

Ethics and Corruption in the Information Age : the Israeli Experience

Uzy Berlinsky*

ABSTRACT

In the last year Israel has been witnessing several ethically traumatically events. Leading figures in Israeli public life have been suspicious in committing illegal and unethical deeds. Some of these events were exposed by the press exposed some of these events. The public personalities under suspicious, are investigated by professional teams in the police force.

In recent years we witness a technological revolution in the Public Service, we would like present some breakthroughs in the Biometrics identification serving as a major tool in the "cleaning" and stabilizing the Public Sector. The author would like to thank Prof. Meir Heth and Dr. Hayim Kalcheim, for their advice and help in completing this paper. The author of this paper serves as Director and Inspector-General in the Prime Minister' Office and in charge of the implementations of the State Audit findings as well as auditing the level of services being provided by Government to the citizens, This role also entails securing the Government sensitive information and overview responsibility for the Internal Audit in Government.

* Director, Inspector-General, State of Israel.

Corruption, Conflict of Interest and Values

Corruption, misconduct and "Conflict of Interest" situations, have become a vital challenge for many governments. Consequently they are experiencing a general decline in confidence, fuelled by well-publicized scandals. Others note growing pressures between traditional values and the roles public officials play in a modern resultsbased public management environment. Responses have included campaigns to "clean up" public life and fight against Corruption; reviews of the rules and regulations applying to public officials; Attempts to redefine public service "values" and new codes of conduct.

Corruption in government and public administration is a complex and pervasive phenomenon.

In governance terms, corruption threatens democratic public institutions by permitting the influence of improper interests on the use of public resources and power, and by undermining the confidence of citizens in the legitimate activities of state. Internationally, there is a growing awareness that sound governance plays an important role in effective action against corruption. There may be a strong link between corruption in general and organized crime in particular. Disruptive political and economic changes can provide fertile ground for organized crime and corruption to develop even in societies historically free of these plagues.

All countries share "co-responsibility" for fighting organized crime and corruption. No country is completely "clean" in these areas. All countries can do more to strengthen their own legislation and enforcement practices, and the increasingly international scope of these problems, as well as of the related phenomenon of money-laundering, means that they must also do more to establish the means of taking effective action across national borders. Corruption hampers economic growth. Corruption discourages public and private investment and worsens poverty. It also burdens the poor disproportionately.

"Conflicts of Interest" in the Financial Market in Israel

In a symposium on business ethics held in 1995 at the University of Dubuque, Iowa, Lord Remnant, a well known businessman, opened his address as follows: "During the course of my business career we started with morals, then we had ethics, then standards and now the law. The emphasis used to be on what was right; now it is on what is lawful. What is sure is that the law is inadequate unless backed by a strong moral theme." And he added: "Even in relatively modest business deals, the handshake has given way to teams of lawyers working until midnight to cover every eventuality that might allow one party improperly to take advantage of the other."

"The more markets are opened, the more industries are privatized, the more regulations are invented Regulation is Britain's most vibrant industry."

One of the important developments of the last two decades in the financial markets has been the growth of the financial conglomerate. The barriers that had existed in many countries between banking, insurance and the securities market were gradually removed under the pressure of market forces that have led to the relaxation of restrictions on the activities allowed to the various types of financial firms. The globalization of the financial markets, the developments in computer and communications technology and deregulation have intensified competition and increased the importance of economies of scale and of scope. The result of these market pressures and competitive incentives has been the proliferation of the financial conglomerate: an organization that combines under one roof banking, securities and sometimes insurance businesses. The conglomerate raises several regulatory and supervisory problems.

One is the potential "conflicts" of interest created by the mix of activities that enables the conglomerate to benefit at the expense of a customer or take unfair advantage from the combination of the various activities. A company that had borrowed money from a bank is running into difficulty. In order to extricate itself from a doubtful debt the bank's underwriting division or subsidiary underwrites an equity or debt issue for the borrower and the proceeds are used to repay the loan. There are many more situations in which the sale of one product out of the various products offered by a conglomerate will take into account the relative advantage of the conglomerate and not the best interests of the customer.

