

THEORY AND PRACTICES OF LAW

DOI <https://doi.org/10.30525/2592-8813-2024-1-1>

CORRUPTION AND SHADOW ECONOMY AS DETERMINING FACTORS OF INFLUENCE ON ECONOMIC SECURITY OF UKRAINE

Olena Dyka,

PhD in Economics, Associate Professor, Associate Professor at the Department of National Security, Public Management and Administration, Zhytomyr Polytechnic State University (Zhytomyr, Ukraine)
ORCID ID: 0000-0002-0800-3498
org_dos@ztu.edu.ua

Kateryna Naumchuk,

Ph.D. in Public Management and Administration, Associate Professor at the Department of National Security, Public Management and Administration, Zhytomyr Polytechnic State University (Zhytomyr, Ukraine)
ORCID ID: 0000-0002-4195-5124
naumchuk.k@ztu.edu.ua

Iryna Suprunova,

D.Sc. in Public Administration, Associate Professor, Associate Professor at the Department of National Security, Public Management and Administration, Zhytomyr Polytechnic State University (Zhytomyr, Ukraine)
ORCID ID: 0000-0002-5800-3023
kbo_siv@ztu.edu.ua

Tetiana Trosteniuk,

PhD in Accounting and Taxation, Associate Professor, Associate Professor at the Department of National Security, Public Management and Administration, Zhytomyr Polytechnic State University (Zhytomyr, Ukraine)
ORCID ID: 0000-0001-7130-7454
trost_taniash@ztu.edu.ua

Valentyn Verbovs'kyy,

Master's Student in Public Management and Administration, Zhytomyr Polytechnic State University (Zhytomyr, Ukraine)
ORCID ID: 0009-0009-6777-5453
puam6_vvv@student.ztu.edu.ua

Abstract. In today's world, we are witnessing the aggravation of new global problems of our time. This period is marked by the growth of crisis phenomena, which stimulate states of different levels of development to form integration groups. The main goal of these associations is to overcome barriers to the free movement of goods, capital and labor. The desire for integration becomes an integral part of the optimal model of involvement of the domestic economy in world processes and a necessary prerequisite for overcoming systemic crisis phenomena.

Despite all efforts, widespread corruption in all sectors of the economy and spheres of public administration, a high level of the shadow economy create countless obstacles to the implementation of the necessary reforms. These problems significantly affect the investment attractiveness of Ukraine, which slows down the process and reduces the effectiveness of reforms, which often acquire only a formal character. In addition to the above,

corruption today is part of the shadow economy, which poses a serious threat to the security of the entire country. Corruption and the shadow economy are a new serious challenge for modern Ukraine, because by casting a shadow on the country's prospects for sustainable economic development, it devalues all attempts to develop successfully and freely.

Today, the listed phenomena determine the economic landscape, violating the principles of effective management and undermining the foundations of economic security. Analysis of the impact of corruption and the shadow economy becomes a key aspect for understanding the current situation and developing strategies to overcome these challenges.

Key words: corruption, shadow economy, national security, economic security.

Introduction. Against the background of global economic transformations, Ukraine faces the need not only to attract investments and develop new industries, but also to solve systemic problems in the field of corruption and the shadow economy. The relevance of this topic lies in the fact that they not only inhibit economic growth, but also generate social inequalities and undermine trust in state institutions. In this context, it is important to consider corruption and the shadow economy as key aspects of the country's economic security.

Main part. The following Ukrainian and foreign scientists were engaged in the study of the phenomenon itself and the analysis of the level of corruption and shadowing of the domestic economy in order to identify their impact on economic Ukraine: Baranovska T. (Baranovska, 2023), Butuzov V. (Butuzov, 2023), Dyka O. (Dyka, 2023), Dykiy A. (Dykiy, 2022, 2023), Hrycyszen D. (Hrycyszen, 2023), Suprunova I. (Suprunova, 2023), Svirko S. (Svirko, 2022), Trosteniuk T. (Trosteniuk, 2022), Kazak O. (Kazak, 2023), Lutsenko M. and Shcherbina L. (Lutsenko, Shcherbina, 2015), Naumchuk K. (Naumchuk, 2023), Savytskyi O. (Savytskyi, 2017) and others. However, the problem of the relationship between corruption and the spread of the country's shadow economy remains unresolved. That is why this issue requires further research.

