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CORRUPTION IN THE ERA OF THE COVID-19 PANDEMIC: A LITERATURE REVIEW

Abstract

This paper analyses the theoretical background of corruption and its determinants and, empirically, relevant studies of the corruption activities before and after the COVID-19 pandemic era, mainly in the health care sector. The COVID-19 pandemic has created a context where governments all around the world have been able to assume extraordinary powers and avoid inspection. Any situation where a large number of public resources is available with no sufficient controls and supervision can lead to corruption. Governments must ensure a fair and transparent distribution of all funds with adequate resources to combat corrupt decision-making. Strong reporting mechanisms, public reporting of illegal activities and public access to reliable up-to-date information are key to preventing corruption. Therefore, the purpose of this paper is to present the literature review of the most relevant studies of corruption activities in the era of the COVID-19 pandemic. Although this paper presents the up-to-date situation in the research carried out by a number of authors, it may be regarded as the basis for further empirical research on the potential corruption activities and their negative outcomes in the Republic of Croatia.

Keywords: illegal activities, pandemic, public policies

JEL classification: D73, I18, K42

1. INTRODUCTION

Corruption has fierce impacts on economic and social development. Unfortunately, corruption permeates through entire portions of society and the economy. Corruption is a complex socio-economic phenomenon and the motivations to engage in corrupt behaviour are multifaceted.

The era of the COVID-19 pandemic increases corruption risks, especially in the health care sector. Corruption risks should not be underestimated in a state of emergency and concentration of power when a large amount of money is injected into the economy to alleviate the crisis. Transparency in the public sector is one of the most important means of preventing corruption. The need for regular and reliable information from public institutions is crucial in emergencies. The Organisation for Economic Co-operation and Development (OECD) estimates that 45% of global citizens believe the health care sector is corrupt or very corrupt, with large variations across countries. In addition, it is estimated that 10–25% of all money spent in procurement globally is lost to corruption (OECD, 2017; Teremetskyi et al., 2021).

The purpose of this paper is to present the literature review of the most relevant studies of corruption activities in the era of the COVID-19 pandemic. The theoretical part of the paper analyses the concept of corruption and its determinants. Previous authors' studies on corruption and its effects before and after the era of the COVID-19 pandemic are emphasised in the empirical part of this paper.

2. THE CONCEPT OF CORRUPTION AND ITS DETERMINANTS

Many authors, studies and institutions have their own versions of the corruption definition. The World Bank (1997) defined corruption as the "use of public office for private gain". Similarly, the most used definition of corruption in the literature cites "the misuse of public office for private gains". A world-renowned sociologist Alatas (2015[5]) defines corruption as the "subordination of public interests to private aims involving a violation of the norms of duty and welfare accompanied by secrecy, betrayal, deception and a callous disregard for any consequence suffered by the public." The three types of corruption commonly referred to are the following (Alatas, 2015): *bribery* or the acceptance of gifts by an official in return for granting special consideration to the interests of the donor; *nepotism* or the appointment of relatives, friends, and political associates to public offices regardless of the merits and consequences upon the public; and *extortion* or the demand for gifts in return for the execution of public duties.

In corruption, common welfare is deliberately subordinated to personal welfare. Corruption is usually surrounded by secrecy, betrayal of trust, deception, suppression, exploitation, inequality, and disregard for consequences suffered by civilians. Corruptors influence definite decisions and camouflage their transactions by some kind of justification.

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5   The author's first definition of corruption can be found in: Syed Hussein Alatas, 1968. The Sociology of Corruption: The nature, function, causes and prevention of corruption. Donald Moore Press. Singapore.

After defining the term of corruption, one of the most important issues from the economic perspective is how corruption can be measured. The literature stated the measurement of corruption could be subjective and objective (Chaudhry and Shabbir, 2007). The subjective measurement of corruption is at the micro-level and not applicable for cross-country comparison while the objective measurement is a general or target-group perception of corruption. The latter shows the feelings of the public or a specific group of respondents concerning the "lack of justice" in public transactions. All things considered, this method indirectly measures the (actual) level of corruption. The Corruption Perception Index (CPI), constructed by Transparency International, is one of the globally best-known corruption indices, which indicates the perceived level of corruption rather than the actual level of corruption. Although CPI is not analysed in more detail in this paper, many studies examine the connection between corruption, i.e., CPI and economic growth (e.g., Domashova, Politova, 2021; Malanski, Póvoa, 2021; Christos et al., 2018; Buterin, 2015).

