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BEHAVIORAL CONTEXT OF CORRUPTION PRACTICES AND ITS INFLUENCE ON THE INVESTOR'S DECISION

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ПОВЕДІНКОВИЙ КОНТЕКСТ КОРУПЦІЙНИХ ПРАКТИК ТА ЙОГО ВПЛИВ НА ВИБІР ІНВЕСТОРА

Corruption is persistent features of human activities over countries and time. Double-dealing is a complex phenomenon and it is difficult to detail a full and comprehensive definition. Some ways to increase the growth of corruption should be taken into account. Political corruption that distorts the technology of decision-making related to public investment projects. High levels of corruption with large investments in the public sector, low spending on subsidies and payments, poor quality of public infrastructure. Research confirms that increasing public investment in a corrupt society reduces productivity. In countries with high levels of corruption, economists should be more restrained in calculating the effectiveness of public sector investment. The purpose of the article is to study the impact of corruption factor on the investment climate of Ukraine and to analyze the reasons for the refusal of foreign and domestic investors to make investment infusions into the Ukrainian economy. This article examines the problem of such a phenomenon as "corruption", related offenses and its consequences for the country's economy. Another purpose of this article is to review developments in the science literature devoted to corruption in order to put some of this material into a wide analytic perspective. The classification of types of corruption practices is given. The concept of "effective corruption" and its impact on the interaction of economic entities are considered. Various aspects of corrupt practices in various social formations, generalized by researchers from different countries during the second half of the twentieth century, are considered. Conclusions regarding the negative impact of corruption on the country's economy are made. Proposals for the prevention of corruption have been developed, and the necessity of forming a strategy of fighting against corruption has been corroborated. The scientific novelty of the article consists in considering the motivation of the participants in the corruption agreements, which helps to bypass a set of inevitable obstacles that appear on the way of investors before making an investment deal.

Корупція певною мірою притаманна більшості країн світу. Її роль в загальній економічній системі не має однозначної оцінки. Одним її аспектом є діяльність, яка пов’язана з ухиленням від податків, неформальною зайнятістю, низькими темпами наповнення бюджету та іншими проблемними для держави аспектами. З іншого боку, саме ухилення від сплати всіх податків часто рятує бізнес від банкрутства, зберігає робочі місця і купівельну спроможність населення. Історично виникнення податків відноситься до періоду поділу суспільства на соціальні групи і появи держави. Цілком природно, що необхідність сплати податків не однаково сприймалася різними верствами населення. Якщо для одних податок був розподілом надлишку на користь малозабезпечених верств населення, то для інших сплата податку була загрозою для існування сім’ї або власного бізнесу. На сьогоднішній день економіка України зазнає величезних збитків, нанесених корупційною діяльністю, саме тому ця тема є однією з найбільш актуальних для нашої держави. Масштабність розвитку корупційних процесів та системність їх проявів актуалізують дослідження у даному напрямі і формують глибокий науковий та практичний інтерес. Метою статті є вивчення впливу корупції на інвестиційний клімат країни та аналіз

причин відмови зовнішніх та внутрішніх інвесторів робити інвестиційні вливання в економіку. У даній статті розглянуто проблему такого явища як «корупція», пов'язані з нею правопорушення та її наслідки для економіки країни. Наведена класифікація типів корупційних практик. Розглянуто поняття «ефективної корупції» та її вплив взаємодію суб'єктів економіки. Зроблено висновки щодо негативного впливу корупції на економіку країни. Розроблено пропозиції щодо профілактики корупції, обґрунтовано необхідність формування стратегії протидії корупції. Наукова новизна статті полягає в розгляді мотивації учасників корупційної угоди, що допомагає обійти набір неминучих перешкод, які виникають на шляху інвесторів перед здійсненням інвестування.

