

ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

UDC 338.343.35

THE INFLUENCE OF CORRUPTION ON UKRAINE'S FINANCIAL SECURITY AND NATIONAL ECONOMY

L. Ptashchenko, D.Sc. (Economics).

A. Shkliaruk. D. Holozubova.

Poltava National Technical Yuri Kondratyuk University

© Ptashchenko L., 2017.

© Shkliaruk A., 2017.

© Holozubova D., 2017.

Стаття отримана редакцією 06.02.2017 р.

Introduction. In today's difficult economic and political situation, the Ukrainian nation is looking for ways of a stable yet fast development of the country, thus creating a need to resolve the issues that make such development impossible. One of the problems that stand on a path to a better future is corruption, which has seeped into every existing layer of life in our country, preventing effective use of government resources and as a result, decreasing the level of comfort of Ukrainians in general. In the article we have researched corruption, its main definitions as well as its influence on a country's economy.

The latest sources of research and publications review. There are quite a lot of publications, both in Ukrainian and foreign scientific practice, concerning anti-corruption efforts. This topic has been researched by scientists like Zhuravskiy V.S., Kostenko O.M., Melnyk O.M. [1], Mykhalchenko O.M., Mykhalchenko M.I., Nevmerzhytskyi Ye.V., Rievak I.O., Rusnak Yu.I., Shamrai V.O. Scientific theory on the issue of corruption is showcased in works by G. Nay, V. Kleiner. Nonetheless, the problem of corruption is still relevant due to the fact that stopping its influence on the national economy is nearly impossible.

The aim of the article. The main aim of the article is highlighting the issue of corruption in Ukraine and the world, to research and describe the influence of corruption on a country's financial security, to provide examples of indicators that measure the level of corruption in a society, as well as to suggest ways and methods of anticorruption efforts. The article has argued for the need of immediate use of all existing anticorruption efforts, as a matter of completing the conditions set by IMF and other foreign investors that have recently financed Ukraine, as well as within the framework of building a strong foundation for the development of national economy.

Results. The universally accepted definition of corruption is linked to the origins of the word itself, from Latin «bribery of social or political figures to achieve personal goals» [2, p.190]. The Ukrainian dictionary of law lists corruption as, one of the forms of power abuse that is linked with bribing officials [3, p. 308].

The most common definition of corruption was argued by G. Nay in 1967. According to the author, corruption is a dual behavior pattern. On one hand, it is a deviation from social norms as a way to make personal, financial or status gains, on the other, it violates the rules of personal involvement in social rules.

A concise definition used in practice as well as during economic research, was suggested by experts from the World Bank. In their opinion, corruption is a «power abuse for personal gain» [4, p. 8].

Some authors define corruption within the frame of decisions being optimal or not optimal from the point of view of institutions in which officials hold their power. Thus, G. Kleiner suggests the following definition of corruption – «a conscious and voluntary decision made by an official in an institution, whether in the government or private sector, that is suboptimal from the perspective of the institution but leads to additional personal gain by the person in charge or people that depend on that person» [5, p. 33].

A similar definition is given in the Ukrainian Law «On Preventing Corruption». In the first section of this law, corruption is defined as the use of personal competencies or other opportunities by an official in

order to achieve unauthorized gain or accepting such again or to accept a promise/offer of such gain either personal or towards other people, or an unauthorized promise or offer, or if demanded, gains aimed at other individuals or legal entities, all of the above aimed towards inducing an abuse of power by an official.

To understand corruption substantially, its political and economic core, it is vital to categorize corrupt actions. It is important to mention that there is quite a wide variety of categories of corrupt actions in scientific practice already. This is related, first of all, to the fact that it is difficult to make universal criteria to classify corrupt actions, considering its variety of forms.

Table 1

Experts' approach to classifying corruption

Experts	Classification
N.A. Kataiev and L.V. Serdiuk	1. Criminal corruption (mostly of a financial type) 2. Political corruption (which is also divided into punishable and rejected corruption) [6].
M. Johnston	1. Bribery of officials in the trade sector (to sell illegal items or to overrate its quality etc); 2. Relationships in a patronage system, including a «boss» protection on a basis of kinship. Friendship, nepotism or other principles; 3. Crisis corruption, which is caused by the fact that entrepreneurs have to work in in conditions of uncertainty and risk, when a decision made by government officials can lead to significant change in the state of business and so those decisions become an object of trade [7].
Ya. Kuzminov	1. Bribery and venality; 2. Corruption of the «top» and the «bottom»; 3. Corruption in the government (municipal) and private sectors [8].
N.I. Melnyk	1. Acts of corruption related to power abuse or misuse of position competencies in order to receive material benefits, advantages or services or to receive ownership of or rights to a property; 2. Acts of corruption, related to power abuse or misuse of competencies in order to receive non-profit, personal or third-party benefits [9].

