2.

31%

of respondents in the transition region say that they have either "some trust" or "complete trust" in other people.

Governance in the transition region

The collapse of communism triggered important social, political and economic changes across the transition region. The rapid and radical disintegration and transformation of state institutions created ineffective governance in many countries, where policy-makers were not held accountable for their decisions, leading to an increase in corrupt practices. And despite high-profile efforts by governments to combat corruption, it remains prevalent in many transition countries and continues to dominate reform debates.

Introduction

In order to grasp the importance of good governance in the transition region, it is essential to define it in context. Good governance can be described as "predictable, open and enlightened policy making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law."[1]

Corruption, on the other hand, can be defined as the misuse of public authority in the interests of illegitimate gain. It is a multifaceted and complex phenomenon, involving bribery in government contracts and benefits, tax evasion, theft of public assets as well as political corruption, among others.[2] Corruption is not only a major barrier to sustainable economic, political and social development but it poses a serious threat to good governance, jeopardising the adequate functioning of public institutions.

The collapse of communism triggered important social, political and economic changes across the transition region. The rapid and radical disintegration and transformation of state institutions created ineffective governance in many countries, where policy-makers were not held accountable for their decisions, leading to an increase in corrupt practices. And despite high-profile efforts by governments to combat corruption, it remains prevalent in many transition countries and continues to dominate reform debates.

Extensive empirical research has shown that corruption undermines social and economic development as well as people's trust in society.[3] More specifically, it distorts the composition of public expenditure, discourages foreign and domestic investment and leaves the poorest parts of the population at a significant disadvantage.

At a broader level, corruption also weakens political and economic systems. For example, the absence of trust caused by corruption may negatively impact the effectiveness of democracy, and the functioning and quality of institutions, including financial markets. Indeed, research suggests that trust is one of the key determinants of good governance and a well-functioning market economy.[4]

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[1] See World Bank (1994).
[2] See World Bank (1997).
[3] For example, see Chetwynd, Eric and Spector (2003); Fisman and Svensson (2007); Mauro (1995); Olken (2006); Olken and Pande (2011); Svensson (2005); and Transparency International (2016).
[4] For example, see Becker et al. (2016); Helliwell and Wang (2010); and Uslaner (2005).

Although it is widely accepted that corruption in many transition countries has increased since the fall of the Berlin Wall, this is neither an inevitable nor an irreversible development.[5] All three rounds of the Life in Transition Survey (LiTS) have explored the various factors that facilitate corruption and contain a series of detailed questions on citizens' perceptions and experiences of it.[6]

Data from LiTS allow us to study how corruption affects institutional trust and public service satisfaction. More specifically, this chapter is interested in re-visiting the relationship between governance and corruption in the transition region to provide insights into:

- Changes in corruption perception and experience over the past decade
- The relationship between corruption and citizen satisfaction with public services
- The connection between experiences of corruption and institutional quality (such as media freedom, democracy and other governance indicators)
- Correlations between corruption and social trust.

Corruption in the transition region

All three rounds of LiTS have asked respondents how often someone like themselves feels compelled to make unofficial payments or gifts in the following situations:

- Interacting with the traffic police
- Requesting official documents (passport, visa, birth or marriage certificate, land register, and so on) from authorities
- Going to the courts for a civil matter
- Receiving public education (primary or secondary)
- Receiving public education (vocational)
- Receiving medical treatment in the public health system
- Requesting unemployment benefits
- Requesting other social security benefits.

The levels of perceived corruption are presented in Chart 2.1, which shows the proportion of respondents who report that it is "usually" or "always" necessary for them to make unofficial payments or gifts.

As Chart 2.1 illustrates, the average perception of corruption has fallen across all regions compared to 2006, except Turkey and eastern Europe and the Caucasus. In fact, respondents in Turkey are among the most inclined in the transition countries to believe that bribes are necessary for dealings with public sector authorities and institutions. In contrast, there has been a significant drop in Central Asia – only less than 10 per cent of respondents believe that irregular payments are an issue. Similarly, respondents in central Europe and the Baltic States, south-eastern Europe and Russia report that perceptions of corruption in their public institutions have fallen since 2006. In total, the perceived level of corruption as measured by this indicator has fallen in 20 countries over the past 10 years.

The most remarkable reductions can be seen in Albania (a fall of 17 percentage points), Ukraine (13 percentage points) and Russia (8 percentage points). Levels of perceived corruption in many transition countries now compare well with the western European average (0.3 per cent for Germany and 2.1 per cent for Italy). Cyprus, Estonia, Latvia and Kosovo remain the least corrupt transition countries according to this measure, with lower levels of perceived corruption than in Italy. Altogether, the 2016 data indicate a general trend of convergence towards the low average levels of perceived corruption in Germany and Italy.

CHART 2.1. Perceived corruption in 2006, 2010 and 2016 by region
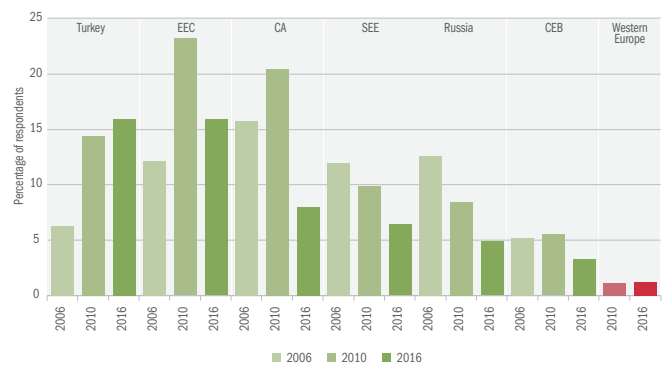
Source: LiTS I (2006), LiTS II (2010) and LiTS III (2016).
Note: "Perceived corruption" refers to the proportion of respondents in each country who report people like themselves usually or always have to make unofficial payments or gifts averaged across all public services covered by the survey. This chart and all the other charts based on LiTS data use survey-weighted observations. Regional averages are based on simple averages of the country scores. "Western Europe (2010)" denotes the average of France, Germany, Italy, Sweden and the United Kingdom and "western Europe (2016)" denotes the average of Germany and Italy.

Less than

10%

of respondents in Central Asia believe that irregular payments are an issue.

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[5] For example, see Johnson et al. (2000), Roland (2001), and Shleifer and Treisman (2014).
[6] The EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS), a firm-level survey based on face-to-face interviews with managers, provides an assessment of governance and corruption from the perspective of firms. See, for example, De Rosa et al (2010); Diaby and Sylwester (2014); and Steves and Rousso (2003).