Keywords: *corruption, shadow economy, tax avoidance, weak tax morale, unemployment.*

Ключові слова: *корупція, тіньова економіка, ухилення від сплати податків, порушення податкового законодавства, безробіття*

Formulation of the problem in general. The phenomenon of corruption to some extent is characteristic to the most countries of the world. Its role in the general economic system does not have a clear assessment yet. One of its aspects is activity related to tax evasion, informal employment, low rates of filling the budget and other problematic aspects for the state. On the other hand, it is the evasion of all taxes that often saves businesses from bankruptcy, preserves jobs and the purchasing power of the population. Historically, the emergence of taxes refers to the period of the division of society into social groups and the emergence of the state. It is quite natural that the need to pay taxes was not perceived equally by different sections of the population. If for some the tax was a distribution of surplus in favor of the poor, then for others the payment of the tax was a threat to the existence of the family or their own business. There are modern examples, and not only from developing countries such as Nigeria, India and the Philippines, but also from highly developed countries. Dissatisfaction with the fight against corruption is growing in Spain, where the population demands that the government fight the shadow economy instead of financial aid from the European Union. The problem of political corruption in Italy occupies a central place among publications on this topic, and corruption itself is an integral part of Italian society. Therefore, the appearance of corrupt practices as an economic activity that seeks to avoid state regulation and taxation is a natural process accompanying the existence of business.

The tacit support of the shadow economy in Ukraine by socially vulnerable groups is the government's response to its indifference to its own interests. Entrepreneurs of small and medium-sized businesses ignore the interests of the state, and the "corrupt culture" of doing business in general is the norm and does not look like an exception to the rules.

Today, the economy of Ukraine suffers huge losses caused by corruption, therefore this topic is one of the most urgent for our country. The scale of the corruption processes development and the systematicity of their manifestations make very actual research in this direction which has both scientific and practical interest.

Analysis of the last years studies and publications. Many corruption cases are analyzed in detail in the book "The Politics of Corruption", edited by Robert Williams and his colleagues. Its four volumes contain extensive collections of articles published over the past 40 years in social science journals by political scientists, sociologists, anthropologists, legal scholars, and economists. The co-authors of the monograph made a significant contribution to the study of corruption and other state pathologies during the 1990s. Currently, the study of corruption occupies an important place in the research program of international organizations, such as the World Bank and the International Monetary Fund (IMF). Some of the most significant studies of corruption conducted by the IMF in recent years are also collected in the monograph "Governance, Corruption and Economic Performance", edited by George T. Abedi and Sanjiv Gupta.

The study of "corruption" as a complex concept is given attention in the works of well-known domestic scientists in the field of criminology and criminal law: L. Bagria-Shakhmatova, O. Dudorov, A. Zakaluk, M. Kamlyk, O. Kostenko, M. Melnyk, E. Nevmerzhitsky , A. Radky, M. Havronyuk.

In the works of E. Zozula, Y. Kashuba, V. Kovalenko, M. Melnyk, and E. Storozhuk, an assessment of corruption as a political, social and legal phenomenon is given, and its influence on the social development of the country and its place in the world is determined. Separate aspects of corruption issues in Ukraine are considered in the works of I. Revak, V. Yemelyanov, D. Stepaniuk, V. Smyrichynskyi, O. Sheyko, and others.

Along with this, it should be recognized that the state of scientific developments on issues related to the influence of corruption on investments and factors that affect the economic growth of the country has not been fully investigated by scientists, and therefore the topic of this scientific article is quite relevant and has both theoretical and practical significance.

Emphasizing of the previously unresolved parts of the overall problem. In the studies devoted to this topic, suppression of the corruption is generally not considered as a tool that allows attracting investments into the economy that would otherwise be impossible.

The purpose of the article. The purpose of the article is to determine the influence of different categories of corruption on the investment climate in Ukraine.

Presentation of the main material of the study. The main goal of all investors usually is to get a return on their own capital resources invested, and the main indicator of a favorable investment climate is the ability of the economic and legal field to provide the expected return. The basic orientation of the state economic strategy should be the maximum convergence of the parameters of the entrepreneurial and investment climate [1]. Due to the insufficient investors satisfaction of their investment results, the problem of attracting foreign investments to the economy of Ukraine and suppressing corruption with all determination in all its manifestations are urgent issues today.

Restoration and development of the domestic economy is impossible without overcoming corruption. In the modern interpretation, corruption is the illegal activity of a person in the sphere of politics and public administration, which is associated with the use by officials of the rights and powerful opportunities entrusted to them for personal enrichment [2].

