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The Causes of Administrative Corruption.
Hypotheses for Central and Eastern Europe

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Abstract

The aim of this study is to theoretically examine the causes of administrative corruption in Central and Eastern Europe. The thesis provides a theoretical framework outlining the potential explanatory variables of corruption, and derives several hypotheses that could be tested with empirical analyses in the post-communist states. It starts with a short introduction on different definitions of corruption. Next, it discusses various potential sources of administrative corruption outlined in the literature, and consequently elaborates hypotheses testable in the post-socialist Central and Eastern Europe, Estonia among them.

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Introduction

The majority of literature attributes the causes of corruption in the post-socialist Central and Eastern Europe to its communist past. The incentives for corruption are more likely to emerge during periods of regime change (Broadman & Recanatini, 2001: 360), when there is a lot of uncertainty in society. Incompleteness of economic reforms greatly enhances possibilities for corruption as the unreformed economy provides certain groups with advantages to pursue their interests (Japaridze, 2003: 35). “The rapid nature of democratic transitions can lead to corruption as groups seek to amass resources quickly (Moran, 2001: 389).”

Although recent totalitarian history and practices of the era contributed greatly to corruption, this is not the only source of corruption in these countries. To many this may seem obvious today, yet some analysts in the past have argued that if the communist system were to move towards democracy and Western model, corruption would decline or disappear (Holmes, 1997: 276). However, several researchers believe that corruption has increased after the collapse of the Soviet Union (Goorha, 2000; Varese, 1997). This trend of increased corruption may be the result of a change in what people perceive as corrupt. In other words, practices that were formerly considered acceptable are now considered corrupt and are therefore quantified in corruption studies. Moreover, there is hardly any comparable data of that time; just seven years ago any comparative empirical research in the field of corruption barely existed at all (Lancaster & Montinola, 1997: 193-194). The situation has improved only in recent years, and comparisons have become more common mostly due to the availability of international corruption indicators, such as Transparency International’s Corruption Perceptions Index (CPI); index of perceived corruption of the Business International; International Country Risk Guide’s corruption index, and a few others.

The former Eastern bloc states are often treated as a monolithic group in spite of the differences in their culture, economic development and pre-communist history. There are numerous articles (Sajo, 2003; Los 2003; Holmes, 1997 *et al*) which elaborate the conception of “post-communist corruption” analysing the link between corruption and

the transition from one type of society to another. Mostly this approach is justifiable due to the common recent history of the Soviet states. However, cultural norms and other crucial variables are distinct in all these countries. Corruption and its causes vary even within the same cultural area (Paldam, 2002: 238) - for example neighbouring Latvia and Estonia have a different level of corruption.

Neither theoretical nor empirical studies of the causes of administrative corruption exist in the literature. The extent of corruption has been studied systematically and comparatively only in few areas in the Central and Eastern Europe (CEE). Several international reports draw attention to the problem of corruption in the CEE (GRECO, 2001; OSI, 2002; Freedom House, 2002). These international reports often obtain their knowledge from country visits and interviews with the local officials, thus more or less expressing the personal views and opinions of the local bureaucrats and politicians. There are some corruption related surveys in the CEE, such as the studies of “corruption climate” in the 14 Central and Eastern European states, which identify aggregate beliefs and perceptions of the extent of bribes in these countries (GfK Praha, 2003); and the World Bank study (2000a), which measured petty corruption and state capture in the post-Communist states¹. In addition there are some theoretical models on specific issues of corruption with empirical tests (Kramer, 2000; Broadman & Recanatini, 2001 *et al*). However there is still little comparative empirical research on administrative corruption in the states of CEE.²

¹ This survey raises suspicions: for example, according to their survey Armenia, Belarus, Uzbekistan, Czech Republic, Estonia, Hungary and Slovenia, suffer relatively little from the illegal “purchases” of laws, regulations and decrees by parliamentarians and courts, mishandling of funds by Central Bank, patronage politics and some other composites of the state capture (Hellman *et al*, 2000: 20-24).

² There are some country studies regarding corruption, for example Slovakia (World Bank, 2000) and Latvia (World Bank, 1998), and separate polls in the countries of the CEE. In Estonia a qualitative study on the practices of contracting out local governments’ services showed that this process is prone to corrupt practices (Aaviksoo, 2000). Ginter (2002) conducted a sociological survey on the extent and causes of corruption. The Jaan Tõnisson Institute has carried out twice a poll on the citizen attitudes about corruption (Jaan Tõnissoni Instituut, 2001). There are also some recent public opinion polls conducted by the Estonian Institute of Economic Research (Eesti Konjunktuuriinstituut, 2003), and the Ministry of Justice & the Estonian Surveys Ltd (Justiitsministeerium – ES Turu-uuringute AS, 2004).

This study is a systematic theoretical analysis of the causes of bureaucratic corruption³ in Central and Eastern Europe. More specifically, it develops a theoretical framework outlining the potential explanatory variables and elaborates the mechanisms through which these are related to the level of corruption. It improves the understanding of administrative corruption and its origins. The study also derives specific hypotheses that could be tested with empirical analyses in Estonia and in other Central and Eastern European states. As such, the current study serves mainly as a theoretical guide and a research design for future empirical studies in the field of corruption in the CEE. No policy conclusions are made in the thesis.

The thesis is divided into three sections. Firstly, it gives an overview of the prevailing corruption theories, and analyses definitional difficulties. The second part is devoted to the analysis on specific factors and causes of corruption. The third chapter presents a concluding discussion.

³ For the definition and the separation between different types of corruption, please see chapter 1! Note that administrative and bureaucratic corruption are synonyms, and the term “corruption” means administrative corruption throughout this thesis, and it will be noted, if otherwise.

1. The Concept of Corruption

Almost every theorist who has attempted to define corruption has at first instance recognised the difficulty of the task. Furthermore, the ambiguity of the concept has created obstacles for empirical research as well. “While a concept of corruption may serve goals of intellectual clarity and categorisation, “real corruption” is a social construct that results from official definitions /.../ and anti-corruption practices (Sajo, 2003: 176).”

1.1. Overview of the Theories Explaining Corruption

Definitions of corruption differ depending on discipline and mechanisms used to explain the phenomenon (Johnston, 1996: 333). These can be divided into three basic definitional types: public-office-centred; public-interest-centred; and market-centred (Heidenheimer, 1970; Meny & de Sousa, 2001). Sometimes the public-opinion-centred definitional type is additionally pointed out, but due to its similarity with public-interest-centred one, the distinction is not drawn here.

Public-office-centred definitions of corruption emphasise the violation of rules by officials, and are quite legalistic in their nature. Due to their simplicity, public-office-centred definitions have analytical advantages. The problem with that type of definitions lies in its legalistic nature. Legal norms might not cover all cases of corruption, and laws may be corrupt by nature. Also, legal norms are not likely to reflect the ethical standards of the whole society, but rather of a particular group, namely the elite (Meny & de Sousa, 2001: 2824). Heidenheimer has demonstrated the wide range of notions of what is considered as corrupt. There is a continuum from white to black, where white denotes that both, elite and masses do not regard the behaviour corrupt, while black signifies the opposite – both see it corrupt and punishable. Between white and black there is a vast grey area, where the understanding of the elite and mass differs. (Heidenheimer et al, 1989 in Collier, 2002: 10) Empirical research also shows that legal definitions and public opinion do not always coincide with each other (Gibbons 1989a in Andersson, 2002: 39).

The most prominent example of the public-office centred definition is that of Nye:

“Corruption is behaviour which deviates from the formal duties of a public role because of a private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence (Nye 1967: 966 in Meny & de Sousa, 2001: 2824).”

Public-interest-centred (or public-opinion-centred) definitions of corruption try to overcome the deficiencies of the public-office-centred definitions and regard corruption as conflicting with common interest. Here, society defines both corruption and the public interest. The critics of these theories claim that according to the public-interest-centred definitions, illegal actions can be justified if they promote the common interest (Andersson, 2002: 28). Proponents of this concept emphasise the classical view of public interest in which officials must be unselfish, treat everyone equally etc. The weakness of the moralistic approach derives from negative connotations - wrong judgements and the cultural relativism that may accompany international comparisons. The relationship between ethics and corruption causes some additional confusion in understanding corruption. According to the public-opinion-centred theories perceiving corruption is basically the citizens' capacity to recognise certain governing ethical norms (Philp, 1997: 441). People's expectations of politics and bureaucracy play an important role in this particular perception. Therefore, unethical and corrupt behaviour may be synonyms within certain discourse. Still, while corruption is often unethical, unethical behaviour is not necessarily corrupt (e.g. some political affairs or interest group politics), although this type of behaviour may suggest that a person is engaged in corrupt activities. Ethics is a more general concept, yet the borderline between corruption and ethics is often unclear and difficult to define.

The public-interest-focused definition of corruption is that of Carl Friedrich:

“The pattern of corruption can be said to exist whenever a powerholder who is charged with doing certain things, i.e., who is a responsible functionary or officeholder, is by monetary or other rewards not legally provided for, induced to take actions which favour whoever provides

the rewards and thereby does damage to the public and its interests (Heidenheimer et al, 1989: 10 in Philp, 1997: 440).”

Market-centred definitions are mainly based on principal-agent models derived from neo-institutional economic theories; others have combined neo-institutional economics with game theory (Groenedijk, 1997). According to the market-centred definitions, corrupt situations are those in which the interest of a principal differs from that of an agent and the principal cannot fully control what the agent does (Goldsmith, 1999: 866). Corruption is a rational behaviour of maximising profit by a public official. These theories often neglect the moralistic costs of corruption. In addition, the rules and principles binding public and elected officials are distinct from those applicable to market actors (Meny & de Sousa, 2001: 2825). The market centred definitions have been criticised of not proposing solutions for controlling corruption (Prendergast, 2000: 1). Still, the neo-institutional paradigm is useful in finding the institutional determinants of corruption that have an important impact on person’s decisions.

The classical market-centred corruption definition is:

“A corrupt civil servant regards his public office as a business, the income of which he will seek to maximise. The office then becomes a “maximising unit.” The size of his income depends upon the market situation and his talents for funding the point of maximal gain on the public’s demand curve (Van Klaveren 1978 in Meny & de Sousa, 2001: 2825).”

For the purposes of the current thesis, corruption is defined as:

“The abuse of public power or office for private benefit.”

Because of its stableness, objectivity, and simplicity this is the most commonly used corruption definition (Mény & de Sousa, 2001: 2825). It more or less embraces the features of all three approaches of defining corruption: the aspect of formal duties and norms from the public-office-focused definition, the aspect of the violation of the common interest from the public-interest-centred definition, and the feature of interest maximising for personal gain from the market-focused definition.