CHART 2.2. Perceived corruption in 2016 by public service and by region
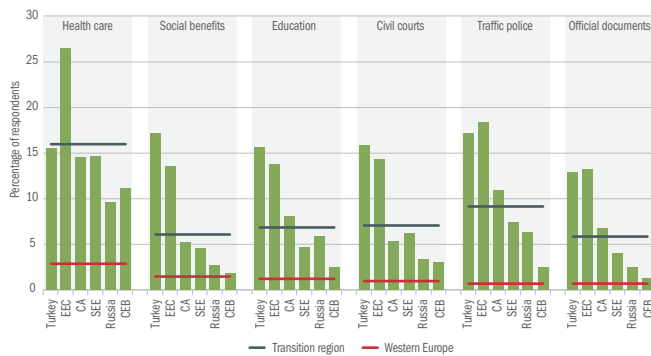
Source: LiTS III (2016).
Note: "Perceived corruption" refers to the proportion of respondents in each country who say people like themselves usually or always have to make unofficial payments or gifts while interacting with a given public service.

CHART 2.3. Experience versus perception of corruption in 2016 by country
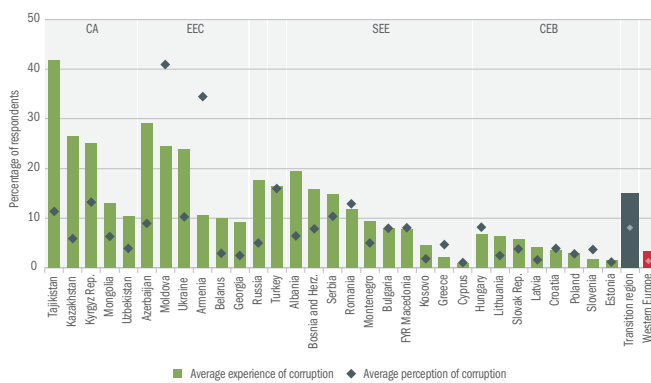
Source: LiTS III (2016).
Note: "Average perception of corruption" refers to the proportion of respondents who say people like themselves usually or always have to make unofficial payments or gifts averaged across all public services covered by the survey. "Average experience of corruption" refers to the proportion of respondents who say they or a member of their household have made unofficial payments or gifts in the past 12 months averaged across all public services covered by the survey.

Chart 2.2 shows the perception of corruption broken down by public services and by region. Interestingly, the chart shows the perceived frequency of irregular payments within the health care sector (16 per cent) and to a lesser extent when dealing with traffic police (9 per cent) are particularly high in the transition region. Although corruption has decreased in all public services across the transition region since 2006, the levels remain well above western European comparator averages (Germany and Italy), where only less than 5 per cent of respondents believe that it is necessary for people to make unofficial payments to access public services.

Chart 2.3 shows the differences between respondents' corruption perceptions and their actual corruption experiences. The darker coloured diamonds represent the proportion of respondents in each country who report that irregular payments to public sector authorities are necessary, while the bars display the proportion of respondents who state that they (or a member of their household) actually made an unofficial payment to public officials in return for services in the previous calendar year. The countries are sorted by the experience of corruption.

Similar to the findings in LiTS II (2010), the gap between perception and experience is the greatest in the countries where respondents report the highest levels of real corruption experience. This apparent underestimation of actual corruption is particularly pronounced in Russia as well as Central Asia and eastern Europe and the Caucasus. For example, only 11 per cent of respondents in Tajikistan state that unofficial payments were usually or always necessary. However, on average, 42 per cent of Tajiks report that they have in fact made irregular payments to the public authorities. By contrast, 35 per cent of Armenian respondents say that unofficial payments are usually or always necessary but only around 10 per cent of respondents state that they or a family member have actually made such unofficial payments, which is considerably lower than the reported perception of unofficial payments. In Russia, only 5 per cent of people believe that they need to make unofficial payments to access public services, while 18 per cent say that they have actually made an unofficial payment. This disparity might be due to the differences between the messages that people received from all forms of media (such as print, broadcast and online) and their daily life experiences.

There are only six countries – Bulgaria, Croatia, Estonia, FYR Macedonia, Poland and Turkey – in which the differences between perceptions of corruption and actual levels of it are strikingly small. Another noteworthy finding is that the levels of corruption (both perception and experience) in many central European countries (including the Baltic states) are low and have converged with the levels found in Germany and Italy. However, the average experience of corruption is higher than the average perception, often up to three times higher. This might reflect the different reasons for making unofficial payments (such as higher incidences of unofficial payments made in gratitude as opposed to extortive reasons).
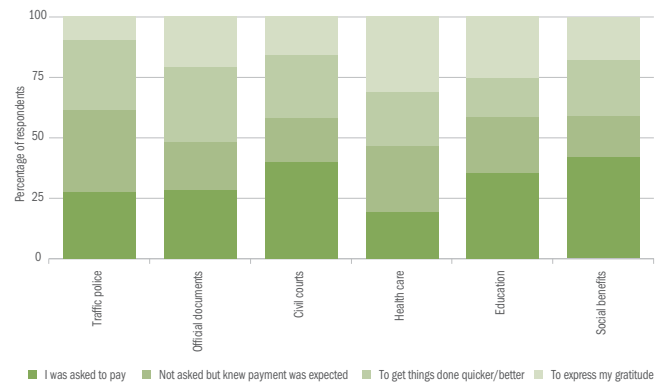
Chart 2.4 illustrates how the nature of unlawful payments also differs by public services. Respondents who made unofficial

payments or gifts were asked why they had done so and were given four possible answers.[7] People most often resorted to unofficial payments while interacting with traffic police, health care workers and dealing with educational institutions. About one-quarter of irregular payments for the education category are likely to be motivated by the desire to express gratitude whereas unofficial payments to traffic police, civil courts or social security benefits are mostly made upon request or expectation. Irregular payments are also common when wishing to speed up a lengthier process with the use of unofficial "fast-track" services. Nevertheless, the percentage of respondents reporting that they made unofficial payments to access public services because they were asked (or it was expected) has fallen since 2010.

Chart 2.5 reveals that confidence in public sector authorities is relatively low. Overall, in all categories, the perceived corruption among public officials is substantially higher than the average for the western European comparator countries (9.6 per cent for Germany and 27.5 per cent for Italy). For example, about 40 per cent of respondents in eastern Europe and the Caucasus believe that most public officials are involved in corruption. Respondents in central Europe and the Baltic states are much more likely to be trusting of public officials, and in most cases the levels are comparable to Germany and Italy where, out of all public sector authorities, judges and police officers inspire the highest levels of confidence (at about 85 per cent).

Around 45 per cent of respondents in south-eastern Europe, as well as in eastern Europe and the Caucasus and Turkey, believe that their members of parliament and government officials are involved in corruption. However, the perceived corruption among presidents/prime ministers, police officers and business executives vary considerably across regions. In Russia, confidence in the office of president/prime minister is among the highest in the transition region and higher than the average for the western European comparators, but in Turkey it is one of the lowest. Significant differences can also be noted when it comes to confidence in the impartiality of judges, where we observe the largest difference in averages between the transition region and the two western European comparator countries, Germany and Italy. Another noteworthy finding is that confidence in religious leaders ranks quite low in Germany and Italy where 35 and 24 per cent of respondents think that "most of them" or "all of them" are involved in corruption.