The purpose of this article is to consider the problem of corruption and the shadow economy in Ukraine with the aim of identifying their decisive influence on economic security. It is planned to investigate the main causes and conditions contributing to the spread of these phenomena, to analyze their consequences for economic development and international cooperation. In particular, the article will consider possible ways to overcome corruption and the shadow economy in order to contribute to strengthening the economic security of Ukraine and creating a favorable environment for sustainable development.

A characteristic feature of the modern world economy in the process of globalization and integration is the high concentration of capital. In the context of improving the quantity and quality of transnational corporations and finance, there is an erasure of group and economic boundaries between countries and the accelerated formation of a global market with general competitiveness. In such processes, the low level of corruption and fast rates of economic growth are a competitive advantage that will facilitate the implementation of all necessary reforms and changes. These factors confirm that the lag in the development of the economy from the global and European macroeconomic indicators, as well as the shadowing of the economy and the strengthening of corruption phenomena in various sectors and at various levels of state administration are a significant threat to the economic security of the country.

Today, the phenomenon of corruption is complex and multifaceted, arising from the abuse of power, influence or authority for personal gain or illegal enrichment. In the context of economic security, corruption becomes a threat because it can violate the fairness of market conditions, interfere with the competitive environment and distort decision-making processes. This may include: bribery, bribery, abuse of office, bad management and other practices that violate the law and ethical principles. Such systemic and widespread corruption affects various spheres of society, including the economy, creating challenges for sustainable development and ensuring the country's economic stability.

The current process of reforms in Ukraine, which we have been observing in recent years, is aimed at objectively confronting destructive threats within the framework of the chosen process of European integration. However, there are a number of negative factors that not only affect the investment attractiveness of our country, but also make all positive changes in the economy a mere formality, and the effectiveness of reforms is lost. This is facilitated by: significant corruption and a high level of shadowing of the Ukrainian economy. Therefore, it is quite important to consider the types of corruption, which makes it possible to better understand the complexity of this phenomenon and identify effective methods of overcoming it. Here is a detailed analysis of the types of corruption:

1. Big corruption is characterized by the benefit of not a large number of individuals, but the damage is felt by the whole society. Its impact on the economy is significant and can lead to a loss of trust in the authorities, disrupt the business environment, inhibit strategic decision-making, which affects business efficiency and the investment climate.

2. Petty bribery involves small amounts of money exchanged for small benefits or favors. This type of corruption can create inequalities and deficiencies in the system of providing services and benefits, disrupting equality and reducing the effectiveness of civil society.

3. Clientelism relies on personal or family connections to obtain benefits and services. This type of corruption can create injustices and shifts in the distribution of resources, hindering the transparent and competitive development of the economy

By distinguishing these varieties, it is possible to study their specific mechanisms of action and identify areas for reforms and improvements aimed at combating corruption in all its manifestations.

Grand corruption is characterized by receiving large amounts of money and influential positions, and may include the conclusion of opaque deals, bribes, and the use of public power for personal gain. The reduction of corruption on a large scale can be achieved by strengthening the structural control of anti-corruption bodies, improving the reporting system and making it mandatory to disclose information about the property of officials (UNDP, 2016).

A small bribe can lead to the substitution of equality and justice, violating the principles of democracy and the rule of law. The reduction of petty corruption can be achieved through the implementation of electronic service systems and e-document circulation (accessible and transparent for all), which minimizes the contacts of visitors with officials.

Clientelism can lead to non-transparent decisions in the provision of services and benefits, violating the principles of equality and justice. The introduction of transparent and objective criteria for receiving services or benefits, the development of public control mechanisms and the support of independent non-profit organizations will contribute to solving this problem (Johnson, Kaufmann, & Zoido-Lobaton, 1998).

The government's attempts to overcome the systemic crisis phenomena in the economy through reforming various spheres and measures to attract foreign investment are facing difficulties due to the difficult political situation and negative investment climate. These problems are largely due to the high level of corruption at all levels of state administration and the large level of shadowing of the domestic economy (which was mentioned above). To assess the level of corruption in Ukraine and compare it with other countries, various international indices are used, in particular the Corruption Perceptions Index (CPI) from Transparency International. These indices make it possible to obtain an objective picture of corruption practices and determine the position of each country in the world ranking (World Bank, 2011).

Analysis of the dynamics of the level of corruption makes it possible to observe changes over the years and determine the effectiveness of anti-corruption measures. Continuous improvement of anti-corruption reform strategies is a key element in combating this phenomenon. In addition, the analysis of factors affecting the level of corruption, such as political stability, the effectiveness of justice and the development of civil society, can help in identifying the main causes of the spread of corruption and determining the strategic directions of reforms (Campos & Root, 1996).

