Behind Corruption: From NGOs to the Civil Society

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Civil society is often seen as a cure for corruption in the post-Communist world. International organisations and experts tend to believe that NGOs have an important role in exposing corruption or that they can even in some ways prevent potential corruption. NGOs can monitor interaction between people in the government and the business sector, alerting the public to misconduct. Also, the transparency of public sector decision-making processes can be increased by lobbying on the part of NGOs. However, the underlying problem lies in putting an equation mark between “NGOs” and “civil society,” overlooking often deficient institutional framework where corruption is allowed to thrive and civil society is constrained.

**NGOs demystified**

The simplistic vision in which NGOs equal civil society and thus any NGO must be a force for good is troublesome. While recognising the shortfalls of both government and business, it is assumed that NGOs are perfect creations. Failures in the market and government are compared with an idealised non-governmental sector. If corruption occurs in the market and the government sector, there is no reason to assume it does not occur in the non-governmental sector.

An idealised view of NGOs is based on the assumption that people working for NGOs are more ethical and “better” than people in other fields. It is assumed they are not governed by vices such as “greed” or “profit motivation” found in business and politics. However, the assumption that NGO people have gone through a sudden moment of transfiguration and become different from business people is illogical from the point of view of methodological consistency. Their goals may differ, but their approach to problems is constrained by the same rules of the game as in society at large. Douglass C. North, a Nobel Prize winner in economics, refers to these rules as institutions in his book *Institutions, Institutional Change and Economic Performance* (Cambridge University Press, 1990) and divides them into formal and informal institutions.

Formal institutions are coercive and imposed by the state. Informal institutions are voluntary codes of conduct within a given society. Corruption arises as a result of deficiencies and/or a lack of efficient enforcement in formal institutions. In the words of the 18th-century philosopher Adam Ferguson, “…where power is already established, where the strong are unwilling to suffer restraint, or the weak unable to find a protection, the defects of law are marks of the most perfect corruption” *(An Essay on the History of Civil Society, 1767)*.

Informal institutions facilitate corruption further by accepting the corrupt behaviour. Even in the case of well-designed formal institutions, enforcement may be impossible because these institutions conflict with informal institutions. A country may accept anti-corruption laws modelled according to Western standards, but if the informal “rules of the game” do not object to corrupt behaviour, such laws are doomed to be unhelpful.

Most importantly, it is the informal institutions that form the bedrock of civil society. Because such institutions are based on attitudes, culture and social norms, they are instrumental in determining the nature of voluntary civic cooperation in society. Hence, NGOs as one possible organisational form of civil society can be a channel of corruption if the informal rules of civil society accept corrupt and criminal behaviour. Robert Wade, a professor at the London School of Economics, wrote “Unkind people might observe that al-Qaeda is an NGO, and one with extraordinarily high levels of social capital.” [11]

**Criminal groups and civil society**

Petra Stykow, a social scientist at Humboldt University in Berlin, argues in her article “Russian Mafia and Civil Society” that the weakness of the Russian state in creating and enforcing laws that govern every-day business led to the rise of the mafia. [21] Criminal groups started to exploit this window of opportunity in the early 1990s as the formal regulations were subject to widespread mistrust among the population. As some rules were needed to reduce the costs affiliated with every-day transactions, informal rules imposed by criminal groups were widely accepted.

According to Stykow, the rise of the mafia stemmed not from “individualistic” behaviour or complete mistrust of the public, but rather from the nature of civic networks which, based on a “them vs. us” mentality, did not allow for trusting people outside one’s own network. Such social networks did not generate impersonalised general trust and did not allow for bridges between different social groups. Mafia groups were able to collect rent by reducing the transaction costs between different groups.
Certainly, the characterisation of terrorist and criminal groups as some type of NGO can be seen as an extreme exaggeration. However, there are some parallels between a criminal gang that offers protection by using violence in Moscow and a group that tries to “save the world” at the meeting of world leaders by smashing shop windows in Prague.

Even a look from the global perspective supports the narrative presented above. A recent study titled “The 21st Century NGO,” by SustainAbility [3] (for the United Nations) demonstrates that NGOs are often less transparent and accountable than the businesses they tend to criticise. Obviously, organisations closed to external pressures will tend to become inward-looking and this may lead to corruption. Furthermore, many NGOs receive taxpayers' money through political channels, increasing opportunities for rent-seeking and potential involvement in corruption. The European Parliament recently organised a public hearing on the awarding of European Union's (EU) contracts to NGOs and on their performance. In the words of Jan Mulder, a Dutch MEP: “It appears that annually EU funds worth €1.5 billion are awarded to NGOs, of which only a limited amount is subject to some form of tendering.” [4]

So, even if NGOs in developed democracies, and partners to respected international organisations make many multinational businesses look like “choir boys,” the expectations of these organisations should be significantly adjusted in Central and Eastern Europe. Instrumental reasoning, while showing the shortcomings of NGOs, leads to the understanding that civil society is completely helpless in reducing corruption in the post-Communist countries. On the basis of this value-free and mechanical approach to civil society, it is obvious that NGOs as the primary representatives of civil society are doomed to be a “Trojan horse” in the fight against corruption in the CEE. It would be unrealistic to expect that even the most idealistic NGO, formed around the best practices and obliged to follow the same rules, can change the situation overnight. Furthermore, criminal gangs that encourage the exploitation of such informal rules are actually part of society itself. Thus, depending on which organised form of society is most effective in its daily activities, civil society could actually encourage the spread of corruption.

