

CORRUPTION IN BANKS AND MECHANISMS FOR ITS PREVENTION

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Abstract: This research paper provides an in-depth analysis of corruption in the banking sector, the causes of its emergence, its negative impact on the economy, and the mechanisms for its prevention. Since banks are one of the most important components of a national economy, corrupt practices in this sector adversely affect financial stability, the investment climate, and public trust.

The results of the study reveal that major corruption risks in the banking system are linked to lending operations, procurement and tender processes, currency transactions, and abuses in internal auditing. The findings also evaluate digitalization, improved transparency, strengthening internal controls, staff rotation, regulation of conflict of interest, and enhancement of sanction mechanisms as effective tools in combating corruption.

The study concludes that minimizing corruption risks in the banking sector is an essential factor for ensuring economic stability and social welfare.

Keywords: Corruption, banking system, lending, tender procedures, economic growth, institutional development, conflict of interest, digitalization, transparency, internal control, audit, public governance.

Introduction

The banking system is one of the key pillars of the national economy, ensuring financial resource flows, lending, payments, and investment activities. Therefore, corruption occurring in this sector undermines not only individual clients but also the economic stability of the entire country. The most dangerous aspect of corruption in banks is that it reduces trust, causes financial losses, and disrupts the competitive environment.

Corruption is defined as the unlawful use of one's official powers or service position for gaining personal or third-party benefits, whether material or non-material, as well as the illegal provision of such benefits. A violation of anti-corruption legislation is an act containing signs of corruption and is subject to legal liability.

A conflict of interest is a situation in which an employee's personal (direct or indirect) interests affect or may affect proper performance of their duties, creating a contradiction between personal interest and the legal interests of citizens, banks, society, or the state.

Below, the corruption risks in the banking system and mechanisms for their prevention are analyzed.

Literature Review

S. Rose-Ackerman (1999) interprets corruption as misuse of public authority for personal benefit in her work “Corruption and Government”. [1]

R. Klitgaard (1998) explains corruption through a well-known formula:

Corruption = Monopoly + Discretion – Accountability

This concept has become the basis for many scientific studies. [2]

According to reports of the Anti-Corruption Agency of Uzbekistan, important measures include introduction of the “E-Anticorruption” system, increasing transparency in public procurement, and implementation of income declaration of public officials.

In local research:

Q. Abdullaev studies the relationship between corruption and economic growth.

Main conclusions:

- Corruption reduces investment and increases uncertainty for businesses.
- It slows economic growth by increasing transaction costs (“invisible tax”).
- Excessive bureaucracy lowers economic efficiency and restricts activity.
- It distorts competition and weakens market performance. [7]

S. Juraev focuses on the legal dimensions of corruption and mechanisms for combating it.

Key points:

- Legal loopholes create conditions for corruption.
- Stability and consistency of legislation are crucial.
- Digitalization significantly reduces corruption risks.
- Law enforcement bodies must remain independent.
- Penalties should be balanced for maximum preventive effect. [9]

R. Karimov studies corruption in public administration from an institutional perspective.

Key ideas:

- Institutional weakness is the root cause of corruption.
- Digital transformation reduces human involvement and bribery opportunities.
- Income and asset declarations of officials should be mandatory.
- Transparency and public oversight improve accountability. [12]

Analysis and Results

Major corruption cases in banks include:

Field	Typical corrupt practices
Credit allocation	Nepotism in lending, pressuring loan committees, document falsification, artificial credit scoring
Procurement/tenders	Inflated prices, favoritism toward “connected” suppliers
Customer service	Selling queue priorities, bribery for fast processing, illegal disclosure of personal data
FX operations	Hidden commissions, unauthorized exchange rates
Internal audit	Concealment of violations, collusion with management

Negative effects of corruption:

- **For the economy:** misallocation of financial resources, weakened business environment, reduced investment activities.
- **For banks:** financial losses, declining customer trust, damaged reputation.

- **For society:** loss of fairness, decreased public confidence in banks.

Corruption Prevention Mechanisms

Mechanism	Expected outcome
Digitalization	Automated scoring, e-queue, online applications → reduced human factor, transparency
Strong internal control	Independent internal audit, enhanced risk management, employee rotation
Whistleblowing policy	Anonymous complaint channels, assessment by independent commission
Ethics & training	Formation of integrity culture, regular anti-corruption training
Legal reforms & sanctions	Strict liability for corruption, regulated conflict of interest

Conclusion

Corruption in the banking sector poses a serious threat to economic stability. Reducing such risks requires implementation of digital technologies, strengthening internal control systems, and fostering a culture of honesty among employees. A transparent and fair banking sector is a key guarantee of social progress.

Systematic measures must be taken to decrease corruption, including raising transparency, ensuring strict auditing, improving motivation systems, and regulating conflicts of interest.

A corruption-free banking system increases public trust, attracts investment, and strengthens national financial stability.

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