The issue is how to investigate and measure the determinants of corruption. Corruption determinants can be divided into economic determinants and non-economic determinants (Chaudhry and Shabbir, 2007). Among other things, economic determinants can include economic development (measured mostly by GDP per capita), economic freedom or market regulation, openness to trade or globalisation, level of education, distribution of income, etc. The non-economic determinants list may consist of democracy, press freedom or freedom of information, legal system, political rights or political instability, religion, decentralisation (federalism), etc. (Chaudhry and Shabbir, 2007; Serra, 2006)

Besides the connection between corruption, i.e., CPI and economic growth, empirical contributions on determinants of corruption can be found in the literature about the existence of some negative correlation between corruption and economic development (e.g., Audi, Ali, 2017; Persson, Tabellini, Trebbi, 2003; Adsera, Boix, Payne, 2000; Treisman, 2000; Ades, Di Tella, 1999; La Porta et al., 1999). In addition, a number of empirical studies tried to find out the relation between corruption and some other economic and non-economic factors. For instance, studies analyse the relationship between corruption and government involvement in the (market) economy, inequality, absence of competition in the market, the size of the unofficial economy, state intervention and income distribution (positive relation with corruption) or the relation between corruption and growth level of education, economic freedom, and income (negative relation with corruption). Moreover, some studies investigate corruption and economic integration or trade openness, level of development, press freedom (e.g., Brunetti, Weder, 2003), fiscal decentralisation (e.g., Fisman, Gatti, 1999), democracy and share of the population affiliated with a particular religion (Chaudhry and Shabbir, 2007).

Corruption has fierce impacts on economic and social development and is subject to a vast range of institutional, jurisdictional, societal, and economic conditions. Examining the existing literature covering the determinants, i.e. the causes and effects of corruption, Dimant and Tosato (2018) indicate the following causes of corruption: bureaucracy and inefficient administrative and political structure, civil participation/ press freedom, economic freedom, economic growth, ethnic diversity, gender, globalisation, government size, governmental structure, government system, historical drivers, legal system, market and political competition, natural resource endowment, political instability, poverty, property rights, religion, trade (openness), transparency, urbanisation, wages (research provided before 2006); contagion effects, economic prosperity, education, E-government, immigration and the Internet (research provided after 2006). On the other hand, they indicate the following effects of corruption (Dimant, Tosato, 2018): bureaucratic inefficiency, business and (local) investment climate, civil and political rights, economic growth, foreign direct investment, income inequality/poverty, international trade, political legitimacy, shadow economy (research provided before 2006); brain drain, fiscal deficit, and human capital (research provided after 2006).

3. LITERATURE REVIEW OF THE CORRUPTION AND ITS EFFECTS

3.1. Empirical review of the corruption before the pandemic started

Naher et al. (2020) examine the current situation and prospects regarding health sector corruption at the frontlines of service delivery in nine low- and middle-income countries of South and Southeast Asia during the period from January 2007 to August 2017. A total of 15 articles and documents on corruption and 18 on governance were selected for analysis. The dynamic intersection of a pluralistic health system, large informal sector, poor regulatory environment, lack of good governance, and poor salary and benefits, poor incentives and motivation have provided conditions favourable for corruption in these countries.

Mostert et al. (2012) point out and warn of the negative effect of corruption on medical care, i.e., pediatric oncology care in low-income countries. Analysing three types of participants in corruption (corruptor, partner in corruption, and victim of corruption) and the effects on pediatric oncology care, it is stated that health care providers grow rich at the expense of poor cancer patients. In addition, there is social injustice in public hospitals in the sense that poor and powerless patients are exploited and feel unsafe. The conclusion is that the problem of corruption deprives childhood cancer patients of access to medical care, contributes to the high rates of abandonment of treatment, and leads to lower chances of survival.

Analysing 41 developing countries to investigate the determinants of corruption, Chaudhry and Shabbir (2007) reveal that all economic determinants are negatively related to the perceived level of corruption, except distribution of income, and non-economic determinants are not significantly explaining the variations in the level of corruption. This shows that the socio-political and religious norms are so weak that they cannot affect the corruption level. The contribution of religion in people's practical life is very little, so the cultural values of these developing countries are not religion-based. Therefore, the perceived level of corruption is not affected by religion. The study concluded that the government should focus on economic factors to curb the level of corruption.

First of all, Serra (2006) found that richer countries tend to have less corruption than poorer ones. Secondly, democratic institutions exert a certain control on corruption only when they have been continuously held for decades. Thirdly, countries characterised by more political instability become more corrupt. Fourthly, prevalently Protestant countries seem to be less corrupt, and, finally, colonial heritage appears to be strongly correlated with the current level of corruption.

