

THE SCALE OF CORRUPTION IN TRANSITION COUNTRIES**Ariana Xhemajli**

University "Haxhi Zeka ",Peja – Kosovo ariana.xhemajli@unhz.eu

Abstract: Theoretical and empirical debate on the impact of corruption on the economy remains unclear. Many studies on corruption seem that the world is occupied by two kinds of people, "sandlers" and "greasers". It depends on what the meaning of "corruption" is for them. Some scholars argue that corruption is an obstacle to economic growth, whereas others believe that corruption can (in some circumstances) endorse growth. Corruption also has a negative impact on investment, Foreign Direct Investment, and economic development as a whole. Measuring corruption is still an issue for most economists due to the difficulties of defining it, and also different forms of corruption require different objective measures. Nevertheless, recently, some measures of corruption have been widely accepted and recognized by researchers. This paper is a critical review at these positions by reviewing the theoretical literature on the impact of corruption on an economy as a whole. In this paper we will treat the corruption level in Kosovo, and its presence in forms and ways how the bribe is been given. Instead, this document reviews different measurements of corruption to reveal that corruption is harmful for the economy.

Keywords: transition, corruption, bribe, Kosovo, public and private sector.

1. INTRODUCTION

In the latter part of the 20th century, we witnessed transition from centralized regimes to market regimes (Bulgaria, Poland, and Russia, and especially Republics of ex. Yugoslavia with specific focus in Kosovo). During the transition, economic resources were privatized and market and legal institutions created. The transition, in many cases, was associated with corruption manifested with expropriation of revenues and financial assets from their legal owners, and with the ability to tolerate illicit activities (Naim, 2005). In 1994, for example, a new issue of Komineft stock, one of Russia's largest oil companies, was offered without giving adequate notice to its outside investors. This resulted in the dilution of outside investors' ownership in the company by one-third (see Blasi, Kroumova, & Kruse, 1997, p. 93). Corruption, however, affects some industries more than others. Corrupt activities are concentrated in lucrative industries such as natural resource industries. It is also more common in less-transparent and shadier industries—i.e., industries where theft can go unnoticed (Naim, 2005). In Moldova, for instance, trade in human organs and guns flourishes and is controlled by local families who abide by no law but their own. This paper, therefore, links almost corruption in almost all fields of economy. Corrupt investors may use their power to establish a weak state, which will allow them to capture excess profit and revenue down the line. In Russia, for example, massive privatization accelerated selling control in the largest enterprises cheaply to frauds, which transferred their skimming talents to the enterprises they acquired and used their wealth to further corrupt the government and block reforms that threatened to constrain their actions (Black, Kraaman&Tarassova, 2004). Finally, a link between interest rates and the market institutions is also identified—higher interest rates lead to weaker institutions. To this end, Stiglitz and Hoff (2005) showed that a higher interest rate is negatively correlated with the demand for legal reforms. This paper, shows a level of corruption through the years, especially years after the war (Kosovo 1999), which we will focus on the reports given from institution with high international credibility, in a field of measurement and statistical reports. Corruption remains an issue all over the world. Socio-economic development, the institutional and political setting or the prevailing social and cultural norms are all elements that can shape it in very different manners. But corruption is still a scourge from which no society is truly exempt and it is often reported to be an area of vulnerability for the western Balkan region, including Kosovo. Indeed, the people of Kosovo perceive corruption to be a major problem: the results presented in this report show that they rank corruption the most important problem facing them after unemployment. In this context, comprehensive assessments of corruption can greatly assist governing authorities in better tailoring policies and enhancing the capabilities of anti-corruption bodies. At the same time it is widely accepted that the collection of empirical data in this area represents a real challenge because of the complex and covert nature of corruption. These difficulties are sometimes circumvented by focusing on perceptions about corruption rather than on actual experience of it.

