

# INSTITUTIONAL STIMULI OF ECONOMIC SUSTAINABILITY AND DEVELOPMENT: FINANCIAL CONCEPT AND ANTICORRUPTION EFFECTS

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## Abstract

The paper is devoted to elucidating the content and role of institutional stimuli in providing the economic sustainability and development. There is systematized the understanding of the economic content of the stimulating and coordinating function of institutions. The analysis of the essence and forms of manifestations of the dilemma “sustainability vs development” is realized. The complex of institutional sustainability and development stimuli as a complicated integrity of formal and informal alternatives, mechanisms of the economic development is separated. There is also elucidated the content of anticorruption effects of using institutional stimuli. Main institutional preconditions of the theoretical model of stimulating the economic development in the context of combining quality institutions, mechanisms and effective stimuli are revealed, its base principles are substantiated.

The method of institutional analysis that is a base of systematization of the understanding of the economic content of the stimulating and coordinating function of institutions is central in the study. The method of system approach is used at analyzing the essence and forms of manifestations of the dilemma “sustainability vs development”. Based on method of structuring and synthesis, there is separated the complex of institutional stimuli of sustainability and development as a complicated integrity of formal and informal alternatives. The structural logic analysis gave a possibility to separate mechanisms and instruments of the economic development. Methods of comparison and generalization are used at elucidating the content of anticorruption effects of using institutional stimuli.

There is established an importance of differentiation of legal institutions of state regulation that provide observation of property rights and responsibility and institutions that structure a market behavior of partners under conditions of the effective competition at making choice between the market and dirigiste mechanisms of sustainability and development.

It is elucidated, that the effectiveness of institutional stimuli is connected with strengthening property rights and decreasing a corruption level. The influence mechanism of institutional stimuli of overcoming the conflict between private and social in the macrofinancial sphere is explained. It is established, that anticorruption effects of institutional stimulation need providing the rule of law, effective enforcement, support of democratic values, formation of the market competitive environment. At the same time there is revealed the ineffectiveness of anticorruption stimuli without raising the general culture of the population, formation of the anticorruption worldview.

It is established the necessity of the civic society, more independent from the state, higher degree of personal responsibility of individuals for providing institutional stimuli that support stability, development and have the motivation effect in countries with forming markets. Institutional arrangements as to transferring economies of countries with forming markets to the way of development are determined.

**Keywords:** institutional stimuli, sustainability, development, corruption, anticorruption effects.

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## 1. Introduction

Sustainability and development of the economy and its financial system are provided, first of all, by the content and effectiveness of institutions, present in it. Institutions and institutional limitations determine conditions of sustainability and development, form mechanisms and stimuli of their achievement.

Studies of different problems of sustainability and development were repeatedly realized in economic science. If the economic sustainability in most countries of the world is kept, development is a prerogative of only few successful countries. An important and little studied object of the study is institutional stimuli. Effects of institutional stimuli are produced today by the complex of technological, infrastructure, financial and managerial innovations.

An importance of stimuli for creating preconditions for the economic development is obvious. D. Acemoglu and J. Robinson repeatedly underlined that countries differ by the level of economic success because of different institutions and stimuli [1, 2]. A famous neo-institutionalist D. North noted that a set of institutional limitations including stimuli is necessary for achieving certain purposes [3]. G. Kolodko, F. Fukuyama substantiated an importance of high-quality state institutions, which effectiveness is provided by the correspondent trust level [4–6]. A. Gerasymenko et al. underlined an importance of competition and competitive environment in providing the effective economic development [7].

The well-grounded study of mechanisms of the economic development was realized by T. Besley and T. Persson [8]. The detail analysis of the influence of the state strategy and industrial policy on the economic development was realized by D. Rodrik [9]. According to IMF estimations, risks for the global financial-economic sustainability are growing [10].

A corruption phenomenon is inherent to transformation economies and is a typical feature of their institutional environment. It appears as a result of weakness of institutions, restrains the economic development and is an obstacle for forming the market of free competition. It is urgent for today to determine economic causes of corruption, ways of their elimination, and the influence of the state corruption level on its economic effectiveness. V. Mandibura studied the influence of corruption as a system phenomenon on diverse levels of public management, including bureaucratic and financial corruption [11]. The studies of V. Tanzi and G. Davoodi proved that countries with a high corruption level has more volumes of state investments, its weak substantiation takes place [12].

The analysis of the mechanisms and stimuli of formation, provision of sustainability and development on the example of the separate sphere of the national economy – tourism system was realized by A. Mazaraki et. al. [13].

But despite essential achievements of economic science in studying problems of the institutional nature of sustainability and development and also their stimulation, many questions still remain open.

