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The Good, the Bad and the Ugly:
Controlling Corruption in the European Union[1]

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[1] This report was first presented in an earlier draft to the European Parliament in April 2013, see Mungiu-Pippidi, Alina. "The good, the bad and the ugly: controlling corruption in the European Union." *Advanced Policy Paper for Discussion in the European Parliament* 9 (2013). Since the beginning of the ANTICORRP project in 2012 one of the main objective of the project, replacing public opinion data with more objective data has been achieved. The current paper updates the 2012 advanced report with the new measures of public integrity, this time actionable and more reliable in the detection of trends and change due to policy intervention. It preserves however the original section on consequences of corruption with updated data.

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Executive Summary

Since the beginning of the ANTICORRP project in 2012, one of the main objectives has been to replace corruption data based on public opinion with more objective measurements of corruption and this is exactly the goal of this report: it uses more reliable evidence than surveys can produce to document control of corruption across EU Member States and estimate its consequences. This report was first presented in an earlier draft to the European Parliament in April 2013[2]. The current paper, however, is more than just an update, it also covers some important advances in the measurement of corruption:

Section I reviews the evidence gathered from corruption surveys such as the Eurobarometer and other expert measurements to paint a picture of the state of corruption in the EU28. More importantly, it shows examples of how ANTICORRP researchers have taken advantage of public procurement data to create more objective corruption indicators based on a number of practices associated to favouritism. One of the indicators introduced here diagnose particularistic practices in the EU28 is the percentage of contracts awarded through procurement processes involving a single bidder.

Section II outlines seven consequences of corruption across the EU28. It presents evidence linking corruption to:

1. Lower levels of trust in government;
2. Deviation of public spending from sectors less prone to corruption (health and maintenance) to sectors more prone to it (construction);
3. Lower levels of tax collection;
4. Exclusion of women and minorities;
5. Less talent retention or increased levels of "Brain drain";
6. Diminished capacity to innovate; and
7. Lower ability to absorb EU cohesion funds.

Section III presents evidence of what works and what does not in the fight against corruption. It shows that two of the most advertised anticorruption policies of the last two decades, i.e. establishing an Anti-Corruption Agency (ACA) and restricting political finance, have not helped curb corruption in the EU28. The section also offers an overview of what does work and identifies six determinants of

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[2] See Mungiu-Pippidi, A. (2013) "The good, the bad and the ugly: controlling corruption in the European Union." Advanced Policy Paper for Discussion in the European Parliament 9.

corruption/control of corruption: **administrative burden**, **trade barriers**, **transparency**, **auditing standards**, **judicial independence** and **civic engagement**. These factors have been theoretically and statistically proven to capture different dimensions of the resources and constraints that determine the governance equilibrium in a country.

Section IV presents the new measures of public integrity based on the six factors listed above. The **Index of Public Integrity** (IPI) is based on the six indicators identified in the previous section, which on one hand correlate sufficiently to be aggregated into one index, and on another are strongly associated with existing corruption indicators. The IPI offers the advantage of being actionable and more reliable in the detection of trends and changes in the levels of corruption caused by policy interventions. This part also offers a full ranking of public integrity in the EU28 based solely on the IPI and an analysis of the underlying causes of corruption in different sets of countries in the EU.

Finally, Section V contains a set of policy recommendations that highlight the importance of creating contextual anticorruption reform paths based on a country's strengths and weaknesses.

## I.   What is corruption and how do we measure it?

The World Bank's Control of Corruption (CoC) score, a composite indicator built from some of the most popular corruption measurement shows a great variation across the European Union (EU): On one hand, and despite having lost some of its shine after its latest enlargement and the EU financial crisis, experts still rank ten European countries among the best governed in the world. Sweden, Denmark, Finland and most of Western Europe are often considered bastions of good governance in the continent and worldwide. On a global perspective, even Spain and Portugal make it into the upper tercile of control of corruption despite the deterioration they suffered after the crisis. On the other hand, the remaining countries of Southern and Central and Eastern Europe lag behind with Romania, Bulgaria and Croatia at the bottom, closely followed by Greece and Italy. The one exception among the newer members is Estonia, the big anticorruption performer in the EU28. This small Baltic country has surpassed some of the Mediterranean older Member States and has closed ranks with the Western European.

Although the EU contains ten of the best-governed countries in the world, Europeans have complained more about corruption since the advent of the latest economic crisis. The self-interested behaviour of their elites and the deterioration of merit-based society are the main sources of concern among Europeans. The Special Eurobarometer 397 from 2013, dedicated specifically to corruption, reports 7 out of 10 Europeans to agree that corruption is part of the business culture in their country (66% of respondents) and that favouritism and corruption hamper business competition (68% of respondents). More than one in every two Europeans also think that political connections are the only way to succeed in business (58%) and 73% of the respondents also agree with the statement that bribery and connections are often the easiest way to obtain public services. This belief is most widespread in Greece (93%), Cyprus (92%), Slovakia and Croatia (89% each). Moreover, out of the 28,000 respondents in the survey, 20,000 (75%) deem corruption as very or fairly widespread in their countries.

What explains this apparent disconnect between the World Bank's assessment of corruption and the perceptions of the common citizens in the EU? **Figure 1** tries to shed some light on this question by analysing the responses of Europeans who see corruption as widespread in their countries. It considers three of the questions asked in the survey: 1) whether respondents had direct experience with corruption over the past 12 months (i.e. paid a bribe to a public authority), 2) whether they believe

that political connections are the only way to succeed in business and 3) whether favouritism and other corrupt practices impact business competition in their countries.

Figure 1. Experience of corruption and perception of particularism and favouritism among respondents with high perceptions of corruption (2013)
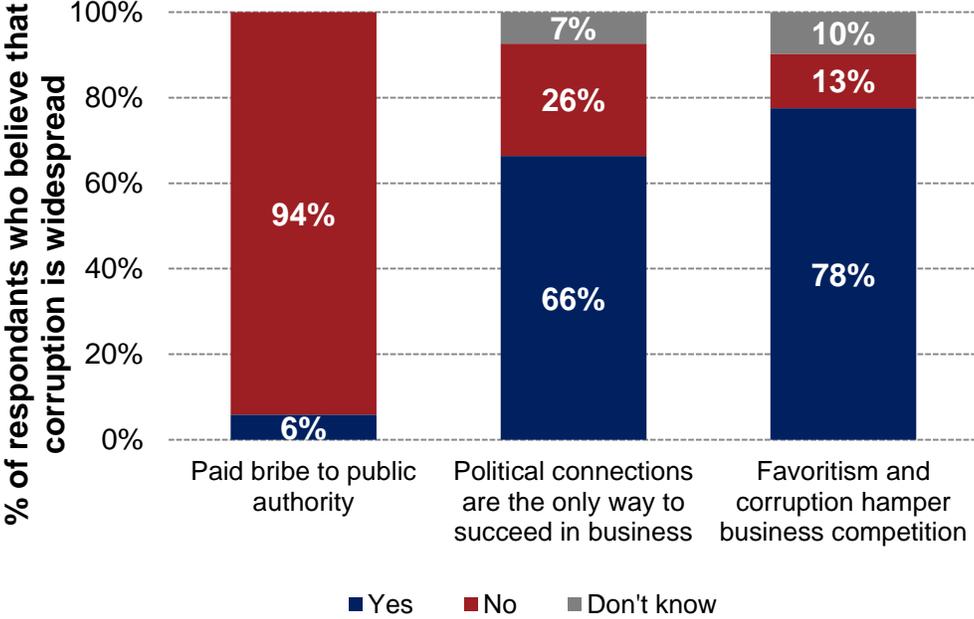
Source of data: Eurobarometer 79.1 (2013)

The results shown in **Figure 1** might surprise some since they reveal that bribery is not the reason behind the high perceptions of corruption: out of the total number of Europeans assessing corruption as widespread in their countries, only 6% paid a bribe in the 12 months prior to the survey. Moreover, bribery seems to be mostly a practice of the post-communist countries given their legacy of excessive administrative discretion, low public sector wages, poor regulatory quality and lack of investment in merit based systems and bureaucracies. Bribery, however, is quite exceptional in the rest of Europe. Clearly, the negative perceptions of Europeans are not based on their experience with bribing, but on their perception of favouritism: 66% of the Eurobarometer respondents who believe that corruption is widespread believe that political connections are the only way to succeed in business and 78% think that business competition is being distorted by corruption and favouritism (see columns 2 and 3 in **Figure 1**). This shows that the notion of particularism is what is driving the citizens' concerns with corruption.

In the context of the ANTICORRP project, particularism is understood as the deviation from the norm of ethical universalism in public resource allocation (as defined in law, rules, and the modern

principles of administrative impersonality, impartiality and equality) resulting in undue benefit for individuals or groups. Particularism limits access to resources (some applicants are favoured and some are discriminated) resulting in unfair treatment. We know from the 88,000 respondents survey organised by the Quality of Government Institute (QoG) team at Gothenburg University within the ANTICORRP project that many Europeans perceive unfairness of treatment from public services: only in Northern Europe we find around one third of those asked complaining about particularism, while in Mediterranean Europe the figure is nearly half and in Eastern Europe the majority perceives favouritism and complain about discrimination when dealing with public services.

Particularism is a broader concept than corruption, as it includes both criminalised forms of corruption (favour in exchange for undue profit) and what Daniel Kaufmann labelled 'legal corruption'(2011). In its extreme form (most government transactions are particularistic), particularism can result in an entirely patrimonial or 'captured' state. The current scholarship and policy literature on corruption uses a variety of overlapping and insufficiently theorised concepts, such as state capture, grand corruption, regulatory capture, government favouritism, administrative capture which operate with different presumptions – never actually tested – on what is the benchmark and what is the deviation, on one hand, and who is the principal, and who the agent on the other. While these seem to be very different situations, they can actually be quite easily understood if governance is defined primarily, as we do, by social allocation (who gets what). Is the distribution of public resources, by default, catered towards specific interest groups (party in government, business elite, cronies of ruler, etc.) with limited access for the rest? Or is it rather universal, with only occasional deviations from this norm of individuals seeking personal gain? For policy reasons it is quite important to understand which is the governance context of allocation, because norm building is very different from norm preserving policies. Our main innovative method in measuring corruption is therefore to place the majority of government transactions (or exchanges) on the continuum in one country with ethical universalism at one end and particularism at the other. We ask what are the rules of the game in the allocation of public resources and we measure the deviation from the legal norm of ethical universalism (all transactions should be impersonal and treat everyone equally). 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).

The objectives of this policy report is therefore to summon some more reliable evidence than surveys can produce to document control of corruption across EU Member States and estimate its consequences. Some initial estimations are based on expert Control of Corruption score (CoC) produced by the World Bank. However, we also introduce a more concrete indicator to measure both corruption and the strength of the public framework to resist corruption. In the end we present a full ranking and classification of public integrity in the EU28 based solely on actionable indicators alone. The ranking is based on six closely associated indicators, which on one hand correlate sufficiently to be aggregated into one index, and on another are strongly associated with existing corruption indicators.[3]

Unfortunately assessing whether governments use their resources for the common good or to favour a certain elite or politically connected individuals is difficult as there are no regular audits to check on the relevant kind of data. Research in this area is also limited, with money being poured into new waves of surveys on corruption perception instead of into monitoring public spending. Audits can be a time consuming and expensive process. However, thanks to the advancement of transparency laws across the EU there is more information available on public spending nowadays than at any point in the past. This means that information that was previously seen only by a handful of people in government offices can now be easily accessed, downloaded and dissected by millions of people. This is for example the case with public procurement contracts across the EU28, which are collected and published by the European Commission.

