

# 3

## What Influences the Extent of Corruption?

AS DESCRIBED IN CHAPTER 2, FIRMS IN MANY TRANSITION COUNTRIES are reporting bribes to be less frequent and less costly, and corruption to be a smaller problem for business in 2005 as compared to three years earlier. Chapter 4 will examine in more detail how the levels and trends evident in the surveys relate to specific aspects of policy, but before doing so it is useful to step back and look at the bigger picture. In this chapter we examine how firm characteristics and certain broad aspects of the country environment (growth, institutions, and politics) affect the incidence of bribery.<sup>1</sup>

An integrated approach to examining firm- and country-specific factors in tandem was developed in *Anticorruption in Transition 2*.<sup>2</sup> That analysis found that the policy and institutional environment and certain firm-level characteristics both influenced the level of corruption, but a country's economic growth rate and certain political variables did not seem to have a statistically significant impact. Results of similar analysis using the 2005 BEEPS and additional findings from the panel data—available for the first time in 2005—are summarized below. The chapter then discusses the impact of slow reform and concentrated power in countries such as Belarus and Uzbekistan.

### Firm characteristics

As in 2002, firm-level characteristics appear to play a strong role in determining who paid bribes and how much they pay. The playing field

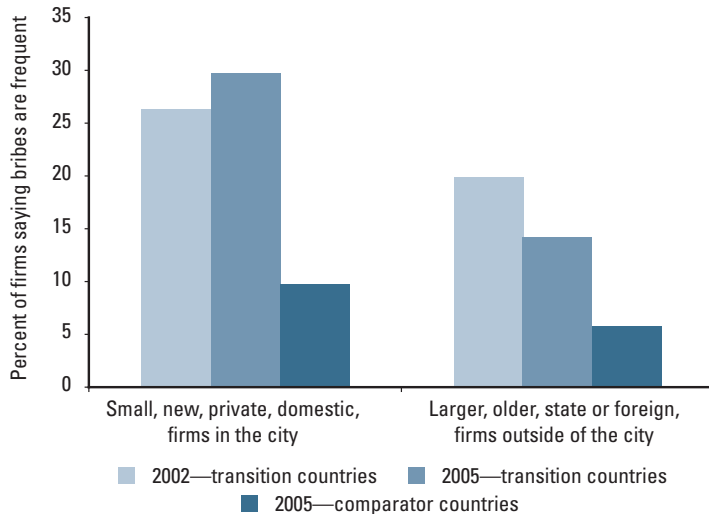
is rarely level even within a particular country, and different types of firms can face very different incentives and barriers to business. The 2005 BEEPS data reinforce the 2002 findings that, on average:

- private firms pay more bribes (as a share of revenues), pay them more frequently, and view corruption as a bigger problem for their business than do state-owned firms;
- manufacturing firms pay more bribes and pay them more frequently than firms in other sectors;
- firms in urban areas pay more bribes and pay them more frequently than firms in small towns or rural areas;
- small firms pay more bribes as a share of revenues than large firms (but feel less affected by state capture);
- foreign firms pay fewer bribes as a share of revenues than domestically owned firms; and
- firms pay fewer bribes the longer they have been in business.

Administrative corruption appears to have the greatest impact on new, small, private, domestically-owned firms in urban areas Figure 3.1.<sup>3</sup> Bribe frequency tends to be lower in comparator countries, for both new small firms and older larger firms.<sup>4</sup> More important, most of the “catching up” that has taken place is associated with a decreased bribe frequency for older, larger firms, not those most beset by bribery, the younger, newer firms. Corruption is clearly a barrier to entry for new private firms and a significant tax on private firms that manage to survive in the market. This result is highly problematic given the importance of private-sector development for a country’s long-term economic growth.

The patterns that hold for the region, however, do not hold in every country. In some countries one effect dominates (for example, private ownership for Azerbaijan, location in cities for Hungary), and in others there is no strong firm-level pattern at all (for example, Bosnia and Herzegovina and Croatia). In the Czech Republic, firms in cities reported less frequent bribes than firms in smaller towns, and firms in cities viewed corruption as less of a problem for business in both the Czech Republic and Estonia. In Latvia older firms reported more frequent bribery, and in Russia, Moldova, and Estonia, small firms viewed corruption as less of a problem for business than larger firms. Country-specific analysis is clearly critical for the design of anticorruption strategies.