The cost of totally preventing "conflict of interest" potentials by the separation of activities is much higher than the benefit of the ultimate solution.

The alternative to separation of functions is the arrangement known as a "Chinese-Wall". The Wall may take the form of allocating activities that may be in potential conflict to subsidiaries that are run by independent boards of directors. The flow of sensitive information among the various business units of a conglomerate is strictly limited. Another element of a "Chinese Wall" is the adoption of rules of conduct aimed at preventing the abuse of conflict situations that cannot be effectively blocked by the more formal arrangements.

Following the bank shares crisis in Israel, the "Beisky Report" issued in 1986, advocated total separation of most securities activities from the banks. This recommendation was not implemented, but the Supervisor of Banks directed the banks to conduct most of their securities activities in separately managed subsidiaries. Underwriting, portfolio management, and the management of mutual funds and of provident funds are conducted by subsidiaries with a substantial representation of outsiders on their boards. The Securities Law, in the chapter that bans insider transactions, imputes to a corporation the inside information of its officers and employees. To avoid this consequence the corporation must implement rules of conduct that prohibit the flow of information from those who are in possession of inside information to those who execute securities transactions.

Handling the issue of "conflict of interests" in the financial conglomerate is a good example of the important role that rules of conduct may play in the regulation of potential abuse. "Chinese Walls" are ridiculed by many who assert that "Chinese Walls crumble under a good meal in a Chinese restaurant". Yet the alternative to this arrangement is a complete separation of activities that are complementary to each other and are dictated by competitive pressures. It is therefore in the best interest of the conglomerate to adopt codes of business conduct that will minimize the potential for abuse of conflict of interest situations and to establish effective monitoring systems.

White Corruption the case of Israel

White corruption nurtures the growth of compartmentalized ethics in society. Once a certain kind of white corruption becomes the norm, people can accept this kind of standard more easily. By being widespread and going unpunished, an act of white corruption signifies to the individual that it is not his personal sin and that indeed it is not even a sin when the leaders in society, in politics and administration, and the public at large, do not enforce the rule. Therefore, white corruption paves the road to living with comfort in a setting of compartmentalized ethics by establishing norms which define certain actions as acceptable.

Corruption, like pornography may also be a matter of cultural definition. What is "black" corruption in one country may be practiced freely in another, whether as "white" corruption or even as a legitimate custom. Therefore, Heidenheimer's distinction is useful because it helps us to draw back from value-laden connotations of corruption as bad or immoral (Danet, 1989:13). With this approach as a backdrop, let us now look at four well-known examples of white corruption in Israel: patronage practices, *Protektzia* patriotic illegalisms, and "as though" *Keilu* arrangements.

Patronage Practices

Israelis have grown to tolerate and are accustomed to "minor" ethical infractions. Among them are "patronage practices." This phenomenon thrived mainly through the political machines that operated among the masses of new immigrants streaming to Israel between 1948 and the early 1960s. "New immigrant votes became a commodity, transferred to the highest political bidder" (Werner, 1989: 259). Another aspect of politicization involved the recruitment of party loyalists to positions in the public service.

More and more party members were appointed to civil service positions in such a way during the 1950s. While legislation enacted in 1959 and 1961 required meritbased criteria for appointments and promotion of civil servants and imposed limitations on their political activities, these measures, while improving the situation, did not eradicate politicization in government bureaucracy. The reports of the State Comptroller in recent

years attest to the continued existence of many forms of politicization (State Comptroller, 1989 : 627ff.; 1991:595ff. : 1993 : 732ff.; 1994:917ff.; 1997 : 838ff.; 1998 : 871ff.).

Protektzia

Protektzia in Israel, in plain words, is "pulling strings" (Danet, 1989:16-17), and is defined as the circumvention of "established procedures and official norms through the use of personal and/or political connections" (Raphaeli, 1970 : 177, n.3) based on several definitions (see Werner, 1989 : 259 and Danet, 1989:16-17), the following definition conveys a more comprehensive understanding of this phenomenon: the granting of preferential treatment through bypassing of official rules as a result of personal or political contacts made between the receiver and an official in the relevant office, excluding all reference to graft, bribery, or exchange of money.

