ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

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THE STATE OF CORRUPTION IN UKRAINE: GENERAL TRENDS AND PECULIARITIES OF DYNAMICS

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Introduction. In addition to classical factors of economic growth, which include capital (investments) and neoclassical factors (technologies, innovations, entrepreneurial skills), there are institutional factors that, in modern realities, affect the efficiency of the use of the first two groups of factors. For the main producers of GDP, economic agents, almost the most important role belongs to the guarantee of economic activity security, the stability of the rules of the game and the economic management transparency. If domestic economic agents have the ability to adapt quickly to "toxic" operating conditions, then foreign investors who are accustomed to operate in market conditions and according to clear rules are uncompetitive in such circumstances and therefore do not regard Ukraine as a potential sector for their investments. The level of risk, which foreign investors face, requires compensation in the form of excess profits. However, if the marginal investing profit becomes less than the marginal operation expense of the economic entity, the decision to invest becomes irrational. By examining Ukraine's position in various world economic ratings and the reasons for its low positions, we found that one of the determinants of extremely low positions and, as a consequence, a component of the transaction operation expenses is the level of corruption in the country.

The review of the latest research and publications. The issue of fight against corruption as a destructive stable institute is the subject of research by many scholars, both foreign and domestic ones. Among foreign researchers, we can emphasize B.Olken and R.Pande. [1], S. Rose-Ackerman and B.J. Paliffka [2] M.U. Swaleheen and D. Stansel [3] and others. Among the national scientists, a significant contribution to the solution of these issues was made by A.Bogdan [4], S.Verstyuk [5], V.O. Mandibura and others. Especial emphasis should be placed on Doctor of Economics, Professor V.O. Mandibura, who for a long time consistently investigates the corruption phenomenon, and in 2017 published his fundamental scientific monograph "Corruption: Institutional Nature and Mechanisms of Overcoming" [6], which reveals the nature and structure of corruption as an institution that has anti-social orientation, proposes systemic measures and mechanisms for its overcoming. However, despite a wide range of studies on corruption and its impact on economic growth, an analysis of the specifics of its impact on attracting foreign direct investment to Ukraine is not fully represented, which can become an exogenous engine of economic growth with a deficit of internal factors.

Research objective. The purpose of the article is to study the dynamics of Ukraine's position in the "Corruption Perception Index" rating on the basis of comparative analysis with other countries on certain grounds and to identify the reasons for this dynamics. The task of the work is to estimate the state of corruption in Ukraine, to identify trends and peculiarities dynamics.

Basic material and results. Corruption affects the economy in many aspects. It reduces investment attractiveness and slows the pace of economic growth by lowering investment, removing resources from production sectors and reducing human capital. According to Transparency International [7], the lack of transparency, responsibility and oversight in the relationship between government and business undermine fair competition and hamper economic growth. The lack of proper institutions leads to the prosperity of corruption, which reduces the nation productivity and reduces the attracted foreign aid effectiveness. The low level of institutions quality that would ensure the efficient functioning of the economic system becomes a prerequisite for the formation of alternative mechanisms for coordination, concurrence and minimizing transaction costs [8]. Researchers often call these unfavorable consequences of corruption for economic development as the effect of "sand on the wheel" ("sand the wheel" effect) [9, p. 5]. Thus, in the competitiveness global index in

terms of the "institutions quality", the Ukraine's place among other countries is in the last decile group: among approximately 140 countries (from 137 in 2017-18 to 148 in 2013-14), Ukraine ranked during 2012 – 2017 approximately the130-th place. Several qualitative improvements are expected only from 2017-2018, when Ukraine's overall position on the "institutions quality" will increase to 118 place and in particular on the "illegal payments and bribes" indicator from 133 place in 2012-2013 to 106 place in 2017 – 2018

According to the dynamics of Ukraine's position in the World Bank's "Doing Business" (DB) rating, in the TOP-3 rating, the worst situations related to the protection of minority shareholders, the contracts enforcement and the business closure, which also corresponds to the quality level of the basic institutions. According to the interviews results of foreign business representatives conducted by the European Business Association, the main problem in Ukraine is declarativity, and the unreality of actions to reform the economy and the lack of struggle with the «old system» and corruption.