3.2. Empirical review of the corruption in the era of the COVID-19 pandemic

The disease caused by COVID-19 was discovered in December of 2019. However, the beginnings of the COVID-19 pandemic era appeared in the first half of 2020, when the World Health Organization declared an outbreak of the novel coronavirus on January 30, 2020, at Public Health Emergency International Concern (World Health Organization, 2020b) and a pandemic on March 11, 2020 (World Health Organization, 2020a). In the context of the pandemic caused by COVID-19, it has caused unprecedented shocks in modern history. Countries provide huge spending packages to mitigate the crisis and help save the economy and lives to the greatest possible extent. This period of social and economic instability enables corrupt actors to take advantage of public resources for personal gain. Therefore, this section presents an overview of studies dealing with the potential corruption activities in the era of the COVID-19 pandemic.

Dincer and Gillanders (2021) investigate the connection between corruption and compliance with social distancing during the COVID-19 pandemic in the United States. Both theoretical and empirical evidence point to a corrosive effect of corruption on trust/social capital, which in turn determine people's behaviour towards compliance with public health policies. Using data from all 50 states, the authors indicate that people who live in more corrupt states are less likely to comply with the so-called "shelter in place" or "stay at home" orders.

Farzanegan (2021) evaluates whether the level of public corruption influences COVID-19 case fatality rates in 64 countries. The research results indicate a strong (positive and significant) connection between public corruption in 2019 and the level of COVID-19 case fatality rates by the end of 2020. The average fatality rate in the sample of 64 countries is 2%, while Mexico, Iran, Nicaragua, and the Russian Federation have the highest level of corruption index (4.5), and Mexico has by far the largest COVID-19 fatality rate. The study also cites shocking facts that, according to Transparency International estimations, approximately 140,000 children die every year as a result of corruption in health systems. In monetary terms, Transparency International estimates that, of the total amount of $7.5 trillion spent globally on health each year, $500 billion is lost to corruption (Transparency International, 2021).

In their paper, Goel, Nelson, and Goel (2021) identify some pitfalls and drawbacks in vaccine delivery in the period of the COVID-19 pandemic. More specifically, the authors argue that the speed of vaccine delivery and its scale can create opportunities for corrupt behaviour. It is necessary to point out different avenues of abuse or corruption in order to undertake some preventive government actions.

Rose-Ackerman (2021) emphasises three characteristics of the COVID-19 crisis that have jointly significantly increased corruption risks. Firstly, the rapidly unfolding pandemic and the accompanying economic recession have led to fierce competition for essential resources. Secondly, governments have rapidly mobilised public funds (for both health care and economic stabilisation), creating opportunities for potential corruption and/or fraud. Thirdly, politicians, bureaucrats, and medical professionals exercise substantial discretion in the allocation of resources, which can lead to inequitable distribution or even illegal activities, such as corruption. It is analysed how these features interact in procurement processes, in government assistance to individuals and businesses, and the development and licensing of pharmaceuticals.

Teremetskyi et al. (2021) analyse the nature and extent of corruption in the health care sector during the COVID-19 pandemic, involving various kinds of corruption. Some of the worst examples of corruption are pointed out, such as corruption in public procurement of goods and services for the treatment of diseases, bid-rigging in public procurement or falsification of public contracts, embezzlement of health care funds, misuse of power, nepotism and favouritism in the management, petty corruption in levels of service, fraud and theft or embezzlement of medicines and medical devices, etc.

Gallego et al. (2020) analyse the evolution of public procurement during the COVID-19 crisis in Colombia. They find that the spending rush led by the pandemic increases the usage and value of discretionary procurement contracts which are more likely to be corrupt. They also show that these effects are higher after the relaxation of procurement requirements and are more pronounced in the procurement of crisis-

related goods and services, such as food. Their evidence suggests that large negative shocks that require fast and massive spending may increase corruption.

Gomez (2020) analyses several cases in the world where governments need to take emergency measures that lack checks and curtail certain rights, because of the threatening health context caused by COVID-19. These emergency measures and incentives can lead to crime in several ways, such as corruption. In addition, a possible case of misuse of public trust in Brazil during the pandemic was analysed in the case study section.