1.2. Types of Corruption

Various types of corruption may have different causes and consequences (Lancaster & Montinola, 2001: 7). For the analytical and practical purposes it is useful to distinguish between political and administrative corruption. The difference appears to be that political corruption takes place at the highest levels of political authority, whereas the bureaucratic corruption appears at the implementation level (Andvig *et al*, 2000: 18). Such a claim is based on the Weberian assumption of the separation of politics and administration, but in practice the distinction is not always that clear. For example it is not clear whether the malpractice of a ministerial chancellor is political or bureaucratic corruption. The advocates of the differentiation between bureaucratic and political corruption claim that political corruption is more than a deviation from formal and written legal norms, from professional codes of ethics and court rulings (*ibid*). Although this differentiation depends on the initial theory (whether public-office-centred or some other), but the same clause applies to corrupt activities of bureaucrats also.

Apart from the subject-based approach on administrative and political corruption, the distinction between these may be drawn on the basis of the impact and scope of corrupt acts. Petty (or small-scale) corruption is usually carried out by ordinary public servants, and grand (or large-scale) corruption is more often practised by higher officials, and frequently politicians. “Small-scale corruption produces resources to supplement the income of one or few individuals, while large-scale corruption generates vast resources that permit growth and the purchase of protection (Carvajal, 1999: 339).” The concept of grand corruption does not exclude civil servants, and vice versa – petty corruption can be practised by politicians. Grand corruption is embedded in relationships that tend to be accumulative through power networks, which makes large-scale corruption harder to detect and curb. An example of network based large-scale corruption would be when the party officials appoint judges, prosecutors or police who would support their network based corruption (Nielsen, 2003: 135). World Bank has elaborated the definition of “state capture” for describing the nature of grand corruption and analysing corruption in the post-Soviet states,

which denotes the influencing of the adoption and imposition of biased and discriminative regulations (Philp, 2001b: 2). In those cases, besides speaking of corruption as the misuse of public post, it is equally useful to define corruption as the use of private wealth to influence government policy (Freedom House, 2002: 207).

The distinction between bureaucratic and political corruption is vague. There are few pure cases, for example the bribing of a policeman, and there are borderline situations. The classical example of the latter would be privatisation, where both – political and bureaucratic actors are commonplace.

Most theories on corruption have concentrated on the public sector, leaving private and third sector corruption out of attention. The current thesis follows the same approach, whilst keeping in mind that private sector corruption is equally important, since the “supply” side of corruption flourishes predominantly in the private and non-governmental sector. Corrupt persons are equivalently those who accept bribes as well as those who offer them. Private and non-governmental sector corruption can also be defined as “the abuse of office for private gains”, but this is of minor relevance for the current research.

Very often corruption is equated with illegal payments – bribe or gratuity – this approach is way too narrow. Rent extraction is a form of corruption that can be most easily investigated and studied empirically, which also explains why theories study it in depth, and not so much the other types of corruption. Nepotism, patronage, a vote buying, graft or peculate, conflict of interest, and corrupt campaign finance are just examples of corruption form. The concept of corruption is not clearly distinguishable in legislation either. It is entwined with other types of crimes, such as tax fraud, influence trafficking, money laundering, and extortion (Mény & de Sousa, 2001: 2825).

2. Sources of Administrative Corruption

Countering corruption would be very easy if the concept of corruption was unambiguous, and the causes were easily recognisable and uncontroversial. “Then it would be enough to carry out structural diagnosis, detect inadequate relations and banish corruption (Espejo *et al*, 2001: 144).” The explanations about the phenomenon are teemed with obscurity and uncertainty. This chapter deals with those questions and discusses the main sources of administrative corruption.

The causes of corruption are discussed in three main sections. This approach has got inspiration from the division of Brunetti and Weder (2003: 1802-1803), as they identified three types of sources of corruption in their article – internal controls (systems and incentives that control corruption in the bureaucracy), external controls (individuals and organisation outside the administration), and indirect factors (culture and economy).

2.1. Internal Controls

Internal controls of corruption are exerted through the systems inside the administration. It encompasses the issues of civil service and aspects of decentralisation.

In some countries (e.g. Singapore) the relatively low level of bureaucratic corruption there is thought to be due to the small number of civil servants (Tanzi, 1998: 31). Although some authors find that less government equals with less corruption (Goel & Nelson, 1998⁴; Melese, 2002), most empirical studies oppose the view of negative correlation between the size of government and the level of corruption. For example, Montinola & Jackman (2002) insist that the size of the government is an insignificant

⁴ Goel & Nelson (1998) found in the comparison of the states in the US that government size, particularly spending by state governments have a positive influence on the number of convictions for corruption. Yet, their indicator of corruption – number of convictions might be an indicator of the effectiveness of courts, not as much of the level of corruption.

predictor of corruption. The example of Nordic countries supports the view, as there is large public sector, but the level of corruption is low. In Sweden 38% of the employees work in the public sector as a percentage of total employment, in Denmark - 39% and in Finland - 27% (Bossaert *et al*, 2001: 50).

2.1.1. Civil Service Pay

The issue of adequate remuneration of civil servants and civil service competitiveness with private sector wages has been constantly debated. In Singapore and Hong Kong the gradual pay rise and strict penalties are thought to be the grounds for successfully fighting petty corruption (Stapenhurst & Langseth, 1997: 320; Ades & Di Tella, 1997: 497). Low level of corruption in Sweden is also attributed to the high public sector wages: at the turn of the century Swedish high-level public servants earned 12-15 times the salary of an average industrial worker (Tanzi, 1998: 16).

There are four main reasons to believe that low salaries foster corrupt behaviour - all of them are based on the assumption that there is an income difference between public sector and private sector.

Firstly, it is argued that if the wages of public officials were similar with their private sector counterparts, they would not risk accepting bribes. The potential gain from corruption would therefore be too low. (Goudie & Stasavage, 1998: 122) “The alternative costs of corruption in the case of high salaries would be much greater (Rijckeghem & Weder, 2001: 307).” This means that the loss of job in the case of high salary would be more expensive than in the case of low salaries. The idea of risk-calculations is based on the assumption that official fears the loss of his job, which presumes that the penalties are enforceable in the given society. Those facing the choice whether or not to plunge into corruption, are not always rational due to social networks, informal norms, close relations, feelings of pity and similar. The consequence of high risk in the case of high salaries might be equally the demand for

larger bribes, not rejecting them. Income could be raised also through training trips abroad, using “revolving doors”⁵ and similar.

Secondly, when civil servants are remunerated poorly, “then the opportunities for corruption may become the motivation for aspiring a job in the public sector.” This means the flow of many incompetent and dishonest applicants to the public sector. (Goudie & Stasavage, 1998: 122) Low income and possibilities of corruption may in turn cause a drop in the salary. It might be that when a government believes that civil servants earn sufficient income from corruption, they may reduce, or at least won’t raise their salary (Lambsdorff, 1998).

Many researchers attribute corruption in societies to the poor quality of government officials (Park, 2003: 31). Such a reasoning makes corruption an individual, not institutional, problem, and so a societal phenomenon is individualised. Blaming individuals may lead to erroneous conclusions, and then the easiest solution would be the replacement of unethical official with an ethically sound person (Gould, 1991: 468). It has rightly been claimed: “If the system is corrupt, it is because it has been designed to be corrupt; ergo, redesign it (Espejo et al, 2001: 142).”

The third argument for the low salary – high corruption relation is based on the fairness assumption - when civil servants are paid fair wages, they might feel more guilt when acting corruptly, and therefore they would be more likely to resist bribery. It is sometimes assumed that if workers were compensated according to performance, they would be less interested in acting corruptly. A well-enforced performance-pay system is thought to raise officials’ loyalty and satisfaction with their jobs. (Goudie & Stasavage, 1998: 123)

The fourth argument deals with the necessities of civil servants, with less relevance in developed countries. When income is low then even the smallest supplement to the income can have an important impact on a family’s living conditions (Sandholtz & Koetzle, 2000: 36). For example, the combination of monopoly power in granting

⁵ “Revolving doors” is a phenomenon, for example, when civil servants are promised lucrative positions in a private sector company.

permits and low wages for officials create incentives for corruption in most Third World countries (Cadot, 1987 in Carbonara, 1999: 4).

The majority of empirical studies do not support the view of positive effect of wages on reducing corruption (e.g. Rauch and Evans, 2000), only few claim it to be relevant (e.g. Goel & Nelson, 1998). According to the laboratory tests high relative salaries do not lead to less corruption (Abbink, 2000). Rijkeghem & Weder (2001) collected public sector wage data of 31 developing countries and drew the conclusion that raising the level of salary would not lead to lower corruption in the short run, but admitted that an active wage policy is still necessary in fighting corruption.

2.1.2. Some Aspects of Personnel Policy

Based on the data of less developed countries, Rauch and Evans (2000) found that size of the salary did not have an effect on the bureaucracy's performance – the characteristics of meritocracy played a more significant role in their research. The key-words of meritocratic systems are competitive examinations in recruiting, rigid hiring and firing policy instead of political assignments, career stability, life-time tenure, and internal promotion. Meritocracy is believed to reduce nepotism, which consequently lowers the probability that internal control is eliminated by collusion between politicians or officials (Brunetti & Weder, 2003: 1803). It is also thought that the stability, which stems from the internal promotion and life tenure, enhances communication and each official's concerns about what others think of them, which in turn should increase conformity to rules and decrease corruption (Rauch & Evans, 2000: 53). This is supported by the survey in post-Soviet states. In this survey, the officials who felt likely to lose their jobs were more willing to accept gifts and money if offered, compared to those who felt secure in their posts, (Kramer, 2000: 10). Additionally, a research carried out in private sector retail stores proved that poor promotion possibilities raised the potential for self-compensation by unofficial means (Zeitlin, 1971, in Carvajal, 1999: 342). The survey results for Slovakia strongly supported the conclusion of Rauch and Evans as each of the individual dimensions of meritocracy was highly correlated with the level of corruption within the institution (World Bank, 2000b: 64).

Publicly announced position vacancies, written and stable procedural rules are elements of personnel policy inhibiting corruption. They reduce the possibility of buying a job in the public sector. Some researchers have argued that granting a job in return for money will feed the vicious circle, because the bribed employees must extract bribes in order to gain profit for their investment, thus the possibility to extract bribes accomplishes to the credibility of the position (Shleifer & Vishny, 1993: 603-604). This is supported by the study conducted in Latvia in which the most frequently bought positions were in those organisations whose officials took the job expecting unofficial awards, and in those organisations that most frequently demanded bribes (World Bank, 1998).

According to the empirical survey, low participation chances in decision-making processes increase corruptive behaviour (Zeitlin, 1971, in Carvajal, 1999: 342). The survey on the opinions of the experts⁶ throughout the world revealed that “the rotation of personnel functionally and geographically” was considered one of the strategies in reducing the incentives for corruption (Huberts, 1998: 216).

For some types of corruption, the presence of competition reduces opportunities for corruption (Goudie & Stasavage, 1998: 117). Although it may be argued that by creating additional units, the number of potentially corrupt officials increases, the effect of competition will most probably be greater. Then the existence of honest officials can drive bribes to zero (Rose-Ackerman, 1999). “When many officers are in charge of a decision, they exert *multiple veto power* on each other, preventing the others from providing corrupt service, reducing the value of their act (Carbonara, 1999: 4).” Some have argued that such a competition policy works only in the case of bribery “without theft”, which means that government receives the price of the service or a good. Then the price of the bribe will be driven to zero, and the official has no aim bribing anymore. The opposite case would be corruption “with theft”, where the government receives nothing, and the official hides the sale. In this case competitive pressure might increase stealing from the public purse – only the price of the bribe may be lower. (Shleifer & Vishny, 1993)

⁶ There were scientists, representatives from the police and judiciary, from the civil service etc among the experts (Huberts, 1998: 210).