Taking advantage of the high quality procurement data available in the EU, ANTICORRP researchers developed a methodology to measure corruption risks based on a number of practices associated to favouritism. One of the indicators used to diagnose particularistic practices in the EU28 is the percentage of contracts awarded through procurement processes involving a single bidder. But why is single bidding considered a red flag? Contracts awarded to a single bidder are often linked to somewhat suspicious practices such as tenders not published in the official journal. In cases like this, the lack of genuine competition generally allows for the award of contracts at higher than market values and facilitates the extraction of corrupt rents. Moreover, in a competitive market such as the EU, single bidding can also signal that competitors believe that a specific tender is a done deal for some

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[3] Mungiu-Pippidi, A and all, *Public integrity and trust in Europe*, Report Commissioned by the Netherlands EU Presidency, January 2016, accessible at: https://www.government.nl/binaries/government/documents/reports/2016/01/18/public-integrity-and-trust-in-europe/hertie-2015-public-integrity-and-trust-in-europe-final.pdf

favoured company and do not bother to participate. Single bidding might be permissible in exceptional cases, but considering the high contract values reported in the EU Tender Electronic Database this behaviour should be extremely rare, as all tenders above four million euros are officially required to be competitive.

Figure 2. Average % of single bidder contracts awarded between 2009 and 2013
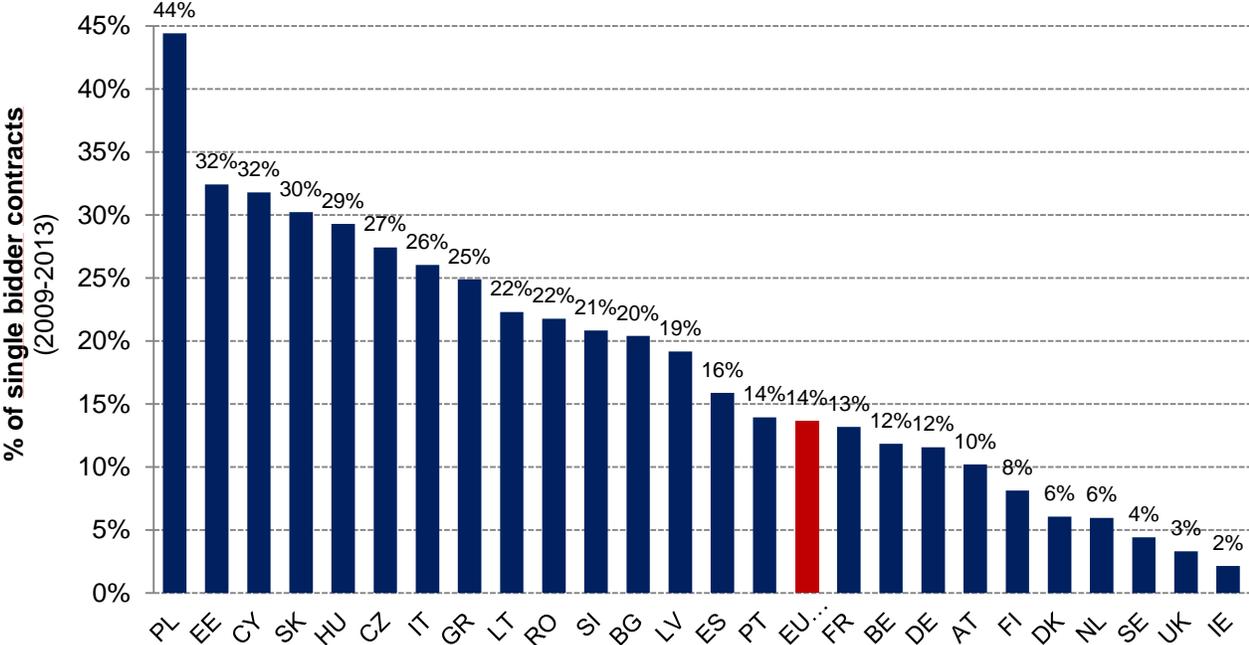
Source of Data: EU's Tenders Electronic Daily (TED), data released by DG GROW of the European Commission

Despite the fact that single bidding should be an exceptional behaviour in public procurement in order to favour competition, it seemed to be the preferred method to award public contracts in several member states (see **Figure 2**). While Ireland, the UK, Sweden, the Netherlands, Denmark and Finland show a low prevalence of single bidding (less than 10%), some countries in Southern and Eastern Europe award more than a quarter of the total number of public contracts through non-competitive procedures. The most dramatic case is Poland, where 44% of all public tenders between 2009 and 2013 were awarded to single bidders. The relationship between the single bidding indicator and other corruption measures is also quite strong, showing that indeed both indicators capture part of the same phenomenon. **Figure 3** shows that countries with lower control of corruption have a higher prevalence of single bidding.

Figure 3. Single bidding and control of corruption
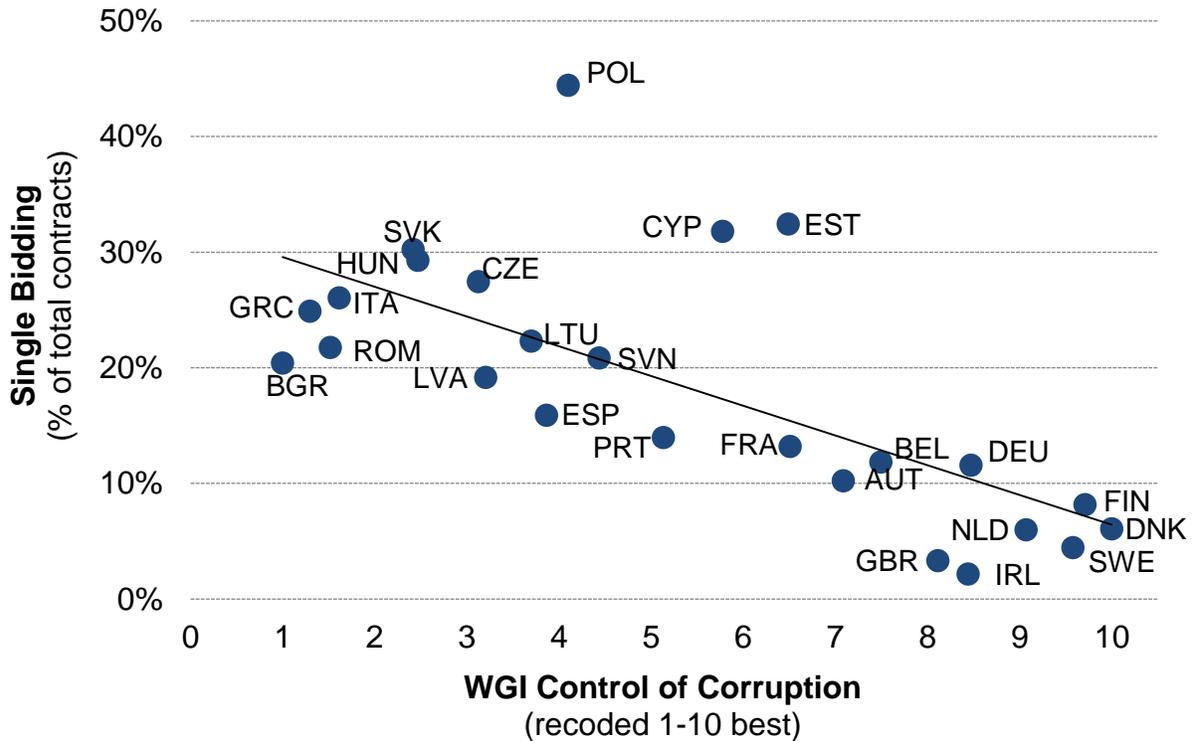
Sources of data: WGI Control of Corruption and EU's TED

In addition to single bidding, procurement data offers far more possibilities to assess the extent of government favouritism in the allocation of public funds. In fact, ANTICORRP researchers produced a number of country reports on institutions in public procurement in selected European countries last year. These studies, which are entirely based on objective indicators, were published in a unified third volume of the policy series "The Anticorruption Report" edited by Mungiu-Pippidi (2015a). This report offers innovative and comprehensive analysis of particularism of public resource distribution and shows how its methodology can be applied to any other country where procurement data is available.

The main conclusion of this report is that public procurement needs far more transparency and monitoring in old Member States, where it is far from perfect, as well as new ones and accession countries, where major problems can be identified, partly due to more transparency and monitoring.

Table 1. Indicators of particularism in Romanian public procurement

Value of contracts (% of total)

	2007	2008	2009	2010	2011	2012	2013
Single bidder	30,8%	24,1%	21,6%	26,4%	22,4%	12,9%	8,4%
Political connection	23,4%	31,3%	20,3%	16,4%	19,7%	16,5%	13,6%
Agency capture	18,5%	11,8%	17,3%	20,9%	21,7%	9,3%	18,6%
Total particularism	51,7%	52,9%	43,9%	53,0%	49,1%	34,0%	39,4%

Number of contracts (% of total)

	2007	2008	2009	2010	2011	2012	2013
Single bidder	30,1%	27,6%	20,3%	24,0%	24,2%	17,6%	12,2%
Political connection	22,7%	21,5%	19,9%	19,3%	19,7%	17,7%	17,3%
Agency capture	9,4%	8,5%	8,3%	7,4%	8,1%	7,5%	5,9%
Total particularism	47,7%	45,3%	41,1%	42,7%	43,5%	37,2%	33,1%

Source: Doroftei and Dimulescu (2015) and author's calculations

Table 1 illustrates some key indicators that can be used to identify particularistic transactions employing procurement data using the example of Romania. The reason why this country was chosen is the capacity of the local research team to collect all the data. Such data should be accessible everywhere in EU28 and would allow a good monitoring of state capture. Specifically, the Romanian reports lists: i) the share of single-bidding contracts (to capture non-competitive contract awards), ii) the share of contacts won by politically connected companies defined as whether they were donors to political parties or had ever featured a public official among shareholders; iii) the share of "agency capture", a situation in which a single company wins more than 50% of the total value of the contracts awarded by a public authority in a one year period, given that the contracting authority awarded at least three contracts that year. Additionally, it presents the share of all contacts that can be characterized as being particularistically allocated if we calculate the *non-overlapping* sum of the three

specific particularistic scenarios. The report shows that politically connected companies win significantly more national and EU funds and that great winner companies win significantly more through single bidding.

Table 1 also reveals that between 2007 to 2013 almost 42% of transactions can be seen, on average, as particularistic, amounting to 46% of total awarded values. The figures also show, however, that the number of these transactions, in particular single-bidding, have been declining. Particularism in infrastructure dropped by eleven percent as value in Romania in six years and with roughly 14% as number of contracts. This leaves much work to do, but at least the trend is clearly positive.

The EU ranking based on single bidding from **Figure 2** is just for orientation because the data contained in the TED database is not representative: it contains only contracts above certain thresholds, thus covering only a small portion of the total procurement volume in a country. If more EU countries made their data on contract awards and on the public officials' links to the private sector, as does Romania, we would be able to provide a good comparative measure of state capture. However, this is not always the case. The current ANTICORRP Anti-Corruption Report vol. 3 (ARC3) offers such figures only for Romania, Bulgaria, Hungary, Croatia and to some extent Turkey. Data is conspicuously missing even for Germany, and yet it is through monitoring of such data that austerity would best be served and sound public expenditures enforced.

