ERCAS Working Papers

The Good, the Bad and the Ugly: Controlling Corruption in the European Union

Alina Mungiu-Pippidi

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I. An EU more corrupt than ever?

For many years corruption was seen as a problem only of developing countries, while the European Union (EU) on the contrary was the temple of the rule of law, exporting good governance both to its own peripheries and worldwide. Many European countries indeed remain among the best governed in the world, although the downfall of the Santer Commission on charges of corruption, the enlargement of the EU by its incorporation of new member countries with unfinished transitions, and the economic crisis all strongly indicate that control of corruption is difficult to build and hard to sustain. Older member countries Greece, Italy, Portugal and Spain have all regressed (see Figure 1) rather than progressed since they joined – the first two of them to worrying levels – and that has raised doubts about the EU's transformative effect on its members.

Data published by the World Bank and taken from the Worldwide Governance Indicator (WGI) Control of Corruption offer a global picture which is no less challenging. Of 196 countries only 21 (mostly Caribbean and Balkan) showed statistically significant improvement since 1996, and 27 countries significantly regressed leaving only fewer than a quarter of countries around the world with a reasonable control over corruption. Although on average more than 90% of Europeans in the 27 EU member countries declare that they were not asked for a bribe last year, 79% fully or partially agree that corruption exists in their national institutions, although with insignificant differences between regional or local levels of government. Almost half of all Europeans (47%) think that the level of corruption in their country has risen over the past three years, with national politicians (57%), and officials responsible for awarding public tenders (47%) the most likely to be blamed for such behaviour.[1] In new East European member countries, with the exception of Estonia and Slovenia, more than 10% had directly encountered some form of bribery during the previous year. The gap between the widespread perception of corruption and limited experience of actual bribery shows that Europeans consider other types of behaviour as well as bribery to be corrupt, for instance the peddling of political influence, favouritism or clientelism.

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[1] Special Eurobarometer Survey 374, "Corruption", available at
http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf
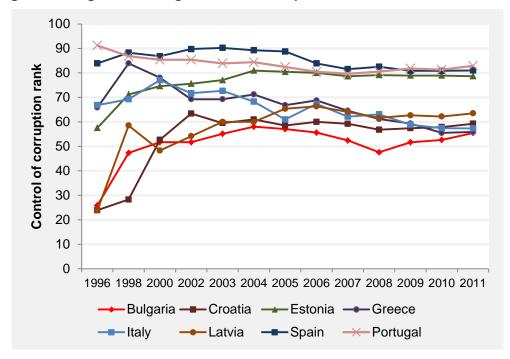
Figure 1. Progress and regress in the European Union – selected countries

Data source: Worldwide Governance Indicators (1996-2011).

Defining corruption is such a controversial business that the United Nations Convention against Corruption (UNCAC, put into force on 14 December 2005) does not even attempt it, stating instead in article 1.c that it will 'promote integrity, accountability and proper management of public affairs and public property'. It also states in articles 7 (public sector) and 9 (procurement), the modern principles of efficiency, transparency, merit, equity and objectivity as the only accepted norms for governance. The European Union signed the United Nations Convention against Corruption (UNCAC) in 2005.

The most frequent definition of individual corruption in current literature is "the abuse of public office for private gain" (Tanzi & Davoodi 1997), with variants such as 'abuse of power' or 'abuse of entrusted authority'. Corruption is nearly always defined as *deviation from the norm* (Scott 1972) because it presumes that authority or office are entrusted to someone not to promote private gain of any kind (for self or others) but to promote the public interest, in fairness and impartiality. *In the current report we define 'control of corruption' as the capacity of a society to constrain corrupt behaviour in order to enforce the norm of individual integrity in public service and politics and to uphold a state which is free from the capture of particular interests and thus able to promote social welfare.*

One more report on corruption might seem superfluous, as evidence shows that corruption is resilient and does not change easily from year to year. There is, however, a certain novelty to our approach, which is grounded in some of the previous work by the World Bank (Klitgaard 1988; Tanzi

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& Davoodi 1998; Huther & Shah 2000), but rather different from some of the current anti-corruption approaches, for by using theory and inferential statistics we have outlined the causes and consequences of corruption. We have eliminated structural causes which cannot be changed such as the age of a democracy, the former presence of a Communist regime, modernization features and so on, and have developed a powerful explanatory model based only on such factors as can be influenced by human agency. We have then used our statistical model to propose recommendations which can address not only the corruption that is the end result but the whole complex of factors explaining why corruption is not checked by a particular government and society. In other words we point out where control of corruption fails. Control of corruption is a complex equilibrium and the lack of progress during the last fifteen years of anti-corruption is due at least in part to the illusion that a few silver bullets can fix it, while its deeper causes are ignored.

The plan of this report is as follows. We shall first show in section 1 what measurements of corruption we used and what we believe they measure. We then show in section 2 the consequences of corruption for fiscal deficit, vulnerable employment, gender equality, government spending, tax collection, electoral turnout and 'brain-drain' across the EU. We hope thereby to make the case that corruption is no marginal phenomenon but a central factor affecting both the economic crisis and the potential for recovery from it. In section 3 we present corruption across EU member countries, highlighting the best and worst performers and in section 4 we go on to present a model explaining how corruption and its main determinants can be controlled. Finally, with our explanatory model as the basis, in section 5 we lay out our recommendations for improving control over corruption.

II.   Our instruments

Corruption cannot be measured directly due to its elusive and informal nature (a socially undesirable and hidden behaviour) and the difficulty of separating the control of corruption from corruption itself. For instance, if Germany has opened more files on the basis of the OECD anti-bribery convention than other EU countries, does that mean that German businessmen more commonly offer bribes when doing business abroad, or that Germany has actually been more active in enforcing the convention when compared to other countries? The same applies to the number of convictions: notoriously corrupt countries have convicted very few people for corruption, as the judiciary is itself part of the corrupt networks of power and privilege. Due to such limitations therefore, corruption is currently measured in three broad ways:

1. *By gathering the informed views of relevant stakeholders*. They include surveys of firms, public officials, experts and citizens. Those data sources can be used separately or in aggregate measures which combine information from many places such as Transparency International's Corruption Perception Index or the World Bank Control of Corruption. Many such sources exist, and they have been aggregated in the two mentioned indexes since 1996. Those are in fact the only available data sources that currently permit large-scale trans-national comparisons and monitoring of corruption over time.

2. *By surveying countries' institutional arrangements*, such as procurement practices, budget transparency, and so on. That does not measure actual corruption but rather the risk of corruption's occurring. The country coverage is limited to certain developing countries and is not regularly updated. Examples include Global Integrity Index, or the national Integrity Systems of Transparency International.

3. *By audits of specific sectors or projects with the goal of understanding if the allocation of public resources is fair and universal, or particularistic and corrupt.* They can be purely financial audits or more specific assessments to measure the efficiency or impartiality of public investment. Such audits can provide information about malfeasance in specific projects but cannot be generalized to more general country-wide corruption, so they are not suited to comparisons between countries nor for monitoring over time (Kaufmann, Kraay & Mastruzzi 2006).

Table 1. Indicators for measuring corruption by data collection type

INDICATORS	Comparison across countries	Comparison across time or before/after intervention	Observations
Perception of corruption, experts, general population, firms	YES	YES, but not fully reliable, as we have proof that other factors matter (for instance, the perceived economic situation)	Highly relevant, but also highly subjective
Experience of corruption experts, general population, firms, government agencies, state units	YES	YES; some limitations apply related to openness in confessing socially undesirable behaviour	Both relevant and objective, with the problem of low response (underreporting) to overcome
Institutional control of corruption features (permanent and response driven)-	YES	Very limited; we have evidence that no correlation exists between institutional equipment for controlling corruption and corruption itself	Highly objective, but frequently irrelevant; those proposed here were all tested for significance in relation with CPI, ICRG or CoC
Audits and investigations	NO	YES, if repeated	Should be organized on specific problems/countries

A good study of corruption in a country should triangulate carefully, by employing all the above methods. We have a few such studies from Europe, mostly for Italy and new member countries from post-communist Europe. The challenge remains of acquiring data to allow comparison between countries which would afford substantial benchmarks, and over time which allows us to record change, and current indexes are not very good at that. Transparency International´s (TI) Corruption Perception Index (CPI) cannot be used to compare over time and the World Bank´s Control of Corruption (CoC) is notoriously insensitive to change. Until suitable indicators are developed, tracing the progress of anti-corruption policies by sector or by country over time will remain a challenge. However, discarding the data that is available as being based merely on perception is wrong. Both experience and perception data can be reported and may be compared, and if in separate measurements experts and the general population rate a country similarly it becomes obvious that perceptions are based on similar experience and therefore grounded in reality.

Table 2 shows the correlations between measurements which differ widely in method and time: Control of corruption and CPI, aggregated index scores, a World Economic Forum expert survey score and two general population surveys, TI´s Global Corruption Barometer (GCB) and the Eurobarometer. Those questions asking for an assessment of corruption at national level correlate

significantly at over 70% so they are highly consistent across sources. Other questions are more ambiguously phrased which has led to survey error, for example in the Eurobarometer 'major' national problem question which leaves the definition of 'major' up to respondents. However, the relationship between surveys by experts and those by citizens over different years and even with varying vocabulary is, by and large, remarkably consistent and validates corruption indexes and perception indicators – provided always that the questions put are professional, not vague and not leading. Such a validation process is necessary because we plan to use one of those indexes, Control of Corruption, as our main dependent variable in this analytical exercise. Furthermore, due to the scarcity of data down the years our analysis is necessarily limited to a cross sectional analysis of EU member states. In other words, we have 27 observations – as many as the member states. Nevertheless our statistical model was tested on the Hertie School global database of 191 countries and once again the results were remarkably consistent, proving that the data can be safely used for this analysis.