**Figure 3.1 Which firms pay bribes more frequently?  
2002 and 2005**



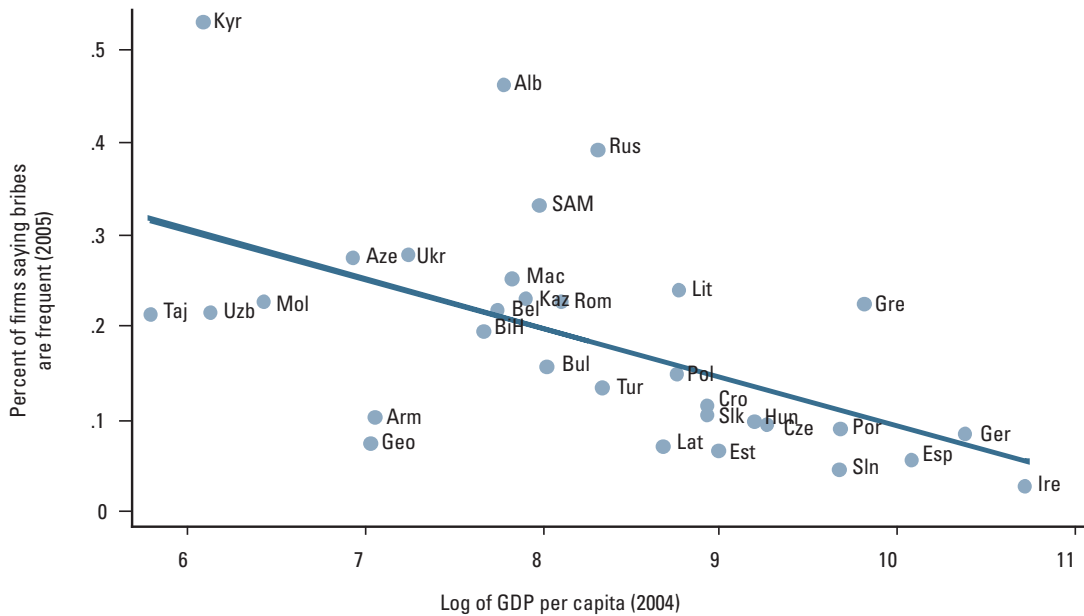
Source: BEEPS 2002, 2005.

Note: The chart shows the simple average across all firms in transition countries and comparator countries respectively. City refers to the capital city and other cities with population larger than 250,000; Small refers to firms with fewer than 50 employees; New refers to firms that are less than six years old.

## Economic growth

It is well-known that richer countries have lower levels of corruption, on average, both across the world<sup>5</sup> and within Europe and Central Asia. The relationship between corruption (as measured by bribe frequency) and per capita GDP in the transition and comparator countries in 2005 is shown in Figure 3.2. Economic literature on corruption suggests that the causation runs both ways.<sup>6</sup> On the one hand, corruption hampers growth by reducing the efficiency of public spending, the effectiveness of public service delivery, and the attractiveness of the investment climate. Moreover, corruption may lead to a misallocation of resources away from more productive investments and toward more easily corruptible projects. On the other hand, poorer countries have a harder time tackling corruption, both because bribes may be more tempting when public sector salaries are low and because it takes resources to fund “watchdog” groups needed to prevent corruption, such as the press, accounting and

**Figure 3.2 Bribe frequency and GDP per capita, 2005**



Source: BEEPS 2005, World Development Indicators.

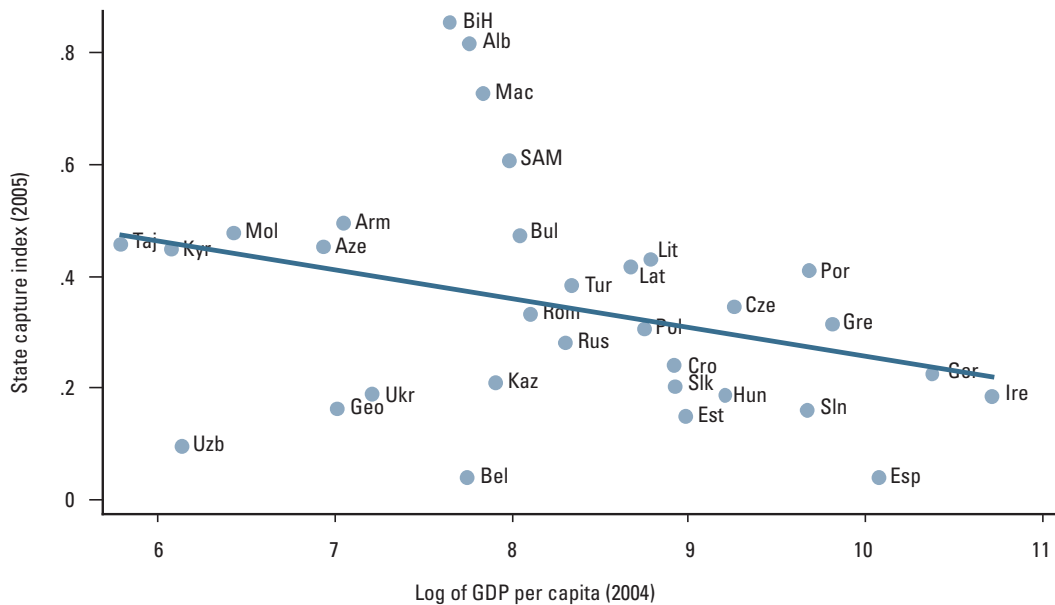
auditing services, and police and other investigative and law enforcement agencies. Confounding the relationship even further, other factors such as the institutional legacy inherited from colonial powers or social and cultural norms may affect both growth and levels of corruption.

