The Cost of Corruption in the Republic of Moldova and Who Covers It

Analytical Commentary

Author: Dumitru Budianschi

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This comment paper gives a brief analysis of the cost of corruption in the Republic of Moldova, on the basis of the available meta analyses. Every year the Republic of Moldova loses from 8% to 13% of the Gross Domestic Product due to corruption, with about MDL 11.8-17.7 billion lost in 2016 only. These amounts exceed all the expenses made in 2016 for all pensioners and their social care allowances.

Corruption is a ‘bad version of Robin Hood’, who steels from the many for self-use and the use of own group. Corruption can be defined as a process by which the current and future wealth and public/common benefits are unfairly distributed to some individuals or groups of individuals. In other words, corruptible people take advantage of corruption acts on the account of the many. So, the great majority of people are the one that should be interested the most and, subsequently, should be the driving force in changing this state of being. The main obstacle in this regard is the fact that citizens cannot always link corruption acts with the real losses caused to each of them. In most cases, in the citizens’ view, the scale and impact of corruption narrows down to individual experiences of bribe-giving, however, even though, the losses from bribery are important, they are quite far from picturing the real corruption.

Moldova’s total losses from corruption can be estimated at 8% to 13% of GDP. It is quite difficult to assess the losses from corruption and there are no conclusive data in this respect now, neither at global, nor at local level. At the same time, there are a number of estimates that can help show at least the scale of losses caused by this phenomenon. The estimated costs of corruption vary depending on the applied methodologies, however all of them lead to the conclusion that corruption is a barrier to economic development. Thus, a study conducted in 2005 reveals that globally the increase of corruption by about one percentage point reduces GDP growth by 0.13 percentage points. As regards the corruption level in the Republic of Moldova (the same period), it constituted 0.12 p.p. or an annual average reduction of GDP per capita by USD 387 (prices of 1995). The cost of corruption is frequently estimated at 5% of the global GDP. On the account of this estimation and recognizing the direct link between the Corruption Perceptions Index (CPI) and losses from corruption acts, Moldova’s losses caused by corruption would constitute about 8.7%


of the GDP. In such conditions, the total loss incurred in 2016 amounts to MDL 11.8 billion. This amount exceeds all the expenses made in 2016 for all pensioners and their social care allowances. In addition, a recent estimation of this phenomenon in EU countries suggests that total losses in EU countries account for 4.9%-6.3% of the global GDP of the EU-28. The cost of corruption (based on CPI) is even higher in such countries as Romania - 15.6% of GDP, Bulgaria - 14.22%, Greece - 13.76% and Latvia - 13.16%. In this context, given the relatively similar conditions between these countries and the Republic of Moldova, we can assume that the total losses from corruption would be of at least 13% of GDP or MDL 17.7 billion in 2016.

The amount of bribes paid is higher than annual expenses for all the roads across the country. According to a sociological research made by TI-Moldova, over MDL 1.27 billion or over 1.1% of GDP were paid in 2014 as bribes, of which MDL 899 million were paid by households and MDL 387 million by businesses. At international level, the payments made as bribe are estimated at about 2% of the Gross Domestic Product (GDP), but if considering that Moldova is among the countries with a high level of corruption, most likely the amount of total bribe is even higher. Thus, in 2016, the annual direct losses of the budget (or annual revenue of bribe takers) were estimated at 1.1%-2% of GDP, or MDL 1.5-2.7 billion in absolute terms. So, the annual direct losses caused by bribe account for 3.1%-5.6% of the National Public Budget (NPB), this amount covers from 22% to 40% of the pensions or is the equivalent of all expenses for roads made in 2016. In fact, this amount is most likely even higher, because the surveys do not include the transactions made by truculent and closed corruptible groups, which, despite their smaller number, entail higher amounts.