Table 2. Correlations between different corruption indicators

	Perception of corruption public officials	Perception of corruption political parties	% of respondents who agree that corruption is a major problem in the country	% of respondents who agree that there is corruption in national institutions	% of respondents who agree that there is corruption in local institutions	% of respondents who agree that there is corruption in regional institutions	WGI Control of Corruption estimate (2010)	Quality of government	Corruption Perception Index (TI)	Diversion of public funds, 1-7 (best)	N	Source
Perception of corruption public officials	1										21	Global Corruption Barometer (2010)
Perception of corruption political parties	,731**	1									21	Global Corruption Barometer (2010)
% of respondents who agree that corruption is a major problem in the country	-,730**	-,829**	1								27	Eurobarometer 374 (2011)
% of respondents who agree that there is corruption in national institutions	,749**	,847**	-,948**	1							27	Eurobarometer 374 (2011)
% of respondents who agree that there is corruption in local institutions	,756**	,855**	-,949**	,982**	1						27	Eurobarometer 374 (2011)
% of respondents who agree that there is corruption in regional institutions	,748**	,857**	-,907**	,970**	,961**	1					27	Eurobarometer 374 (2011)
WGI Control of Corruption estimate (2010)	-,722**	-,707**	,782**	-,784**	-,816**	-,778**	1				27	Worldwide Governance Indicators (2010)
Quality of government	-,677**	-,626**	,706**	-,691**	-,737**	-,687**	,951**	1			27	ICRG (2010)
Perception of corruption (TI)	-,722**	-,699**	,780**	-,777**	-,810**	-,765**	,991**	,931**	1		27	Corruption Perception Index (2010)
Diversion of public funds, 1-7 (best)	-,706**	-,690**	,749**	-,766**	-,788**	-,776**	,960**	,913**	,962**	1	27	Global Competitiveness Report (2010-11)

** Correlation is significant at the 0.01 level (2-tailed).

III. Consequences of corruption in the European Union

Our ability to measure corruption enables us to gather evidence of its detrimental consequences, unlike the literature previous to these measurements, which highlighted the positive functions of corruption: as an effective way to compensate for functional deficiencies in the official structure (Merton 1957: 73), an alternative to revolution and civil war (Bayley 1966; Dwivedi 1967; Huntington 1968), as a means to achieve political stability (Huntington 1968) and to integrate elite and non-elite members (Nye 1967); the oil for the wheels of the economy (Huntington 1968: 68); and as a lubricant for the economic development of modernizing countries (Leys 1965; Bayley 1966; Nye 1967). The possibility of measuring corruption and thus the ability to relate it to other indicators has reversed those arguments. For instance, the currently most-quoted corruption paper, presently available from oxfordjournals.org, is "Corruption and growth" by the economist Paulo Mauro of the International Monetary Fund. The association between corruption and growth raised the interest of social science, media and policymakers to its current heights, although findings remain disputed.

Using a method similar to Mauro's but with a different dependent variable, this report examines the impact of corruption on a number of areas essential to Europeans. Seeing the complexity of economic crises, we have not directly measured the impact of corruption on growth. Control of corruption is certainly strongly associated with high levels of development, and we use development as a control to test the relationship between corruption and a number of negative outcomes, as we will argue that a significant proportion of corruption affects social welfare in a variety of ways.

1. The impact of corruption on public investment

A long-standing controversy exists over whether big government is the source of corruption or the solution to it. In Europe, big government, when measured as the proportion of total spending from GDP, is associated with less corruption, not more; while the opposite is true for Latin America. It seems rather obvious when you consider that the Scandinavian countries, as the least corrupt countries in Europe, are big spenders traditionally associated with social welfare (Rothstein & Uslaner 2005). But what if, under certain conditions, *the type of spending rather than its size* is more prone to feed corruption? We suggest that the opportunity for discretionary spending in the absence of adequate constraints is what fuels grand corruption rather than the actual amount of spending. For instance, corrupt politicians tend to orient public spending so as to maximize income for their clients and political sponsors, which generally means that the money is channelled to projects resulting in large government contracts which

are attributed to favoured contractors. The problem with that - even presuming that no extra costs would be incurred by the government and that such projects do add something to social welfare - is that such client-directed spending tends to be unaffordable and so squeezes investment in other areas. If we are right, then we should find that the more corrupt EU states are associated with greater project spending (see Figure 2), and less social investment, for instance in health programmes (see Figure 3). *The most corrupt European countries indeed spend significantly less on health.* They are also those where citizens complain more loudly of corruption in their healthcare system.
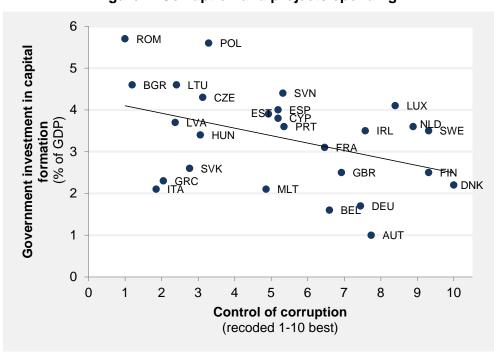
Figure 2. Corruption and projects spending[2]

Data source: World Bank Database, Gross capital formation (% of GDP).

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[2] Gross capital formation (% of GDP); General government gross fixed capital formation (ESA95 code P.51) consists of resident producers' acquisitions, less disposals of fixed assets during a given period plus certain additions to the value of non-produced assets realized by the productive activity of government producer or units. Fixed assets are tangible or intangible assets produced as outputs from processes of production that are themselves used repeatedly, or continuously, in processes of production for more than one year, available at http://data.worldbank.org/indicator/NE.GDI.TOTL.ZS
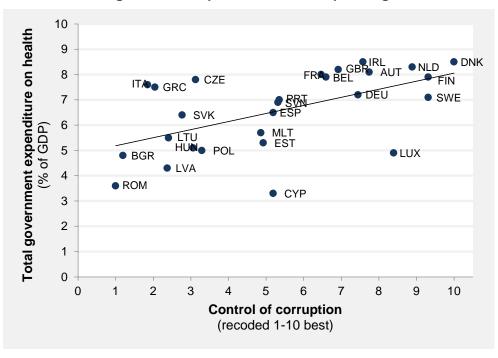
Figure 3. Corruption and health spending[3]

Data source: Eurostat, "General government expenditure by function (COFOG)".

Romania and Bulgaria are at one extreme, spending little on health and far more on projects, with Denmark at the opposite extreme. Of course, part of the explanation is development: Romania and Bulgaria are far less developed than Denmark so they still require construction of a modern transport infrastructure and so on. However, the underfunding of healthcare creates systemic corruption problems only within the health system. For example, the state in Bulgaria, Romania or Lithuania claims to provide medical treatment at prices in line with the capability of the state health insurance system, but the reality is that the insurance system is doubly inadequate. First and foremost because if their claims were true and everyone in need began to request the available services like screening or surgery, state insurance funds would be insufficient to cover even a quarter of the resulting costs. Second, because the state pretends to believe that doctors and nurses can do their work for the wages they are paid, which is simply not possible in those new EU member countries from the East. The salaries of doctors and nurses in Romania and Bulgaria for example are on average below 500 USD per month. The shortfall between the official cost of services and the real cost of the work is therefore offset by 'gifts' paid by patients to supplement their insurance cover and that is how a balance is

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[3] Health spending is measured as total general government expenditure on health as share of GDP, available at http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_a_exp&lang=en

established between supply and demand and how more realistic prices are set. Can such goings-on be considered perhaps a clever way for governments to supplement the income of the heath sector without introducing an unpopular tax, with the benefit resulting from investment in projects offering some form of compensation? Not really, as returns from public investment are also the lowest in the most corrupt countries, while health systems are chronically underfinanced**.**

Now; if we look at Greece or more particularly Italy, those two countries are the outliers of the corruption-related association outlined, especially where health spending is concerned. Being richer than Bulgaria, Romania and Lithuania, Greece and Italy have managed to spend on health as well as on projects, but as one would expect that is a recipe for fiscal deficit.

2. The impact of corruption on fiscal deficit

The mechanism described in the previous section, of client-directed spending concentrated on a few beneficiaries over and above social spending spread evenly among everyone entitled to it, makes for a very costly combination. Using the most recent data we discover that a significant association does indeed exist between corruption and budget balance at an EU level (see Figure 4; see also Kaufmann 2010). There a few outliers to what is otherwise a clear association between low corruption and a budget balance very close to zero as seen in Denmark and Finland, and high corruption and a poor balance as in Greece, Romania or Latvia. The result robust with development controls, and shows that there is an undeniable link between corruption and overspending.
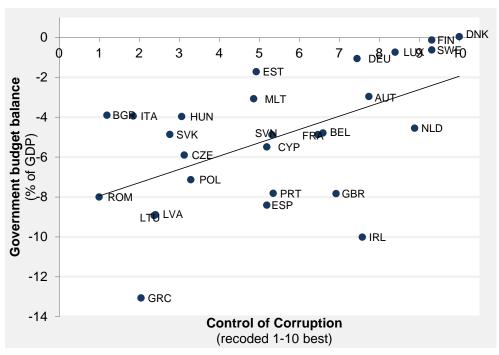
Figure 4. Corruption and balance of Government budget[4]

Data source: World Economic Forum, "Global Competitiveness Report 2010-2011".

3. The impact of corruption on tax collection

A deficit is not created by spending alone, and corruption in all countries lying below the rank of 65 in the Control of Corruption WBI rankings tends to cut across sectors. Therefore the hope that perhaps a country which overspends due to corruption might compensate for that in other areas, perhaps by collecting its income efficiently, is plainly wrong. At the level of EU-27 the more corrupt states are those with the worse performance on tax collection too (see Figure 5). The association is significant and robust, with Lithuania, Romania Bulgaria in the worst positions and Denmark again in the lead. Italy and Ireland are outliers, Italy showing collection better than its poor corruption rating would predict, and Ireland with collection efficiency inferior to its good score for its control of corruption.

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[4] Fiscal deficit/surplus; Government gross budget balance as a percentage of GDP, available at http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf
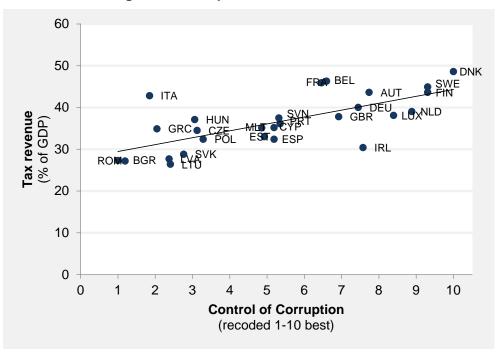
Figure 5. Corruption and tax collection[5]

Data source: Eurostat, "Tax revenue statistics".

It is hard to quantify the cost of corruption, but the statistically significant relationship between tax collection and corruption made it possible to estimate that 323 billion euros failed to be collected across the EU27 in 2010.[6] This figure is equivalent to twice the EU yearly budget.

4. The impact of corruption on vulnerable employment

The link between corruption and the informal economy is complex in developing countries (Dreher & Schneider 2010). For the European Union, the problem is somewhat different. Being the most economically developed polity in the world, we expect the EU to be able to control its informal sector and to protect its employees. But does it? Regressing corruption on vulnerable employment we again find significant association, robust even when a control for development is added to the model. Corruption leads to a significant increase in the number of vulnerable employees (see Figure 6), which in its turn influences tax collection and an array of other factors. Romania seems an outlier, as it has even more vulnerable employment than its level of corruption would predict because it is the most rural country in Europe with more than 30% engaged in subsistence farming. However, the model fits Italy

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[5] Tax revenue to GDP ratio. Total receipts from taxes and social contributions (including imputed social contributions) as percentage of GDP, available at http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Tax_revenue_statistics
[6] This figure was calculated using the statistically significant coefficients obtained from the linear regression and assuming that all countries moved from their current levels of control of corruption to the maximum possible score (i.e. Denmark).

very well as too nearly all other countries and with Denmark again the perfect fit and the best performer, with Romania in worst position.
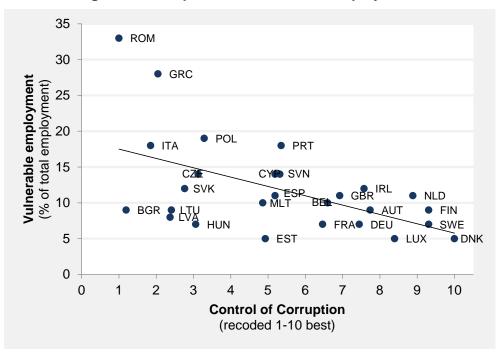
Figure 6. Corruption and vulnerable employment[7]

Data source: World Bank database, "Vulnerable employment".