## **2. Aim of research**

To study economic and financial problems of institutional stimuli of sustainability and development, to determine main socio-economic effects of institutional stimulation, especially in the financial sphere.

## **3. Materials and Methods**

The analysis in this paper is limited by the discussion of theoretical aspects of the problem of institutional stimulation of sustainability and development in countries with forming markets, including Ukraine.

Based on the method of institutional analysis, the authors have systematized the understanding of the economic content of the stimulating and coordinating function of institutions. The method of system approach is used at analyzing the essence and forms of manifestations of the dilemma “sustainability vs development”. Based on method of structuring and synthesis, there is separated the complex of institutional stimuli of sustainability and development as a complicated integrity of formal and informal alternatives. The structural logic analysis gave a possibility to separate mechanisms and instruments of the economic development. Methods of comparison and generalization are used at elucidating the content of anti-corruption effects of using institutional stimuli.

A fundamental dilemma for any national economy in countries with forming markets is a combination and at the same time contradiction between sustainability and development (sustainability versus development). The most danger is inherent to the model of absolute sustainability.

Such theoretical model practically means an impossibility of the economic development, when the sustainability level will decrease in future. An opposite model is stimulation of the national development under conditions of keeping the high sustainability level, increase of economic and financial institutions.

Under conditions of globalization the content of the dilemma “sustainability vs development” is complicating. Despite all internal “travails”, a real macroeconomic situation in the national economy is determined by conditions of world markets, where the native export is realized: prices at these markets grow – the situation improves, prices decrease – the economy declines.

From the point of view of endogenic macroeconomic factors, the dilemma “sustainability vs development” is directly connected with a conflict between wealth and power of the privileged elite, mainly based on corruption incomes, and poverty of average citizens [14].

A reference point within the institutional analysis of sustainability and development may be the theoretical statement about separation of institutions, coordination and stimuli. These three positions organically add one another. But in practice possibilities of presence of high-quality institutions and at the same time effective coordination and effective stimuli of sustainability and development are essentially limited.

Institutions – are norms and rules that create an order and interconnections between them, based on realization of their coordinating and stimulating function. Coordination means the integrity of individuals in understanding of what they must do in the economy. Stimulation means motive of individuals to more effective financial-economic activity. Stimuli are organically inserted in the institutional system of society (complex of norms, rules and constraints). Stimuli “work” due to connections between the effective financial-economic choice of individuals and advantages, gotten at the market.

Institutional stimuli that determine a set of possibilities for the economic development are a complicated combination of formal and informal limitations. They create a mutually connected system and form a set of alternatives for different contexts of the economic development in different combinations. Stimuli “push” individuals that make decisions to innovative financial-economic changes.

Mechanical linear assimilation of institutional stimuli that proved their effectiveness in developed countries is impossible for ones with forming markets. Institutional needs in these countries qualitatively differ from regularities of institutional changes in developed countries. Severe punishments for non-observance of rules in countries with forming markets are often selective.

Institutional stimuli of sustainability and development interact, compete and transform. Thus, sustainability stimuli don’t disappear at transferring to the real development, but are inserted in the new system or gradually replaced by new ones. The fact, that not even concrete forms of institutions, but their effectiveness and stimulating directionality of functioning are crucial becomes more and more obvious.

Functioning of a certain institute is connected with correspondent transaction costs, which quantitative estimation allows to measure the effectiveness of this institution. The effectiveness of institutions in countries with forming markets needs, first of all, the reduction of corruption, strengthening of property rights and decrease of administrative barriers. Corruption may be considered as a type of the opportunistic behavior that appears as a result of the high level of information asymmetry between citizens (principals) and officials (agents). Citizens have limited possibilities of controlling the activity of officials, who, in their turn, have more full information as to the quality and cost of public services, and are also interested in strengthening the information asymmetry in this sphere.

From the point of view of institutional theory, a cause of corruption is ineffectiveness of the institutional system of society. Corruption is a phenomenon that develops and strengthens as a result of inadequate interactions between institutional structures, their ineffectiveness.

Corruption as a form of crisis of public management of the economy is manifested in its dysfunction. Corruption relations are not simply separate zones of crisis public management, but create the asocial system of shade economy.

#### 4. Results

Undoubtedly, corruption in Ukraine reached a system character; it covers all public institutions and sectors without exclusion, at both national and regional levels. The system corruption is structured, it transformed in a certain totality of informal rules, became a norm of functioning of public power and lifestyle of an essential part of society. Corruption as a system phenomenon exists within certain institutional limits, where it is influenced by legal, economic, financial, social, political processes, and corruption, in its turn, has the reverse influence on them. Obviously, corruption as a system phenomenon needs, correspondingly, system means of counteraction.