Year after year, the corruption-related losses in the public budget are equal to half the amount of all the pensions. Budget expenses are another major source of corruption. In 2016, the expenses from the National Public Budget (NPB) amounted to MDL 48.5 billion, of which MDL 18.4 billion - expenses for goods and services, MDL 8.9 billion - expenses for staff and MDL 15.9 billion - social expenses. In public procurements, the cost of corruption accounts for about 20%-30%, while the level of losses related to expenses for labour remuneration and social payments have been less studied so far. At the same time, we know that corruption exists in both sectors (people employed only on the paper, who do not comply with the requirements, etc. or bribes given in exchange of allowances and a higher pension). Given the 10% incidence of corruption related to social and unemployment payments, and if we admit that the level of payments is, at least, the same as the average weight of bribe in the amount of sanctions, which is 16.6%, then the cost of corruption in these areas may be estimated at 1.7% of these expenses. Under these circumstances, the total damages caused by corruption in executing budget expenses would be, at least, of MDL 4.2 billion annually or about 50% of the annual expenses for pensions.

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3The calculations are made on the basis of the ratio between the 2016 CPI and the most recent GDP, provided by https://data.worldbank.org/data-catalog/GDP-ranking-table, given the assumption that there is a linear relationship between the level of CPI and the cost of corruption for each country.


5`Corruption in the Republic of Moldova: Perceptions vs. Personal Experiences of Business People and Households`, Transparency International Moldova, 2014


7We could assume that the amount of the bribe assessed in the survey affects primarily the revenue side of the budget, because the overwhelming majority of payments refer to police, tax authorities, customs, mayor’s office, etc., while the payments related to prosecution bodies and judges (which affect only partially the revenue side) have a smaller share.


9Life in transition: after the crisis, 2010, p. 89 (results regarding Moldova), BERD
Political class and bureaucrats are entrusted to manage property worth much over MDL 150 billion every year. In the Republic of Moldova, corruption is also widespread in public enterprises management, rental of real estate, privatisation, establishment of public-private partnerships, etc. The amount of real estate and financial assets recorded in the Public Property Register (movable and immovable property, shares in publicly owned enterprises) constitutes about MDL 80 billion (according to the public property balance as of the end of 2016). In addition, we should add here natural resources too (land fund, forests, water, mineral deposits, airspace), the use of which is insufficiently monitored by the society. According to some estimation, the economic value of forests, alone, would be of MDL 22 billion. Corruption in public property management is even harder to estimate because it implies a number of transactions involving some small circles of actors, usually, closely related to political parties and/or circles from law enforcement bodies and justice sector. On the basis of the little information available in the public space (‘Metal Feros’, Chisinau International Airport, privatisations) about losses due to corruption in the property management area, we can say they are quite significant, but even a rough estimation is not available now.

The losses due to corruption are much higher than the benefits obtained by the parties to the corruption act. An important point to note is that the damages caused by corruption are not only the direct and immediate losses, in other words, not only the ones that can be appreciated when the corruption act takes place. They have a multidimensional effect that can be felt long after the corruption act. The total costs of corruption exceed a lot all the benefits obtained by beneficiaries of corruption acts, which is a net loss for the society. To illustrate it in an example, a person who acquired a plot of land by bribing the authorities is, as a rule, less competitive than the ones who did not bribe, hence the land will not be use in most effective way. Thus, usually it is not possible to recover in full the damages brought to the society, even if confiscating all the goods resulting from corruption. Moreover, in the long run, the damages caused by corruption tend to become more generalized and extended, affecting even those people who took part in corruption act. This translates into in poor services in health care, education, personal security and the security of family members, etc., when beneficiaries of corruption acts use such services (including capital preservation) in the developed countries, with a lower level of corruption.

