



# ***High-risk areas of corruption in the EU: A mapping and in-depth analysis***

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## List of abbreviations

AMLA	Anti-Money Laundering and Countering the Financing of Terrorism Authority
Col	Conflict of interest
CPI	Corruption Perception Index
CFSP	Common Foreign and Security Policy
DeFi	Decentralised finance
EBA	European Banking Authority
EDA	European Central Bank
EMPACT	European Multidisciplinary Platform Against Criminal Threats
FATF	Financial Action Task Force
GDP	Gross domestic product
KYC	Know-your-customer
LRCC	Local Research Correspondents on Corruption
NGO	Non-governmental organisation
NPLs	Non-performing loans
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore financial centre
OCGs	Organised crime groups
OLAF	European Anti-Fraud Office
PPPS	Public-private partnerships
PEPs	Politically exposed persons
PTEFs	Persons with top executive functions
SDG	Sustainable Development Goal
SOGA	Soccer Gambling
UHC	Universal health coverage
UNODC	United Nations Office on Drugs and Crime
vIBANs	Virtual IBANs

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## Glossary

<b>Accountability</b>	If a public authority is transparent about its activities, it justifies and explains its decisions. In addition, there must be an independent controlling agency present with the means to sanction the public authority if its actions are unlawful or unjust.
<b>Advocacy</b>	Activities undertaken with the aim of influencing political decisions.
<b>Ballot stuffing</b>	Illegally submitting more than one ballot during an election. Ballot stuffing is a specific act of electoral fraud.
<b>Civic engagement</b>	A process in which people take collective action to address issues of public concern.
<b>Civil Society</b>	The sphere that exists outside the state or the market and within which individuals take collective action on shared interests.
<b>Clientelism</b>	Politics substantially based on patron-client relationships. A powerful figure (patron) provides protection to a number of lower-status clients who, in exchange, offer their unqualified allegiance and support.
<b>Collective Action</b>	Any action undertaken by a united group of people rather than by individuals.
<b>Enabler</b>	A company, organisation or person that provides professional or personal services to aid or abet in the commission of crime (e.g. bank, investment house, accounting firm, attorney, real estate broker, tax or financial advisor, consultant).
<b>Embezzlement</b>	Withholding assets that are entrusted to you but belong to someone else.
<b>Fraud</b>	Any action or statement that utilises deception or deceit to illegally or unethically achieve a monetary or other gain, misrepresenting the truth or concealing facts to induce a person to victimise themselves.
<b>Grassroots</b>	A bottom-up (political or social) movement which starts at the local level to achieve change at the regional or national level.
<b>Integrity</b>	The consistent alignment of, and adherence to, shared ethical values, principles and norms for upholding and prioritising the public interest over private interests in the public sector.
<b>Legitimacy</b>	A legitimate system of government is one based on authority, and those subject to its rule recognise its right to make decisions.
<b>Lobbying</b>	Efforts made on behalf of individuals, groups, or organisations to influence the decisions made by elected officials or bureaucrats.
<b>Misappropriation</b>	see Embezzlement.
<b>Money laundering</b>	Masking illicit funds to avoid seizure and prosecution by introducing them into the legal economy and channelling them through legal activities to make them appear legitimate.
<b>Organised crime group</b>	A criminal enterprise that profits from illegal or illicit activities by corrupting public officials, colluding with private companies, defrauding consumers, and using bribes, threats and/or force to protect its operations and avoid prosecution and public scrutiny.
<b>Patronage</b>	Support, encouragement, access, and privilege bestowed by one individual on another. The use of state resources by leaders to those providing support to the government.