II.   Seven consequences of corruption in the European Union

The correlation between objective and perception data makes the point for the validity of cross-country comparisons. Using the same comparative method we can try assessing the consequences of more versus less national control of corruption. Such consequences are many. We list seven here as the most salient in an EU context.

1.   The impact of corruption on trust in government

Trust in government determines any government's ability to govern efficiently and effectively without using coercion and as such it provides one of the firmest foundations of the legitimacy and sustainability of a democratic political system (OECD 2013). Trust is fostered through transparency and accountability and corroded by corruption. Since the beginning of the financial crisis in Europe, the levels of trust in government have declined in almost every European country and in the EU as a whole. Trust in government to handle corruption is a strong predictor of decline in trust in EU (Mungiu-Pippidi 2015c). Data from the Eurobarometer surveys conducted between 2008 and 2013 reveal that trust in government has regressed at the EU28 level. On average, the percentage of European citizens who trust their national governments and national parliaments has fallen from 36% in 2008 to 29% in 2013. The levels of trust in government vary widely from one country to another: While in Nordic countries such as Sweden, around 60% of citizens trust their national government. In countries like Spain or Greece this figure reaches only 10%.

The positive association between trust in government and control of corruption is illustrated in **Figure 4** using the new Index of Public Integrity (IPI) and the citizens' trust in national parliaments obtained from the Eurobarometer survey. The construction of the IPI is explained in more detail in Section IV. The relationship between the two variables is very strong with low levels of public integrity explaining the majority of variation in the levels of trust in parliaments across the EU28. The South-East European countries are the most affected, together with Poland, Czech Republic and Italy, the quality of integrity strongly subverting their trust in Parliament. Netherlands, Denmark and Finland are the opposite – their public integrity works for trust in the main political institutions. Malta ad Sweden are outliers insomuch as, although they have an good quality of integrity, trust is even higher than warranted by this only factor, while Greece, Slovenia and Spain are the other way around. Their populations trust

their Parliament less than the public integrity level would predict- obviously due to other factors, such as economic backsliding since the crisis, which was more severe in these countries.

Figure 4. Index of Public Integrity and Trust in National Parliaments
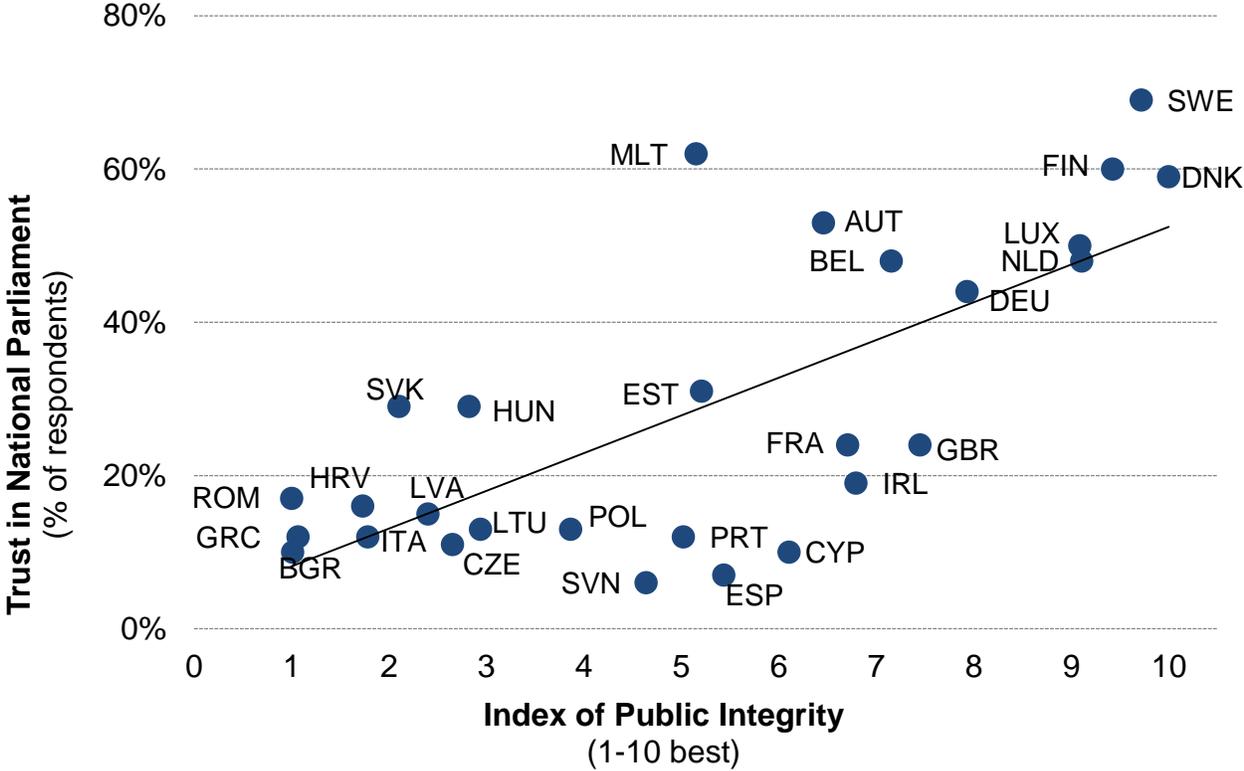
Sources of data: Index of Public Integrity (2012) and Eurobarometer 79.3 (2013)

2. The link between corruption and public spending

In times of austerity, it is quite important to know what kind of expenses –or cuts– foster good governance and which ones do not. 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 government spending as a share of GDP, is associated with less corruption, not more; while the opposite is true for Latin America. This relationship seems rather obvious when one considers that the Scandinavian countries, the least corrupt countries in Europe, are traditionally big spenders in social welfare (Rothstein & Uslaner 2005). Considering this, 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, rather than the amount, is what fuels corruption in the absence of adequate constraints.

Figure 5. Corruption and spending in infrastructure
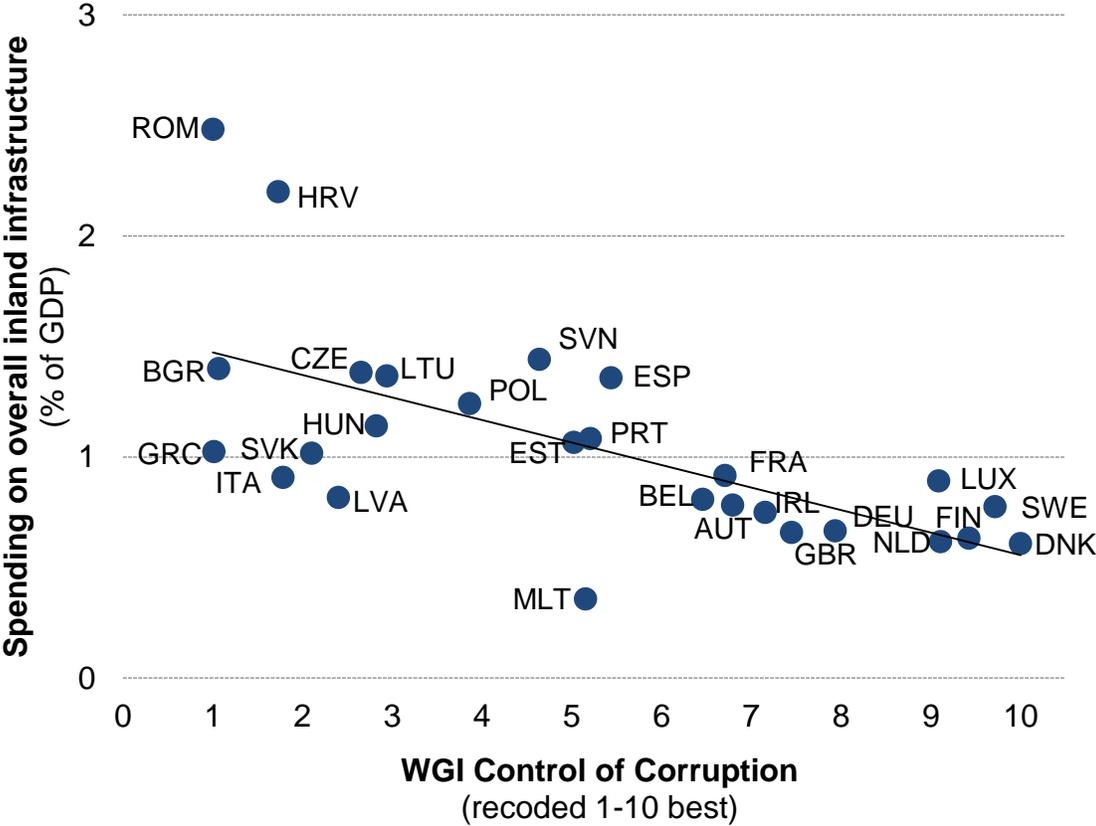
Sources of data: WB Control of Corruption indicator (2012) and OECD spending in overall inland transport infrastructure (2013)

Corrupt politicians tend to orient public spending to areas where they can maximize income for their clients and political sponsors. Areas such as health care or education are less attractive given that it is hard to extract big rents from them. This generally means that in weak governance contexts the money is channelled to big infrastructural projects resulting in large government contracts which can be attributed to favoured contractors. **Figure 5** confirms that there is indeed a significant relationship between corruption and infrastructural spending: higher levels of corruption are associated with higher spending on big projects. Romania and Croatia, both countries among the five most corrupt in the EU28, spend almost double the European average on transport infrastructure. The situation was similar in Italy and Greece before the financial crisis, but since 2008 the levels of spending in this field have gone down notoriously and achieved levels that resemble more the regional average.

Of course, part of the reason why the more corrupt countries in Europe spend more in infrastructure is that they are also less developed: Romania and Croatia still require the construction of a modern transport infrastructure, while countries like Denmark or the Netherlands already have it. Corruption, however, undermines the effects of these investments. Since the construction of big projects is an ideal field to extract corrupt rents or re-pay political favours and spending on maintenance is less prone to these practices, corruption often deviates budget from maintenance to construction. Romania seems to perfectly exemplify this behaviour: despite the highest level of investment in infrastructure in whole EU28 (more than twice the regional average), its quality has not improved in the past ten years. Data on the quality of roads from the Global Competitiveness Report shows that Romania dropped from the 100th place in 2006-2007 to the 121st place in 2014-2015[4]. Moreover, the quality of Romanian infrastructure is similar to that of Bulgaria, a country that invests less than half of what Romania has channelled to this sector. In contrast, the Netherlands has some of the lowest levels of spending in the sector, but one of the highest levels of quality in infrastructure in the EU.

On top of funnelling money from maintenance to the construction of big projects, corruption can also hurt social spending: client-directed spending tends to be unaffordable and squeezes investment in other areas such as health or education. In the case of the EU, we find that the most corrupt European countries indeed spend significantly less on health (see **Figure 6**). The underfunding of healthcare creates systemic corruption problems. 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 established between

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[4] Doroftei M. and Dimulescu V. (2015) "Corruption Risks in the Romanian Infrastructure Sector" in Mungiu-Pippidi, A. (ed.) *The Anticorruption Report, Volume 3: Government Favouritism in Europe*. Barbara Budrich Publishers, available at http://anticorrp.eu/publications/volume-3-government-favouritism-in-europe/

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.