Danet (1989 : 118) makes a clear distinction between violations of formally-enacted laws and protektzia which is merely a violation of administrative regulations, not punishable by law "....It is also worth noting that there has never been a serious attempt to eliminate protektzia, and no serious sanctions, even administrative ones, have ever been applied, either to those granting it or to those seeking it....Israel has never once launched a campaign to stamp out protektzia. Is it any wonder, then, that it flourishes?"

This form of corruption is quite mild when we consider that most of the Jews who settled in Palestine (and later in Israel) grew up in autocratic regimes, whether in the Middle East and the Mediterranean basin, or in Eastern Europe where to survive economically or to survive at all one had to resort to circumventing the law and resort even sometimes to bribery.

Patriotic Illegalism

Illegalism is defined by Shprinzak (1986:22), as translated by Danet (1989 : 115) into English, as : "an orientation which does not view respect for the law or respect for the idea of rule of law as a basic value....a form of behavior governed by considerations of utility....A citizen or ruler guided by this orientation will not necessarily be hostile to the legal system....Rather, he will be characterized by an instrumental attitude toward law when it is in his interest to do so -- unless there is a clear danger of efficient sanction... (and) will ignore it whenever possible".

In contemporary Israel, acts of illegalism manifest themselves in ideological groups as well as in individuals with material motives. For example, in the 1970s GushEmunim(a movement for settling Jews in the West Bank) initiated and organized settlements not always with government approval. These illegal acts were accepted as part of the Israeli norm and later even sanctioned by the government, albeit of a different political coalition. On individual and non-ideological grounds we find every year that thousands of contractors and private dwelling owners build without the proper permit and

contrary to town planning regulations. Instead of enforcing the law, where in more cases demolition should have been the suitable punishment, compromises are reached whereby the violators pay an "appreciation tax" to the municipality (Hurewitz, 1987).

"As Though" - "Keilu, Arrangements"

"As though" arrangements are a very mild or diluted form of illegalism that, in fact, are full-dressed legal acts. Many, if not most, of these arrangements are formulated due to wage policy considerations. One of the perennial problems in this area is the existing linkage in wage increases among the various labor unions. For example, if the engineers union achieves a certain wage increase in its collective bargaining agreement, then the university graduates union will demand the same, followed by the social workers and, in a chain reaction the rest of the unions. The result is that after the cycle is completed, the engineers will reopen their demands for a wage increase in order to maintain a differential between them and the other unions. Some formulas avoid this vicious circle by increasing the income of the union member without increasing the wage scale itself. This is done by designating the additional payment as specifically as possible in a manner that makes it difficult for other professions to claim the same benefit. For example, special pay or a raise in pay for night shift for nurses is not likely to be followed by similar demands from most other unions since night shifts are not required in most professions. However, certain "specific payments" do not remain specific and in the course of time they are adopted or adjusted to fit the agreements of other unions. Here is a one example out of many, of "as though" arrangement :

Fund for professional training

A way to increase income without increasing the wage scale involves the fund for professional training, to which the employee contributes 2.5 percent of his monthly salary and the employer adds a sum equivalent to 7.5 percent of the employee's salary. The money in this fund can be used in one of two ways: for study or participation in training programs; or to save and at the end of six-year period the accumulated sums can be drawn upon by the employee for any purpose. The money used in either form is exempt from income tax.

An employee interested in using the money for training has to submit full details of his program of studies (what, where, and how much) to a special committee with the authority to release the money upon presentation of the proper documentation. The fact is that the relevant unions(almost every union has set up such training funds) organize "study tours" abroad which are recognized as "eligible for coverage" by the funds. In reality, these study tours are no different in essence from any other pleasure trips except that they are sprinkled with some visits to plants or organizations whose activities are related to the profession(public sector employees would visit a few

government or municipal departments: lawyers -- court systems, etc.).

In fact, those who seemingly opted for spending their fund money on training spent it on touring, while those who drew the money after waiting the six-year period found many good causes other than training on which to spend the money. Thus, an employee's account in the training fund - composed of a 25 percent employee contribution and a 75 percent employer's share - which is designated for further studies or professional training, is nothing more than additional income.