5. The impact of corruption on gender equality

Denmark and Romania are again the perfect opposites when it comes to the impact of corruption on gender equality (see Figure 7). The significant association between the two variables has long been known, although it has received quite different interpretations (Sung 2003). It is also strong at the EU level, especially when the indicators measuring women in politics are considered (the association with gender pay gap is not significant). In other words, more corrupt countries do not pay women significantly less, but do significantly restrict their access to positions of power. We interpret that finding here on the side of those who argue that this is not about women, but about governance. Where power and privilege are concentrated in certain networks and groups which manage to control access to public jobs, where in other words societies are dominated by favouritism and corruption, we find that

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[7] Vulnerable employment means unpaid family workers and own-account workers as a percentage of total employment, available at http://data.worldbank.org/indicator/SL.EMP.VULN.ZS

weaker groups – as a rule women and minorities – tend to be excluded. **The presence of few women in Parliament is a significant indicator of the presence of favouritism in political life.**
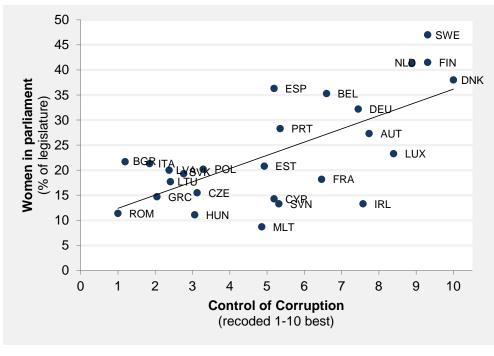
Figure 7. Women in parliament and corruption[8]

6.   The impact of corruption on the "brain-drain"

Corruption significantly increases the brain-drain. Corrupt societies which channel access through patronage and corruption therefore discourage meritocracy and encourage talented people to seek recognition elsewhere. The association is highly significant, controlling for development at the level of the EU-27. That is particularly revealing considering that the EU is a common labour market. Apart from language barriers there are few obstacles to internal migration in the European Union, and seeing that some new member countries from Eastern Europe have a highly educated population but high levels of favouritism and corruption, the brain-drain is a major threat to their economic recovery. The risk is faced not only by Romania, Lithuania, Latvia and Bulgaria, but by Italy and Greece too (see Figure 8).

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[8] This indicator refers to the composition of the parliament at the end of the corresponding year (1990-2009). In bicameral systems data is taken for the lower house. It is used as a proxy for how much women are represented and how much their role in society is recognized, available at http://www.ipu.org/wmn-e/classif-arc.htm
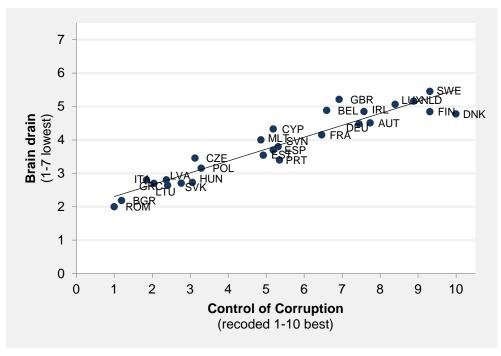
Figure 8. The "Brain-drain" and the control of corruption[9]

7. The impact of corruption on the absorption of EU funds

Finally, the existence of corruption is a significant barrier to the effective absorption of EU cohesion funds, even ignoring the effectiveness with which such funds reach their development objectives. It simply means that the more corrupt a country is, the less funding it succeeds in attracting for it to spend and be reimbursed by the EU from cohesion funds (see Figure 9). That leads to a vicious circle, as such funds are intended to foster development, in the absence of which corruption thrives. Corruption is obviously not the only factor affecting absorption: Lithuania and Poland are less corrupt than Romania, Bulgaria and Italy, but the difference cannot fully explain the wide differences in their performance in the absorption of EU funds.

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[9] Weighted average of the answers to the question "Does your country retain and attract talented people?". Answers range from 1 (the best and brightest normally leave to pursue opportunities in other countries) to 7 (there are many opportunities for talented people within the country, available at http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

Figure 9. Absorption rate and corruption[10]

Data source: European Commission, "EU cohesion funding- key statistics".

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[10] Percentage of the total funds allocated per Member State that has been paid by the Commission, on the basis of claims submitted. It indicates the payment rate for territorial cooperation. These are the combined figures for the European Regional Development Fund, the Cohesion Fund and the European Social Fund, available at http://ec.europa.eu/regional_policy/thefunds/funding/index_en.cfm

IV. Leaders and laggards

The EU likes to think of itself as enjoying the best rule of law and control of corruption in the world. International corruption rankings annually give many EU countries high marks for their capacity to control corruption, with ten countries regularly in the upper quarter of the best-governed countries in the world. Over the years, the hope that the EU's liberalized and harmonized markets and strong rule of law would determine the convergence of Italy, Greece, and the newer member states from the East has somewhat faded. Excepting Estonia and Slovenia, both of which quickly rose to join the leading group, hopes for the others did not materialize. Italy and Greece stagnated; even declined. So too did Spain, Portugal and Cyprus, while even Austria and the United Kingdom which were always near the top have recently slipped back somewhat. It is clear that national boundaries remain the boundaries of governance despite the trans-territoriality of crime and, increasingly, the law. Control of corruption is built up within domestic borders: if control fails nationally there is little that international law and conventions can do.

While the research project ANTICORRP will return with a full evaluation of national and sub-national favouritism and corruption next year, for the purpose of the current report we shall highlight only those features which illustrate the dangers of corruption to the common market in certain EU countries. For instance, to what extent is market competition hindered by government favouritism, state capture by corporate interests and corruption? The whole rationale behind the existence of the EU is that a common market will increase economic competitiveness and performance. If certain governments favour certain companies over others (whether due to political ties, contributions to party finance, bribery, the "pork barrel") the common market is endangered. Authors like Carolyn Warner have previously argued that increased competition due to the common market did not manage to restrain corruption: in fact quite the contrary (Warner 2007).

There is considerable variation among European countries where government favouritism is concerned (see Figure 10). The European average is below 4 with the maximum positive score being 7, and only seven countries are significantly above average: the four Scandinavian countries, Germany, the UK and Luxembourg. One new member country, Estonia, has managed to increase its performance to reach the average, while Greece and Italy are level with Romania, Slovakia, the Czech Republic, Latvia, Hungary and Bulgaria, which score the worst. **In other words, in a considerable number of EU member states (MS) we find that even on the core EU matter of the common market,**

government favouritism is the rule rather than the exception in more than half the countries of the EU (17), when the benchmark should be no fewer than 4 out of 7.
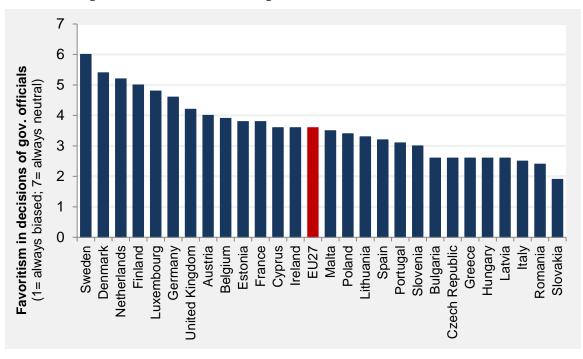
Figure 10. Performance on government favouritism of EU MS[11]

Data source: World Economic Forum, "Global Competitiveness Report 2010-2011".

The second important question is the extent to which the allocation of public funds, including European funds, is affected by discretion due to favouritism, fraud and corruption? (see Figure 11). The allocation of public resources should be universal, fair and lawful and not determined by favouritism due to a particular authority or office holder's ties to any company, individual or group. As a Swedish textbook for civil servants specifies: "When implementing laws and policies, government officials shall not take anything about the citizen/case into consideration that is not beforehand stipulated in the policy or the law" (Strömberg 2000).

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[11] Weighted average of the responses to the question: to what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? Answers range from 1 (always show favouritism) to 7 (never show favouritism), available at
http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf
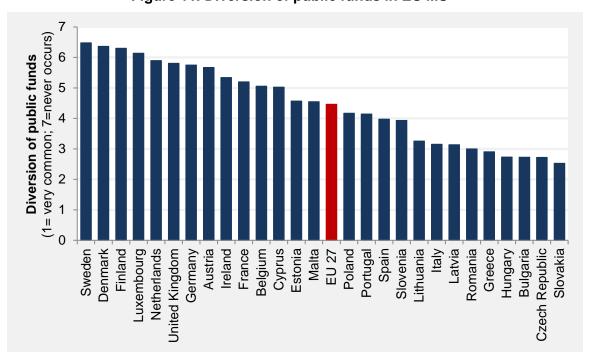
Figure 11. Diversion of public funds in EU MS[12]

Data source: World Economic Forum, "Global Competitiveness Report 2010-2011".

While most corruption surveys focus on bribes, once we accept that some EU governments provide market favours for companies in Europe we should question government impartiality in the realm of spending as well, especially since we presented evidence in the previous section that corruption greatly influences the distribution of public spending, channelling more funds into projects as opposed to into universal allocations. Unfortunately there are almost no audits to check on the relevant kind of data and practically no research, with money regularly being poured into new waves of surveys on corruption perception instead of into monitoring of public spending.
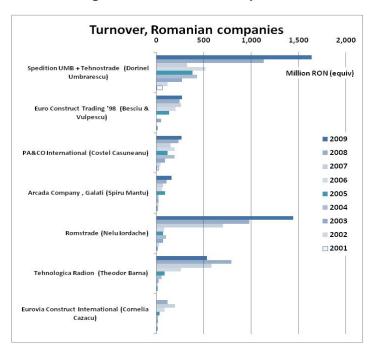
What should such monitoring audits look for? First, funds that are distributed only discretionarily, in other words without the transparent logic that would make any other civil servant authorize spending in exactly the same pattern as the particular individual supervising any given transaction which we might care to examine. Second, that the recipients of privileged allocations (transfers, subsidies, public contracts), have some particular tie to the party granting the allocation, a tie which would of course explain why the advantage was granted to them instead of to others. Such ties which could explain favouritism might be political (for instance, more EU funds can be granted to regions where leadership