After doing the research based on works by known authors on corruption action classification, it is noticeable that in doing a classification like this, that it is a necessity to use a multi-criteria mechanic, based on which it is possible to get a better grasp on the subject We suggest a classification structure that can fulfill the above requirement within the framework of the article and according to its aim.

Table 2

Classification of corruption

Attribute of classification	Types of corruption
Based on the initiative in the corruption-based relationship	1. Bribe demands by officials. 2. Bribing officials, initiated by the bribe-giver. 3. Traditionalism in corruption-based relationships.
By level of spread and organization of the corruption-based relationship	1. «Bottom» corruption: local and regional. 2. «Top» corruption: national or international.
Based on regularity of acts of corruption	1. Episodic corruption. 2. Systematic or institutional corruption. 3. Cleptocratic corruption.
Based on the centralization of corruption-based relationships	1. Decentralized corruption (random). 2. Centralized corruption (bottom-up). 3. Centralized corruption (top-down).

Corruption is almost never considered as a factor in the state of a financial security of a country, and that is why after researching respected authors' and their publications, it can be said that the issue of influence of corruption on a country's financial security hasn't been examined enough.

First of all, it is important to note that the main system on the government level is national security that includes economic security as a subsystem in turn; financial security is a subsystem of economic security.

Experts from Ukrainian O. Rozumkov Centre of Economic and Political Research define economic security as «a country having sufficient ability to support a reproduction of productive potential in the industrial, agricultural, and all other sectors where socially useful labor is implemented, as well as to support social stability and a country's independence» [1, p. 86].

Thus, economic security needs to be viewed as a basic part of national security, its foundation and material support, as well as a interconnected system of certain levels. That means that the state of national security of a country depends on the vitality, mobility and competitiveness of an economy, so providing a sufficient level of economic security is one of the most important tasks of a country.

Most of the scientists that research economic and financial security state the fact that financial security is the most important part of economic security of a government, because any economy is based on finance. Thus the need to provide and support financial security of a country is argued, since it affects all levels of economic life in a country, be it the private sector, entrepreneurs, or individuals.

Table 3

Defining the term «financial security»

Author	Definition
O. Baranovskyi [10]	Financial security is seen as the state of protection of financial interests; the level of financial resource security for subjects of all levels of management; the state of the financial market parts; the quality of financial tools and services; the state of cash flow in an economy, that allows financial security to be considered one of the most important elements that create the economic security system as a whole.
O. Vasylyk [11]	Financial security is a reliable protection of the financial system from internal and external threats.
O. Vlasniuk [12]	Financial security is the most important pillar of economic stability, supporting the industrial basics by infrastructural institutions that distribute financial resources and investments.
V. Geyets [13]	Financial security is the stable development of a country's economy, as well as its protection against internal and external shocks.
A. Sukhorukov [14]	Financial security is the security of government interests in the financial sector or such a state of budget, tax and monetary levels of economy, that guarantees that a country can effectively form, protect from extreme inflation as well as rationally use financial resources to support its social and economic development and to pay its debts.
V. Shlyemko and I. Binko [15]	Financial security is such a state of the monetary, currency, tax, budget and bank systems that can be described as balanced and stable despite negative internal or external influences, as well as being able to provide the conditions for effective operation of the national economic security and development.

Financial security is a state of the financial system in which the conditions for a stable social and economic development of a country are met, a stability against negative shocks is provided, and the wholeness and unity of the financial system is kept. In its turn, financial security is divided into 6 main parts which can be seen on Fig. 1.