Figure 6. Corruption and health spending
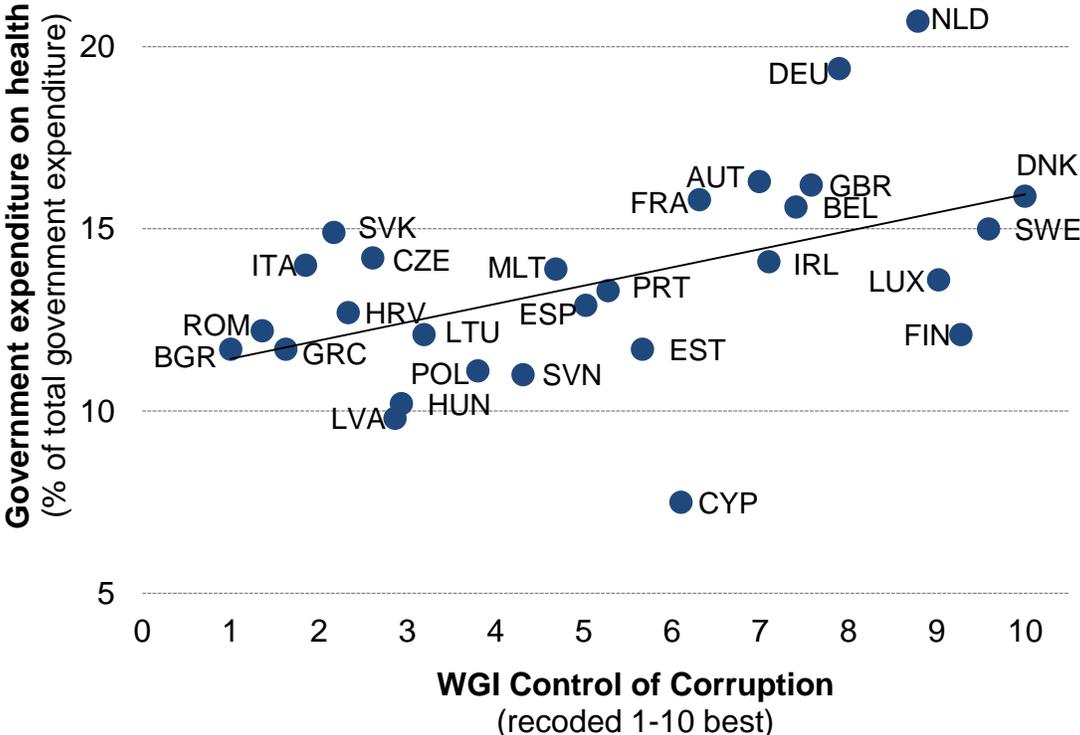
3. The impact of corruption on tax collection

Corruption has been shown to have a significant negative impact on a country's tax revenues. (see Fjeldstad and Tungodden 2000; Tanzi and Davoodi 2001). This happens for several reasons. High levels of bureaucratic corruption, for example, can discourage entrepreneurs from starting businesses in the official economy and operate or remain in the informal sector. On the other hand, in an environment where politicians abuse their entrusted powers, citizens might also be more reluctant to pay their

taxes, as they know that they will end up in the pockets of the ruling elite (Mungiu Pippidi 2015). Grand corruption can also lead to an inefficient tax structure if it introduces regulations favourable to industries with entrenched powers (Attila 2008).

At the EU28 level, the negative relationship between corruption and tax collection holds (see **Figure 7**). The association is significant and robust, with Lithuania, Romania and Bulgaria in the worst positions and Denmark again in the lead. The cases of Italy and Ireland, however, proved to be exceptions to this rule: while Italy shows better levels of tax collection than its poor control of corruption score would predict, the opposite is true for Ireland, i.e. tax collection should be higher given its better control of corruption.

Figure 7. Corruption and tax collection
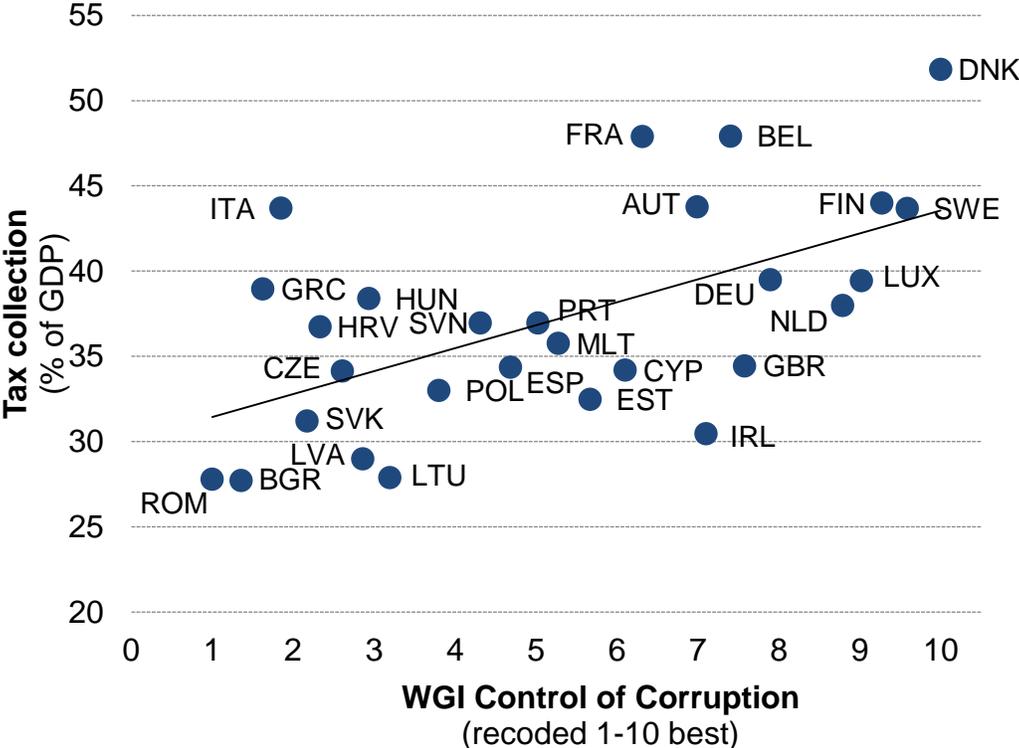
Sources of data: WGI Control of Corruption (2013) and Eurostat tax revenue statistics (2014).

4. The impact of corruption on equality

The significant association between corruption and gender equality has long been known, but it has received quite different interpretations (Sung 2003). According to data from the Global Competitiveness Report 2015, women make up 42% of the labour force in the EU. The levels of female participation in the workforce, however, vary across countries: In Italy and Malta, for example, this value is lower than 30%, while in the Nordic and Baltic countries women make up between 45 and 48% of the labour force. These levels of participation, however, do no translate into the political arena. On average, only 25% of the seats in national parliaments in the EU28 are occupied by women. Although the ratio of male to female representatives is fairly balanced in Sweden, Finland and Spain, in countries like Hungary, Romania, Malta and Cyprus women constitute less than 15% of parliamentarians.

Figure 8. Women in parliament and corruption
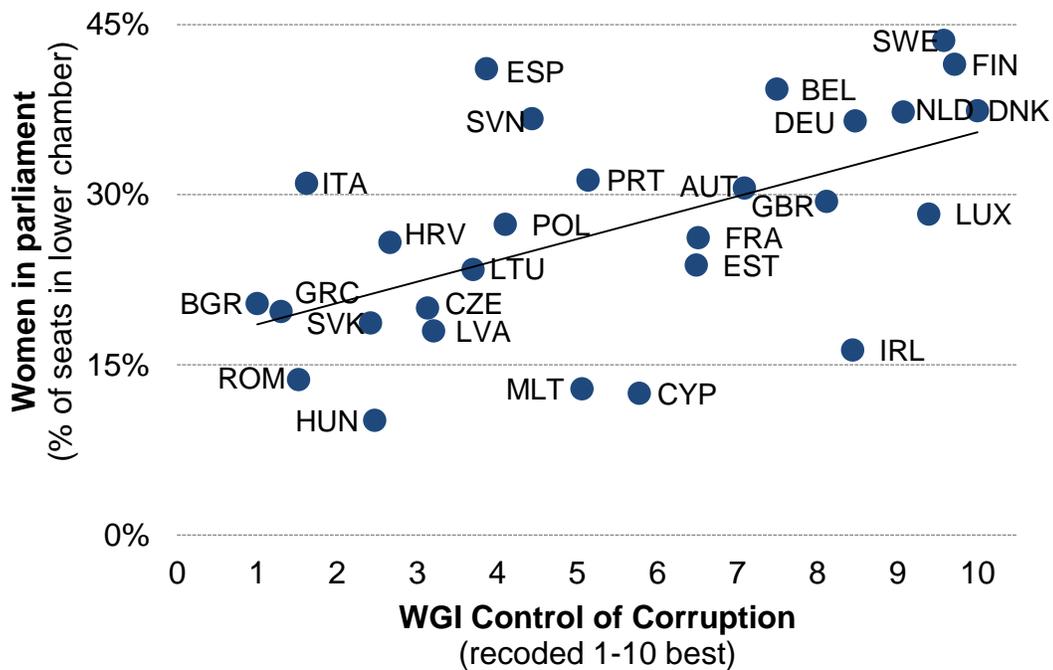
Sources of data: WGI Control of Corruption 2014 and Inter-Parliamentary Union's data on women in National Parliaments (last available year).

Figure 8 shows that there is indeed a significant association between the number of female parliamentarians and the levels of corruption in a country, although many outliers exist. The association between corruption and the gender pay gap, on the other hand, was not statistically

significant. This means that at least in the EU28, more corrupt countries do not pay women significantly less, but do significantly restrict their access to positions of power. We interpret this finding on the side of those who argue that the gender issue in the outcome of a governance one: Where power and privilege are concentrated in certain networks and groups which manage to control access to public jobs, as the case always is in institutionalized corruption weaker groups – as a rule women and minorities – tend to be excluded.

5. The impact of corruption on "brain-drain"

Good governance needs demanding citizens. Therefore, the evidence that corruption significantly increases brain-drain shows how difficult it is to build a critical mass for good governance in a country affected by corruption, as long as the best and the brightest have an exit option[5]. 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 EU28. 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, brain-drain is a major threat to their economic recovery. The risk is faced not only by Bulgaria, Croatia and Romania, but also by, Lithuania, Hungary, Slovakia and Italy (see **Figure 9**).