2. LITERATURE REVIEW

Developing countries were under the control of or dependent on developed countries to different extent in many ways during the globalization process in current world, so the current globalization showed a strong trend of Westernization or Americanization. Globalization is a "double-edged sword" for the almost developing countries

that accepted globalization; for it not only brought some development opportunities, but also posed serious challenges. Since USA and China established diplomatic relations in 1979, though the bilateral economic relationship experienced some twists and turns, but the quick development speed has been kept for a long time. Especially after China joined WTO in 2001, the bilateral economic relationship develops further quickly. Economic and political transformation, made that almost all Balkans countries to change the way how they produce goods and services, who will produce them, and for whom will they produce. Especially it was if we can call as "*high cultural change*", because, most of people used before to work in public sector, and almost all public companies that were operating in Kosovo (before the war – 1999), were in ownership of the state. The biggest problem in privatization of those companies, most of them change in total their nature of producing, ex., some of them 100% changed their economic activity, some of them almost whole economic activity, and there are only some small and little successful stories of privatization process that is almost in disclosure. But, in this whole process, Kosovo remains the poorest country in Europe, with the almost highest level of corruption, and highest rate of employment (EU Commission Progress Report – Kosovo, 2014). Corruption is not a new issue, but has continuously existed in many societies. The level of corruption grows and shrinks over time. Corruption is legally wrong, morally wrong and economically indecent. The most common definition used in literature addressing the economic impacts of corruption is "the abuse of public power for private benefit" (Tanzi, 1998, p. 552). Notwithstanding, corruption as an academic concept largely appeared in the 1960s. The theoretical model that forms the basis of much of the current economic analysis surrounding corruption is the principal- agent (PA) model. The PA model assumes that there is a divergence between the

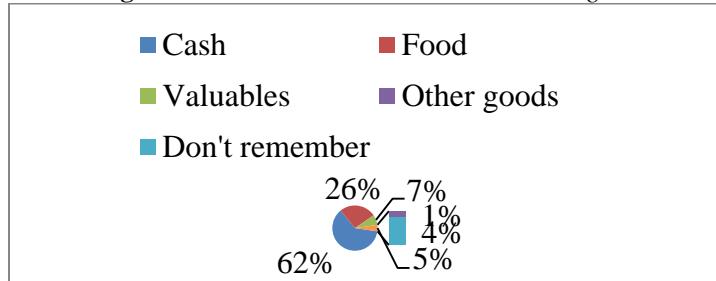
interests of the principal and those of the agent. Corruption happens when an agent deceives the principal's interest in pursuit of his or her own (Kurer, 2005). This model has been modified to include third parties and is known as the principal-agent-client (PAS) model. This model has added another dimension to the model, as he or she provides another window of opportunity for the agent to engage in corrupt practices. A "queue model" suggested by Lui (1985) describes the situation where bureaucrats allocate business licenses to companies and give preferential treatment to those who bribe the bureaucrats into speeding up procedures. Another model called the "auction model", developed by Lien (1986), states that bribes in a bidding process might stimulate efficiency since the most efficient firms are habitually those who can bear the highest bribes. The most well-known global index that exists as a measure of corruption and gives complete data in a unified way is the index published by Transparency International. Established in 1993, the goal of the organization is to shrink worldwide corruption by reporting on corrupt practices. The Corruption Perceptions Index (CPI) has been published by the organization since 1997, ranking countries by the degree that business, politicians, public officials, and outside observers perceive corruption. Founded on surveys in a number of countries, the CPI seeks information on the frequency of bribes, the perception of corruption in public administration, and the amount of corruption that bureaucracy (Lambsdorff, 2002). Other additional sources are also used, including the Economic Intelligence Unit Data and the World Bank Business Environment Survey. The inconsistency in the nature of the compound sources in subsequent years is due to the deficiency in the methodology in developing the index, which weakens the comparison. Moreover, the number of sources used in the compound index for each nation varies. In spite of its weaknesses, the CPI is presently considered to be the best instrument available to measure the variability of corruption. Black market activity is another index that can also be used as a measurement of corruption. It is widely known as the sub-index of Economic Freedom Index (EFI). The EFI comprises a component which determines the "irregular payments" levels that occur in the economy of a country on a scale ranging from 0 to 10, with 10 representing a high level of irregular payments. The component of the EFI is measuring the activity level of the black market, which acts as an indirect measure of corruption. The component of irregular payments from the EFI, however, is not available for all countries. The Global Competitiveness Report of the World Economic Forum is the only source of data for irregular payments. A country's variation in economic development has been correlated with its level of corruption by most scholars who measure economic growth using Gross Domestic Product per capita, Paldam (2002), Treisman (2002) and Montinola and Jackman (2002). Consequently, these researchers discovered evidence of corruption levels declining considerably with increasing economic development. However, Kaufmann and Kraay (2003) refute the argument that higher income per capita results in lower levels of corruption and stress that economic development is a result of low corruption levels. Efforts have been made in the literature to ascertain how corruption affects the growth of the economy. With a cross section of about 97 countries, Tanzi and Davoodi (1998) obtained evidence showing that corruption lowers growth. Similar findings were reported by Leite and Weidmann (2001). Additionally, corruption could act as a tax on investment income hence creating a hostile environment for investors (Bardhan, 1997, p. 1328). It further reduces the quality of investment with the diversion of resources from their intended use into payoffs (Tanzi&Davoodi, 1997), therefore hampering the economic development of a country. In