Foreign investors suppose corruption (absence of struggle against corruption, increase of its level, the lack of progress in the establishment of the anti-corruption court), economic factors (the volatility of currencies, devaluation, inflation, burdensome tax and customs procedures, the lack of progress in the return of VAT, etc), slow reforms (lack of judicial reform, labor market reform, land reform, slow infrastructure modernization, etc.) and political factors (political instability, political and legislative uncertainty, «wars» between power-wielding agencies, etc.) to be the key problems in 2017 [10].

Table 1

Dynamics of Ukraine's position in World Economic Rankings

Indicators	2012	2013	2014	2015	2016	2017
Global Competitiveness Index	**73**	**84**	**76**	**79**	**85**	**81**
1. Quality of institutions	132	137	130	130	129	118
1.01 Protection of property rights	134	143	135	132	131	128
1.02 Protection of intellectual property rights	120	133	129	120	125	119
1.05 Illegal payments and bribery	133	130	118	122	119	106
1.06 Independence of the judiciary	124	139	140	132	129	129
1.07 Favoritism in making managerial decisions	119	133	116	99	109	111
1.08 Misuse of public expenditures	128	143	138	134	129	113
Ranking «Doing business» (where 0 is easy)	**152**	**137**	**112**	**96**	**83**	**80**
Protection of shareholders minority	111	117	128	109	88	70
Providing of contracts execution	44	42	45	43	д/в	81
Close down an enterprise	156	157	162	142	141	150
Corruption perception index (where 100 - extremely low level of corruption)	**25**	**26**	**26**	**27**	**29**	**30**
Index of economic freedom (100 - free countries)	**46,1**	**46,3**	**49,3**	**46,9**	**46,8**	**48,1**

Source: [11]

Thus, in general, the level of corruption in Ukraine remains at a rather high level, albeit with a tendency towards restrained decrease. Corruption is a complex social phenomenon that has various forms of manifestation and a different level of possibility to influence destructively on economic development.

Empirical evidence suggests that corruption is more widespread in developing countries than in developed ones. Transparency International highlights the following aspects of corruption: bribery; misuse of budget funds; the predominance of officials using the public office to obtain personal benefits without fear of consequences; the existence of adequate laws on the disclosure of financial information and the prevention of conflicts for public officials interests; seizure of state power by a narrow range of financially interested people; access of civil society to information on public issues, etc. [12].

At the firm level, corruption increasingly absorbs profits from business activity and distorts entrepreneurial spirit and behavior. According to estimates of scientists B.Olken and R.Pande, firms that are forced to engage in corruption report high costs and greater uncertainty, which ultimately affects their strategic and investment decisions [1]. Corruption is not correlated with innovations and firm growth, it directs investment flows to those sectors and activities that guarantee quick and high returns that is the source of further corruption payments. With regard to foreign direct investment (FDI), the level of corruption is one of the main determinants of geographical investment priorities and thus reduces flows to countries with low levels of perceived corruption.

However, other researchers, on the contrary, argue that corruption in some cases can facilitate business activity, development and economic growth. It is often referred to as the «grease the wheel» effect [9 p. 6; 13] or the folk interpretation «nothing moves without the rails getting greased». Just as another objective phenomenon – unemployment, the level of which can be natural and even has been stimulatory for those who want to be employed, creating competition among them, and predetermining the rise in efficiency of the labor force, corruption to some reasonable extent can also be supportive in nature. However, this is only because there is no perfect full contract (a formal institution) on the wording of contract theory, which would take into account all possible options of further developments and dynamics of events in a society as well as the ideal society that created it and follows it does not exist.