CHART 2.4. Reasons for making an informal payment in 2016

■ I was asked to pay   ■ Not asked but knew payment was expected   ■ To get things done quicker/better   ■ To express my gratitude

Source: LiTS III (2016).
Note: "Reasons for making an informal payment" refers to the proportion of respondents who made an informal payment for services they should have received for free. "I was asked to pay" refers to the proportion of respondents who say they were actually requested to make an unofficial payment or gift in the given public service. "Not asked but knew payment was expected" refers to the proportion of respondents who say that they were not asked to make an unofficial payment or gift in the given public service but such payment or gift was expected. "To get things done quicker/better" refers to the proportion of respondents who say that they made an unofficial payment or gift in the given public service in order to expedite or improve services/processes. "To express my gratitude" refers to the proportion of respondents who say that they made an unofficial payment or gift in the given public service in order to express appreciation.

CHART 2.5. Perceived corruption among public officials in 2016 by region

── Transition region   ── Western Europe

── Transition region   ── Western Europe
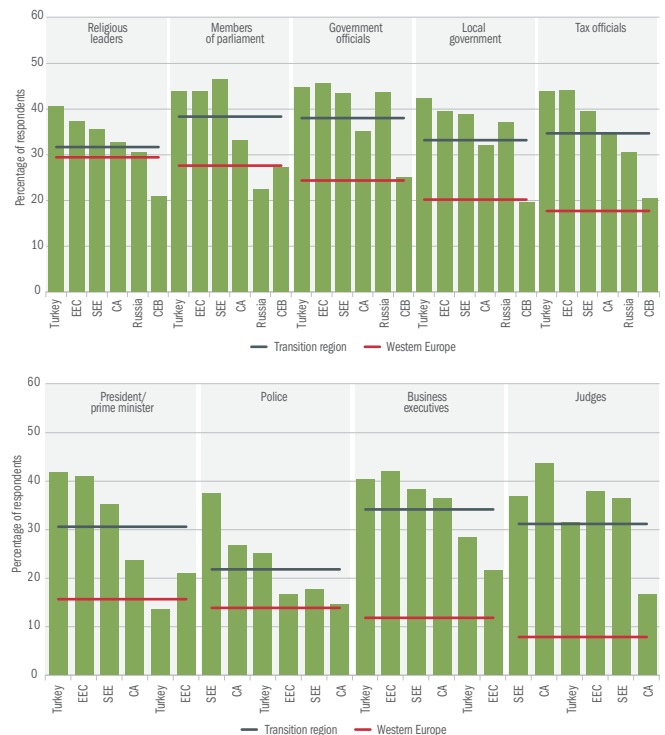
Source: LiTS III (2016).
Note: "Perceived corruption among public officials" refers to the proportion of respondents who think that "most of them" or "all of them" in a given category are involved in corruption.

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[7] The answer options were "I was asked to pay"; "I was not asked to pay but I knew that an informal payment was expected"; "I offered to pay to get things done quicker or better"; and "I was not asked to pay but I wanted to express my gratitude" (LiTS III, 2016).

Box 1: Fighting corruption

Citizens rarely have access to objective measures of corruption but still vote according to the limited information they have based on their own experiences and perceptions. Olken (2009) therefore argues that the accuracy of corruption perceptions is a crucial component to be taken into account while formulating mechanisms for fighting corruption. He finds that, on average, the perception of corruption is positively correlated with the objective measure of corruption, but there are systematic differences across individuals when it comes to the level of perceived corruption. This is mainly because of societal characteristics (that is to say, cultural norms) that affect the general trust and, in turn, corruption perception; and biases in individual perception which are determined by various individual characteristics. LiTS III sheds more light on these questions of attitudes and citizens' perceptions of fighting corruption, controlling for a number of individual and country level observable characteristics.

Table 1 investigates the determinants of reporting corruption using alternative measures. More specifically, respondents were asked "what is the most effective thing that an ordinary person can do to help combat corruption in this country?". Column 1 shows the results for a model where the outcome is a dummy variable indicating that the individual answered "nothing/ordinary people cannot do anything". Column 2 shows the results for a model with an outcome variable indicating that "refusing the bribe" is the preferred option, while column 3 refers to a model where the outcome variable indicates the preference for "reporting the corruption once it is experienced".

Results in column 1 indicate that men are 1.3 percentage points less likely to report that ordinary people cannot do anything compared to women. In addition, married individuals, active volunteers, people who hold at least tertiary-level education and those with higher perceived incomes are significantly less likely to say that there is nothing they can do to fight against corruption. In columns 2 and 3, men are more likely to believe that refusing to pay bribes or reporting them is the best way to fight corruption. In addition, younger people and those respondents who trust others and believe in democracy and a market economy are more likely to fight against corruption.

Cultural norms are also an important determinant of attitudes towards corruption (Fisman and Miguel, 2007). Chart B.1 shows the variability between the respondents across the countries. In general, people in western European countries are 10.4 percentage points more likely to choose reporting bribes as an appropriate solution to corruption than those living in transition countries. In a similar vein, they are 4.5 and 4.1 percentage points less likely to say that ordinary people cannot make a difference and refuse to pay the bribe options, respectively. Among the transition countries, this translates into only 18 per cent of respondents wanting to actively fight corruption by reporting it and a striking 32 per cent that think they cannot change the situation.

TABLE B.1. Determinants of different approaches to counter corruption

Outcome is	(1) Ordinary people cannot do anything	(2) Refuse to pay bribes	(3) Report corruption when you experience it
Individual level variables			
Age	0.127***	-0.040***	-0.069***
	(0.031)	(0.010)	(0.019)
Male	-0.013***	0.009**	0.020***
	(0.004)	(0.004)	(0.004)
Married	-0.009**	0.015***	0.001
	(0.004)	(0.004)	(0.004)
Tertiary education	-0.049***	0.045***	0.031***
	(0.005)	(0.005)	(0.005)
Relative wealth perception	-0.008***	-0.000	-0.007***
	(0.000)	(0.000)	(0.000)
Active volunteer	-0.039***	0.009	0.027***
	(0.006)	(0.006)	(0.006)
Trust	-0.044***	0.023***	0.015***
	(0.005)	(0.005)	(0.004)
Democracy	-0.007	0.046***	0.012***
	(0.005)	(0.005)	(0.004)
Market economy	-0.008	0.029***	0.005
	(0.005)	(0.005)	(0.005)
R²	0.05	0.03	0.04
N	42278	42278	42278

Source: LiTS III (2016).
Note: * significant at 10%; ** significant at 5%; *** significant at 1%. Specific controls in each column include age squared and dummy variables for good health status, urbanity status, religion, and transition region. Country level controls include World Bank Governance indicators, GDP per capita (constant 2011 international dollars), percentage change in GDP (between 2010 and 2015) and media freedom index and unemployment rate.