2.1.3. Hierarchical *versus* Decentralised Control⁷

Although nobody opposes that better control reduces the possibilities for corruption, it is not so clear which institutional structures are the best. The literature on the issue concentrates more on separate cases and technical measures that have proven useful (Goudie & Stasavage, 1998: 120). It is accepted among the corruption experts (Rose-Ackerman, 1996) that discretion without control enhances possibilities for corruption. Klitgaard (1998) represented corruption as a formula: $C=M+D-A$, where C is corruption, M - monopoly power, D - discretion, and A - accountability. The greater the discretion of the official and monopoly power upon the activities and rules, accompanied by weak accountability, the more opportunities there will be for distorted decisions and biased interpretations of regulations (Goudie & Stasavage, 1998: 119). Civil servants with discretionary and monopoly power are interested in creating more bottlenecks as a way of extracting higher payoffs - they may create delays, introduce costly conditions, take percentages on government contracts, receive benefits in kind. (Stapenhurst & Langseth, 1997: 318).

There are two ways of exerting control – centralised or decentralised. “The meaning of decentralisation is not self-evident: different definitions are used in different contexts (Metcalf & Richards, 1993: 78).” In the current thesis decentralisation means the redistribution of authority and responsibility to the lower levels of government and to the local authorities in order to perform public functions better and exert control. For example, the principle of subsidiarity dictates that state functions should be decentralised where possible. That should bring along better provision of public goods, cut down complex bureaucratic procedures, and raise public servants’ sensitivity to local conditions (World Bank). According to Tiebout (1956)

⁷ There are different forms of decentralisation (fiscal, administrative, political, and market decentralisation), this part of the thesis analyses specifically fiscal decentralisation together with administrative and political decentralisation, as market decentralisation will be dealt with later in this thesis in terms of privatisation.

decentralisation leads to greater diversity in the provision of public goods, which better accord with the necessities of local people. Others have claimed, mainly from the viewpoint of economic efficiency, that decentralisation might not serve its aim due to some imperfections on local level (Prud'homme, 1995; Besley & Coate, 1999).

There are different opinions on corruption and its relation to decentralisation. According to one view, decentralisation has a positive effect on corruption (Fisman & Gatti, 2002a&b; Vergara, 2000). The proponents of the positive effect of decentralisation rely on control theories in which the conformity to rules is caused by prevailing norms and social bonds (Stark, 1996: 200). They believe that in decentralised settings, politicians and bureaucrats are held accountable for their actions through the need to maintain a good reputation in a small community – each one wants to keep and strengthen his or her position by being honest. In the case of hierarchical control, a manager may have to supervise a large number of subordinates, which reduces the time spent on monitoring each single official (Carbonara, 1999: 2-3; 25).

Hierarchical control may encourage corruption when all the layers of the hierarchy are corrupt. The cost of one import licence may be very expensive for the superior, when the bribes must first run through the channels of lower level officials (Sajo, 2003: 177). According to the survey in Latvia, about half of the public officials who extracted bribes shared them with their superiors (World Bank, 1998: 46). Supervisors want a share of the corrupt income of their subordinates in two ways (Shleifer & Vishny, 1993: 601). In the first case, a corrupt manager buys the silence of his subordinate, and shares the gains, for example, through under-the-table benefits. In the second case, lower level officials have to share their unofficial income directly or indirectly with their managers (Rose-Ackerman, 1999: 82). Hierarchy consequently makes corruption more “expensive” in terms of the sum of bribes paid or the circle of decision-makers lobbied.

Decentralisation might just reduce the circle of potential corrupters, so that there are fewer people who are prone to corruption. Decentralisation concentrates the decision-making powers into the hands of one official, which might make it easier to detect the trespasser. The descriptive example of the reverse effect of the hierarchical control

can be drawn from the Soviet times. Public administration was highly centralised, and the Communist Party tried to control civil servants through different incentives and repression mechanisms (Pradhan *et al*, 2000: 26), which did not reduce corruption, but enabled privileges to the “chosen”.

Most probably the truth lies somewhere between. Decentralisation in itself can not be a panacea for tackling corruption, but instead can raise further possibilities for corruption for example through loss of control. There are fewer agencies that would monitor and enforce honesty on the local level (Treisman, 2000: 408). Consequently, the fewer effective guardian institutions that operate, the more widespread corruption becomes (Sung, 2002: 149-154). According to Prud’homme (1995) decentralised set-ups are more corrupt due to the lack of resources and knowledge and weaker auditing mechanisms on the local level (Goldsmith, 1999: 872). The belief in the honest aspirations of the officials lies in the assumption that decisions of public servants are governed by high ethical standards. Decentralisation automatically increases the overall level of corruption due to more intense interest-group pressure on the local level, and less separation between local politicians and officials, which makes officialdom more dependent on the local politicians (Prud’homme, 1995: 211). In a decentralised setting, span of control and power are delegated to the lower levels in the hierarchy, thus enabling more discretion and monopoly, reducing the amount of monitoring by higher levels. Decentralised decision-making belittles the circle of those who are to be bought and illegally lobbied in return for congenial conditions and regulations, thus making the life of bribers easier – contradicting the “the narrow circle” view mentioned in the last paragraph.

2.1.4. Fiscal Decentralisation

Fiscal decentralisation is a transfer of financial responsibility to the lower level of government by raising their revenues and expanding expenditure-authority (Kungla, 1999: 1). There are different modes of fiscal decentralisation: devolution, delegation,

and deconcentration, each of which involves different level of fiscal autonomy (Meloche *et al*, 2004: 2).⁸

There is very little information on the relation between corruption and fiscal decentralisation (Fjeldstad, 2003). A few empirical studies existing mainly endorse the positive impact of fiscal decentralisation on corruption, but without specifying the mode of decentralisation (Fisman & Gatti, 2002b; Huther & Shah, 1998). The benefits of fiscal decentralisation are believed to come from inter-jurisdictional competition, which reduces the ability of bureaucrats to bribe for services (Fisman & Gatti, 2002b: 25) or suffer from patrimonial policies. Competition among local authorities for limited domestic and foreign investment should drive municipalities to assure entrepreneurs high quality services, clean and accountable government (Vergara, 2000: 9). According to that view, private entrepreneurs prefer those municipalities where bribe level is low or non-existent.

Some authors suggest that decentralisation will be more effective when accompanied by the devolution of revenue generation to local governments (Bardhan & Mookherjee, 2000), thus supporting the corruption inhibiting effect of devolution. In Italy and France decentralisation might have fostered corruption because central government “retained extensive control over local governments, and did not require them to be self-financing (Warner, 2003: 28).” There are two main types of local authority revenues, which have different impact on the fiscal autonomy of local government – local governments’ own revenues (taxes, including the share of national taxes, fees etc), and appropriations from the central budget (Swianiewicz, 2003: 8).⁹

⁸ In the case of devolution, a central government transfers some authority to local governments, including the ability to raise taxes. Delegation is a process by which central government transfers a responsibility to sub-national governments, remaining responsible for the service and keeping the authority to revoke this transfer at any time. Deconcentration is a process by which a central government gives responsibilities for certain services to regional branch offices, and it does not require any participation of local governments. (Meloche *et al*, 2004: 2)

⁹ In addition to the taxes and state appropriations, local governments’ revenues are made up of loans, sale of assets etc.

The share of municipalities own revenue sources such as different taxes is thought to be remedial in reducing the level of corruption. The corruption between local government and state level decreases, as greater dependence of local governments' income on the appropriations of the central government creates incentives for corruption. Dependence on central grants leads to greater demand for services by local inhabitants, and consequently forces local governments to exert pressure on central government in order to receive higher grants (Swianiewicz, 2003: 9). Local governments are then interested in bribing or lobbying national government in order to get higher grants (He, 2000: 5). Greater fiscal autonomy is believed to increase the accountability of local government towards local population. "The shape of the local budget depends to large extent on decisions on local taxes. This stimulates councillors' accountability and also increases citizens' interest in local government activities (Swianiewicz, 2003: 9)."

There are few problems in increasing the municipalities' tax-base. Local governments with greater tax base have advantages before others as greater income discrepancies may exalt corruption and the local governments with fewer resources may be more open to improper practices. Escalating the tax base of local governments might end up in the increase of corruption, because one of the areas in which the impact of corruption looms largest is in the collection of taxes (Galtung, 1995, in Fjeldstad & Tungodden, 2003: 1459). This is not to say that taxing should be prevented, but rather to show the importance of reliable taxing system. "Certain taxes such as property tax or personal income tax are more visible than others, like excise tax (Swianiewicz, 2003: 11)." Moreover, the example of Sweden, where the share of local taxes is nearly 80% of the local revenues compared to 1% in Estonia, but where the corruption is relatively rare, advocates greater fiscal autonomy (Trasberg, 2001).

Before 1990 in most Eastern and Central European countries, there were no clear and transparent criteria for grants allocations. "Instead, decisions were made by central level or upper-tier administration on the basis of their subjective judgement of needs. This situation still prevails in some post-communist countries (Swianiewicz, 2003: 24)." From the point of view of openness to corruption grants can be divided into those determined subjectively and those based on objective measurable criteria (Swianiewicz, 2003: 24). Grants can be divided between specific and general grants.

Specific grants are disbursed only for specific purposes; in contrast, general grants are more discretionary with no restrictions on its use. Specific grants are usually allocated through projects or formulas, general grants are mainly formula-based. (Moisio, 2002: 10-11) In this regard allocating money through formula based lump-sum grants is the most transparent way of central government grant system. For example, direct subsidies instead of implicit subsidies by government to support infrastructure enterprises' restructuring activities is believed to be the reason of relatively low level of corruption in Estonia (Broadman & Recanatini, 2001: 375-376).

2.2. External Controls

External controls of corruption are exerted through systems outside the administration. These are judicial and public control, the tradition of consultation with citizens and some others. Below the main components of external controls are discussed – legal framework and transparency.

2.2.1. Legal Effectiveness

Weak legal system can be a source of corruption and a consequence of corruption at the same time. Ineffective legal system may encourage the elite to use it for personal gain, and consequently reduce the effectiveness of the laws and their enforcers through political appointments or through reducing and allocating resources, which encourages the spread of corruption even more. (Jain, 2001: 72) For example in post-communist countries those who broke the law in the early stages of transition want the law to protect and legitimise their property and themselves (Holmes, 1997: 288).