Although this broad correlation between the levels of corruption and income is well-known, it is less clear whether rapid economic growth is associated with changes in corruption in the short-run. ACT2, drawing on the 2002 BEEPS data, did not find a significant cross-country correlation between recent rates of economic growth and the extent of corruption reported by firms. However, this correlation could be tested only at the country level in 2002, while the existence of the panel data set in the 2005 BEEPS allows us to go one step further to compare the changes in corruption indicators from 2002 to 2005 *as reported by individual firms* with average economic growth rates by country. The 2002–2005 average rate of GDP growth appears to have a significant positive relationship, other

things being equal, with the change from 2002 to 2005 in the extent of payments to influence lawmaking (a form of state capture behavior). No such relationship is evident between aggregate growth and changes in the bribe tax or bribe frequency.

These results suggest that faster economic growth may exacerbate state capture in the short run even if it does not affect the overall level of administrative corruption. Such results are perhaps not surprising considering the corruption scandals that surround the political process even in the most advanced countries, where day-to-day administrative corruption is relatively rare. State capture is closely embedded in political processes and often benefits those at the highest levels of the social and political hierarchy. As such it may be harder to abate than administrative corruption, whose benefits more often accrue to “the little guy.” Over the long term state capture does appear to fall as countries get richer (Figure 3.3), but it may take longer to reach that goal.

**Figure 3.3 State capture and GDP per capita, 2005**



Source: BEEPS 2005, World Development Indicators.

It is also interesting to explore the reverse hypothesis, that is, whether the levels of corruption in 2002 affected economic growth in subsequent years. Indeed, there is a significant positive correlation between the levels of both the bribe tax and the frequency of bribery in 2002 and the rates of GDP growth in 2003 and 2004. However, this correlation between corruption and growth rates disappears if an additional variable is introduced: natural resource (that is, fuel, oil, and minerals) exports as a share of GDP. The latter is itself positively correlated with levels of corruption, supporting the widely held view that natural-resource-exporting countries tend on average to have higher levels of corruption than countries with a more diversified export base.<sup>7</sup> The rapid rise in energy and mineral prices in the 2003–2005 period boosted growth rates in natural resource exporters. Levels of corruption in 2002 were not significantly correlated with economic growth rates from 2003 to 2004 after accounting for this phenomenon.

## Policies and institutions

The view that better policies and institutions help to reduce the level of corruption is strongly supported by the 2005 data, confirming a key result of ACT2. We measure the quality of policies and institutions using the World Bank's 2004 Country Policy and Institutional Assessment (CPIA).<sup>8</sup> Analysis of the 2005 BEEPS data confirm the earlier finding that the frequency of bribery is strongly and negatively correlated with the overall quality of a country's economic policies and institutions for policy making and accountability. Committed leaders can make a real difference by promoting a variety of economic and institutional reforms, including tighter and more efficient fiscal policies, trade liberalization, stronger tax and customs administration, civil service reform to reduce patronage and reinforce meritocracy, and more effective and accountable judicial systems to discipline the behavior of elites (as discussed further in Chapter 4).

Following the scheme of analysis used in ACT2, the impact of political contestability was tested using (i) the length of time that a country's leadership has been in power and (ii) the existence of a parliamentary election in the most recent year before the survey. The first variable was not significantly related to the BEEPS measures of corruption, indicating that the tenure of a country's leaders does not, in and of itself, have a

strong effect on the extent of firm-level corruption in the country. The second variable was statistically significant, however, indicating that bribery is more frequent around the time of a parliamentary election—not a surprising result given the likely financing needs of political parties and the uncertainties and short time horizons that tend to surround elections.

## Slow progress in transition

The analysis in Chapter 2 highlighted the encouraging news that broad measures of corruption in the interactions between enterprises and the state have eased in many transition countries. This chapter has shown that a country's policies and institutions matter, and the decline in corruption is at least partially due to the considerable efforts that have been made over the past decade (as discussed further in the next chapter) to strengthen institutions of transparency and accountability and to improve the environment for doing business. While it is clear that adopting better policies and enacting institutional reforms can help reduce corruption, it is less clear how to spark such reforms in the first place, especially since there are often vested interests standing in the way of reform.

This question is motivated in part by a persistent feature of corruption surveys—that certain countries appear better in corruption surveys than most people expect. If one compares the BEEPS results with the results of surveys of “experts” (which tend to reflect general public attitudes more closely), such as those done by Freedom House, one finds significant discrepancies for certain countries. While the BEEPS measures of bribe frequency and bribe tax are highly correlated with the Freedom House indicator of corruption, the more overarching BEEPS assessment of corruption as a problem for doing business is not as strongly correlated.<sup>9</sup> The two countries with the largest deviations are Uzbekistan and Belarus, both former Soviet states for which the assessments of foreign experts are considerably worse than those of firms in the BEEPS. These are also generally considered to be two of the countries in the region with the least progress in transition.<sup>10</sup> A common reaction to this finding is to suspect that the survey data are affected by the political atmosphere in these countries. It is often argued, for example, that respondents may be afraid and thus less than forthcoming when providing responses to surveys that suggest that they may be involved in, or know about, corruption.