The problem is to determine an acceptable level of corruption (similar to the natural unemployment rate), which would perform the minimization function of transaction costs caused by the imperfection of formal institutions in the spatiotemporal range of a particular country. The findings of a study «Economic freedom, corruption, and growth» [3] by American economists Swaleheen Mushfiq Us and Stansel Dean support this alternative view which contradict existing views that corruption is a deterrent to economic growth. The

scientists argue that, all other things being equal, corruption reduces economic growth in the case where economic agents have little choice, i.e. the index of economic freedom (IEF) in the country is low (according to their data, IEF < 52,15).

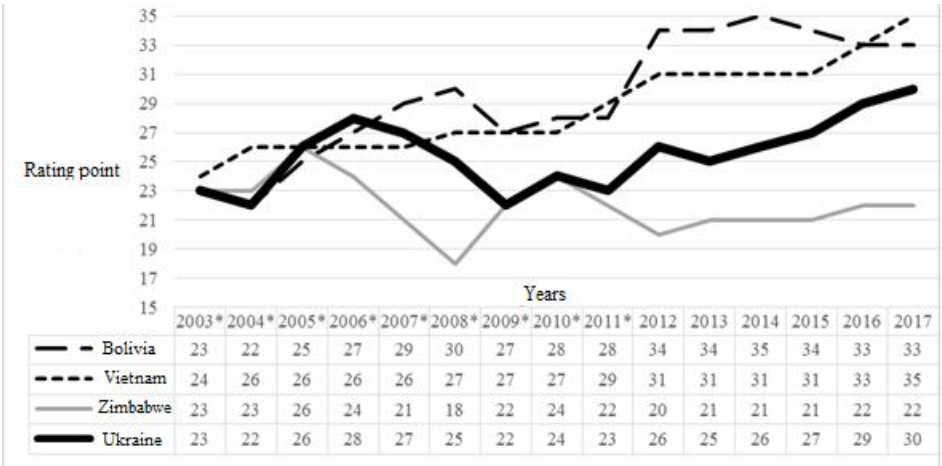
Under other conditions, when economic agents have an alternative to choice (IEF> 52.15), corruption on the contrary can help to overcome excessive state control, thereby expanding the business entities scope for choosing and thus contributing to economic growth. In our opinion, sufficient choice and, consequently, high level of economic freedom is impossible due to the high level of corruption in the country, because it is to some extent uncontrollable, monopolistic authority for the possession of information, implementation of actions and fulfillment of functions. It restricts the freedom of existing economic agents and counteracts the emergence of new ones. Such conclusions can only be applied to countries in which the corruption perception index is the highest (TOP-20 countries by the CPI index). For Ukraine, where the IEF averaged over the last 12 years at 48.2 and CPI was below 3 (30 – using the new methodology since 2012), economic growth is possible only under conditions of an integrated combination: " corruption reducement + economic freedom increase = economic growth".

Only under these conditions we can expect an increase in the economic effect of attracting economic growth factors, among which investment is most effective. Therefore, in the context of searching mechanisms for investment security ensuring at the state level, the development of comprehensive anti-corruption measures (both at the highest level and at the domestic level), while simultaneously taking measures to expand economic freedom, is fundamental and requires control both at the state level and from the side of civil society.

Ukraine has been presented in the rating of corruption perception since 1998. For the period (1998-2011), when the first method of calculation and evaluation was used, it was found that Bolivia and Vietnam had the same marks with Ukraine as the rating points (after 13 years the points with Ukraine coincided three times), as well as Zimbabwe (since 2003 the points coincided four times). By studying the changes in the level of corruption perceptions, we can conclude that there are qualitative changes in the fight against corruption that impact on the following macroeconomic indicators:

- *GDP per capita, PPP constant 2011 international $*;
- *Foreign direct investment, net inflows (BoP, current US$)*).

So, Fig.1 shows the rating change dynamics of the countries that had equal rating score. As the graph shows, only Zimbabwe has a negative tendency towards the economy transparency, while Bolivia's and Vietnam's rating points have a tendency to increase, exceeding the Ukraine's one in 2017.



