

**ECONOMIC APPROACHES OF CORRUPTION
IN BANKING SYSTEM**

(CASE STUDY: I.R.of IRAN)

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Abstract

Corruption as an expansion of economic pathology in the forms of graft, bribe, persuasion, subornation and informal approaches which cause emergence of deviation at the governmental economic system from the main objectives of official structure is not only lurking financial organizations like; banks and financial institutes but also, the public believes in each official structure may witness the outbreak of economic breaches and lack of financial healthiness; in a way that sometimes in some organizations these deviations transform to an official manner.

From these organizations are the banks and financial institutions. The banks are specific institutions that their first material is money and their productions are credit and financial services. Without privilege of a high public trust they are not able to be active. The banks can both be an effective factor on growth and development of economy of the country and also lead the economy of the country to bankruptcy. Therefore, a special attention and care beyond the supervision and controls of other financial institutions must be paid to banks.

Introduction

The matter of corruption is having importance in Iran's banking system from two aspects:

- A) From economical, social and psychological dimension, the harm which affects the bank may result in distrust and its security abdication from customers point of view and consequently - in the case of continuance of condition- to bankruptcy. (Evlins-1995)
- B) It can cause unpleasant results over the function of banking system and expansion of black market. (Heshmati-2005)

Therefore, the inspection of the corruption phenomenon and its cleanup becomes necessary. Meanwhile, the importance of propounding corruption is for this reasons that banking corruption is not only a criminal phenomenon exclusive to the boundaries of our country but also, it is vast in universal range and it has threatened governments seriously in different time periods. (Tanzi, Vito -1998)

Scientific and expertly criticize and survey of each government's weakness and strength points causes its survival and therefore, saving people's rights and provision of individual and public freedoms. Corruption is a criminal action which

has had a vast growth over the last 30 years and it has had a notable penetrate in many countries. Since, it has discomfited global economy and has reduced the validity of universal deals and trades. Some find corruption leading from bureaucracy (Rauch -1997), some other thinkers find it leading from the income condition of governments' employees (Rijckeghem -1997) or specialized to social systems (Lindik-1998) or a combination of all these elements (Habibi-1996).

The issue of corruption and financial breaches in Iran's banking system was taken to the press page gradually since 1994 and in this trail sometimes the footprint of some influential features has become at the concentration of Iran's public believes.

Study of corruption issues in Iran banks in recent years has indicated the deficiency and non-transparency of data and incompetence of their supervising system.

Sometimes it is seen that in banking supervising system some circulars are executed concerning the years 1957 to 1961 which the executive availability of some of these circulars have not been proved yet.

On the other hand, exclusiveness and statistic limitation over the corruptions taken place has caused the directorates of this financial system to smooth the ways of justification and desertion.

The corruption phenomenon which explains a specific type of financial pathology is not peculiar to developing countries. Even in developed industrial countries cases of graft and bribery are discovered from time to time. Because of extensive growth of governments in growing countries and following that increase of latitude and responsibilities of government in such countries and according to the existing differences of political systems of developing countries, the corruption is more prevalent in these countries.

Principally, the latitudes and exclusions which are given normally to the attendants and employees of governmental offices, provides the opportunity of misuse itself, potentially. That is why in official system of every country several mechanism and regulations have been constituted for supervision and proceed of financial interactions which will lead to more corruption by itself and are not much effective in action. Superfluous regulations just promulgate bureaucracy and impose several extra costs to the government and society. Therefore, in recent decays serious inspection of corruption phenomenon (particularly financial

corruption) and invention of more effective and less expensive approaches for its confrontation has become in the center of attention for political science, economical and social experts. The recent efforts of governments are indicative of this matter that people and governments all over the world are taking the corruption issue more serious than past and our country is not exception from this issue.

1- Banking corruption in economic point of view

Today, the global outbreak of corruption is a powerful motivation on the necessity of inspection of this phenomenon. Regarding its geographic range, this reality has been insisted that hardly we can confine corruption to only developing countries or the ones transiting from programming economies to market economy. Today, everyone accepts that most corruptions and misuses in the third world have happened by the consult or influence of one of the industrial countries. Nongovernmental organizations like; “International Transparency” which uses their efforts to discover and identify corruption and bribery cases confesses that corruption is a worldwide phenomenon.

