



# 2018 OECD GLOBAL **ANTI-CORRUPTION & INTEGRITY FORUM**

## **Corruption Risks at the Local Level in the EU and EU Periphery Countries**

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### **1. Executive Summary**

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Most governance and decentralization reforms tend to prioritise transfers of powers from the central to local governments (LGs). This has resulted in greater decision-making, administrative functions and oversight, including concerning the delivery of public services, taxation or other socio-economic policies. There is growing interest and evidence on whether and how corruption impacts decentralisation (as opposed to centralised systems).

Building on the existing literature on clientelism and corruption in LGs (Volintiru et al 2017), this paper evaluates perceptions of corruption and corruption risks across LGs in the EU and non-EU periphery states. It also focusses on key administrative functions, such as procurement and the delivery of public services. The paper is based on a mixed methods approach. An expert survey (administered to experts from the public sector, academia, civil society etc) was designed to systematically evaluate the main forms of corruption occurring at the subnational level (e.g. nepotism, preferential allocation of public contracts, etc), while case studies provide illustrative examples of corrupt or good practices at the LG level in the selected countries.

Our findings suggest that administrative capacity of local governments appears to be higher in EU member states than non-EU member states. Nepotism and public procurement issues are seen as the greatest corruption risks across regions, and favouritism in public procurement appears to be the largest issue in the Western Balkans and EaP. Political parties stand out as having the weakest internal governance across all three regions. Conversely, the courts and the police are perceived to be the most effective institutions at local level.

Addressing corruption, it is argued, calls for a mix of measures, ranging from better enforcement mechanisms, more transparency, accountability and participatory measures. The paper provides some examples of these.

Keywords: decentralisation; local government; corruption; nepotism; institutional capacity; public administration

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## 2. Introduction

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In the last decades, decentralisation reforms have become a key policy focus.<sup>1</sup> It is often found in most institutional or governance frameworks proposed by the European Union (EU) and the World Bank. Proponents argue that decentralisation helps improve governance by making government more accountable and responsive. Furthermore, recent research points to the positive effects of competition between decentralized local governments, especially as they compete against one another to attract private investments, as opposed to relying on public transfers from the Central Government (OECD, 2017). In effect, decentralisation has meant not so much an effacement of government, but instead that administrative functions have been shifted and local governments or administrative units have been reinforced on the basis that they know best how to run and administer local matters. As a result, local governments play an important role in economic and social development, and have a responsibility for public service delivery, tax collection, etc. On the other hand, however, there is a risk that enhanced powers could lead to a wasteful allocation of resources and state capture, particularly if institutional capacity is poor. While we expect this varies from country to country, it provides greater opportunities to extract rents and thus for corruption to take place. In addition to weak institutional capacity in new European democracies, detractors have highlighted the lack of resources for devolution in many of Europe's lagging regions (Applica et al, 2017).<sup>2</sup>

Decentralisation is also an important cornerstone of the EU integration process (Hooghe and Marks 2001). For over a decade now, the European Commission (EC) has been a vocal supporter of increased powers for local governments (COM 280/2013), and has called for ways to gradually empower them and make them more accountable (European Commission, 2013).<sup>3</sup> The European Committee of Regions (CoR) is also playing an increasingly important role in harmonizing the administrative procedures within local and regional authorities in both the EU member states and periphery countries.

Multilevel governance in the EU makes corruption at local levels often more visible and more pervasive due to the direct interaction between citizens and public officials. It is often considered that “the proximity of local authorities may induce citizens to participate in public life and exercise more

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<sup>1</sup> Decentralisation includes the transfer of administrative functions at the local level through the establishment of regional bodies that represent the central government (i.e. ‘deconcentration’) and the transfer of administrative functions and various public resources and assets to existing local authorities (i.e. ‘devolution’).

<sup>2</sup> This is because the time and timing of the formation of party systems in new European democracies involved an inherently weak bureaucratization and high level of politicization (see for example Van Biezen 2003, Dimitrov et al 2006, Grzymala-Busse 2007).

<sup>3</sup> See also: [https://ec.europa.eu/europeaid/tools-and-methods-series-reference-document-no-23-supporting-decentralisation-local-governance-and\\_en](https://ec.europa.eu/europeaid/tools-and-methods-series-reference-document-no-23-supporting-decentralisation-local-governance-and_en), last accessed on 03.03.18.

influence on local officials—which may help reduce corruption and improve accountability.”<sup>4</sup> The accountability derived from such a closer relationship can enhance the legitimacy of local governments.

The purpose of this paper is to contribute to the evidence-base on corruption by comparing perceptions of corruption and corruption risks (vulnerabilities) across LGs<sup>5</sup> in EU countries (specifically, Eastern and Central Europe, CEE), and EU ‘periphery states’, namely the Balkans and the European Committee of Regions countries.<sup>6</sup> The study also focusses on administrative processes that are relevant for procurement and the delivery of public services, and also proposes what are regarded as viable approaches to tackle corruption.

## **2.1 Approach and Methodology**

The study is based on three tailor-made surveys administered in the course of 2017 and early 2018, covering the Balkans (Albania, Bosnia Herzegovina, Croatia<sup>7</sup>, Kosovo, Macedonia, Montenegro, Serbia); Central and Eastern Europe (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Hungary, Slovak Republic and Slovenia) and the European Committee of Regions (CoR) Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine).<sup>8</sup> The survey questionnaires for the first two regions were identical, while the final questionnaire included various different questions. This is taken into account further below, insofar as comparisons are drawn across two or all three regions only where survey data allows for such comparisons to be made. The questionnaire was designed to give us information about the relative prevalence of specific forms of corruption (e.g. nepotism, preferential allocation of public contracts, etc) and illustrative examples of corrupt or good practices at the LG level in the selected countries.

Survey questionnaires were administered among NGO, academic, journalists and government representatives, among others, using the snowball technique (i.e. after identifying one or more potential respondents, the latter were asked to circulate the survey questionnaire to colleagues). The surveys were complemented by in-depth case studies, desk research and interviews.

It is not the purpose of this paper to provide an in-depth assessment of perception-based surveys, especially since that is well covered in the literature (see Johnston, 2001). However, it is important to acknowledge the limitations of this approach. First, perception surveys do not depict reality – it may

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<sup>4</sup> Idem, Note 3

<sup>5</sup> In this paper, LGs is used interchangeably with Local and Regional Authority (LRA).

<sup>6</sup> See below for a list of countries.