Although the hesitancy of respondents to provide accurate information may indeed affect survey results, there are also other possible explanations for the deviations between survey- and expert-based assessments. First, both may be right, with the divergence simply reflecting differences in the types of corruption being measured. Autocratic leaders are typically sustained through a type of implicit corruption, as resources of the state are diverted to support the power and lifestyle of the leader and those who help sustain his or her power. This need not translate, however, into corruption in routine interactions between firms and the state. Second, the survey responses may be more accurate than the experts' perceptions with regard to firm-level bribery. If a firm is reluctant to tell a stranger that "firms like mine" sometimes pay bribes because of fear of adverse consequences, they may also be reluctant to pay the bribes in the first place, an action for which there may be even worse consequences. The same logic applies from the official's perspective. In a more controlled environment an official (say an inspector) may be less likely to seek or accept bribes.

Finally, it is possible that the experts are right, but that firms in authoritarian regimes may not interpret routine bribery as corruption to the same extent as firms in more open and competitive economic systems. If an inspector's actions in demanding bribes are part of a systematic corruption network, approved and sanctioned from above, then the inspector will be less concerned with the consequences and may not see the behavior as wrong. Similarly, firms may view bribes as routine and hardly distinguishable from official payments for public services.

The BEEPS data provide some reassurance that most firms in all countries where BEEPS was carried out, including Belarus<sup>11</sup> and Uzbekistan, were in fact willing to talk about corruption, even if underreporting remains an issue. If firms in some countries were simply unwilling to talk about corruption, it seems logical that they would give favorable responses for all corruption questions. Yet among questions that ask about bribery by "firms like yours" (such as the bribe tax and each of the sector-specific bribe frequencies), 63 percent and 66 percent of firms in Belarus and Uzbekistan, respectively, gave a nonzero response to at least one of these questions. Among all questions involving corruption, including the above questions as well as the overall bribe frequency and the extent to which corruption is a problem for business, 97 percent and 91 percent of firms in Belarus and Uzbekistan, respectively, gave a nonzero response to at least one of the corruption questions. The

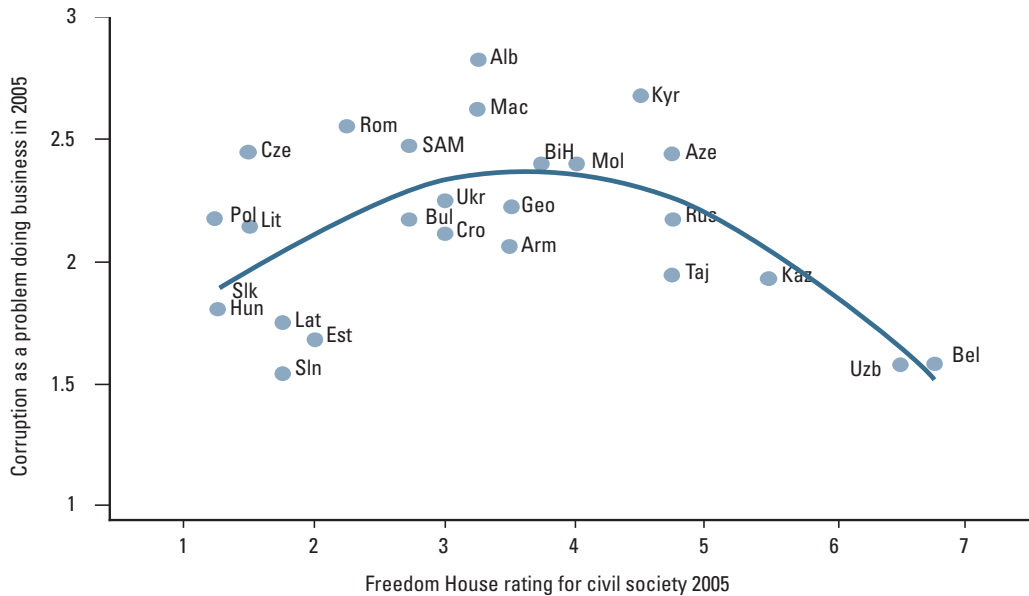
overwhelming majority of firms in the sample in all countries did not categorically assert that they have no knowledge of or about corruption.