CHART B.1. Preferred options to counter corruption in 2016 by country
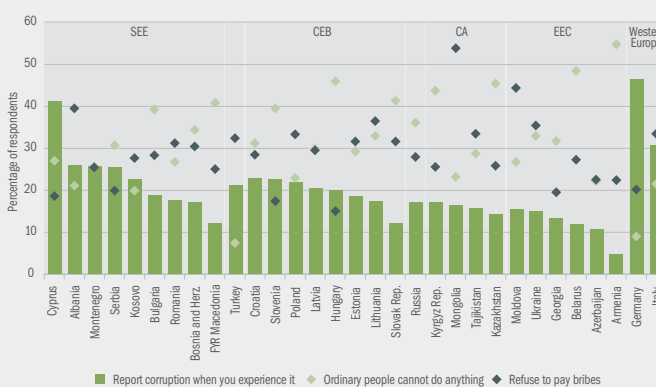
Source: LiTS III (2016).
Note: Chart shows conditional means of choosing any of the three options as the most effective way of fighting corruption across the countries. See notes to Table B.1 for control variables. Estimation method is OLS.

Unofficial payments and service satisfaction in the transition region

LiTS III investigates the general level of satisfaction with public services, and whether dissatisfaction with such services coincides with the prevalence of extortion within the system. Unofficial payments tend to cause general dissatisfaction with public services, not just because of the increased cost (on top of the standard fees for whichever service they are seeking) but also by shifting investments toward sectors/services where it is likely that those involved in corruption will benefit.

In order to gain insights into the relationship between unofficial payments and service satisfaction, Chart 2.6 plots the average level of satisfaction among those who have used public services in the past year against the average reason for making unofficial payments or gifts.

This chart reveals that Turkey, Estonia and Lithuania have the highest average levels of service satisfaction. In these countries, the main reason for making unofficial payments or gifts is to express gratitude for the service received. At the other end of the chart, relatively low levels of service satisfaction can be found in Armenia, Azerbaijan and Tajikistan, where people are either directly coerced into making unofficial payments or gifts or do so because they know it is expected.

Charts 2.7 and 2.8 explore this issue for public health care and public education, respectively – two main sectors that LiTS respondents said they wanted their governments to allocate more public funding to. These charts take into account the fact that survey responses regarding satisfaction only apply to usage within the last 12 months. Additional statistical analysis from the LiTS III data (not presented here) indicates that highly educated and wealthier people are less likely to be satisfied with the quality of public services they receive.

As illustrated by Chart 2.7, there is a negative correlation at the country level between experience of corruption in the health care sector and the level of satisfaction with public health care services. This chart reveals that the highest average levels of corruption experience and service dissatisfaction among public health care users are found in Tajikistan, Moldova, Azerbaijan and Ukraine. Poland is a notable outlier – despite a low level of corruption experience, satisfaction with services in the public health care system is one of the lowest in the transition region. Interestingly, users of the Polish public health system who were asked to make unofficial payments are more than three times less likely to be satisfied with services received than those who were not asked to pay a bribe.

In the public education sector, there is also a negative relationship between the average level of service satisfaction and the average experience of needing to make unofficial payments. However, there are notable exceptions to this general association as well – in Russia, levels of corruption experience are relatively

high but at the same time service satisfaction in public education is higher than the transition region average. At the other extreme, despite low levels of corruption experience, satisfaction with public education in FYR Macedonia is substantially below the transition region average.

CHART 2.6. Reasons for unofficial payments and level of satisfaction with public services in 2016
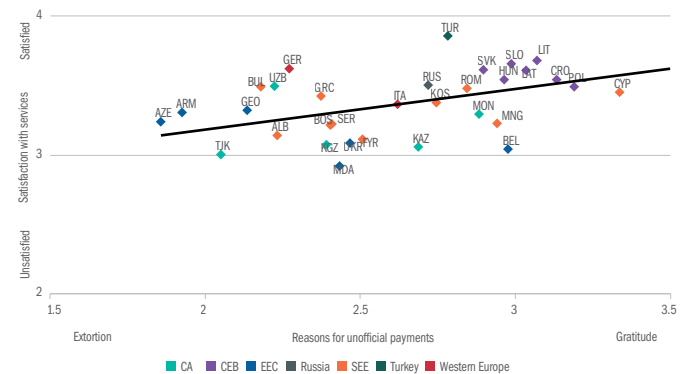
Source: LiTS III (2016).
Note: The x-axis of extortion and gratitude refers to an index where those respondents who were "asked to" make an unofficial payment have a weight of 1, those who were "expected to" pay a weight of 2, those who made a payment "to have things done quicker" a weight of 3 and those who made a gift "to express gratitude" a weight of 4, averaged across all public services covered by the survey. The y-axis of dissatisfaction and satisfaction refers to an index where those respondents who say they are "very satisfied" with a public service get a weight of 5, "satisfied" 4, "indifferent" 3, "unsatisfied" 2 and "very unsatisfied" 1, averaged across all public services covered by the survey.

CHART 2.7. Experience of corruption and service satisfaction in public health care in 2016
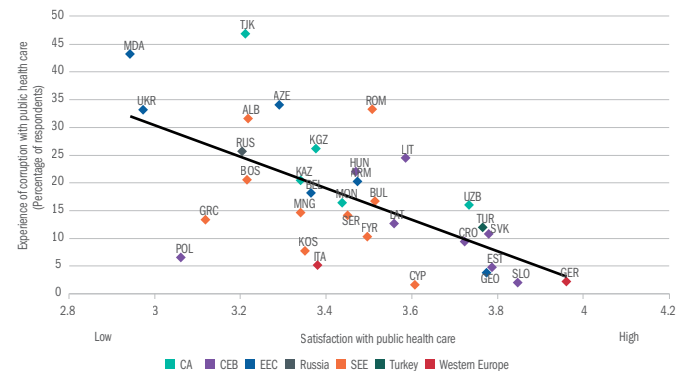
Source: LiTS III (2016).
Note: "Experience of corruption" refers to the proportion of respondents who report that they or a member of their household made unofficial payments or gifts in the past 12 months in public health services. (Dis) satisfaction refers to an index where those respondents who say they are "very satisfied" with a public service receive a score of 5, "satisfied" 4, "indifferent" 3, "unsatisfied" 2 and "very unsatisfied" 1, averaged across individuals who used the service in the past 12 months.

