

Knowledge and Digitalisation Against Corruption and Fraud

edited by
Piotr Luty, Nataliia Versal, Pavel Semerád



Reviewer

Marek Masztalerz

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Proofreading

Marcin Orszulak

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Małgorzata Myszowska

Cover design

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Foreword

It is with great pleasure that we present the first of three monographs describing the research results on combating corruption and fraud. Combating corruption begins with awareness of the problem. Sharing the knowledge of the Visegrad Group countries and Ukraine in counteracting corrupt behaviour has a significant cognitive and educational aspect. Additionally, the inclusion of technological tools allows for reducing the negative consequences of such behaviour.

In the first chapter, the study focuses on trends in corruption indices in Ukraine and the Czech Republic and assesses policy responses to corruption. The results indicate positive trends in both nations. Over the last decade (2012-2022), the Corruption Perception Index (CPI) improved from 26 to 33 in Ukraine and 49 to 56 in the Czech Republic. However, Ukraine's CPI score remains considerably lower, with the gap unchanged at 23 points compared to the Czech Republic, suggesting that the Czech Republic is generally more effective in fighting corruption. Nonetheless, according to the Corruption Forecast, Ukraine has made substantial progress in reducing corruption opportunities, mainly through implementing digital platforms like Diia and Prozorro, which have digitised a vast array of public services and enhanced budget transparency. In conclusion, both countries demonstrate notable improvements through institutional and legislative changes aimed at tightening measures against corruption.

The chapter describes digital transformation in combating welfare fraud, however, the author's experience with digital surveillance has not been so far encouraging. The most advanced countries in this regard, the Netherlands and Austria, have suffered spectacular failures in recent years. The author presents the cases of these countries, providing the basis for a discussion of the main problems with the use of modern technology in the fight against irregularities.

The third chapter covers an important issue related to compliance with the principles of transparency in the public procurement process. The authors analysed the state of legal regulations in European countries, emphasising recommendations for Ukraine.

The fourth chapter deals with fighting the shadow economy by introducing new forms of employment. Global labour market changes, globalisation, and consequences of the pandemic created space for the evolution of forms of employment. New employment approaches are becoming a widespread phenomenon. Thus, the primary purpose of this investigation was to highlight the main non-standard forms of employment and to create recommendations for fighting the shadow economy in Ukraine, which needs to fulfil a set of tasks. First, the pros and cons of each non-standard employment form were generalised. Some can be considered applicable for all forms, but some were form-specific. Next, recommendations on how to fight the shadow economy in Ukraine were suggested. The advantages and disadvantages can be both general and form-specific. For Ukraine, the best solution for now, will be stimulating the creation of sole proprietors and, if applicable, transforming them into gig specialists (only for the IT sphere and Diia residents).

The fifth chapter examines the development of payment systems in Eastern Europe over the last decade and the opportunity for further improvement through adopting new digital payment technologies, including potentially introducing central bank digital currency. It compares the experience of six Eastern European countries that have joined the European Union (including

all countries of the V4 Group) with three post-soviet countries (including Ukraine) that remain outside the European Union. It documents the development of non-cash payments, and identifies barriers to developing non-cash payments in Eastern Europe, seeking to explain the differences between these countries. Finally, it assesses the influence of fintech startups, cryptocurrencies and blockchain technologies on the recent and future development of non-cash payments in Eastern Europe, where the opportunities for the development of e-money are limited. The insignificant development of e-money and the fact that there is no growth in the volume of payments with the help of e-money is associated with the comprehensive development and deep penetration of card payment systems, mobile banks, and fintech startups based on payment cards in all areas.

The sixth chapter deals with electronic evidence of sales in the Czech Republic. Combating tax fraud is a long-standing and essential objective of the financial administration. If this were not the case, and the authority abandoned meeting this requirement, it could destabilise and irreversibly damage the entire entrepreneurial environment. Furthermore, the electronic records of the sales system could have been used to re-distribute shared taxes more fairly, allowing residents to request a proper tax receipt, as it would automatically mean that a portion of the entrepreneur's final tax would be re-distributed to their municipality as per ratio. This bonding within communities could help motivate proper sales reporting. Instead, the electronic records of the sales system became a political issue that helped the current government win the elections, even though digital information exchange between entrepreneurs and government is a natural part of business life in most EU countries. What the Czech government did was an unfortunate step against this trend.

The last, seventh chapter analyses the instruments implemented in Poland to minimise the VAT gap. The hypothesis proposed in this chapter concerns the synergy effects of actions in the legislative issue and the actual approach of the national tax authorities initiating tax validation procedures. The chapter uses materials published by the Polish Ministry of Finance, Polish Supreme Audit Office (NIK), International Monetary Fund and European Commission together with CASE, as well as data obtained as a result of a request on 16 December 2023 to the Minister of Finance under the provisions of the Access to Public Information Act.

Afterword

Fraud and corruption always start in the minds of the people involved. In this context, sharing knowledge and making society aware of corruption's significant threat is essential. The book investigates some problems concerning digitalisation and knowledge enhancement in reducing corruption and fraud.

The book offers a detailed comparative analysis of corruption and various policy issues in Ukraine, the Czech Republic, and other Eastern European countries. Despite ongoing reforms, corruption remains a significant obstacle to development in Ukraine, while the Czech Republic, with a stronger institutional framework, has seen more progress in its anti-corruption efforts. Both countries must continue to adapt their strategies to improve transparency, legal frameworks, and accountability.

Digital surveillance systems, particularly in welfare contexts, have been criticised for lacking transparency, producing poor results in fraud detection, and raising concerns about personal data protection. While the systems rely on algorithms, the failures often stem from human decision-making and development rather than technology.

In public procurement, EU member states, including the Czech Republic, as well as Ukraine, must balance supranational standards with national regulations for tender processes, focusing on ensuring transparency and compliance with EU directives.

For Ukraine's non-standard employment issues, particularly in the IT sector, promoting sole proprietors and transitioning them to gig specialists could enhance the economy. This may raise 'quiet hiring' concerns but offers tax advantages.

The study on payment systems in Eastern Europe identified critical drivers for the growth of cashless payments, including payment infrastructure, e-commerce, and internet access. However, the weak political and economic institutions in countries like Ukraine, Belarus, and Russia limit their ability to increase non-cash transactions, as much of the economy operates in the shadow sector. The potential of blockchain technologies and Central Bank Digital Currencies (CBDCs) was highlighted as a way to reduce corruption and boost economic growth.

In the Czech Republic, the electronic records of sales system were introduced to promote transparency and fair tax distribution but became a political issue, losing its intended purpose. There is hope that it may return, though public trust will be difficult to regain.

Poland's legislative changes regarding electronic data transfer for tax purposes have successfully increased VAT revenue and taxpayer compliance. However, the active involvement of tax authorities, rather than the legislative changes alone, has driven the increase in detected irregularities and revenue growth. This emphasises the need for a synergy between legal reforms and enforcement efforts in tackling tax evasion.

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