

THE GLOBAL CRISIS AND CORRUPTION: RETAILERS, GOVERNMENT CONTRACTS AND LICENSING

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Abstract

In this paper, we focus on retailers in Eastern Europe and Central Asia and examine the possible change in the level of corruption after the 2008-2009 Global Crisis. We focus on three events: securing government contracts, applications for an operating license, and applications for an importing license by retailers in the region. We find that fewer retailers secured or attempted to secure a government contract after the crisis ended. This may be due to overall economic activities going down during this period. We also find bribes got smaller after the crisis ended, which was a positive change. Our results show that there was no significant change in the percentage of retailers applying for an import license or the percentage that paid bribes after the crisis ended. The number of days needed to get this license went down, which was a positive change. Our results show that applications by retailers to get an operating license went down, which might also be due to overall activities going down. The percentage that paid bribes to get an operating license got smaller, which was a positive change. On the other hand, the number of days needed to get an operating license went up, which was a negative change. Overall, we can conclude that there were some positive changes in terms of corruption facing retailers in the region.

Keywords: corruption, bribe, bribery, crisis, retailers, contract, license

1. Introduction and context of the study

Numerous previous studies examine corruption. Corruption is a common phenomenon especially in developing or less developed nations. Small and large businesses as well as citizens sometimes feel the need to make informal payments to local or state-level officials to smoothen the bureaucratic processes involving contracts, licenses, etc.

Bennedsen et al. (2009) shows that primarily firms that deal with large government contracts rely on bribery. Svensson (2005) argues that firms that are more profitable tend to pay more bribes to government officials. Campos and Giovannoni (2007, 2008) and Harstad and Svensson (2011) argue that bribery and lobbying are different, and that smaller firms tend to engage in bribery. Mauro (1998), Harstad and Svensson (2011), Tonoyan et al. (2010), and Svensson (2003) show evidence of corruption in developing nations.

In this current paper, we focus on retailers in Eastern Europe and Central Asia and examine how the incidence of corruption changed after the 2008-2009 Global Crisis. We mainly focus on bribery when securing government contracts, during applications for an operating license, and during applications for an importing license. We use the “Business Environment and Enterprise Performance Survey” (i.e. BEEPS Survey) done by EBRD-World Bank in the year 2007 and in the years 2010 through 2014. We take the 2007 survey results as our pre-crisis data and the 2010-2014 survey results as our post-crisis data.

First, we examine the percentage of retailers that tried to secure a government contract during and after the crisis. We examine the value of the bribe as a percentage of the value of the contract and as a percentage of annual sales of the firm. Then, we examine the percentage of retailers that applied for an operating license during and after the crisis. We also examine the number of days to obtain the license and whether the retailers felt that a bribe was expected or requested. Finally, we examine the percentage of retailers that applied for an importing license during and after the crisis.

We also examine the number of days to obtain this license and whether the retailers felt that a bribe was expected or requested during this application.

If we find that the incidence of bribery and the value of bribes went down post-crisis, we will conclude that governments' policies to improve the business environment during and after the global crisis were successful in terms of reducing corruption in this region. Kaya and Engkuchik (2021c) examine corruption for retailers in courts, customs/imports, and taxation and show that post-crisis, corruption in these areas went down significantly. Will our findings in this study regarding contracts and licensing support those previous findings?

The paper proceeds as follows: Section 2 discusses the previous literature. Section 3 describes our data and methodology. Section 4 shows our empirical results. Finally, Section 6 concludes.

2. Literature review

Several previous papers including Pellegrini (2011), Mauro (1998), and Glaeser (2006) define corruption as groups', individuals', or businesses' attempts to gain advantage when dealing with government officials. Generally, these attempts involve bribery. Corruption and bribery is more common in developing countries as well as less developed countries.

Corruption and lobbying are different in that corruption involves bribery, therefore it is seen as an illegal action whereas lobbying does not involve bribery, therefore it is seen as a legal action (Bennedsen et al. (2009), Kaufman and Vicente (2005), and Harstad and Svensson (2011). Lobbying is the efforts by groups, individuals, or companies to affect or alter legislation which sometimes involve campaign contributions to political parties or candidates. Lobbying is common in both developed and developing nations.

Mbaku (1996) argues that firms want to eliminate competition from smaller firms and because of that they tend to spend more on bribery and lobbying. Bennedsen et al. (2009) argue that “weak” firms tend to get more involved in bribery (i.e. illegal corruption). They define “weak” firms as smaller firms that are in a competitive industry. On the other hand, “strong” firms tend to get more involved in lobbying (i.e. legal corruption). They define “strong” firms as larger, more established firms and firms that are export-oriented. Campos and Giovannoni (2007, 2008) and Harstad and Svensson (2011) support these findings.