<b>Principal-agent theory</b>	Theory of interaction between an agent and the principal for whom they act, the point being to structure incentives so that the agent will act to benefit the principal.
<b>Policy state capture</b>	When public decisions over policies are consistently or repeatedly directed away from the public interest towards a specific interest, via legal means such as lobbying and campaign contributions, or illegal means such as bribery, extortion and threats
<b>Pro bono</b>	Professional services that are offered free of charge, often legal support.
<b>Public procurement</b>	The process by which public authorities, such as government departments or local authorities, purchase work, goods, or services from companies.
<b>Revolving door</b>	The movement or rotation of people between the public and private sectors, typically within the same sector, in order to gain economic, policy and/or political advantages; a key element of conflict of interest, cronyism, favouritism, state capture and corruption in general.
<b>Shadow economy</b>	Includes illegal activities and unreported income from the production of legal goods and services, either from monetary or barter transactions. A shadow economy comprises all economic activities that would generally be taxable were they reported to the tax authorities
<b>Social norms</b>	Unwritten rules present within a specific society that dictates how one should act, i.e., what is and is not socially acceptable.
<b>Societal control</b>	A system of checks and balances where civil society is in a position to exert a controlling function over the public authority.
<b>Standardisation</b>	The process of creating a single approach to a process that is shared among and utilised by the different parties that engage in that process.
<b>Terrorist financing</b>	The means and methods used by terrorists and terrorism organisations to fund their activities while concealing the funds from public authorities; these funds can originate from legal businesses or illegal activities such as weapons sales, drug dealing and human trafficking.
<b>Transparency</b>	Authorities providing relevant, accessible, timely, and accurate data to the public in order to assess government action (accountability), exercise a voice in decision-making (deliberation), and unlock social and economic value (public reuse).
<b>Whistleblowing</b>	Revealing or reporting information regarding illegal or improper activities occurring within a private company or public institution which would otherwise have remained hidden from authorities or the general public.



## Executive summary

Corruption encompasses a vast collection of abusive, subversive and sometimes violent crimes that harm virtually all portions and levels of society. It radiates outward from the initial act to damage public institutions, companies, communities and families. Eventually, corruption touches and affects people personally – whether it is obvious or not.

Corruption is estimated to cost the EU up to EUR 990 billion per year<sup>1</sup> – more than enough to end world hunger and provide electricity, safe water and sanitation to everyone everywhere.<sup>2</sup> Given the scale of the problem, it is understandable that two-thirds of EU citizens and EU-based companies believe corruption is widespread in their country.<sup>3</sup> Citizens' views on corruption have remained unchanged for the past two decades, indicating most Europeans are unsatisfied with official actions to stop it, or corruption is not declining – or both.

To advance the EU's Anti-Corruption Strategy to combat corruption and reduce its harm to society, this report maps high-risk areas and provides an in-depth analysis of the nature of and reasons behind these risks. The research team consisted of Anna Persson, Mark Worth, and Petra Jeney, and the research was carried out between October 2023 and August 2024.

An inclusive, open-ended approach to information collection was utilised, to capture all relevant strands of research and data. The areas of significant concern of corruption were identified based on a survey of Local Research Correspondents on Corruption (LRCC), interviews with more than 20 anti-corruption experts, and a comprehensive review of research by Europol, Eurojust, the UN Office on Drugs and Crime and other institutions, academics, public interest advocates and independent experts.

As a result, many areas and sectors with high corruption risks emerged from this mapping. Among them are public procurement, healthcare, politics, construction and infrastructure, sports, finance and banking, defence, EU funds, customs, licenses, mining, transportation, digitalisation and energy. Collectively, these areas provide essential products and services for virtually all Europeans, account for hundreds of billions of euro in public and private spending, employ millions of people across the EU, and engage all citizens and consumers in one form or another. There is almost no escape from being a corruption victim, however distantly removed one is from the initiating crime.

Within most of these areas, bribery, abuse of power, and theft of public funds are common tools that enable corruption and harm the public interest. Favouritism, nepotism, conflict of interest and trading in influence are among the vehicles that interlink the private and public sectors in planning and carrying out corrupt schemes.

As a subset of these, six prominent, high-budget areas are examined further: *healthcare, finance, public procurement, defence and security, construction and infrastructure, and sports.*

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<sup>1</sup> Hafner, Marco, et al, "The Cost of Non-Europe in the area of Organised Crime and Corruption; Annex II – Corruption," European Parliamentary Research Service, 2016;

[https://www.europarl.europa.eu/RegData/etudes/STUD/2016/579319/EPRS\\_STU%282016%29579319\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2016/579319/EPRS_STU%282016%29579319_EN.pdf).

<sup>2</sup> The Cost of Corruption Across the EU," The Greens/EFA Group, 2018; <https://www.greens-efa.eu/files/doc/docs/e46449daadbfebc325a0b408bbf5ab1d.pdf>.

<sup>3</sup> "Citizens' attitudes towards corruption in the EU in 2024," Eurobarometer, July 2024; <https://europa.eu/eurobarometer/surveys/detail/3217>.

These areas were identified as particularly relevant for an in-depth analysis based on six main criteria. They affect a broad cross-section of populations, communities, employees, and consumers across the EU; have significant cross-border implications within the EU; involve a wide range of public institutions, private companies, professions and disciplines; feature most or all major forms of corruption; have risen on the European and global anti-corruption agendas; and interlink with other areas where corruption is commonplace and damaging.