TABLE 2.1. Associations between corruption perception and attitudes[8]

	(1)	(2)	(3)
	Life satisfaction	Trust	Optimism
Individual level variables			
Perceived corruption	-0.040***	-0.017*	-0.050***
	(0.010)	(0.009)	(0.010)
Male	-0.030***	-0.026**	-0.016**
	(0.008)	(0.007)	(0.008)
Married	0.086***	-0.002	0.014*
	(0.008)	(0.008)	(0.008)
Degree level education or more	0.120***	0.057***	0.031***
	(0.009)	(0.009)	(0.009)
Log income	0.016***	0.003	0.006**
	(0.002)	(0.002)	(0.002)
Good health	0.126***	0.064***	0.083***
	(0.009)	(0.008)	(0.008)
R²	0.10	0.04	0.09
N	14656	14772	14772

Source: LiTS III (2016).
Note: * significant at 10%; ** significant at 5%; *** significant at 1%. Specific controls in each column include age squared and dummy variables for good health status, urbanity status, religion, and transition region. Country level controls include World Bank Governance indicators, GDP per capita (constant 2011 international dollars), percentage change in GDP (between 2010 and 2015), and media freedom index and unemployment rate.

Corruption perception and happiness, trust and optimism in the transition region

Is there a relationship between corruption and levels of life satisfaction, general trust and optimism about the future?

The results in Table 2.1 provide evidence, after accounting for observable individual and country characteristics, that corruption is significantly and negatively associated with happiness, trust and optimism. In particular, people who believe that unofficial payments or gifts are necessary for public services to run efficiently are 4 percentage points less likely to be satisfied with their lives. Moving to trust in column 2 and optimism in column 3, results show that respondents who are worried about corruption are 1.7 and 5 per cent less likely to trust others and be optimistic about the future, respectively.

These results are mainly driven by countries where the reported prevalence of unofficial payments is higher than the transition region average. The point estimates also indicate that the negative relationship between perceived corruption and life satisfaction, trust and optimism are larger than those implied by income and age (in absolute terms).

CHART 2.8. Experience of corruption and service satisfaction in education in 2016
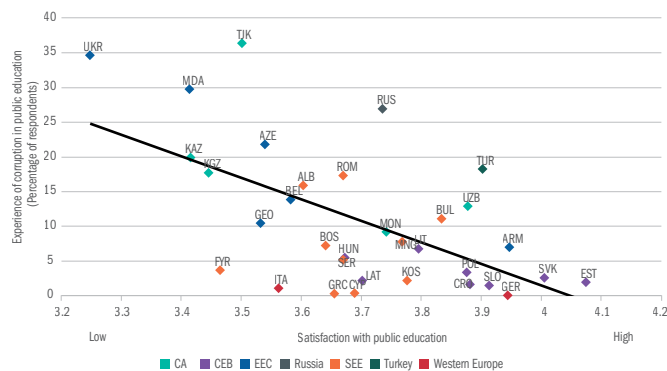
Source: LiTS III (2016).
Note: "Experience of corruption" refers to the proportion of respondents who report that they or a member of their household made unofficial payments or gifts in the past 12 months in public education services. (Dis)satisfaction refers to an index where those respondents who say they are "very satisfied" with a public service receive a score of 5, "satisfied" 4, "indifferent" 3, "unsatisfied" 2 and "very unsatisfied" 1, averaged across individuals who used the service in the past 12 months.

35%

of Armenian respondents say that unofficial payments are usually or always necessary but only around 10% report having actually made any.

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[8] The regressions are carried out by ordinary least squares (OLS) and hence assume that the life satisfaction, trust and optimism variables are "cardinal". The results from alternative estimation techniques are qualitatively the same. Media freedom index (2016) uses country level scores from the Freedom House.

Institutional quality and corruption

Institutional quality can be defined as "the quality of contract enforcement, property rights, shareholder protection and the like" (Levchenko, 2004). Given the central role that institutions play in economic development and prosperity, this section investigates the main determinants of institutional quality in the transition region and how these measures correlate with corruption.

Chart 2.9 uses *Freedom House – Freedom of the Press Index* which assesses media freedom in poor and rich countries as well as in countries of varying ethnic, religious and cultural backgrounds. Each country and territory is given a total press freedom score from 0 (best) to 100 (worst) on the basis of 23 categories divided into three subgroups.[9]

Chart 2.9 shows that countries with lower press freedom experience higher levels of corruption. This is most striking in the Caucasus and in Central Asia, where authorities seem to be using their leverage over their country's media to curb dissemination of information about government activities and censoring media outlets who dispute government privileges. Noticeably, people report significantly lower levels of corruption experience in countries where the media is not as heavily monitored. This suggests that the role of the media may be crucial in promoting good governance and controlling corruption.

There are strong reasons to believe that democracy would help to reduce corruption. For example, elections create disincentives for corruption because the majority of voters will rarely elect candidates who are known to or have the potential to abuse public resources for personal gain. In fact, research shows that electoral accountability, induced by the possibility of re-election, can discipline incumbent politicians and control rent-seeking behaviour.[10] Moreover, democracy tends to go hand in hand with transparency and openness, which are vital components for functioning market economies. In a similar vein, strong checks and balances on government activities discourage corrupt behaviour as there is a higher probability of being caught.

Chart 2.10 shows a scatter plot of this relationship, plotting the democracy score against the average score on corruption experience when accessing the eight public services listed above for each country. On the horizontal axis, the polity IV Score (2015) captures the regime authority spectrum on a 21-point scale ranging from -10 (strongly autocratic, such as North Korea) to +10 (strongly democratic, such as Germany).

The polity scores can also be converted into regime categories in a suggested three part categorisation of autocracies (-10 to -6), anocracies (-5 to +5 and three special values: -66, -77 and -88), and democracies (+6 to +10).[11,12] As this chart illustrates, respondents in democratic countries tend to report fewer experiences of corruption than their counterparts in less democratic countries. In other words, higher levels of democracy tend to be associated with lower levels of corruption in the transition region. However, there are notable exceptions to this general observation – for example, in Belarus, the level of
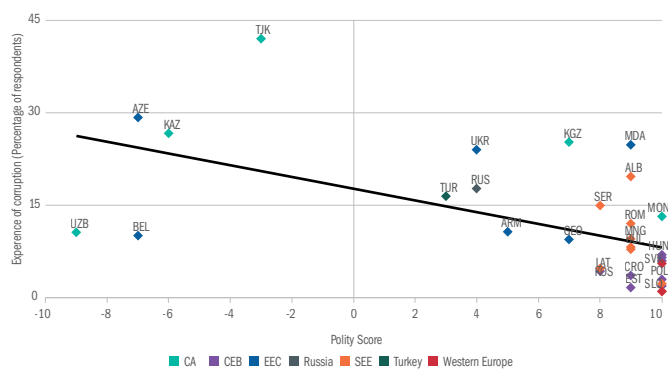
CHART 2.9. Experience of corruption and media freedom in 2016
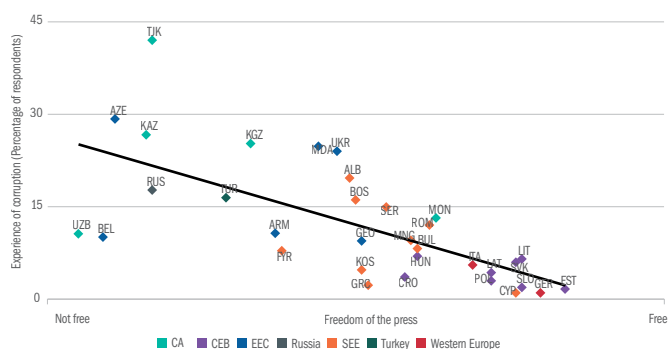
Source: LiTS III (2016) and Freedom House (2016).
Note: "Experience of corruption" refers to the proportion of respondents who say they or a member of their household made an unofficial payment or a gift in the past 12 months, averaged across all public services covered by the survey. Freedom of the Press Index (2016) is published annually by the Freedom House.