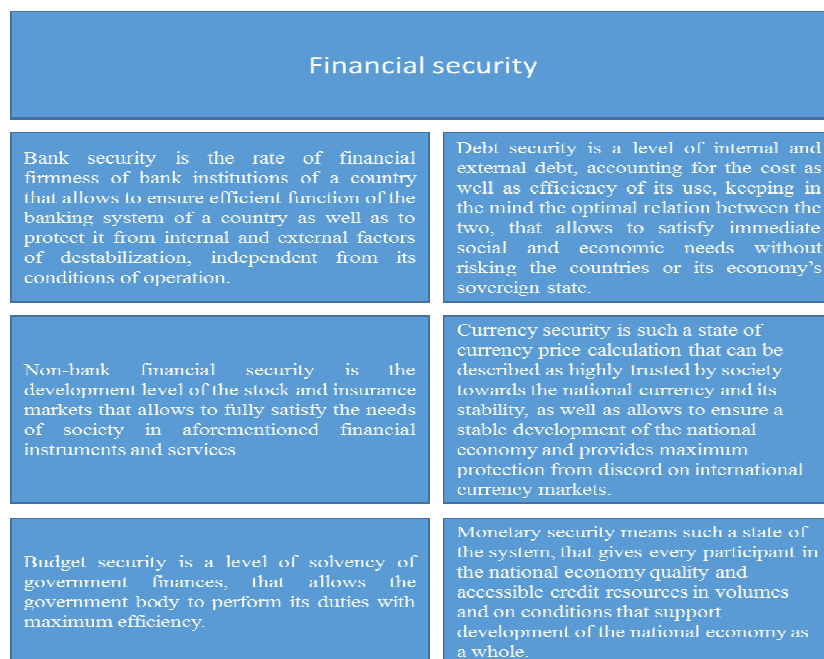


Fig. 1. Parts of financial security

It's noteworthy that all of the parts of financial security listed above have a high rate of correlation with corruption of a country, because the efficiency of official operation decreases, since they have to make decisions to benefit society, and if you only account for the interests of a small group of people, the overall level of development (government finance or the economy in general) becomes worse as a result.

In global practice, the World Bank has been publishing the Worldwide Governance Indicators since 1996 [16].

The research methodology includes 6 indicators that reflect different levels of government management, where every single indicator gets rated on a scale from 0 to 100, where 0 is the worst possible result and 100 is the best.

Table 4

Ukraine's Governance Indicators for 2015

Taking into account the opinion of the population and accountability of authorities	46
Political stability and absence of violence	42
Government efficiency	22
Quality of legislation	32
Primacy of law	23
Inhibition of corruption	17

According to the above data, Ukraine doesn't even reach the median value of the scale.

A higher priority is given towards governance rating methods that allow measuring the level of corruption in a government. The Global Corruption Barometer – is a phone, private and network public opinion poll that researches the point of view on corruption and looks for past experiences related to this phenomenon.

The latest poll took place in 2013 and 114 270 people from 104 countries around the world participated [14]. The respondents from Ukraine rated the following systems as extremely corrupt: the judiciary (87% – «top» rating), the police (84%), officials of various levels (82%), the parliamentary and healthcare systems (77%), political parties (74%), the education system (69%), business (65%), the military system (52%). Citizens give the most trust towards religious organizations, only 37% of the participants considered those organizations extremely corrupt. 37% of Ukrainian participants have given a bribe in the last 12 months and only 29% of the participants believe that they can personally influence the anti-corruption efforts in the country (one of the lowest results in the poll, f.e.g. Russia has 44%, the USA – 76%) [14].

Nations in Transit is an annual comprehensive comparison rating of the 29 ex-communist countries in Europe and Asia. Freedom House uses 7 indicators in their research: the electoral process (free elections); civil society (third sector, non-government organizations); mass media independence; democratic governance on a national level (government branch cooperation); democratic governance on a local level (local authority); judiciary (its independence); corruption. The rating is done on a scale from 1 to 7, where 1 is the best possible result, and 7 – the worst.

Table 5

Ukraine's Nations in Transit rating dynamics 2006 – 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Democracy of governance (national level)	4,50	4,75	4,75	5,00	5,00	5,50	5,75	5,75	6,00	6,00
Democracy of governance (local level)	5,25	5,25	5,25	5,25	5,25	5,50	5,50	5,50	5,50	5,50
Mass media independence	3,75	3,75	3,50	3,50	3,50	3,75	4,00	4,00	4,25	4,00
Civil society	2,75	2,75	2,75	2,75	2,75	2,75	2,75	2,75	2,50	2,25
The electoral process	3,25	3,00	3,00	3,50	3,50	3,50	3,75	4,00	4,00	3,50
Judiciary	4,25	4,50	4,75	5,00	5,00	5,50	6,00	6,00	6,00	6,00
Corruption	5,75	5,75	5,75	5,75	5,75	5,75	6,00	6,00	6,25	6,00

«Shadow» economy is like the epitome of corruption intertwines with financial security of a country.