**Redefining civil society**

NGOs do not equal civil society. While NGOs can significantly reduce transaction costs, at the same time, large national and international NGOs can easily become large bureaucracies with their own agendas independent of the real concerns of society. As the above-mentioned study by SustainAbility demonstrated, some of the global NGOs are more similar to the very same multinational corporations that they attack. The difference is that these NGOs do not produce anything useful. In this sense, more localised and ad hoc organisational forms are crucial for bottom-up policy reforms, as opposed to top-down organisations that are artificially created to represent civil society. In this sense, voluntary small-town “fire fighters” are truer representatives of civil society than global NGOs that push the narrow-minded agendas of particular interests by following along like groupies at WTO parties.

Such a line of analysis proposes that the essence of civil society needs to be defined by normative terms rather than instrumentally. A more productive approach to civil society emerges from the social contract theory of the classical liberal thinkers of the 17th and 18th centuries. Civil society is seen as voluntary cooperation among individuals based on the respect of individual rights. NGOs can thus work against the essence of civil society. A lobby by some NGOs may lead to government to pass potentially corrupt decisions, in which the interests of some actors (e.g. business) are favoured above others (e.g. consumers). Essentially, such actions limit individual liberties.

A government based on the respect for individual rights and relative independence of civil society actors from government creates a framework where corruption can be reduced. It is not some ad hoc pressure that would do the job, but rule-making. Certainly, it cannot be expected that rational individuals on the basis of their self-interest will fight against corruption because it violates the terms of the social contract. Collective action problems emerge, as is pointed out by Mancur Olson in his book *Logic of Collective Action* (Harvard University Press, 1971). However, if the basic principle is accepted, NGOs that aim to limit the liberties of the individual either by their own actions (racketeering, terrorism) or lobbying government (business lobbies, trade unions) are excluded from civil society.

From this normative perspective, there is another problem associated with civil society organisations (I will use this term to distinguish civil society NGOs from all other NGOs) - namely government's financial contributions to these organisations. There is no doubt that government support, particularly in the CEE region, is often biased. It encourages rent-seeking and distorts competition among civil society organisations by subsidising some and not others. Furthermore, it often kills initiative and creates perverse incentives by making it easier to apply for a government grant than to convince private individuals to donate money for its causes. The government role should be to create formal rules for distributing funds for civil society organisations (CSOs) in a non-discriminatory manner.
Rule of law and openness

Such a normative line of reasoning may seem far from the “real situation” in the CEE. However, the contrast with purely instrumental reasoning that automatically sees all NGOs as representatives of civil society and a force in fighting corruption is helpful to draw policy implications. In the CEE, civil society will not emerge spontaneously without the government first having created appropriate preconditions in the form of an institutional framework. However, this is not to say government can directly engineer civil society. The key for achieving a true civil society is the advancement of the rule of law, which by creating trustworthy formal institutions reduces people's reliance on informal criminal rules. The growth of CSOs can be encouraged by creating a legislative framework that decreases transaction costs in setting up these organisations and encourages contributions. Within this formal set of rules, CSOs should be left to compete freely and entry barriers should be kept to a minimum. Competition creates incentives for CSOs themselves to monitor whether or not all CSOs act according to the formal rules of the game.

Economic and political openness is another crucial factor for reducing corruption: competition reduces the sustainability of “old-boy networks.” Not surprisingly, the most open economy in the CEE is Estonia (according to the Index of Economic Freedom by Wall Street Journal and Heritage Foundation), also the second least corrupt country in the CEE (according to Transparency International) despite the Soviet authoritarian heritage. Openness encourages changes be made to the rules of the game that reduce transaction costs for any economic, political or social undertaking. The focus can be on domestic rules, such as constitutions and legislative acts, and international rules, such as those imposed by WTO. Oxfam's work towards liberalising international trade laws on agriculture, which currently benefit rich countries to the detriment of poor countries, is an example of one CSO's work in promoting openness.

In summary, CSOs can reduce the corruption in the CEE by promoting rule of law and openness, in order to reduce transaction costs for any undertaking and, in doing so, decrease incentives for corrupt behaviour.

Footnotes