Given that today Ukraine received 33 points out of a possible 100, we still need reforms, which include: strengthening anti-corruption bodies, improving the system of data collection and analysis, improving the judicial system and supporting civil society. An important stage is also the monitoring and evaluation of the effectiveness of the implemented reforms for the continuous improvement of the situation in the country (Transperensi Interneshnl Ukraina). In a state where a high level of corruption prevails, the shadow economy precedes reforms, which in turn demonstrates the trust of business in the state, the acceptability of the level of taxation, the availability of loans, and the effectiveness of economic incentives for official employment. The shadow economy describes illegal, incompletely reflected in official statistics economic operations and spheres of activity. This includes all types of illegal businesses, untaxed and undeclared transactions, as well as tax avoidance and other economic activities that evade official regulation and taxation.

The shadow economy includes a variety of illegal activities, such as: smuggling, illegal drug trade, export of capital and other violations of the law, which leads to:

- tax evasion. Many subjects of the shadow economy avoid paying taxes by conducting operations without official registration and declaration of profit;

- low level of social protection. Work in the shadow sector is often accompanied by a lack of social guarantees and protection of workers' rights.

For each sector of the economy, this threatens the occurrence of such consequences as:

1. Decrease in competitiveness. Corruption leads to unfair competition, where businesses that provide an unfair advantage or engage in other corrupt practices can gain an unfair advantage over honest businesses. A decrease in the competitiveness of fair companies leads to the limitation of their development and loss of market share.

2. Increasing the cost of production. Unfair rules of the game make it impossible for honest enterprises to conduct business according to market conditions. High corruption costs increase the risks and reduce the profitability of the enterprise, which can affect its sustainability and efficiency.

3. Deterioration of the investment climate. Corruption creates uncertainty and risks for investors, as it can affect the stability of the business environment and the reliability of concluded deals. Investors may refrain from investing in a country with a high level of corruption due to fear of losses and uncertainty about compliance with legal agreements.

4. Decrease in trust in the authorities. Corruption schemes can violate the trust of entrepreneurs in government institutions and bodies that reported for law enforcement and law enforcement. A decrease in trust can lead to a loss of perception of the legal system as independent and fair, which negatively affects the decisions of the business community.

5. The threat of sustainable development. Corruption leads to irrational use of resources and loss of business efficiency, which threatens the sustainable development of the business environment.

A business environment polluted by corruption becomes an obstacle to sustainable economic growth and social progress. The fight against corruption is important not only from an ethical point of view, but also to ensure a healthy and stable economic environment that attracts investment and promotes sustainable development. All these consequences force companies, despite everything, to transfer their business to the shadow segment, where cases are resolved many times faster and easier, but no one thinks about the consequences in the not-so-distant future. The shadow economy can lead to serious losses of financial resources for the country, as not only taxes are evaded, but also various rules and standards of economic functioning are violated (Shleifer & Vishny, 1993). This negatively affects the size of economic growth, social programs and the investment climate. Also, the shadow economy can generate systemic problems, such as the growth of corruption and the deterioration of competitiveness. Combating this phenomenon is important for ensuring sustainable economic development and optimizing the use of financial resources.

Estimating the size of the shadow economy can be a difficult task due to its nature of illegal and incompletely measured transactions. Assessment methods may include analyzing the amount of unofficial capital outflows, determining the difference between actual and official money circulation, and examining areas that are often in the shadow zone, such as the illegal labor market.

The shadow economy leads to non-payment of taxes that should be paid by law. This creates large losses for the budget, reducing its revenues and ability to finance social and infrastructure programs (Johnson, Kaufmann, & Zoido-Lobaton, 1998).

A decrease in budget revenues due to the shadow economy can limit the financing of social programs such as health care, education and social support. This can negatively affect the quality of life of citizens and the level of social justice.

The shadow economy limits opportunities for real economic development, as the government cannot fully take into account all economic processes and loses the ability to effectively plan and regulate economic activity (Shleifer & Vishny, 1993).

Improving the tax control system, implementing effective control mechanisms for financial transactions, as well as sanctions for violating the rules can be attempts by the authorities to reduce the size and influence of the shadow economy.

Combating this phenomenon requires a comprehensive approach, including tax reforms, improving the financial control system and creating favorable conditions for legal economic activity (Klitgaard, 1988).