CHART 2.10. Experience of corruption and democracy in 2016

Source: LiTS III (2016) and Centre for Systemic Peace (2015).
Note: "Experience of corruption" refers to the proportion of respondents who say they or a member of their household made an unofficial payment or a gift in the past 12 months averaged across all public services covered by the survey. The polity score (2015) is published annually by the Centre for Systematic Peace.

36%

of respondents in the transition region say they have "some trust" or "complete trust" in banks and financial systems.

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[9] The total score determines the status designation of "free", "partly free" or "not free". See also Freedom of the Press Report (2016) by Freedom House.
[10] See Ferraz and Finan (2011).
[11] The Polity Project, Centre for Systemic Peace (2015).

[12] Anocracy is defined as a spectrum of governing authority that spans from fully institutionalised autocracies through mixed, or incoherent, authority regimes (termed "anocracies") to fully institutionalised democracies.

CHART 2.11. Experience of corruption and government effectiveness in 2016
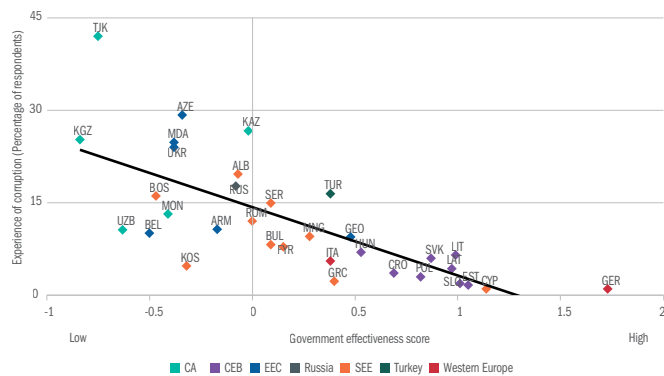
Source: LiTS III (2016) and Worldwide Governance Indicators (WGI).
Note: "Experience of corruption" refers to the proportion of respondents who say they or a member of their household made an unofficial payment or a gift in the past 12 months averaged across all public services covered by the survey. The government effectiveness score (2014) is published by the Worldwide Governance Indicators (WGI) project of the World Bank. It captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

CHART 2.12. Experience of corruption and rule of law in 2016

Source: LiTS III (2016) and Worldwide Governance Indicators (WGI).
Note: "Experience of corruption" refers to the proportion of respondents who say they or a member of their household made an unofficial payment or a gift in the past 12 months averaged across all public services covered by the survey. The rule of law score (2014) is published by the Worldwide Governance Indicators (WGI) project of the World Bank. It captures perceptions of the extent to which survey respondents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence.
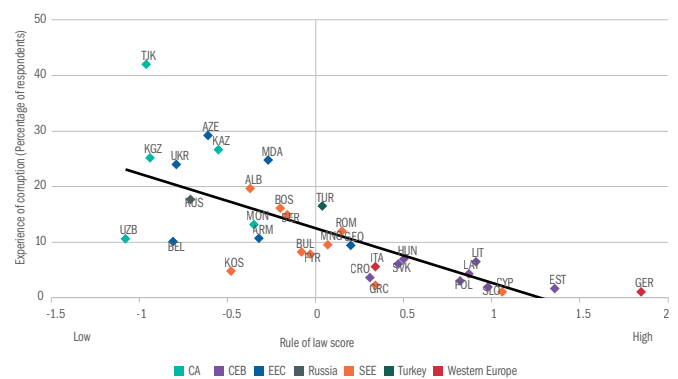
corruption experience is quite low, at around 10 per cent, despite a low democracy score. Conversely, the democracy score in Moldova is relatively high but the corruption experience reported there is still considerably higher than the transition region average.

The LiTS findings are in line with the institutional quality indicators and scatter plots (Charts 2.11 and 2.12, Appendix Charts 2.A3 and 2.A4) exhibit strong country level correlations. This chapter has also used the dimensions from the Worldwide Governance Indicators (WGI, 2014) in order to see how better governance could be related to the experience of corruption.[13]

Chart 2.11 and 2.12 show scatter plots of the relationship between corruption experience and government effectiveness, and between corruption experience and rule of law by country. Analysis of government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Rule of law captures perceptions of the extent to which survey respondents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence. The aggregate indicators are reported in their standard normal units, ranging from approximately -2.5 to 2.5, with higher values corresponding to better outcomes.

Chart 2.11 shows that people who live in countries with more effective governments are less likely to experience corruption. This is unsurprising since the indicator mainly measures the quality of services and policies. Another point of interest is the visible relationship between the two variables across regions. Central Asian countries where irregular payments to public

institutions are prevalent also have the lowest scores of good government effectiveness, followed by eastern Europe and the Caucasus, south-eastern Europe and central Europe and the Baltic States. For example, Tajik respondents report the highest level of corruption experience in the transition region and also their government's effectiveness scored around -.7, whereas those in Germany reported one of the lowest corruption experiences in the survey and their government's effectiveness marked close to 2.

Corruption within the law enforcement and justice systems weakens the rule of law by damaging the credibility and functioning of judicial institutions. Consequently, a dysfunctional legal system prevents a fair and transparent application of the law and allows crime to flourish. This is illustrated clearly in Chart 2.12 which plots the average corruption experience among those who have used public services in the past year against the rule of law scores taken from the WGI. There is a strong negative relationship between corruption experience and the presence of rule of law in a country. The highest corruption experience can be found on the left half of the chart (below 0), mainly in countries in Central Asia and eastern Europe and the Caucasus where the rule of law is particularly weak. The ranking of the regions is very similar to those shown in Chart 2.11.

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[13] The Worldwide Governance Indicators measure six broad dimensions of governance: 1) voice and accountability; 2) political stability and absence of violence/terrorism; 3) government effectiveness; 4) regulatory quality; 5) rule of law; and 6) control of corruption.