The Law of Ukraine "On Prevention of Corruption" defines the corruption as "the use by a person of official powers or related opportunities specified in the first part of Article 3 of this Law for the purpose of obtaining an unlawful benefit or accepting such a benefit or accepting a promise/offer of such a benefit for himself or other persons or, accordingly, a promise/offer or granting of an unlawful benefit to the person specified in part one of Article 3 of this Law, or at his request to other natural or legal persons with the aim of inducing this person to unlawfully use the official powers granted to him or related opportunities with them" [3].

The influence of corruption on the economy is ambiguous. On the one hand, corruption violates the economic policy of the state, creates the basis for the growth of the shadow economy in the country, as a result - violation of tax legislation, rules of business activity and economic instability. So, we can agree with the opinion that: "The economic essence of corruption is the commercialization of power, which is expressed in the buying and selling of the efficiency of enterprises, which is accompanied by a decrease in their average industry costs and the exit of these enterprises from the legal economy" [4, p. 48]. On the other hand, corruption can (and this will be confirmed in the article) save a business from bankruptcy, save jobs and the purchasing power of the population.

Negative consequences of corruption for the economy are:

1. The expansion of the shadow economy. The shadow economy has negative consequences for both the state and society as a whole. The high level of the shadow economy is the reason for the deformation of the market mechanism, it violates the competition regime. Companies operating in the shadows receive a number of advantages (non-payment of taxes, receiving government orders on a non-transparent basis). The state also has significant negative consequences from the shadow economy - a lack of tax revenues, a reduction in the expenditure part of

the state budget, and aggravation of social problems. According to preliminary calculations of the Ministry of Economic Development in January-September 2020, the level of the shadow economy was 35% of the official GDP, which is 5% less compared to the corresponding period of 2019 [5]. Among the main reasons for the decrease in shadowing of the economy, the following can be distinguished: the achievement of relative macroeconomic stabilization; decrease in the inflation rate; improvement of business conditions; withdrawal of a part of the income of employees from the shadows, due to the reduction of the rate of social security.

2. Disruption of competitive market mechanisms. Conducting non-transparent public procurement tenders led to the fact that government orders, and, accordingly, budget funds, were received not by those who were competitive, but by those who were able to obtain advantages illegally. This causes a decrease in market efficiency and discredits the ideas of market competition.

3. Ineffective use of budgetary funds. Corruption negatively affects both revenues and expenditures of the state budget. As the level of corruption in the state increases, revenues to the budget decrease. In their research, Tanzi and Davudi [10] prove that lowering the corruption rating by one position reduces state revenues by 1.71–2.51% of GDP. Such a decrease occurs due to the growth of the shadow economy, the decrease in tax revenues, and the social security of citizens.

State budgetary funds - social expenses - also suffer from corruption, as subsidies and subsidies lose their targeting, and their beneficiaries are well-to-do sections of the population. According to IMF calculations, an increase in corruption per unit corresponds to a decrease in the ratio of such expenses by 1.32–2.19% of GDP. In addition, the increase in corruption by one unit reduces the ratio of expenditures on education and medicine to GDP by 0,34–0,45% [6].

4. Increase in prices due to the increase in "corruption costs". Businesses pay bribes to avoid paying taxes and government regulation. In Ukraine, 62% of respondents avoid paying taxes, 47% of them give bribes for this, and their size is on average 1.76% of income, which is much higher than the average indicator for the sample used in the study. Since the turnover in Ukraine in 2019 amounted to

UAH 487 billion. [7], then, accordingly, it can be assumed that only for the retail trade sector, the number of bribes could amount to at least 8 billion hryvnias.

5. Deteriorating investment climate. Foreign investments are very sensitive to corruption. An increase in corruption reduces foreign direct investment even more than a corresponding increase in taxes. A decrease in the country's level of corruption by one point corresponds to a 23.1% increase in the volume of foreign direct investment.

The purpose of examining the impact of corruption on the investment climate and investment attractiveness is to clarify the issues that arise in the way of investors before investing.

The first task in attracting investment capital to the economy of Ukraine is to stop the outflow of Ukrainian capital abroad and return it, as well as attracting foreign investors. The second important aspect of creating a favorable investment climate is a stable tax system, which provides for a low level of income taxation and is built on the same logical foundations as the taxation systems in developed capitalist countries.