Mentioning the above notes is for the reason of identification of the importance of the issue and the necessity of its inspection, in order to evaluate this

phenomenon according to a wider point of view. Since, official corruption, on brief what which is the subject of our conversation – meaning banking corruption- has existed in most flourishing countries and is developing, besides contravening the official justice and ruining the citizens’ rights, changes the growth and development and stability of the country’s economy and causes undesirable effects on it. For this reason, many countries have executed different methods to struggle “Black Plague” which unfortunately has led to more bureaucracy.

Discovering several clauses of financial misuses and enormous corruptions to different official levels seeks the necessity of fight and conflict against this criminal phenomenon.

Generally, in economic point of view, this is agreed that financial and banking corruption for the reason of management deviation, delays the amendments and economic growth. But, financial corruption may be counted as both the consequent and the cause of excessive officialdom. It means that some rules and regulations may be constituted that their objective is to fight financial corruption. On the other words, some regulations will constitute to prevent anarchy. But, what which is accounted is that sometimes this officialdom causes to the constitution of more murky and undesired laws.

Financial and banking corruption in enormous levels will cause reduction of public investments and sometimes transfers them from producing sectors to some sectors with very lower enjoyments. Financial and banking corruption intensifies this action by increasing operational costs like; tax of income and enhancement of risks.

Also, regarding the financial and banking corruption and economic growth, we can refer to the result of a research about Russia which obtained an accidental logical relation that one degree of improvement in financial corruption in the scale of zero to ten will lead to 0.2% of improvement in annual growth(Heshmati,2005).

Higher levels of financial and banking corruption can reduce economic growth in different ways. Also, from the other aftermaths of financial corruption we can refer to its bad effect on public expenses. Since, financial and banking corruption can influence economic activities' quality besides reducing the activities' volume. On the other words, financial corruption will cause the authorities to lead the activities in wrong directions for achieving the sources in order to act more freely to get the bribe. Alongside, they prefer capital-intensive projects to high social use ones. Therefore, they reduce employment and increase unemployment.

All mentioned cases are somehow related to underground economy. Though, one of the aftermaths of underground economy is financial corruption. Since, the underground economy has an illegal essence, and it often is created by unhealthy relations of other governmental sectors, by the increase of financial corruption the launder will find a favorable theme and corrupts the ordinary process of cash flow and credit.

2- Banking corruption and its concepts

Corruption has different concepts and definitions and includes several violations regarding diverse activities of the government. Created samples of official corruption as; graft, bribe and misuse of governmental properties each has different forms. Besides, experts of official sciences have considered behaviors like; slumber, discrimination among clientele, speedup the job of acquaintances and other similar cases as samples of financial and banking corruption.

Some other experts have considered the range of this complex wider and they realize the constitution of discriminative laws for the benefit of powerful politicians and highly treated categories by the government another type of corruption.

Because of diverse illegal behavior which are considered as financial and banking corruption, different definitions of financial corruption are presented by researchers that each includes a subset of these actions.

From legal point of view, corruption is considered as; illegal use of official or governmental latitude for self benefit. In this definition, it has been presupposed implicitly that there are a complex of compiler official laws that determines the suitable frame of permissible officialdom. Then, any official behavior which is accounted against these laws and the motivation of acting that is self benefit is considered as corruption.

When official laws are complete, clear, fair, and comprehensive and specified for all official and governmental cases, such definition of corruption becomes well-rounded. Meanwhile, if this law does not include such characteristics necessarily, corruption in the fields of violation does not happen and deviation of moral criterion is also considered as corruption.

Anyway, we can search financial and banking corruption in the following approaches:

A) **Rent-seeking:** sometimes it is exactly used as a synonym for financial corruption and these two concepts are overlapping in many aspects. Rent-

seeking derives from the economic concept of Rent meaning the profits extra than all relating expenses and is what most people find exclusive profits. Rent-seeking does not necessarily have legal reference or apparently, it is not considered as a clear immoral action in the society.