<sup>7</sup> Although Croatia is currently an EU member, it has only recently joined the EU, and we considered it to share more in common with the Balkan region than the rest of the CEE set of cases at this stage. Confirming its status as an EU member state (and the necessary institutional reforms that come with the pre-accession negotiations), it ranks higher in terms of administrative capacity of LGs in our survey than the other countries in the Balkan.

<sup>8</sup> Of these, Georgia, Moldova and Ukraine currently have an Association Agreement with the EU.

be in fact that corruption levels vary from one year to the next because corruption is more often discussed, or for other idiosyncratic reasons, the political transition in Ukraine being a case in point. Thus, there is a need to cross-check perceptions with accurate measures of corruption to confirm/refute/nuance expert opinions. Second, it follows from this that it is difficult to infer conclusions with a definite sense of certainty. At best, one can propose hypotheses, and eventually offer reasons that help account for a certain answer. Though data from this survey could be further treated and analysed by measuring it against other variables (e.g. GDP size, income, etc), we did not do this. We accept this is a limitation of the paper that should be addressed in future work. Another limitation is that there is no specific time-series, such that changes in perception can be compared across time. That said, we do triangulate our findings with other existing survey data and/or research findings. As shown below, our findings are consistent with these.

The response rate was low, with a total of 232 respondents, 62 for the Balkans, 42 for CEE and 128 for EaP. Within these three groups, expertise from some countries is over-represented, insofar as there is a higher share of respondents from some countries compared to the overall cohort (respectively: Croatia and Serbia; Romania; Azerbaijan and Ukraine). That does not invalidate the results in any way, but it is worth bearing this in mind in the analysis of the findings. The data for the EaP was collected as part of an earlier Committee of Regions assessment (Volintiru et al 2017), which explains why the questionnaire is slightly different. Given the above considerations, our findings have been pooled at the regional levels, though where relevant, we also assess a particular finding at the country level. We assume context-driven similarities in the institutional genesis of local governments in the three regions under assessment.

### **3. Context**

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#### **3.1 The state of the evidence**

Survey data seems to show important differences between EU and non-EU/periphery countries where corruption is concerned, insofar as EU countries seem to fare considerably better in most transparency and integrity indices. CEE countries do better, on average, than countries in the Balkans or EaP countries on Transparency Integrity's Corruption Perception Index (CPI) and Trace's Bribery Matrix (countries are ranked from 0 (highly corrupt), to 100 (very clean) on the CPI, with most CEE countries ranked towards the top of the scale, and the rest towards the bottom) (see Table 1). There are interesting variations within CEE countries as well, with Romania and Bulgaria – both late comers to the EU - ranking at the bottom of their group.

Other tools are available to compare the quality of democracy within or across countries. This includes the Varieties of Democracy dataset<sup>9</sup> and Nations in Transit<sup>10</sup>, while others, like Integrity Index<sup>11</sup> and Democratic Accountability Linkages Project<sup>12</sup>, focus on integrity or accountability respectively. Even though TRACE’s Bribery Matrix has an interesting break-down of risks across four dimensions (opportunity, deterrence, transparency, and oversight), most of these indicators tend to provide a high-level picture within a country of set of countries

More granular and recent data can be found in ANTICORRP<sup>13</sup>, a large comparative project on the prevalence and impact of various forms of corruption internationally (see Mungiu-Pippidi et al 2013, Mungiu-Pippidi et al 2015). While often treated as distinctive phenomena, our contention is that informal transactions and the abuse of public interest for private gain (more commonly defined as corruption) are symbiotic and inter-dependent (see Volintiru et al 2016, Rothstein and Varraich 2017). As such, corruption is clearly connected to adjacent phenomena such as clientelism<sup>14</sup> (see Volintiru 2016, Gherghina and Volintiru 2017), state capture<sup>15</sup> (see Innes 2014) or political patronage<sup>16</sup> (see Kopecky et al 2012, Volintiru 2015, Kopecky et al 2016).

**Table 1: Corruption perception Indicators**

Country	TI CPI		TRACE BRIBERY MATRIX <sup>18</sup>				
	2017 <sup>17</sup>	Rank	Risk Score	Domain 1: Business Interactions with Government (“Opportunity”)	Domain 2: Anti-Bribery Laws and Enforcement (“Deterrence”)	Domain 3: Government and Civil Service Transparency (“Transparency”)	Domain 4: Capacity for Civil Society Oversight (“Oversight”)
<b>1. CEE</b>							
Estonia	71	9	14	17	2	16	11
Lithuania	59	22	22	30	13	23	9

<sup>9</sup> <https://www.v-dem.net/en/>, last accessed on 03.03.18

<sup>10</sup> <https://freedomhouse.org/report/nations-transit/nations-transit-2017>, last accessed on 03.03.18

<sup>11</sup> <http://integrity-index.org/>, last accessed on 03.03.18

<sup>12</sup> <https://sites.duke.edu/democracynlinkage/>, last accessed on 03.03.18

<sup>13</sup> <http://anticorrrp.eu>, last accessed on 03.03.2018

<sup>14</sup> We use the following definition of clientelism: "distribution of selective benefits to individuals or clearly defined groups in exchange for political support" (Hopkin 2006).

<sup>15</sup> We use the following definitions of state capture: "efforts of a small number of firms or clearly defined groups to shape the rules of the game to their advantage through illicit, non-transparent provision of private gains to public officials" (World Bank) (i.e. corporate state capture) and "the extraction of private benefits by incumbent officeholders from the state" (Grzymala-Busse 2008) (i.e. political state capture).

<sup>16</sup> We use the following definition of political patronage: “ability of parties to build organisational networks and distribute jobs within the state, thus obtaining institutional control of the latter” (Kopecky et al 2012).

<sup>17</sup> The CPI scale ranges from 100 (very clean), to 0 (highly corrupt).

<sup>18</sup> The four domain scores are weighted and combined and a risk penalty is added for individual domain scores that exceed the overall country risk score. Each country is given a score from 1 to 100 for each domain, and for the total bribery risk. Unlike the CPI, a higher score indicates a higher risk of business bribery. The 2014 and 2016 editions of the TRACE Matrix were based on publicly available data from nearly a dozen sources, including the World Bank, the United Nations, and the World Justice Project”). The Matrix is therefore a composite indicator.