The global practice of modern business is associated with constant cooperation with various auditing, consulting and other firms. The fact that firms do not have an environment worthy, from the point of view of a foreign investor, of trust significantly worsens his impression of the entrepreneurial climate in Ukraine [8, c. 136]. Foreign investors prefer to deal with foreign financial institutions and banks. This encourages them to invest in the banking sector and open branches of foreign banks. However, in a strategic context, this separation of financial flows of Ukrainian and foreign capital weakens the country's financial system. Investors also pay attention to the underdevelopment of state institutions that are supposed to support foreign investors.

Corruption is an act in which the power of a public office is used for personal gain in a way that contradicts legal regulations.

From this definition, it becomes clear that at least three conditions are necessary for corruption to occur and persist:

1) discretionary powers: the relevant civil servant must have the power to develop and dispose of regulations and policies at his own discretion;

2) economic benefit: the discretionary power must allow the receipt of a reward for an offense;

3) weak institutions: incentives embodied in political, administrative, and legal institutions must be such that officials have an incentive to use their discretionary power to receive rewards for wrongdoing.

Corruption can be defined and classified in different ways. The most common types or categories of corruption are supply-demand corruption, grand versus petty corruption, conventional versus unconventional corruption, and public versus private corruption. There are other categories or ways of describing corruption, such as "systemic" versus "individual" or "isolated," corruption by "doing" versus "omission," by the degree of coercion used to commit the illegal act, and the type of favor given.

We propose to consider four types of corrupt practices. Despite the fact that they coincide in the main, they highlight two important aspects in the theoretical analysis of corruption: the degree of benevolence of the public official responsible for the implementation of policies and the development of institutions (principle) and the role of institutions as countermeasures to the level of corruption.

Taking these two aspects into account, the following categories can be distinguished:

1) "Effective corruption": Corruption occurs to facilitate profitable trade between agents that would not otherwise be possible. This promotes efficiency in the allocation of funds by allowing agents in the private sector to correct pre-existing government mistakes.

2) Corruption with benevolent principal: Corruption occurs when a benevolent principal delegates decision-making authority to a nefarious agent. The level of corruption depends on the costs and benefits of creating optimal institutions.

3) Corruption with a malevolent principal: Corruption occurs when

malevolent government officials implement ineffective policies to extract fees from the private sector. The level of corruption depends on the incentives applied in existing institutions.

4) Self-reinforcing corruption: the reward for corruption depends on the level of corruption due to strategic complementarities. The level of corruption for certain institutions depends on the historical path of the institution.

Let's consider these categories and try to assess which of them are most specific to Ukrainian realities.

The view that corruption can contribute to the establishment of relations between counterparties has a long tradition in economics. Corruption, it is argued, allows people to get around wrong government policies and tax burdens, and is seen as a rational market response to existing government mistakes. One illustrative example suggested by Leff in 1964 is the differential response of bureaucracies in Chile and Brazil to food price controls imposed in the two countries during a period of high inflation in the early 1960s [11]. In Chile, the bureaucracy ensured tight control and food production stagnated. In Brazil, a corrupt bureaucracy effectively sabotaged the price freeze and production increased to the benefit of consumers.

Clearly, the notion of “effective corruption” is based on a second-best understanding: given a set of unavoidable distortions created by various government procedures or policies, corruption can promote allocative efficiency by allowing agents to circumvent those procedures or policies; yet the best first policy would be to eliminate the distortions themselves. Two specific channels through which corruption can improve distributional efficiency are often distinguished: corruption speeds up bureaucratic procedures ("greases the wheels") and corruption creates competition for (scarce) public resources, resulting in services being provided more efficiently than otherwise.

These mechanisms are formalized in the "queuing model" proposed by Lui in 1985 [12] and the "auction model" proposed by Beck and Maher in 1986 [13].

