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## CAUSES OF CORRUPTION IN UKRAINE AND ITS EFFECTS ON BUSINESS

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**Abstract** — This paper is devoted to disclosure of causes of corruption in Ukraine and its effects on business. The key causes of corruption are: poverty, Soviet heritage, Ukrainian mentality, convenience of corruption, sabotage of anticorruption reforms by officials. Key corruption outcomes are decrease in amounts and efficiency of public and private investments, decreasing the quality of governance, decreasing the productivity of business and sophistication of managerial technologies, decrease in customer demand, and numerous social effects.

**Key Terms** — Corruption, Causes of Corruption, Corruption effects on Business.

It is not a secret that corruption is considered one of the biggest problem of Ukraine's development. The Global Competitiveness Report 2017–2018 [7] states corruption has the second position out of the most problematic factors for doing business in Ukraine (the first position belongs to inflation). Such a high position of corruption among the major problems a business faces in Ukraine makes struggling corruption an important task for the government. In order to do this, it is necessary to understand the causes of corruption.

Also, it is necessary to understand the effects of corruption on doing business. This, along with understanding the causes of corruption, makes a purpose of this paper.

So it is important to understand the causes of corruption. First of all, this is poverty. In November 2019, average salary in Ukraine was 10679 UAH (about \$440) [3], which is one of the lowest value in Europe.

The next reason lies in the command centralized system of governing the state in former So-

viet Union, which drew on more than one generation of officials accustomed to their privileged position in society.

On the other hand, the deficit forced the working class, deprived of preferences, to tricking to obtain material benefits. Thus, there was a system gradually being formed, in which the population was forced to actually support corruption in power, to feed officials with bribes. Officials, in turn, duplicated the legal conflicts and made all administrative processes as difficult as possible in order to conceal the abuse of power. Such system did not disappear with the collapse of the USSR, on the contrary, business mixed with politics, creating a surprisingly symbiosis [2].

Another reason of corruption lays in mentality of Ukrainians. Neglecting laws and rules is a component of national culture. Moreover, traditionally Ukrainians are not politically active, driven by the proverb "My house is aside".

People in Ukraine are not really trying to fight corruption. More than 72% of Ukrainians are involved into corruption [2] because they consider it convenient. Officials, who earn on corruption, also consider it convenient and try to block anticorruption reforms.

Negative consequences of corruption are as follows [5]:

- destroying trust in society;
- undermining set of values;
- promotion of oligarchization and illegal wealth accumulation at the expense of average citizens;
- decreasing amounts and efficiency of public investments;
- decreasing amounts and efficiency of government expenditure;
- slowing down private investments;
- decreasing the quality of governance;

decreasing the productivity of business and national economy in general;

decreasing citizens' welfare (quality of education and healthcare, poverty, resource allocation), their purchasing power and, as a result, demand.

According to research of Centre for Economic Strategy [5], if the level of corruption in Ukraine decreased to the corresponding level of corruption in Poland, then GDP per capita over the last 10 years would be higher by up to 2824 dollars per capita. That means almost doubling the GDP in Ukraine, increasing productivity for business, demand on consumer market etc. First, of all, such effect can be expected because increase in efficiency of public investments. The same amounts of investments, being not stolen, can lead to better improvements of infrastructure, business support, development in social capital, so business productivity will be increased.

The same kind of effect could be obtained by increase in efficiency of public expenses. It is estimated Ukrainian losses on governmental purchases are about \$2 billion annually [4].

In the same time, decreasing corruption can lead to increase in budget revenues. In Ukraine, 2/3 of enterprises avoid paying taxes [5]. Losses from customs only are about \$5 billion [1].

Actually, corruption in customs is one of the most dangerous for /Ukrainian business. Unfair importers minimize taxes they pay while importing goods to Ukraine, which leads to decrease of total costs for such goods. As a result, imported goods become more competitive than those produces locally. So, the competitiveness of Ukrainian business suffers strongly.

The next important way of corruption impact is private investments. Corrupted countries have lower inflow of private investments because of higher risks and higher capital value [5].

Also, quality of governance suffers from corruption. As a result, decisions are made in favor of corrupted businessmen by restricting others, making borders for fair competition.

Finally, the quality of companies' management in Ukraine suffers from corruption, as instead of using progressive managerial technologies, companies try to abuse corruption to generate their profits.

So the main causes of corruption in Ukraine are: poverty of population, Soviet heritage, Ukrainian mentality, convenience of corruption, sabotage of anticorruption reforms by officials. As a result, Ukrainian economy lost up to almost half of its GDP.

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