

CREATING EMERGING MARKETS

For the past two decades, the [Creating Emerging Markets project](#) at Harvard Business School has sought to expand knowledge and encourage further research on the evolution of business leadership and entrepreneurship in Africa, Latin America, the Middle East, South and Southeast Asia. The project has now collected nearly 160 interviews with senior business leaders who employ their several decades of experience to provide unique perspectives on globalization, innovation, sustainability, and much more.

THE RECURRENCE OF CORRUPTION

Over the course of collecting interviews, corruption in emerging markets has surfaced as a recurring topic of conversation that merits further investigation. Business leaders contend with corrupt practices everywhere in the world, including in developed markets. However, these often manifest differently, and in some ways more prominently, in the context of emerging markets due to factors such as “instability, voids and autocratic governments [which create] a wholly different dynamic than that faced by firms operating in countries with broad stability over decades.”¹

The diversity of hands-on experiences and detailed stories that the interviews have captured provide a unique opportunity for students to learn anti-corruption strategies that are imperative towards the survival and success of business in emerging markets. Professors Jones and Khanna elaborate on strategies for “Contesting Corruption” in their recently released book, [Leadership to Last](#), published in India by Penguin.² They do so by highlighting the experiences of iconic entrepreneurs:

Mo Ibrahim (Founder & Chairman, *Mo Ibrahim Foundation*)

“We know that, if somebody comes under pressure, it will not be me, it will not be board members. It will be the manager on the ground, the chief executive of the company in the country where we operate. This is the guy who is vulnerable”³

Jaithirth (Jerry) Rao (Founder & Chairman, *Value and Budget Housing Corporation*)

“Each time [the government] started this law, [it] didn’t get rid of the old. So today I have to start with the British law and go all the way to the most recent law, each of which requires prior approval [...] When you require approval, particularly from a low-level or medium-level government functionary — trust me, there is going to be corruption.”⁴

INTRODUCING “STORIES OF CORRUPTION”

While CEM continues to collect accounts and perspectives on corruption from top business leaders in emerging markets, the project is launching a new blog series entitled “Stories of Corruption” which will employ a different approach to crowdsource transparent data on the topic.

We seek to provide a platform for those who wish to share their experiences, prompting further conversation that can shed light on the dangerous and sometimes subtle ways in which corruption hinders economic and social progress in emerging markets.

The new initiative was inspired by a personal account of corruption in emerging markets that CEM received after the airing of “[Corruption: New Insights for Fighting an Age-Old Business Problem](#),” an episode of Harvard Business School’s *Cold Call* Podcast series. The detailed account concerns bribery practices occurring in the Thai electricity sector, a topic made especially important by the effects that this has on renewable energy generation. We feature this story here, as the first in our series.

We invite others to submit their stories to cem@hbs.edu to be included in upcoming editions of the series. The stories can be written “blog-style” and have no specific word limits or formatting specifications.

DISCLAIMER:

Stories published as part of “Stories of Corruption” remain anonymous given the sensitivity of the topics and the project’s desire to collect transparent accounts. While stories are not fact-checked, the credibility of the authors will be validated by the CEM editorial team. The views expressed do not represent those of CEM at HBS.

¹ Austin, Gareth, Carlos Dávila, and Geoffrey Jones. “The Alternative Business History: Business in Emerging Markets.” *Business History Review* 91, no. 3 (2017): 558.

² Jones, Geoffrey, and Tarun Khanna. *Leadership to Last: How Great Leaders Leave Legacies Behind*. Gurgaon, India: Penguin Random House India, 2022.

³ Interview with Mo Ibrahim, interviewed by Tarun Khanna, London, UK, September 15, 2017. Creating Emerging Markets Project, Baker Library Historical Collections, Harvard Business School.

⁴ Interview with Jaithirth (Jerry) Rao, interviewed by Geoffrey Jones, June 1, 2016. Creating Emerging Markets Project, Baker Library Historical Collections, Harvard Business School.