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[5] Mungiu-Pippidi, Alina. "Corruption: Good governance powers innovation." *Nature* 518

Figure 9. "Brain-drain" and the control of corruption
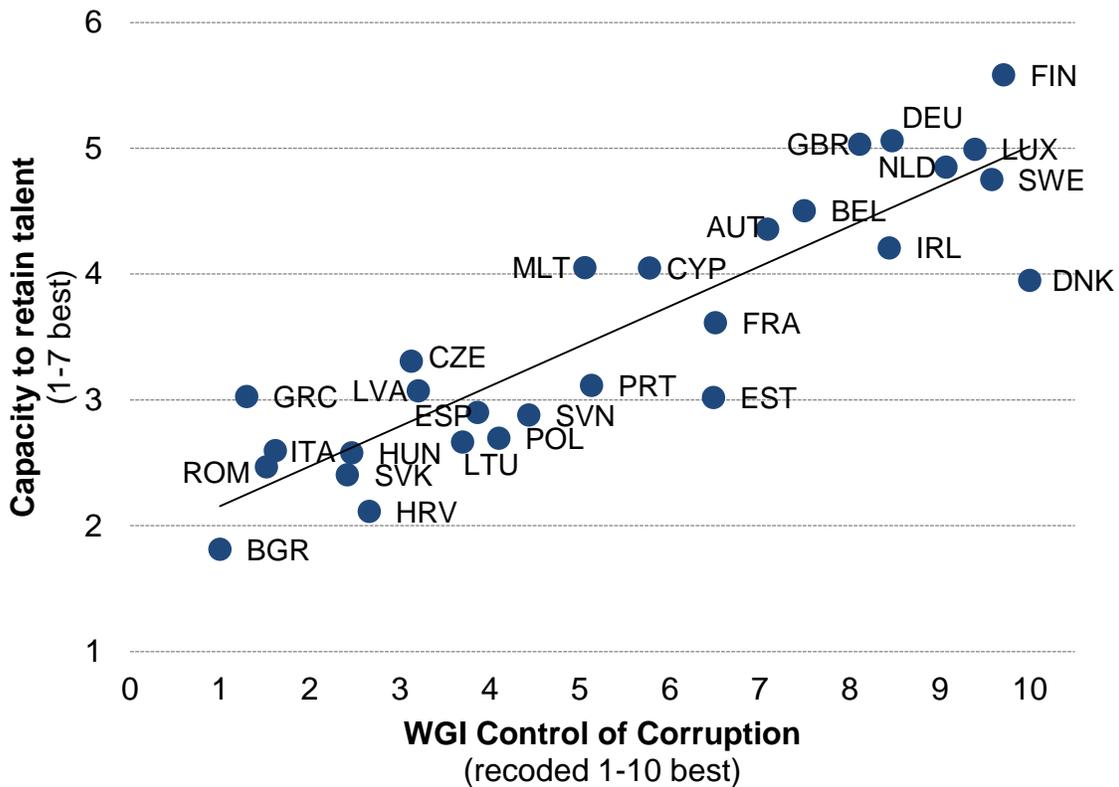
Sources of data: WGI Control of Corruption (2014) and WEF "capacity to retain talent" (2015).

6. Corruption subverts capacity to innovate

Corruption is also a barrier to innovation. Former European Commission president José Manuel Barroso, in his 2013 state of Europe address, pointed to "new science studies, from new technologies" as a key to sustaining economic growth. Innovation is key to prosperity. But corruption is inimical to innovation: If firms and individuals are to be creative, and if their societies are to make the best use of that, competition and hard work must be more strongly valued than reliance on connections. Simply, where advancement based on merit is the rule and favouritism the exception, governments and markets alike promote value, and prosperity results. In places where such a system fails to take hold, social allocation is directed preferentially rather than ethically. In these contexts, science and research are marginalized because those in power fear that talent threatens their main aim — controlling access to public and private resources. **Figure 10** shows that countries with lower levels of corruption are also those with the highest capacity to innovate, i.e. Sweden, Finland and Germany. On the other hand,

Romania, Bulgaria and Greece, the countries ranked as most corrupt in the EU, show much lower levels of capacity to innovate. Despite having better control of corruption scores, Croatia and Hungary show the lowest capacity for innovation in the EU28. Results also hold with development controls.

Figure 10. Capacity for innovation and control of corruption
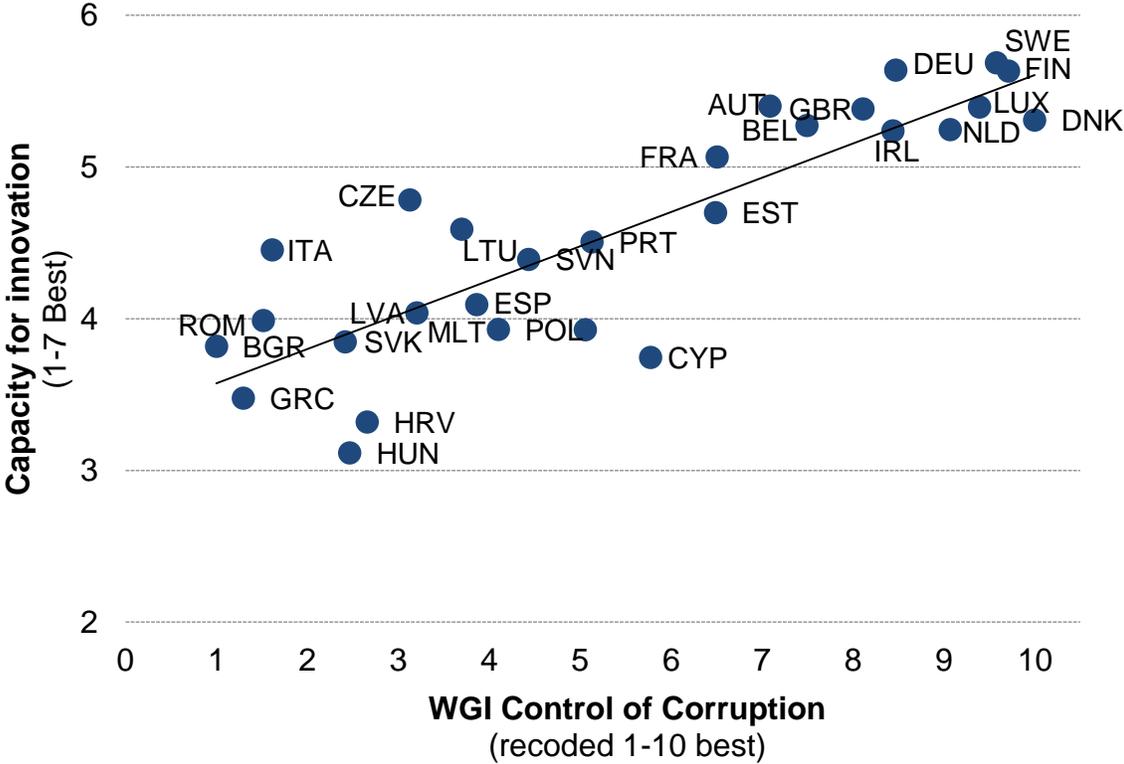
7. Corruption lowers absorption of EU funds

Finally, the existence of corruption is a significant barrier to the effective absorption of EU cohesion funds. 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. That leads to a vicious circle, as such funds are intended to foster development, in the absence of which corruption thrives. **Figure 11** shows that some of the most corrupt countries in the EU have difficulties absorbing these cohesion funds. Croatia absorbs only 45% of them and Romania, Italy and Bulgaria manage to absorb between 55 and 66%. However, corruption is obviously not the only factor affecting absorption: Latvia and Greece, two countries with control of corruption scores similar to those of the countries mentioned before, show

absorption rates of more than 80%. The small differences in corruption scores cannot account for this behaviour.

Figure 11. EU funds absorption rate and corruption
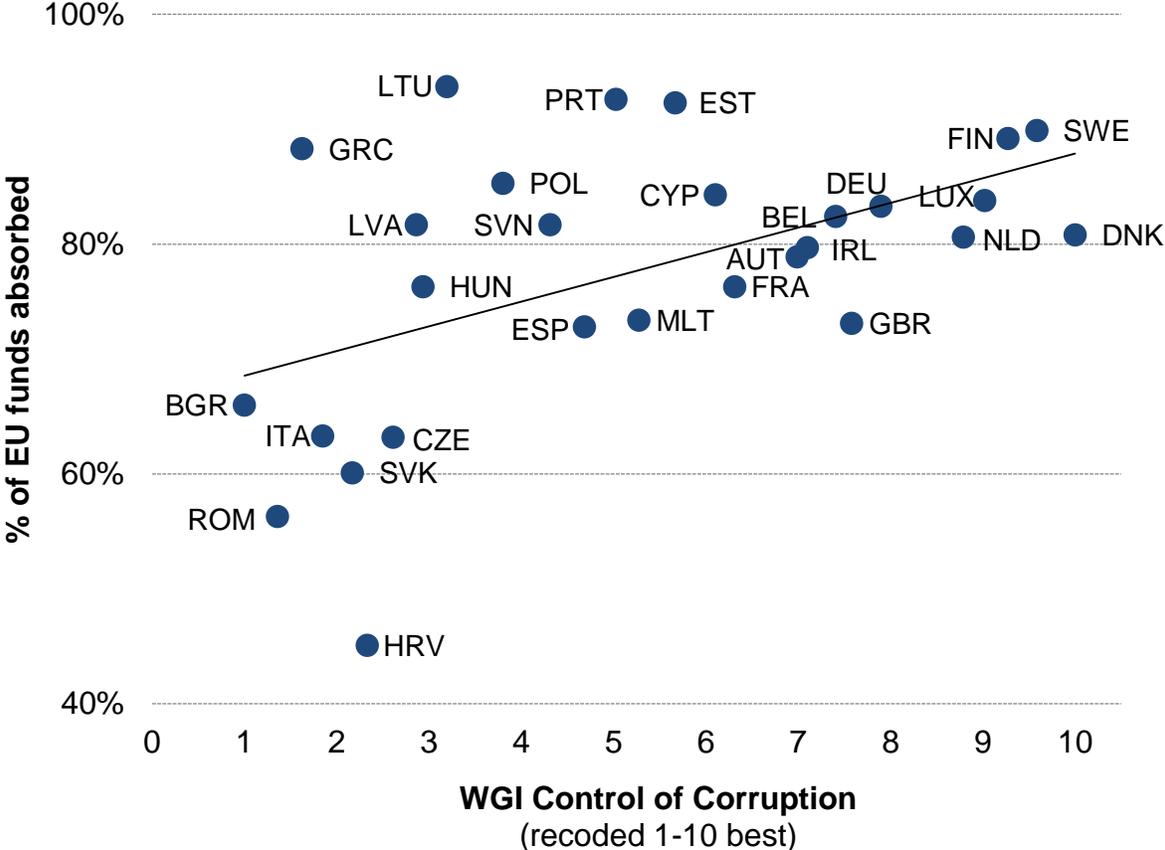
Sources of data: WGI Control of Corruption (2013) and European Commission, "EU cohesion funding- key statistics".

III.   What restricts corruption? The evidence

Quite a few reports, notably OECD's 2014 review, found that the international anticorruption community does not have one success case to point at the effectiveness of its strategies[6]. The reason why corruption is so difficult to curb is a poor theory of change perpetuated by anticorruption fighters. Successes do exist, but they are grounded in domestic leadership and emulation, not on international advice (Mungiu-Pippidi 2014, chapters 6-7). This section offers evidence on the lack of impact of two of the most widespread anticorruption tools promoted in the 1990s and 2000s, i.e. anticorruption agencies and political finance restrictions.

The establishment of dedicated anti-corruption agencies (ACAs) has been one of the main institutional recommendations in anti-corruption conventions to date. The international community became the major proponent of ACAs, persistently recommending their creation as an important piece of a country's institutional architecture and its large-scale anticorruption strategies. ACAs were promoted by several conventions– UNCAC, the African Union Convention, the Inter-American Convention, the Convention of the Council of Europe – as well as by the EU during its enlargement process. A total of 18 EU Member States have installed an ACA to date**. Figure 12** illustrates the evolution of corruption scores five years before and after establishing an ACA in the respective country. For this exercise we used the risk of corruption measurement from the International Country Risk Guide (ICRG) because it has been available for a longer period of time than the World Bank's Control of Corruption indicator or any other. The downward sloping line in **Figure 12** shows that the averaged values of the ICRG scores did not improve, but actually worsened in the period of five years after the introduction of an ACA.[7] This trend does not to mean that anticorruption prosecution cannot be effective. Indeed it can, as Italy showed through its famous *mani pulite* campaign. The Italian example also shows, however, that relying solely on a strong repressive approach to corruption is not enough to evolve from particularism to ethical universalism. Despite more effective prosecution the levels of corruption in Italy have not decreased.

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[6] http://www.oecd.org/dac/governance-peace/publications/FINAL%20Addressing%20corruption%20together.pdf
[7] We also tested the presence of an ACA – captured by a dichotomous variable 1/0 – and the years since its establishment in regressions showing that neither of them is significantly associated with better control of corruption.