Why is it so difficult to eradicate corruption? Though grand corruption and corruption in general are perceived by authorities and common people as a negative phenomenon, its eradication proved to be extremely difficult tasks. The causes of this situation are hidden in the complexity of this phenomenon. Thus, corruption can be pictured by the following relationship:

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\text{CORRUPTION} = (\text{natural, material, financial, etc.}) \text{ RESOURCES} + \text{POWER} - \\
\text{LEGAL CONSTRAINTS} - \text{MORAL CONSTRAINTS (traditions, ethics, etc.)}
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10Efficient and transparent use of forest resources, Expert Grup, 2013, p.43-46, http://expert-grup.org/ro/biblioteca/item/download/1033_5726183838dc816c81c5a3b700058d3594
11Grand corruption is the abuse of high-level power that benefits the few at the expense of the many, and causes serious and widespread harm to individuals and the society. It often goes unpunished. Transparency International, https://www.transparency.org/news/feature/what_is_grand_corruption_and_how_can_we_stop_it
1270.5% of the households and 66.1% business people are aware that corruption is the cause of poverty, according to the ‘Corruption in Republic of Moldova: Perceptions vs. Personal Experiences of Business People and Households’ Sociological Study, (Transparency International Moldova, 2014)
The above ‘formula’ shows that corruption depends positively on the size of the public sector, expressed as resources and power controlled by public bodies. There are no comprehensive estimations in respect to the value of the entire public property of the Republic of Moldova, however, if considering only the above-mentioned components, it amounts to MDL 150 billion in 2016. Its total value, which in reality is much higher, embodies the resources base of the political class, bureaucrats and interest groups in order to meet the economic interests. In addition, the key components that ‘motivate’ grand corruption are ongoing non-transparent decision-making processes, control over law enforcement bodies and legal system exercised by a small group of people.

The factors constraining corruption are strong anti-corruption institutions, a proper legal framework and zero-tolerance-to-corruption moral values. Unfortunately, the nascent legal and institutional framework on fighting corruption and the weak moral values do not have enough power of constraint to reduce corruption. Thus, we can see quite high temptations and opportunities, on one hand, but also insufficient factors constraining corruption, on the other hand, which are insufficient to reduce and eradicate this phenomenon. The situation is further complicated by the fact that the responsibility for the organisation of an effective fight against corruption is borne by political class, a big share of whom, one way or another, takes advantages of corruption acts. In addition, corruption would be impossible without a broad participation of households and businesses in corruption acts, however, individual immediate advantages often prevail over advantages of a clean transaction. We should also acknowledge that such a behaviour is also influenced by traditions, culture, geopolitical and trade influences. Given the aforementioned, we can conclude that to reduce the losses from corruption, as soon as possible, we need complex and long-term measures and all relevant stakeholders on board.

Thus, the formula of corruption, stated above, shows seven basic directions of the fight against corruption:

1. decrease the State presence and interference in the society
2. implement a robust, well prepared system for fighting corruption in the Republic of Moldova, with a well remunerated staff that would be trained exclusively on fight against grand corruption
3. increase the responsibility and punishments for corruption acts and prohibit holding an office in public sector ever after
4. develop and support democracy, civic spirit, transparency and participation of citizens, communities and associations in the state’s public life
5. reform the remuneration system in public sector to ensure a salary competitive with the private sector
6. regulate more drastically and comprehensively the donations and aids made by business entities and individuals to public institutions
7. increase transparency of political parties’ activities

Given the aforementioned, we can notice that the revenue of political class and bureaucrats (and of some interest groups) from corruption are colossal, given the economic realities of the Republic of Moldova. The annual global losses caused by corruption to the development of the Republic of Moldova are even higher and constitutes 8-13% of the GDP. The main problem related to corruption in the Republic of Moldova is grand corruption, which is closely related with political corruption that serves as a ‘reproduction’ form for the grand corruption. Out of the revenue gained from corruption, a small share is spent on organising

14 According to World Values Survey (2005-2009), Moldova is among the countries with a high level of readiness for bribe-giving (question 201), http://www.worldvaluessurvey.org
electoral campaigns, concerts, electoral ‘alms’, etc. In this way, political competition is affected severely, ruling parties have competitive advantages against the other participants in the political race. It is important that voters be aware that political parties providing electoral ‘alms’, in fact buy, on the cheap, the right to impoverish them with incommensurable amounts during their term.