

**Ekonomické vědy**

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**CORRUPTION AS A FACTOR OF INSTITUTIONAL INEFFICIENCY  
OF THE ECONOMY OF UKRAINE****O. O. Demydiuk***Postgraduate student  
Kyiv National University  
named after Taras Shevchenko  
Kyiv, Ukraine*

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**Abstract.** The paper examines the ineffectiveness of institutional reforms in Ukraine in the period of independence that is a precondition for a high level of shadow economy in post transformation period. The study analyzes the destructive impact of corruption on institutional effectiveness of national economy, on the harmonious development and functioning of the economic system of Ukraine. The paper assesses the level of corruption perception in Ukraine and neighboring countries. The results of the study highlight the priority directions and means of rationalizing the institutional environment of the national economy.

**Keywords:** institutional effectiveness; economic system; corruption; shadow economy; corruption perception; institutional environment.

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One of the urgent issues of our time is to increase effectiveness of economic systems in order to achieve sustainable development, an important component of which is a creation and modification of institutional environment of the country. At the same time, the institutional efficiency of the economic system is a manifestation of economic system efficiency in general and simultaneously the main objective of its transformation.

Analysis of the current stage of evolution of the economic system of Ukraine confirms the existence of many problems in the functioning of the established institutional environment related to systemic economic deformations, negative impact of corruption, high level of shadow economy, low protection of property rights, business interests, development of innovative businesses, etc. On the way to quick and qualitative changes of conditions of economic development, Ukraine demonstrates quite low achievements in this area compared to other post-socialist countries. One of the main braking

factors to achieve an effective institutional environment in Ukraine is corruption, which is essentially a negative social phenomenon associated with abuse of state power, selfish usage of official authority, prestige and capacity to implement them for personal benefits [8, p. 50].

In these circumstances, the effective counteraction of corruption in Ukraine, in addition to the appropriate political will, requires a proper legislative support, formation of an effective system of public authorities, ensure proper coordination of formation and implementation of anticorruption policies, measures to prevent corruption and its minimization. Construction of such institutional system must meet international standards (in particular UN conventions and Council of Europe against corruption, and the recommendations of GRECO and the Istanbul Action Plan of anticorruption Network OECD) and best international practice, taking into account the features of national legal systems.

**Analysis of key studies and publications.**

Subject of institutional efficiency of economic systems attracts attention of many domestic and foreign scholars. Among foreign scientists should be called authors such as D. Nort, R. Tompson, Dzh. Aron, V. Kasper, A. Williams, D. Hrosman, O. Hart, D. Romer, S. La Porta, A. Shleyfer, E. Hleyzer, D. Asemohlu, S. Jonson, D. Robynson and others [15]. The impact of institutions on economic development of Ukraine's economy are studying scientists such as V. Bazylevych, A. Hrytsenko, B. Hawrylyshyn T. Gaidai, B. Geyets, I. Hrabynskyy, N. Hrazhevskya, V. Dementyev, B. Kulchytsky, A. Maslov, Y. Pakhomov, A. Filipenko and others [9]. Some aspects of international experience in combating and fighting corruption we borrowed from international organizations such as the United Nations, the Organization for Economic Co-operation and Development, Organization of American States, the Council of Europe, European Union, African Union.

However, despite the specific issues resolving of this problem, borrowing foreign experience in counteraction of corruption and unconditional demand for these scientists, the continuous improvement of forms and methods of combating this phenomenon remains a very important task and requires further research to achieve an effective institutional environment of the country.

**Goal of this article** is to identify the negative impact of corruption on institutional efficiency of the economic system in Ukraine and develop on this basis the priority directions and means of rationalizing the institutional framework of the national economy.

**Main material.** It is worth recalling that by the 1990s in Western political science was suggested that corruption is characteristic only of undemocratic regimes or developing countries [6, p. 5–6]. Today the world recognizes the corruption problem that is more or less common to all societies without excep-

