

# Economic costs of corruption development in Ukraine and ways to overcome them in terms of European integration

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**Abstract – The article represents the present state and level of corruption in Ukraine according to key international corruption ratings. On this basis the urgency of Ukraine's fight against corruption is proved in terms of European integration. In the article it is emphasized on the present and future economic costs of corruption development in Ukraine. As the result, the key tasks of Ukraine's fight against corruption are identified.**

Keywords – corruption, economic costs, fight, Ukraine, European integration.

## I. Introduction

Ever since antiquity, corruption has been one of the most widespread and insidious of social evils. Corruption continues to be a big challenge for Europe – a phenomenon that costs the EU economy around 120 billion euros per year. Europeans are deeply worried about corruption – 76% of them believe that corruption is widespread according to a recent Eurobarometer survey [1]. Nowadays corruption is one of the most dangerous problems across the whole world at different levels beginning from the international scope, passing through the national dimension and ending with the human factor.

According to different international corruption ratings today Ukraine is one of the most corrupted countries in the world. For objective measurement of present corruption level in Ukraine we have chosen several well-known international corruption indexes and compared with corruption levels in other countries of the world. So, all of investigated indexes (the International Country Risk Guide (ICRG) Corruption Index, the Corruption Perception Index (CPI), the Corruption indicator from the World Bank Governance, and the Enterprise Survey data on Bribery incidence) have indicated that corruption is much more prevalent in Ukraine than in other lower and middle income countries. The gap was starker when Ukraine was compared with Central, Eastern and Southeastern Europe countries and in particular with European Union countries. All data sources have provided a remarkably consistent picture about the severity of the corruption problem in Ukraine [2-6].

Transparency International divides the cost of corruption into four main categories: political, economic, social and environmental. Economically, corruption depletes national wealth. Corrupt politicians invest scarce public resources in projects that will line their pockets

rather than benefit communities, and prioritize high-profile projects such as dams, power plants, pipelines and refineries over less spectacular but more urgent infrastructure projects such as schools, hospitals and roads. Corruption also hinders the development of fair market structures and distorts competition, which in turn deters investment [7].

That's why it is important to identify key economic costs of corruption development in Ukraine, especially in modern terms of European integration. Because at the present stage of European integration Ukraine must show real efforts in its fight against corruption and represent itself as an European developed country. So, it would be as a huge alarm about the present and future danger of corruption for economic wealth of Ukraine.

## II. Main part of research

Many negative phenomena caused mainly by high level of corruption already exist in Ukraine.

For the first, it concerns the low level of country's economic growth. According to the results of econometric analysis that was done by specialists of the International Monetary Fund (IMF) higher CPI values (that denote lower corruption) are associated with higher GDP per capita. The econometric analysis also suggests that an increase of the ICRG index by one unit may raise per capita GDP growth by about 1 percent. Another result that was received within the econometric analysis of the IMF suggests that increasing the ICRG corruption index by one unit is associated with a statistically significant increase in the growth rate of investment by 4 percent. By the way, according to the estimations of Ukrainian Centre for Economic Strategy, if the level of corruption in Ukraine decreased to the level of corruption in Poland – GDP per capita over the last 10 years would be higher by up to 2824 dollars per capita [8-9].

Corruption also hinders the effective business development in Ukraine. According to the Global Competitiveness Report, 2016-2017, corruption has become the most problematic factor for doing business. It should be noted, that according to the Global Competitiveness Report in 2013 corruption was on the second place among the top ten problematic factors for doing business [9].

Government expenditures are inefficient in corrupted countries. In particular, less money is spent on health care and education, and more is spent on military projects. Furthermore, today our country needs to increase military spending, but transparency and budget control are necessary to monitor such expenses as they are highly exposed to corruption [9].

Budget revenue in corrupted countries is lower because of tax evasion. In Ukraine, 62% of enterprises avoid paying taxes while almost half of them give bribes. For example, according to researches of Ukrainian Centre for Economic Strategy it is possible to assume that the annual volume of bribes in retail industry in Ukraine is no less than 8 billion hryvnias [9].

The next important channel is private investments. Corrupted countries have lower inflow of private investments because of higher risks and higher capital value. In the structure of international funding of

corrupted countries, foreign direct investments have lower part compared to international loans. This creates additional risk of currency crisis [9].

The quality of governance also suffers from corruption. Instead of spending time on dealing with social issues, government officials try to find ways to become rich. In addition, corruption strengthens political instability, red tape and regulatory barriers. This, in particular, results in a larger size of shadow economy. In Ukraine, 41-46% of economy is in shadow. One of the most significant costs of corruption is reduction of economic efficiency, for instance, through the increase in the cost of capital or decrease of its productivity [9].

However, the consequences of the corruption are far deeper. Corruption hinders the development of state institutions (especially in less developed countries), because corrupted government is interested in this. Finally, corruption has not only economic consequences, it also affects citizens' welfare overall. Country's social functions are harmed due to corruption (for example, medical care and education), as the level of poverty increases, income inequality strengthens and the level of trust in the society decreases [9].

### Conclusion

Based on the results of conducted investigation we have identified the most urgent Ukraine's tasks of fight against corruption:

- full and satisfactory implementation of anti-corruption tools and recommendations of international organizations;
- active and fruitful participation in different international initiatives against corruption;
- development and implementation the unified, transparency and effective anti-corruption legislative basis and its complete harmonization with international legal standards and norms;
- improvement the existing anti-corruption package on the basis of complex regulation of corrupt behavior in all sectors of economic, social and political life;
- increasing responsibility for corruption activity in all spheres of society, especially in private sector;
- open, rational and goal-oriented use of public funds and international financial support;
- enlargement of the system of anti-corruption law enforcement and prosecution bodies (empowerment of the National Police of Ukraine, the State Bureau of Investigations, prosecutor's office);
- establishing the special anti-corruption courts that will be characterized by openness, honesty and trust among civil society;
- increasing the transparency, independence and effectiveness of all anti-corruption law enforcement and prosecution bodies on the basis of providing necessary financial, material resources and adequate human resources, as well as enough empowerment in concrete areas for objective and openness decision-making;
- strengthening the criteria of independence and irrelevance during the election and firing of

management of anti-corruption law enforcement and prosecution bodies;

- increasing the effectiveness and transparency of financing of political parties and election process;
- strengthening the struggle against oligarchy in cooperation with foreign law enforcement bodies;
- minimization of political pressure on the activity of all anti-corruption law enforcement and prosecution bodies;
- providing further guarantees and incentives for whistleblowers;
- rethinking and realizing the participation by every citizen at different levels of political, economic and social spheres in making corruption and starting the real fight against its own corruption from yourself.

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