Theoretical and empirical evidence suggests that dependent and underdeveloped judicial institutions foster corruption (Ades & Di Tella, 1997: 514). When judiciary is a part of the corrupt system the other corrupt actors have confidence in impunity, and the impact extends beyond the public sector to private disputes. A corrupt judiciary is costly to democracy because it does not fulfil its watchdog role over other branches of authority – the feature lacking in totalitarian systems. (Rose-Ackerman, 1999: 151, 156)

Complex and ambiguous regulations that allow multiple interpretations probably have the same impact. The difficulties in lodging complaints, rules that are frequently changed without properly publicised announcements may conduce corruption (Tanzi, 1998: 20). Laws that are not consistent with prevailing morals may create pressure on public officials to enforce them selectively, e.g. police laws (Clark, 1970, in Carvajal, 1999: 340). The rigidity and slowness of bureaucracies is one of the main reasons why “speed money” is offered to civil servants (Carvajal, 1999: 341). Although one of the aims of the bureaucratic rules is to reduce favouritism and thus corruption (Guriev), too much red tape is an incentive for bribes. The empirical study has shown the existence of certain threshold level as regards corruption and government regulations. This model suggests that government regulations are conducive to corruption where the index of government regulations is below the threshold level (“when the index of regulations is less than the threshold level¹⁰ for each measure of corruption.”). (Ahmad, 2001: 14-15) According to another empirical survey, bribes are motivated by the need to “grease the wheels” of the bureaucracy (World Bank, 2000b). It is even thought by some that the reason for the existence of red tape - certain restrictions and regulations - is to give officials the chance to collect bribes, for example in providing licences or permits (Shleifer & Vishny, 1993: 601). “Officials may provoke negotiations by extracting some of a contractor’s profits by the means of delaying payments or inventing ex-post regulatory hurdles (Rose-Ackerman, 1996: 2)”. This situation occurs, for instance, “when bureaucratic regulations for disbursing money are so complex that contractors need to bribe employees in order to get paid within a reasonable period of time (Segal, 1997: 143).”

A small likelihood of detection of corrupt activities, light or ineffective penalties are considered as impediments in fighting corruption (Carvajal, 1999: 341). That is not to say that stiffening of the penalty is more important than increasing the probability of catching the corrupt officer (Carbonara, 1999: 4), although empirical evidence asserts that higher punishments discourage bribes (Jain, 2001: 84). For example Singapore and Hong Kong – states with exemplary low level of corruption – are known for their

¹⁰ The value of median is 3,5 on the scale from 1-6.

draconian laws on corruption¹¹ (Ades & Di Tella, 1997: 497). According to the Transparency International's CPI, the value of Singapore's index has been over 9 out of 10, which has placed the country among the 10 least-corrupt countries of those measured (133 states in 2003), Hong Kong gained 8, which placed it on the 14th place. There the low level of corruption has been achieved with the price of limited civil liberties. It is quite likely that higher penalties alone with a low risk of getting caught may instead increase the expected sum of bribes (Tanzi, 1998: 18). Theoretical models suggest that the probability of being caught is an important variable determining the relative attractiveness of corruption. It matters equally whether the corrupter is caught by corrupt or non-corrupt official. (Moene & Andvig, 1990 in Herzfeld & Weiss, 2003: 622-623)

2.2.2. Transparency

This paper defines transparency through its purpose on governance, namely "openness to public gaze", which embraces the principles of public consultation, participatory approach to decision-making and justified regulations. (OECD, 2003: 8, 21)

Transparency in society is considered to be the key factor in explaining why corruption seems to be rather exceptional in Finland (GRECO). Finland has for many years gained the top position according to the Transparency International's annual CPI – from 2000 and afterwards, it has figured on the first place, before that on the second place, being "competed" by Denmark (Transparency International's Corruption Perceptions Indices). There is only a very limited set of data that has been classified as confidential, and thus to which there is no public access, in Finland. Generally the data on the operation of public sector as well as on the private sector is "almost total". (GRECO) The relationship between the disclosure and corruption may engage the threat of partial transparency, which may cause the "connections effect"

¹¹ In Singapore the punishment of both active (giving) and passive (receiving) bribery is up to five years or fined up to huge sums, and banned to work in the public office in future. The person convicted of corruption offence must return the amount of money equivalent to the bribe he had accepted. In addition the property of the persons may be confiscated as well (Ali, 2000).

(Bac, 2001). This means that the disclosure of certain documents and decisions may enhance the incentives to establish connections with key persons (*ibid*, 93). When speaking of disclosure, two extremes can be thought of – in one extreme decision-making is totally impenetrable and in the other extreme everything is transparent, nothing is kept secret. In the latter case any kind of corruption is almost impossible to exercise. In practice in any organisations there still remains a set of confidential data that cannot be disclosed. In those conditions transparency may build incentives to create connections by informing the outside environment about the decision-makers (*ibid*, 88). For example, in cases where the evaluators of public procurement are known, the chance of buying them increases. The same scheme might work when the salaries of the officials are public – it makes the calculations of the bribe supplier easier.

Transparency is strongly entwined with the concurrent of democracy. Although democracy in itself is not believed to lower corruption, but “a long period of exposure to democracy (Treisman, 2000: 401)” does. From one hand, democracy is accompanied by dangers unknown in dictatorships, such as electoral campaigns and their financing, from the other point of view, democracy encourages free elections and freedom of speech. Empirical model suggests that corruption diminishes with a higher level of political rights and civil liberties (Herzfeld & Weiss, 2003: 628). Corruption is believed to be lower in dictatorships than in countries that are in their way to democracy, but once democratised, the corruption tends to lower (Montinola & Jackman, 2002: 167). However, the low level of corruption in dictatorship may be due to distinct norms and distortion in statistics. Although criminal statistics of the offences of corruption increased significantly after the collapse of the Soviet Union (Varese, 1997: 587), this might be a sign of changed values and disclosure, not that corruption was low during the Soviet times.

Society’s tolerance for corruption is reflected in the extent as to which the media is involved in reflecting the corruption scandals (Jain, 2001: 83). Freedom of information is considered one of the main determinants of corruption. Empirical studies have showed a strong correlation between the level of corruption and the press freedom. (Brunetti & Weder, 2003) The more centralised and fused political power is, and the less media accessible the government is, the harder it will be to investigate

corruption (Maor, 2004: 2).” For example the peculiarity of the Soviet time was that state affairs were handled in secrecy, thus the media access was limited (*ibid*: 6). The issue of ownership of newspapers is the severe one – if the newspapers are owned and the contents dictated by the ruling party, then there is less interest in discovering the cases of corruption. In some cases press institutions that should be aiding in investigating and blowing the whistle on corruption help in covering up the corruption (Nielsen, 2003: 136). The lack of interest can be the impediment for the freedom of information in economically and politically less significant regions of country. In those cases corruption can be a self-generating phenomenon – when under-the-table deals are not detected, then these grow in number. The Bribe Likelihood Model indicates that the likelihood of paying a bribe depends on the norms under which bribes are paid. When bribes become commonplace and normative, the average sum of the bribe decreases, and as a result, the payments will be more frequent, although smaller in size. (Dudley, 2000; Nalla & Kumar, 2001: 6-7)

2.3. Indirect Determinants of Corruption

Current chapter concentrates on two broad issues – culture and economy. Corruption has been long attributed to the cultural variables¹², and only recently to other institutional matters. The relationship between corruption and cultural factors has been one of the modest objects of empirical research. For example, it has been argued that certain nationalities have a mentality or culture that is conducive to corruption (Brovkin, 2003: 197; Treisman, 2000: 407; 430; 442). But there is no empirical proof that Finns because of their “ethnic nature” are less corruptible than Estonians. One of the major problems arising when quantifying corruption and comparing different states is the cultural diversity. Norms vary within different cultures due to which the comparison of different cultures is problematic. Different corruption indices have been accused of being Western-oriented (Andvig *et al*, 2000: 20; 29).

¹² For the purpose of this thesis culture is defined broadly, meaning the values, beliefs and knowledge shared by a society.

In addition to the cultural factors corruption is attributed to the economic variables. Most of the literature on the relationship between corruption and economy deals with its economic impact – how corruption negatively influences economic systems. The publications of the World Bank and IMF are mainly written in the spirit, but also many others (e.g. Mauro, 1995; Rose-Ackerman, 1999). According to their views corruption lowers private investments, which consequently drags down economic growth. There have also been rare attempts to prove the economically beneficial effect of corruption. Advocates of the economic benefits of corruption draw on the example of Middle Asia – although being states entwined with corruption, yet have “undergone economic upswing (Japaridze, 2003: 26)”. A group of theorists - functionalists justify corruption in those cases, and argue that bureaucracy blocks private investments. Thus corruption improves economic efficiency and increases the quality of public services (Gould, 1991: 469). The benefits of corruption are very selective, so that there are more arguments against the corruption than for it. For example, smaller firms operate in a more competitive environment and the cost of obtaining licences in terms of time and money will be passed on to their customers (Tanzi, 1998: 27-28).

What makes the discussion on the indirect factors of corruption difficult is the ambiguity on the direction of their causality. For example, one has to decide whether corruption is caused by poverty, or whether corruption causes the phenomenon by itself. Poor countries are not able to devote enough resources on building up legal framework for fighting corruption (Mauro, 1998). At the same time corruption feeds inequality and poverty by distorting government expenditures.

2.3.1. Cultural Variables

The scope of individualism-collectivism in society is believed to determine the scope of corruption in society. Collectivist cultures, more frequently found in traditionalist societies, are described by dependence and loyalty to one’s group. Close relationships have corruption-engendering effect as “networks need friends in influential positions in order to manoeuvre payoffs, to attain suitable regulations accordance with one’s interests, and to buy protection (Carvajal, 1999: 343).” On the contrary, individual

cultures are characterised by lower co-operation between different members of society, which reduces the importance of logrolling politics. In individualistic and less traditional societies the lines between private and public are sharper, which makes it easier there to distinguish bribery from innocent gift giving (Treisman, 2000: 405). The “collectivist hypothesis” did not gain support from the cross-country comparison (Park, 2003), which can be explained by the assumption that collectivist cultures are less prone to cheat or abuse the people due to social pressure and personal ties. Individualist cultures value competitiveness, which consequently encourages the usage of grease money in order to be ahead of their competitors (Park, 2003: 36-37, 43). Moreover, there is a hesitation whether to deem underlying social ties as corruption at all.

The subtle type of corruption known as “crony capitalism”, described by informal networks of large family businesses and governments’ officials and politicians, which control delivering of preferential contracts and protected monopolies, can be found in collectivist societies like Japan as well as in individualist societies like the United States (Nielsen 2003: 127). Some authors think that the importance of informal social networks has been over estimated and are too simplistic while no measure of their impact on promoting or deterring corruption has been created (Goudie and Stasavage, 1998: 133). The evidence from the Estonian localities proves the importance of the informal networks. Especially smaller societies are characterised by the prevailing role of personal relationships (Randma, 2001: 47). For example, it is quite common that a member of a local council is at the same time a local businessman whose relative is employed in the building licenses department of local government.

Behavioural scientists argue that women are more honest and have higher ethical standards than men. According to the empirical test masculine cultures - prevailed by major values such as power, wealth, and status (resemble the values of individualistic cultures) - are more corrupt than female cultures, which are characterised by emphasis on quality of life, and welfare of other people (resemble collectivist cultures). This is supported by the comparison of the cross-section of countries in which the representation of women in the parliament determined the severity of corruption in the country. (Swamy *et al*, 2000; Dollar *et al*, 2001) The research of public officials in a

number of less developed countries revealed that the low proportion of women in public offices increased the level of corruption (Gokcekus & Mukherjee, 2002).