As noted at the beginning of this section, the findings of apparently low levels of firm-level bribery in countries with fewer civil liberties are not new. *Anticorruption in Transition—A Contribution to the Policy Debate* (World Bank 2000) remarked on Belarus' and Uzbekistan's low levels of corruption indicated by the first (1999) round of the BEEPS. The argument was based on the small size of the private sectors in these countries and the limited capacity that the private sector would have to capture the state. Generalizing beyond Belarus and Uzbekistan, the same report<sup>12</sup> presented an inverted-U relationship between state capture and civil liberties, arguing that other models of capture, such as political leaders capturing the state, may be present but not captured in the data.<sup>13</sup>

Empirical tests lend support to these conjectures. Using two different measures of the concentration of power, the stylized inverted-U relationship between concentrations of power and corruption come through clearly in the data from the 2005 round of the BEEPS. One indicator of the degree to which leaders may be willing to tolerate dissent is the existence, relative strength, and independence of civil society. The first measure of concentration of power, therefore, is the Freedom House *Nations in Transit* assessment of civil society.<sup>14</sup> Although the linear relationship between this variable and corruption (as indicated by BEEPS assessments of corruption as a problem doing business) is not significantly different from zero, an inverted-U pattern is highly significant,<sup>15</sup> as is clear from Figure 3.4 below. (The patterns are similar, but statistically weaker, for bribe tax and bribe frequency, an issue that will be discussed later in this section.) Moreover, the pattern is virtually unaffected when Belarus and Uzbekistan are dropped—they fit the pattern, but they are not driving it.<sup>16</sup>

A second measure of the concentration of political power is based on the Polity IV dataset's evaluation of executive restraints,<sup>17</sup> measuring the extent of institutionalized constraints on the decision-making powers of chief executives, whether individuals or collectivities. Again, the relationship is a significant one, also tracing the pattern of an inverted U (Figure 3.5). As the Polity assessments are also available for the comparator countries, the number of observations is somewhat larger than for the Freedom House measure, which is available only for transition countries.

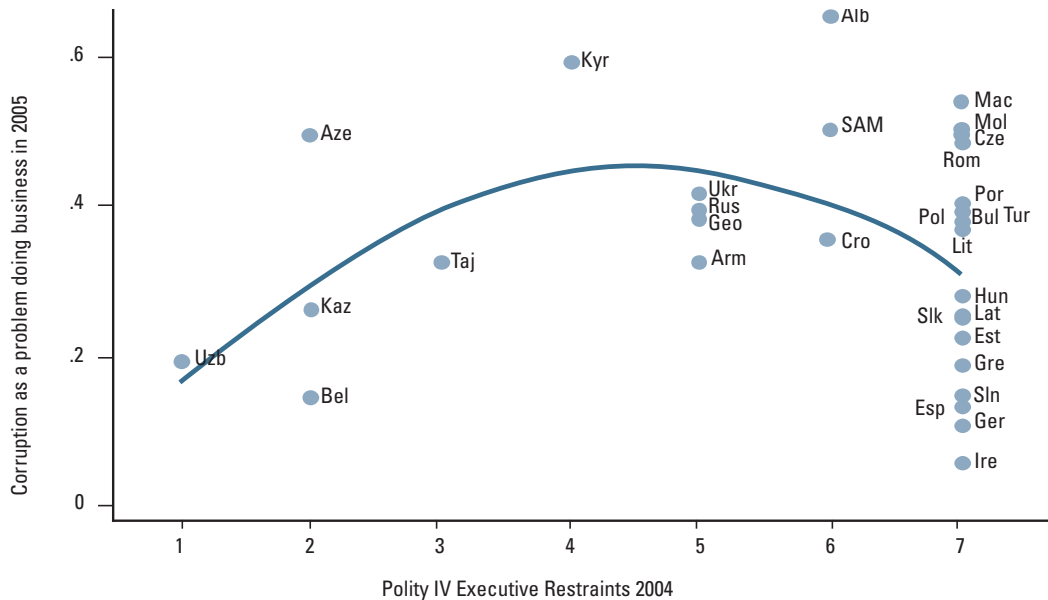
**Figure 3.4 Corruption and the strength of civil society**



Source: BEEPS 2005, Freedom House *Nations in Transit* 2005.

Although the inverted-U pattern in the relationship between the concentration of power and corruption as a problem doing business is very strong and robust, there is no such pattern evident in our other measures of corruption, the bribe tax and bribe frequency. Indeed, this may help explain an important interregional difference in the pattern of corruption. While the overall percentage of firms in Belarus and Uzbekistan report relatively low levels of corruption, these two countries, together with Russia and Kazakhstan, are among those where firms were most likely to report that unofficial payments are frequent, while simultaneously reporting that corruption is not a problem doing business. This is consistent with the conjecture stated at the outset of this section: In autocratic societies, where unofficial payments may be so systematized as to be indistinguishable from official payments (from a practical perspective), the understanding by firms of whether corruption is posing a problem could deviate substantially from the understanding of foreign observers.<sup>18</sup> The BEEPS provides some guidance on this issue as well.