tion, and its size depends on the efforts efficiency of state to combat it and activation of civil society. According to the Soviet approach to this problem in the Soviet Union there weren't corruption at all, this “defect” attributed exclusively to bourgeois societies [5, p. 213–224]. There is no a political regime that can foresee absolute protection against corruption, including developed democracy. The presence of corruption in the country threatens the fundamental values of society, of sovereignty of state, undermines the legitimacy of authorities in the eyes of citizens, and has a very destructive impact on institutional environment of the economy. The recognition of corruption as a challenge that is inherent to all societies now is on international level. The UN Convention against Corruption was signed in 2003 and joined by 164 states – members of the United Nations. In order to Convention indeed became effective legal instrument to fight corruption, in 2009 the Member States approved the mechanism for evaluating its implementation, which consists of two parts: State' self-assessment of its progress and external assessment of independent experts. In 2013 there was a presentation of the UN report on the implementation of the UN Convention against Corruption in legal base of Ukraine and on the status of combating this phenomenon [12, p. 20]. In recent years, Ukraine has adopted a number of anti-corruption regulations, the new Law of Ukraine “On Principles of Prevention and Combating Corruption” (2011), the national anti-corruption strategy for 2011–2015 and the State Programme on Prevention and Combating Corruption in 2011–2015. In addition, Ukraine has joined the global initiative “Partnership “Open Government”, aimed at fighting corruption, increasing transparency and accountability of the state apparatus, the introduction of e-governance, the involvement of active citizens in the processes of governance and so on. A significant positive innovation



of political life in Ukraine was the established cooperation between public authorities and civil society.

Despite the important steps taken in this direction, the most significant obstacles to increasing institutional efficiency of the current economic system of Ukraine are:

1. Lack of efficiency of regulation of the business environment, as evidenced by the deteriorating of global index of competitiveness of the national economy in 2015–2016 ranked 79th among 140 countries in the world, losing three positions for the year (previous ranking occupies 76th position), the conditions of ease of doing business (83 among 189 countries) and the decrease the competitiveness of domestic enterprises [2; 3]. Talking about inefficiency of the legislative and executive authorities, the judicial system and complexity of regulatory procedures that cause corruption in public services and the shadow of some economic activities.

2. Inconsistent, inappropriate and non-systematic structural reforms and insufficient target orientation of program measures of economic and social reforms oriented on legalization of economy [7]. This leads to negative effects even in those sectors and areas in which reforms are implemented. As a kind of “shock absorber” of the transition process in the short term, the shadow economy undermines the fundamental principles of civilized development of Ukraine in strategic terms. Program of economic and social reforms are not provided mechanisms to enhance control over the domestic financial and capital assets that are located in offshore jurisdictions. As we know, the countries that in different ratings relating to classical offshore, are Cyprus, the British Virgin Islands, Netherlands Antilles Islands, Switzerland and Austria, but these countries are not included in the list of offshore jurisdictions approved by the Cabinet of Ministers of Ukraine that creates the possibility of using them to mini-

mize taxation and “money laundering” by entities of Ukraine.

3. The contradictory and duplication of legislative and regulatory framework in some sectors, as evidenced by decrease of the structural components of the Index of Economic Freedom (Ukraine takes 162 place with 46.8 index indicator that worsened compared to 2014 year on 0.1) [4]. Gaps and contradictions of law generating impunity in carrying out economic activities outside the legal sector, causing problems in the functioning of law enforcement agencies, which reduces the effectiveness of countering the “shadowing” of socio-economic relations.

4. Ineffectiveness of organizational and institutional mechanisms of anti-corruption legislation. According to GRECO experts, inefficiency actions of Ukrainian authorities to combat corruption linked to insufficient legislative base [11].

Thus, at the present stage of development of the national economy the most important institutional factors of “shadow” and braking ability of progressive social and economic reforms is the corruption, inefficiency of the judiciary, tax administration, excessive bureaucracy of the entrepreneurial activity and low efficiency of the customs service. Analysis of institutional environment in countries with transitional economies shows that one of the key performance indicators of their institutional environment is society's attitude towards corruption. Generally accepted that corruption has a negative impact on the formation of the system of effective institutions and institutional environment that is conducive to sustainable socio-economic development [9; 10].

The impact of corruption on institutional effectiveness of CEE countries and Ukraine in particular can be detected by analyzing the Corruption Perceptions Index (CPI – Corruption Perceptions Index), calculated annually by the international civic organization Transparency International (the global coalition



against corruption), based on estimates of businessmen and analysts. In the ranking for 2015 reflected perceptions of corruption in 167 countries on a scale from 100 (no corruption) to 0 (high corruption), which provides a quantitative assessment of the perception of corruption in a given country. The methodology of this calculation is based on several independent surveys, which involve international financial and human rights experts, including the Asian and African Development Bank, World Bank and the inter-

national organization Freedom House. The index is constructed in such a way that the lower its value, the higher the level of corruption in socio-economic and political processes in society, and vice versa [1].