STORIES OF CORRUPTION:

A case example from Thailand

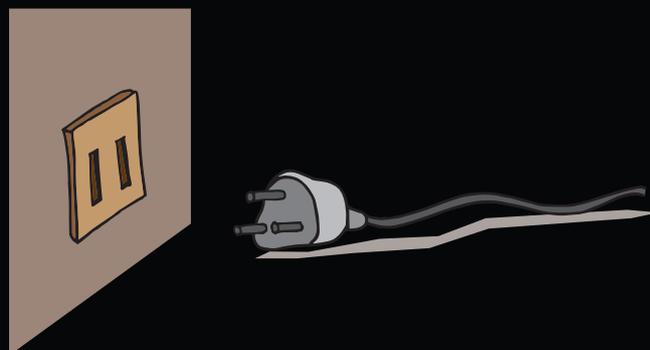
The issue in this case is bribery affecting state-owned electricity utilities, their supervisory ministries, and politicians in Thailand. This has assumed particular importance because of global pressure for the growth of decentralised renewable energy generation in climate action programmes.

THE HEART OF THE ISSUE

First, remove a potential distraction from discussion. It is well known that, all over the world, resistance to decentralised generation of electricity can be strong. Established electricity utilities with legacies of large, centralised electricity generation plants can be ferocious opponents of solar energy in particular, because its decentralised generation disrupts business models that they have used for 50 - 100 years. Resistance is visible even in pre-Trump and post-Trump USA, and much of it has little or nothing to do with bribery.

In Thailand, however, utilities and the regulators to whom they report as state-owned enterprises fear an additional problem caused by decentralised generation: it disrupts well-established patterns of bribery. That fear also is not unique to Thailand: in the south-east Asian ASEAN region, the majority of countries are also suspect. But Thailand is where my own knowledge is concentrated.

Bribery ranges from small and low-level to massive and high-level. "Small" is generally not threatened, and can mean a couple of hundred dollars to expedite processing of an application for a small solar roof on a building. But bribes can also be massive: up to \$250000 per MW or more for larger-scale solar farms, which may go up to 300MW or more in size, though bribes are unlikely to be at that level now because of the downward crash of prices for solar panels (= less spare cash for bribes).



It is clear what the bribes are intended to achieve: timely, efficient processing of all necessary administrative and technical approvals for a project. Thailand's approval processes are as complex as anywhere and both policy development and policy implementation can be infuriatingly slow (Amartya Sen, the Cambridge and Harvard Nobel laureate in economics and a global authority on development issues, who knows Thailand well and admires many of its achievements, has called Thailand a "hasten slowly" society). It is felt that a little oiling of the wheels is necessary.

THE PROCESS: SOME BASICS

Who are the recipients?

Data here already starts to get murky or opaque. While bribery is talked about openly, even with discussion of rates - one very senior public figure has said to me "at least the money used for bribery in Thailand stays in the country" (which may not be true, incidentally, since rich Thais invest heavily in over-seas property). But the problem is never dealt with in writing, where mafia-style omerta applies, and oral discussion stops before names are mentioned.

For the large items, any of five major groups seem to be recipients: 1) executives of state-owned enterprises, 2) senior civil servants in supervisory ministries, 3) members of parliament and local politicians who keep an eye on investments in their constituencies, 4) local government officials, and 5) in cases where projects supply power to the military government, military officers as customers - for example, for supplying power to military bases.

The last of these is noteworthy: bribery has been a central issue in both military coups d'état in Thailand this century (the first, against the government of the subsequently exiled Thaksin Shinawatra, who is generally regarded as egregiously corrupt, and the second against his sister or daughter – nobody is quite sure which); but locals to whom I have spoken feel that, for the military leaders of the coups, the bigger problem has been not the corruption itself, but that the military was not receiving a big enough share of the proceeds. It is generally believed today that the military government has failed dismally to stamp out bribery in its own ranks.

How are the bribes financed?

(= where does the money come from?) The money comes from prices set by government which are higher than the economics justify and from the profits that are thus distributed to the solar energy producers: in the largest round of capital investment in the teens, electricity produced by solar farms was fed in directly to the grid, and prices per KWH were set at a level based on 2010 solar panel prices, but by the time the plants were built 3-6 years later, costs had declined dramatically, leaving huge scope for seeking bribes.

