

Corruption in Albania and its economic impact

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Abstract

Corruption is one of the most problematic concerns for all the countries and political regimes all over the world. Due to the difficulty in recognizing and punishing this phenomenon, many studies have defined it as a “white crime”. Albania is a post communist country, following a long transition process toward the free market economy and the democracy. During the last decade, the main priority of the Albanian government has been the integration in European Union. The European Union has several recommendations relating to this issue. One of the strongest recommendations has been the fight against corruption. The aim of this article is to analyze the level of corruption in Albania during the last fifteen years and to point out the negative impact of corruption, especially in the economic sector. The data used in the article are of secondary type, based on official publications of international institutions.

***Key words:** corruption, economic growth, legislation*

1. Introduction

During the last two decades, public awareness of corruption has been increased all over the world. Since 1998, 41 countries have signed the Convention against Bribery of OECD. At the end of 2005, the UN Convention against Corruption entered in force, which is considered as the most universal convention against corruption. In 2007, the World Bank has launched the strategy on Governance and Anticorruption (GAC). During the last years, the Justice and Security Department of USA have increased the measures against corruption. Many international agencies and organizations have been involved in the fight against corruption.

During the last decade, awareness of corruption has been increased in Albania and it has been one of the priorities of the Albanian government. After 2000, in the frame of the commitments deriving from the EU accession process and the necessary to adapt the national legislation to the “*acquis communautaire*”, the Albanian governments, have expressed their willingness to fight corruption.

Albanian parliament signed the Council of Europe conventions: the Civil Law Convention against Corruption in 2000 and the Criminal Law Convention against Corruption in 2001. In 2006 Albania became party to the United Nations Convention against Corruption, a consequence of which is the Implementation Review Mechanism, established in 2009, which aimed to encourage a participatory and nationally driven process towards anti-corruption reform.

The legal framework of national legislation for combating corruption has been included into the existing criminal legislation. The national Criminal Code criminalizes the main forms of corruption and the criminal Procedure Code includes special investigative means to fight corruption.

In 2012 the High Inspectorate for Declaration and Auditing of Assets and the Supreme State Audit signed a memorandum of understanding aimed at combating corruption by establishing a database on suspected corruptive practices in the public administration. In 2012, Albanian government approved some restrictions, included in the Albanian constitution, on the immunity of high-public officials and judges. In February 2016, Albanian government has finally approved the establishment of the National Investigation Bureau. The investigation of corruption of the high public officers constitutes one of the main objectives of this structure.

A success in the fight against corruption is considered the approval of the “Vetting” law in August of 2016. The vetting law is seen as the legal instrument which will scan all judges and prosecutors in Albania’s justice system for their professional proficiency, moral integrity and independence from the influence of the organized crime, corruption and political power. The vetting law is the first approved law out of seven draft laws which complete the reform in Albania’s justice system.

On the other part, European Union has financially supported Albanian government combating the corruption. In 2009, the Council of Europe has launched a technical assistant project against corruption in Albania called “Project against corruption in Albania (PACA)” with a total amount of Euro 2,130,000. But according to the European commission reports, the effects of these measures have not been felt yet. The rate of conviction is too low. Therefore a priority for Albanian government is the reform in the juridical system, required from all the international structures.

All the measures taken against corruption reflect the academic and politic consensus that corruption in developing countries is high and it is costly. The

increase of the public interest in fighting corruption, prove the reliance, that equipped with the necessary incentives, the politicians, public officials and the civil society can decrease the corruption level in these countries.

The article is designed in five sections. After the introduction, the second section analyzes the corruption level in Albania. Firstly, there are presented the results of previous studies conducted by national institutions in collaboration with international ones. The analyze of the level and the trend of corruption in Albania is carried through the corruption indexes published by Transparency International and World Bank. The third section describes the impact of corruption in economy, politics and society. The economic effects are further explained in the fourth section. Some conclusions regarding the corruption level and its impact in economy are presented in the last section of the article.

2. Measurement of the corruption in Albania

The most part of the studies on corruption phenomena is based on the assessments and the surveys on corruption. These surveys have the advantage of a good covering - it is easier to ask somebody about the perception he has on corruption than to measure directly the corruption level.