Slovenia	61	34	29	38	18	24	22
Czech Republic	57	37	31	40	27	29	19
Poland	60	39	32	38	22	35	21
Slovak Republic	50	40	33	48	20	29	13
Latvia	58	42	33	33	18	58	15
Romania	48	67	41	53	19	39	28
Bulgaria	43	69	42	48	28	41	35
<b>2. BALKANS</b>							
Albania	38	94	47	52	33	46	43
Bosnia Herzegovina	38	102	50	64	30	34	44
Croatia	49	60	40	48	23	38	31
Kosovo	39	64	40	39	37	n/a	35
Macedonia	35	77	43	41	31	40	53
Montenegro	46	82	44	49	26	55	30
Serbia	41	101	49	57	33	47	43
<b>3. EaP</b>							
Armenia	35	83	44	42	43	50	43
Azerbaijan	31	112	50	49	34	43	66
Belarus	44	134	55	46	43	60	71
Georgia	56	25	23	16	17	31	32
Moldova	31	140	56	64	41	56	44
Ukraine	30	127	53	65	36	52	38

Source: compiled by the authors from TI CPI (2017) and Trace Bribery Matrix

### **3.2. The effect of EU membership**

Earlier research points to a clear-cut and positive effects of EU integration on economic growth and development for the more developed economies in Europe (Cappelen et al 2003). But much of the literature also shows a more limited impact in new member states, especially after EU integration and pre-accession conditionality came to an end. The import of the European institutional model seems to have had a more limited effect than intended (Grabbe 2003, Goetz 2005, Borzel and Risse 2007). Likewise, the effect of EU integration process on policy outcomes in many of the new states has also had mixed results (Hughes et al 2004, Freyburg and Richter 2010).

It is however clear that the learning effect in institutional conduct have had a positive impact of the convergence process, meaning that in member countries, local governments have progressively adopted norms and procedures that follow the EU practices and recommendations (Volintiru 2017, Thomas et al, 2011, Guido, 2005). Furthermore, the EU monitors rule of law developments and alignments with EU policies and principles in some late-comers (e.g. Bulgaria and Romania), as well as in periphery countries that pursue a path of convergence towards the EU (e.g. Ukraine, Moldova). Studies have shown the positive impact of this monitorization process on fostering governance in these countries (Langbein and Wolczuk 2012).

Corruption is one area of focus of the EU. Annual reports suggest that “corruption is a phenomenon affecting all Member States, and [that] continued action is needed across the EU”<sup>19</sup>. In certain cases, special monitorization measures are in place, such as the Control and Verification Mechanisms (CVM) in Bulgaria and Romania. Its domestic impact is very much dependent on political will (or lack thereof) and potential gains in the public image from complying with EU norms (Spendzharova and Vachudova 2012, Dimitrova and Buzogany 2014). From the sample of cases we explore in this paper, Estonia and Georgia have been highlighted as success stories in the fight against corruption and in having achieved virtuous cycles of good governance (Mungiu-Pippidi and Johnston 2017). Based on Commission country reports and annual Country Specific Recommendations (CSR), over the past decade, important progress has been made in some CEE countries in tackling judicial corruption (e.g. Romania). While there are clearly many outstanding issues with regards to corruption at all governmental levels, effective preventing measures still seems to be an important area of concern.

The process of integration towards the EU can normally be described as a stick and carrot approach. In the pre-accession period, most of the leverage of the European Union is concentrated on the conditionality approach (i.e. if reforms are not implemented, the accession process is not completed). After the accession, with the leverage of conditionality gone, the appeal of EU funding and the possibility of influencing appointments of top jobs in the Commission remain a pull factor for domestic reforms. For all the CEE member states, generous allocations (€201bn) from the European Regional Development Fund (ERDF) were available in the 2007-2013 financing period. Additionally, €76bn was made available through the European Social Fund, and €70bn from the Cohesion Fund. Funding for regional and cohesion policy in 2014-2020 amounts to €351.8 bn. Even though the EU budget is formed from national contributions, decision-making under the structural funds—“concentration (decisions on where the money is spent) and programming (decisions on how it is spent)” — is driven by Brussels (Bachtler and Mendez 2007). The EU thus provides significant sources of income for these countries, which in turn, may increase corruption risks. While certain studies suggest that corrupt practices at the local level distort the positive impact EU funding might have (see Bratu 2012), the convergence process (both before and after integration) uses EU funding as the main leverage for institutional harmonisation.

## **4. Results & discussion**

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### **4.1 Administrative capacity**

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<sup>19</sup> [https://ec.europa.eu/home-affairs/sites/homeaffairs/files/e-library/documents/policies/organized-crime-and-human-trafficking/corruption/docs/acr\\_2014\\_en.pdf](https://ec.europa.eu/home-affairs/sites/homeaffairs/files/e-library/documents/policies/organized-crime-and-human-trafficking/corruption/docs/acr_2014_en.pdf), last accessed on 03.03.2018

Respondents were asked to judge the capacity of LGs in their respective country to perform in a satisfactory manner administrative tasks over the last five years. Figures 1A and 1B show that administrative capacity is mainly low to moderate in all three regions.<sup>20</sup>

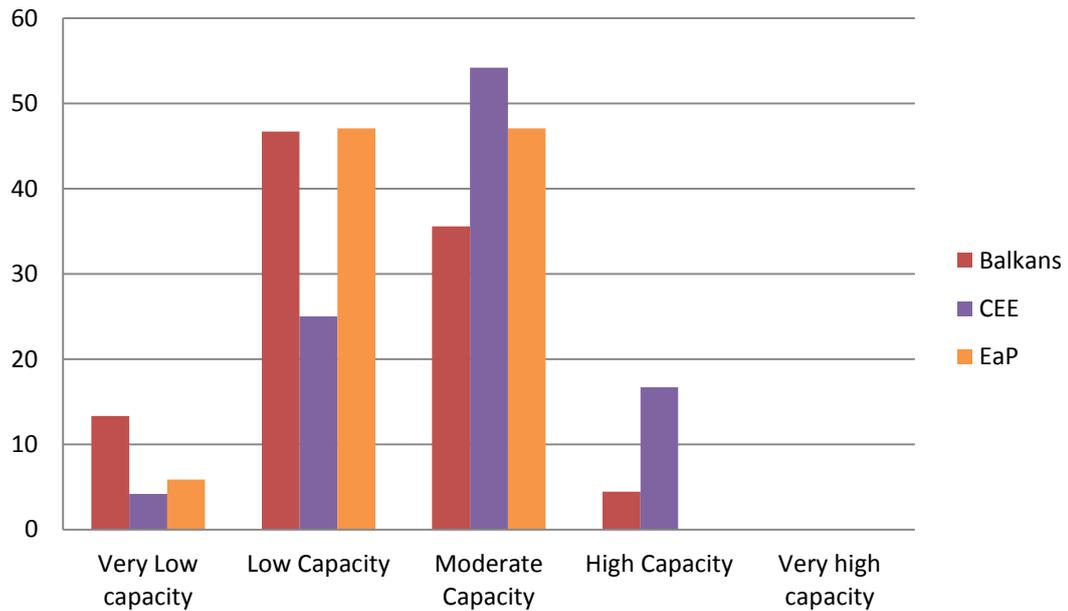
Data also seems to suggest that countries that belong to the EU generally fare better than neighbouring countries where corruption and governance is concerned. And there is a difference between countries in the EU as well. Our findings show administrative capacity at the local level is higher in Central and Eastern European countries that first joined the EU compared to late comers (Bulgaria and Romania), or periphery countries. This is congruent with other findings. For example, the TRACE Matrix shows that most CEE countries that entered the EU in 2004 have a higher rank compared to late-comers, most notably Romania and Bulgaria (see Table 1).