The government of the time cannot be blamed for that, since high feed-in tariffs were being offered all over the world. The Thai response was, in effect, a slightly unusual form of a windfall tax on the profits of solar energy companies: instead of direct taxation, the money is paid in bribes. The crash in solar panel prices since around 2015/2016, led primarily by Chinese producers, has reduced the excess profit available, and the solar farm programme has been reduced considerably in scale.

How does the cash get distributed?

In the same way as in processes elsewhere in the world. The money is paid by the solar energy project developers to trusted, designated intermediary “consultants”, sworn to secrecy, and often designated by the ultimate recipient of the bribe. The expenditure is then expensed as consulting fees. It is only relatively recently that some developed country governments have denied tax deductibility of expenses of this kind.

REMARKS ON CONTEXT

Two observations may be helpful: on global comparisons in this specific field, and on Thai experience of bribery in other fields.



In the electricity sector globally, much of what is going on in Thailand is not unique or even unusual. As noted above, established utilities are often fierce opponents of decentralised generation of renewables, and much of the resistance in Thailand can be attributed not to fine business models which can enable them to make money out of the energy transition which is presently underway. In other words, explanations other than a desire for bribes are available to explain resistance to decentralised generation, which complicates combat against it. In other countries, bribery may not be used as a defensive weapon, but the chief executive of a utility with a legacy of large, centralised generating plants – in developed markets like North America or Europe – is likely to be just as worried that his or her salary depends on defending the existing model. Thailand is using only one additional element in that resistance.



Second, the practices outlined in this note are not at all untypical of practice elsewhere in the Thai economy. In other sectors also, the same categories of recipients spring up whenever an opportunity presents itself to make a discreet, fast buck presents itself. Attempts are made to combat these practices – for example, a National Anti-Corruption Commission has been established and has led to a few, high-profile cases where government officials have been dismissed, jailed, or both, for corruption. But generally, practices have not changed. One European executive with long experience of Thailand has told me that practices will not change in Thailand until all guilty parties are sent to jail automatically. Other observers – Thai and foreign – place their hope on the younger generation – a senior MIT-trained civil servant who is apparently “clean”, said to me that the solution to corruption was to hire more young people like himself. But to this one observer, the younger generation does not seem terribly worried about the problems.

GLOBAL ISSUES RAISED BY THE CASE

This case raises a number of issues which may be important to the developing world. To start:

\$ *Corruption here affects not only “traditional” areas such as construction and public works, but the progress in renewable energy programmes, and potentially has a higher profile.*

\$ *It distorts or prevents discussion about the nature and the extent of public incentives for the energy transition, and leads to a bias towards larger plants, and against generation on individual buildings which increases autonomy and can be just as economic (the larger the plant, the bigger the bribe). Since safety and reliability have not been compromised, many seem to regard the bribes as a not-particularly-reprehensible way of compensating senior officials for salaries that are absurdly low by international standards, and the impact of bribery no worse to the economy than wind-fall taxes on profits when revenues become excessive.*

\$ *The behaviour of developed country participants is also very relevant, and their willingness to comply with UN and OECD codes – take Tony Blair, for example, who basically ripped up the OECD convention on bribery so that the UK could win orders for arms sales in the Middle East.*

\$ *There are personal ethical issues: for example, what impact do senior executives have who may not be personally corrupt, but who are happy to nod corruption through when it is evident. The head of one multinational company in Thailand stated confidentially that the key need was to prevent unfavourable press coverage of his company, and that beyond that, local staff should expect to comply with local customs.*

\$ *The role of the finance sector may deserve scrutiny. Although the economics of solar generation are now excellent even without subsidy, banks have been slow to finance small, decentralised energy producing facilities. One UK banker at a solar conference listed four keys to obtaining finance for renewable energy generation: 1) spectacular returns, 2) large numbers, 3) zero risk, and 4) developers do all the work. On those conditions, he said, finding finance was easy. It is hardly surprising that the market looks for continuation of the sort of massive subsidies that leave room for bribes.*

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