Trust in the transition region

Research suggests that the level of trust and the amount of social capital in a society can account for differences in economic growth and development between countries.[14] The LiTS measures three different aspects of trust – institutional trust (that is, trust in governmental and non-governmental institutions); generalised social trust (trust in other people in general); and in-group trust (trust in family, friends, neighbours and people from a different religion and nationality).[15]

In the questions about trust, respondents were asked to answer using a five-point scale with the options of "complete distrust," "some distrust," "neither trust nor distrust," "some trust" and "complete trust."[16]

Institutional trust is essential for the success of a wide range of public policies that rely on the behavioural responses of citizens. As Chart 2.13 shows, trust in public institutions varies significantly within and across regions. While about two-fifths of respondents have confidence in their institutions in general, the level of trust in institutions overall has fallen considerably since 2010.

In general, police, armed forces, the office of president/prime minister and religious institutions tend to be the most trusted. Trust (that is to say, the responses of "some trust" or "complete trust") in banks and financial systems in the transition region has fallen from 41 per cent to 36 per cent of respondents since the previous LiTS in 2010. Although there is significant variation in these changes across countries, trust in banks is the lowest in Cyprus, Greece, Moldova and Ukraine (only around 10 per cent).

Conversely, respondents in the Baltic states and central Europe show the highest levels of trust in financial institutions in the transition region. While trust in foreign investors in the transition region has declined from 31 per cent to 27 per cent, it remains considerably higher than in Germany and Italy, where 14 and 11 per cent of respondents declare "some trust" or "complete trust" in foreign investors.

Cypriot and Greek respondents have extremely low levels of trust in their elected representatives and governments – only about 10 per cent of respondents say that they have "some trust" or "complete trust" in those categories.[17]

The levels of trust in local and regional governments vary enormously. Azerbaijan, Kazakhstan and Tajikistan exhibit the highest levels in the transition region (more than 60 per cent), substantially higher than the averages for the western European comparators (41 per cent for Germany and 23 per cent for Italy). However, in the Western Balkans and south-eastern Europe, only about 20 per cent of respondents say that they trust their regional or local governments.

The level of trust in trade unions, NGOs and religious organisations remains mostly steady. As observed in previous waves of the LiTS, south-eastern European countries exhibit a lower level of trust in trade unions (lowest in Cyprus and Greece) and a higher level of trust in religious institutions compared to two western European comparator countries, Germany and Italy. However, the latest survey responses indicate a significant decline in trust in religious institutions in Georgia, Kosovo, the

CHART 2.13. Institutional trust in 2016 by region

Source: LiTS III (2016).
Note: "Institutional trust" refers to the proportion of respondents who report that they have some or complete trust in a given institution.

Kyrgyz Republic, Slovenia, Turkey and Ukraine.

To measure the level of "generalised social trust" and "in-group trust" respondents were asked the following questions, respectively:

Generally speaking, would you say that most people can be trusted, or that you cannot be too careful in dealing with people?

To what extent do you trust people from the following groups: Your family? Your neighbourhood?

As with the other trust questions, respondents were asked to describe their level of trust in these institutions on a five-point scale, ranging from "complete distrust" to "complete trust".

In-group trust focuses on trust in specific groups of people such as an extended family, neighbours or people of a different religion or nationality. Unlike generalised or institutional trust, this dimension of social trust focuses on the key dimension of social cohesion within families and neighbourhoods.

In 2016, 31 per cent of respondents in the transition region say that they have either "some trust" or "complete trust" in other people, compared to 34 per cent in 2010. This implies that,

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[14] See Fukuyama (1995) and Knack and Keefer (1997).
[15] The LiTS also asks respondents whether they are an active member, an inactive member, or not a member of certain organisations: a) church and religious organisations; b) sports and recreational organisations; c) art, music or educational organisations; d) labour unions; e) environmental organisations; f) professional associations; g) humanitarian organisations; h) youth associations; i) women's groups; and j) farming cooperatives.

[16] The survey also contained questions to investigate the differences between perceptions of trust and "real trust" in the social contexts, such as the following: "Suppose you lost your purse/wallet containing your address details and it was found in the street by someone living in this neighbourhood. How likely is it that it would be returned to you with nothing missing?"
[17] See also Papaioannou (2013).

CHART 2.14. Generalised social trust and in-group trust in 2010 and 2016 by region
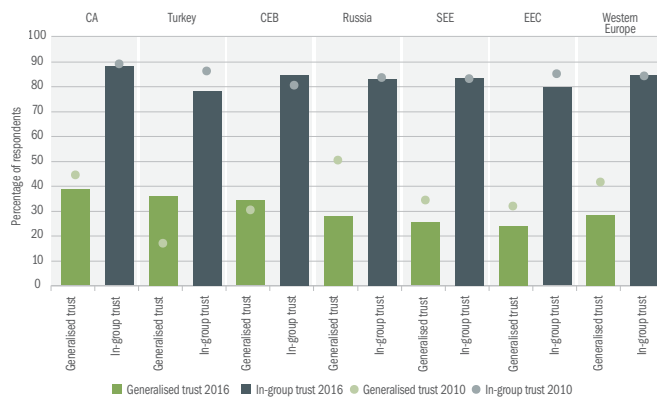
Source: LiTS III (2016) , LiTS II (2010).
Note: "Generalised social trust" refers to the proportion of respondents who report that they have some or complete trust in others. "In-group" trust refers to the proportion of respondents who report that they have some or complete trust in their family and neighbours.

despite the socio-economic challenges that these countries have faced over the past six years, generalised trust has remained relatively stable in the region.

The level of trust reported in the transition region is also higher than in Germany and Italy, where 30 and 27 per cent of people say they generally trust others (see Chart 2.14). The highest levels of generalised trust among transition economies are observed in Estonia, Poland and Tajikistan. Turkey and Lithuania also saw some of the highest increases in generalised trust between 2010 and 2016. At the other end of the scale, Armenia, Azerbaijan, Greece and Cyprus have the lowest levels of generalised trust in the region. Only about 15 per cent of respondents in these countries say they trust others. Kazakhstan, Kosovo and Russia show the most pronounced declines (about 20 per cent) in levels of generalised trust.

Not surprisingly, levels of in-group trust in the transition region are high and comparable to western European comparator levels. They have also remained stable except in Turkey and eastern Europe and the Caucasus where in-group trust has fallen since 2010 (about 80 per cent) but is still comparable to some other transition countries.

Conclusion

LiTS III offers extensive information on various dimensions of good governance and social capital. This chapter has highlighted the main issues in understanding the corruption problem in the transition region and how the findings of the survey reveal important differences from one country or region to another.