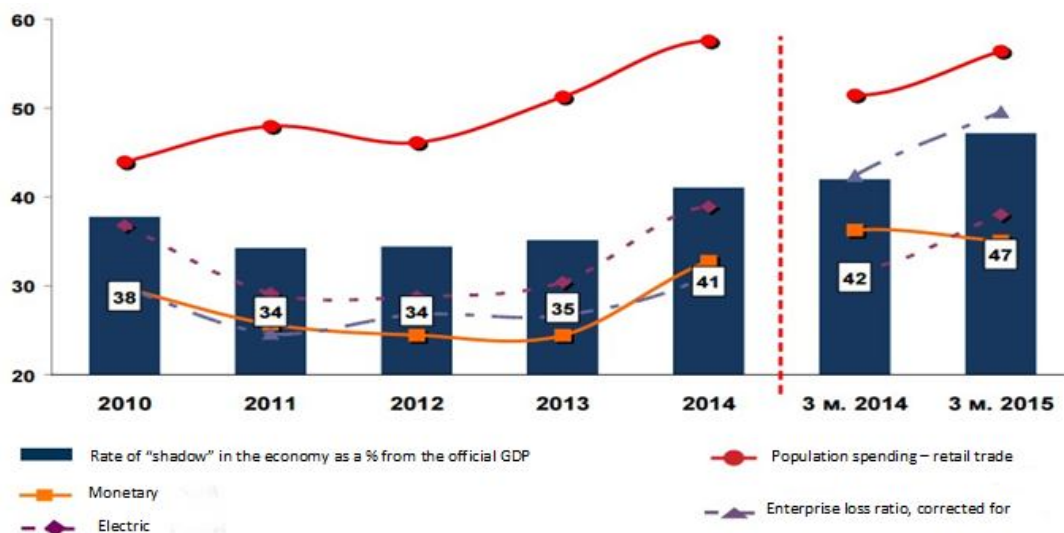


Fig. 2. The dynamics of shadow economy rate as a % of the official GDP

According to experts' calculations, the shadow economy constitutes a 40-60% part of the GDP (Ukraine's Ministry of Economy states a 47%). The current level of shadow in the economy has reached the dangerous point, where it is possible to consider an extended reproduction of shadow financial relations in the country. The main issue of shadowing the financial cash-flows lies in use of financial institutions, especially banks, insurance companies, stock brokers, credit groups to inefficiently withdraw funds, to evade taxes and to avoid legalization of profit, earned through crime.

According to experts, the losses of profit from shadow economy annually are 12 - 13 billion uah [1].

In international ratings Ukraine has a very bad reputation and, sadly, is described as unstable, unreliability and high levels of corruption. Such a state of affairs can't have positively influence development of international relations or efficient foreign policy. That being said, there is another side to the current reputation.

The only periodic analytical paper that assigns ratings to countries based on reputation is The Country RepTrak. The developers are from the consulting company Reputation Institute. The company's experts have created a rating system that allows monitoring the influence of reputation on competitiveness, investment attractiveness, development of trade and tourism. Countries are rated on a 100-point scale with criteria such as trust, interest, political views and foreign policy, business climate, quality of trade, services, infrastructure and living conditions, natural and tourism resources.

The Reputation Institute experts hold the view, that «reputation means money». They highlighted a very strong correlation between a country's reputation and the desire to visit, buy products, produced in the country, invest in it and pursue education or a career there.