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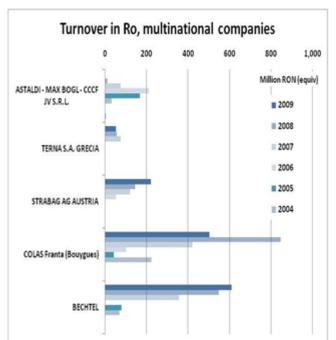
[12] Weighted average of the answers to the questions: how common is diversion of public funds to companies, individuals, or groups due to corruption? [1 = very common; 7 = never occurs], available at http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf
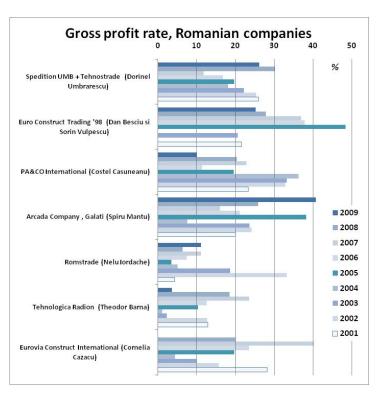
is of the same political persuasion as that of the controllers of funds; or extra-budgetary funds (such as reserve funds of prime ministers as in Slovakia, or of the government, as in Romania) might be distributed to reward political supporters' constituencies against opposition in the national Parliament; or discretionary allocation might be made either on the basis of regional, ethnic or family solidarity, or there might be personal rewards for those who decide allocations (bribes, kickbacks). The United Nations Convention against Corruption (UNCAC), as well as the legislation of many countries considers not just bribes but any allocation of that kind as corrupt, but unless we understand how allocations work in general it is difficult to discern if bribes are a way of paying for privilege, or its opposite - a way of buying equal access.
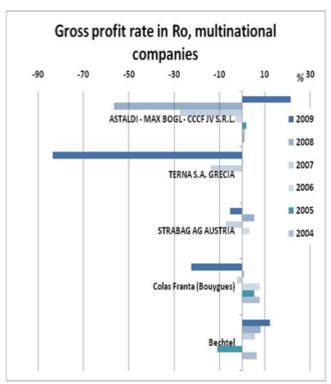
A more eloquent example as an illustration is the fate of international (mostly European) construction companies in the new member country of Romania, where government favouritism is entrenched. The same example could be taken from all countries with similar levels of government favouritism and across all sectors where government contracts are important, and not only infrastructure. What the figure below shows (see Figure 12) is turnover and profit of international companies compared to Romanian ones before and after EU accession (2004-2007). Romania's domestic companies thrived after accession when theoretically competition should have increased, with some of the companies making profits of 30% or more during recession years when the entire construction sector contracted nationally, while international ones diminished to near extinction. All the fabulous profits can be explained by government contracts commissioned by Romania's National Companies for Roads, a state operator.

Figure 12. Turnover and profit of domestic and international companies in Romania[13]

Source: Romanian Academic Society.

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[13] Alina Mungiu-Pippidi et al. 2011. Beyond Perception: Has Romania's Governance Improve since 2006? Bucharest: Romanian Academic Society, accessible on www.sar.org.ro/

Why did that not happen before 2007, since appointments to management of the company had always been political? The reason was the pending uncertainty related to Romania's accession date, whether it would be 2007 or 2008, which made the government reluctant to discriminate so much against European companies prior to accession. Since the publication of the figures in 2011 one of the most successful domestic entrepreneurs, Nelu Iordache from Romstrade, has been investigated by the OLAF and finally charged by Romanian prosecutors. He had allegedly built a private empire with public funds: the last acquisition - which precipitated his arrest - was the purchase of an aircraft for his company Blueair with the co-financing funds that the Romanian government had advanced for Arad-border highway, an EU-sponsored project which had been stalled for years. Had not Mr. Iordache openly misused that public money, no prosecutors would have considered our figure of 12 worth investigating, although it clearly shows a non-random distribution and clear discrimination against companies lacking national political connections. Connecting that to the legendary inefficiency of Romania's infrastructure development, we have a complete picture of how corruption can sabotage development intended to be sponsored by EU funds.

Having established how government favouritism is tied in with discretionary allocation of public funds we can go on to ask if ordinary citizens are affected by all this, or does the bulk remain in the area of grand corruption, fiscal deficit and so on? The answer is that citizens are affected, and proportionally so- there is again a correlation between countries with high government favouritism, diversion of public funds and complaints by citizens about poor services.

A 2010 study of sub-national variation in Quality of Government (35 000 European respondents) by the Gothenburg Quality of Government Institute, a leading ANTICORRP partner, found that people in some regions of Slovakia and Bulgaria rate the impartiality of law enforcement with scores lower than half of those in parts of Germany, Denmark or even Spain. Informal payments in the public health sector are a systemic problem in certain regions of Romania, Hungary, southern Italy, the Czech Republic and Greece, according to the same source (see Figure 13).
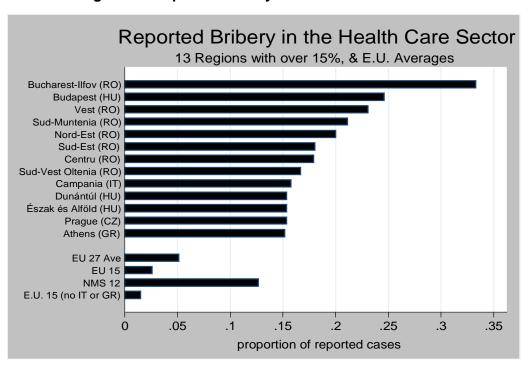
Figure 13. Reported Bribery in the Health care sector

Source: Quality of Government survey by Gothenburg University on EU regions (2010).

In a 2012 Eurobarometer the same group of countries (plus Cyprus, Lithuania, Portugal, Bulgaria) have the largest number of citizens complaining that corruption affects them most (see Figure 14). The European average is over 30 per cent, which is already problematic – it means after all that a third of citizens complain that they are personally affected by corruption - but in Romania and Greece the figure is above 70 per cent, indicating that we are dealing with policy failure, which cannot be solved by legal means only.
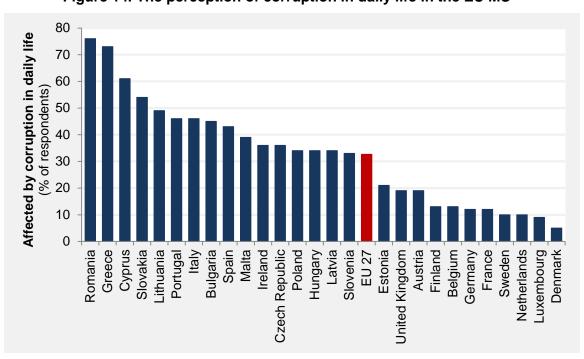
Figure 14. The perception of corruption in daily life in the EU MS[14]

Data source: Special Eurobarometer 374, "Corruption".

The conclusion to be drawn from this very brief review is that for a significant number of MS (i.e. more than half), corruption affects both top government spending decisions and the lives of ordinary people. The proportion is such that a policy approach is needed: with more than half of citizens affected we are no longer discussing corruption as 'deviation', but rather as the norm.

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[14] Percentage of respondents who "totally agree" or "tend to agree" that they are personally affected by corruption in their daily life, available at http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf

V.   Causes of corruption

Leaving aside the moralist literature on corruption, many economists consider that when costs are low and resources and opportunities high, it is rational for an individual to be corrupt. The World Bank's Robert Klitgaard (1988: 75) defined corruption as equilibrium, considering that when monopoly of power and administrative discretion are not checked by accountability, then the result is corruption. The literature on the enforcement of the rule of law (Becker and Stigler 1974), developed in Van Rijckeghem and Weder (1997) also looks for a balance when suggesting that very low wages combined with an absence of corruption detection leads to low control of corruption. Most literature on the national causes of corruption classifies factors as economic, political and cultural or groups the causes into two broad categories: structural factors (population, legacies, religion, past regime) and current government policies pertaining to the control of corruption (economic, but also specific anti-corruption policies). We suggest that an explanatory model of corruption at national level is best described as an equilibrium between opportunities (resources) for corruption and deterrents (constraints) imposed by the state and society, as follows:

Corruption/control of corruption = Opportunities (Power discretion + Material resources) – Deterrents (Legal + Normative)

Opportunities or resources can be detailed as:

- Discretionary power opportunities due not only to monopoly but also to privileged access under power arrangements other than monopoly or oligopoly – for example, negative social capital networks, cartels and other collusive arrangements, purposely poor regulation encouraging administrative discretion, lack of transparency turning information into privileged capital for power-holders and their relations, and so on.

- Material resources - including state assets, concessions and discretionary budget spending, foreign aid, natural resources in state property, public sector employment, and any other resources which can be used and abused, turned into spoils or generate rents.

Deterrents or constraints can be detailed as:

- Legal: This supposes an autonomous, accountable and effective judiciary able to enforce legislation, as well as a body of effective and comprehensive laws covering conflict of interest and enforcing a clear public-private separation.

- Normative: This implies that existing societal norms endorse public integrity and government impartiality, and permanently and effectively monitor deviations from that norm through public opinion, media, civil society, and a critical electorate.

We have tested this equilibrium formula empirically on a large number of countries to great effect in another paper (Mungiu-Pippidi et al. 2011). Here in this section we shall confine ourselves to reviewing the main significant determinants which cause corruption, with a number of observations applying only to the EU-27. Appendices 1-7 present all statistical models tested, but for the present we shall simply emphasize the main determinants of corruption, since no successful anti-corruption policy can be enacted without addressing them. We also present sundry solutions from the current anti-corruption arsenal which although usually recommended never seem to work. The statistical tests we used (regressions) essentially use a comparative method allowing us to evaluate whether countries which perform better are more or less associated with a certain determinant. When we say that something 'works' or 'does not work' we mean that we find a significant difference in controlling corruption between countries which have adopted that particular practice and those which have not.

We controlled for development in order to 'equalize' countries and to be sure we were not measuring some indirect effect of differences in development across the EU. The proxy we used for development was the human development index, an aggregated index formed from education, life expectancy and income which was devised by the United Nations Development Program.

The following has high impact and influences corruption greatly at the level of the EU-27:

1. **Officialdom; or "Red tape".** There is a very strong association between red tape and corruption, as excessive regulation is the main instrument used to increase administrative discretion and through it corruption. Greece and Italy are the outstanding cases, as Figure 15 shows. This indicator is an objective assessment and not subjective, so examining its components leads directly to the problem areas. The same relationship we can see when we look at the association between trade barriers and corruption (see Figure 16).
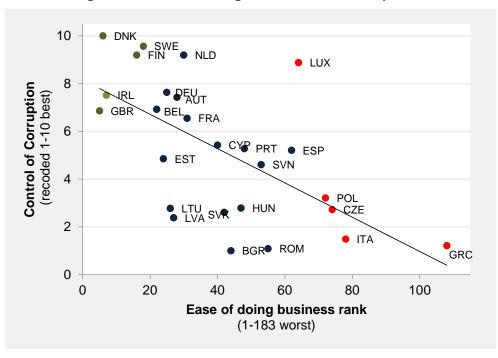
Figure 15. Ease of doing business and corruption[15]

Data source: International Bank for Reconstruction and Development/World Bank, "Doing business 2010".
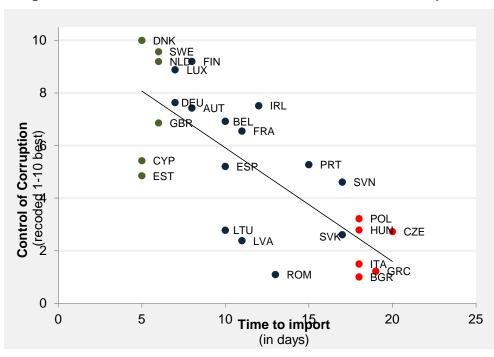
Figure 16. The association between trade barriers and corruption[16]

Data source: World Bank database. "Time to import (in days)".

