

## GOVERNANCE AND ITS MECHANISMS IN COMBATING CORRUPTION

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**Abstract:** *Governance and corruption remain incorrectly interpreted topics, but they are now spotlighted as a higher priority in development circles for public and private sectors including small, medium, multinational companies. Indeed, some donors and international financial institutions increasingly work with emerging economies to help reduce corruption, and increase citizen voice, gender equality and accountability. Strengthening governance and combating corruption are closely linked one to another; and some of the characteristics of good governance include corruption and corruption mechanisms as well. Governance is an effective component of economic growth, investment climate, and the business itself and thus economic development is in need for corporate governance to combat corruption.*

**Keywords:** *governance, corruption, governance mechanisms, economic development*

**JEL Classification:** M4, M2, M11

### 1. Introduction

In response to the call of the parties and in reaction to the institutions' economic corruption and to achieve effective control that protects the common interests of all in the company. It ensures mechanisms, procedures, laws and regulations that ensure discipline and transparency. Concerned institutions achieve public approval and the interests of the company concerned to

apply governance to protect these common interests among stakeholders. Accordingly, the idea of governance is based on the various supervisory tools which govern the company that guarantees rights' beneficiaries and protect them from being victims of economic or financial corruption, due to that an effective governance system ensures greater oversight to reduce corruption. From the above, the issue can be addressed depending on the following problem: How effective are governance mechanisms in fighting corruption? Hypothesis: Governance systems and mechanisms have the capacity to reduce corruption or even increase growth, and the main question is what corruption is. The concept of corruption: it is mentioned in several definitions and meanings: relating to international transparency perspective: abuse of potency for special gain, and according to the encyclopedia sociale: it is a misuse of public influence to achieve special interests. Besides that, the World Bank considers that it is a bribe or commission that is paid directly to employees or government officials and in the public and private sector to liquefy transactions. The United Nations Convention on the Rights of the Child focuses on the following points to determine corruption:

- Bribery of national public officials
- Bribery of foreign national public officials and employees of international institutions
- Nationalism
- Misappropriation of property and waste by a public official
- Trading in money
- Illegal enrichment
- Bribery in the private sector
- Misappropriation of property in the private sector
- Laundering of proceeds of crime
- Obstruction of justice
- A moral deviation of some public officials to achieve interests
- Personal

Here, we may discuss the types of corruption which is classified according to a set of criteria. According to individuals' affiliation: Corruption in the public sector: exploitation of the year; applications of financial and banking policies, definitions customs, bank credit, tax exemptions.

Private sector corruption: Private sector exploitation has an impact on government policies. According to the level and size of corruption: small

corruption (low level): It affects employees in the state, banks and managers and it is less harmful. Large corruption (blind level): involves senior officials from the decision-makers in the field that is linked to major transactions and is even more dangerous when bureaucracies turn into enrichment profile.

Corruption Crimes are compounded by informal economy: unauthorized production, hidden revenue and providing prohibited services, and that open the door for the next issue washing money. Besides that, fraud and tax smuggling is intended to violate the tax law in order to escape from the obligation in front of the state and citizens.

Overall proposes an important question about the effects of corruption: the impacts on microeconomics can be presented through creating fake companies to cycle money in the economic institutions providing the same products in the market with less prices to reach the final destination. The national impact on national income is presented by the informal economy, which usually grows at the fastest rate of growth in the formal economy. The estimates of national output are usually much lower than in real terms. In the light of that, that affects the income distribution, which leads to a sharp deviation in the distribution of income between the different groups of society. By converting income between some productive groups into other unproductive categories and that is accompanied by a growing gap between the rich and the poor. In addition, fiscal policy is affected as well, as money laundering is part of the hidden economy, the gap between real income and declared national income will be increased and that makes it difficult for the state to develop plans or effective economic development programs, accordingly, that weaken the effectiveness of monetary and fiscal policies of the State. The negative impact on the stock market is in terms of high volatility, which leads to losses for small investors and leads to further trouble among investors.