Most corrupted spheres are usually financial markets and financial agency, connected with investment projects, privatization of state enterprises, sphere of land ownership and land use. Relations in the sphere of state finances are traditionally ones of high risk. There are public purchases, licensing-registering procedures, assignment of tax abatements and state preferences and so on [15].

According to the Corruption perceptions index, created by the Transparency International, Ukraine occupies very low places among world countries: 2012 – 144 place of 176 countries (24 points of 100 possible), 2013 – 144 place of 177 countries (25 points of 100 possible), 2014 – 142 place of 175 countries (26 points of 100 possible), 2015 – 130 place of 168 countries (27 points of 100 possible), 2016 – 131 points of 176 countries (29 points of 100 possible), 2017 – 130 place of 180 countries (30 points of 100 possible) [16].

Anticorruption actions will favor the formation of institutional stimuli that motivate individuals to observe existing laws. Anticorruption stimuli are for today in Ukraine one of main problems of providing sustainability and development, favor the support of democratic institutions and values in society. The low corruption level stimulates the economic effectiveness, favors the development of markets, decreases transaction costs, encourages the development of investment activity, activates functioning of commodity and financial markets, favors the effective distribution of material and financial resources and so on. Anticorruption effects of institutional stimuli provide the refusal of state officials from participating in any commercial activity for getting a personal or corporative profit, non-use of a service post for “pumping” state financial costs in commercial structures and transforming money in cash, impossibility of giving preferences for own corporative group (political, national, clan or another) with a “rollback” of budgetary resources and so on.

The destruction of the corruption rent-oriented model of economic behavior takes place synchronously with the renewal of the institution of trust to state and legal system. The anticorruption behavior model becomes a basic norm, preventing effects of institutional traps. Institutional traps of corruption are manifested through widening of shade economy that results in decreasing tax incomes, non-observance of budget liabilities, disturbance of competitive mechanisms of the market that results in decreasing the effectiveness of market mechanisms, growth of prices at the expense of corruption “costs” that causes suffers of a consumer and so on. Going out of corruption institutional traps needs essential costs that restrain progressive transformations, in such a way conditioning the long-term existence of ineffective norms and rules.

An importance of institutions and institutional changes in Ukraine is rather urgent. Institutional changes can be realized only by reforms, successively provided by the state. Responsible state authorities must not promise unreal in the reformation process. But only non-corrupted state, accountable to citizens, reacting to their needs, favoring realization of financial-economic possibilities of society, may be responsible.

It is principally important that the stimulating function of sustainability and development is provided only under conditions of the effective functioning of corresponding mechanisms. Institutional mechanisms are directed on stimulating the effective realization of the economic development policy.

It is traditional in development economics to separate the market and dirigiste mechanisms. From the point of view of choice between the market and dirigiste mechanisms of sustainability and development it is important to separate legal institutions of state regulation that provide observance of property rights and responsibility (codes, laws), and also institutions that structure the market behavior of partners under conditions of effective competition (contract law). Decentralized market mechanisms favors widening of economic rights of citizens, realization of freedoms of econom-

ic subjects, create more effective stimuli for finding correct ways for solving financial-economic problems (increase of adaptive effectiveness). A crucial importance is there inherent to competition, decentralized decision making, contracts for property rights, anticorruption legislation.

Within the economic mechanism there are different concrete instruments that stimulate sustainability and development and synchronously limit manifestations of factors of possible unstable situations. Instruments of the economic sustainability stimulation are connected with the formation of favorable conditions for realizing interests by individuals. Countries with forming markets cannot do without the active anticorruption policy, creation of the incorruptible judicial system, court's independence that provokes trust of the civic society.

Under conditions of weakness of sustainability mechanisms and stimuli in countries with forming risks, there must be solved more complicated tasks of creation and setting up of institutions, mechanisms and stimuli of the economic development. It means a qualitatively new stage of financial-economic transformations, its dominating role among the whole complex of problems of social reforms. Stimulating development instruments, inserted in the institutional system, provide widening of the internal demand, formation of dynamic elements of technological changes, support of products with a high added value, leveling of competitive conditions, formation of more high-quality financial institutions, increase of credits availability, development of the effective fund market, use of liquid financial instruments and so on.

Development stimulation gets a form of choice of a model within the existing set of institutional limitations of their change. The development model, based on innovation stimuli, appearance of new firms and competition is at the first plan now. Limitations of the state power and protection of private property create institutional factors of increasing internal investments, based on internal factors of increasing real incomes – profit of owners (employers) and salary of employees, their savings and investments.