2. **Transparency and e-government.** Transparency, in a variety of areas (fiscal transparency; transparency of assets for public officials; transparency of decision-making) is a key instrument for reducing administrative discretion. The more states offer their services electronically, the more corruption decreases (see Figure 17 and Figure 18); the effect is however mediated by a population able to use such services, in other words connected to the Internet and using it. Italy, for instance, is a developed country with a reasonable number of Internet connections, but with limited use. New member countries like Estonia have curtailed corruption dramatically by cutting red tape and advancing e-government, practically eliminating most opportunities for corruption. Even in the absence of mass usage, transparency works due to mass media, NGOs or directly interested parties (for instance in procurement).

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[16] Time to import in days is recorded in calendar days. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost, the fastest legal procedure is chosen. It is assumed that neither the exporter nor the importer wastes time and that each commits to completing each remaining procedure without delay. Procedures that can be completed in parallel are measured as simultaneous. The waiting time between procedures –for example, during unloading of the cargo – is included in the measure, available at http://data.worldbank.org/indicator/IC.IMP.DURS

Figure 17. The association between e-government availability and corruption[17]

Data source: Capgemini, IDC, Rand Europe, Sogeti and DTi for the European Commission, Directorate General for Information Society and Media, "Digitizing Public Services in Europe: Putting ambition into action", 9th Benchmark Measurement, December 2010.

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[17] Extent to which there is a fully automated and proactive delivery of the 20 key public services. The 20 services used as reference for benchmarking are: income taxes, job search services, social security benefits (unemployment benefits, child allowances, medical costs, student grants), personal documents (passports, driving licence), car registration, application for building permission, declaration to the police, public libraries(catalogues, search tools), birth (and marriage) certificates, enrolment in higher education, announcement of moving, health-related services, social contribution for employees, corporate tax, VAT, registration of a new company, submission of data to statistical offices, customs declaration, environment related permits and public procurement, available at http://www.capgemini.com/insights-and-resources/by-publication/2010-egovernment-benchmark
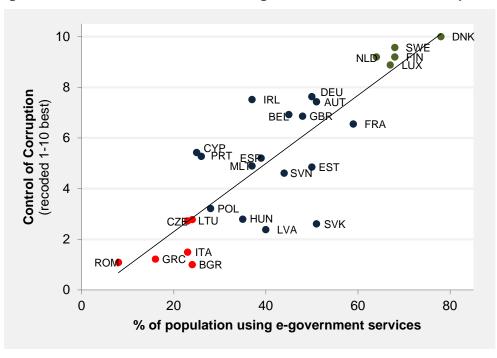
Figure 18. The association between e-government users and corruption[18]

Data source: Capgemini for European Commission Directorate General for Information Society and Media, "The User Challenge Benchmarking: The Supply of Online Public Services – Seventh Measurement", 2007.

3. **Quality of audit for the public sector.** Though we miss an objective evaluation of public sector audit, we have a measure of its effectiveness in the World Economic Forum´s Global Competitiveness Report 2010-2011. This measure correlates very well with control of corruption (see Figure 19).

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[18] Capgemini 2007: "The User Challenge Benchmarking The Supply Of Online Public Services – Seventh Measurement", prepared for the European Commission Directorate General for Information Society and Media, available at http://www.de.capgemini.com/m/de/tl/EU_eGovernment_Report_2007.pdf
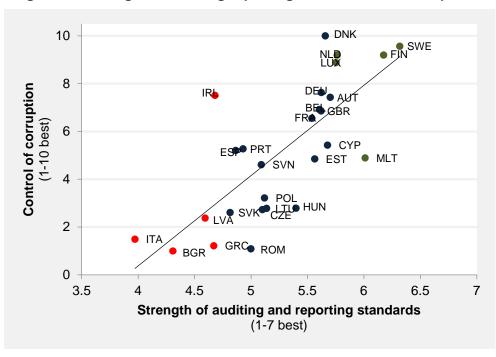
Figure 19. Strength of auditing/reporting standards and corruption[19]

4. **The dimension of public sector wages.** Development matters. Poverty and an informal economy are major corruption resources before themselves becoming impediments to development. Any country where claimants are in poverty, Court clerks discontented and income disparities great is unable to establish a judiciary capable of enforcing the law impartially and controlling corruption. While we find a direct correlation between public sector wages and control of corruption (see Figure 20), we also find that it is overall development which matters and not just salaries in selected categories. In the EU as well as in the rest of the world it is easier to maintain adequate control of corruption if everyone concerned is reasonably comfortably off: policemen, judges, Court clerks, politicians and citizens. Presently, countries which pay law enforcers and judges more are not less corrupt, but rather the opposite (see Figure 21), probably because that is frequent reform in corrupt countries. What is needed is a gradual and uniform rise in salaries, not disproportionate rises in certain public sector wages.

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[19] Weighted average of the answers to the question: how would you assess financial auditing and reporting standards regarding company financial performance? Responses range from 1 (extremely weak) to 7 (extremely strong), available at http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

Figure 20. Public sector wages and corruption[20]

Data source: European Commission, Annual macro-economic database (AMECO) and International Labour Organization, Laborsta database.

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[20] Own estimation of average salaries in the public sector (in €), based on government expenditure on compensation of employees, available at http://ec.europa.eu/economy_finance/db_indicators/ameco and general government employment, available at http://laborsta.ilo.org/default.html. Data is from 2010, with the following exceptions: Hungary (2009), Greece, Portugal and Sweden (2007), and France (2006).
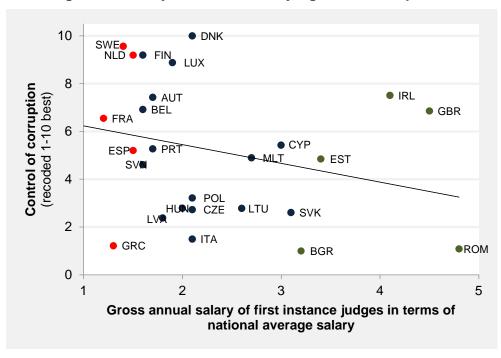
Figure 21. Salary of first instance judges and corruption[21]

Data source: European Commission for the Efficiency of Justice (CEPEJ), "European Judicial Systems".

5. **Civil society organizations (CSO) and the capacity for collective action.** Control of corruption is significantly better in countries with a larger number of CSOs (see Figure 22) and with more citizens engaged in voluntary activities (see Figure 23). It does not matter what kind of CSOs nor what kind of voluntary activity, for as long as the capacity for association and collective action exists a society is able to keep a check on public corruption. The association is so strong that its contrary must be just as well understood. In the absence of public oversight it is quite impossible even by repressive or administrative means to build-in control of corruption. Again, that shows the disadvantage of some East European and Mediterranean regions, which are rural and poor and have few NGOs which are all based in cities anyway.

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[21] Gross annual salary of 1st instance judges with regards to the national average gross annual salary. Data for the United Kingdom is based on the average of salaries in England, Wales and Scotland only, available at http://www.coe.int/t/dghl/cooperation/cepej/evaluation/2012/Rapport_en.pdf
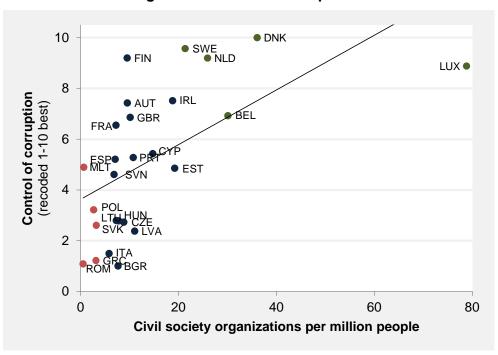
Figure 22. CSOs and corruption[22]

Data source: Quality of Government standard dataset.
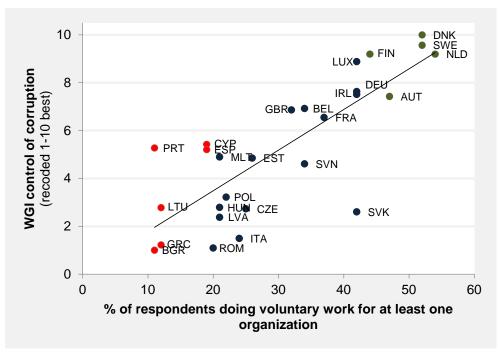
Figure 23. Voluntary work and corruption[23]

Data source: Standard Eurobarometer 72.

6. **Free media and well informed critical citizens.** Freedom of media and the presence of a large number of citizens well-informed through newspapers or high Internet use explain in considerable part good control of corruption (See Figure 24, Figure 25 and Figure 26). Knowledge of levels of newspaper readership and of use of the Internet enables us to predict the corruption score in over three quarters of European countries showing the extent to which a society's control of corruption is dependent on public scrutiny and the society's capacity for monitoring its own government.

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[23] % of respondents that answered Yes to the question: QE 11. Do you currently participate actively in or do voluntary work for one or more of the following organisations? The organisations included in the list were: sports club or association, cultural, education or artistic association, charitable or social aid.
organisation, religious organisation, trade union, organisation for environmental protection, leisure association for the elderly, business or professional organisation, political party or organisation, interest groups for specific causes, international organisation, organisation defending the interests of patients and/or disabled people, consumer organisation, and organisation for the defence of the rights of elderly people.

Figure 24. Freedom of the press and corruption[24]

Data source: Freedom House.

[24] The press freedom index is computed by adding three component ratings: Laws and regulations, political pressures and controls and economic influences. The scale ranges from 0 (most free) to 100 (least free), available at http://www.freedomhouse.org/report-types/freedom-press

Figure 25. Newspaper readership and corruption[25]

Data source: World Bank database.
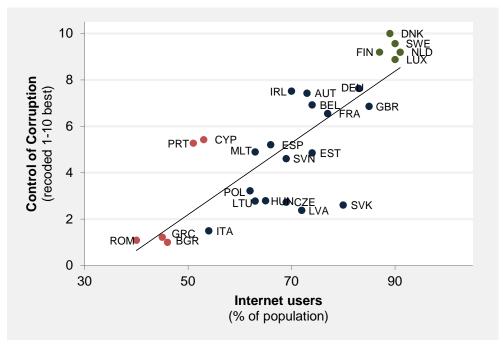
Figure 26. Internet users and corruption[26]

Data source: World Bank database.