Corruption has been attributed to the degree of ethnic fragmentation in a society. Shleifer & Vishny (1993) found that the degree of ethnic and linguistic heterogeneity in a society is positively correlated with the level of corruption. Societies with one dominating ethnic group are characterised by limited access to power by other groups. Those that are deprived from power “resort to corruption for levelling the political and economic landscape (Ali & Isse, 2003: 463).” Bureaucrats are believed to favour those who belong to the same group (Mauro, 1995: 693). People from the same ethnic group “are indulgent and supportive of corruption patterns” of those in power from their own group (Gould, 1991: 473). Ethnic communities may provide cheap information about, and even internal sanctions against those who betray their co-ethnics, and in that way strengthen corrupt ties (Fearon & Laitin, 1996 in Treisman, 2000:407).

Some researchers have found through cross-country studies that the Protestant religion has a positive effect on lowering corruption in a society (Treisman, 2000; Herzfeld & Weiss 2003). “Law and order significantly increases with the share of Protestants in a country’s population (Herzfeld & Weiss 2003: 628).” It can be explained through individualism and egalitarianism inherent to protestant religion. Protestant religion is thought to emphasise individual responsibility and rectitude consequently carrying over into a reduced toleration for corruption (Sandholtz & Koetzle, 2000: 44). Protestants are believed to put more value in honesty and condemning idleness, which ideally contributes to the economic growth and less corruption (Paldam, 2001). Taagepera (2002: 250) has found that Protestant and Catholic countries are least corrupt compared to Muslim countries, claiming that the Protestant ethic has been heavily embraced by Catholic countries as well.

Even the level of education can be considered as the indirect variable affecting the level of corruption. The prevailing opinion is that the higher the level of schooling in society, the lower the level of corruption (Ali & Isse, 2003: 461). As more traditionalist societies are less educated, this consequently increases their level of corruption. “The greater the ignorance of people, the more susceptible they are to

voluntary or compulsory collaboration with those who are corrupt and who offer to provide them with something they desire (Carvajal, 1999: 341).” Education raises people’s awareness of their rights indeed, but on the other hand the impact of education on possibilities and income is worth mentioning. Usually the more educated the people are, the larger are their social networks, possibilities and income in a given society that enable them to act corruptly.

Political culture could be an important predictor of corruption. In democratic countries, both in Westminster and United States-like presidential systems the legislature plays an important role in reviewing the executive (Rose-Ackerman, 1999: 163-164). Vigorous non-governmental organisations are believed to play an important role in determining the level of corruption (Treisman, 2000: 406). This is supported by the study of Park (2003), according to whom the degree of legitimacy in society is negatively associated with the level of corruption. Some governments have limited non-governmental organisations from the access to the monitoring process through legal constraints or financial costs. For example, Transparency International has encountered difficulties in developing local chapters (Rose-Ackerman, 1999: 168). The publication of laws and consultation with the affected parties is another side of the same coin.

2.3.2. History

The deep roots of corruption in many South-American and African states is believed to descend from their colonial background. The colonial rulers were free to exploit the resources of the country without having to worry about interference from the indigenous population or motherland administrators (Kratcoski, 2002: 76). The motherland’s relations with its post-colonial territories have rested on political networks between foreign and domestic elite, fuelled with corruption (Moran, 2001: 389).

Some researchers have argued that equal opportunity is an important determinant of corruption in society. Western Anglo-Saxon law systems, which are based on the natural law, are based on the values such as the natural rights of life, liberty and property. (Nalla & Kumar, 2001: 6). According to the results of the cross-country

study, former British colonies have less corruption. This has been explained by their common legal system, which contrary to the civic law system (found in continental Europe and its former colonies) initially put more emphasis on guarding the property of the parliamentarians and other owners from the expropriations of the sovereign. Thus the common law system is believed to better protect the property of the owner, consequently reducing corruption in government. Common law system adhered greatly to procedures, which increased the chances of the exposure of corruption. (Treisman, 2000: 402-403, 440)

The countries with Soviet background did not remain intact from the norms and practices of the era, directing the future developments of the influenced countries. The historical peculiarities of the pre-Soviet period of the states also live in the present day. The nature of corruption stemming from the Soviet history is usually explained in two ways: as a part of a culture predating from the communist period, or as the choices of the early transition period (Kramer, 2000: 9). In Soviet times, the ownership was concentrated in the hands of the Communist Party, which explains the undue influence of business over public sphere on present day. Most Soviet states inherited state-owned large-scale transport, electric power, telecom and other utilities with natural resources. These are thought to form nation-wide networks nowadays and to be barriers to competition, consequently fostering corruption (Broadman & Recanatini, 2002: 40-41). Economy was managed through centralised planning, and in some countries, where national resources had been concentrated in few highly productive assets, powerful individuals could easily engage in state capture (Pradhan *et al*, 2000: 28). Many CEE economies inherited non-competitively structured industrial sectors characterised by large plants relative to the actual demand, subordinated to central planning, thus contributing to the anti-competitive structure and distortion of the market, without checks and balances (Broadman & Recanatini, 2001: 368-369). Being often infrastructure monopolies, these had little separation between business and government (Broadman & Recanatini, 2002: 40).

Three different powers were inseparable during the Soviet period, and the states moved to the separation of powers only after the independence. It has been argued that “widespread politicisation and corruption became a permanent feature of most of the civil service systems in Central and Eastern Europe already in the 1930s

(Verheijen, 1999: 329)”. The communist state was described by the system of *nomenklatura*, which was based on the appointments according to the loyalty to the Communist Party, encouraging the creation and prevailing of patronage relations and politicisation of civil service even after the collapse of the Soviet Union. The *apparatchiks*, their friends and family were awarded well-paid jobs in the government, based on the decisions of the central alliance, thus building up the well-established structure of corruption in communist states. (Goorha, 2000: 1189) The civil servants were expected to fulfill the instructions from the Communist Party and be devoted to the respective ideology (Randma, 2003: 157) thus leaving to the newly independent states extremely politicised public administration (Verheijen, 1998: 208).

2.3.3. Economic Variables

Corruption is usually seen as the problem of poor economy. According to the cross-country regressions, GDP per capita is one of the most important economic determinants of corruption (Paldam, 2002: 238). That is to say that corruption declines when the economy develops, reflected in GDP per capita (Montinola & Jackman, 2002: 169; Paldam, 2001). This supported by the cross-country comparison in post-soviet states, according to which the countries with higher GDP per capita experience lower level of corruption (Freedom House, 2002: 26). The rate of inflation has also been found to determine the level of corruption (Paldam, 2002: 238).

Corruption has proved to be lower in economically more globalised societies (Kearney, 2001: 287), insisting the positive effect of trade integration into the world economy (Sandholtz & Koetzle, 2000: 44, 47). Many authors believe that economic liberalisation and competitive environment deter corruption so that economies with open foreign trade and less protectionist politics, with marginal tariffs on foreign firms tend to have lower level of corruption (Park, 2003; Tanzi, 1998; Ades & Di Tella, 1997). Although opposed by some authors (Lee & Azfar, 2000) the variability of tariffs in different goods is thought to create opportunities for officials to exert discretion and ask for illegal payments (Broadman & Recanatini, 2002: 43).

Free economy is believed to have positive impact on corruption firstly, through automatic checks and balances emanating from competitive environment (Broadman

& Recanatini, 2001: 369). Secondly, competition induces the possibility of the collusion of different firms in order to buy officials (Varese, 1997: 593). Thirdly, corruption is reduced through contribution to the administrative and business practices in a given country (Sandholtz & Koetzle, 2000: 39). Those countries that are integrated most deeply into world markets have managed to develop political, social and legal institutions that deter corruption (Kearney, 2001: 287). It is also believed by some that receiving foreign aid can reduce corruption when the donor organisation requires or constitutes one of the preconditions for receiving its member an anti-corruption campaign (Sajo, 2003: 179) or certain measures to combat corruption. There are contradictory opinions on the impact of foreign aid on corruption (Tavares, 2001; Alesina & Weder, 1999). Theoretically foreign aid should emphasise the role of control and accountability. The discretion accompanying the disbursements is thought to foster corruption. Even more, different donors have proven to behave differently toward different countries, so that United States disburses more to the corrupt countries, while Scandinavian aid goes to countries with less corruption (Alesina & Weder, 1999: 4).

It is not self-evident that economic liberalisation will lower country's susceptibility to corruption and will raise the quality of its administrative and business practices. Free economy may "increase the pressure to use illegal methods in order to be a step ahead from competitors (Graeff & Mehlkop, 2003: 605)". For example, in a subset of post-Soviet countries "it is the foreign firms with local headquarters that are more than twice as likely than domestic firms to engage in state capture" (Los, 2003: 151). Free trade is believed to foster corruption when the accompanying rules do not suit with the given economic conditions: "Firms, politicians and bureaucrats may each find it in their own interest to co-ordinate on bribery in order to allow their desired economic exchange to take place (Warner, 2003: 28)". Moreover, it might be that less developed countries practice simpler corruption techniques, and economically developed states use more complex ways of corruption. The study of the documents of the United States' multinational corporations revealed thousands of illegal corrupt payments made throughout the world (Gould, 1991: 474). Knack and Azfar (2003) showed in their study that the demonstration of the positive effect of trade openness on

corruption suffers from selection bias, and instead of using trade intensity, one should elaborate variables not reflecting country's size.¹³

Heywood (1997: 429) has argued that due to economic liberalisation and new public management reforms, the borderline between private and public spheres have blurred. One factor contributing to this has been privatisation, which have created wide opportunities for influence peddling. Post-communist transitions differ from other transitions mainly by the scope of accompanying privatisation in quite a limited time. When Pinochet in Chile could privatise about 500 state assets during 16 years, then some post-communist states privatised thousands of enterprises in one third of this time (Holmes, 1997: 286). One can differentiate between small and large privatisation. "Small privatisation means privatisation in retail trade, catering, tourism, construction and personal-industrial services (Mádli, 1996)." Large privatisation that took place within a short time in the post-socialist states meant "the transformation of large and extra-large monopoly position enterprises, the breaking of their monopoly position and giving them into domestic, foreign mixed property (*ibid*)." "

By some authors privatisation is believed to reduce corruption by removing assets to the private sector and driving state-led choices under the market control (Rose-Ackerman, 1999: 35). Some have insisted that privatisation means just the drifting of the public sector corruption to the private sector (Goudie & Stasavage, 1998: 120). There is an agreement that the process of transferring the state owned assets to private ownership creates possibilities for corruption - both bribery and undue influence over political decisions. Corrupt officials may provide public with false information about the company - for example they may let the firm look weak although strong in reality – or they might favour insiders by offering them special treatment and information,

¹³ They claim: "Most available corruption indicators provide ratings only for those countries in which multinational investors have the greatest interest: these tend to include almost all large nations, but among small nations only those that are well-governed. Trade intensity is strongly related to country size: smaller nations tend to specialise in producing a narrower range of goods than large nations, so a greater share of economic activity crosses national boundaries (Knack and Azfar, 2003: 2)."

and the assets will be awarded to those with the political connections (Rose-Ackerman, 1999: 36).