Mauro (1998), Svensson (2003), Harstad and Svensson (2011), and Tonoyan et al. (2010) show that corruption is common in developing nations. Government intervention as well as activities in international trade (i.e. exporting and importing) increase the frequency of corruption. Other factors that are shown to increase the frequency of corruption are the existence of a centralized economic system in a country, the existence of restrictions involving foreign exchange, credit, price controls, trade, etc. The size of bribes is shown to be positively correlated with the profitability of a firm.

A few papers including Gould and Amaro-Reyes (1983), Dreher and Gassebner (2013), and Jain (2001) show that corruption has some benefits as well. These papers argue that bribery and lobbying help new entrants to enter into new markets, which also supports entrepreneurial activities.

A few more recent papers focus on the impact of the 2008-2009 Global Crisis on corruption. Kaya and Engkuchik (2021a) focus on the 2008-2009 Global Crisis and examine informal payments/gifts paid by wholesalers during and post-crisis. They show that, overall, the incidence of bribes went down post-crisis. When they examine wholesalers with different characteristics, they find that the results only hold for certain groups of wholesalers.

Kaya and Engkuchik (2021b) show that, for manufacturing firms, the incidence of bribes went down significantly for most groups of firms. Therefore, the decline in corruption was more prominent when compared to the decline for wholesalers. Similarly, Kaya and Engkuchik (2021c)

examine corruption for retailers and show that, for retailers, the incidence of bribes went down significantly for almost all groups of firms.

3. Data and methodology

We use the “Business Environment and Enterprise Performance Survey” done by EBRD-World Bank in the year 2007 and in the years 2010 through 2014. We take the 2007 survey results as our pre-crisis data and the 2010-2014 survey results as our post-crisis data. The survey covers 32 countries in the region.

We will compare the pre-crisis data and post-crisis data using Mann-Whitney-Wilcoxon and Chi-square tests. First, we will focus on government contracts. What percent of retailers secured or attempted to secure a government contract in the pre-crisis period versus in the post-crisis period? Did the size of bribes went up or down after the crisis ended? Then, we will focus on their applications for an import license. What percent of retailers applied for an import license before the crisis and after the crisis? Was more or less time needed to get this license? Did bribes get smaller or larger after the crisis ended? Finally, we will focus on their applications for an operating license. What percent of retailers applied for an operating license before the crisis and after the crisis? Was more or less time needed to get this license? Did bribes get smaller or larger after the crisis ended?

4. Empirical results

First, we investigate the percentage of retailers who secured/attempted to secure a government contract over the previous year. We compare the pre- and post-crisis periods. Table 1 shows that there was a significant drop after the crisis ended. While at the onset of the crisis, 16.88% of retailers secured/attempted to secure a government contract, after it ended, only 13.63% did so. This drop is significant at 0.01% level.

Table 1. Secured or Attempted to Secure a Government Contract?

Variables	Pre-Crisis		Post-Crisis	
	N	%	N	%
Yes	638	16.88	529	13.63
No	3,141	83.12	3,351	86.37
Total	3,779	100%	3,880	100%
Statistic	df	Value	Prob	
Chi-Square	1	15.6446	<0.0001	

Then, we examine the size of the bribe that retailers had to pay. Table 2 shows that the bribes got significantly smaller after the crisis ended. While at the onset of the crisis, the mean bribe size was 2.0382% of the value of the contract, this dropped to 1.6457% after the crisis ended. This drop is significant at 10% level.

Table 2. Bribe as a Percent of the Value of the Contract

Variables	Pre-Crisis			Post-Crisis			Mann-W.
	N	Mean	Std	N	Mean	Std	p-value
Bribe (% of contract value)	523	2.0382	6.3907	446	1.6457	6.6515	0.0628

Table 3 does the same by using a different measure for bribes. Here, we measure bribes as a percent of annual sales. The results here are similar to the results in Table 2. Bribes as a percent of annual sales got smaller after the crisis ended. While at the onset of the crisis, the mean bribe size was 4.1836% of annual sales, this dropped to 0.5772% after the crisis ended. This drop is significant at 0.01% level.

Table 3. Percent of Annual Sales Paid as Bribe?

Variables	Pre-Crisis			Post-Crisis			Mann-W.
	N	Mean	Std	N	Mean	Std	p-value
Bribe (% of annual sales)	523	4.1836	7.7131	3,117	0.5772	2.802	<0.0001

Table 4 examines the percentage of retailers who applied for an import license. Here, we are seeing that there was no significant change from the pre-crisis period to the post-crisis period. At the onset of the crisis, 7.78% of retailers applied for an import license. This percentage was 8.25% after the crisis ended.