B) **Deception:** is a wide legal and public expression which its range is vaster than bribe and corruption that we will consider it more in follow. For example, when governmental organizations and legislators are entering illegal commercial webs of fraud and extortion or forge the documents, contraband or do other organized economic crimes –which formal punishment is determined for them- deception has happened. If the politicians and legislators take a dole to close their eyes on economic crimes they have done deception and if they play an active role in these economic crimes, a great deception happens.

C) **Bribe:** is one of the most prevalent types of financial and banking corruption which is not only prevalent inside the country but also, in international levels and besides imposing intensive losses on national economy, it endangers worldwide commerce to serious hazard, too. Although, the essence of these two domestic and foreign bribes is the same but, concerning international bribes it should be said that a part of financial

resources of the country will be lost and a part of national resources will be circulated outdoors.

Paying bribe in banking affairs –according to the vast of web and direct relation to financial resources- from one side and the public from the other hand are having great importance. Such bribes sometimes have become a sort of clear and apparently legal approach by the attendants of banking system. Among them; the client's expectation for paying the bribe respecting loan achieving or account crediting, non-dishonoring of invalid checks, filling the account with the bank's sum, giving several checkbooks without following the concerning procedure and asking for the equity of other client's account.

D) **Contraband:** consists of hidden movement of good –from abroad to the country or to abroad- without paying the customary and commercial interest.

By good contraband, an intensive invasion is done over domestic productions. Domestic industries which are confronting exchange criterion by tolerating great expenses are put aside when competing contraband goods and they face slump, recess and unemployment of their workers. This type of corruption is formed as bureaucracy and document making in banking operation.

E) **Hoard:** consists of reduction or suspending of good distribution or banking facilities by all or some banks and sellers temporarily which are done in order to heightening cost and income of that and interest rate.

F) **Graft:** among all kinds of official corruptions which have been reported in the country's press in recent years the graft cases are outnumbered. High-ranking managers of governmental organizations which have the needed responsibility and latitude for using the organization's financial resources may graft these resources. This job is usually happening via presentation of apparent and phony documentations or manipulation of financial accounts.

Since, supervision of governmental firms and banks are fewer than governmental organizations and the managers have less control on the budget and financial resources of these institutions, more cases of corruption are observed among them.

Graft as one of the apparent instances of financial and economical corruption for its literal meaning is synonym to steal and encroachment of other's property.

In our religious books graft is usually considered as achieving property of undoubted. Therefore, it is from the instances of betray and cardinal sin.

Totally, it can be said that graft is misuse of latitudes to the reason of achieving

undefined consequences of latitudes. Some have defined this phenomenon, the misuse of facilities and governmental latitudes to the reason of personal and private benefits.

Unwarranted tenure of public sector's facilities and misuses like this in order of advancement of objectives and political and partial destinations are from the most prevalent examples of graft and corruption.

Corruption as waste of public properties and illegal arrogation of sums concerning to them are prevalent secretly in many governmental organizations. These kinds of corruptions are sometimes small and sometimes giant and include from movement of a small accounting record to illegal trade of public properties and their assignment to others.

The mean of enormous corruption is the corruption which is done by the high-rank official employees as bands and in great and remarkable amounts. The perpetrators of these corruptions are from the powerful criminal group and although they pose irreplaceable losses to the body of society, they are less prosecuted by the jurisdiction statutory. This group is usually secure by privileging from "the power of justification" or "support" or "the possibility of fugitive".

3- Juridical inspection of banking corruption

According to what which has been considered by the legislator, it can be said that whenever the government's employee uses or occupies the property which has been entrusted to him as his duty illegally, graft has taken place. The legal element of this crime, clause (5) of the law of intensification of fights against perpetrators of bribe, corruption and fraud are issued in 1988, which the legislator declares that:

“Each of employees and workers of government and organizations or councils or municipalities and governmental firms and institutions or depending to the government or evolutionary organizations and tribunals and institutions which are run by the continuous help of the government or juridical degree-holders and generally, triplicate forces and also, armed forces and public services' employees – of formal and informal- sums, claims, transfers, shares, documentations, paper monies or other properties belonging to each of the above organizations or institutions being taken or tenured, will be considered as grafter.”