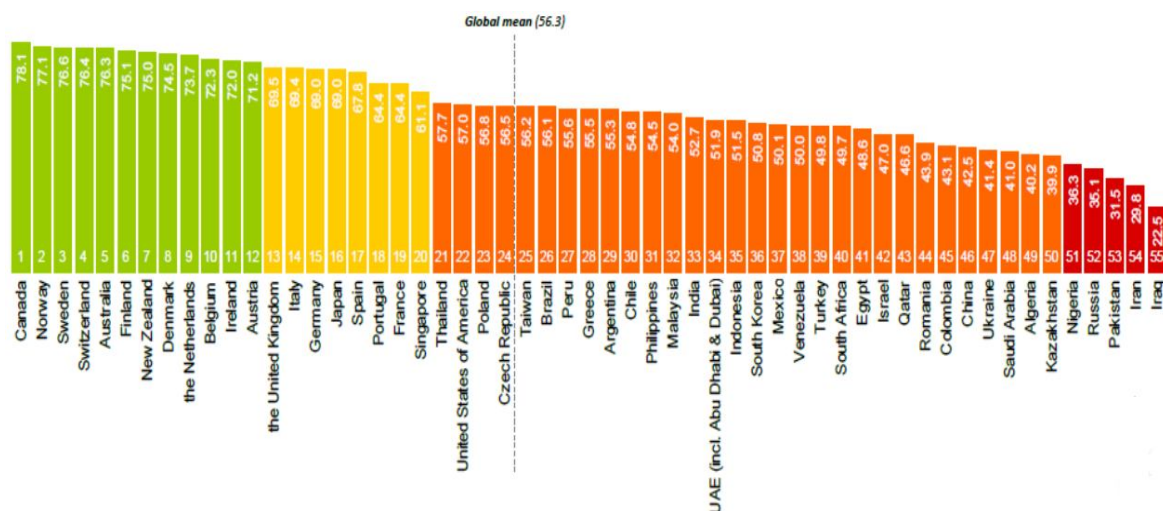


Fig. 3. Country RepTrak, 2015 [7]

As seen on pic. 3, Canada holds the 1st place in 2015, and the last is Iraq. In total, 55 countries around the world were rated. Ukraine is on the 47th position, only 5 positions ahead of Russia (52th place).

The authors of the rating argue that the 3 main indicators of a country's reputation are: quality of life (appealing environment); quality of government institutions (efficiency of governance); rate of development (development of economy). In that context the top 3 on the list are: Canada – appealing environment, Japan – developed environment, Sweden – efficiency of governance. That being said, the authors mention that the biggest and/or most developed countries are not always the ones with the best reputation, but the happiest people live in countries that have a good reputation, are in peace and have a low level of corruption [14].

Conclusions. In order to decrease the spread of corruption, to diminish the costs related to the negative impact of corruption in the national economy, it is necessary to implement a complex anti-corruption effort system. The foundation for such a system is the idea of synergy between government institutions and civil organizations. This policy will be supported by economic reforms aimed at creating market relations and institutions, more efficient control of information by the executive branch of government against corruption, attracting scientists and the civil society to develop, implement and monitor the efficiency of anti-corruption efforts, as well as by forming a negative opinion on corruption in our society using the media. Implementing this systematic approach will allow to defeat corruption and its societal impact and to reach a point of stable development economically and socially.

In our opinion, one of the most important factors of anti-corruption efforts is to form a clear cooperation between countries, primarily between their executive bodies, joint participation in events organized by the UN, Council of Europe, Interpol, IMF, World Bank as well as other international organizations. However, the most vital part is the need for Ukrainian officials that hold high-power positions to become aware of the urgency of anticorruption activity, on every level of governance. Further research can be done on the correlation between the rate of «shadow» economy and level of corruption, as well their impact on Ukraine's entry to the European Economic Space.

REFERENCES:

