HOW DOES CORRUPTION TRANSLATE IN SOCIAL SECTOR?

Corruption is often depicted as a major impediment to poverty reduction. Being detrimental to good governance, corruption undermines the smooth implementation of sound economic and social policies. First, as far as petty corruption is concerned, extra payments in the forms of bribes are required from users of public services; therefore, fair access to public services is denied.

The poor segments of the population are the most vulnerable to corruption, either because they cannot afford to pay bribes or because they have no possibility to escape corrupted public services (the wealthy elite can always afford private expensive clinics). Secondly, non transparent public procurements often lead to accepting offers which are not cost-effective and are sub-optimal. Public monies are therefore not allocated in the most efficient manner and are partly wasted. Thirdly, as far as grand corruption is concerned, embezzlements of public funds results in a gap in budgetary means.

What are the detailed mechanisms of those corruption forms within social sectors, health and education in particular? What are their consequences? What could be their potential causes? This article will set out the main conclusions of corruption risks assessments in the health and education sectors undertaken in one Central Asian country. Even though some issues are typically related to context of post-Soviet economies, the majority of explanations given below are valid for other developing or transition countries as well.
Out-of-pocket payments (small bribes required for a treatment) in the health system are certainly the most common form of corruption which has arisen in the aftermath of the liberalisation of former Soviet countries' economies. In certain countries, out-of-pocket payments account for the largest share of the total health budget. Even though patients are aware that this practice does not respect their rights, they are willing to pay, in order to expedite treatments. Out-of-pocket payments function as a topping-up mechanism for the

very low salaries of the health staff in many countries. Unless patients pay extra, doctors and nurses have no incentive to work hard, as salaries hardly allow them to make a decent living. In the education sector, these payments translate into bribing professors to pass exams, to obtain diplomas or simply to get registrations filed properly. In that latter case, it is worth mentioning that such bribes, in addition to posing a fundamental problem of equity, have a detrimental effect on the education outcome as a whole; students obtain their diplomas not because they perform well in school, but because they are willing to pay extra; good grades are not awarded based on merits, but based on dishonest behaviour. Such practices have a very bad effect on the country's overall education performance. The same holds true in the health sector: many surveys demonstrate that the poor cannot afford paying bribes in hospitals. There is a significant connection between the level of informal payments, the degree of corruption, and the affordability of health care, resulting in poor health outcomes in countries affected by such practices.

But these informal payments, which can be compared to an added tax without redistributive function or to a transaction cost, are coupled with other corruption practices in social sectors. Embezzlement in the budget execution is a major challenge in many countries. The recurrent budget is often subject to diversion of funds. In formally centralised and planned economies, the recurrent budget is allocated on the basis of a so-called budget line item system. Based on inputs rather than needs, this system is quite rigid in the sense that funds allocated to a hospital, for example, are broken down into specific portions to be spent on one item only (for example: heating, salaries, supplies, etc). Strict rules should normally make it difficult to transfer funds between line items. However, transfers are possible once it is obvious that certain positions will not be utilised (e.g. heating costs in summer). Usually, specific running costs items that have been purposely over-budgeted are then transferred to maintenance/repair items where it is easier to embezzle the monies.
Another quite widespread embezzlement possibility lies within the transfer of the budget from central to local authorities. In many countries around the world, this is a major issue: local governments or local entities (district hospitals or schools) do experience problems in obtaining the funds that have been negotiated and promised by the Central state. Public Expenditure Tracking Surveys (PETS) done by the World Bank in Uganda have proven that 80 to 90 percent of funds in the education sector had been diverted along the way between the Central state and the district schools. Since 1996, when PETS first started being carried out in this country, some light has been shed on those facts and the situation has improved.

Embezzlement techniques within the investment budget are not the same as within the recurrent budget. Involving massive amounts of public funds, the investment budget is particularly at risk. Here, fraudulent public procurement practices are partly responsible for the problem: fake tenders are being launched, pre-decisions are being made as to who should win the tender, prices of the offer are negotiated in advance with the winner, and kick-back payments to public procurement officials are done once the deal is closed. Public officials involved in those malpractices may come from the concerned line ministry, from the Ministry of Finance, from the central or from the local level, from a specialised state procurement commission, and so on. This will depend on who is involved in the deal and on how the public procurement system works in a given country.
The lack of competition in public procurements, the award of tenders to sub-optimal offers and the funds' leakages in the form of kick-backs are all manifestations of misallocation and misuse of public resources, which translate into poor quality of public investments, higher maintenance costs and, eventually, lower outcomes achieved in social sectors.
Another worrying corruption mechanism is the bribe which has to be paid in order to obtain a position in social sectors. In some countries, people have to afford up to several thousands of US dollars if they wish to be hired as a doctor in a hospital or as a school principal. This undue advantage is not only extorted at entry, a small portion of it has sometimes to be re-paid every year, as a fidelity premium! This severely undermines merit-based recruitment processes and, as a consequence, leads to sub-standards appointments.
Bribes and embezzlement techniques certainly account for the largest share of corruption in social sectors. However, non-financial forms or corruption also exist. Conflicts of interest do not necessarily constitute acts of corruption, but they are seen to be highly conducive to creating an environment that facilitates corruption. Transparency and accountability are rendered difficult where official and personal interests fuse with the possibility of commercial gain and other forms of profits at the expense of the public good.
For example, collusion between doctors and pharmacists sometimes leads to doctors prescribing drugs only available in certain pharmacies, with a provision of 10% on them, resulting in over-prescription of certain

drugs. The key factor here is the percentage that doctors prescribe a particular brand and amount of a drug, not necessarily based on the prescription's benefit to the patient's health. In other words, corruption occurs through kick-backs on the price of the drugs. A widespread practice is the influencing pressure excercised on doctors by pharmaceutical companies to prescribe a certain brand of drug, irrespective of its price or treatment-related criteria. This is very common in industrialised countries and is subject to major concerns of health regulators.
Conflict of interest also arises when public doctors open and work in private clinics. To what extent private activities encroach on medical staff's ? Doctors working in public hospitals can refer patients to their private clinics. In countries where treatment is provided free-of-charge in public hospitals, this practice is unlikely to happen, as patients would prefer to benefit from the free-of-charge treatment. However, in contexts where the public health services are free-of-charge by law only, but subject to ample out-of-pocket payments, referring patients to private health care is more likely to succeed. Conflict of interests can have deleterious consequences on the quality and integrity of health workers and on the availability of health care. Problematic regulatory voids and a lack of awareness about potential conflicts of interest are the most frequent factors explaining such practices.

As a conclusive remark, one can recall, on a positive note, that public finance management reforms are deemed to improve the budgetary system's efficiency and transparency, thereby making it more difficult to carry out embezzlement techniques in recurrent and in investment budgets. Such reforms are usually tied with general or sector on-budget aid. Out-of-pocket payments are probably more difficult to tackle as long as a country doesn't have the necessary means to pay decent salaries. Conflicts of interests, especially in the health sector and worldwide, have been so far insufficiently regulated and would need further legal en enforcement measures.

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