against extortion. In spite of the fact that corruption is so widespread, corruption does not become acceptable morally and a small salary does not entitle a civil servant to ask for bribes. The most dishonest institutions are thought to be the courts, tax, custom

⁴ CSD, National Survey on Public Attitude toward Corruption, 1998

departments, and the police, in contrast with NGOs, schools, and the pagoda. More importantly, about 1.4 percent of total household expenditure goes to corruption. The priority to fight corruption is to get rid of the administration of corrupt officials.

An additional qualitative survey conducted by CSD in 2005, also provides findings similar to the above study. The report shows that ordinary people - both corruption payers and takers - expressed their concern over corruption practices which are: accessibility of the poor to local bureaucracy and institutions due to their lack of affiliation to local network systems and patrons; unfair acts of bureaucracy due to a lack of transparency; patronage system of the corruption practices; hindrance of incentives to improve livelihoods because of low trust in public institutions.

Interestingly, women were found to be the main corruption payers due to their role in overseeing the household budget and caregivers in the family. Furthermore, residents often use ways of creating rumors and gossip to react to corrupt practices or avoiding bribes while civil servants use active resistance such as arguing or contacting higher ranking officers. This has limited the poor from accessing public services.

To resolve the problems, citizens want, according to the report, more transparency in both local and national bureaucracy, particularly the need for information and awareness on public procedures and education on organizing local participation in community development projects.

The United Nations Development Program study, *'Pathway to justice, access to justice with a focus on poor women and indigenous peoples'* in 2005, also captures an overview of corruption in Cambodia. The report highlights the main forms of corruption that affect the poor, women and indigenous peoples are: lack of transparency, corruption in the management of public resources such as land concessions, natural resources, business licensing, infrastructure assignments and other political decision on public resources, services and taxes. The report reveals that the reasons - for illegal fees charged by public servants and/or as condition for the provision of public services - were low salaries of public officials. Unofficial fees, that hinder children attending schools, the poor from accessing health services and victims of crimes from having forensic examinations, eventually lead to poverty.

1.2.3. Corruption and the Private Sector

A World Bank survey with citizens, enterprises and public officials provides some insight of governance and corruption in Cambodia. Several public services, especially courts, customs, tax authorities, road services and police are relatively

poor. The leading problem of citizens and enterprises is public corruption. Priority reform efforts should particularly focus on specific institutions, such as the judiciary, revenue collection bodies and departments which poorly manage public assets.

There are links between weak government agency performance and its integrity. Moreover, weak government leads to loss of government revenue, tax and custom duty evasion; corruption deters investors from investing in Cambodia. Public officials view that to address the problem of corruption, some measures are helpful: a living wage for public officials, personal management system in the public sector (compensation and promotion based on performance), greater oversight of the Government's function by the public and civil society, regular declaration of assets of public officials.

Another World Bank study on investment climate ⁵ also provided information on corruption and governance. The report points out that a large majority of firms agree that payments to public officials are frequently, mostly, or always required to 'get things done'. The report affirms that unofficial payment in Cambodia is more than double that found in a parallel survey in Bangladesh, Pakistan or China. The top constraint for formal and informal firms in urban areas was corruption. In general, the magnitude of unofficial payments estimated by the private sector exceeds five percent of annual sales revenues, and may exceed six percent of total sales value for large firms, depending on firm size and formality.

Table A1.1: Estimated Unofficial Payments as % Share of Sales

Foreign	Large	SME	Micro	Urban Informal	Rural Non-Farm
6.90%	6.10%	5.50%	4.00%	2.30%	1.30%

Source: World Bank, *Cambodia Seizing the Global Opportunity: Investment Climate Assessment & Reform Strategy*, 2004, p. 15 (Cambodia PICS 2003.)

In addition, the World Economic Forum (WEF), a leading institution in assessing cross-national competitiveness, in cooperation with the Economic Institute of Cambodia, recently conducted a survey among leading business executives in Cambodia. The findings of the survey that ranked Cambodia's Business Competitive Index at 112 out of 117 countries⁶ also indicate that the most problematic factors for doing business in Cambodia was primarily corruption⁷.

In contrast, in a survey of 63 firms in the manufacturing sector conducted by MPDF⁸ in 2000, only few respondents listed corruption as one of the most

⁵ World Bank, *Cambodia Seizing the Global Opportunity: Investment Climate Assessment & Reform Strategy*, 2004, p. 14-15

⁶ World Economic Forum, *Global Competitiveness Report 2005-2006*, September 2005

⁷ Vuthy Chan and Klara Sok, *Cambodia Competitiveness Report 2005-2006*, 2005, p. 20, EIC

⁸ MPDF, *the private manufacturing sector in Cambodia: a survey of 63 firms*, 2000

important obstacles to their business, even though they viewed that corruption was generally a fact of life in the business environment. Nonetheless, the majority of respondents concurred that there were frequent visits of public officials ranging from low level-local polices, military, bureaucrats to national ministry level officials on a regular basis.

The MPDF survey found that bribes were used to avoid regulations. The private sector needs to pay bribes to public officials to perform their jobs, with regard to registration, inspection, documentations, etc., correctly.