Several studies have been made in Albania about the citizen's perception on corruption. The Institute for Development and Research Alternatives has conducted a series of surveys on corruption in Albania. According to the findings of those studies (during the period 2005 and 2009), the most corrupted people were custom and tax officers, doctors, politicians, the judges and prosecutors. Religious institutions, presidents, media and military officers are perceived as the least corrupted persons.

In 2011, the United Nations Office on Drugs and Crime in Vienna in cooperation with the Institute of Statistics of Albania conducted a large-scale survey on corruption in Albania. According to the findings of this study, the citizens of Albania believe that corruption is one of the most serious problems they face: about 37% rank unemployment as the most serious problems, 22% of the interviewed people rank corruption and 20% rank poverty as the biggest problem faced by Albanian people. About 28.3% of adult population aged 18 to 64 years old, had either direct or indirect exposure to a bribery experience with a public official during the year prior to the survey. Bribery has the highest prevalence rate than other crimes such as theft, burglary, assault and robbery. Almost 100% of briberies in Albania are paid in cash. A large portion of bribes take the form of barter: between two parties in which each party gives and receives something in exchange. Often they are not in equal position; one of them has the power to

negotiate the exchange terms. The bribes have been paid before the performing of the service in order to facilitate it or after the completion of service as a “thank you” sign. Albanian citizens give the major part of the bribes to receive better treatment (71%), to speed up procedures (9%) and to avoid the payment of fines (9%). More than 70% of all bribe-payers in Albania pay kickbacks to doctors (71%), almost half pay to nurses (47%) and 14% to police officers. As result doctors and nurses are the public officials who receive the major part of the bribes. Other public officials who receive bribes are police and custom officers, judges, prosecutors, car and land registration officers, tax officers, municipality officers and teachers.

In 2015, the Institute for Development and Research Alternatives conducted a research survey about impunity. According to this study, corruption, non-implementation of laws and malfunctioning of the justice system have been seen as the main factors for the phenomenon of impunity. Albanian citizen believe that the lack of actual examples of high officials punishment have stimulate corruption.

The most known indexes all over the world, calculated through the surveys, are: The annual Corruption Perceptions index published by Transparence International Organization (CPI) and the corruption Index (CI) published by the World Bank.

The International Transparency organization was established in 1993 to raise awareness of international corruption and to create a coalition of interests from both the public and the private sectors to combat it. The Corruption Perception index was first launched in 1995 and it is annually calculated as “a poll of the polls”. 41 countries have been ranked according to the corruption Perception index in 1995. The number of the countries taken in consideration for calculation has been increased over time. In 2002, the Corruption Perception index for Albania has been published for the first time. A country score indicates the perceived level of public sector corruption on a scale of zero (highly corrupted) to 10 (very clean). After to 2011 the scores have been fluctuated from zero to 100, as Table 1 and Table 2 show. The country ranking indicates its position relative to the other countries in the index. The higher the ranking number, more corrupted the country is.

TABLE 1 Corruption Perception Index in Albania

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Scores (0-10)	2,5	2,5	2,5	2,4	2,6	2,4	3,4	3,2	3,3	3,1
Ranking number	81	92	92	126	111	126	85	95	87	95
Countries number	102	133	133	159	163	159	180	180	178	183

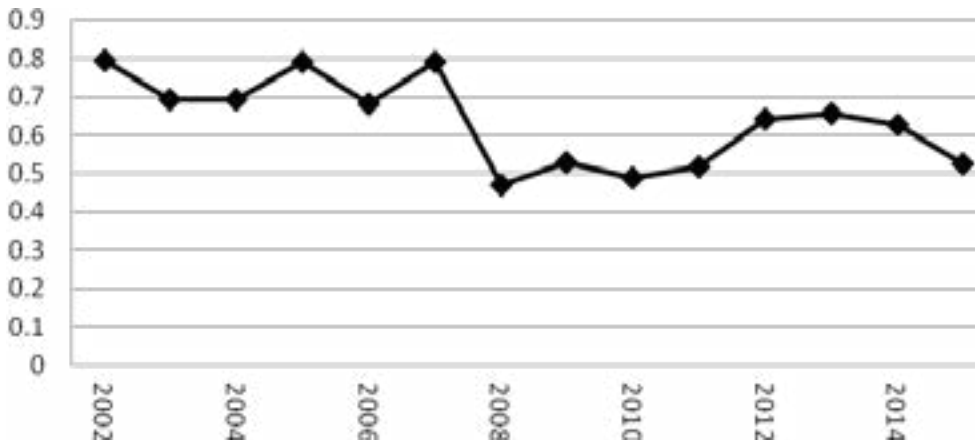
Source: Transparency International

TABLE 2 Corruption Perception Index in Albania

Year	2012	2013	2014	2015
Scores (0-10)	33	31	33	36
Ranking number	113	116	110	88
Countries number	176	177	175	168