These pervasive administrative and social modes of behavior are hotbeds of darker shades than white corruption. The problem lies in the fact that the poisonous plants resemble those of the normative(white corruption) ones. Therefore, there exists a double task: to decrease the scope of white corruption for its own sake so that norms conform to proper rules and to increase the potential of identifying criminal deeds. The fact that Israel's public administration encompasses broad areas of white corruption and improper administrative behavior does not make it a corrupt administration, but it does harbor the seeds of criminal acts.

A new Dimension- Biometrics and Anti Corruption Reform

The dramatic growth of the Internet is pushing businesses into an increasingly interconnected marketplace - requiring them to understand and manage their information security in tandem with the speed of the net. Biometrics is best defined as measurable physiological and/or behavioral characteristics that can be utilized to verify the identity of an individual. They include fingerprints, retinal and iris scanning, hand geometry, voice patterns, facial recognition and other techniques.

They are of interest in any area where it is important to verify the true identity of an individual.

Initially, these techniques were employed primarily in specialised high security applications, however we are now seeing their use and proposed use in a much broader range of public facing situations. Pins(personal identification numbers) were one of the first identifiers to offer automated recognition. However, it should be understood that this means recognition of the PIN, not necessarily recognition of the person who has provided it. The same applies with cards and other tokens.

We may easily recognize the token, but it could be presented by anybody. Using the two together provides a slightly higher confidence level, but this is still easily compromised if one is determined to do so. In the context of travel and tourism, one immediately thinks of immigration control, boarding gate identity verification and other security related functions. However, there may be a raft of other potential applications in areas such as marketing, premium passenger services, online booking, alliance programs and so on where biometrics may be usefully integrated into a given process at some stage. The Fair Information Practices require businesses and governments to gain consent prior to using personal information collected for one purpose for another purpose.

Examples of Biometric Applications in Israel

There are many examples of biometrics being used or considered in Israel. One use is to provide robust authentication for access to computer systems containing sensitive information used by the military services, intelligence agencies, and other security - critical organizations. Physical access control to restricted areas is another key application. There are many law enforcement applications, mostly for fingerprint recognition. Other law enforcement applications include home incarceration and physical access control in jails. There are also significant applications for biometrics in the commercial sector. Some of the biggest potential applications include the use of biometrics for access to Automated Teller Machines (ATMs) or for use with credit or debit cards. Many types of financial transactions are also potential applications: e.g., banking by phone, banking by Internet, and buying and selling securities by telephone or by Internet. Fraud on cellular telephone systems has increased dramatically. Biometrics are being considered to reduce this fraud. Telephone credit card fraud is also a significant problem that may benefit from the use of biometrics. There are also commercial applications for computer access control, access to web site servers, access through firewalls, and physical access control to protect sensitive information.

Current Applications- Bazel Program(BP) Applications.

BP was designed to provide the Israeli government with a sophisticated control tool on the Gaza Strip border. It's applications providing prompt admission to Israeli citizens to Israel by allowing them to bypass the personal inspection part of the entry process.

It uses hand geometry to verify the identity of the traveler at an automated inspection station. BP stations have been installed at the Ben Gurion Airport.

Planned Applications

Efforts are underway to establish biometric-based screening of drivers. The goal is to eliminate the tampering with or faking of licenses by verifying the recorded biometric picture data.

Plans are underway to disburse many of the Government benefits (e.g. retirement, social security, welfare) electronically through ATMs and point-of-sale terminals.

Initial plans are to implement fingerprint identification at the benefit enrollment phase.

Interest The interest in implementing biometrics for various applications within the Government, industry, and academia is widespread and quite varied. The following examples touch upon a few of the many possible uses of biometrics. The Ministry of Interior is considering the use of biometrics to aid in their processing of passports/visas. The Government Printer would like to improve their current security methods with the addition of biometrics in order to prevent any loss of currency. The Ministry of Defense is researching biometrics and their implementation for computer network security.

The Ministry of Transportation is considering biometrics for airport security applications.