For better identification of the crime of corruption by legal point of view, mentioning some of points regarding this legal clause and the above definition is essential:

A) According to the contents of clause (5) of aforesaid law, employees of private firms which are doing disloyalty regarding the company's properties and also, ordinary people which are using governmental properties to some reasons are not included in this law.

B) Regarding the meaning of taking and tenure, there are disagreements among legislators. Some consider them as two synonym words and according to that, they find taking and tenure correlating to each other. But, some others believe that these two words are separated and on the other words, they consider the taking as graft.

C) Properties that their taking and tenure are considered as graft are census in the aforesaid law. Concerning the phrase: "other movable properties", we can say that graft would not only include movable properties but also, it will include movable and real properties and also contains: things which are having already ownership and things which are not already property but they have financial value and also the properties which are achieved from public budget of the country and

sums obtained directly or indirectly from legal and real persons by the governmental officers (like different taxes).

D) Purpose in taking the governmental sums and properties by the perpetrator are the covenant of the moral element of this crime. Therefore, if according to presumptions, it is identified that the person has taken or tenured these properties by amnesia or negligence or inaccuracy, the taker cannot be considered as the grafter.

E) There are no difference between the benefit of the taker or benefit of other person from the tenured property by the governmental officer and in case of accomplishment of the situation, the perpetrator of taking and tenure of governmental property –even if any other person benefits from that property- will be convicted as corruption criminal. The perpetrator should consider the aforesaid actions as his or others' and enter them in his or others' property. Like taking some government's material to build his personal house.

Therefore, only unpermitted use of these properties without intention of their tenure to the benefit of himself or other person does not include them in the clause (5). Otherwise, according to clause (598) of "TAAZIRAT"(punishments), law issued on 1996, the perpetrator will be prosecuted because of illegal tenure.

Regarding the punishment of this type of corruption, according to the recent section of the clause (5) of the intensification law of the punishment of perpetrators of bribery, graft and fraud, the legislator has prescribed according to the value of grafted property: “in case that, the amount of graft is up to fifty thousand rials, the perpetrator will be convicted from six months to three years of prison and six months to three years of permanent suspension and for each case, besides refund of the sum or grafted property will be convicted to cash punishment to the amount of two times of that.”

According to the provision (2) of this clause: “if the graft is conjoined with forgery of documentations and so on, if the amount of graft is up to fifty thousand rials, the perpetrator will be convicted from two to five years of prison and one to five years of temporary suspension and if the graft is more than this amount, the perpetrator will be convicted from seven to ten years of prison and permanent suspension of governmental services, and for both cases, besides refund of the sum or grafted property will be convicted to cash punishment to the amount of two times of that.”

It should be said that, the persons who proceed to constitute or lead the graft band, are included in clause (4) of the intensification law of the punishment of

perpetrators of bribery, graft and fraud and these persons are convicted to refund the achieved properties from the graft to the government or people besides, they are convicted to cash punishment equal to the sum of these properties and permanent suspension of governmental services and from fifteen years up to timeless prison and in case that they are instance of corrupt person, they are convicted to death.

As, it has been discussed in above, we conclude that, from legal point of view, corruption of graft type is heavily treated. But, does this clause have executive guaranty? And why we still consider such crimes repeatedly although the existence of this clause? For answering this question, the motivations and the creative factors of this crime should be inspected.

4- Types of banking corruption in I.R. of Iran

Usual approaches of corruption, graft, document making, Performa making, complicity in deals, bids, auctions, pickup of money from special governmental accounts which are by the name of people and transferring them to personal accounts and assignment of special governmental facilities which are usually at the service of specific people to relatives.

Up to now the categorization of corruption in banking system has been as follow:

- **Graft**
- **Forgery**
- **Manipulation of illusory and apparent documentations**
- **Deletion, obliteration and non-registration**
- **Pick up or robbery**
- **Other approaches**

Generally, corruption with complicity and collusion of several people starts in an organized chain and reaches to a place that sometime by the mistake of one member or reveal of one document, the differences of accounts become obvious and breaches will become apparent.

The weakness of managing system, misuse of position and situation, non-programming in the way of allocating and spending of official budgets, entrance of management in the parallel trading field, existence of family relations, official superfluous complications and bureaucracy can be considered as the main reasons of creation of corruption in governmental institutes and organizations.