spite of these views, some researchers argue that its impacts might not inevitably be entirely unfavorable. For example, the ‘grease the wheels’ hypothesis suggests that corruption can be useful for economic growth in a non-ideal world where alterations are caused by imperfect institutions (Huntington, 1968; Leff, 1964; Leys, 1965).

3. RESEARCH DATA BASED ON TOPIC DISCUSSED

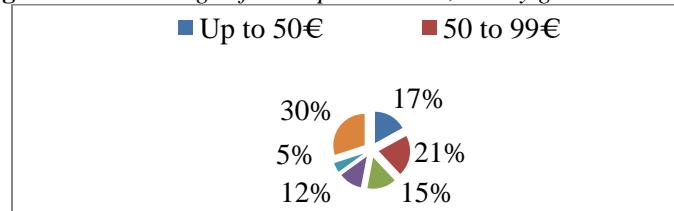
Based on statistical report (UNODC, 2010), payments to public officials come in several shapes and sizes and are made for different reasons in diverse contexts. Money or gifts, for example, may be explicitly requested by public officials for the completion of a procedure or offered by a member of the public to facilitate a service or simply express gratitude for a service rendered. In this chapter, a number of payment characteristics are presented in order to shed some light on what is clearly a complex question.

Figure 1 – Forms how the bribe in Kosovo is given



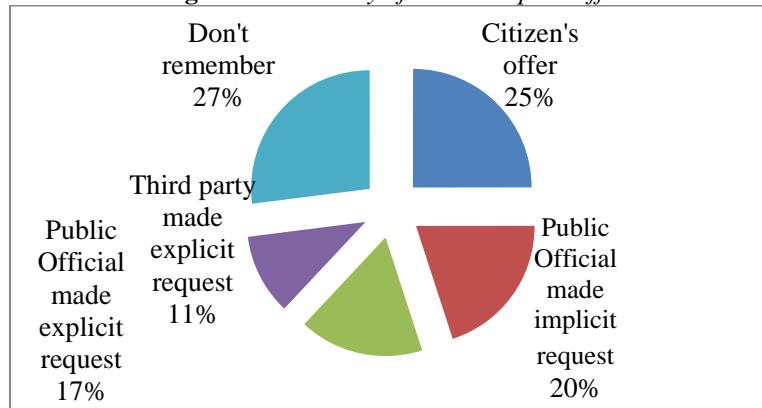
In Kosovo, (62 %) of bribes are paid in cash while (26 %) are given in the shape of food and drink. Considerably lower down the scale come valuables (7%), other goods (1%) and the exchange of services (0%). A large proportion of bribes take a form that can be interpreted as barter, whether explicit or implicit, between two parties in which each one of them both gives and receives something in the exchange.