Inequitable income distribution might prompt political instability and corruption (Park, 2003: 32). According to Merton's structural strain theory, those who feel deprived in the society, search for deviant ways of operating (Stark, 1996: 196-198). However, structural strain theory is able only to explain the deviant behaviour of lowly stratified or lower class people in society. At the same time the "poor people corruption" could be only insignificant share of the total corruption in a given state as corruption is a white-collar crime.

Higher unemployment rate could be associated with higher levels of corruption (Goel & Nelson, 1998: 116). The employee-boss relationship model of corruption supposes that high interdependency between the employer and employee may cause higher level of corruption, when the unemployment level is high. (Dudley, 2000: 12) High unemployment would make finding another job extremely difficult, so that the employer has two options – whether to join in a game or step out of it and risk remaining without the job. For example, when there is a civil servant who declines from the offer of bribe, but his employee forces him to accept the bribe and treat the customer "friendly" or otherwise risk losing one's position in the organisation, or a job (Mauro, 1998). Apart from the employee-boss relationship model, the danger of losing one's job may discipline the worker to resist corruption. When the supervisor is honest it might not be worth risking accepting the bribe.

3. Discussion

There are general and country specific causes of corruption, which explains the variations in the level of corruption in different states of CEE. The first are related to the institutional structures of civil service (mostly internal and external controls) while the country specific sources are connected with natural resources, history and similar. It is quite obvious that raising the pay level alone will not root out corruption when other potential sources of corruption prevail. Below there is a list of hypotheses as regards the main corruption determinants. Admittedly, there still remain issues that will not be covered by the hypotheses below. For example some authors (e.g. Paldam, 2001) have shown the Weberian-based connection between the economic growth, religion and corruption. However, there is no clear connection in CEE advocating the positive impact of Protestant religion in order to support the theory, especially when the prevailing confession in Central and Eastern European states is Roman Catholic or Orthodox. Only Estonia and Latvia have bigger share of Lutherans, but religion can be taken as a proxy variable for some other cultural trait.

In order to facilitate the discussion, Central and Eastern European states were divided into five diverse groups. Table 1 (annex 1) paints a picture on the average scores of corruption according to which Slovenia, Estonia and Hungary (group A) have the highest indices and suffer from relatively low level of corruption, followed by the other Baltic states together with Poland, Czech Republic, Belarus¹⁴ and Slovakia (group B). Bulgaria, Armenia and Croatia form the next group (C) of states, these are followed by Bosnia & Herzegovina, Romania, Russia, Ukraine, Serbia & Montenegro, and Macedonia (D-group). According to the average composite index

¹⁴ The score of Belarus is surprisingly positive, which may partly owe to the authoritarian rule of Lukashenko, his anticorruption campaigns, and framed-up corruption trials, which might impact the perception of corruption in a given country. The system of Belarus is believed to be corrupt due to some prominent corruption cases. One of the grotesque cases was that of the former rector of Gomel University – Bandazhewski, who received an eight year term in 2001 for alleged corruption after he had exposed a state cover-up of the radiation effects of the Chernobyl nuclear accident in 1986 (Freedom House, 2002).

Azerbaijan, Albania, Moldova and Georgia (group E) have the highest level of corruption.

Hypothesis 1: There is negative correlation between merit-based public administration, when accompanied by “necessary” legal framework, and the level of corruption.

The most common dilemma in corruption literature is the relation between bureaucratic regulations and corruption. It was argued that from one hand rigid regulations form incentives to engage in corruption, yet from another point of view less discretion by government officials limits the possibilities of corruption. The study of Ahmed (2001) suggests that there is a threshold under which the limiting of discretionary power inhibits corruption. The main question that prevails is that of to what extent and how to implement the socially optimal level of regulations.

There are different kinds of rules. It was argued earlier in this thesis that meritocratic principles of recruitment and personnel policy have inhibiting effect on corruption, insisting on the reverse impact of the elements of the patronage system. From the personnel management point of view, meritocracy may mean more rules and regulations. Moreover, the existence of certain rules is necessary for combating corruption (e.g. provisions in the penal law, sunshine acts etc). The peculiarity of most of the CEE countries has been high legislative turnover, which explains relatively low number of corruption convictions here. For example, Estonia has introduced its new Penal Law only in 2001 - the learning and implementation of which takes time. Therefore it is problematic to use court statistics as a variable in the cross-country studies. The post-communist states have been accused of the shortage of corruption allegations, and in some countries the allegations, particularly at the higher levels, have been motivated by political considerations (Holmes, 1997: 282).

There is a strong reason to believe that a country's pre-soviet institutional and structural legacy determines the practices of civil servants. The country's period of exposure to independence is related to the strength of public institutions and legislature so that countries with a longer record of independence are less susceptible to corruption (Japaridze, 2003: 32-34). Some countries (e.g. Hungary, Czech

Republic) entered the transition with highly developed systems of public administration and better trained public officials, because they had been the parts of the Habsburg Monarchy with the stronger culture of civil service (Pradhan et al, 2000: 27). This holds true while Hungary and Czech Republic place among the B-group level of corruption. Hungary and Czech were also the countries, which adopted variants of market socialism during the communist period, “which provided for a smaller role of the state in the economy and greater development of market institutions (World Bank, 2000c: 20).”

From the economic freedom point of view rigid regulations may mean wider incentives for corruption. A look on the component of regulations in the index of Economic Freedom (2004) reveals that except for Belarus, all A and B group states have relatively few regulations, bureaucratic procedures are simpler and relatively transparent.¹⁵ The authors of the empirical studies have yet not come to the terms how economic liberalisation affects corruption, and it would be too short-sighted to see economic liberalisation as a panacea for curbing corruption. Some authors have insisted that those CEE states that started liberalising trade from the early transition period seem to suffer from less corruption. In many post-communist countries rapid programmes of economic liberalisation have instead increased poverty and income differentials (Moran, 2001: 384). It was argued above that the states with high income disparity have higher level of corruption. However this argument remains weak to the imperfections in structural strain theory discussed above.

Free trade and economic liberalisation could have positive impacts on corruption in terms of better administrative practices. For example, Russia has rather widespread import and export controls, while Estonia and Hungary have removed most of the trade distortions (Broadman & Recanatini, 2001: 383). At the same time corruption has been more prevalent in countries with richer natural resources, such as Russia (Pradhan *et al*, 2000: 28). This is where the country specific causes of corruption come in. The example of energy transit routes in Latvia and its frequent east-west

¹⁵ The rating for Estonia and Slovenia is 2, for Hungary and B-group countries – 3, Belarus and Bosnia & Herzegovina – 5, the other states – 4 (Index of Economic Freedom, 2004).

trade can be found from near, which at least partly explains the differences in the level of corruption between Estonia and Latvia.

Hypothesis 2: Low income accompanied by a high unemployment, and a high inflation is positively correlated with the level of corruption.

Although most empirical studies rather object the view of the positive effect of wages on corruption, in economically less developed countries the importance of salary might be greater than in their wealthier counterparts. Taagepera (2002) has pointed out that in the post-Soviet states people are characterised by survival values, which makes them more vulnerable to corrupt practices, as priority is given to economic security before self-expression. Stressing separately on the Baltic States, these countries have been found to be more similar to Russia and Ukraine than to Finland or other Nordic countries. Post-communist officials are considered to possess greater financial incentives than their Western colleagues to engage in corruption (Varese, 1997; Kramer, 2000). “As regards the inflation, its rampant increase makes it difficult for civil servants to live on their fixed salaries (Quah, 2001: 30). Thus those countries that suffer(ed) from sharper inflation rates and fixed salaries could face greater corruption problems. In regions of high unemployment the interdependency between the employer and employee can contribute to higher level of corruption, especially when described by hierarchical control, and assuming that all the layers of the hierarchy are corruptible.

Hypothesis 3: Greater (fiscal) decentralisation and the existence of guardian institutions (e.g. independent media) are negatively correlated with the level of corruption.

The claim that the countries where the sub-national governments have greater authority over their revenue generation have less corruption has to be taken cautiously in the context of the CEE. There are only data on the ten CEE countries collected by the OECD in this regard (Meloche et al 2004: 10) of which most belong to the group of countries with relatively low level of corruption. These data reveal that Slovenia, Hungary, Poland and Slovakia have higher share of their own tax in the revenue of the

local governments compared to others.¹⁶ The first two countries belong to the low-level corruption or A-group of states, Poland, and Slovakia belong to the subsequent B-group. However as regards its relation to corruption, fiscal decentralisation may be a threat when the country lacks adequate controls, the tax system is complex, the tax officials are remunerated poorly, and the devolution of funds is given into the hands of untrained local managers.

The arguments of the proponents of decentralisation rely heavily on democratic participation and political literacy, which might not be present in most post-Soviet societies, and do not substitute the formal control mechanisms (Philp, 2001a: 375). Vibrant NGO-s which are considered to be the impediments for corrupt practices, have had minor impact on the governments of CEE (Xin & Rudel, 2004: 306). This is not to say to justify centralised control, yet to argue that automatic control mechanisms might not be inherent to the post-communist states. When CEE states installed democratic regimes “they could not at the outset create the strong democracies that deter corruption through the surveillance of citizen groups, the press, and reform-minded politicians (*ibid*).” All of the C, D, and E group countries and Belarus¹⁷ are considered especially vulnerable in this regard as according to the index of independent media these countries score the lowest.

Hypothesis 4: Dominating presidential power and the number of former officials in high positions are positively correlated with the level of corruption.

The relation of parliament/presidential system with corruption has not deserved any attention in the corruption literature. There might be a connection between the type of governing system and the initiation of the transition so that these countries where the transition was led bottom-up, resulted mostly in parliamentary system, and the countries where the transition was led top-down, led to presidential regime (Gawrich,

¹⁶ Slovenia – own tax share is 10,6 % of the total revenue of the local government; Hungary – 16,3%; Poland – 10,4%; Slovakia – 25,2% (Meloche, 2004).

¹⁷ Again, the exception is made by Belarus, where “the independent press accounts for 10-15% of the official printed media an generally consists of local publications that are devoted to entertainment and socioeconomic issues” (Freedom House, 2002).

2004). In those states where the break with the last leadership was clear-cut at the start of the transition, the incidences of corruption are believed to be lower. In cases where the transition was initiated and led by the Communist Party, the wealth of the state could easily concentrate into the hands of former *nomenklatura* (Pradhan *et al*, 2000). In Russia, Bulgaria and Romania the transition was initiated by old elite. Latvia, Lithuania, Czech, Poland, Estonia are the examples of A or B group states that more or less broke the connections in the beginning of the transition (Japaridze, 2003: 34).