Interference of governmental managements in trade, broker and collective activities are from the most important factors of corruption and waste of governmental properties.

5- Corruption state in banking accounts

The state of corruption can be inspected according to the last published statistics concerning transactional (TD) and non- transactional (NTD) deposits, claims of banking system from government (CG) and claims of banking system from private (CP) sector. It should be said that concerning the confidentiality of the case, the statistics are inspected only according to the available statistics. Meanwhile, regarding the table No. (1) the average rate of graft in banking system to transactional and non- transactional deposits, claims of banking system from government and claims of banking system from private sector in years 1994 to 2002 are in order: 1.5%, 1%, 1.4% and 8% that according to figures (1), (2), (3) and (4) except for the year 2001 it has had a relatively constant trend.

TABLE 1

Graft situation in Iran banking system(1994-2002)

Ratio of graft/Year	TD	NTD	CG	CP
1994	0.0019	0.0013	0.0015	0.0019
1995	0.0010	0.0007	0.0009	0.0010
1996	0.0007	0.0005	0.0007	0.0007
1997	0.00007	0.00005	0.00006	0.00007
1998	0.0011	0.0007	0.0007	0.0011
1999	0.0012	0.0007	0.0009	0.0012
2000	0.0010	0.0007	0.0011	0.0010
2001	0.0049	0.0031	0.0057	0.0049
2002	0.0017	0.0010	0.0012	0.0017

Source: Central bank of Iran (I.R.)

If we inspect corruption statistic, we can say that document making has been the most prevalent approach of banking corruption.

Meanwhile, as it is observed, the rate of corruption of graft to banking accounts is generally between 0.1 to 0.2%.

According to corruption statistic, near to 50% of banking grafts has been in a bank that grafter has been working there and 36% of grafts have been taken from the clients' accounts and 15% of that has been grafted from other banks.

In case that we omit the year 2001 from our inspection as an unordinary year of corruption emergence, the rate of graft to banking accounts can be considered as chart (5) more precisely.

During last years, the approaches of corruption in Iran have been as: illusory and apparent documentations, deletion, obliteration and non-registration, forgery of documentations and pick up or robbery.

The rate of corruption of graft type in years 2001 and 2002 can be considered as table No. (2).

TABLE 2

Type of graft(%) in 2001-2002

2002	2001	Type
1.42	8.70	obliteration
86.07	41.23	illusory and apparent documentations
5.43	35.13	deletion, obliteration and non-registration
2.76	0.44	pick up or robbery
2.33	14.50	Other type
100.00	100.00	total

Source: Central bank of Iran (I.R.)

6- Factors of corruption in banking web

Fighting against this phenomenon in its first steps needs the recognition meanwhile, the domain of its emergence and the strategies of its confrontation are among the important sections which should be considered, because of its aftermaths and surprising effects of this phenomenon on the economy of the country. Economical, social and cultural factors are complicated and we cannot find any priority for them but, in a general view, it should be said that, economic needs are among the most important factors which are determining social behaviors.

Generally, in countries that their economy is supported by two facts of raw material like petrol and government, they have a high quality of rent-seeking. Because rent is supplied from natural sources and the ownership of these natural sources are not popularly clear. For this reason, some holes of penetration will be created in the structure of government.

From the serious challenges of non-developed countries are inattention to the element of qualification and ability of people and stunting, meaning giving latitude to persons which are not having innovation, creativity, ability and needed

qualification for doing actions. According to this, favoritism and nepotism systems are the first choices when selections that this case itself is one of the elements of economical and official corruption.

Generally, diversity of regulations and laws and long-term management will cause complicated and unhealthy relations in banking and financial system and this diversity and non-basic management provides the field of different interpretations and misuses for perpetrators until where even the field of crime discovery is obscured. Some experts persuade the government to create a supervising and inspecting system in order to prevent governmental corruption meanwhile, some others search these supervisions in civil and public organizations.

6-1- lack of Transparency and information

Lack of intention of bank's supervising system to announcement and information giving of corruption discoveries and lack of analysis of breaches from this system is an important obstacle regarding exact information giving and is itself implicit speedup of financial corruption.