Source: Transparency International

The “ranking number” in the above tables, shows the position of Albania in relation to other countries. The “countries number” show the number of countries included in the survey during the respective year. Taking into account the total number of the countries included in calculations, Figure 1 present the relative ranking of Albania.

FIGURE 1 Relative ranking of Albania

Source: Author's calculation

Figure no. 1 clearly shows the relative position of Albania in respect to the corruption level. Closer to zero the ranking number is, better the relative position of the country is. Closer to “one” the ranking number is, worse the relative position of the country is. After 2007, the ranking of Albania in terms of corruption level has been improved. Anyway, Albania continues to be considered as a country with high level of corruption perception. The best ranking of Albania, referring to corruption level, belongs to 2011, followed by the ranking of 2015.

Referring to the data published by International Transparency organization and the World Bank, Albania and Kosovo have the highest corruption indexes among the Western Balkan countries.

TABLE 3 Corruption indexes for Western Balkan countries

Country	Ranking according to TI Index (2015)	Ranking according WB Index (2014)
Albania	88	31.73
Bosnia & Herzegovina	76	49.04
Kosovo	103	39.42
FYR Macedonia	66	59.13
Montenegro	61	57.21
Serbia	71	51.92

Source: Transparency International database and World Bank database

Table 3 shows the ranking of Western Balkan countries according to two indexes: Corruption Perception index published by International Transparency organization and Control of Corruption index published by the World Bank.

Control of Corruption index calculated by World Bank reflects the perception according to which the public power is used for private gain. Control of Corruption index calculated by World Bank expresses the corruption level in percentiles. As in case of Perception Corruption index, the higher the ranking, less corrupted the respective country is perceived to be.

3. Corruption effects

Corruption affects all the sectors of a country's economy and all the levels of the government. It is often seen as a hidden tax. Therefore the whole population of a country is either direct or indirect influenced by corruptive procedures and acts.

Economic effect The most obvious impact of corruption is the economic one, as it affects directly the economic state of the country and individual as well. The corruption has a negative impact in the development of the market economy as well. As literature suggests, the corruption is going to reduce the economic growth. It distorts the decision-making process and the functioning of free markets. Economic corruption induces the creation of a privileged group of people due to their monopolistic position in the private and state undertakings, undermining the foundations of the free market economy. Corruptive economic practices such as bribes to start a business, non-justified delays, long bureaucratic procedures and unfair privileges have negatively influenced on the free market competition between the economic operators. As result of lower competition there are produced fewer goods and services and their prices grow up. The public revenues decline, the informal economy grows up, the level of confidence will decrease and as result the foreign direct investments will decline.

Political effect The citizens consider the corruption as a normal phenomenon because of the appearance of corruptive practices in all the aspects of state activity. The citizens use it as a mean to solve quickly their problems, having no idea that they are themselves involved in a corruptive action. Therefore their own actions generate and stimulate corruption. If this phenomenon is associated with bureaucratic procedures, professional inability and state negligence, the corruption will be the main cause of citizen's confidence losing in the state authority. Even more, the people disregard the public officials expressing negatively about them and do not respect their politicians. The politicians are among the most corrupted people according to the Albanian perceptions. The justice system is perceived from Albanians as one of the most corruptive sector. The losing of the people's confidence in the justice system is harmful for the young democracy of Albania, because it undermines the fundamental rights and freedom of the individual and the state of justice.

Social effect Corruption influences the social wellbeing of a country. Regarding the social aspect, the citizen's perception about corruption is a very concerned issue because it is closely related to their economic status. Corruption decreases the standard of living of the major part of the population because the number of beneficiaries from corruption is larger than the other part of population. The reduction of incomes results in the reduction of the standard of living. Therefore corruption impacts negatively on social inequality. As the corruptive acts constitute a criminal act, corruption affects the growing of the criminal activity in a country. It manifests itself through crime and violence. Continuing corruptive acts create an institutional culture of corruption and decrease the citizens' confidence on public institutions.