Figure 2 – Percentage of bribe paid in cash, money given in euro (€)



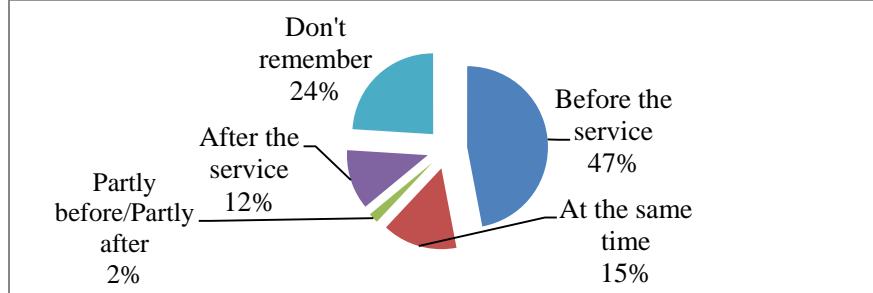
When focusing on bribes paid in cash (figure 4), the results of this survey show that 18 per cent of them are for amounts less than 50 Euro (18%) and that more than a fifth (21%) are in the 50-99 Euro range, 15 per cent are in the 100-199 Euro range and 11 per cent in the 200-499 Euro range. Interestingly, 6 per cent of bribes paid in cash are for amounts larger than 500 Euro. While not quite grand corruption these are certainly very considerable amounts for the household involved.

Figure 3 – Modality of bribe / request/offer



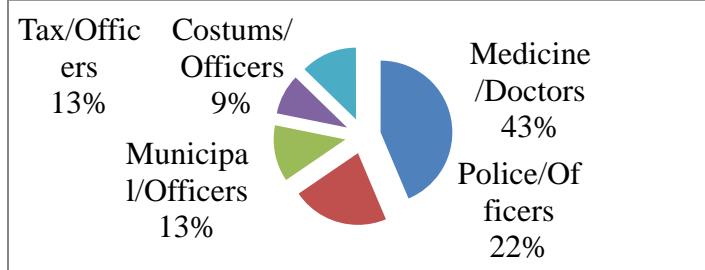
Whereas in almost 50 per cent of cases payment is actually made following a request from a public official, as it is shown in figure above.

Figure 4 – Payment of bribe in relation of request / timing of payment / delivery services



Money is the most common type of payment chosen by the people of Kosovo. It is used in 78 per cent of cases when it follows an implicit request and in 80 per cent of cases when the payment is given before the service is delivered. Money still accounts for 60 per cent of payments made after service delivery but they also include a higher share of gifts in kind, such as food and drink (UNOCD, 2010).

Figure 5 – Types of officials that the bribe has been made



4. DISCUSSIONS AND CONCLUSIONS

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undermined by corruption. A study was conducted by Hines (1995), showing that the investors from the US varied from other countries in choosing to locate their FDI to less corrupt countries since 1978. He attributes this to the Foreign Corrupt Practices Act (FCPA). Another study was conducted by Wei (1997) to examine whether Japan has a propensity to put more money into corrupt countries. There have been other studies conducted to test the correlation between corruption and the capital inflows. Early, Wheeler and Mody (1992) have not found a strong relationship between the host countries and the size of FDI. Recently, however, studies have shown a negative correlation between them. A study undertaken by Wei (1997) revealed a significant negative effect focusing on bilateral flows between 45 host countries and 14 sources in 1990 and 1991. The study found that increasing the level of corruption from that of Mexico to that of Singapore is equal to increasing the tax rate by roughly 20 percent. Weder and Alesina (1999) used a regression of corruption on FDIs in a cross section of countries. The study concluded that the effect of corruption is significant by testing many explanatory variables and different specifications.

5. RECOMMENDATIONS

Campaigns should be organized, including NGO-s, Students unions, Research centers, Universities, etc., in order to raise and discuss issues related to social ethics and especially in business ethics aspects. Competent Investigation institutions of economic crimes should be more constructive when investigating and solving such cases. Undertake initiatives on behalf of inter-institutional cooperation, which will ensure employment of new candidates, those possessing skills and knowledge gained professionally, with special attention between firms and Universities, since most of the applicants applying for job positions are students or graduated mainly for business and economy.

The role of citizens must be more constructive in the meaning of reporting such known cases to law and order authorities, cases with facts and information in order to discover and solve such mean cases. Kosovo needs to create a stronger strategy for defending the informal economy, and of course to strongly make more effective that tax officers, to collect and stop negative effects, like is corruption, or other informal activity that can damage seriously economy of a country, and of course one of the poorest country in Balkans and Europe, when our topic of discussions is the main reason of discussion and research.

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