Economic impacts can be handled at the economic level, the tax is considered to be an economic variable and it leads to negative repercussions on the national economy in several aspects:

- Affected by public income: the decline of the latter limits the ability of the state to establish investment projects and make them have to reduce their expenditures, particularly with regard to subsidies and exemptions. That is granted under the framework of the investment of economic workers and the result of this is the economic recession and hence high inflation and unemployment.

- The act of evasion beating to curb the most important economic stimulus and is the spirit of competition, and the institution is evasive in a degree that is distinct from those that perform its duties honestly. In the same way that taxation is a major tool through which the state seeks justice social.

## **2. Corruption factors**

Corruption can be traced to economic, political, sociocultural, and professional reasons as the following:

Economic reasons: government intervention in economic activities: one of the main reasons for corruption is government intervention in activities, which leads individuals to give bribes to officials to overcome rules and regulations. In addition, low government wages: where there is an inverse relationship between the low wage level in the public sector as opposed to the private sector and the rate of corruption, which stimulates low wage earners improve the exploitation of government jobs by bribery that perpetuates corruption. Besides that, administrative system inflation. That is, the size of the public sector exceeds its needs and this will complicate the procedures and weakens communication with citizens as well as being a source of state resources, accordingly, the existence of a large natural resource base in society is an important factor since a large natural wealth in society entices officials to do business and corruption is more likely to occur in communities with limited resources.

Political reasons: weak governments lead to the development of corruption and can be judged on the extent of weakness or the power of government by knowing: the extent of ambiguity or transparency in their transactions affecting control over the activities of the state. In the light of that, political leadership's lack of interest in combating corruption has a significant role in combating corruption, but the problem becomes even worse when leaders themselves engage in actions, when they hide such acts from certain people, and of course, they are not expected to government officials do nothing to make heads.

Social and Cultural Causes: the pattern of relationships, norms and awareness among the members of society and government officials tend to prefer relatives, friends, and employees in which they can earn special benefits and illegal benefits leading to growth of corruption in society.

Financial and administrative corruption is presented in bribery, affidavits and intermediation. Bribery: Obtaining funds for an individual or a person belongs to a person such as an individual, or floating or area without entitlement. Affidavits is a preference for another blindness in service without the right to obtain blindness or specific interests.

Intermediation is an intervention in favor of an individual or group without obligation to the efficiency and the assets of the business belonging to an individual party.

### **3. Governance**

The concepts of governance have been varied and can be explained as follows: according to IFC: the system through which companies are managed and control of their workers, and the

Organization for Economic Co-operation and Development (OECD) defines governs through different responsibilities for management of the organization, the board of directors, and the general assembly. There are those who know the rules of the game that are used to manage the company from the inside, that is, a system governs relationships between key players that influence performance, as well as the constituents of the institution and the definition of responsibilities.

In the light of that, the importance of governance can be presented as the following:

- Companies that apply the principles of governance have a competitive advantage to attract capital, especially in the long term through transparency in their transactions and accounting procedures.

- Implementation of the principles of governance will improve the performance of the company's management and assist in the development and strategy to ensure that mergers and acquisitions take place on a sound basis.

- Applying the principles of governance leads to strengthening the confidence of the people in the process of privatization require good administrative rules.

- Adoption of disclosure and transparency standards in dealing with investors and borrowers in the context of the strong application of governance principles to help prevent financial crises.

- There is a close correlation with the level of emerging markets between the performance of the company in terms of prices and levels of return,

and that is clearly for distinguishing companies apply governance standards maintaining the rights of the participants and all stakeholders.

#### Principles of Governance:

To establishing an effective corporate governance system, this system should be implemented correctly, and it is important to achieve transparency and market efficiency, to be compatible with the rule of law and to be renewed and to distribute responsibilities among specialized organizations in the field of control and regulations. Equity is the most important functions of capital holders as well in any governance system. Concerned institutions are found to protect and facilitate the exercise of human rights, and in the light of that, fair contribution to Shareholders is an important principle for governance system.