4. Corruption impact on economy

Corruption has been the focus of several studies, as one of the key factors affecting the economic development of a country. The most part of the studies concludes that corruption has a negative long run impact in the country's economic growth. Some of the main conclusions of the literature have been as follows.

- Corruption has a negative impact on the formation of the human capital, which is one the most important inputs in the production and transformation processes of the economy.

Firstly, corruption impairs the tax public administration and may lead to harmful tax evasion and deductions. Therefore, the higher the corruption is, the lower the tax revenues and the other financial means will be, which are necessary for providing public goods.

Secondly, corruption increases the operational cost of government resulting in lower financial sources at disposal of government, including the financing of social insurance programs which have a direct impact on the formation of human capital. According to the analysis conducted by Mauro Paolo (1998), the public expenditure in education sector is negatively related with corruption level. Also corruption tends to diminish the impact of the funds from donors and subventions, which may negatively affect the economic development.

Corruption is often considered as the main reason of the investment reduction and the non favorable business climate. Corruption originates many uncertainties for company and individual investors. It imposes an extra tax on prices, which is difficult to be forecasted and distort the normal functioning of the free market economy. The honest undertakers hold the extra cost of corruption. The foreign investors would be more willing to invest in a country with clear and fair regulations, which implementation is systematic and transparent. The rule of law is essential for a healthy investment climate, in order that corruption do not impede the economic development of a country.

Corruption has a disproportional impact, which means that not all the economic subjects are equally faced with the corruption. It affects more poor families than wealthy families: the rich people have the possibility to pay a smaller portion of their incomes in the form of taxes, while the poor people have less possibility to benefit from the public services and goods. The corruption affects more small business firms than large business companies. Since small medium-size enterprises account about 98 percent of total business in Albania and contribute to more than 70 percent of GDP and more than 50 percent of employment, the disproportional impact on corruption is even larger. As result, the small medium enterprises would have less possibility to be financed.

In countries with high corruption level, the tax revenue and the expenditure expressed as ratio of GDP are lower than in countries with low corruption level. Corruption is associated with poor administration of public finances and non adequate provision of public services and goods. Corruption stimulates tax avoidance, resulting in a lower tax base. In 2014, the tax revenues in Albania accounted about 18.3 percent of the GDP. Corruption distorts the public expenditures: they are no more public interest oriented. As result the society will suffer the lack of public services and goods, such as defence, education, healthcare and infrastructure.

Corruption affects the public administration and governance effectiveness. As result, the employment of the officials would be based on nepotism and patronage relations. Such a thing would reduce the quality of public institutions and it would unnecessary expand the public administration and therefore increasing the opportunities for further corruption practices.

Corruption is associated with lower standard of living, lower education level and a larger social inequality. The studies show that inequality leads to a higher corruption due to the confidence loss. Uslaner (2011) suggest a vicious circle which makes more difficult the corruption to be prevented: inequality brings the loss of confidence, which leads to corruption, due to which the inequality is becoming even greater. In this case, the high levels of inequality and corruption will reinforce each-other and if they became part of the society culture it would be very difficult to be prevented (Uslaner). Corruption negatively affect the income distribution due to the lower economic growth, unfair tax system which favor the highest income population's group, social programs which are not well managed and poor oriented, and unequal possibilities for education. All these effects have a long run impact on the country economy.

5. Conclusions

Corruption still remains a serious concern for Albania, despite the measures taken from the Albanian government during last years. Corruption affects the public finance, investment environment of the country and the standard of living of the population. According to the data issued by international institutions, Albania is ranked among the countries with high level of corruption perceptions. Corruption affects the long run capacity of a country to achieve its productive potential as result of: (i) reduction of the government effectiveness due to the decrease of tax base and inefficient government spending; (ii) reduction of investments, especially foreign direct investment, as the corruption increases the cost of doing business; (iii) poor management of public finance; (iv) reduction and worsening of the human capital, especially the poor people which do not have possibility to be well educated; (v) reduction of standard of living, due to the inequality of income distribution and poor management of social programs.

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