	2003*	2004*	2005*	2006*	2007*	2008*	2009*	2010*	2011*	2012	2013	2014	2015	2016	2017
Bolivia	23	22	25	27	29	30	27	28	28	34	34	35	34	33	33
Vietnam	24	26	26	26	26	27	27	27	29	31	31	31	31	33	35
Zimbabwe	23	23	26	24	21	18	22	24	22	20	21	21	21	22	22
Ukraine	23	22	26	28	27	25	22	24	23	26	25	26	27	29	30

Fig. 1. CPI dynamics score of the countries from the first group (2003-2017)
*** -to unify the points, the index of corruption perception from 2003 to 2011 is multiplied by 10.**
Source: [11]

As we can see from the point diagrams (Figures 2 and 3), Bolivia and Vietnam demonstrate concerted movement and reflect the direct relation between the change in the CPI index and GDP per capita in PPPs. On carrying out the correlation analysis of the two indicators arrays (the CPI and GDP per capita for PPPs), we found that Bolivia and Vietnam have strong and very strong direct relation with the correlation coefficients of 0.89608 and 0.957117 respectively, while regarding Ukraine, the relation between them is moderate (the correlation coefficient is 0.321421), and Zimbabwe has no relation (the coefficient – 0,098202) (Table 2).

Table 2

Correlation coefficients according to the countries' data (2003-2016)

Country	CPI/GDP per capita PPP (constant 2011 international $)	CPI/Foreign direct investment, net inflows
Bolivia	**0,896803021**	0,656975851
Vietnam	**0,957116906**	**0,915333916**
Ukraine	0,321420724	0,160874452
Zimbabwe	0,098202415	-0,341062249

Source: figured out by the authors according to the data of World Bank and Transparency International.

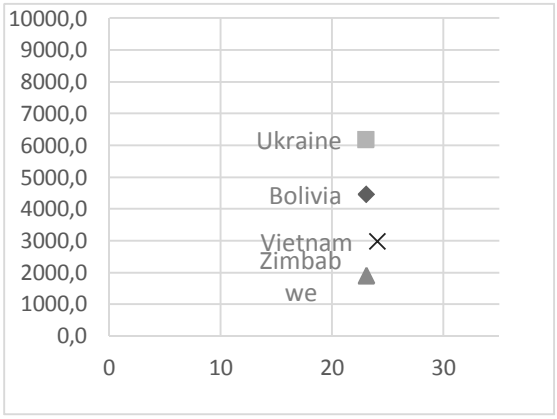


Fig. 2. Relation between CIP (X-axis) and GDP per capita, PPP (constant 2011 international $) (Y-axis) (2003)

Source: according to the data of World Bank and Transparency International

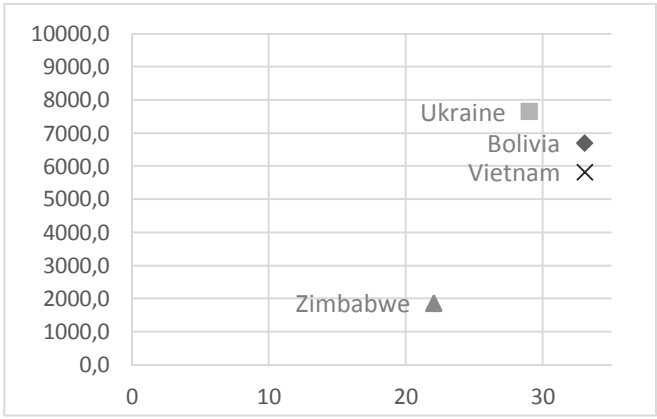


Fig. 3. Relation between CIP and GDP per capita, PPP (constant 2011 international $) (2016)

Source: according to the data of World Bank and Transparency International

Studying the dependence between the CPI rating point dynamics and the dynamics of net foreign direct investment, it is evident that only Vietnam shows strong correlation (0.915), Bolivia – significant (0,6569), Ukraine − (0,16), and Zimbabwe – inverse and moderate (-0,34). The case with Ukraine shows that there are other factors that negatively affect both the growth of welfare and the attraction of FDI.