What seems to make no significant impact:

1. **Party funding restrictions**. In the European Union, leaving aside the countries which fund parties exclusively from the national budget we find that the more restrictions a country has on party funding the more corrupt it is. That indicates that countries which have achieved good control of corruption have managed it by other means, while those which struggle with corruption and address it with more and more legislation do not make much headway. In fact, except for the radical measure of banning private party financing altogether, we find no evidence that it works.

2. **Existence of a dedicated anti-corruption agency.** Countries in the EU with special anti-corruption agencies do not perform significantly better than countries which deal with corruption through their normal legal system. We do find (WEF executive survey) a strong association between independence of the judiciary and control of corruption. In other words, if the judiciary is independent from government, corruption can be controlled through normal prosecution and the Law Courts. If the judiciary is not independent, than an anti-corruption agency is likely to become the target of political control, as has occurred in Latvia or Romania. In Slovenia, the battle for the

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agency was so fierce that a former head of it who was an internationally renowned anti-corruption fighter was charged on petty administrative grounds when he left office.

3. **The existence of a Judicial Council.** In the EU, the existence of a Judicial Council entrusted with the self-regulation of magistrates is not associated with any significantly better control of corruption. EU countries which have succeeded in building very effective control of corruption in Europe have done so by means of different institutional arrangements for their systems of prosecution and their judiciary arrangements. The one thing common to all – permanent positions for judges- was already in place throughout the EU. No other silver bullets in terms of the organization of the judiciary can be found within the existing data. There is most probably some (minor)room for improvement at the level of micro-organization - funds for investigations, case distribution, quality of Court infrastructure- but that will be the subject of a different study to be done later in the ANTICORRP project.

VI. Mitigating corruption risks. The policy inventory

Reviewing the performance of individual countries on the determinants of corruption sketched above (see Appendix 2 for details) allows a better understanding of variations across Europe – beyond the obvious dichotomy between Scandinavia and the Eastern Balkans which is mirrored by a severe difference in development between the two European regions. We ranked the countries from best to worst performance by indicator using those proved to have a strong impact on corruption, and we calculated the EU27 averages and identified whether a country was above or below average, or in the bottom five. We then scored the position of each country, added up the individual scores across indicators[27] and grouped the results in the Table 3.

Table 3. EU countries by corruption risk group

		Resources/opportunities	
		Low	**High**
Deterrents/Constraints	**High**	Austria Ireland Belgium Luxembourg Denmark Malta Finland Netherlands France Sweden Germany United Kingdom	Cyprus Estonia Hungary Lithuania
	Low	Italy Portugal Slovakia Slovenia Spain	Bulgaria Czech Republic Greece Latvia Poland Romania

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[27] Scores were assigned to each country depending on their ranking. For resources, we assigned 0 points to the best performers (above/below EU27 average depending on the indicator), 1 point to the middle group and 2 points to the bottom 5, since higher resources are associated with more corruption. For constraints, we assigned 2 points to the best performers (above/below EU27 average depending on the indicator), 1 point to the middle group and 0 to the bottom 5, since higher constraints are associated with less corruption. We then added the number of points obtained by each country and placed countries that obtained half or more of the available points in the resources or constraints indicators in the "high" category and those that obtained less than half the points in the "low" category.

The results enable us to classify all EU member states into four categories of corruption risk based on the causal model presented in the previous section.

Group A (high deterrents, low opportunities) is the group with the lowest risk of corruption, where control of corruption has been largely achieved and occasional corrupt acts can be dealt with successfully. It includes countries such as Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Malta, the Netherlands, Sweden and the UK. Those countries control opportunities for corruption through a transparent administration and economy, reduced officialdom and few opportunities for discretionary spending. Their equilibrium was arrived at via different historical paths and different organizational arrangements. Their diversity is good and the EU should not aspire to institutional 'monocropping'; in other words legislative arrangements and organization which are too similar across member states.

For countries struggling to build control of corruption the lessons from Group A countries are important insofar as they should be understood as development lessons. In other words, imports of current institutional arrangements from Group A countries to those with problems might be a tempting idea but is not likely to yield good results. What is crucial is rather to understand how the better-governed countries established control of corruption when corruption became a problem for them, in other words, their historical strategies for solving the problem. Institutions in current Group A countries are there for the maintenance rather than the establishing of control over corruption, and it is the latter that countries with problems need. None of the new member countries apart from Malta has managed to enter Group A, showing that there are still challenges for the control of corruption.

It must be mentioned, however, that control of corruption applies only within national borders; it is a domestic affair and nothing guarantees that a company from a country belonging to Group A when operating in another county where corruption is widespread would not play by the rules of the game applicable in countries where there is no control of corruption and outsiders might be obliged to pay bribes to enter particular markets. The only solution to that is strict enforcement of competition rules and monitoring of government favouritism within the EU.

Group B includes countries which have managed to create significant deterrents but still struggle with important challenges due to high resources for corruption. They include Estonia, Lithuania, Hungary and Cyprus. It might come as a surprise that a country like Estonia which performed best among new member countries and actively tries to reduce its resources for corruption through

neoliberal and e-government policies is in this group. Two variables show the challenges remaining for control of corruption there, namely the presence of significant EU funds, which increases the risk of corruption; and of an informal economy. In this group Lithuania presents most challenges: a large informal economy and poor e-government combined with significant funds, both from domestic and EU sources, which all raise the risk. Hungary has low e-government and significant discretionary funds, mostly from EU sources. Meanwhile, poor e-government is the main risk for Cyprus.

Group C includes countries with relatively low resources, but low constraints too. This group is composed of three Mediterranean countries, Italy, Spain and Portugal; and two East European countries, Slovenia and Slovakia. The crisis has acted as a strong anti-corruption agent in these countries, drying up resources and opportunities for corruption, yet they remain at higher risk than the previous group due to the presence of insufficient constraints. Moreover, normative social constraints and legal deterrents seem closely linked. The capacity to audit and control is considered insufficient in these countries; the independence of the judiciary is seen as problematic at least in Italy and Slovakia, and the tools available to society to control the government are feeble, with low levels of Internet connection (Spain and Slovenia do somewhat better), weak civil society and little media capacity to confront corruption.

Group D presents the highest corruption risks as it unites many opportunities with few deterrents. This group includes Greece from the old member states and five newer members: Poland, the Czech Republic, Latvia, Bulgaria and Romania, with control of corruption decreasing in that order. For a country to be in this group it must score among the five worst EU performers. Bulgaria, for example, on the constraints side scores lowest on audit capacity and judicial independence, as well as media freedom. On the opportunities side it is also in the bottom five for informal economy and discretionary funds. Romania is equally problematic, doing worst for the chapters of informal economy, discretionary spending, poor civil society, poor judiciary and it has a captive media and low internet access and little e-government. Greece combines a great deal of red-tape and low transparency with a poor performance overall on all constraints, legal and societal. Greek internet access and e-government are at the level of an underdeveloped country, while the country has an audit and a judiciary ranked among the worst. Civil society and media, in other words the demand for good governance are also at the level of the bottom five. Latvia has poor auditing and a captive media, as well as leading the European field for informal economy. It has significant EU funds though, which poses great risks. The Czech Republic's main risk is the presence of too much officialdom in

combination with high levels of discretionary funds, which poses a challenge to the judiciary, and mediocre public financial control. Poland has high spending on projects combined with much red-tape and poorly developed civil society. The latter two countries do better than the rest in this group and are closer to Slovakia and Hungary, but they are not quite equal yet.

VII. Recommendations

This review shows the considerable variation across EU member countries and opens the way to contextual reform paths for each and every country. Within each category approach, specific strategies can be designed for each country based on the existing problems, but also the strengths of each country. It is not the aim of this report to make recommendations for individual countries beyond the general analytical framework laid out here, but that framework is essential. Our statistical model accounts for over 80% of the variation, so remedial work based on any of those factors would be a substantial contribution to the control of corruption. Since those factors differ greatly, however, we have grouped them into seven generic recommendations:

1. *Understand the general limitations of narrowly conceived anti-corruption policies.*

Even when we manage to document anti-corruption policies at the European and global level, control of corruption as equilibrium is influenced by so many powerful factors that even effective policies do not manage to account for much difference across countries. At both European and global level, only countries which are more transparent fare significantly better in controlling corruption. **Countries which have a specialized anti-corruption agency or have adopted more legislation do not perform better**. Repressive policies alone do not seem to work where corruption is a major problem. Anti-corruption has to be understood in a broader governance context and policies promoted to reduce opportunities and resources, or, at the very least, not increase them, as the case is with EU funds.

2. *Understand the limitations of international approaches to anti-corruption.*

The European Union has been very active recently and plans to be even more so in pursuing cross-border anti-corruption activities, promoting global legislation against tax havens and money laundering, as well as assets' recovery. These policies are extremely valid, but some limitations apply which should be considered at all times. First, expectations tied to such policies should be moderate. Evidence shows again and again that control of corruption is a national equilibrium. Unless it is seriously affected at its origin, tax evasion and other behaviour of this type will reproduce themselves. In other words, we should not expect policies which cut the dragon's head to be sustainable as long as dragons are known to grow three heads instead of the one cut. The underlying causes are not touched by such policies, and therefore only a combination of the two (policies addressing causes and tracing of results) can

hope to produce some lasting and sustainable success. Assets recovery is also extraordinarily costly, so applied in isolation from a serious attempt to shake the equilibrium in the country where the assets were originally stolen is not very cost effective. Finally, in countries which fall below 65 in the World Bank control of corruption rankings (which is closely correlated with rule of law) such policies risk increasing red tape, which we know generates more corruption. So unintended consequences should be very carefully weighted, understanding that whenever rule of law is still problematic, more tight laws will not solve problems, but only create a larger implementation gap.

3. ***Discard policies which do not pass a cost-effective examination***, either due to very high costs (including political), or proven lack of impact.

The current generation of anti-corruption policies has been promoted with little or no cost-effectiveness analysis, despite evidence that impact is quite impossible to prove. We have meanwhile developed new indicators allowing tracing progress by sectors or over time, and policies should be more evidence based in the future. The Romanian example on competition in the infrastructure sector is telling: such indicators are needed to understand and prevent government favouritism, the most harmful form of corruption for the common market.

4. ***Reduce administrative resources for corruption.***

Such reforms are indispensable for nearly all Mediterranean and East European countries. Rather than presuming with no evidence that those countries need special anti-corruption units or new legislation, there is evidence that they can easily obtain more effective results if they focus on administrative reforms, cut red tape, liberalize trade, streamline regulation to reduce informality, increase transparency (in particular fiscal transparency to allow monitoring of government expenses in real time, but also transparency allowing monitoring of politicians and policymaking) and develop e-government. That would work especially well for countries such as Italy, Greece, Cyprus, Slovakia, the Czech Republic, Poland, Lithuania, Malta, Spain and Romania. Countries like Latvia, Estonia and even Bulgaria have already undertaken reform to become more 'Scandinavian' and it is the right way for them to go, although great challenges remain.