The European Commission first anticorruption report quotes some examples of successful ACAs: the Slovenian agency (mostly a prevention commission and not a typical ACA by the OECD's definition) succeeded at establishing fiscal transparency; the Romanian one, active and arresting top politicians amidst accusation of political manipulation; and the Spanish one. Despite these successes, none of these countries' corruption scores have improved in the interval that the agencies have been active: Slovenia and Spain's control of corruption scores even deteriorated slightly in the last decade. Moreover, if the agency has strong prosecutorial powers the risk of political abuse or retaliation against the judiciary by the executive or legislative powers is serious (Maegher 2005). Good governance needs a broader approach; otherwise we risk entering a situation akin to the best known of Zeno's paradoxes in which Achilles races a tortoise but never manages to catch up with it, despite running ever faster. Effective anticorruption should be measured by a reduction in corruption.

Figure 12. Corruption Control before and after the Introduction of ACA
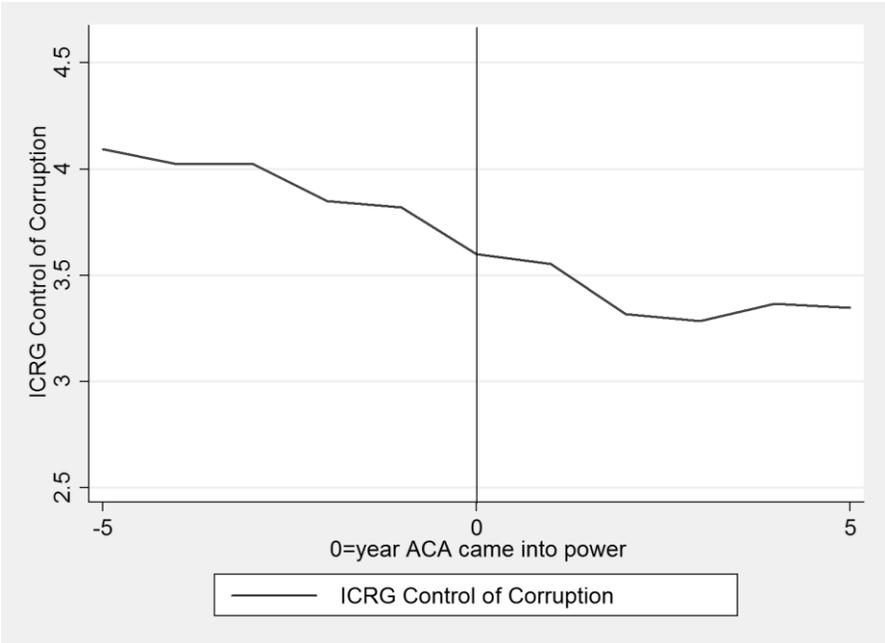
Sources of data: Political Risk Services' risk of corruption indicator (1-6 best) and year of
ACA introduction from the ANTICORRP dataset (1984-2011; own calculation)

The country chapters of the recent EU Anti-Corruption report (European Commission 2014) put a special focus on the legislation of political party financing. Globally, political parties have a bad reputation for corruption. According to the to the last issue of the Global Corruption Barometer (2013), in 51 countries out of 107 people perceive political parties to be the institution most affected by

corruption: countries where parties do not rank in the top of corrupt organizations are generally not democracies. In the European countries, GRECO, an intergovernmental network of Council of Europe member states, has long been active in advocating political party reform.

Governance contexts are again very useful to explain why political parties and the way they are financed constitute one of the most vulnerable areas to corruption even in the most advanced democracies, like Germany or the United States: Political parties represent, especially in young democracies, organizations with the explicit goal of capturing power. As classic corruption author Michael Johnston (2006) argues, in very advanced societies corruption takes the form of market favours, as lobbyists compete to have laws suited to their interests. But beyond this small group of developed countries, clustered on top of the most advanced third in the corruption rankings, in most societies winning elections means that public jobs (not only political jobs, but most of them), as well as the bulk of public resources would go to the winner (Mungiu-Pippidi 2006). Politics is inherently particularistic, with supporters of the winning party considering themselves more justified to collect 'gains' than the supporters of the losing parties, a game on who gets what (Laswell 1950).

To get favours in the form of preferential laws, concessions or public contracts, businesses fund political parties. But in a particularistic context the discretion of parties in government goes far beyond that. Subnational transfers as well as public contracts are allocated on some particular grounds: administrative resources are wildly used in personal interest. The capital fuelling political corruption is not made only of the bribes (commissions or kickbacks) that a businessman offers to a politician, but practically of all public resources which can be used discretionarily, in a particularistic way, to the return part as well as to the inducement part of the private-public trespassing (Scott 1972; della Porta and Vanucci 1999). But the policies to clean party financing always refer only to the tiny part of official party income. Now can they change rules of the game from this narrow perspective?

To answer this question, we used updated data from the Political Finance Database provided by the International Institute for Democracy and Electoral Assistance (IDEA) to compile a score that captures political finance (PF score) regulations. The IDEA database lists specific indicators which cover legal practices on private and public funding to political parties and candidates including restriction on their spending, requirements for reporting and oversight as well as sanctions. Our score is an average of the dichotomous variables (1/0) that capture the (non-)existence of these regulations. That is, the higher

the score, the stricter the legal framework for political financing. As demonstrated in **Figure 13. Corruption and Political Finance Restrictions**, the relationship between political finance restrictions and control of corruption is negative. This means that the more restrictions a country has on political financing the more corrupt it is (or vice versa). Indeed, some post-communist member states (Latvia, Bulgaria, Croatia) and also Greece have very tight formal regulations of political financing but at the same time quite low control of corruption scores. On the other hand, we have Netherlands and Denmark with very low degree of regulations and better control of corruption. The answer to our question is then negative, as expected. In a context of particularism increased restrictions on political finance do not manage to control political corruption better.

Figure 13. Corruption and Political Finance Restrictions
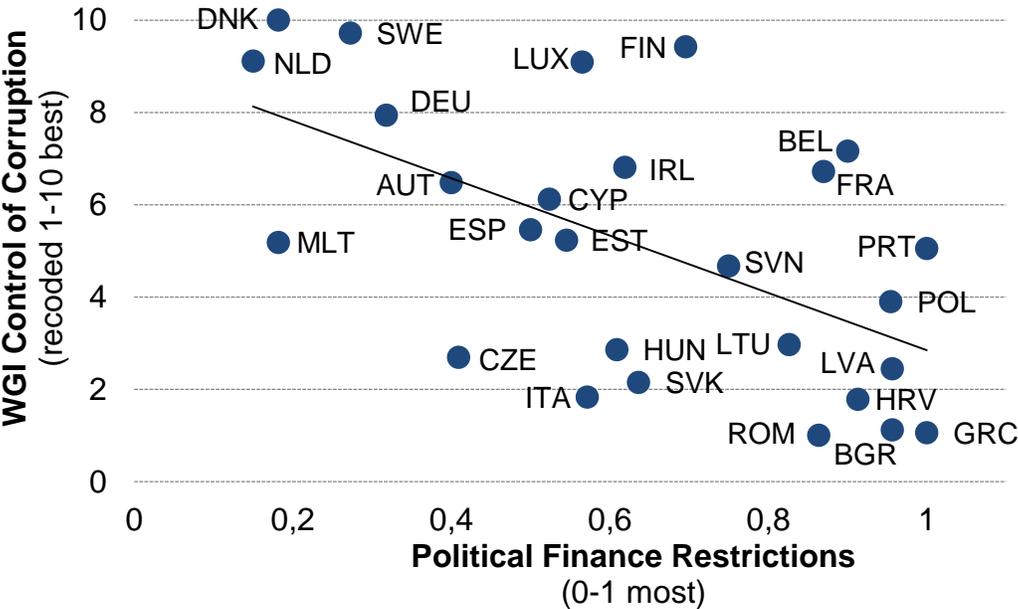
Sources of data: WGI Control of Corruption indicator and International Institute for Democracy and Electoral Assistance (IDEA) Political Finance Database (2012).

Establishing effective control of corruption thus requires much more than adoption of specific tools which neglect the peculiarities of the local environment. It is rather an outcome of a complex mechanism which includes many economic, social, and political factors. As extensively elaborated in our previous work (Mungiu-Pippidi et al. 2011, Mungiu-Pippidi 2014, Mungiu-Pippidi 2015), we suggest that an explanatory model of corruption at national level is an interaction of factors which create an

equilibrium between opportunities (resources) for corruption and deterrents (constraints) imposed by the state and society, as follows:

**Control of Corruption = Constraints (Legal + Normative) -
Opportunities (Power discretion + Material resources)**

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.

This equilibrium formula was tested empirically on a large number of countries using different measures of corruption as dependent variable (Mungiu-Pippidi 2014, Mungiu-Pippidi 2015). All elements are dependent on some structural development factors, such as education or income, which are implicit in our model, but a country´s level of development, as captured by the Human Development Index, explains only half of the global variation in control of corruption. This leaves considerable room for policy to make a difference. Below, we present six indicators that can be used as policy instruments to detect risks and strengthen control of corruption at national level in the EU28. In order to make sure that these indicators are of relevance in detecting and fighting corruption, we

explicitly controlled for the influence of structural factors in the statistical models. By doing so we ensure that we are not simply capturing some indirect effect of the differences in the level of socio-economic development across countries. The effect of the following six indicators on control of corruption proved to be robust and statistically even when controlling for development (see **Appendix 1)**:

1. **Administrative burden.** High levels of administrative burden have been identified in the literature as a source of corruption. Red tape increases the discretionary power of the bureaucrats. Moreover, the obstructive and time-consuming procedures give citizens incentives to bribe and public officials the power to extract rents to speed up administrative decisions. Captured by the number of procedures and time needed to start a business and pay corporate taxes, our objective measure of administrative burden therefore refers to the extent of bureaucratic regulations of domestic entrepreneurial activities, and is significantly and strongly associated with control of corruption.

2. **Trade barriers**. Imposing barriers to trade also creates opportunities for corruption. Similarly as with the previous indicator, establishing complicated procedures for importing and exporting goods and services creates room for bureaucratic discretion and incentives for bribery to overcome these obstacles. The damaging effect of trade barriers does not stay only at a bureaucratic level. Special licenses or permits might be in place to protect politically connected firms or industries from foreign competitors. Despite the fact that administrative burden and trade barriers are strongly correlated, they measure two essentially different concepts: while the first indicator captures the extent of bureaucratic regulations of domestic entrepreneurial activities, the latter one measures hurdles to a country's external economic activities. Trade openness is measured by the number of documents and time required to export and import. In line with what one would expect, our analysis shows that open countries control corruption better as they eliminate room for discretion and promote free competition.

3. **Transparency/e-government.** Transparency is a key instrument for reducing administrative discretion. High penetration rates of electronic public services are strongly associated with a high degree of control of corruption. United Kingdom and Netherlands perform best according to the E-Government Services measure from the United Nation E-Government

survey, which is based on screening and assessment of national websites, e-services portals, and websites of ministries of education, health, labour, social services, and environment.

4. **Auditing standards.** Providing accountability of private sector, especially among a country's leading companies, is a key measure to prevent corrupt transactions with the public sector, especially those involving preferential treatment and favouritism**.** High standards on auditing and reporting practices within private companies can ensure that corruption risks can be detected, but they also reflect the level of formality in a country: poor auditing and record-keeping in the private sector is most likely linked to the same practice in the public sector. As expected, the World Economic Forum's measurement on the strength of auditing standards strongly correlates with control of corruption.

