

Impact of Corruption in Governance of the Western Balkan Countries

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Abstract

Corruption as an impediment to good governance and to economic development nowadays has developed in a very large scale, influencing all the major public fields of politics, economics, administration and judiciary. Western Balkan countries and Albania in particular could not avoid this phenomenon since the level of the informal economy has been very high and it has made possible to increase the level of corruption, despite the numerous measures taken to combat and to control it.

This study analyzes the impact of corruption on the informal economy, and the inefficiencies of the public sector for revenue collection. It studies the impact of corruption on budget as well as the unfulfilling of needs and coping measures against corruption as well as the decline of the public confidence in state institution. The vicious circle of corruption, informal economy, the reductions of formal economy, the financial inability to address public needs and the inefficient governance are the main issues analyzed in this study. It also focuses on last measures voted to combat corruption such as the efficient implementation of the monitoring systems included in the government reform.

Keywords: Corruption, Informal Economy, Albania, Proceeds Of Crimes, Anti-Corruption Policies.

INTRODUCTION

Corruption as a phenomenon has taken on a large scale, not only in developing countries or countries in transition, but also in the developed countries. Bribery and corruption are well known to be the worst evil of a society. Therefore, the scale of the devastating effects that corruption brings globally is big. The World Bank estimates that one trillion dollars a year are paid in bribes worldwide¹. However, the damage goes beyond these figures, corruption leads to a perversion of economic decision. It distorts the competitive markets, not allowing the partition of resources, and destroys the investment climate.²

It is difficult to make an ultimate definition of corruption, but the necessity to fight it because of the consequences that it brings, made it necessary to take initiatives to design laws and conventions. Some of these initiatives resulted with conventions like the Convention of the Council of Europe³, the Additional Protocol of the criminal convention⁴, the Civil convention on corruption⁵ and the Convention against bribery of foreign public officials in international business transactions of the OECD.⁶ These conventions contain concrete measures how to combat corruption or at least minimize it. Nevertheless, the greatest difficulty to measure corruption is the lack of measuring indicators. This is why corruption is assessed much more on the perceptions a society has about its level in state institutions. The other reason of the lack of relevance of corruption is linked to the fact that one of the main subject of the criminal offenses of the passive corruption are administrative officials. There is an interest of the state administration to hide the level of corruption.

¹ Robert I. Rotberg, "Corruption, Global Security, and World Order", 2009, ph. 417

² Ibid.

³ ETS No: 173, "Criminal law convention on corruption", Strasbourg, 27.01.1999

⁴ ETS No: 191, "Protocoll additional criminal law convention on corruption", Strasbourg, 15.05.2003

⁵ ETS No: 174, "Civil law convention on corruption", Strasbourg", 04.11.1999

⁶ Convention on combating bribery of foreign public officials in international business transactions, OECD

Some authors consider corruption as an ethical and moral phenomenon, whereas, legally treated, corruption is a criminal offense that must be treated legally. Nevertheless, corruption can be delimited as a misconduct of a civil servant whose aim is to obtain material or moral benefits, for himself or for his group. The aim of this benefit, as a product of crime is legalization, which is becoming more difficult, because of the measures taken to formalize the economy. In most of the forms communist countries, informal economy is very high. In Albania, an OECD reports considers the level of the informal economy reaching 50% of the global economy of Albania.⁷

In order to explain the link between corruption and the informal economy, and through them their impact on governance, this study contains several sections. The first section explains corruption as a concept- a first delimitation, from the ethical and legal aspect- and analyzes the benefits from corruption, in particular the material benefits, as a product of crime as well as the need for transactions or other transfers of this benefit.

The second section explains the inclusion of the incomes from corruption on informal economy and the impact of the growth of the informal economy from corruption, and the weakening of the conduct of public employees, a fact that affects directly on the collection of income for the public sector. The third section analyzes the impact of corruption on governance through informal economy and analyzes the vicious circle of this impact, allowing us to highlight the factors. The fourth section is a summary of the conclusions emerging from the other sections and recommendations for the measure to be taken to change these factors, to prevent through governance reforms, and struck cases of corruption by prosecution and justice institutions.