Figure 3.5 Corruption and restraints on the executive

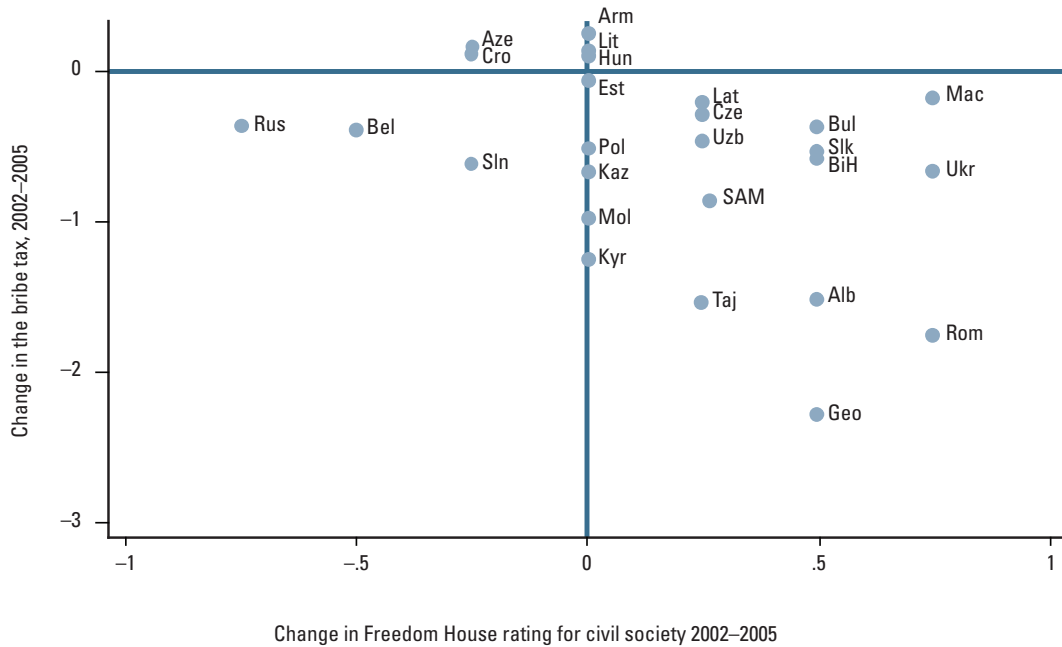


Source: BEEPS 2005, Polity IV 2004.

Among firms that said bribes were sometimes paid, the countries where firms were most likely to say that the amounts were known in advance are almost entirely those identified in the Polity dataset as having deficiencies in restraints on the executive. Only one<sup>19</sup> of the twelve countries with the most predictability in unofficial payments are in the large group with the Polity score equal to 7. Uzbekistan and Belarus are both among the top ten out of 34 countries.

Does all of this imply that reducing the concentration of power by adopting policies that allow greater public dissent, provide the transparency needed to foster political competition, and support economic competition necessarily leads to an increase in the perception of corruption as a problem for business? This could be the case for a few countries, but for most—that is, those that lie on the flat or downward sloping portion of the inverted-U—greater political openness and economic competition can be expected, other things being equal, to reduce corruption. Indeed, most countries that improved on the Freedom

**Figure 3.6 Deconcentration of power and reductions in the bribe tax**



Source: BEEPS 2005, Freedom House *Nations in Transit* 2005.

House measure of civil society between 2002 and 2005 also saw reductions in the bribe tax (Figure 3.6).<sup>20</sup> Several, including the Slovak Republic and Romania, have emphasized strengthening the hand of civil society and the general public in their anticorruption campaigns. Only three countries—Russia, Belarus, and Slovenia—had both a worsening in the assessment of civil society and a decline in the bribe tax. As explained in Box 3.1 and illustrated for Russia, a decline in the bribe tax does not imply a decline in the absolute level of bribes but rather in the *share* of total revenues paid in bribes. Indeed, in Russia the frequency of bribery stayed at a high level and firms’ perception of corruption as a problem for business rose from 2002 and 2005.

As noted at the outset of this section, survey-based measures of corruption in autocratic regimes may be subject to underreporting by

firms. Our purpose in this section was not to deny this fact, but to explore alternative explanations for the observed patterns. It is worth noting in this regard that the inverted-U shape described in this section exists even when focusing exclusively on expert opinion measures. Using the Freedom House measure of corruption instead of the BEEPS measures, the pattern becomes steeper and reaches its apex later, but it remains one of an inverted U.<sup>21</sup>

## Summary

This chapter looked at a number of factors that could potentially influence the extent of corruption in any given setting. The analysis underscores the importance of firm characteristics: New, private, domestically owned firms are likely to pay the most in bribes (as a share of revenues) and pay bribes the most frequently. Foreign-owned firms pay fewer bribes, as do larger or older firms, state-owned firms, and firms in smaller towns or rural areas. Although patterns vary somewhat by country, these overall results do not bode well for the growth of small and medium enterprises or for private-sector development more generally.

The analysis also underscores the importance of good economic policies and strong institutions in controlling corruption. Committed leaders can make a difference by adopting strong reforms and ensuring their implementation. While richer countries are on average less corrupt than poorer ones, it is not evident that rapid economic growth reduces corruption in the short run. Indeed, there is evidence from the BEEPS panel data that rapid economic growth may exacerbate state capture behavior, perhaps not surprising given the presence of political corruption even in more advanced market economies.