A brief comparison of the two systems in CEE countries showed that among A and B group countries, there were not any presidential systems (except for Belarus) and there was only one mixed system (Poland). Among D and E group only Macedonia, Moldova, and former Yugoslavia have parliamentary systems, and all the rest have chosen the mixed system. As president is the chief executive of the state this explains the domination of executive branch in political and economic power in some countries, amplified by the dependence of judiciary and media of power groups. At the same time a concession must be made as one may set a good example of direct accountability (elections) in the presidential systems and the need for a strong leader in order to curb corruption. However, because of better possibilities of power concentration into the hands of one person and due to weak democracies in CEE, presidential systems may be more prone to corruption.

It is believed that in some countries Communist party collaborators were deliberately put to the influential positions in order to enable later blackmailing (Los, 2003: 160-161). In order to prevent the former officials of the internal security apparatus and their informants from entering the civil service, some countries, Estonia among them, adopted the politics of formal or informal processes of *lustration* (Pradhan *et al*, 2000: 30). This basically meant the prohibition of former secret agents to the state positions, and the weakening of old patronage systems. The Baltic States have been drawn as an exceptional example of the post-communist development of civil service in CEE as civil service development has been one of the priorities in Estonia, Latvia and Lithuania, and also Hungary compared to other post-socialist states (Verheijen, 1999: 330). This might have led to the lower level of corruption there. The opposite examples can be drawn from Georgia, Belarus, and Armenia, where former *apparatchiks* still hold positions.

Hypothesis 5: Privatisation in terms of scope and speed is positively correlated with the level of corruption, where the chosen strategy weighs equally important.

Post-soviet privatisation has greatly adhered to the possibilities of corruption – the process that has been unique in CEE in terms of speed. It would be correct to talk about post-Soviet privatisation as a process that enabled corruption rather than drawing it out as a separate cause of corruption.

Post-socialist privatisation process has been described by the hidden privatisation before the collapse of the system (Los, 2003: 152). The rather peaceful nature of the collapse of Soviet Union has even been attributed to the fact that old power elite laid itself a foundation of becoming the new economic elite (Holmes, 1997: 286). The old power networks could take over the state-owned firms. In many post-Soviet countries the former police apparatus was turned into the private security industry such as detective companies, data banks and others. (Los, 2003: 152-153) The old power elite was involved in selling formerly state-owned companies to their friends or relatives, or to themselves, which got the name of *nomenklatura privatisation* (Holmes, 1997: 286).¹⁸ Nielsen (2003: 138) has pointed out that in many systems it is quite common to begin and win election as a reformer and become rich for most part not from the savings of one's government's salary. One such scheme might be the creation of state owned private legal persons to whom state tasks are assigned, and later gain wealth through privatisation, without informing the public neither arranging the public competition (Aaviksoo, 2000: 509).

Without plunging into the details of the complex field of privatisation, there were six main types of large-scale privatisation (voucher-based mass privatisation, liquidation, capital market-based privatisation, tenders and trade sales, management-employee buy-out, spontaneous privatisation) in the post-socialist countries that differed in

¹⁸ For example in Georgia, one of the largest banks there - the United Georgian Bank, was represented in government by one of its members. Several close relatives of former president Shevardnadze and successful businessmen simultaneously enjoyed unfair advantages over their competitors. (Freedom Huse, 2002: 192)

terms of speed, level of administrative discretion, transparency, and dependence on the administration (Kaufmann & Siegelbaum, 1996). Those countries that chose short-term plans for privatisation had greater potential for corruption (Japaridze, 2003: 35). Azerbaijan, Macedonia and Hungary used mostly voucher-based, mass privatisation. Estonia used mostly trade sales and international tenders to strategic investors. Russia, Romania, Slovenia, Croatia, Georgia, Poland and some others used management and employee buyouts. Spontaneous privatisation (transfer of assets by stealth) and management & employee buyouts (enterprises are sold or given to insiders) could be considered the most “corruption potential” types of privatisation, while voucher-based mass privatisation (vouchers are sold or given to the general population) has the least potential for corruption. (Kaufmann & Siegelbaum, 1996)

Hypothesis 6: Ethnic fragmentation is positively correlated with the level of corruption.

The issue that has not deserved enough attention of corruption theorists is that of ethnic fragmentation, and conflicts between different ethnic groups. Similarly with the religion, ethnic conflicts can be taken as a proxy, for example for political instability, which creates certain group possibilities to engage in corruption. The share of different ethnic groups in Moldova’s population, where corruption is high (E-group), is relatively high, and sporadic conflicts have occurred as Slavic minorities sympathise with Russia, while the Turkish-speaking Gaguz minority would like to preserve greater autonomy. Similarly, Azerbaijan has struggled with ethnic conflicts between Armenians and Azeris. These examples support the assumption on positive correlation between the ethnic fragmentation and the level of corruption. As Putnam (1993: 180) has put it, the values and norms of behaviour underlying social capital, in other words, social connections create trust in society. As is the case with ethnic fragmentation, people tend to trust only individuals like themselves, consequently leading to favouring one’s own ethnic community.

Conclusion

The aim of this thesis has been to theoretically study the sources of administrative corruption in post-communist Central and Eastern Europe and draw concrete empirically testable hypotheses. What makes the discussion about the potential determinants of corruption difficult, are the contradictory results of the empirical studies and conflicting theoretical arguments. Most of these arguments and studies were gathered together and discussed in this thesis and finally, hypotheses were elaborated.

Most of the researchers on corruption have tangled into the definitional problems. Legal, public-interest-centred, and market-based approaches to corruption all seem to lack from the perfectionist definition. The most commonly used definition of corruption that more or less embraces the features of all three approaches is “the abuse of public power or office for private benefit.” The distinction between bureaucratic and political corruption can be made based on the subject and the scope or impact of corrupt acts.

The discussion of the causes of corruption was carried out in the framework of Brunetti & Weder (2003) according to whom the sources of corruption could be divided into internal controls, external controls and indirect factors. Internal controls are exerted through systems inside the administration, external controls are exerted through systems outside the administration, and indirect causes embrace mostly economic and cultural traits.

It was claimed that to a great extent theoretical literature supports the positive effect of public officials’ income on reducing corruption. According to the influential empirical study of Rauch and Evans (2000) merit-based public administration had greater impact on bureaucracy’s performance. Taagepera (2002) has stressed that in the post-Soviet states people are characterised by survival values, which makes them more vulnerable to corrupt practices, as priority is given to economic security before self-expression. This means that post-socialist officials might possess greater financial incentives than bureaucrats from the Western states.

The issue of decentralisation and centralisation has raised disputes among different authors. For example according to Prud'homme (1995) decentralised setting is more corrupt due to the inter-relations between local politicians, entrepreneurs and officials. Another point of view is based on control theories and assumes that prevailing norms and bonds make it harder to steal and cheat from people close to you. There are no empirical studies supporting either point of view. However, hierarchical control is conducive to corruption when all layers of the hierarchy are corrupt. Moreover, democratic participation and political literacy that are prerequisites for decentralised control might not be present in most post-Soviet societies. According to the cross-country study the correlation between fiscal decentralisation and corruption has been found to be negative insisting on the devolution of revenue generation to local governments.

All discussed authors agree that weak legal systems facilitate corruption. There is a danger of regulations being corrupt in their nature. Another source of corruption is the enforceability of the existing laws. The rigidity and slowness of bureaucracies is one of the main causes of bribes and gratuities. At the same time the greater the discretion of the official and monopoly power upon the activities and rules, the more opportunities there will be for distorted decisions and biased interpretations of regulations. There are different kinds of rules - and the existence of certain rules is necessary for combating corruption

Although nobody argues the necessity of transparency in deterring corruption, one still has to be aware of the "connections effect". This means that the disclosure of certain documents and decisions may enhance the incentives to establish connections with key persons. According to the cross-country regression, press freedom is among the most important predictors of corruption (Brunetti & Weder, 2003). If the newspapers are owned and the contents dictated by the ruling party, then there is less interest in discovering the cases of corruption.

Corruption has been attributed to cultural and economic variables. There is a problem on the direction of causality of these variables as it is not clear whether corruption is the consequence or the cause? The researchers have attributed corruption to the scope

of individualism/collectivism in society, religion, ethnic fragmentation, and education – however different authors have contradictory opinions in these matters, which also has to do with the concept of cultural relativism.

History and the practices imported to the countries in the period of colonisation or other periods have shaped the public administration. For example Hungary and Czech Republic entered the transition with more developed systems of public administration and better trained public officials, because they had been the parts of the Habsburg Monarchy with the stronger culture of civil service (Pradhan et al, 2000). The Soviet era has given rise to peculiar practices after the collapse of the empire, for example the speed of privatisation, the mingling of public and private interests and many others. Economic liberalisation from one part has contributed to the reducing of corruption, from the other point it has changed the nature of corruption more complex.

Post-socialist CEE states vary in their history, culture, economy, the scope of decentralisation, administrative practices and the level of corruption. In the current thesis CEE states were divided into 5 sub-groups (table 1, annex 1) based on the level of corruption. According to the division Slovenia, Hungary and Estonia are the least corrupt countries, while Azerbaijan, Albania, Moldova and Georgia have the highest level of corruption.

It was argued that there are general and country-specific sources of corruption. Due to prevailing survival values in post-Soviet societies low income can be regarded as a general incentive for corruption. Embezzlement of certain natural resources tends to be country-specific determinant of corruption, as some countries are richer in natural wealth than others.

The following hypotheses were elaborated in the context of the CEE countries:

Hypothesis 1: There is negative correlation between merit-based public administration, when accompanied by “necessary” legal framework, and the level of corruption.

Hypothesis 2: Low income accompanied by a high unemployment, and high inflation is positively correlated with the level of corruption.

Hypothesis 3: Greater (fiscal) decentralisation and the existence of guardian institutions (e.g. independent media) are negatively correlated with the level of corruption.

Hypothesis 4: Dominating presidential power and the number of former officials in high positions are positively correlated with the level of corruption.

Hypothesis 5: Privatisation in terms of scope and speed is positively correlated with the level of corruption, where the chosen strategy weighs equally important.

Hypothesis 6: Ethnic fragmentation is positively correlated with the level of corruption.

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Annex 1

Table 1: Level of Corruption¹⁹ in Central and Eastern Europe

No	Country	CPI, 2003	FH, 2002	WB, 2000	The average composite index
A					
	Slovenia	5,9	2,0	1,6	5,03
1.	Estonia	5,5	2,5	1,9	4,62
2.	Hungary	4,8	3,0	1,9	4,24
B					
3.	Poland	3,6	2,3	2,2	3,85
4.	Czech Rep.	3,9	3,8	2,1	3,62
5.	Belarus	4,2	5,3	1,8	3,60
6.	Lithuania	4,7	3,8	2,6	3,54
7.	Latvia	3,8	3,8	2,2	3,51
8.	Slovakia	3,7	3,3	2,4	3,51
C					
9.	Bulgaria	3,9	4,5	2,6	3,10
10.	Armenia	3,0	5,8	1,9	3,03
11.	Croatia	3,7	4,5	2,6	3,02
D					
12.	Bosnia & Herzegovina	3,3	5,5	-	2,69
13.	Romania	2,8	4,8	2,8	2,53
14.	Russia	2,7	6,0	2,6	2,40
15.	Ukraine	2,3	6,0	2,4	2,39
16.	Yugoslavia	2,3	5,3	-	2,33

¹⁹ Both, administrative and political corruption are included.