While we cannot ascribe causality for administrative capacity based on our survey findings alone, we do see the values we obtained as confirmatory of previous studies. Institutionalists have long asserted that path-dependencies matter, and data also shows the importance of administrative capacity in pre-modern times (see cadastral records and state capacity development dataset in D’Arcy and Nistotskaya 2017). Thus, we can trace back the higher values of administrative capacity in some of the Central and Eastern European democracies to their long bureaucratic tradition (Goetz 2001), which is absent in the other countries from our dataset. Furthermore, it is natural to assume that the imported institutional practices become more engrained over time, since transfer of practices and alignment with EU systems begins at the pre-accession stage (Langbein and Wolczuk 2012). Thus, it is important to account for the importance of domestic mediating factors. The will of domestic political elites is probably one of the biggest factors accounting for the positive effects of EU membership on domestic administrative capacity (see Sedelmeier 2012, Dimitriva and Buzagany 2014). A previous in-depth case study on Romanian municipalities points to the role of EU funding in socializing civil servants at Local Government level with EU norms and procedures (Volintiru 2017).

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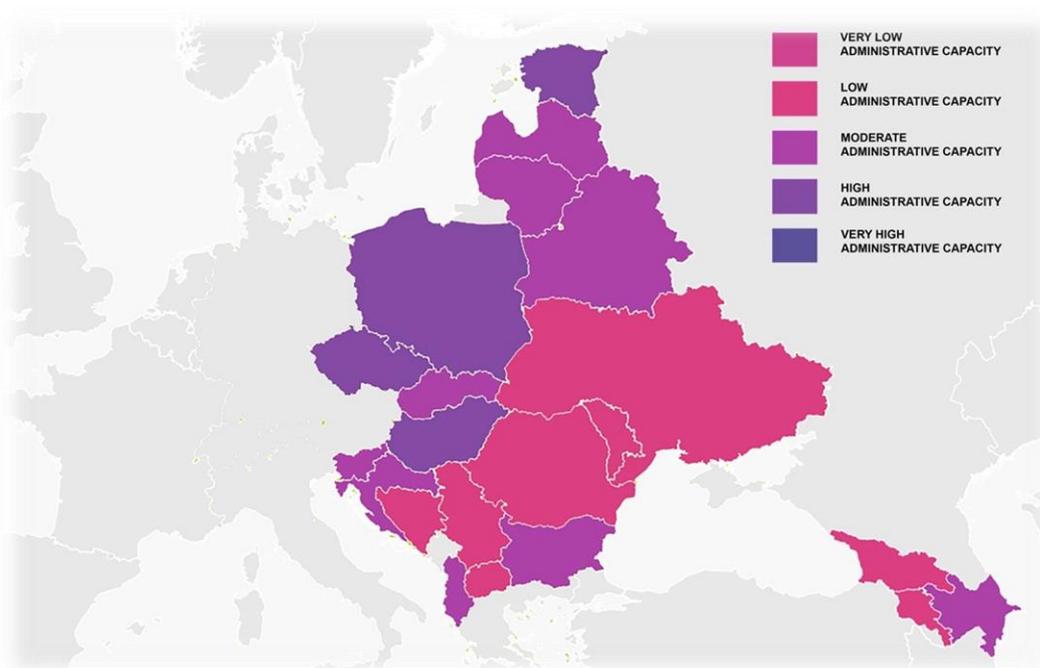
<sup>20</sup> Our findings are consistent with the much larger representative survey data at regional level done by EC: [http://ec.europa.eu/regional\\_policy/en/newsroom/news/2018/02/27-02-2018-european-quality-of-government-index-2017](http://ec.europa.eu/regional_policy/en/newsroom/news/2018/02/27-02-2018-european-quality-of-government-index-2017)