Finally, there is strong evidence from the BEEPS data that the relationship between corruption and political openness follows an inverted U. Firms in the most controlled political and economic settings may perceive less corruption in business relations with the state than countries in the early stages of political and economic liberalization, but corruption is again likely to decline as these systems in transition develop enhanced economic and political competition, more effective institutions of accountability, and stronger constraints on elite power.

### Box 3.1 Trends in corruption in Russia

Most observers believe that corruption in Russia has worsened in recent years, although the exact magnitude of recent changes and the severity of the current situation are subjects of continued debate. The Executive Opinion Survey carried out annually by the World Economic Forum (2005) confirms a worsening in experts' perceptions of the governance environment in Russia from 2004 to 2005. Most notable is a decline in perceptions of judicial independence and protection of property rights and an increase in the burden of organized crime on business. Surveys of small businesses undertaken by the Center for Economic and Financial Research (CEFIR, 2005), a Russian think tank, indicate that corruption fell from 2001 to 2002 but then worsened again by 2004. Russian firms that participated in the BEEPS also showed a similar pattern—a dip in assessments of corruption as a problem for business from 1999 to 2002 followed by an increase through 2005. (Reported bribe frequency rose to 2002 and then stayed level.) However, the BEEPS firms—500 in 2002 and nearly 600 in 2005—also reported a decrease in the bribe tax from 1.4 percent of revenues in 2002 to 1.1 percent in 2005. The most negative picture of corruption in Russia was painted last year by another Russian think tank, Information Science for Democracy (INDEM, 2005), which reported that bribes had increased tenfold in the four years from 2001 to 2005.

These various results point in a similar direction—that corruption in Russia may have improved somewhat in the early 2000s but has grown as a problem in recent years. The decline in the bribe tax as measured by the BEEPS is not inconsistent with growth in corruption overall. The bribe tax measures the share of annual revenues paid in bribes, while the INDEM study reports on the aggregate dollar amount of bribes paid per firm per year. Given the rapid growth in the Russian economy in recent years, the declining bribe tax would still translate into a larger volume of bribery, and appreciation of the currency would increase the dollar-equivalent value even further. While the two sources may agree on the direction of change, however, the magnitude of the BEEPS and INDEM results do differ markedly. The BEEPS results imply an approximate increase in the volume of bribery of 50 percent from 2002 to 2005, while the INDEM study reports a staggering growth of nearly 900 percent from 2001–2005.

These worsening trends occurred despite a number of reforms undertaken by the Russian government to streamline public administration. For example, to ease the entry of new firms the government sponsored new legislation in February 2002 that cut the number of activities that required licensing and lowered the cost of obtaining licenses. Similarly, to improve the system of tax administration, the government lowered corporate tax rates and widened tax bases in 2001. Tax revenues increased and compliance clearly improved as a result (Ivanova, Keen, and Klemm, 2005). Yet the BEEPS results indicate that neither the easing of licensing rules nor reductions in tax rates have led to reductions in the frequency of bribery in these areas. Indeed, unofficial payments for business licenses are among the highest in Russia of any transition country, and Doing Business ranks Russia 143 worst out of 155 countries in “dealing with licenses.”

One explanation for the seeming failure of policy reforms to reduce corruption may be inconsistent or ineffective implementation of these reforms in practice. As Russia spans two continents and eleven time zones, it is not surprising that both the impacts of specific reforms and trends in corruption appear to vary significantly among regions. The CEFIR report (2005) claims that many business licenses “do not seem to be legitimate” even if they may have gotten cheaper. A second explanation focuses on deterioration in external oversight. Expanding restrictions on the media and some nongovernmental organizations in recent years may have reduced the ability of these groups to disseminate information about government activities and thereby help to hold public officials accountable. A vibrant and diversified civil society with ready access to information is an essential building block for accountability in government.

The results for Russia underscore the fact that policy reforms may be necessary but are not always sufficient to reduce corruption in and of themselves. Fundamental institutional strengthening to ensure policy implementation, build checks and balances, and promote accountability in government is also essential.

See also: World Bank (2005a, 2006c) and [www.doingbusiness.org](http://www.doingbusiness.org).