Exposure of property rights, ineffective use of law, monopolistic limitations result in fact that market subjects must chose short-term development strategies. The most profitable spheres of activity become trade and agency, including operations in the shade sphere. As to big business, it functions effectively only due to corruption connections with state power bodies. Obviously, such institutional structure cannot favor the effectiveness. In fact unsuccessful trials of the development unwind the spiral of financial misuses, corruption and illegal accumulation of the capital. Limitations of possibilities to improve the socio-economic and financial condition of society, to prevent new currency-financial crises become real.

Anticorruption stimuli manifest themselves under conditions of the rule of law in the country, democratic institutions, competitive markets, middle class formation. That is the overcoming of corruption is possible only if the public power and civic society begin to oppose not only corruption results, but also its causes. Anticorruption effects of institutional stimuli are connected not so much with revelation of facts of corruption actions, but with the improvement of legislation for excluding norms, potentially containing corruption risks. In this aspect the essential anticorruption effect was a result of the transfer of Ukraine to the automatic system of VAT compensation. According to the Transparency International, the reform of the system of VAT compensation was considered as one of most effective anticorruption arrangements in Ukraine in 2017.

Anticorruption stimuli acts under conditions of regulating administrative procedures towards separating authorities of state power bodies on giving administrative services and realizing control-supervising or inspecting functions. It is impossible without raising the total culture of the population, formation of the anticorruption worldview.

Without putting a task to give maximally complete practical recommendations as to sustainability and development stimulation in economies with forming markets, let's nevertheless separate a series of important applied aspects of the conducted study. Main directions of the constructive mechanism of transferring the economy to the development way may be considered as the effective counteraction to corruption; provision of the real protection of rights of owners and investors; restructuring, based on re-location of resources into high-technological economic spheres; concentration of financial resources on effective technologies and applied science; formation of the favorable national regime for innovations, motivation for growing investments and introduction of



new technologies; widening of the output of competitive commodities with a higher share of added value; finding of own niches for creating and spreading innovative products; entering global chains of creating added value; infrastructure development (technological parks, investments in logistics); introduction of the market mechanism of transferring knowledge and technologies; encouragement of competition and liberalization of markets; decrease of barriers for entering branch markets, leveling of competition conditions; reformation of natural monopolies; liberalization of currency regulation; modernization of human and social capitals; overcoming of excessive social differentiation.

## 5. Conclusion

1. The scientific interest is inherent, first of all, to the institutional analysis of mechanisms and instruments of economic sustainability and development stimulation in countries with forming markets, presented in this paper. The study of the debatable problem of formation of the system of institutional stimuli of transferring from the economic sustainability to development based on creating and raising the effectiveness of financial institutions of development, is especially important.

2. There are problems, promising for further discussions and new studies: provision of coordination of different institutional stimuli, creation of new financial institutions of sustainability and development, financial motivations of successful economic development, formation of institutions of preventing corruption and getting bureaucratic rent, decreasing a time lag between creating financial institutions and guaranteeing the proper effectiveness of their functioning.

3. The improvement of institutions is a necessary, but not enough condition of initiation of sustainability and economic development. How to use institutional stimuli that will support sustainability and development better and motivate people? Such institutional stimuli in countries with forming markets are in fact absent for today. For achieving sustainability and development, there is needed more independence of the civic society from the state, higher degree of personal responsibility of individuals.

4. The economic development is impossible without raising the quality of public management, reduction of the government volume, successes in realization of the public financial policy. Under conditions of institutional changes the financial content of stimulation mechanisms and instruments gains priority signs.

5. As to anticorruption institutional stimuli, they are inseparable from the high level of political, economic and informational freedom and competition, system legal and administrative arrangements for counteracting corruption according to international principles and standards, because corruption causes evident economic results and restrains the economic development that is proved by the middle corruption perception index in Ukraine. Scales of corruption in Ukraine will decrease under conditions of the rule of law in the country, democratic institutions, competitive, innovative economy, formation of the strong middle class, strengthening of spiritual and moral bases of society. It is important to develop the close constructive cooperation with European institutions as methods of counteracting corruption that will make possible the introduction of strong practical methods.

6. The counteraction to corruption in the process of democratization of our country cannot be limited by the institutional dimension only that is creation and effective functioning of state anticorruption bodies. There must be taken into account the communicative dimension and formed the anticorruption discourse for including the question of counteracting corruption to the agenda of society and power, influence on the civic thought, increase of the civic and political activity as an effective opposition to corruption.

7. The point of view about successes in the development strategy of Ukraine in the short-term perspective only, when real and important positive socio-economic effects for individuals will be manifested in terms that cover lives of one or even several generations, must be considered as too much pessimistic.

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