1. Melnyk O.M. Scholarly commentary on the Law of Ukraine «On methods of counteracting corruption». Dated 01.01.2012 / O.M. Melnyk, Yu. I. Rusnak, V.O. Shamrai [edited by Shamrai V.O.]. – K.: Publishing house «Professional», 2012. – 464 p.
2. The Great Economic Dictionary – M.: Institute of New Economy. – 1279 p.
3. The Law Dictionary – K.: Law literature, 1996. – 978 p.
4. Shvets Ye. V. Latent aspects of international law cooperation between countries-members of EU in anti-corruption efforts / Ye. Shvets // Russian Law Journal. – 2000. – №7. – Pp. 8 – 16.
5. Helping Countries Combat Corruption. The Role of the World Bank. Poverty Reduction and Economic Management // The World Bank. – September, 1988. – P. 8.
6. Kataiev N.A. Corruption (law and criminological aspects): study guide / N.A. Kataiev, L.V. Serdiuk – Ufa: VEGU Academy and High School of the Russian Federation Ministry of the Interior, 1995. – 223 p.
7. Johns D. What stands behind the «sticky fingers» of a government in the transition period / J. Johns, J. Hellman, D. Kaufman // Transformation. – 2000. – № 2. – pp. 8 – 12.
8. Kuzminov Ya. I. Theses on corruption // The investment climate and perspectives of economic growth in Russia. 2 Tomes. T. 1. M., 2001.
9. Sanzharovets V. M. Corruption in times of crisis / V. M. Sanzharovets // Gileia: scientific journal – 2014. – Issue 89. – pp. 202 – 205.
10. Baranovskyi O. I. Financial security in Ukraine (methodology of assessment and execution) / O.I. Baranovskyi / – Kyiv National Trade and Economic University – K.: KNTEU, 2004. – 760 p.
11. Vasylyk O. Financial Security // Economic encyclopedia, 3 tomes. – T.3 / O. Vasylyk, S. Mochernyi. – K.: Publishing house «Akademiia», 2002 – 952 p.
12. Vlasjuk O. S. Theory and application of economic security in the context of economy as a science / O. S. Vlasjuk ; National Institute on Security by the Council of Security of Ukraine. – K., 2008. – 48 p.
13. Sukhorukov A. I. The issues of financial security in Ukraine [study] / A. I. Sukhorukov. – K.: NIPYB, 2005. – 140 p.
14. Bekker G. Economical analysis and the human behavior / G. Bekker // THESIS: theory and history of social and economic institutions. – 1993. – №1. – pp. 31 – 45.
15. Shlemko V.T. Economic security of Ukraine: concept and ways of execution / V.T. Shlemko, I.F. Binko [Text]: study. – K.: NISD, 1997. – 144 p.
16. Rose-Acherman S. The Economics of Corruption / S. Rose-Acherman // Journal of Public Economics. – Vol. 4. – № 2. – 2009. – P. 187 – 203.

UDC 338.343.35

Liana Ptashchenko, D.Sc. (Economics), Professor. **Andrii Shkliaruk**, Master-Student. **Daria Holozubova**, Master-Student. Poltava National Technical Yurii Kondratiuk University. **The Influence of Corruption on Ukraine's Financial Security and National Economy.** The authors have researched corruption, its main definitions as well as its influence on a country's economy. The main aim of this article is highlighting the issue of corruption in Ukraine and the world to research and describe the influence of corruption on a country's financial security, to provide examples of indicators that measure the level of corruption in a society, as well as to suggest ways and methods of anticorruption efforts. The article has argued for the need of immediate use of all existing anticorruption efforts.

Keywords: corruption, financial security, the quality of governance indicators, the level of the shadow economy, anti-corruption policy.

УДК 338.343.35

Ліана Олександрівна Птащенко, доктор економічних наук, професор. **Андрій Вікторович Шклярчук**, магістрант. **Дар'я Володимирівна Голозубова**, магістрантка. Полтавський національний технічний університет імені Юрія Кондратюка. **Вплив корупції на фінансову безпеку України та національну економіку.** Розглянуто явище корупції, наведено основні підходи до її визначення та проаналізовано вплив на економіку держави. Висвітлено проблеми корупції у світі й Україні, досліджено вплив корупції на фінансову безпеку країни. Обґрунтовано необхідність невідкладного застосування всіх наявних заходів для зниження корупції.

Ключові слова: корупція, фінансова безпека держави, індикатори якості державного управління, рівень тіньової економіки, антикорупційна політика.

УДК 338.343.35

Лиана Александровна Птащенко, доктор экономических наук, профессор. **Андрей Викторович Шклярчук**, магистрант. **Дарья Владимировна Голозубова**, магистрантка. Полтавский национальный технический университет имени Юрия Кондратюка. **Влияние коррупции на финансовую безопасность Украины и национальную экономику.** Рассмотрено явление коррупции, приведены основные подходы к ее определению, и проанализировано влияние на экономику государства. Освещены проблемы коррупции в мире и Украине, исследовано влияние коррупции на финансовую безопасность страны. Обоснована необходимость безотлагательного применения всех имеющихся мер по снижению коррупции.

Ключевые слова: коррупция, финансовая безопасность государства, индикаторы качества государственного управления, уровень теневой экономики, антикоррупционная политика.