Table 4. Submitted Application to Obtain an Import License?

Variables	Pre-Crisis		Post-Crisis	
	N	%	N	%
Yes	295	7.78	322	8.25
No	3,495	92.22	3,583	91.75
Total	3,790	100%	3,905	100%
Statistic	df	Value	Prob	
Chi-Square	1	0.5571	0.4554	

Table 5 examines the number of days to obtain the import license for retailers. We are seeing that the time needed to obtain the import license became significantly shorter after the crisis ended. At the onset, on average, 16.911 days were needed. After the crisis ended, 15.669 days were needed. This drop was significant at 1% level.

Table 5. Numbers of Days to Obtain the Import License

Variables	Pre-Crisis			Post-Crisis			Mann-W.
	N	Mean	Std	N	Mean	Std	p-value
Days	258	16.911	33.207	293	15.669	27.123	0.0068

Table 6 examines whether retailers felt the need to give an informal gift or make a payment to get their import license. We are seeing that there is no significant change in this measure. At the onset, 8.86% of retailers felt the need to do this. After the crisis ended, 6.84% felt the need. The difference is not significant ($p=0.3668$).

Table 6. Was an Informal Gift or Payment Expected or Requested?

Variables	Pre-Crisis		Post-Crisis	
	N	%	N	%
Yes	24	8.86	21	6.84
No	247	91.14	286	93.16
Total	271	100%	307	100%
Statistic	df	Value	Prob	
Chi-Square	1	0.8146	0.3668	

Table 7 examines the percentage of retailers who applied for an operating license. Here, we are seeing that there was a significant drop from the pre-crisis period to the post-crisis period. At the onset of the crisis, 24.55% of retailers applied for an operating license. This percentage was only 20.15% after the crisis ended. The difference is significant at 0.01% level.

Table 7. Submitted Application to Obtain an Operating License?

Variables	Pre-Crisis		Post-Crisis	
	N	%	N	%
Yes	932	24.55	790	20.15
No	2,864	75.45	3,130	79.85
Total	3,796	100%	3,920	100%
Statistic	df	Value	Prob	
Chi-Square	1	21.5269	<0.0001	

Table 8 examines the number of days to obtain the operating license for retailers. We are seeing that the time needed to obtain the import license became significantly longer after the crisis ended. At the onset, on average, 23.608 days were needed. After the crisis ended, 25.388 days were needed. This increase was significant at 5% level ($p=0.0123$).

Table 8. Numbers of Days to Obtain the Operating License

Variables	Pre-Crisis			Post-Crisis			Mann-W.
	N	Mean	Std	N	Mean	Std	p-value
Days	879	23.608	37.064	734	25.388	44.85	0.0123

Table 9 examines whether retailers felt the need to give an informal gift or make a payment to get their operating license. We are seeing a significant drop in the percentage of retailers who felt this need. At the onset, 13.25% of retailers felt the need to do this. After the crisis ended, only 7.28% felt the need. The difference is significant at 0.01% level.

Table 9. Was an Informal Gift or Payment Expected or Requested?

Variables	Pre-Crisis		Post-Crisis	
	N	%	N	%
Yes	112	13.25	54	7.28
No	733	86.75	688	92.72
Total	845	100%	742	100%
Statistic	df	Value	Prob	
Chi-Square	1	15.0686	0.0001	

5. Conclusion

Corruption has been a problem especially in developing nations. In this study, we examine how a global economic/financial crisis affects corruption in Eastern Europe and Central Asia. We focus on retailers and show that, at the onset of the 2008-2009 Global Crisis, corruption was a bigger issue for retailers in the region. This problem improved after the crisis ended.

We first examine government contracts. In order to get these contracts, did bribes have to be paid by retailers? When we look at the onset of the crisis, we see that the average bribe was 2.04% of the value of the contract and 4.18% of annual sales. After the crisis ended, it was 1.65% of the value of the contract and 0.58% of annual sales. There was a significant decline in the size of bribes that were paid to get government contracts.

Then, we examine retailers' applications for an import license. For this type of license, the frequency of bribes was similar before and after the crisis. However, the time it took to get the license got shorter, which was a positive change.

Finally, we examine retailers' applications for an operating license. For this type of license, the frequency of bribes went down, which was a positive change. However, the time it took to get the license got longer, which was a negative change.

Overall, our results show that corruption in terms of both the magnitude and frequency generally went down after the crisis ended. This finding indicates that governments' policies to improve the business environment during and after the global crisis were successful in terms of reducing corruption in this region.

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