	/Serbia & Montenegro				
17.	Macedonia	2,3	5,5	-	2,24
E					
18.	Azerbaijan	-	6,3	2,8	2,06
19.	Albania	2,5	5,3	3,3	2,01
20.	Moldova	2,4	6,3	2,9	2,00
21.	Georgia	1,8	5,5	3,0	1,90

Sources: Transparency International's Corruption Perceptions Index, 2003 (CPI); Freedom House, 2002 (FH); World Bank, 2000a (WB)

CPI is a composite index or a poll of polls of the Transparency International consisting of the perceptions on corruption of business people and country experts, measured on the scale from 0-10, the least corrupt country having the highest score.

FH index is based on the perceptions of the authors of the individual country reports, the staff of the Freedom House, and the academic advisers in the USA and in the CEE. According to the index of FH, the country with the highest score has the highest corruption.

The WB score is composed of the experiences and opinions of entrepreneurs, and designed so that the lowest score equals with the lowest level of corruption.

The composite average index – compiled for the purpose of the current thesis - consists of the three corruption indexes (TI, FH, WB). The values of FH and WB were reversed, their standard deviations were harmonised with TI and their values were converted to the same scale in order to ensure the uniformity in the scores so that all three indexes weigh equally in the composite index.

Kokkuvõte

Käesoleva magistritöö eesmärgiks on välja tuua bürokraatia korrupsiooni põhjused ning töötada välja hüpoteesid, mis võimaldaksid empiiriliselt uurida korrupsiooni põhjuseid post-sotsialistlikes Kesk- ja Ida-Euroopa riikides. Selleks on töö esimeses osas peatunud korrupsiooni definitsioonil ning seejärel analüüsitud korrupsiooni põhjusi. Töö kolmandas osas on välja toodud hüpoteesid.

Korrupsiooni kontseptsiooni osas on levinud eelkõige kolme tüüpi – ametikoha-, avaliku huvi ja turukesksed – määratlused. Ametikoha kesksed definitsioonid rõhuvad korrupsiooni legaalsele iseloomule ehk teisisõnu, korrupsioon on kõrvalekaldumine formaalsetest reeglitest. Avalikku huvi esile tõstvate definitsioonide autorid on püüdnud korrupsiooni määratlust laiendada ning vaadelda seda avaliku huvi seisukohast, mille kohaselt on korruptiivse käitumisega tegu siis, kui ametnik oma ebaeetilise käitumisega läheb vastuollu avalikkuse ootustega. Turukesksed definitsioonid määravad korrupsiooni eelkõige *principal-agent* mudelist lähtuvalt, kus ametniku või poliitiku eesmärgiks on isikliku kasu suurendamine. Antud uurimistöös on kasutatud kõige levinumat korrupsiooni definitsiooni, mille kohaselt korrupsioon on avaliku võimu kuritarvitamine omakasu eesmärgil.

Enamik autoreid peab korrupsiooni negatiivseks nähtuseks, ent funktsionalistid omistavad sellele ka positiivseid omadusi. Näiteks aitab altkäemaks kiirendada bürokraatlikesse protseduurireeglitesse takerdunud protsesse. Samas on selline funktsionaalsus väga valikuline, millest saavad osa vaid vähesed.

Vahetegu bürokraatia ning poliitilise korrupsiooni vahel on keeruline. Kui defineerimisel lähtuda tegijast – poliitik vs ametnik, tekib raskusi mõningate juhtumite paigutamisel. Lähtudes korrupsiooni mõjust ning eeldades, et poliitiline korrupsioon on laiaulatuslikum kui bürokraatia korrupsioon ning moodustab suuri võrgustikke, on oht alahinnata halduse korrupsiooni mõju. Kuigi politseiniku altkäemaksu üksikjuhtumi võib lugeda bürokraatiakorrupsiooni liigiks, siis privatiseerimine puudutab reeglina mõlemaid.

Korruptsiooni põhjused on jagatud kolme suuremasse rühma, mis on seotud sisemise ja välimise kontrolliga ning kaudsete korruptsiooni mõjutavate nähtustega nagu kultuur ja majandus.

Sisemine kontroll puudutab avaliku halduse siseseid struktuure ning protsesse. Levinud seisukoha järgi on avaliku teenistuse suhteline palk võrrelduna erasektori omaga üks peamisi korruptsiooni mõjutavaid tegureid. On leitud, et kõrgema palga puhul on korruptsiooniga vahele jäämisega kaasnev töökohakaotus kõrgema hinnaga kui madalama palga puhul ning seepärast vähendab kõrgem sissetulek korruptsiooniohtu. Selline lähenemine eeldab seaduste toimimist ja karistuste rakendamist ühiskonnas. Samuti on väidetud, et madal palk meelitab avalikku teenistusse viletsa kvaliteediga töötajaid. Kõrge palga positiivset mõju toetab ka “õiglase tasustamise tunnetamise” hüpotees. Samas on palga osatähtsuse rõhutamine lihtsustav - Rauch ja Evans (2000) leidsid, et meritokraatlikele printsiipidele ehitatud avalik teenistus mängib palgast märksa olulisemat rolli. Lisaks arvatakse, et töötajate rotatsioon ning erinevate üksuste vaheline konkurents võib korruptsiooni vähendada.

Kuigi keegi ei kahtle, et kontroll avaliku teenistuse üle vähendab korruptsiooni, ei ole ühtset seisukohta selle osas, kas selleks otstarbeks sobib paremini tsentraalne või detsentraliseeritud süsteem. Detsentraliseerimise pooldajad toetuvad kontrolliteooriatele, mille kohaselt väiksemates üksustes soovivad bürokraadid oma mainet hoida ning käituda ausalt. Hierarhiline kontroll suurendab korruptsiooni siis, kui kõik hierarhia astmed on korrumppeerunud ning alamatel tuleb korruptiivseid tulusid oma ülematega jagada. Halb näide hierarhisest kontrollist on Nõukogude Liit, kus kommunistlik partei kontrollis bürokraatiat ning võimaldas privileege “valituile”. Üheks detsentraliseerimise vormiks on fiskaalne detsentraliseerimine ning enamik autoreid on seisukohal, et suurem fiskaalne autonoomia koos iseseisva maksubaasiga võimaldab vähendada korruptsiooni.

Välise kontrolli all peetakse silmas seaduste kehtivust ja nende tulemuslikkust. Osa seaduste ning institutsioonide olemasolu on vajalik korruptsiooni vähendamiseks (nt karistusseadustik), samal ajal kui seaduste sage muutmine ning ebamäärasus on aluseks korruptsioonile. Bürokratiat reegleid ning jäikust peetakse sageli korruptsiooni põhjuseks. On isegi leitud, et mõningad normid on loodud eesmärgiga

võimaldada ametnikel altkäemaksu koguda. Ahmad (2001) on viidanud vajadusele leida optimaalne regulatsioonide tase ühiskonnas. Kuigi mõned autorid on väitnud, et ranged seadused aitavad paremini korruptsiooni vähendada ning on toonud eeskujuks Hong Kongi ja Singapuri, on seaduste rakendamisel siiski olulisem roll. Ka läbipaistvus avalikus teenistuses on üks olulisi tingimusi korruptsiooni taseme määramisel. Samas kaasneb läbipaistvusega ka “seotuse efekt”, mille kohaselt lihtsustab palkade avalikustamine ka võimalike altkäemaksjate tööd. Vaba ajakirjandus on Brunetti ja Wederi (2003) võrdleva uuringu järgi kõige olulisem korruptsiooni taseme määraja.

Kaudsed korruptsiooni põhjused on seotud kultuuri ning majandusega. Kultuuri ning korruptsiooni vahetõrget on vähe uuritud. On väidetud (Brovkin, 2003; Treisman, 2000), et mõnele rahvusele on korruptsioon omasem kui teisele. Selline arvamus võib olla põhjustatud uurijate kultuurilisest taustast, mis ei kattu uuritavate kultuuride omaga. Korruptsiooni on seostatud kultuuridele omase individualismi/kollektivismiga, naiselikkuse/mehelikkusega, religiooniga, hariduse tasemega ning etnilise lõhestatusega. Samuti on korruptsiooni taset seostatud ajalooliste arengutega. Samas ei ole alati üheselt selge, kas korruptsioon on mingi nähtuse põhjus või tagajärg - näitena võib tuua vaesuse. On leitud, et ebavõrdsus on korruptsiooni üks põhjustajaid, kuna stratifikatsiooniredeli madalamatel tasemetel olevad inimesed püüavad leida ebaseaduslikke viise tegutsemiseks. Samas ei seleta see Mertoni teoorial (*structural strain theory*) põhinev argument valgekraede kuritegevust, mille hulka korruptsioon kuulub.

Enamik Maailmapanga poolt finantseeritud uuringuid väidavad, et majanduskasvu ning korruptsiooni taseme vahel on pöördvõrdeline seos. Majanduslikku liberaliseerimist peetakse üheks korruptsiooni vähendamise võimaluseks, kuna avatud majandus suurendab konkurentsi ning toob kaasa automaatse turukontrolli ning paremad haldustavad. Teiselt poolt aga sunnib suurem konkurents ettevõtteid tegema korruptiivseid tehinguid, et oma konkurentidest sammu võrra ees olla.

Post-sotsialistlike riikides võimaldas privatiseerimine hulgaliselt korruptiivseid tehinguid, mil väga suur arv riigiettevõtteid erastati väga lühikese aja jooksul. Mõningatel juhtudel algas peidetud privatiseerimine juba enne nõukogude süsteemi

kokkukukkumist, kui endine võimueliit müüs iseendale ning oma sõpradele, tuttavatele suure hulga riigiettevõtteid. Seda protsessi on nimetatud ka nomenklatuuri privatiseerimiseks.

Uurimistöö käigus töötati välja järgmised hüpoteesid:

Hüpotees 1: Meritokraatlikel printsiipidel põhinev avalik teenistus koos “vajalike” seadustega on negatiivses korrelatsioonis korruptsiooni tasemega.

Hüpotees 2: Madal sissetulek, kõrge tööpuudus ning kõrge inflatsioon on positiivses korrelatsioonis korruptsiooni tasemega.

Hüpotees 3: Suurem (fiskaalne) detsentraliseerimine ning valveinstitutsioonide olemasolu (nt vaba ajakirjandus) on negatiivses korrelatsioonis korruptsiooni tasemega.

Hüpotees 4: Domineeriv presidendivõim ning endiste ametnike arv kõrgetel kohtadel on positiivses korrelatsioonis korruptsiooni tasemega.

Hüpotees 5: Privatiseerimise ulatus ning kiirus on positiivses korrelatsioonis korruptsiooni tasemega, mille juures on olulise tähtsusega valitud privatiseerimise strateegia.

Hüpotees 6: Etniline lõhestatus on positiivses korrelatsioonis korruptsiooni tasemega.