THE PERCEPTION OF CORRUPTION AND ECONOMIC GROWTH

Corruption increasingly extends its metastases in all areas of life, political, economic, social, becoming thus a major stumbling for economy, the functioning of the system, endangering of democracy. It must be admitted that the phenomenon of corruption has spread in all countries, in developed countries as well as in the underdeveloped countries because the consequences of corruption are very important and destructive for the democracy. This is also the reason why measures to combat corruption are growing and very often failing. Acts of corruption in different countries are different which makes it difficult to delimit corruption and as a consequence we don't have a standard to understand the occurrence and the causes of this destructive phenomenon.

In its essence, corruption is considered as misuse of an official position for personal or group profit. This understanding of corruption is general, and does not give response for the political and private corruption and does not share the concept of benefit if it is on monetary value, wealth, other personal or collective interests and collective or group interests for the person who commits an act of corruption. The fact that the term misuse of official position is used, the perception of the level of corruption focuses on the public official. In the perception of the corruption, the perceiver gives an opinion of the level of corruption, launched by some interests and factors such as the economic situation in which it is located, the opinion also created because the media, which often guide the opinions or support certain political groups at different times, these opinions that distort and their independent position.

The aim of this study is to find the relationship between the perception of corruption and the economic growth. What is their relationship? Does the perception of corruption impacts of the economic growth and how the economic decline affects governance? The answer to these questions gives us some conclusions and recommendations that we think contribute to and are a reference to consider in the implementation of the anti-corruption reforms.

⁷Report i OECD

In order to make an analysis of the statistical indicators and to calculate the effect that brings the perception of corruption on economic growth, I refer to the indicators of perception in several Western Balkan countries like Croatia, Montenegro, Bosnia and Herzegovina, Serbia, Macedonia, Kosovo and Albania. These indicators are for the period 2003 -2013 (figure 1).⁸

Fig. 1 Perception of corruption 2003-2013 in countries of Western Balkan

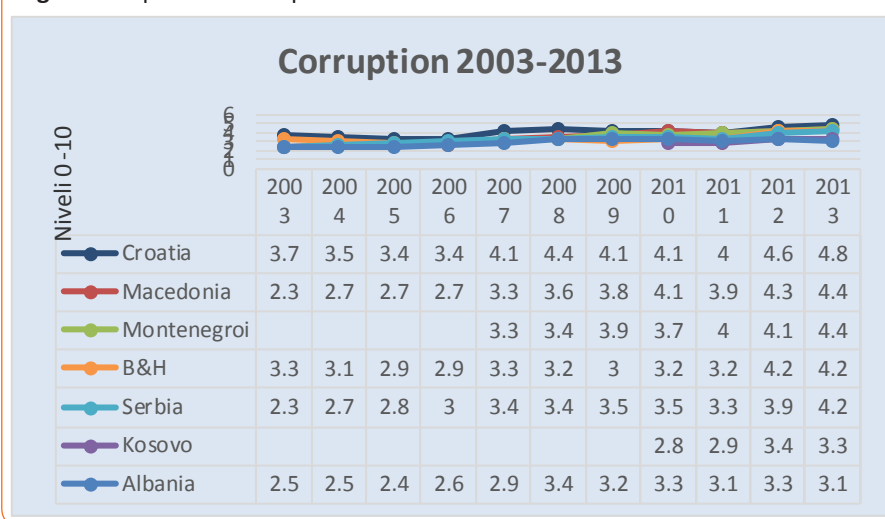


Fig. 2 Economic growth 2004-2012 in countries of Western Balkans⁹



The purpose of the following statistical analysis is to measure the effect of the impact of perceptions of corruption on economic growth for the countries under consideration and for the period of the last decade. The data on the perception of corruption are taken by Transparency International. The points represent the perception of corruption in a given country and in a given year. Points are indexed and major points imply a perception of greater corruption at the time and place of measuring the index. Economic growth is taken from the World Bank. These data are the percentage of the growth of the gross domestic product of a country, calculated in real terms.