The lack of modern electronic systems that can automatically monitor and analyze financial transactions makes it difficult to detect and control the shadow economy. The lack of electronic monitoring contributes to illegal and undeclared transactions, increasing the risk of loss of financial resources and violations of legislation.

The lack of clear and strict regulatory acts that regulate financial transactions and ensure their control can contribute to the expansion of the shadow economy (World Bank, 2011).

Weak legal regulation creates space for the use of legal and financial cells, which complicates the fight against corruption and illegal transactions. The lack of effective international cooperation and exchange of information between countries in the field of financial control can create space for international money laundering and other financial violations. Inefficient cooperation limits the ability to identify and stop cross-border financial transactions, which can have a large impact on the economy (Rose-Ackerman, 1999).

Insufficient transparency in the banking system, including the lack of an adequate exchange control system and disclosure of the beneficiaries of financial transactions, creates favorable conditions for money laundering and other shady practices.

The low level of transparency in the banking system ensures insufficient openness of financial transactions, which makes it difficult to identify and track shadow transactions.

The lack of effective audit control and independent mechanisms for evaluating financial transactions can allow the subjects of the shadow economy to avoid responsibility.

Insufficient auditing creates conditions for detection and prevention of financial violations, which can lead to significant losses for the budget and social programs.

Solving the above-mentioned problems requires systemic reforms in the field of financial control, improvement of legislation and strengthening of international cooperation to ensure effective detection and prevention of shadow economic operations.

The steps are aimed at creating a more effective system of financial control and combating the shadow economy, ensuring the detection and prevention of financial violations, as well as improving the general economic climate of the country:

1. Implementation of electronic monitoring systems:

- Introduction of modern electronic systems that automatically monitor and analyze financial transactions, which allows for effective detection of illegal and undeclared transactions.

2. Elimination of legal gaps:

– Carrying out a thorough analysis and improvement of the legislation regulating financial transactions in order to eliminate misunderstandings and avoid illegal actions.

3. Strengthening of international cooperation:

– Strengthening cooperation between countries in the field of information exchange and joint fight against the cross-border shadow economy. Signing and implementation of international agreements on combating money laundering and financial crime.

4. Ensuring transparency in the banking system:

– Introduction of mechanisms to increase the transparency of the banking system, including mandatory disclosure of beneficiaries of financial transactions and improvement of currency control systems.

5. Strengthening of audit control:

– Introduction of mandatory and independent audit checks for all financial operations of enterprises, which helps to detect and prevent financial violations.

6. Educational campaigns and public involvement:

– Carrying out educational campaigns to raise public awareness of the negative consequences of the shadow economy and create mechanisms to involve the public in monitoring financial transactions.

7. Introduction of modern blockchain technologies:

– Use of blockchain technologies to ensure transparency and security of financial transactions, which will allow monitoring of transactions in real time.

In the context of modern challenges of the economy and finance, the fight against corruption and the shadow economy becomes extremely relevant to ensure the sustainable development of the country and preserve its economic security. Analysis of the influence of corruption and the shadow economy on the economic situation of Ukraine reveals problems that require careful study and systemic reforms.

Conclusion. We considered the definition and types of corruption, the features of the shadow economy, as well as the impact of both phenomena on the budget, social programs, and the business environment. It was found that the lack of effective control mechanisms, weak legislation and unfavorable conditions for reforms are key factors contributing to the spread of these phenomena. Proposed measures to improve financial control, strengthen legislation and international cooperation can be an important step forward in solving these problems. Initiatives regarding the introduction of modern technologies, the activation of audit control and the involvement of the public are designed to contribute to the creation of a transparent and responsible economic environment.

The general goal of solving these problems is to create a sustainable economy that works for the benefit of all layers of society, ensuring the efficient use of resources, attracting investments and improving the quality of life of citizens. Only with a comprehensive approach and implementation of the proposed recommendations can significant changes be achieved in the fight against corruption and the shadow economy, ensuring the sustainability of development and economic security of the country.

References:

1. Baranovska, T. & Dykyi, A. (2023). Metodolohiia formuvannia ta realizatsii derzhavnoi polityky zapobihannia ta protydii ekonomichnii zlochynnosti v systemi harantuvannia ekonomichnoi bezpeky derzhavy [The methodology of formation and implementation of the state policy of prevention and counteraction of economic crime in the system of guaranteeing the economic security of the state]. *Naukovi innovatsii ta peredovi tekhnolohii*, 2(16), 148–168. DOI: [https://doi.org/10.52058/2786-5274-2023-2\(16\)-148-168](https://doi.org/10.52058/2786-5274-2023-2(16)-148-168) [In Ukrainian].