5. **Judicial independence**. This is one of the most important constraints against corruption in a country. Judicial independence guarantees that the law will be applied impartially and that all citizens, regardless of their status will receive a fair trial. Judicial independence is also a key to prevent grand corruption as it guarantees that judges will not suffer pressure from politicians to influence their decisions and that politicians will not be able to distort the appointment process of the judges. Therefore, an independent judiciary is essential tool to assure that the law will not favour certain interests, firms or individuals over others.

6. **Civic engagement**. Transparency tools work best if they are implemented in a society with a strong capacity for collective action. In other words, social accountability exercised by the general population of autonomous and critical citizens can amplify the effects of transparency in combating corruption. In our previous work, we showed that control of corruption is significantly better in countries with an organized civil society, where citizens engage more in voluntary activities and keep themselves informed by either reading the newspapers or using the Internet. We also showed that the existence of a freedom of information law is not a significant determinant of good governance unless these elements are present. In order to capture this concept of civic engagement we use the percentage of individuals who use the internet to interact with public authorities. This variable also complements the e-Government Service indicator as it captures the actual demand for government information and transparency by the general public. The corresponding data stems from the Eurostat database

and it shows a significant relationship with control of corruption. Remember this relationship, as all other previous ones, holds even if we control for the level of development.

These six factors capture various dimensions of constraints and resources in the above equilibrium formula. The first three ones (administrative burden, trade barriers and transparency/e-government) measure the extent of bureaucratic regulations and the potential resources for administrative power discretion. The remaining three (auditing standards, judicial independence and civic engagement) look at the capacity of the society to develop autonomous normative and legal constraints. A detailed table listing all Member States' scores for each indicator is presented in **Appendix 2**.

IV.   Mitigating corruption risks: The policy inventory

In analyzing the consequences of corruption and illustrating its spread across Europe, we mainly relied on perception-based measurements, most notably on the World Bank´s Control of Corruption. These indicators proved to be very helpful to establish the dimension of the problem and to determine the factors which explain the cross-country variation in corruption levels. However, perception-based indicators suffer from the major limitation that they are non-actionable from a policy perspective. Specifically, their insensitivity to change strongly limits the possibility to use these indicators for guiding policymakers and can even be harmful for giving the wrong feedback about the potential outcome of the corresponding reforms. In order to get passed this limitation, we propose an indicator that captures the national level of corruption indirectly, by relying on the institutional factors identified in section III of this paper and that have also been proven to be closely associated with corruption in our previous work. The advantage of this approach is that it can be used as a diagnostic tool to reflect policies which are necessary for curbing and preventing corruption.

The approach strictly follows the logic of the theoretical mode and the empirical evidence presented in Section III and all our previous ANTICORRP related work. Specifically, we combine all six determinants of corruption presented above into one single aggregate index that we label as **Index of Public Integrity** or **IPI**. The construction of the indicator was done as follows: First, the raw data for all six indicators was standardized to equalize the mean values and standard variations of the respective variables thereby making their units comparable, i.e. the z-scores for every variable were constructed to avoid that the composite IPI strongly depended on the element with the greatest dispersion. In the case an indicator consisted of several sub-components, the same procedure was applied at the disaggregated level and then the simple mean of the sub-component´s z-scores was taken as the value of the respective component. For example, the index of *administrative burden* is a simple mean of z-scores of the number of procedures and time to start business and pay corporative taxes. In the next step, the standardized values of each component were normalized to be in range between 1 and 10

using the common min-max-transformation. The overall IPI is finally derived by taking the arithmetic average of the six indexes.[8]

The IPI shows the capacity of a country to control corruption and enforce the norm of integrity at both the state and the societal level. This index is not only highly correlated with the World Bank's measure on control of corruption (which is not surprising given the selection process of the components) but also with several other corruption indicators. In contrast to the perception-based measures of governance, our indicator, however, allows to trace back a country's performance to specific actionable components what can help policy makers to identify reform areas for improvement.

Figure 14. EU28 by Strength of Public Integrity (2014)

Figure 14 lists all 28 EU Member States with their aggregate public integrity score (IPI). Finland has the highest aggregate score closely followed by the Netherlands, Denmark and Sweden. The bottom group of countries is dominated by the newest EU Member States, i.e. Bulgaria, Romania and Croatia, which is not surprising given that they face the most serious governance problems. **Figure 15** shows the absolute changes in the value of IPI as well as its components between 2012 and 2014. Greece shows

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[8] We also used a principal component analysis to build the aggregate index. The first principal component of our six indexes explained around 65% of the variation in the data and was the only one with an eigenvalue of larger than one. This variable was highly correlated with the simple mean value at 99.9%. For the sake of simplicity and especially for better intuitive explanation, we therefore stick to the simple averaging as the aggregation method of the components.

the highest improvement in score between these two years. This seems to indicate that reforms prompted by the crisis combined with the domestic demand and the external conditionality have pushed Greece in the direct direction in terms of governance. The dividends of this investment will hopefully show in the future.

Figure 15. Change in IPI between 2014 and 2012
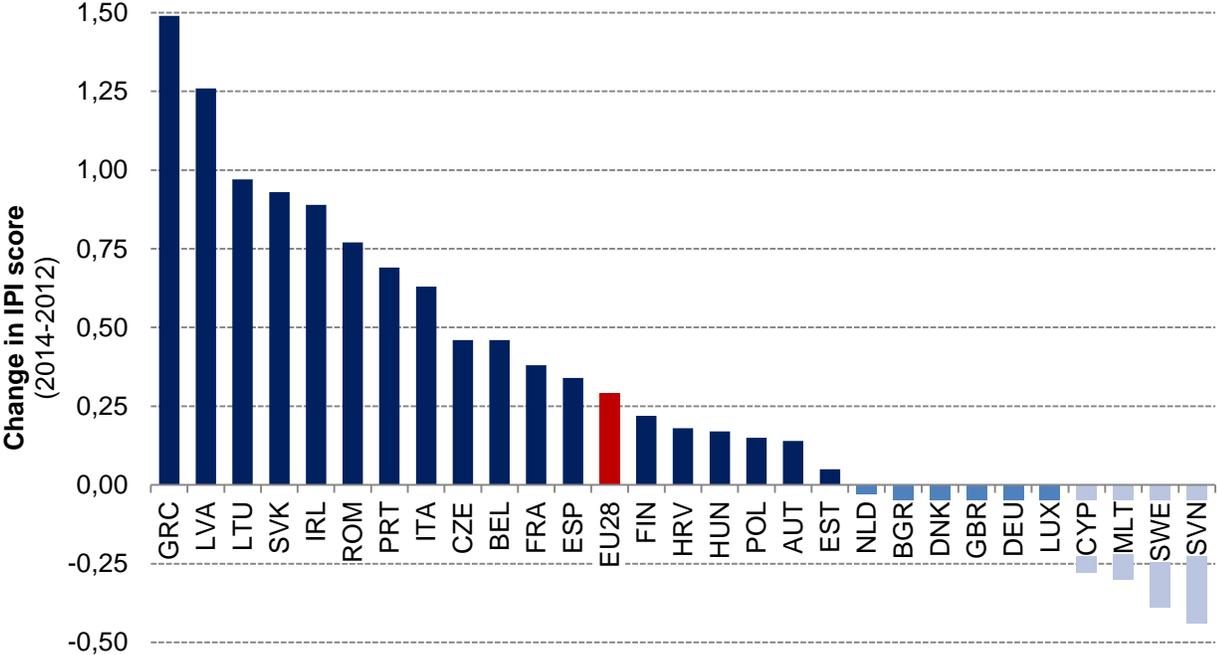
Sources of data: IPI data (see **Appendix 2**)

Reviewing the performance of individual countries on the components of the IPI allows a better understanding of variations in the causes of corruption across the EU28 and allows us to see past the obvious dichotomy between Scandinavia and the Eastern Balkans, which is also mirrored by the severe difference in development between the two European regions. In order to understand the more nuanced causes of corruption inside the 28 EU Member States, we clustered the numerical scores of each IPI component into three corruption risk categories (low, medium and high risk of corruption). Then, following the equilibrium model presented in the previous section, we grouped the six IPI components into two categories to create a proxy for the resource and the constraint part of the equation: Administrative burden, trade openness and e-government services were included as resources and auditing standards, judicial independence and engaged citizens were used as

constraints.[9] The result of this exercise is the 3x3 matrix presented below (see **Table 2**), which allows us to classify all EU28 countries into several corruption risk categories based on the resource vs. constraint model.

Table 2. EU Member States by Corruption Risk Group

		CONSTRAINTS		
RESOURCES		**High**	**Medium**	**Low**
Low		Finland France Netherlands Estonia Denmark UK Sweden Ireland Belgium	Lithuania	-
Medium		Luxembourg Germany Austria	Latvia Hungary Portugal Greece Spain Slovenia	Italy
High		Malta	Cyprus Poland Slovak Rep. Czech Rep.	Croatia Romania Bulgaria

Group A 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 all Nordic Member States, the Netherlands, Belgium, France, Ireland, the UK, and Estonia. Those countries control opportunities for corruption through a transparent administration and economy, reduced officialdom and effective and autonomous monitoring mechanisms. 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.

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[9] We then applied the commonly used Ward method, which minimizes the variance within the clusters, to group the countries along the dimensions of resources and constraints.

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 Estonia has managed to enter Group A, underlying its exceptional development in establishing an effective system of public integrity.

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 is made by countries that just like Group A have managed to establish high constraints on corruption. They have an independent judiciary, an engaged and informed body of citizens and strong auditing standards for the private sector. However, there are still some elements that could give rise to corruption. In the case of Austria, Germany and Luxembourg, the three countries in this group, the problem seems to be a high level of administrative burden. On the mirrored side of these countries is Lithuania that seems to have made a good job at reforming its public sector to counter red tape and bureaucratic discretion. On the other hand, there is still work to be done in building additional constraints, especially a more independent judiciary.

Group C This group of countries is faced with the challenge of having to follow a dual strategy to fight corruption: they need to increase the constraints for corruption and lower the resources for it. Greece, Hungary, Latvia, Portugal, Slovenia and Spain are all in this situation. Although none of these countries

are doing especially bad in any of the indicators, they tend to show a mediocre performance in all of them. A borderline case is Malta that, according to our indicator, has managed to build significant deterrents for corruption, but has not yet tackled certain sectors that could give rise to particularistic or corrupt practices. For this particular case, the excessive administrative burden in bureaucratic procedures seems to be what is holding Malta back. The country also ranks among the worst member states in terms of e-government services.

Goup D includes on the one hand Cyprus, Poland, the Czech Republic and the Slovak Republic which, compared to the previous group, have to make even stronger efforts to control the resources for corruption. On the other hand, there is Italy that especially faces significant challenges of insufficient constraints at both levels normative and legal.

Group E presents the highest corruption risks as it unites many opportunities with few deterrents. This group includes Bulgaria, Croatia and Romania. For a country to be in this group it has to consistently rank among the worst performers in the region across all indicators.

V.   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, specific strategies can be designed based on the existing problems, but also on 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. A remedial work based on any of its factors would be a substantial contribution to the control of corruption. Since those factors differ greatly, however, we have grouped them into the following 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 might be 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 in their cave instead of the one cut when peering out. The underlying causes are not touched by such policies, and therefore only a combination of the two (policies addressing causes at domestic level and international checks) can hope to produce some

lasting and sustainable success. Consequences of international policies 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 East European and to some extent Mediterranean 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 Malta, Slovakia, the Czech Republic, Poland, Bulgaria, Croatia, and Romania. Countries like Latvia, Slovenia, Lithuania and, especially, Estonia have already undertaken reform to become more 'Scandinavian' and it is the right way for them to go, although challenges remain.