There is great demand for the fast, accurate authentication that biometric systems can provide. Continued improvements in technology will bring increased performance at a lower cost, fueling the continued growth in operational systems. This growth will place greater demand on both biometric system developers and users to work together in developing testing(as well as infrastructure) standards.

Conclusions - Lessons of experience

Key Objectives.

Corruption is often a symptom of a weak state, although it is not present in every weak state nor is it limited to those states, which are weak. Reform, in terms of the state and its ability to combat corruption, must center on values such as transparency, accountability, predictability, fairness, and independence.

Two Key Objectives may be :

- (i) Establish a common understanding of the problems in fighting corruption, share anti-corruption experiences, and identify cross-border issues : and initiate pilot monitoring techniques :
- (ii) Obtain existing instruments and anti-corruption programs, identify needed Changes, and develop recommendations and action plans.

General Reform Process.

Transition economies should proceed with the general reform process which includes increased transparency through establishment of competitive public procurement procedures, improved investment atmosphere through simplification of business licensing procedures, clear administrative sanctions for misuse of power and dissemination of public information related to legislation. Major types of ethical challenge governments are currently facing. It will especially focus on the challenges caused by the following : Public management reforms(downsizing, wage freezes, internal markets, outsourcing public services, unintended impacts of reforms leading to fragmentation of the core public service).

Interaction of the public and private sectors(conflicts of interests between public duties/private interests, especially in privatization, contracting out or public procurement).

Changing social environment (change in expectations regarding behavior and performance, demand for transparency, access to public information and civil participation).

In some countries, managing the transition process(negative conditions, such as low wages or prestige in the public service, could increase the temptation for misconduct or corruption).

Some key questions for self-evaluation.

Following the OECD we will suggest Governments to use a self evaluation system. This system will help to improve the startagies and implementation procedures. There

is a strong need for establishing informal public-private partnerships to monitor government activity, for raising public awareness of costs of corruption and for creating anti-bribery pacts among businesses, labor and N.G.O s.

- Are N.G.O s actively involved in anti corruption? Do they produce score cards' on governance?
- Does the media effectively report on corruption?
- Are there public hearings for central and local budgets? For key laws and regulations? For public procurement?
- Is there an independent Ombudsman to whom the public can report abuses of public office?
- Is Parliament able to provide a check against corruption in the other branches of state as well as police itself?
- Was a promise to reduce corruption a key element party platform of the Government?
- Is the current Government's political survival predicated on effective actions in ant corruption? Has the country experienced a recent political or economic crisis, perceived to have been linked to misgovernance or corruption?
- Does the Government have a comprehensive anti corruption program, addressing all the three pillars: systemic institutional reforms, public education, and prosecution of corrupt officials?
- Did the Government initiate its own anti corruption program?
- Is there a broad coalition of support for an anti corruption program?
- Is the debate within Government on corruption open and transparent? Is the Government willing to commission independent studies of corruption and widely disseminates the results of these studies? Is the Government open to N.G.O monitoring of their anti corruption program?
- Are there effective regulations against bribery, embezzlement, and other abuses of public office?
- Is there an effective regulation on party financing, which limits the extent to which special interests can contribute to parties?
- Is there an effective regulation on conflict-of-interest, which restricts the ability of politicians and bureaucrats to participate in and accept compensation for activities that are contrary to the public interest?
- Is there an effective system of income and assets declaration for senior politicians and bureaucrats, which allows for public scrutiny of their accumulation of wealth?
- Can prosecutors offer plea bargains and immunity in exchange for material testimony on corruption?

Conclusion

In some religions it is believed that the natural order of things is corruption and temptation to be corrupt. But the Almighty gives every person the ability to rise above corruption with superior conduct and ethics, to distinguish right from wrong, to choose between them, to elevate oneself and liberate oneself from the world's corrupt influence and environment, and when mistaken to repent and choose again, thereby revealing the divine within them by their good deeds, their righteous actions, their honorable dealings, and their abhorrence of everything unclean. True, they also believe that the Almighty provides guidelines, issues commands to be taken on trust only, and spells out for the community and sometimes the individual the consequences of choosing good or bad. Taking our cue from this, let us not try to surpass the Almighty in seeking perfection in public service ethics and in public office holders. Let us be guided by the possible, the attainable, the reasonably reachable. Remember all of us are merely human: none of us is a god. But let us not relax and think that our job is done before we have done our utmost to see that our good thoughts have been translated into good deeds, righteous actions, honorable dealings, and abhorrence of everything unclean.