2. Hrytsyshen, D.O., Dykyi, A.P. & Butuzov V.M. (2023). Subiekty harantuvannia ekonomichnoi bezpeky [Economic security guarantee subjects]. *Sotsialno-ekonomichni problemy suchasnoho periodu Ukrainy*, 3(161), 16–26 [In Ukrainian].
3. Dyka, O.S., Naumchuk, K.M. & Trosteniuk, T.M. (2023). Ekonomichna bezpeka Ukrainy v umovakh vplyvu koruptsii [Economic security of Ukraine under the influence of corruption]. *Tavriiskyi naukovyi visnyk. Serii: Publichne upravlinnia ta administruvannia*, 4, 3-9. DOI <https://doi.org/10.32782/tnv-pub.2023.4.1> [In Ukrainian].
4. Kazak, O., Ramskyi, A., Hontar, Z., Podzihun, S. & Naumchuk K. (2023). Formuvannia bezpekovoho seredovyscha shliakhom minimizatsii nehatyvnoho vplyvu zahroz u sotsialno-ekonomichnii systemi [Formation of a safe environment by minimizing the negative impact of threats in the socio-economic system]. *Finansovo-kredytna diialnist: problemy teorii ta praktyky*, 3 (50), 256–264. DOI: <https://doi.org/10.55643/fcaptop.3.50.2023.4074> [In Ukrainian].
5. Lutsenko, M.M. & Shcherbyna, L.I. (2015). Koruptsiia v Ukraini: suchasnyi stan i problemy protydii [Corruption in Ukraine: current state and problems of countermeasures]. *Naukovyi visnyk Mizhnarodnoho humanitarnoho universytetu*, 15 (2), 142–145. URL: http://www.vesnik-pravo.mgu.od.ua/arhive/juspradenc15/part_2/40.pdf [In Ukrainian].
6. Savytskyi, O. (2017). Hromadski eksperty: uriad Ukrainy imituie, a ne vykonuie Antykoruptsiinu stratehiiu [Public experts: the government of Ukraine imitates and does not implement the Anti-Corruption Strategy]. Newspaper «Deutsche Welle». URL: <https://m.dw.com/uk/hromadski-eksperty-urid-ukrainy-imituie-a-ne-vykonuie-antikoruptsiinu-stratehiiu/a-38422913> [In Ukrainian].
7. Svirko, S.V., Dykyi, A.P. & Trosteniuk T.M. (2022). Upravlinnia biudzhethnoiu bezpekoiu v konteksti ekonomichnoho rozvytku krainy: ryzyk ta zahrozy [Budget security management in the context of the country's economic development: risk and threats]. *Skhidna Yevropa: ekonomika, biznes ta upravlinnia*, 36, 117–124. DOI: <https://doi.org/10.32782/easterneurope.36-18> [In Ukrainian].
8. Suprunova, I.V. (2023). Prychyny tinizatsii ekonomiky v konteksti zabezpechennia natsionalnoi bezpeky Ukrainy [Reasons for the shadowing of the economy in the context of ensuring national security of Ukraine]. *Aktualni Problemy Ekonomiky*, 259, 6-13. DOI:10.32752/1993-6788-2023-1-259-6-13 [In Ukrainian].
9. Transperensi Interneshnl Ukraina. URL: https://ti-ukraine.org/ti_format/doslidzhennya/cpi/
10. Campos, J. E., & Root, H. L. (1996). *The Key to the Asian Miracle: Making Shared Growth Credible*. The Brookings Institution.
11. Johnson, S., Kaufmann, D., & Zoido-Lobaton, P. (1998). Regulatory Discretion and the Unofficial Economy. *American Economic Review*, 88(2), 387–392.
12. Klitgaard, R. (1988). *Controlling Corruption*. University of California Press.
13. Rose-Ackerman, S. (1999). *Corruption and Government: Causes, Consequences, and Reform*. Cambridge University Press.
14. Shleifer, A., & Vishny, R.W. (1993). Corruption. *The Quarterly Journal of Economics*, 108(3), 599–617.
15. United Nations Development Programme (UNDP). (2016). *Human Development Report 2016: Human Development for Everyone*. UNDP.
16. World Bank. (2011). *World Development Report 2011: Conflict, Security, and Development*. The World Bank.