Analysis of the Corruption Perception Index in CEE, including Ukraine in 2012 and 2015 (Fig. 3) shows that the highest values of CPI-index have Poland (62 in 2015), Slovenia (60) and Czech Republic (56), on the same level are such countries, as Hungary (51), Croatia (51) and Slovakia (51).

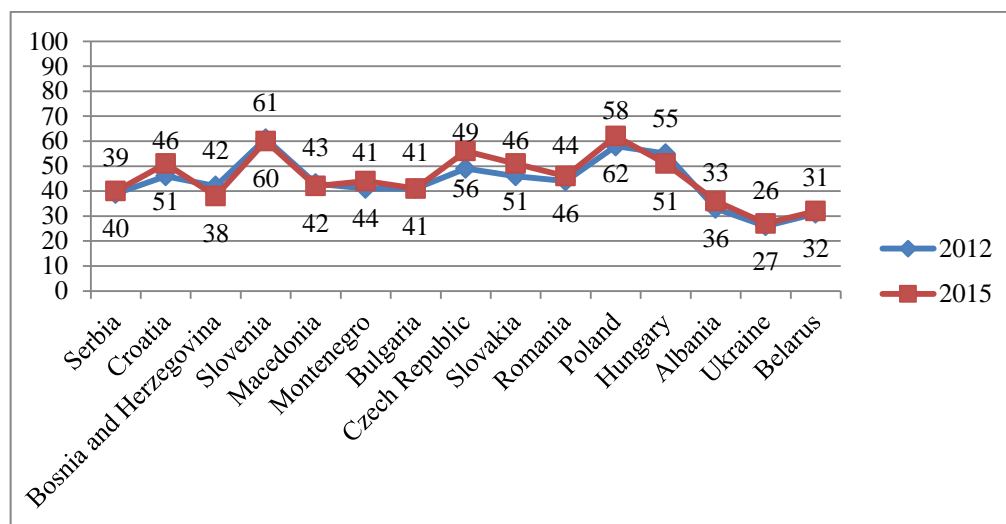


Fig. 1. Corruption Perceptions Index in CEE in 2012 and 2015 y.  
Source: compiled by the author based on: [1]

Thus, within the period under review the index of perception of corruption has increased in all CEE countries. The only exception is Bosnia and Herzegovina, Macedonia, Slovenia and Hungary, but the CPI value reduction in these countries, first of all, is negligible, and secondly, can be attributed to methodological features of evaluation. However, these figures demonstrate the high level of corruption in socio-economic and political processes in the society of these countries. It

is important to note that in the Ukraine, Belarus, the index of perception of corruption is very low. For example, Ukraine is still among the most corrupted countries in the world, occupying 130 seats from 167. Upon receipt of only one additional point compared to 2012 (27 compared to 26), it refers to a totally corrupt states.

These disappointing results, according to researchers, are caused by slow destruction of corruption schemes obtained by inher-



itance from all the ruling regimes time of independence of Ukraine. Recently adopted laws (in particular – the creation of the National Anti-Corruption Bureau) have not given tangible results in anti-corruption struggle. According to O. Hmara, executive director of the Ukrainian representative office Transparency International, adopting certain laws the government has shown intent to move towards reforms, but it's not enough [18].

In order to have occurred in Ukraine real anti-corruption changes Transparency International Ukraine calls upon the Government, Parliament and the President to make five immediate steps, including:

1. Properly organize the work of the new anti-corruption bodies, providing the necessary resources to create institutions and recruitment of qualified personnel, adopting amendments to the anti-corruption laws.

2. Urgently adopt legislation developed by experts on full transparency finance of political parties and election campaigns.

3. Based on the adopted Anti-Corruption Strategy of Ukraine to develop a detailed plan of action of the Government in combating corruption, the implementation of which involve the general public and media.

4. Ensure the actual release of data derived of state registries, primarily real estate register and cadaster.

5. Start a regular check on the integrity of public officials, including by comparing their lifestyle with the declared property and fortune [18].