It is easily justified the sense that economic growth is influenced to a large extent by the perception of the corruption in the economy and in social life in general. Among other things, it is worth mentioning that:

1. Corruption or the perception of corruption grows the costs of transactions. This makes it possible to reduce the profits and the entrepreneurs are discouraged for the profitable activities in that period and that place.

⁸Source: <http://www.transparency.org/cpi>

⁹Source: data.worldbank.org/en/country/

2. Corruption drops the concurrence that in the economic teaching is largely accepted as a generator of the economic performance.
3. Corruption discourages enterprises that rely on the underlying analysis and is based on accumulation of knowledge. As long as people with abilities to penetrate into the system using the indirect method of “buying skills”, then entrepreneurs who intend to build activities fully supported by modern methods, competitive and transparent are discouraged.
4. Corruption causes the de legitimization of state’s institutions and entrepreneurs and stakeholders turn more and more to “parallel institutions” or those considered as “afternoon institutions” that compete directly state institutions.

Statistical analysis of data on the perception of corruption and economic growth is accomplished by treating them “pooled cross-sectional”. This means that for countries and years that are missing any relevant data is missing were excluded from the sample. For example, if we do not dispose data on Albania’s economic growth for 2013, this year is excluded from the sample even if we possess data on corruption perception.

It is postulated that the relationship between the economic growth and the perception of corruption is in the following form:

$$Y = b + b_1X + e$$

Y = economic growth in percentage,

b = cross cutting of X with Y,

b_1 = marginal effect of the impact of perceptions of corruption on economic growth,

X = perception of corruption in points and,

e = error (ore what is known as residuals).

From the analysis of data obtained few have the following equation:

$$Y = 11.82 - 3.7 X + e$$

Two expected essential conclusions derive from the measuring of the above equation.

First, the dependence between the economic growth (Y) and the perception of corruption (X) is negative (oblique). This means that the growth of the perception of corruption negatively affects the economic growth. The measure of this impact is estimated to be of a considerable size (-3.7).

This means that the increasing of the perception of corruption by one point, lowers the economic growth by 3.7 points. This conclusion is crucial and justifies any effort or sacrifice that countries should do to reduce corruption in their economies.

EKONOMIA INFORMALE SI MUNDËSI PËR KORRUPSIONIN

Informal economy is defined differently in different countries. There can be found different definitions as an “non formal economy”, “secondary economy”, “shadow economy”, “secondary economy”, “unreported economy”, “underground economy” etc. Despite the definition of the informal economy, in its content and for the effect the analysis of the informal economy as an opportunity for corruption, in this article, the informal economy includes all economic activities which generate income for themselves or for the third, hidden by the state, unrecorded or that may not be registered and therefore cannot be audited. In this article we consider the informal economy as an economy which in its content has two groups of economic activities that generate income:

1. The informal economy which includes unregistered economic activities and
2. The Shadow economy, which generates revenue from criminal activities such as drugs,