**Figure 1A: Capacity of LGs to perform administrative functions in a satisfactory manner<sup>21</sup>**



Source: Authors' questionnaire

**Figure 1B: Capacity of LGs to perform administrative functions in a satisfactory manner (per country)<sup>22</sup>**



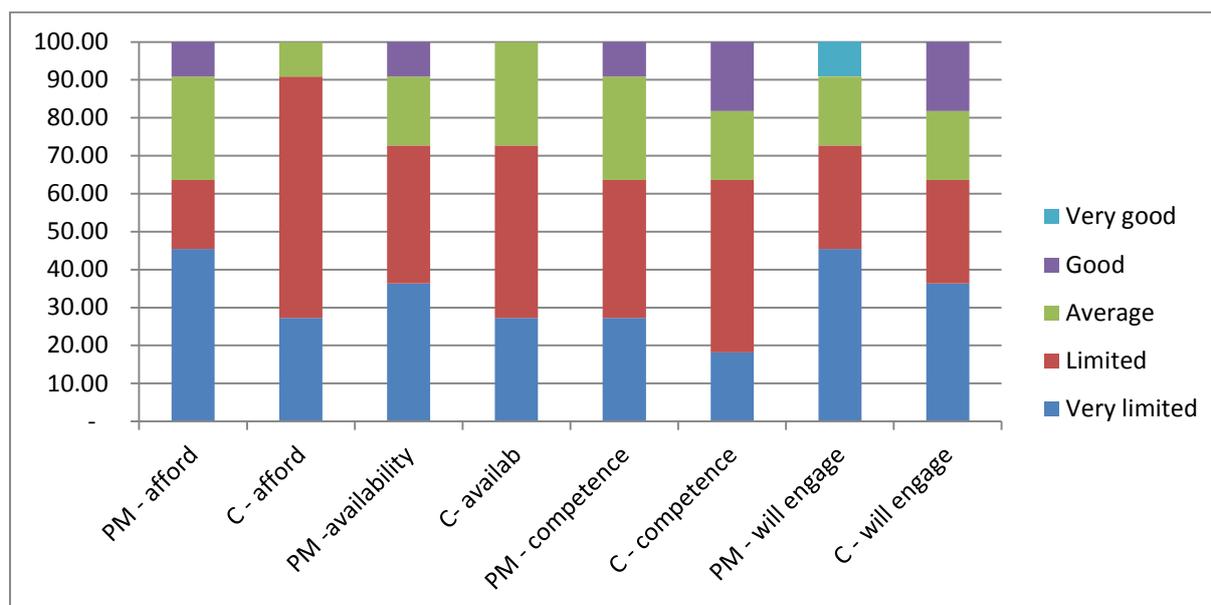
Source: Authors' questionnaire

<sup>21</sup> Question: “In your opinion, what has been the capacity of LRAs to perform in a satisfactory manner their administrative tasks over the last five years?”. For CoR countries, the question focussed on the “capacity of local civil service”.

<sup>22</sup> Question: See Note 21

In line with the above, the EaP survey also inquired about affordability, availability, competence, and willingness to engage of LGs, both concerning preventive and corrective measures. Results (Figure 2) show that across both preventive and corrective measures, administrative capacity is primarily considered to be ‘very limited’ to ‘limited’.

**Figure 2: administrative capacity to prevent & correct corruption in EaP countries<sup>23</sup>**



#### **4.2 Transparency, integrity and accountability within LGs**

The survey required that respondents rank key institutions within LGs, such as the local assembly, the local executive, the bureaucracy, political parties, courts, and the police, according to their level of ‘internal governance’, measured through the principles of accountability, transparency, and integrity (Figures 3A and 3B).<sup>24</sup>

In CEE, the institutions that are perceived as being most transparent, accountable, and with most integrity are the local courts and the local police (measured by highest share of ‘strong’). In the Balkans, this isn’t so clear cut. Most institutions have average or weak internal governance systems, it is argued. However the institutions that seem to stand out as having the least effective internal governance mechanisms in both the Balkans and CEE are political parties. In the Balkans, this is followed, on average, by the Executive, Assembly and Courts, though there are some variations within each of these institutions in the level of accountability, transparency and integrity. In CEE, the

<sup>23</sup> Question: “How would you rate the administrative capacity of the LRAs in your country to prevent and correct corruption from the point of view of: affordability, availability, competence, willingness to engage”.

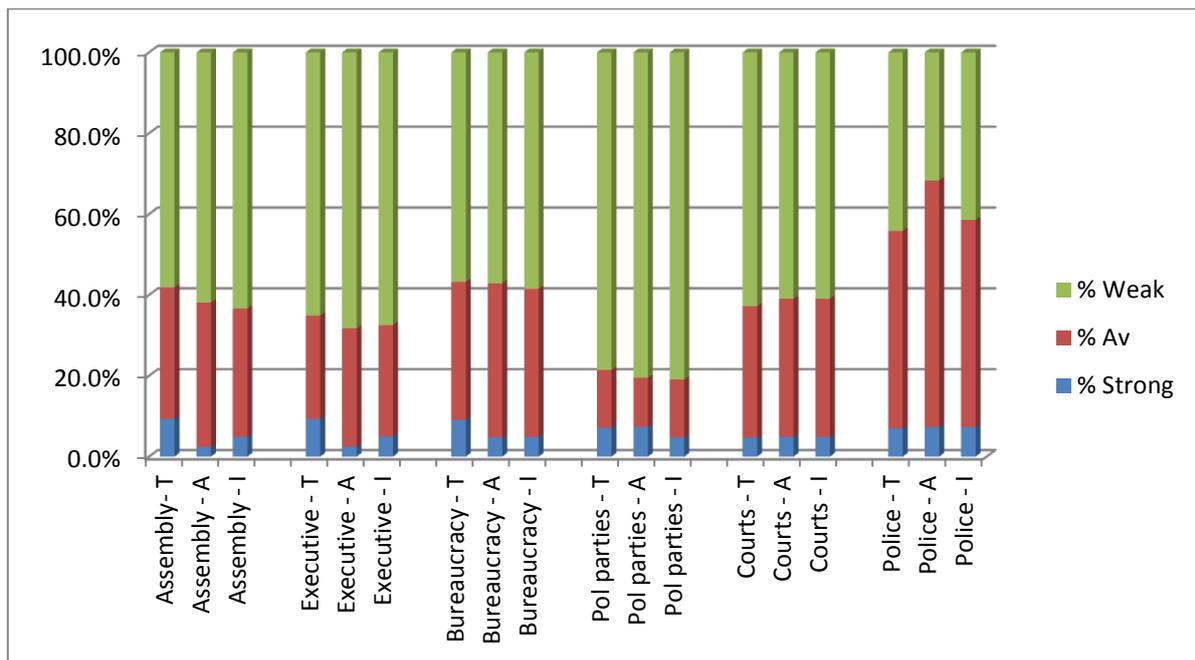
PM means preventive measures, and C corrective measures.

<sup>24</sup> This question was omitted from the CoR questionnaire.

local assembly are the second institution deemed to have least accountability, integrity and transparency, on average, after political parties.

That the image of political parties is so poor does not come as a surprise. Indeed, most survey data show that parties are considered to be opaque and lack accountability. As the Eurobarometer shows, they do not command trust in the eye of the public.<sup>25</sup> But it is important to note that governance of political parties may vary greatly from country to country, depending on a country's laws.