5. Increase public audit capacity.

This applies especially to Italy, Bulgaria, Latvia, Spain and Greece, but also to a lesser extent all new post-communist MS and should be seen as part of administrative reform. It can also be treated more creatively, by introducing audits by private sector, civil society, stakeholders, combinations of the above and so on.

6. Increase judicial autonomy and accountability.

This applies to Romania, Italy, Greece, Bulgaria and the Slovak Republic as a must, but also Latvia, Lithuania, Spain and the Czech Republic to a lesser extent. This is obviously a far more political and difficult to implement recommendation (more of a goal than an action itself), so it should not be itself the centrepiece of any anti-corruption strategy. Italy has relied on this strategy alone in the last twenty years with some notorious successful prosecutions, but overall small progress.

7. Increase local civil society capability for monitoring governance and controlling corruption.

This applies to Romania, Portugal, Greece, Slovakia, Poland, Cyprus, Bulgaria, Latvia, but also Spain and Slovenia. It implies systems of social accountability designed for the auditing of public expenses or budget planning (with civil society groups being permanently involved in the monitoring of EU funds and other government expenses, for instance), support from government to develop internet access and use, transparency of media ownership and advertising revenues to protect media from capture by vested interests in difficult economic environments like the present one. The problem is particularly difficult in poor countries where the number of people involved in civil society groups is very small. The development of civil society, on the model of assistance programmes to developing countries should be made a priority for these EU countries if their people are ever to be able to exercise any corruption control. Unfortunately, with the exception of Estonia no new member country has an operational program dedicated to civil society and the EU funds dedicated to building oversight capacity of civil society are practically zero. In countries like Czech Republic, Slovakia, Romania and Bulgaria the grassroots fight against corruption exists based on only a handful of activists. If only a tiny fraction of EU funds out of those intended for projects in Sicily or Bulgaria should go to citizens' associations who should take part in the planning, evaluation and auditing of such projects, and would publish all expenses on Internet in real time, an immediate improvement would be felt. Thirty years of EU evaluations have not managed to uncover what any Sicilian villager could have told evaluators from the onset: what is the money really for (or whom) and how it was really spent, because such evaluations

never consult the villagers. The empowerment of those who lose from corruption is the most neglected from all the potentially effective and sustainable anti-corruption strategies.

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Appendices

Appendix 1: Pearson´s Correlations between Control of Corruption and selected consequences of corruption in the EU27

VARIABLES		Government investment in gross capital formation (% of GDP)	Government expenditure on health (% of GDP)	Gender pay gap	% of Women in Parliament	Brain drain	Vulnerable employment	Government budget balance (% of GDP)	Tax revenue as % of GDP
Control of Corruption estimate 2009	Pearson Correlation	-0.52*	0.55**	0.170	0.678***	0.944***	-0.537**	0.547**	0.702***
	Sig. (2 tailed)	0.013	0.003	0.396	0.000	0.00	0.003	0.003	0.000
	N	22	27	27	26	27	27	27	27

*** p<0.001, ** p<0.01, *p<0.05

Appendix 2: OLS analysis for different consequences of corruption

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Government investment in capital formation (% of GDP)		Government expenditure on health (% of GDP)		Government budget balance (% of GDP)		Tax revenue as % of GDP		Vulnerable employment	
Control of Corruption 2009 estimate (recoded 1-10 best)	-0.18*	0.00	0.32**	-0.05	0.67**	0.94**	1.65***	0.91	-1.30**	-1.77*
	(0.079)	(0.115)	(0.096)	(0.115)	(0.204)	(0.315)	(0.335)	(0.492)	(0.409)	(0.636)
HDI score		-15.80		32.84***		-23.83		65.50		40.90
		(7.729)		(7.714)		(21.178)		(33.098)		(42.829)
Constant	4.27***	16.81*	4.87***	-21.20**	-8.61***	10.30	27.83***	-24.15	18.81***	-13.64
	(0.465)	(6.149)	(0.568)	(6.137)	(1.208)	(16.850)	(1.984)	(26.334)	(2.425)	(34.075)
Observations	27	27	27	27	27	27	27	27	27	27
R-squared	0.17	0.29	0.31	0.61	0.30	0.33	0.49	0.56	0.29	0.31
Adj. R-squared	0.14	0.23	0.28	0.57	0.27	0.28	0.47	0.53	0.26	0.26

Standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05

Appendix 2 (cont.): OLS analysis for different consequences of corruption

VARIABLES	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
	Women in Parliament (%)		Gender pay gap		Brain drain		EU funds absorbed (%)	
Control of Corruption 2009 estimate (recoded 1-10 best)	2.64***	2.67**	0.41	0.21	0.36***	0.31***	1.59*	1.92
	(0.584)	(0.927)	(0.474)	(0.749)	(0.025)	(0.037)	(0.617)	(0.973)
HDI score		-2.51		17.22		4.02		-28.68
		(61.979)		(50.388)		(2.512)		(65.523)
Constant	9.74**	11.74	13.09***	-0.58	1.95***	-1.24	36.75***	59.50
	(3.431)	(49.306)	(2.807)	(40.090)	(0.147)	(1.998)	(3.656)	(52.132)
Observations	26	26	27	27	27	27	27	27
R-squared	0.46	0.46	0.03	0.03	0.89	0.90	0.21	0.22
Adj. R-squared	0.44	0.41	-0.01	-0.05	0.89	0.89	0.18	0.15

Standard errors in parentheses

*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$

Appendix 3: **OLS analysis for Control of Corruption (2010) with different resources as explaining variables**

VARIABLES	(1) Model I	(2) Model II	(3) Model III	(4) Model IV	(5) Model V	(6) Model VI	(7) Model VII	(8) Model VIII	(9) Model IX	(10) Model X
Size of informal economy (% of GDP)	-0.23*** (0.044)	-0.13* (0.059)								
Government investment in gross capital formation (% of GDP)			-0.93* (0.449)	0.05 (0.401)						
Average public sector wages					0.00* (0.000)	0.00 (0.000)				
Average annual regional and cohesion funds as % of GDP (2007-2013)							-1.55*** (0.289)	-0.85 (0.462)		
First instance judges salary ratio to national average salary									-0.78 (0.541)	0.13 (0.432)
HDI score		31.28* (13.015)		52.60*** (11.630)		49.56** (16.773)		29.14 (15.397)		53.17*** (10.826)
Constant	10.70*** (1.118)	-18.44 (12.168)	8.33*** (1.587)	-39.84** (10.717)	3.39* (1.230)	-37.18* (13.769)	7.27*** (0.539)	-18.53 (13.640)	7.02*** (1.344)	-40.45*** (9.714)
Observations	27	27	27	27	19	19	27	27	27	27
R-squared	0.52	0.61	0.15	0.54	0.22	0.50	0.53	0.59	0.08	0.54
Adj. R-squared	0.50	0.58	0.11	0.50	0.18	0.43	0.52	0.56	0.04	0.50

Standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05

Appendix 3 (cont.): OLS analysis for Control of Corruption (2010) with different resources as explaining variables

VARIABLES	(11) Model XI	(12) Model XII	(13) Model XIII	(14) Model XIV	(15) Model XV	(16) Model XVI	(17) Model XVII	(18) Model XVIII
Time to import (in days)	-0.43***	-0.32***						
	(0.075)	(0.057)						
Ease of doing business			-0.07***	-0.05***				
			(0.019)	(0.013)				
% of population using e-government services					0.13***	0.10***		
					(0.017)	(0.019)		
Online availability and delivery of 20 basic public services							0.08*	0.03
							(0.032)	(0.026)
HDI score		36.35***		43.88***		23.84**		47.13***
		(7.207)		(7.784)		(8.413)		(10.295)
Constant	10.23***	-22.18**	8.15***	-30.08***	-0.39	-19.36**	-1.11	-37.55***
	(0.941)	(6.460)	(0.878)	(6.807)	(0.763)	(6.725)	(2.734)	(8.216)
Observations	26	26	26	26	27	27	27	27
R-squared	0.58	0.80	0.38	0.74	0.72	0.79	0.18	0.56
Adj. R-squared	0.56	0.78	0.36	0.72	0.71	0.77	0.15	0.53

Standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05

Appendix 4: **OLS analysis for Control of Corruption (2010) with different constraints as explaining variables**

VARIABLES	(1) Model I	(2) Model II	(3) Model III	(4) Model IV	(5) Model V	(6) Model VI	(7) Model VII	(8) Model VIII
Press freedom	-0.31***	-0.23***						
	(0.040)	(0.044)						
Internet users			0.15***	0.11***				
			(0.023)	(0.028)				
Daily Newspaper circulation per capita					0.02***	0.01***		
					(0.003)	(0.004)		
% of population doing voluntary work							0.17***	0.12**
							(0.025)	(0.037)
HDI score		25.39**		26.19*		34.36**		20.30
		(8.474)		(10.052)		(9.036)		(12.444)
Constant	11.61***	-11.72	-5.53**	-24.64**	0.55	-26.99**	0.09	-15.84
	(0.893)	(7.826)	(1.654)	(7.484)	(0.835)	(7.271)	(0.826)	(9.799)
Observations	27	27	27	27	22	22	27	27
R-squared	0.70	0.78	0.64	0.72	0.68	0.82	0.65	0.68
Adj. R-squared	0.69	0.76	0.62	0.69	0.67	0.80	0.64	0.66

Standard errors in parentheses

*** $p<0.001$, ** $p<0.01$, *$p<0.05$

Appendix 4 (cont.): OLS analysis for Control of Corruption (2010) with different constraints as explaining variables

VARIABLES	(9) Model IX	(10) Model X	(11) Model XI	(12) Model XII	(13) Model XIII	(14) Model XIV
CSOs per population	0.11**	0.07**				
	(0.030)	(0.023)				
Judicial independence			2.15***	1.87***		
			(0.176)	(0.235)		
Strength of auditing and reporting standards					3.78***	2.75***
					(0.663)	(0.510)
HDI score		42.15***		12.50		36.53***
		(9.293)		(7.127)		(7.162)
Constant	3.63***	-31.75***	-5.12***	-14.41*	-14.73***	-40.48***
	(0.620)	(7.814)	(0.874)	(5.366)	(3.524)	(5.630)
Observations	26	26	27	27	27	27
R-squared	0.36	0.66	0.86	0.87	0.56	0.79
Adj. R-squared	0.33	0.63	0.85	0.86	0.55	0.77

Standard errors in parentheses

*** p<0.001, ** p<0.01,*p<0.05

Appendix 5: OLS analysis for Control of Corruption (2010) with different anti-corruption instruments as explaining variables

VARIABLES	(1) Model I	(2) Model II	(3) Model III	(4) Model IV	(5) Model V	(6) Model VI
Years since FOIA	0.02*	0.01				
	(0.011)	(0.009)				
Years since Ombudsman			0.04**	0.02*		
			(0.012)	(0.010)		
Years since ACA					-0.05	0.03
					(0.08)	(0.06)
HDI score		47.82***		42.02***		52.96***
		(10.001)		(9.574)		(10.096)
Constant	4.67***	-35.84***	3.91***	-31.40***	5.58***	-40.15***
	(0.581)	(8.482)	(0.588)	(8.058)	(0.762)	(8.733)
Observations	27	27	27	27	27	27
R-squared	0.15	0.57	0.34	0.63	0.02	0.54
Adj. R-squared	0.12	0.53	0.31	0.60	-0.02	0.50