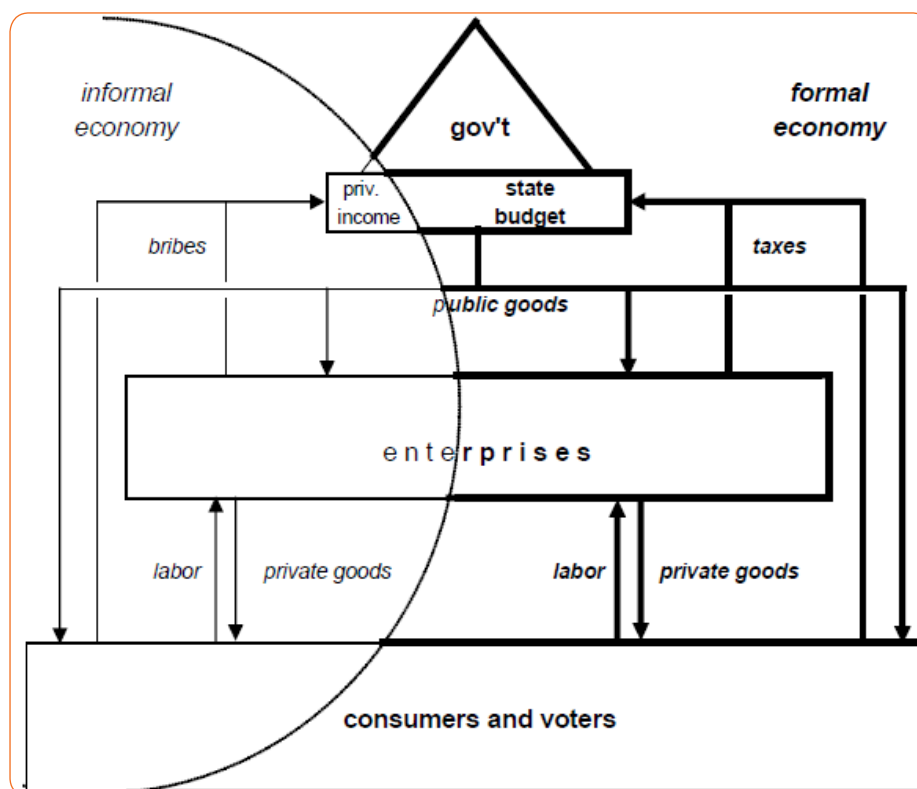
smuggling, prostitution, human trafficking, vehicles trafficking, and all those criminal acts that bring general illegal benefit, that are designated as grey economy or «parallel economy».

The first part of the informal economy that includes unregistered economic activities, is directly linked to the work and duties of employees of the the tax system and other structures that are tasked with the registration of these activities and their punishment in cases there are founded nonregistered economic activities . In both cases, it is related to state employees. The second part, which is the most difficult part to be controlled, and which is made more difficult in terms of free trade and economic integration throughout the world, facilitating international activities of the gray economy, is directly linked to the work of the state employees and structures that have the duty to fight crime.

Considering the economy of a country as an addition of the two parts, formal and informal, between the formal and the informal economy, it has a negative relation.

Jan-Peter Olters, in his article «The informal economy in Albania, a hindrance for the economic development» in schematic form represents the connection that exist between the formal and the informal economy and bribery as part of the informal economy (Figure 3)

Fig 3: Bribery as a part of informal economy¹⁰



Following the above we can come to several conclusions:

1. Corruption directly affects the informal economy and that there is a positive correlation between them, the greater the corruption, so great is the informal economy.
2. The growth of the informal economy reduces income from taxes and as a consequence reduces the state revenue to the state budget which contributes to the reduction of the public services and public benefits.
3. Corruption is part of the informal economy.

This vicious circle of the influence of corruption in informal economy and, through the reduction

¹⁰Jan-Peter Olters, Albanian's Informal Economy: An Impediment to Economic Development?, <https://www.google.com/#q=Albania%E2%80%99s+Informal+Economy%3A++An+Impediment+to+Economic+Development%3F+fq,5>, date 12/02.2014