The role of stakeholders in corporate governance is another essential principle; a governance system must be recognized the rights of different beneficiaries in accordance with applicable law or in accordance with the mutual agreements among cooperations and it actively promotes the leveraging wealth for stakeholders. Further, related principles of governance are requested; transparency and dissemination of information; corporate governance system should ensure dissemination and timely information about everything that goes into the organization, especially activities' results and performance reports to be presented to stakeholders. The responsibility of the Board of directors is a core principle for governance system, corporate governance should provide strategic leadership to manage and oversight by the Board of Directors, as well as the responsibility and integrity of the Board of directors towards shareholders and employers.

After discussing the principle of governance, the objective of governance can be determined:

- Maximizing corporate performance and risk minimization.
- Improved access to capital markets.
- Developing efficient systems to avoid or mitigate fraud and conflict of interest.
- Adapting control systems for the management of the company and members of the board of directors.
- Setting the rules of work within the company and including in the light of achieving the objectives of governance.
- Fairness, transparency and accountability, allowing all those authorized parties to review the performance of executives and board of directors.

- Encourage and attract foreign investments.
- Ensuring review good use of company funds and compliance with the law and supervision of social responsibility in accordance with governmental regulations.

### **3.1. Governance mechanisms and legislation**

The absence of laws and regulations that guarantee the execution of contracts and the existence of contracts leads to a significant reduction and it is essential to ensure that these laws and regulations protect stakeholders; suppliers, creditors, customers, business owners and others. Besides that, the banking system is governed by good laws since the availability of high-end banking facilities is essential for a sound exchange working efficiently and in order to ensure the efficiency of companies. The banking sector provides the necessary capital and the liquidity required for the growth of companies and the financing of generalizations, and therefore the focus is on the importance of governance mechanisms. In addition, governance mechanisms grant liberalization of financial markets and sufficient protection for credit risks.

In this context, good supervision and effective oversight are needed over banking practices. The Bank for International Settlements has been established settle sets of useful criteria and excellent practices that can be adapted accordingly in specific country systems to form the appropriate new ground for a business in this area. It offers a project “New Capital Adequacy Framework” provides many flexible and better methods for assessing capital adequacy and risk assessment until the legal capital requirements are determined. The proposed framework provides three pillars: minimum capital requirements, supervisory review of the internal rating and capital adequacy of the Company, and use effective disclosure effectiveness to strengthen market discipline and to supplement regulatory oversight.

Indeed, not all companies are successful, and this is why there are laws that regulate liquidation mechanisms and it exists in a fair manner to consider the necessity of these mechanisms for liquidated investments and adjustments which are important for production facilities. There should be laws and regulations that govern financial and non-financial entities in-depth, informed on debt and obligations and laws allowing for prompt and adequate procedures for bankruptcy and expropriation. Besides that, good securities markets lead to internal discipline by sending signals to enable investors to liquidate

investments quickly and without cost, and this, in turn, affects the value of the company and its ability to access money. In accordance with that, the stock market needs to be organized by laws governing the issuance of securities for the rights of property, company debts and trafficking besides responsibilities and obligations of issuers of securities and brokers on a transparent and stable basis. Therefore, the conditions for listing companies is based on a strict criteria; transparency and disclosure. Governance regulations are issued to protect the rights of minority residents besides the rights of other stakeholders.

Transparency and fair privatization procedures refers to the implementation of privatization, which is not limited to the structure of the property, but it reflects the culture of companies in the country as a whole. Transparent and fair procedures show how and when companies are privatized, because they are performing negatively. In the light of that, designing privatization can destroy the economy and affect the business environment. Also, tax systems need to be reformed so that they are fair, simple and straight and therefore these systems are necessary to eliminate complex procedures that consist of multiple steps in the preparation of reports, which may allow the release of employees and the introduction of corruption. To complete that, there is a need for an independent and good judicial system. An independent judicial system should be efficiently operated since it is one of the most important economic institutions. The efficiency of the judicial system can be improved by providing adequate financial and technical resources to implement the laws quickly. In addition to these proposals, there is a long way to resolve conflicts outside the court which is an arbitration method that eases the burden of the courts and helps blindly achieve speed in deciding disputes.