Given the above, the priority areas of institutional reforms in the context of reducing the shadow economy are:

1. Improvement of anti-corruption legislation, taking into account GRECO recommendations and the UN:

- reviewing the system of responsibility for corruption violations so that corruption is clearly recognized as a criminal offense;

- ensuring the independence of prosecutors from political influence and clarify their authority;
- introducing corporate liability for corruption violations, which provides for effective, proportionate and dissuasive sanctions;
- creating a public database of entities that were brought to liability (register of companies involved in corruption);
- adoption of model code of conduct for civil servants;
- settlement of the conflict of interests of officials, bound by common business interests or family business;
- protection of the rights whistleblowers – bureaucrats who report to supervisory authorities about suspicious and possibly corruption acts of their colleagues;
- adoption of new rules for confiscation and seizure of proceeds gained by criminal pursuits which would, unlike existing ones, create an opportunity to apply measures to direct as well as indirect (converted) proceeds, equivalent to confiscation of the proceeds and income of a third party in accordance with the Criminal Law Convention on Corruption [14, p. 192].

2. Changes to tax laws:

- defining clear regulations on taxation of intellectual property rights;
- introducing mandatory declaration of income when purchasing goods and services belonging to luxury, with a clear delineation of goods and services belonging to the luxury.

3. Improving the regulatory framework on public procurement, including broad coverage of the preparatory process, procedures and results of public procurement on official website of the State Property Fund [17].

4. Ensure the rights of entrepreneurs in the implementation of the principle of “single window”. For this aim, it's necessary to adopt the Law of Ukraine “On establishing the re-





sponsibility of officials, supervising bodies for failing their control procedures and damage caused by the entity”.

5. Improvement of state regulation in the market of state and municipal property by improving efficiency of auction trade practice with open and transparent access of all citizens of Ukraine to information about passage on auctions and the results of their functioning on websites of State Property Fund of Ukraine and regional state administrations [16].

6. Development of the State concept of contraband prevention of flows and abuse in the customs area that would provide for the following tasks:

- implementing the principles of “electronic government”;
- improving the content of the official web page of the State Customs Service of Ukraine;
- empowering customs authorities in terms of access to information contained in the databases of other government bodies, including the Ministry of Internal Affairs of Ukraine, Security Service of Ukraine;
- improve the quality of technical and infrastructure equipping of border and institutions of the State Customs Service of Ukraine on outlining the clear priorities for further improvement of the state border of Ukraine;
- initiate establishment of joint customs posts with neighboring countries that should reduce corruption in this area;
- ensuring conditions for wider application of the principles of "post audit control" in customs control and the gradual elimination of practice of complete physical inspection of goods at the border Ukraine [13, p. 165].

7. Introduction of testing proposed legislative and regulatory initiatives by the independent administrative research institutions for the purpose of checking the probability of

increasing the level of shadow economy and corruption as a result of their establishment.

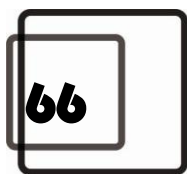
### Study results.

The performed analysis in the article about the impact of corruption on institutional effectiveness of the economic system of Ukraine and neighboring countries allows highlighting the following conclusions:

1. In the institutional context corruption has a destructive effect on the harmonious development and functioning of the economic system of Ukraine. The most significant preconditions for such a high level of shadow economy of Ukraine are: lack of effectiveness of the legislative and executive authorities, the judicial system and complexity of regulatory procedures; inconsistent, inappropriate and non-systematic structural reforms and insufficient target orientation of program of economic and social reforms to “non-shadowing” of the economy; gaps and contradictions of law, impunity in carrying out economic activities outside the legal sector; ineffectiveness of organizational and institutional mechanisms of anti-corruption legislation.

2. The impact of corruption on institutional effectiveness of CEE countries and Ukraine especially, revealed by analyzing the Corruption Perceptions Index. In Ukraine, the Index of Perception of Corruption is very low compared to neighboring countries. Ukraine remains among the most corrupt countries in the world, taking 130-th place among 167 countries, it refers to a totally corrupt states. These disappointing results caused by a number of reasons, including slow destruction of the corrupt schemes received by inheritance from all the ruling regimes since independence Ukraine.

3. Formed during the years of post-socialist transformations in Ukraine institutional environment is ineffective. In this connection, one of the main priorities of institutional and structural reforms in Ukraine has become effective policies aimed at combating





illegal economic manifestations of the shadow economy, combating corruption, criminalization and “shadowing” of the economy and society. Solution of this problem is possible by ensuring efficiency of normative acts (About the National Anti-Corruption Bureau, about openness (publicity) state registries of property and property rights, etc.). However, equally important task is to establish a clear system of control (first and foremost - from society) for compliance with these standards by the state and business.

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