**Figure 3A: The quality of the internal governance in LGs (Balkans)<sup>26</sup>**

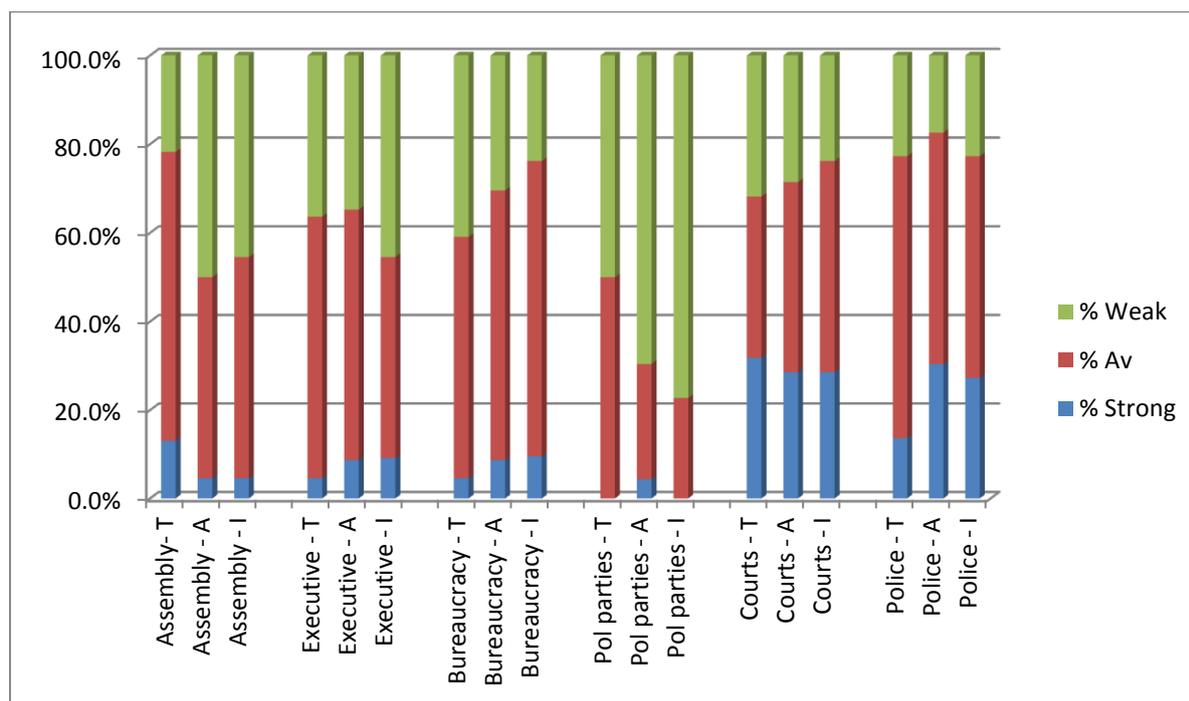


*Source: Authors' questionnaire*

<sup>25</sup> See European Commission, Public Opinion <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/getChart/themeKy/18/groupKy/85> (accessed 3 March 2018). EU Respondents in a majority of countries 'tend not to trust' political parties.

<sup>26</sup> T refers to Transparency, A to Accountability, and I to Integrity

**Figure 3B: The quality of the internal governance in LGs (CEE)<sup>27</sup>**



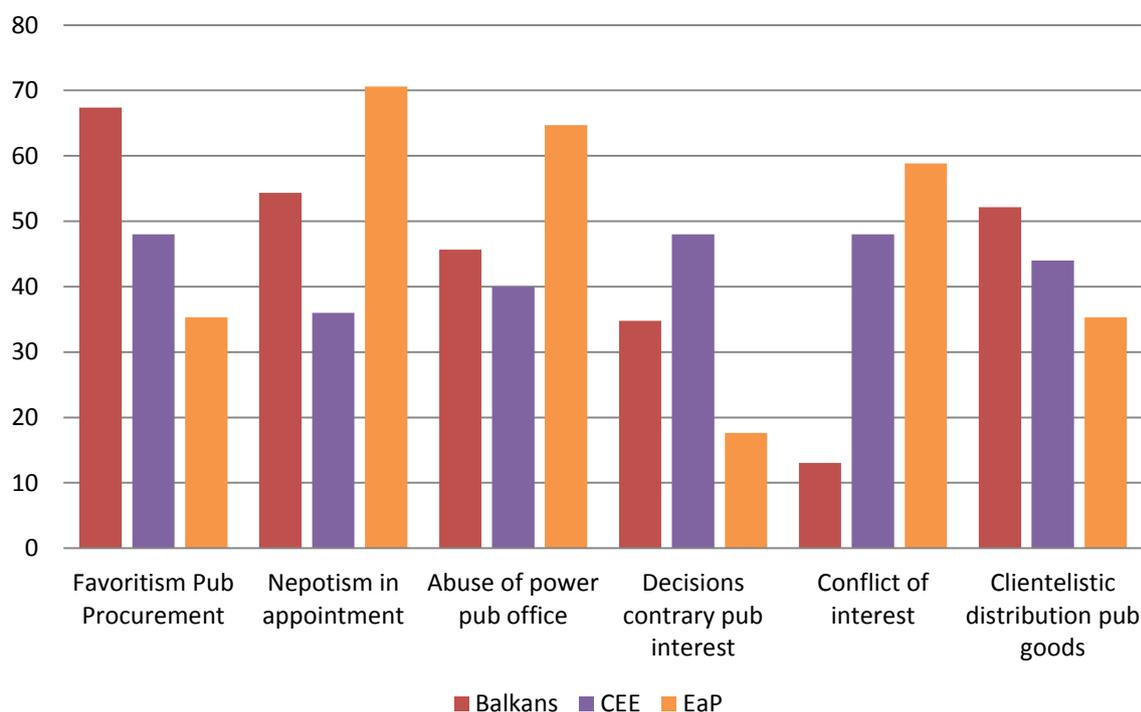
*Source: Authors' questionnaire*

### **4.3 Prevalence of corruption in LGs**

Next, respondents were asked to evaluate the most prevalent corruption risks within LGs (Figure 4). There is no risk that far outweighs others within any given region, and so concerns seem to be relatively similar across regions. Favoritism in public procurement stands out as an important issue in the Balkans (followed by nepotism and clientelistic distribution of public goods), and in CEE, but appears to be less relevant in EaP countries compared to other risks. Decisions contrary to public interest and conflict of interest are two other important risks in CEE, whereas in EaP countries, abuse of public office and conflict of interest are the two highest risks after nepotism. It is unsurprising to see nepotism and conflict of interest top concerns, though, as these are related: political patronage in appointments is usually exerted both as a reward and as a means to control the appointee of public decisions (Kopecky et al 2012, Volintiru 2015, Kopecky et al 2016).

<sup>27</sup> T refers to Transparency, A to Accountability, and I to Integrity

**Figure 4: Most prevalent forms of corruption in LGs?<sup>28</sup>**



*Source: Authors' questionnaire*

#### **4.4 Corruption risks in public procurement and in public service delivery**

We compared and contrasted the incidence of corruption in public procurement with that occurring in the delivery of public services. Public procurement is an administrative process by which public administrations purchase works, goods, or services from private companies (e.g. swimming pools, road work, public transport, etc). Corruption in public procurement and delivery of public services tends to be wide-spread, as this offers important opportunities to extract rents (Gherghina and Volintiru 2017). Issues may include: lack of transparency, clientelism, nepotism, lack of whistleblower protection or abuse of administrative resources during electoral cycles. As seen above, procurement is also considered to be an important risk factor in the countries under review. The survey therefore set out to test the kind of risk factors that undermine transparency and integrity in procurement contracts.