In the "queuing model", a bureaucrat issues licenses to people who are waiting in line to receive them. People dislike waiting in line to varying degrees, but a bureaucrat cannot observe these differences. Licenses are distributed on a first-come, first-served basis to those willing (and able) to pay a higher bribe. This simple rule minimizes the average queue time. The reason is that bribes show how much people value time, and by collecting the maximum bribe, the bureaucrat implicitly prioritizes those who value receiving a service quickly. It is interesting that the bureaucrat does not want to slow down the speed of the queue. This is because it would reduce the number of people entering the queue to the extent that it would reduce the overall bribe revenue.

In the "auction model", the analogy between bribery and competitive open auctions is further explored. It is shown that these two processes are actually isomorphic: a prize (say, an industrial license) is assigned to the same entrepreneur at the same (expected) price by two mechanisms. This is due to the fact that corrupt officials effectively conduct a secret auction and distribute licenses to entrepreneurs who offer the highest bribe. So, the only difference is who receives the income.

In addition, since bribes are similar to fringe benefits, the logic of Coase's theorem predicts that corruption can improve bargaining outcomes between agents in the public and private sectors. Shleifer and Vishny [9] explore this possibility and show how bribery can facilitate the efficient allocation of resources. This is because bribery is a cheap way of distributing wealth between politicians and private sector agents, and thus both parties have an incentive to maximize total wealth. In the absence of bribery, the politician would try to expropriate wealth in other, less efficient ways, and the allocation of resources would become politically motivated and inefficient.

Thus, corruption increases efficiency by allowing private sector agents to bypass some of the obstacles that might otherwise be imposed by politicians. However, this does not guarantee the first best allocation of resources if the goals of politicians and their partners in the private sector do not accurately reflect social welfare in a broader sense.

It is worth noting the following negative characteristics of the investment climate in Ukraine:

The first is the imperfection of the legal field. This factor is usually called the first, since the obstacles that the investor primarily faces are of an administrative and legal nature. It is about instability, inconsistency, confusion of the regulatory field, numerous by-laws, bureaucracy and corruption, irregularity of the property rights protection system, weakness of the judicial system [3, c. 47].

Secondly, the political instability. Frequent changes of governments, promises to drastically change the political course and business conditions up to the nationalization of investors' property, which are announced by various political forces, political scandals, and especially in the pre-election period, do not favor foreign investment.

Thirdly, the unpredictability and non-transparency of the state policy significantly complicates the long-term planning of the company's activities. Investors complain, in particular, about the suddenness of some decisions, the adoption of acts that take effect either immediately or have retroactive effect.

Fourthly, the unsettled legal provision of the investment process. Here we are talking about frequent changes in the conditions for attracting foreign investments. The narrowness and unstructuredness of the domestic market, namely the low level of income of enterprises and the population, leads to an insufficient level of domestic demand and, no less important, makes it impossible for qualified behavior of buyers, who are forced to choose the cheapest products for the most part [4].

Fifth, the burdensome customs policy, because investors pay attention to the obstacles to the import of the necessary equipment, raw materials and components and the export of products.

Sixth, it is a low quality of life. It is about the ability to provide housing, household, transport services, guarantee the personal safety of foreigners on the territory of Ukraine.

Conclusions of this research. In the article, we have analyzed the impact of the corruption factor on the investment climate, because both internal and external investors do not want to make the necessary investments to do this due to a number of factors, among which just the factor of corruption occupies the most important place. It is spread in our society, permeated everyone spheres of social life and continues to destroy it. The negative impact of corruption on the country's economy is manifested in slowing the rate of economic growth of the country, reducing the productivity of the economy and economic activity.

The way out of the situation of lack of investments can be seen in the adjustment of the state program for attracting foreign investments regarding the issue of certification of investment projects. State bodies competent in this matter should develop the training of specialists in the preparation and analysis of business plans, conduct certifications and contests of business plans for investment projects, the winners of which are recognized as projects, the implementation of which maximally satisfies the priorities of the country's economic development and is able to give the maximum possible profit to foreign to the investor.

After all, the use of foreign capital investments makes it possible to solve such problems of socio-economic development as:

- development of the unsolicited scientific and technical potential of Ukraine;
- promotion of Ukrainian goods and technologies to the foreign market;
- creation of new jobs and development of advanced forms of production organization;
- mastering the experience of civilized relations in the field of entrepreneurship;
- promoting the development of production infrastructure.

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