Encouragingly, both the perceived need to make unofficial payments and actual corruption experiences have decreased since 2006. Overall, however, respondents believe that the levels of corruption are higher across the board than in the comparator

western European countries, Germany and Italy. However, differences in the levels of corruption perception and experience vary significantly across regions and are particularly pronounced in Central Asia and in eastern Europe and the Caucasus. Furthermore, there is a negative correlation, particularly in south-eastern Europe, between satisfaction with public services and making unofficial payments, especially in the health care sector and when dealing with traffic police.

An analysis of the determinants of different approaches to fighting corruption (Box 1) indicates that respondents who live in a country with freer media and a better rule of law are less likely to believe they are powerless to counter corruption and, consequently, they are more likely to report any incidence of corruption or refuse to pay the bribe. Moreover, it has been documented that older people, university graduates, people with higher incomes and those who actively volunteer in community organisations are significantly less likely to say that there is nothing they can do about corruption. In general, these findings are in line with the literature which highlights the role of individual attitudes and social trust as an important determinant of both the perception and experience of corruption.

The analysis in this chapter also shows that corruption is related to freedom of the press, effectiveness of democracy (particularly political participation) and governance, and the rule of law. Country level correlations imply that these elements are crucial for accountable and transparent governance. More specifically, respondents in democratic countries tend to report fewer experiences of corruption than their counterparts in less democratic countries. In addition, people who live in countries with more effective governments (that is to say, high quality public and civil services that operate independently from political pressures) are less likely to experience corruption and there is a strong negative relationship between corruption experience and the presence of rule of law in a country.

Finally, the level of trust in institutions has fallen considerably since 2010, though it varies within and across regions. It is generally high in Central Asia and south-eastern Europe and low in eastern Europe and the Caucasus. Overall, people tend to trust their police, armed forces, president/prime minister and religious institutions while only about two-fifths of respondents have confidence in their government and its organisations. Generalised trust has increased modestly in the transition region since 2010. This is especially the case in Turkey and Lithuania – both countries have experienced some of the highest increases in generalised trust between 2010 and 2016. Overall, both real trust and generalised trust are now higher in the transition region than in the western European comparator countries, Germany and Italy. ■

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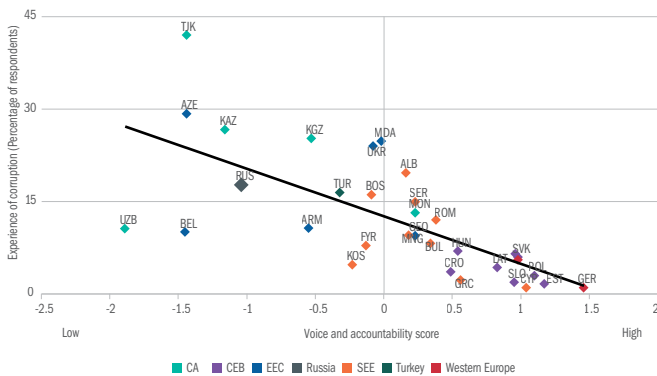
Appendix figures

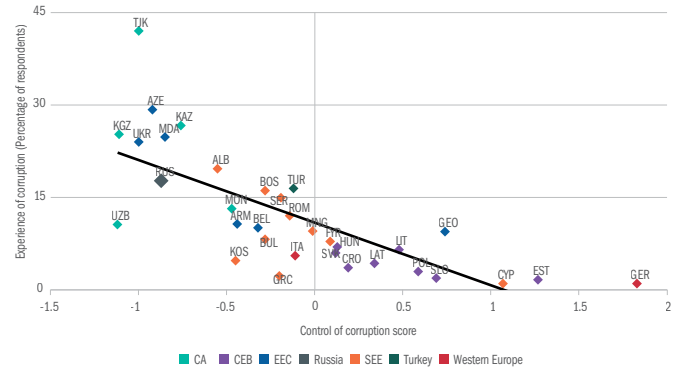**CHART 2.A1.** Top five reasons for not reporting corruption
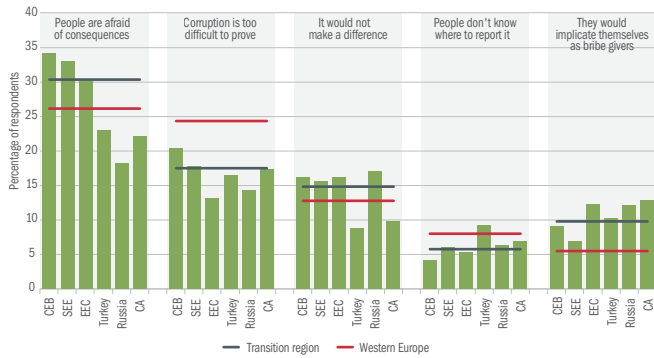
Source: LiTS III (2016).
Note: "Reasons for not reporting corruption" refers to the proportion of respondents who chose the given category as a reason for not reporting corruption.

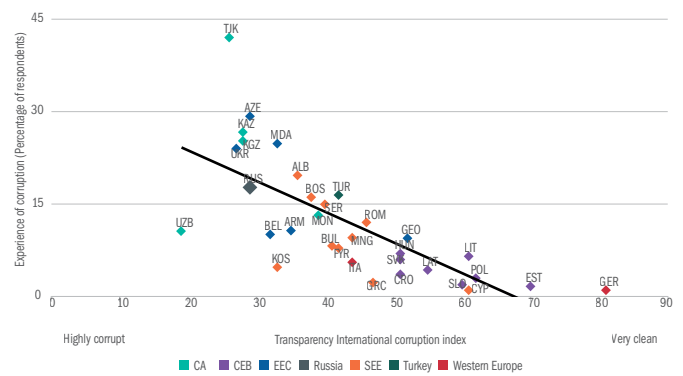**CHART 2.A3.** Experience of corruption and control of corruption

Source: LiTS III (2016) and Worldwide Governance Indicators (WGI).
Note: "Experience of corruption" refers to the proportion of respondents who say they or a member of their household made an unofficial payment or a gift in the past 12 months averaged across all public services covered by the survey. The control of corruption score (2014) is published by the Worldwide Governance Indicators (WGI) project of the World Bank. It captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

CHART 2.A2. Experience of corruption and voice and accountability

Source: LiTS III (2016) and Worldwide Governance Indicators (WGI).
Note: "Experience of corruption" refers to the proportion of respondents who say they or a member of their household made an unofficial payment or a gift in the past 12 months averaged across all public services covered by the survey. The voice and accountability score (2014) is published by the Worldwide Governance Indicators (WGI) project of the World Bank. It captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media.

CHART 2.A4. Experience of corruption and corruption perception index

Source: LiTS III (2016) and Transparency International (TI, 2015).
Note: "Experience of corruption" refers to the proportion of respondents who say they or a member of their household made an unofficial payment or a gift in the past 12 months averaged across all public services covered by the survey. The corruption perception index (2015) is published by Transparency International and measures the perceived levels of public sector corruption worldwide.