Facing the challenges of COVID-19 in South Africa, some positive strategies and tactics have occurred during the initial stages of the pandemic. However, as time has passed, chronic corruption at all levels and sectors, especially water and public health, had serious negative repercussions for the poorest of the poor and the marginalised communities. In the study, Mantzaris and Pillay (2020) aspire to research, analyse, and dissect the direct and indirect effects of corruption and its consequences and repercussions on the impact of COVID-19 to the most vulnerable communities in South Africa. The article deals with corruption, its types, monitoring and assessment, effectiveness and efficiency of the security and enforcement agencies and their operations.

Terziev et al. (2020) give an overview of the increased risk of corruption activities in the Republic of Bulgaria during the COVID-19 pandemic. It is emphasised that the health care sector is particularly vulnerable due to the immediate need for medical supplies and protective equipment, which leads to simplification of the rules for public procurement. In this regard, public services undertake a number of inspections upon signals from citizens, media and non-governmental organisations for possible illegal spending of public resources allocated for combating the COVID-19 pandemic. It has been recognised that there is a need for serious monitoring of the procedures for the utilisation of financial funds, as there is a prerequisite for the development of a corrupt environment.

4. CONCLUSION

Based on the literature review, this paper analyses the theoretical background of corruption and its determinants, and empirically, relevant studies of the corruption activities before and after the COVID-19 pandemic era, mainly in the health care sector.

The COVID-19 pandemic has created a context where governments all around the world have been able to assume extraordinary powers and avoid inspection. An important lesson to be learned from these studies is that any situation where a large number of public resources is available with no sufficient controls and supervision

can lead to corruption (Gomez, 2020). In addition, it is emphasised that, to mitigate the potential for exploitation and financial loss, the massive funding that accompanies disaster response, such as the COVID-19 pandemic, must have controls in place from the beginning. Talking about the hurtfulness of corruption, Pascale Helene Dubois, an international anti-corruption expert, said the following: "In this international health crisis, when actual lives are at stake, you want every single penny that's given to kill the virus to actually be spent on killing the virus." It is necessary to ensure that, even in crises, governments, international financial institutions, aid organisations, and others can require rigorous vetting and establish auditable mechanisms to track financial flows, especially as funds generally move electronically. In order to ensure the quality of supplies, spot inspections, publicised complaint mechanisms, and whistleblower protections are especially important in an emergency response like today's COVID-19 pandemic (Thorp, 2020).

Governments must ensure a fair and transparent distribution of all funds with adequate resources to combat corrupt decision-making. This is best achieved by providing reliable information and making public data freely available on the Internet including disaggregating financial data and taking this data into account during decision-making. Strong reporting mechanisms, public reporting of illegal activities and public access to reliable up-to-date information are key to preventing corruption (Teremetskyi et al., 2021).

According to the analysed literature, the conclusion is that corruption activities have mostly occurred in the health care sector and other public services related to the COVID-19 pandemic. This was to be expected given the huge available public funds in the COVID-19 pandemic.

Finally, this paper opens the way for new research and may be regarded as a basis for further empirical research on the potential corruption activities and their negative outcomes in the Republic of Croatia.

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KORUPCIJA U DOBA PANDEMIJE COVID-19: PREGLED LITERATURE

Sažetak

U radu se analizira teorijska pozadina korupcije i njezine odrednice te empirijski relevantne studije o korupcijskim aktivnostima prije i poslije razdoblja pandemije COVID-19, ponajviše u zdravstvenom sektoru. Pandemija COVID-19 stvorila je kontekst u kojem su vlade diljem svijeta mogle preuzeti izvanredne ovlasti i izbjeći inspekcije. Svaka situacija u kojoj je dostupna velika količina javnih resursa bez dovoljnih provjera i nadzora može dovesti do korupcije. Vlade moraju osigurati pravednu i transparentnu raspodjelu svih sredstava s odgovarajućim resursima za borbu protiv koruptivnog odlučivanja. Snažni mehanizmi prijavljivanja, javno prijavljivanje nezakonitih aktivnosti i pristup javnosti pouzdanim ažurnim informacijama ključni su za sprječavanje korupcije. Stoga je svrha ovoga rada predstaviti pregled literature o najrelevantnijim studijama korupcijskih aktivnosti u doba pandemije COVID-19. Iako ovaj rad predstavlja aktualnu situaciju u istraživanju brojnih autora, može se smatrati podlogom za daljnje empirijsko istraživanje o potencijalnim korupcijskim aktivnostima i njihovim negativnim ishodima u Republici Hrvatskoj.

Ključne riječi: nezakonite aktivnosti, pandemija, javne politike

JEL klasifikacija: D73, I18, K42