Some experts find many problems regarding non-glassiness of information giving and concerning laws because, if the crime is defined as it is mentioned in

the law and efforts are taken for its information giving, its happening will be reduced too.

The other point is that, the definition of financial and banking corruption in Iran is different from other countries. Therefore, we cannot execute to its statistical comparison and exact analysis.

6-2- rapid change and long-term persistence of financial and banking attendants

Some do not find corruption as a special type of pathology concerning to developing countries. According to their point of view, in industrial countries also some cases of corruption and bribery are discovered on and off and because of increasing growth of governments in developing countries and following that increase of latitude and change of the responsibility of governments in these countries and respecting the existing changes in political systems of developing countries, the corruption is more prevalent in these countries.

According to this, giving latitude and exclusions naturally to attendants and governmental employees provides the field of different kinds of misuses and this is why in the official system of many countries several strategies for supervision and

proceeding of financial movements are constituted which themselves cause more corruption and are not much effective in action.

Therefore, unsuitable and non-experienced latitude will usually lead to financial corruption.

6-3- weakness in inspection and financial supervision

Inefficiency of inspection and supervision and lack of balance in banking operation volumes have caused operational compression in some sectors of the organization and this compression itself has been one of the important factors of creation of corruption. In this order, in some sectors of the organization which the speed of inspectors' refer has been lower and the operational compression in the branches have been high, the corruption has happened to higher levels.

Corruption in banks certainly has several factors. One of these factors is lack of necessary supervision and accuracy of attendants of banks over their ordering factors. These supervisions are unfortunately in some cases temporarily. Since, they are done after an accident of robbery and are left after two or three years. It is evident that, if these supervisions become permanent and seriously certainly, we will confront fewer breaches.

6-4- **financial problems of the employees**

The other factor is economical factors and problems that usually the employees and just employed people are encountering and unfortunately, after one or two misuse the contest for getting richer appears. For this reason, reactions are not comprehensive and correct and cause this illness to grow epidemically.

When these factors are compiled, we will consider giant financial corruptions in banks.

6-5- **insufficiency of new technology**

Use of classic and manual operation provides the opportunities of corruption meanwhile; electronic banking is one of the issues that are effective on reduction of expenses and speedup of clientele. Promotion of electronic banking culture by use of information giving and educational tools in order to identify modern banking systems can be very effective.

Increase of accuracy and healthy working are from the characteristics of electronic banking. And prevention of corruption is one of the phenomenons which will be solved by this system.

In this order, by inspection of experts' ideas we can categorize the main reasons of corruption in banking system according to the above factors however, there are always some partial factors in the middle.

Conclusion and policy recommendations

The most important program which can be insisted for confrontation of financial and official corruption in banking system is the deletion of security margin and specific political, economical and social security.

The ways of prevention of corruption and graft in banks or generally, bribery in offices are related to comprehensive supervision, confrontations complicit with non-discrimination. Another important point which should be insisted in this field is that we should increase peoples' income to sufficient amounts and always we should admire permanent, continuous and non-discriminative supervision as an Islamic duty.

Meanwhile, organizing and clarifying the banking system and sufficient supervision, enforcement of management and equipment of it to exact supervising tools and also selection of qualified and healthy persons in banking system of the country are considered as the approaches of preventing corruption.

If we can benefit from a powerful banking system with suitable technology, electronic banking can be effective for neutralization of banking breaches.

Electronic banking is a phenomenon which its usage is beneficiary for everyone because; it can take effective steps on reduction of government's expenses.

According to the vast expenses of the movement of banking checks and bills and also printing these papers by the development of electronic banking, any misuse and expenses of printing will reduce remarkably.

According to the achieved statistics annually, 7.3 milliard bills are current in the country that concerning 70 millions of population in our country, the per capita of each person will be 100 bills and this amount in industrial countries is 12 to 16 bills for each person and even in countries like India or Pakistan it is between 40 to 50 bills.

Regarding that annually nearly 120 milliard rials are spent for separation and collection of these bills in the country and besides that high expenses are spent for movement, care and its accounting, if a part of these expenses could be spent on electronic banking many problems will be solved.

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