Standard errors in parentheses

*** $p<0.001$, ** $p<0.01$, * $p<0.05$

Appendix 6: Country ranking for indicators regarding opportunities for corruption

Average size of informal economy as % of GDP		Score	Government investment in gross capital formation (% of GDP)		Score	Average annual amount received in cohesion funds (as % of GDP)		Score	% of population using eGovernment services		Score	Online availability and delivery of 20 basic public services		Score	Ease of doing business		Score	Total score (resources)		Level of resources for corruption
Austria	9,8	0	Austria	1,1	0	Luxembourg	0,02	0	Denmark	78	0	Austria	100	0	United Kingdom	5	0	Austria	0	LOW
Luxembourg	9,9	0	Belgium	1,6	0	Denmark	0,03	0	Finland	68	0	Ireland	100	0	Denmark	6	0	Belgium	1	LOW
United Kingdom	12,9	0	Germany	1,7	0	Netherlands	0,04	0	Sweden	68	0	Italy	100	0	Ireland	7	0	Bulgaria	7	HIGH
Netherlands	13	0	Italy	2,1	0	Austria	0,06	0	Luxembourg	67	0	Malta	100	0	Finland	16	0	Cyprus	5	HIGH
France	15,4	0	Malta	2,1	0	Sweden	0,07	0	Netherlands	64	0	Portugal	100	0	Sweden	18	0	Czech Republic	5	HIGH
Germany	16	0	Denmark	2,2	0	Ireland	0,07	0	France	59	0	United Kingdom	98	0	Belgium	22	0	Denmark	0	LOW
Ireland	16	0	Greece	2,3	0	United Kingdom	0,08	0	Austria	51	0	Denmark	95	0	Estonia	24	0	Estonia	5	HIGH
Denmark	18,3	0	Finland	2,5	0	Belgium	0,08	0	Slovak Republic	51	0	Finland	95	0	Germany	25	0	Finland	0	LOW
Finland	18,5	0	United Kingdom	2,5	0	France	0,10	0	Estonia	50	0	Germany	95	0	Lithuania	26	0	France	0	LOW
Sweden	19,6	0	Slovak Republic	2,6	0	Finland	0,13	0	Germany	50	0	Netherlands	95	0	Latvia	27	0	Germany	0	LOW
Slovak Republic	19,7	0	France	3,1	0	Germany	0,15	0	United Kingdom	48	0	Slovenia	95	0	Austria	28	0	Greece	6	HIGH
Czech Republic	19,8	0	Hungary	3,4	1	Italy	0,26	0	Belgium	45	0	Spain	95	0	Netherlands	30	0	Hungary	7	HIGH
Belgium	22,5	0	Ireland	3,5	1	Spain	0,47	0	Slovenia	44	0	Estonia	94	0	France	31	0	Ireland	2	LOW
Portugal	22,5	0	Sweden	3,5	1	Cyprus	0,50	0	Latvia	40	1	Latvia	93	0	Cyprus	40	0	Italy	3	LOW
Spain	22,9	0	Netherlands	3,6	1	Greece	1,30	1	Spain	39	1	France	85	0	Slovak Republic	42	1	Latvia	6	HIGH
Hungary	25,8	1	Portugal	3,6	1	Slovenia	1,65	1	Ireland	37	1	Belgium	79	1	Bulgaria	44	1	Lithuania	9	HIGH
Malta	27,0	1	Latvia	3,7	1	Portugal	1,77	1	Malta	37	1	Poland	79	1	Hungary	47	1	Luxembourg	2	LOW
Italy	27,2	1	Cyprus	3,8	1	Malta	1,93	1	Hungary	35	1	Czech Republic	74	1	Portugal	48	1	Malta	3	LOW
Poland	28,0	1	Estonia	3,9	1	Romania	2,21	1	Poland	28	1	Lithuania	72	1	Slovenia	53	1	Netherlands	1	LOW
Slovenia	28,0	1	Spain	4,0	1	Slovak Republic	2,49	1	Portugal	26	1	Luxembourg	72	1	Romania	55	1	Poland	7	HIGH
Cyprus	29,4	1	Luxembourg	4,1	1	Czech Republic	2,52	1	Cyprus	25	1	Bulgaria	70	1	Spain	62	1	Portugal	3	LOW
Greece	29,9	1	Czech Republic	4,3	1	Bulgaria	2,64	1	Bulgaria	24	1	Sweden	70	1	Luxembourg	64	2	Romania	9	HIGH
Lithuania	31,9	2	Slovenia	4,4	2	Poland	2,71	2	Lithuania	24	2	Hungary	66	2	Poland	72	2	Slovak Republic	3	LOW
Romania	36,3	2	Bulgaria	4,6	2	Estonia	3,39	2	Czech Republic	23	2	Slovak Republic	63	2	Czech Republic	74	2	Slovenia	4	LOW
Bulgaria	38,5	2	Lithuania	4,6	2	Lithuania	3,51	2	Italy	23	2	Romania	60	2	Italy	78	2	Spain	2	LOW
Estonia	40,3	2	Poland	5,6	2	Latvia	3,59	2	Greece	16	2	Cyprus	55	2	Greece	109	2	Sweden	2	LOW
Latvia	41,6	2	Romania	5,7	2	Hungary	3,69	2	Romania	8	2	Greece	48	2	Malta	N/A		United Kingdom	0	LOW
EU27 Average	23,7296296		**EU27 Average**	3,337037		**EU27 Average**	1,3129269		**EU27 Average**	41,777778		**EU27 Average**	83,259259		**EU27 Average**	40,5				

■ level of resources is favorable to control corruption compared to the EU27 average (0 points)

■ level of resources is unfavorable to control corruption compared to the EU27 average (1 point)

■ level of resources is very unfavorable to control corruption compared to the EU27 average (2 points)

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Appendix 7: Country ranking for indicators regarding constraints for corruption

CSOs per population		Score	Freedom of the press		Score	Internet users (% of population)		Score	Judicial independence		Score	Strength of auditing and reporting standards		Score	Total score by country		Level of constraints against corruption
Luxembourg	78,82	2	Finland	10	2	Netherlands	91	2	Sweden	6,56	2	Sweden	6,32	2	Austria	10	HIGH
Denmark	36,05	2	Sweden	10	2	Luxembourg	90	2	Denmark	6,40	2	Finland	6,17	2	Belgium	12	HIGH
Belgium	30,05	2	Denmark	11	2	Sweden	90	2	Germany	6,37	2	Malta	6,01	2	Bulgaria	2	LOW
Netherlands	25,91	2	Belgium	12	2	Denmark	89	2	Finland	6,33	2	Netherlands	5,76	2	Cyprus	9	HIGH
Sweden	21,35	2	Luxembourg	12	2	Finland	87	2	United Kingdom	6,29	2	Luxembourg	5,75	2	Czech Republic	6	LOW
Estonia	19,24	2	Netherlands	14	2	United Kingdom	85	2	Ireland	6,25	2	Austria	5,70	2	Denmark	12	HIGH
Ireland	18,79	2	Ireland	15	2	Germany	83	2	Netherlands	6,23	2	Cyprus	5,68	2	Estonia	12	HIGH
Cyprus	14,74	2	Portugal	16	2	Slovak Republic	80	2	Luxembourg	5,87	2	Denmark	5,66	2	Finland	11	HIGH
Latvia	11,06	1	Estonia	17	2	France	77	2	Austria	5,77	2	Germany	5,62	2	France	9	HIGH
Portugal	10,76	1	Germany	17	2	Belgium	74	2	Cyprus	5,49	2	United Kingdom	5,62	2	Germany	12	HIGH
United Kingdom	10,13	1	Czech Republic	18	2	Estonia	74	2	Estonia	5,46	2	Belgium	5,61	2	Greece	0	LOW
Austria	9,56	1	United Kingdom	19	2	Austria	73	2	Belgium	5,20	2	Estonia	5,57	2	Hungary	7	HIGH
Finland	9,53	1	Austria	21	1	Latvia	72	2	Malta	5,04	2	France	5,54	2	Ireland	10	HIGH
Czech Republic	8,83	1	Lithuania	21	1	Ireland	70	2	France	4,79	1	Hungary	5,40	2	Italy	2	LOW
Lithuania	7,77	1	Cyprus	22	1	Czech Republic	69	1	Poland	4,33	1	Lithuania	5,14	1	Latvia	6	LOW
Bulgaria	7,66	1	Malta	22	1	Slovenia	69	1	Portugal	4,29	1	Poland	5,12	1	Lithuania	7	HIGH
Hungary	7,28	1	France	23	1	Spain	66	1	Slovenia	4,25	1	Czech Republic	5,10	1	Luxembourg	10	HIGH
France	7,22	1	Hungary	23	1	Hungary	65	1	Hungary	4,04	1	Slovenia	5,09	1	Malta	8	HIGH
Spain	7,08	1	Slovak Republic	23	1	Lithuania	63	1	Czech Republic	3,97	1	Romania	5,00	1	Netherlands	12	HIGH
Slovenia	6,83	1	Poland	24	1	Malta	63	1	Spain	3,82	1	Portugal	4,93	1	Poland	4	LOW
Italy	5,82	1	Spain	24	1	Poland	62	1	Latvia	3,66	1	Spain	4,87	1	Portugal	6	LOW
Slovak Republic	3,181	0	Slovenia	25	1	Italy	54	1	Lithuania	3,59	1	Slovak Republic	4,82	1	Romania	2	LOW
Greece	3,111	0	Latvia	26	0	Cyprus	53	0	Greece	3,54	0	Ireland	4,68	0	Slovak Republic	5	LOW
Poland	2,641	0	Greece	29	0	Portugal	51	0	Italy	3,48	0	Greece	4,67	0	Slovenia	6	LOW
Malta	0,615	0	Italy	33	0	Bulgaria	46	0	Romania	3,00	0	Latvia	4,59	0	Spain	6	LOW
Romania	0,481	0	Bulgaria	34	0	Greece	45	0	Bulgaria	2,96	0	Bulgaria	4,31	0	Sweden	12	HIGH
Germany	N/A		Romania	43	0	Romania	40	0	Slovak Republic	2,90	0	Italy	3,97	0	United Kingdom	11	HIGH
EU27 Average	**14,02**		**EU27 Average**	**21**		**EU27 Average**	**70**		**EU27 Average**	**4,81**		**EU27 Average**	**5,29**				

level of constraints is favorable to control corruption compared to the EU27 average (2 points)

level of constraints is unfavorable to control corruption compared to the EU27 average (1 point)

level of constraints is very unfavorable to control corruption compared to the EU27 average (0 points)