## Notes

1. In addition to growth, institutions, and politics, we also examined managerial attitudes about corruption. All of the analysis reported here also includes controls for managerial “optimism” in exactly the same manner as in ACT2. This variable was added to the regression analysis in an attempt to remove (or “control for”) the impact of systematic biases of individual managers on their survey responses. As noted in the Annex, the constructed variable measured the difference between a manager’s view of the extent of macroeconomic stability in a country and the actual extent of macroeconomic stability in that country (as measured by objective economic data). Managers who reported that the economy was more stable than the data showed were said to be optimistic, while those who saw the economy as less stable than the data showed were pessimistic. The hypothesis was that a person’s optimism or pessimism may affect all of his/her answers in the survey, and adjusting the BEEPS variables on corruption by this optimism/pessimism variable could lead to a more accurate comparison of reality across firms. Indeed, the optimism/pessimism variable was highly significant in 2002 and is again highly significant in virtually all regressions in 2005. More optimistic managers report better results—that is, lower corruption—on every relevant variable, which shows that there is likely to be some subjective bias in individual’s answers. Moreover, some countries tend to have a large number of optimistic managers while others tend toward the pessimistic, no doubt a reflection in part of the prevailing national mood. However, it is worth stressing that the results discussed in this chapter for other variables—including the effects of firm characteristics and the positive impact of better policies and institutions on the level of corruption—all reflect conclusions after correcting for this optimism/pessimism variable.
2. ACT2 (World Bank 2004), Chapter 3.
3. See the Methodological Annex for regression results.
4. As the figure focuses on the extremes, the numbers of observations per country per year can be small. The figure therefore shows the simple averages across all firms (rather than across countries) in a given year for transition and nontransition countries, respectively.
5. See, for example, Treisman (2000) and Mauro (1995).
6. A large body of recent literature attempts to unravel the effects of corruption on either the level or the rate of economic growth. Some recent research that attempts to use instrumental variables to address the simultaneity problems finds that corruption leads to lower GDP per

capita. See, for example, Mauro (1995), Hall and Jones (1999), Kaufmann, Kraay, and Zoido-Lobaton (1999), and Kaufmann and Kraay (2002).

7. Ades and Di Tella (1999).
8. See description in ACT2 (World Bank 2004). As the 2005 CPIA scores came after and were influenced by the 2005 BEEPS data, we used the 2004 CPIA scores in this analysis. The CPIA indicator on “Transparency, Accountability, and Corruption in the Public Sector” was not used as the results would be tautological.
9. Freedom House *Nations in Transit* (<http://www.freedomhouse.org>) was chosen for this exercise since the assessments are publicly available and are accompanied by narratives justifying the ratings. While about 30 percent of the variation in the Freedom House corruption measure can be explained by bribe frequency and bribe tax, less than 10 percent can be explained by the BEEPS assessments of corruption as a problem doing business.
10. European Bank for Reconstruction and Development (2005).
11. A survey of the general public in late 2004 similarly found the perception of corruption levels in Belarus to be lower than in other transition countries. Rose (2005) reports that 67 percent of respondents in Belarus stated that “most public officials are corrupt,” compared to 74 percent for the new EU members, and 88 percent for Russia.
12. Hellman, Jones, and Kaufmann (2000), cited in World Bank (2000).
13. Such inverted-U’s also appear in nonempirical discussions of the links between political systems and corruption. Alina Mungiu-Pippidi (forthcoming) focuses on the distribution of power in a society and presents a chart showing corruption to have an inverted-U relationship with the distribution of power in political systems. The Romanian political scientist asks what corruption means in repressive systems where the existence and operation of the state is geared entirely toward the benefit of the leader, as in a monarchy or dictatorship. It makes little sense, she argues, to talk about “abuse of position” when it is really just “use of system” according to the rules of that system. In this framework, corruption, as defined by abuse of position, would be low in countries with high concentrations of political power and in countries where diffuse power-sharing arrangements serve to restrain the executive, but higher for countries with mixed systems that lack effective restraints on the state. This is similar to the argument in *Anticorruption in Transition* (World Bank 2000)—that the concentration of power and lack of restraints that characterized the emergence from communism were responsible for taking corruption to new levels and in a new direction.
14. The Freedom House *Nations in Transit* assessment of civil society “assesses the growth of nongovernmental organizations, their organiza-

tional capacity and financial sustainability, and the legal and political environment in which they function. Also considers the development of free trade unions; interest group participation in the policy process; the freedom of educational systems from political influence and propaganda; and the freedom of society from excessive influence from extremist and intolerant nongovernmental institutions and organizations” (Freedom House 2005).

15. Both coefficients on the civil society assessment and its square are significant at the 1 percent level.
16. The coefficients are virtually unchanged when these two countries are dropped, while the significance level falls from the 1 percent level to the 5 percent level.
17. Information on the Polity IV Project can be found at <http://www.cidcm.umd.edu/inscr/polity/#data>.
18. Interestingly, however, managers of foreign-owned firms in the countries (that is, another type of “foreign” observer) report slightly lower levels of corruption than their domestic counterparts.
19. Hungary was the only country with a Polity assessment of restraints on the executive equal to 7 among the 12 countries with the highest percentage of firms indicating that bribes are sometimes paid and the amounts are known in advance.
20. The pattern evident in Figure 3.6 is similar, but statistically weaker, for bribe frequency.
21. Using quadratics of both the Freedom House civil society measure and the Polity IV measure of executive restraints on the right hand side, the quadratic pattern is statistically significant and in both cases Belarus and Uzbekistan lie on the portion of the curve beyond the apex.