Consistent with previous answers, nepotism is considered to be an important problem, followed by the lack of transparency in procurement process (Figure 5). Lack of transparency can be construed differently by various respondents, but can refer for example to the lack of information, or accountability about who is awarded a contract, or how decisions are made. As such, it appears that

<sup>28</sup> Question: In your opinion, what are the most prevalent forms of corruption at the level of Local and Regional Authorities (LRAs) in your country? (multiple choice, maximum 3 answers)

the legislation is not so much a problem, as its actual application. As respondents suggested, typical issues include: the lack of competency of procurement staff; terms of reference that are drafted to leave out certain bidders or favour client companies (Bosnia Herzegovina); the application of standards and requirements that may also favour some companies over others; unclear evaluation criteria; or the segmenting of public work into small contracts to avoid triggering the need for public tenders (a practice noted in Croatia and Romania); and fictitious works (Romania<sup>29</sup>). Several local governments were signalled out for awarding contracts to politically connected companies in road repairs and transportation (e.g. Kyiv, Kharkiv, Chişinău, Krapoina, Zadar), construction works (e.g. Minsk, Zagreb) or waste management (e.g. Split, Yerevan, Bila Tservka, Bălţi).

A related concern is the prevalence of nepotism. As one respondent suggested, it is often the priority of LGs to allocate public funds (e.g. construction licenses) to business and individuals that are well-connected to the ruling elite, or to award public contracts to political parties or relatives of those in power (Serbia, Romania).<sup>30</sup> Nepotism also distorts procurement practices. As respondents from the Balkans and CEE argued, it can lead to situations where contracts are awarded to companies that are connected to the ruling party, and where work specification is changed after the award is made. Some other respondents, particularly in CEE countries, also feel that procurement can be provided to the same company, though this is done to a lower standard of quality (e.g. Romania).

One important point that stands out from some of these cases is that allegations of bribery, nepotism or conflict of interest are not always addressed, which in turn results in loss of trust towards LGs. That said, there are various corruption cases involving EU funds that are being investigated by the European Anti-Fraud Office (OLAF), and/or the courts (e.g. National Anticorruption Directorate (DNA) in Romania). In Slovakia, the recent murder of an investigative journalist was apparently connected to attempts by the Italian Mafia to profit from EU funds.<sup>31</sup> In Romania, the head of the ruling party is being investigated after OLAF found evidence suggesting collusion between the beneficiary of the funds, public officials and the contractor, including falsification of documents during the procurement procedure, resulting in the payment of €21 million from European Union funds.<sup>32</sup> As noted by a respondent, prosecution and enforcement is also hampered because the beneficial owner of some companies that provide these services may not be known (e.g. the company may be registered in an offshore jurisdiction).

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<sup>29</sup> Rehabilitation works in public schools, road repairs or cleaning works are just some of the examples that frequently come up in investigative reports on fictitious works in Romania. The latest report of the Romanian Court of Accounts is filled with such examples, see here: <http://www.curteadeconturi.ro/Publicatii/Raportul%20public%20pe%20anul%202016.pdf> [in Romanian]

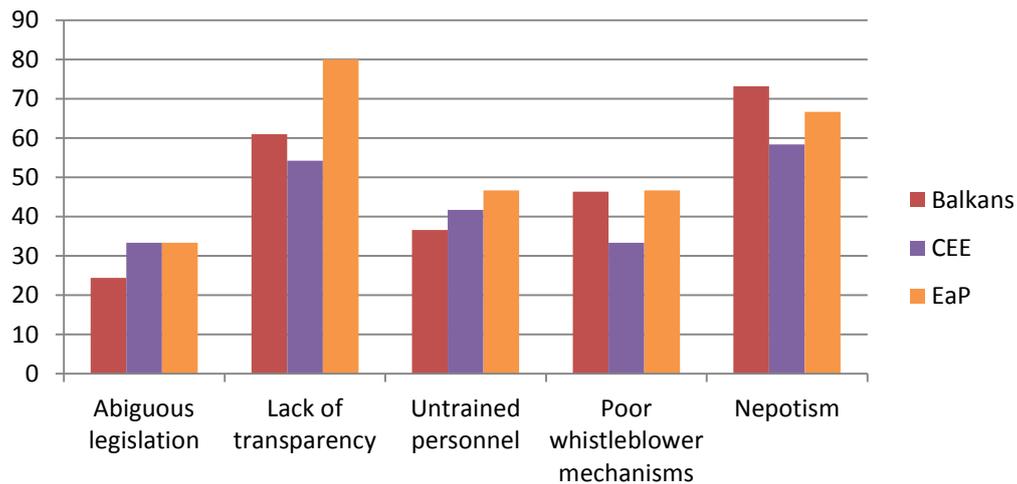
<sup>30</sup> See for example: [https://www.cins.rs/english/research\\_stories/article/indestructible-public-officials-agency-seeks-solutions-institutions-do-not-react](https://www.cins.rs/english/research_stories/article/indestructible-public-officials-agency-seeks-solutions-institutions-do-not-react) accessed 03 March 2018

<sup>31</sup> <https://www.theguardian.com/world/2018/feb/28/slovakian-journalist-was-investigating-political-links-to-italian-mafia> accessed 03 March 2018

<sup>32</sup> [https://ec.europa.eu/anti-fraud/media-corner/news/13-11-2017/head-romanian-ruling-party-indicted-fraud-following-olaf-investigation\\_en](https://ec.europa.eu/anti-fraud/media-corner/news/13-11-2017/head-romanian-ruling-party-indicted-fraud-following-olaf-investigation_en) accessed 03 March 2018