5. *Increase judicial autonomy and accountability of public and private sector.*

Especially, Slovakia and Bulgaria have to strengthen the independence of their judicial authorities. Italy, Greece, Croatia, Romania and Slovenia should put significant efforts in improving accountability mechanisms and auditing capacities. Efforts in both directions are also needed in Spain.

In general, this area 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.

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

This applies particularly to Romania, but also to Bulgaria, Croatia, Poland and Italy. 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 Romania, Bulgaria and Croatia 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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VII. List of variables and data sources used

Name	Definition and Measurement	Source	Year
Absorption of EU funds	% of EU cohesion funds absorbed	EU Commission (InfoRegio), "EU cohesion funding- key statistics"	2014
Anti-Corruption Agency (ACA) presence	A binary index that captures the presence of an ACA	Hertie School of Governance; ERCAS Dataset	2012
ACA year of establishment	Number of years since the establishment of an ACA	Hertie School of Governance; ERCAS Dataset	2012
Bribe to public authority	Self-reported solicitation of bribes from an authority holder. Variable is the percent of people who have been asked to pay a bribe	Eurobarometer 79.1/2013 (QB12), Exact Survey question: "Over the last 12 months, has anyone in your country asked you, or expected you, to pay a bribe for his or her services?" (Scale: 0-1)	2013
Capacity to retain talent	Weighted average of the answers to the question „Does your country retain talented people? [1 = the best and brightest leave to pursue opportunities in other countries; 7 = the best and brightest stay and pursue opportunities in the country]"	Global Competitiveness Report	2012
Citizen perception of corruption in the country	% of respondents who believe that corruption is widespread in their countries	Eurobarometer 79.1 (QB5): "How widespread do you think the problem of corruption is in our country?"	2013
Control of Corruption	Perceptions of extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. The index is built by factor analysis from subjective individual assessments in original scale. The original index is ranged from -2.5 (least) to 2.5 (most control of corruption); the rescaled one is normalized with min-max-method to fall in range 1 (least) to 10 (most control).	Worldwide Governance Indicators (WGI), World Bank	2012-2014
Favouritism and corruption hamper business competition	Citizen Perception that favouritism and corruption hamper business competition	Eurobarometer 79.1 (QB15): Exact Survey Questions: "Please tell me whether you agree or disagree with each of the following: favouritism and corruption hampers business competition" (Scale: 1-4/totally agree-totally disagree)	2013

Name	Definition and Measurement	Source	Year
Government expenditure on health	Public health expenditure as % of GDP	Eurostat	2013
ICRG risk of corruption	Expert based assessment of corruption in the political system including administrative and political corruption; range 0 (most) -6 (least corrupt).	International Country Risk Guide (ICRG), Political Risk Services	1984-2011
Index of Public Integrity (IPI)	Measure to assess a country's overall public Integrity. See text for methodological details. Simple mean of: – Administrative burden – Trade openness – E-Government Services – E-Government Users – Judicial independence – Auditing standards	Hertie School of Governance ERCAS database	2012
Innovation Capacity	Score from the Global Innovation Index based on the answers to the question: In your country, to what extent do companies have the capacity to innovate? [1 = not at all; 7 = to a great extent]	Global Innovation Index	2015
Political connections	Citizen perception that political connections are the only way to succeed in business	Eurobarometer 79.1 (QB15): Exact Survey Questions: "Please tell me whether you agree or disagree with each of the following: the only way to succeed in business is to have political connections" (Scale: 1-4/totally agree-totally disagree)	2013
Political finance restrictions	Simple mean of binary indices (1-0) that capture legal practices on private and public funding to political parties and candidates including restriction on their spending, requirements for reporting and oversight as well as sanctions; the score is normalized to fall in range 0 (lowest) -10 (highest degree of regulations)	Political Finance Database, International Institute for Democracy and Electoral Assistance (IDEA); own calculations	2012
Single bidding in public procurement	% of public tenders decided with only one bidder	EU's Tenders Electronic Daily, data released by DG GROW of the European Commission (TED); own calculation	2009-2013
Spending in overall inland infrastructure	This indicator is measured as a share of GDP for total inland investment and in euros for the road, rail, air, inland waterways and sea components.	OECD ITF Transport Outlook 2015	2013

Name	Definition and Measurement	Source	Year
Tax collection	Total receipts from taxes and social contributions (incl. imputed social contributions) after deduction of amounts assessed but unlikely to be collected in % of GDP	Eurostat	2014
Trust in national parliament	% of respondents who trust or tend to trust the national parliament	Eurobarometer 79.3/2013 (QA12): "Please tell me if you tend to trust it or tend not to trust: Political Parties, the National Parliament ".	2013
Women in parliament	% of seats occupied by women in the lower chamber of Congress	Inter-Parliamentary Union	Last available year

VIII. Appendices

Appendix 1. OLS regressions for the six components of the IPI

	(1)	(2)	(3)	(4)	(5)	(6)
HDI	15.15***	11.52***	3.777	10.74***	12.34***	10.83***
	(8.99)	(5.00)	(1.41)	(4.77)	(4.86)	(4.93)
Administrative Burden	0.0786*					
	(2.40)					
Trade Openness		0.143**				
		(3.41)				
Judicial Independence			0.225***			
			(6.06)			
Auditing Standards				0.189***		
				(5.75)		
E-Gov. Services					0.127**	
					(2.88)	
E-Gov. Users						0.204***
						(4.66)
Constant	-12.52***	-9.735***	-3.515	-9.246***	-10.19***	-9.227***
	(-9.12)	(-5.49)	(-1.67)	(-5.17)	(-5.13)	(-5.39)
N	28	28	28	28	28	28
adj. R-sq	0.651	0.710	0.860	0.827	0.701	0.791

OLS regressions. The dependent variable is WGI Control of Corruption. t statistics in parentheses * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$. Robust std. errors are used.

Appendix 2. Strength of integrity framework in the EU28 (2014)

Country	IPI Score 2014	Administrative Simplicity	Trade Openness	Auditing Standards	Judicial Independence	E-Gov. Services	E-Gov. Users	Change IPI 2012-2014
EU Average	**5.71**	**6.33**	**5.86**	**5.90**	**5.00**	**5.76**	**5.45**	**0.29**
Austria	6.50	3.60	7.75	7.09	6.91	7.03	6.63	0.14
Belgium	7.16	9.72	7.43	8.12	6.13	6.20	5.38	0.46
Bulgaria	2.38	2.75	3.20	1.15	3.83	1.00	2.38	-0.06
Croatia	2.64	4.04	1.00	2.87	1.26	3.69	3.00	0.18
Cyprus	4.77	4.46	5.60	5.60	4.16	3.78	5.00	-0.28
Czech Republic	3.22	1.14	2.88	4.36	3.97	2.58	4.38	0.46
Denmark	8.49	9.52	9.24	9.89	6.30	6.01	10.00	-0.09
Estonia	7.83	9.98	9.24	8.12	6.45	7.31	5.88	0.05
Finland	8.88	9.67	6.92	10.00	10.00	7.31	9.38	0.22
France	7.89	9.05	9.44	6.66	6.33	10.00	5.88	0.38
Germany	6.60	4.37	7.61	8.57	6.57	6.10	6.38	-0.18
Greece	4.34	7.18	3.44	3.92	1.51	5.36	4.63	1.49
Hungary	4.84	7.25	1.13	4.72	5.25	4.80	5.88	0.17
Ireland	7.39	9.71	10.00	9.39	3.67	6.20	5.38	0.89
Italy	4.12	5.59	5.08	3.67	1.00	7.03	2.38	0.63
Latvia	5.93	7.71	5.30	4.65	4.94	6.47	6.50	1.26
Lithuania	5.78	8.59	6.37	3.90	3.84	7.12	4.88	0.97
Luxembourg	6.87	5.34	7.11	8.81	9.06	5.55	5.38	-0.2
Malta	4.39	1.00	4.11	5.91	7.77	2.95	4.63	-0.30
Netherlands	8.66	10.00	8.17	9.00	7.99	9.16	7.63	-0.03
Poland	3.71	2.44	4.13	4.86	3.84	4.62	2.38	0.15
Portugal	5.71	8.87	5.38	5.66	4.03	5.73	4.63	0.69
Romania	2.60	2.70	3.68	3.51	1.27	3.41	1.00	0.77
Slovak Republic	3.84	3.21	3.25	1.00	5.26	3.97	6.38	0.93
Slovenia	4.19	8.61	2.25	3.28	1.40	3.23	6.38	-0.44
Spain	5.09	3.43	7.06	2.97	2.13	9.35	5.63	0.34
Sweden	8.44	9.31	9.18	8.20	7.75	6.47	9.75	-0.39
United Kingdom	7.74	8.13	7.99	9.23	7.45	8.79	4.88	-0.14

Sources of data: Ease of Doing Business Index (Administrative Simplicity, Trade Openness), Global Competitiveness Report (Auditing Standards, Judicial Independence), UN E-Government survey 2012 (Online Services), Internet World Stats (Facebook Users), Index of Public Integrity (IPI) is the aggregated index of the other variables; own calculation.

Appendix 3. IPI components

Name	Definition and Measurement	Source	Year
Auditing standards	Standards on auditing and accounting practices to ensure private-sector transparency and integrity. The values are standardized (z-scores) and then normalized with min-max method to fall in range 1 (lowest) to 10 (highest level of standards).	World Economic Forum Global Competitiveness Dataset; own calculation	2012, 2014
Trade Barriers	Extent of administrative regulations concerning a country's external economic activities. It is measured as simple mean of standardized values (z-scores) of: – total number of documents required to export and import – time for exporting and importing The index is normalized with min-max method to fall in range 1 (lowest) to 10 (highest level of openness).	Doing Business Dataset by World Bank; own calculation	2012, 2014
Transparency/ e-government	Scope and the quality of public online service deliveries including the use of e-government to provide information and services to citizens and also capturing the concepts of 'open government data', e-procurement, mobile government. Standardized values (z-score) of the Online Service Index, which is based on screening and assessment of national websites, e-services portals, websites of ministries of education, health, labour, social services, and environment. The index is then normalized with min-max method to fall in range 1 (lowest) to 10 (highest level of e-services).	UN E-Government Survey; own calculation	2012, 2014
Administrative Burden	Extent of administrative regulations of domestic entrepreneurial activities. It is measured as simple mean of standardized values (z-scores) of: – number of procedures required to start up a business – time needed to start up a business – number of tax payments per year – time to pay taxes. The index is normalized with min-max method to fall in range 1 (lowest) to 10 (highest level of simplicity).	Doing Business Dataset by World Bank; own calculation	2012, 2014
Judicial Independence	Standardized value (z-score) of the "judicial independence" indicator from the Executive Opinion Survey that asks the question "To what extent is the judiciary in your country independent from influences of members of government, citizens, or firms? [1 = heavily influenced; 7 = entirely independent]. The index is normalized with min-max method to fall in range 1 (lowest) to 10 (highest level of independence).	World Economic Forum Global Competitiveness Dataset	2012, 2014
Civic engagement	Citizens' usage and demand for e-government. Standardized values (z-score) of % of individuals obtaining information from public authorities web sites. The index is then normalized with min-max method to fall in range 1(lowest) to 10 (highest level of e-usage).	Eurostat; own calculation	2012, 2014