References

- Danet, B. (1989). *Pulling Strings - Biculturalism in Israel Bureaucracy*. Albany: State University of New York Press.
- Dunn, Jeffrey S. and Joseph P. Campbell, Jr. *Report on Biometrics*. ScanTech Conference Proceedings, 1996.
- Heidenheimer, A.J. (1989). "Perspectives on the Perception of Corruption," in A.J. Heidenheimer, M. Johnston, and V.T. Le Vine, eds., *Political Corruption: A Handbook*. New Brunswick, NJ: Transaction Publishers.
- Hurewitz, Y.(1987). "Enforcement of the Planning and Building Law--Demolition Orders." *H. Praklit*, 37 (Hebrew).
- Lipton and Mazur. *The Chinese Wall Solution to the Conflict Problems of Securities Firms*. New York University Law Review. Vol. 50(1975). p. 459.
- Lord Remnant. *Is There Still a Need for Morals?* The World of Banking. April-May 1995. p.7.
- Los Angeles County Stops Fraud with Automated Fingerprint Matching System. Hewlett - Packard Company. [13 Sept 1996].
- Miller, Ben. PIN's Top 10 Biometric Applications. The 1997 Advanced Card and Identification Technology Sourcebook. 1997. p 37.
- Mintie, David. *Biometrics in Human Services User Group Newsletter*. Vol 1, No. 1. July 1996. [13 Sept 1996].

- P.R. Wood. *Financial Conglomerates and Conflicts of Interest*. in Conflicts of Interest in the Changing Financial World (R.M.Goode, Editor),
- Raphaelli, N. (1970). "The Senior Civil Service in Israel: Notes on Some Characteristics," *Public Administration*, 48. Summer.
- R. B. Lamb, Ethics in Financial Services. *Business and Society Review*. Spring 1999. p. 2.
- Securities Law 1968. as amended in 1988. section 52B.(b).
- Shprinzak, E. (1986). *Every Man Whatever is Right in his Own Eyes-Illegalism in Israeli Society*. Tel Aviv: Sifriat Poalim (Hebrew).
- State Comptroller (1989). *Annual Report 14*. Jerusalem (Hebrew).
- _____. (1991). *Annual Report 41*. Jerusalem (Hebrew).
- _____. (1993). *Annual Report 43*. Jerusalem (Hebrew).
- _____. (1994). *Annual Report 44*. Jerusalem (Hebrew).
- _____. (1997). *Annual Report 47*. Jerusalem (Hebrew).
- _____. (1998). *Annual Report 48*. Jerusalem (Hebrew).
- Spanish Government Agency Wins Outstanding Smart Card Application Award at CTST '96 Awards Banquet. May 1996. CardFlash. RAM Research Group. [13 Sept 1996].
- Supervisor of Banks, Bank of Israel, Guidelines on the Activity of Banks in the Capital Market.
- Unisys Personal Identification Technology Will Be Used to Give Spaniards Access to Personal Information in Spain's Healthcare Databases. March 1996. *UNISYS WORLD Editorial Index*. Publications and Communications Inc. [13 Sept 1996].
- US General Accounting Office. *Report to the Honorable Kenneth E. Bentsen, Jr.*, House of Representatives. Electronic Benefits Transfer : Use of Biometrics to Deter Fraud in the Nationwide EBT Program. GAO. Se
- Werner, S.B. (1989). "The Development of Political Corruption in Israel." in A.J. Heidenheimer, M. Johnston, and V.T. Le Vine, eds., *Political Corruption: A Handbook*. New Brunswick, NJ : Transaction Publishers.
- Zunkel, Richard. *Biometrics and Border Control*. *Security Technology & Design*. May 1996. p. 22 ~ 27.