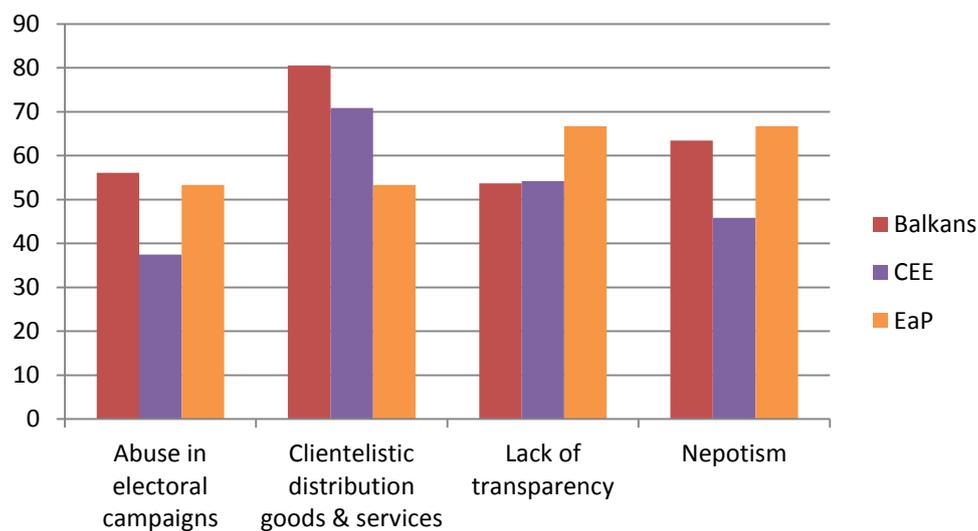
Related to the above, the survey inquired about corruption risks in the provision of public services (Figure 6). The top three concerns across all three areas include the clientelistic distribution of goods and services, followed by nepotism and lack of transparency. There are some regional variations, however, with clientelism the most important concern in Balkans and CEE, whereas in EaP, it follows nepotism and lack of transparency

**Figure 5: Main vulnerabilities in public procurement**<sup>33</sup>



*Source: Authors' questionnaire*

**Figure 6: Main vulnerabilities in the provision of public services**<sup>34</sup>



*Source: Authors' questionnaire*

<sup>33</sup> Question: In your opinion, what are the main vulnerabilities of Local and Regional Authorities (LRAs) regarding public procurement contracts in your country? (multiple choice, maximum 3 answers)

<sup>34</sup> Question: In your opinion, what are the main vulnerabilities of Local and Regional Authorities (LRAs) regarding the provision of public services in your country? (multiple choice, maximum 3 answers)

Based on the respondents' open-ended answers, we were able to synthesize what is tantamount to good practice in public procurement. One of the most successful solutions of increasing public ethics in LGs is the new online public procurement system ProZorro in Ukraine, which is a 'hybrid' electronic open-source and open access procurement system<sup>35</sup>. It was created through active collaboration between business, CSOs, and government. ProZorro has been internationally recognised as an innovative, transparency, fair and low-cost procurement system. Another good practice from Ukraine is the Auction 3.0.—a system of certifying public property based on blockchain technology.<sup>36</sup> In Georgia, meanwhile, there is an online portal that publishes all public procurement contracts of both Central and Local Governments (this practice can be found in other countries). Some governments have enacted the possibility for citizens to take a more active role in providing oversight. For example, In Bosnia Herzegovina, some LGs develop a form of participatory budgeting, by developing large scale consultation before adoptions. In Slovenia, LGs publish their budgets online with extended information<sup>37</sup>. And in Pazin, Croatia, the public is consulted for the elaboration of public budgets.

In terms of public services, we were able to identify certain good practices as well. In Azerbaijan there is a very efficient integrated one-stop-shop platform of e-government public services such as permits, licences, paying taxes etc.<sup>38</sup> Romania has a similar one-stop-shop system for paying local taxes, but it does not link services provided at local level with those provided at national level.<sup>39</sup> Finally, in Ukraine, there are a series of one-stop-shop service delivery Centres TSNAP "Transparent Office" that offer both online and offline public service delivery in areas such as registration, licences, permits etc.

It is worth noting that there is a series of third-party practices (i.e. solutions offered by citizens and civil society organizations) as well. Ukraine has a public consultations system <https://ti-ukraine.org/en/projects/policy-analysis/building-transparent-cities>.<sup>40</sup> In Moldova, meanwhile, local council meetings are live streamed in some of the Local Governments, increasing citizens' involvement in the decision-making process. In Serbia, a benchmark practice is the local anti-corruption plan and establishment of local advisory bodies in charge of developing, implementing and evaluating local anti-corruption plans.<sup>41</sup>

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<sup>35</sup> See <https://prozorro.gov.ua/en> Hybrid refers to both centralized public and decentralized private marketplaces.

<sup>36</sup> <http://www.eauction.idf.solutions>

<sup>37</sup> <http://www.transparency.si/projekti/proracuni-obcin/>

<sup>38</sup> <http://www.asan.gov.az/az>

<sup>39</sup> <http://www.ghiseul.ro>

<sup>40</sup> <https://ti-ukraine.org/en/projects/policy-analysis/building-transparent-cities>

<sup>41</sup> <http://www.acas.rs/wp-content/uploads/2014/09/Model-lokalnog-antikoruptionskog-plana-ENG.pdf>

## 5. Conclusion<sup>42</sup>

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Though based on perceptions, this paper lends evidence to the importance of nepotism, favouritism, abuse of power, and conflict of interest in public procurement and in the provision of public services in the EU and the EU periphery. On top of that, quality of local governance and administrative performance is thought to be relatively low, with notable differences between EU and non-EU countries. It is perhaps more reassuring for the rule of law that the courts and local police tend to be seen as having better internal governance mechanisms, while political parties are seen as the worse.

While the survey data gathered for the purpose of this research is no statistical dataset, however, it is clear that data could be further analysed in an attempt to shed light on causal links between various risks, for example by drawing on larger datasets, and/or by measuring our findings against other variables, as discussed.

Addressing corruption clearly calls for a wide-range of measures that seek to foster integrity, transparency and accountability and improve education and awareness. However, it is often said that preventive and corrective measures are both required if anti-corruption strategies are to be effective.

As was identified through our consultations, examples of preventive measures may include steps to foster awareness about corruption by the public and government officials, (such as through trainings and a free press), as well as improving administrative capacity through digitization and IT.<sup>43</sup> One-stop-shop offices; whistleblowing protection and codes of conduct were also proposed for consideration. In addition to these kinds of preventive measures, corrective measures often imply that laws are properly implemented. In other words, there must be effective asset recovery mechanisms, with investigations that are followed up by independent courts.

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<sup>42</sup> Some were previously formulated in Volintiru et al, 2017.

<sup>43</sup> See <http://www.transparency.si/projekti/proracuni-obcin/> Another good example is the Municipal Transparency Index in Portugal.<sup>43</sup> This is an annual aggregate index that tries to capture the level of government openness in a given municipal authority by looking at the data made available to the public via their websites, and which thus helps assess local government performance. See <https://www.portalmunicipal.gov.pt/home?locale=pt>

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