But we can say for sure that Ukraine's position in the Transparent International rating and its dynamics are evidence of limited political will and the so-called African vector of the fight against corruption. In contrast to Ukraine, Bolivia and Vietnam, with which we had many common points of contact, show a better result and effect from it over the same period.

Conclusions. The poor development of the institutional system for the implementation of state power and the opacity of economic policy often make relations between business entities with the shadow economy and corrupt officials more favorable. Only if national entities are more adapted to these conditions, then foreign investors are highly elastic to the deterioration of the institutional environment. Being in the rating since 1998, Ukraine shows restrained progress in comparison with other countries. Performed comparative analysis of the dynamics of the country's position in the rating and its relation with the dynamics of indicators that characterize the overall level of economic development (GDP per capita for PPP) and the investment attractiveness for foreign investors (the increase in net foreign direct investment) allows us to make a general conclusion that the fight against corruption has a greater impact on positive change in low-income countries than in high-income countries. This is manifested both in the growth of GDP per capita for PPP and the increase of net foreign direct investment in the country. At the same time, the place in the rating and the countries neighboring in the rating make it possible to characterize the level of development of the country under study and how harmoniously it is developing. Thus, Ukraine's place among countries whose level of GDP per capita for PPP is below average does not conform with "neighboring" low-income countries in the rating of corruption perception, which may indicate inefficiencies of public sector management and that of the fight against corruption, as well as prevalence of rent-oriented behavior of officials.

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Zakharii Varnalii, doctor in Economics, Full Professor. Taras Shevchenko National University of Kyiv. **Dmytro Nikytenko**, PhD in Economics, Associate Professor. National University of Water and Environmental Engineering, Rivne. **The state of corruption in Ukraine: general trends and peculiarities of dynamics.** In addition to classical factors of economic growth, which include capital (investments) and neoclassical factors (technologies, innovations, entrepreneurial skills), in today's conditions, the level of corruption in the country becomes crucial for the effective use of the first two groups of factors.

If for developed countries corruption is considered even as a "grease the wheel" effect, then in the main countries, especially in emerging countries, it still has "sand the wheel" effect like a destructive social institution that limits economic development. The article analyzes the dynamics of the level of corruption in Ukraine compared to those countries with which there has often been a matching of the corruption perception index. This dynamic for 2003 - 2017 turned out to be multivectoral, but with a general trend to increase transparency. However, raising the level of transparency does not show a close connection with the dynamics of welfare growth or the growth of net foreign direct investment, as opposed to Bolivia and Vietnam, where this link is rather tight. The level of corruption in Ukraine coincides with the level of corruption in low income countries per capita, which indicates a very low level of public administration in the field of finance, and in general, the performance of state officials by their functions.

Key words: corruption, net foreign direct investment, economic growth, institutes, investment security.

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Ключові слова: корупція, чисті прямі іноземні інвестиції, економічне зростання, інститути, інвестиційна безпека.

УДК 338.2

Варналий Захарий Степанович, доктор экономических наук, профессор. Киевский национальный университет имени Тараса Шевченко. **Никитенко Дмитрий Валерьевич**, кандидат экономических наук, доцент. Национальный университет водного хозяйства и природопользования, г. Ровно. **Состояние коррупции в Украине: общие тенденции и особенности динамики.** Исследованы состояние коррупции в Украине и динамика ее изменения по сравнению со странами, с которыми были частые совпадения по показателю индекса восприятия коррупции. Выявлено, что динамика изменения уровня коррупции в Украине остается сдержанно оптимистичной. Зависимость между ростом прозрачности экономики и повышением благосостояния населения, а также поступлением чистых прямых иностранных инвестиций является прямой, однако теснота связи умеренна и слаба соответственно.

Ключевые слова: коррупция, чистые прямые иностранные инвестиции, экономический рост, институты, инвестиционная безопасность.