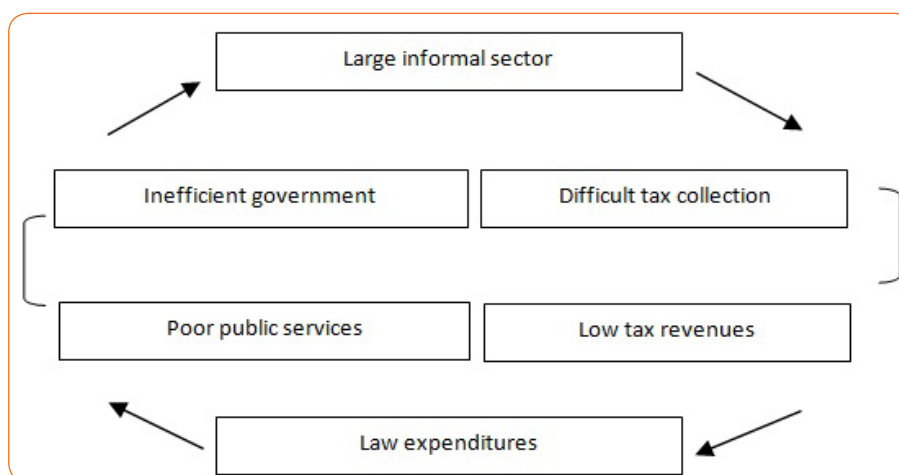
of the formal economy, explains the negative impact of corruption on governance.

THE IMPACT OF CORRUPTION THROUGH INFORMAL ECONOMY IN GOVERNANCE

Corruption and the perception of corruption as a part of the informal economy affects the size of the informal sector, bringing difficulties in tax collection and incomes by reducing taxes. As a consequence, requirements are for bigger spending cuts bringing thus a low public service and inefficiency in governance.

This vicious circle of the negative impact on costs and inefficient income, undermines confidence on public institutions, putting at risk the governance system and even democracy of the country itself.

Fig.3. The vicious circle¹¹



CONCLUSIONS AND RECOMMENDATIONS

Corruption or the perception that there is corruption increases the transaction costs. This makes it possible to reduce the profits and to discourage the entrepreneurs for the profitable activities for that period of time or for that place. Corruption reduces the competitiveness of the economic doctrine which is widely accepted as a generator of economic growth performance. Corruption discourages enterprises that rely on analysis and that have in their core the accumulation of knowledge. As long as people with abilities to penetrate into the system by using indirect methods of “buying skills”, then the entrepreneurs who intend to build their activity based entirely on modern, competitive and transparent methods, are discouraged. Corruption causes the deligitimation of the country’s institutions and the entrepreneurs and stakeholders to turn towards the “parallel institutions” that compete directly the state. The perception of corruption increase is an opinion that man creates for the others, not only because it knows it or that he can measure the real corruption by himself, from its real situation at a given moment starting from a thought that I don’t possess, the other who possesses must be corrupted. In this process, media play an important role also because very often corruption is present in media and dubious capital remain behind them. Very often media in former communist countries remain behind politics and political groups who concurrence directly state contracts for infrastructure building or other aspects connected to state that compromises their independence.

Repressive policies for minimizing corruption, as long as they do not interfere with the analysis of the causes of economic and social policy as well as for the social education, are not efficient to win against this destructive phenomenon for democracy and society in general, remaining a challenge for a long time.

Changes in the substantive law, the procedural and executive structures require also the efficiency

¹¹ Jan-Peter Olters, Albanian’s Informal Economy: An Impediment to Economic Development, ph.6

of instruments to combat them, only for cases which is initiated a criminal proceeding.

Preventive measures for the seizure of proceeds of crime and corruption as a product of the criminal activity after that the seizure through a regular court proceedings would be effective measure to influence the reduction of the level of corruption and to increase the citizens trust in the institutions of law enforcement.

The need of an institutional international and interstate cooperation, not only in the formal plan of cooperation, a cooperation which is formally evident, but a cooperation at the operational level of information exchange, the performance of investigative procedures, and the evidence of confiscation of proceeds of crime is a necessity.

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Petrit Bushi, born on 1965, Dibër, Albania. Graduated in Finance at Tirana University on 1988. Continued Master studies in field of Justice and graduated on 2001 in Tirana University. PhD candidate in field of Law Field of Law at European University of Tirana. Actually engaged as lecturer at AAB University in Pristina (Kosovo) in following subjects: Financial Crime, Financial Law, and Labor Law. In addition, certified as trainer for financial investigations and confiscation of proceeds of crime (Council of Europe); Trainer for procurement procedure and legal violations (OSCE).

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