#### **4. Anti-Corruption Strategies**

The strategies to combat corruption are basically based on an effective implement for anti-corruption measures by identifying and including legal guidelines and clarifications and adopting the standards of the Organization for Economic Co-operation and Development (OECD). Besides that, there is a need to reform government bodies to reduce bureaucracies. That can be done through streamlining and simplifying work systems, internal procedures and assessing the performance of organizations on a continuous basis in accordance with very clear and specific criteria, and the necessary measures must be taken

to improve the performance of government agencies immediately and in a strict manner.

Strengthening the capacities of the administrative and executive bodies can be done through developing and upgrading staff capacities, in accordance with that, recruitment and promotion should be based on specific criteria besides ensuring that micro-training opportunities, which are available to employees using the latest technical methods. Also, reward salaries for employees and avoiding overtime without payment are important for employees to not accept bribes. The promotion is by efficiency, and the efficiency of the judicial system can also be improved by the provision of financial and technical resources.

## **5. Conclusion**

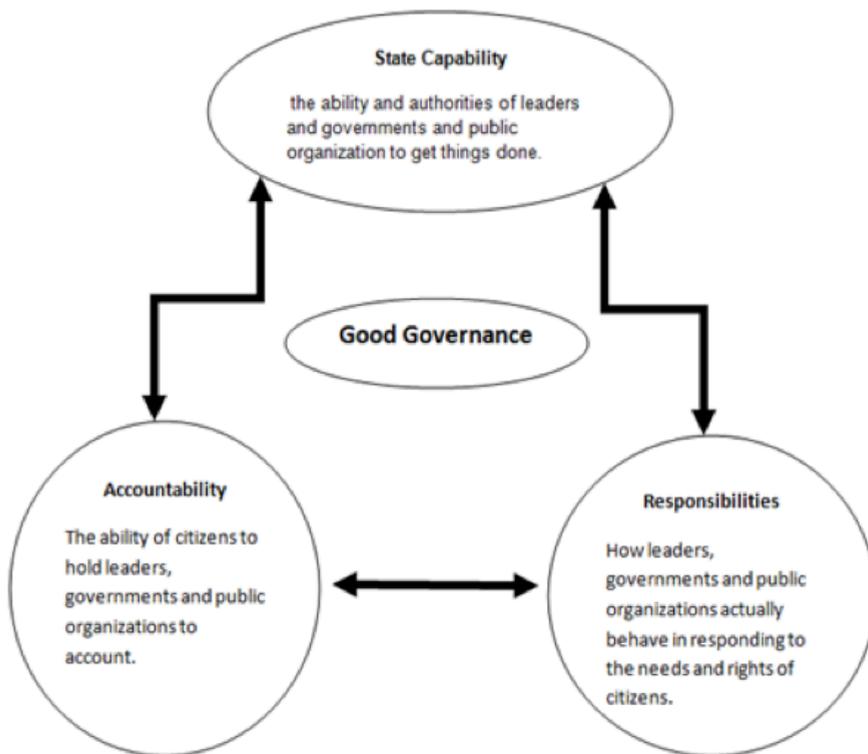
Governance can be complemented by various forms of corruption that are embodied in the emergence of other ways of Legitimated or lawful methods that are manipulated in order to gain personal benefits. The role of governance is primarily to mitigate the risk of corruption through Board of directors, internal audit, external audit, and fair competition subject to laws and regulations. Corruption is one of the obstacles to economic development because of obstacles that undermine the rule of law and affect governance. The several points can be highlighted due to what was presented previously:

- Corruption is a threat for good governance practices.
- Corruption is only a reflection of a weak government.
- Transparency, fairness and responsibility in decision making is necessary to activate the role of governance in combating corruption.

The recommendations that can be taken:

- Achieving the principle of the regulations and equality.
- Improving the performance of public administration.
- Activating supervision of institutions.
- The investigation of the activities of the government.
- Good planning and assessment and building future strategies.
- Implementing corporate governance principles.

Sustaining and strengthening the morality of citizens to recognize what is wrong and what is right and increase their awareness about the impact of corruption on the next generations.



Resource: World Bank

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