Taken together, these six areas provide basic, everyday products and services on which virtually everyone living in the EU depends. They provide people with financial stability, access to health care and medicine, efficient public works suited for their needs, protection from foreign adversaries, and wholesome entertainment. Europeans' quality of life suffers – individually and collectively – when these sectors are robbed or weakened by corruption and the criminals who commit it. Often, corruption in these areas has cross-border implications.

Failure to react strongly and swiftly to the corruption realities and risks in these areas very likely will result in significant financial losses, weakened government performance, loss of trust in public institutions, victimisation of consumers and citizens, harm to public health and safety, and growing power and influence of organised crime groups. The burden is on public officials and institutions to properly sense these dangers and face them head-on.

These six areas also deserve close attention because they both *cause* and are *targeted by* corruption in other critical areas of society, including the political sphere, the expenditure of EU and other public funds, and the private sector at large. This dual role as *perpetrator* and *victim* is a peculiarity that officials should consider when setting policies, and for law enforcement to consider when conducting investigations. The tables may turn on perpetrators and they can become victims of their own corruption schemes, thus leading to even more crimes.

Moreover, all of these areas have risen higher on the European and international anti-corruption agenda in recent years, are the subject of increased study by experts, and have been singled out as necessitating improved responses from policymakers and criminal justice agencies. Fully comprehending the character, causes, and consequences of corruption in these areas is essential for developing a successful EU anti-corruption strategy.

Though virtually all areas of society can expect some degree of corruption, these six areas were identified due to the view expressed by many experts that they already are, or are likely to become, more prone to bribery, fraud, theft, money laundering and other serious crimes in the near- and mid-term. All six of these high-risk areas are rapidly transforming, and present new and complex dangers to public budgets, public institutions, companies and citizens that justify timely policy and dedicated enforcement responses. It is essential to stay ahead of the curve concerning these ever-transforming industries.

*Healthcare* is identified as a high-risk area in need of in-depth study, in particular because corruption affects a broad cross-section of populations, involves many public and private sector players, features most major forms of corruption, and is rising on European and global anti-corruption agendas. Healthcare corruption can be committed by or target numerous different parties, including patients, hospitals, private insurers, government health funds, medical equipment suppliers, and pharmaceutical drug makers. EU Member States spend an average of 11% of their GDP on health care. Annual corruption losses due to corruption in healthcare in Europe are estimated at up to EUR 56 billion. Receiving medical care is often a matter of life and death. This places sick and injured people in a position of weakness that easily can be exploited. Corruption is enabled by complex

governance structures, large budgets, regulatory weakness and capture, limited transparency, and globalised supply chains.

The *financial sector* is identified as a high-risk area in need of in-depth study, in particular because corruption affects a broad cross-section of populations, has significant cross-border implications, involves a broad range of public and private sector players, features most major forms of corruption, is rising on European and global anti-corruption agendas, and is linked to other high-risk areas. Financial sector corruption is everywhere, from individual scammers on laptops to unscrupulous banks and investment houses, to international money laundering and terrorism financing networks. It is an enormous, ever-evolving industry that is both a perpetrator and a victim of corruption. Serious corruption crimes include money laundering, tax evasion, hidden assets, consumer fraud, terrorism financing and cybercrimes. Banks both condone and are victimised by money launderers and tax evaders. The EU loses up to EUR 1 trillion annually due to tax evasion and tax fraud. As the sector becomes more unwieldy, the opportunities to become a perpetrator and/or a victim continue to grow.

*Public procurement* is identified as a high-risk area in need of in-depth study, in particular because corruption involves a broad range of public and private sector players, features most major forms of corruption, is rising on European and global anti-corruption agendas, has significant cross-border implications, and is linked to other high-risk areas. Public procurement is among the most corruption-prone activities undertaken by governments. This is mainly due to the immense volume and number of transactions involving public funds; the complexity and lack of transparency of the process; the typically close interaction between public officials and bidding businesses, and the multitude of stakeholders involved. More than 250,000 public authorities in the EU annually spend about EUR 2 trillion, or 14% of the EU's GDP, on public procurement. Corruption can take on many forms, including bribery, collusion, extortion, embezzlement, illicit enrichment, trading in influence and favouritism.

*Defence and security* is identified as a high-risk area in need of in-depth study in particular because corruption has significant cross-border implications, involves a broad range of public and private sector players, features most major forms of corruption, and is rising on European and global anti-corruption agendas. Defence and security corruption is enabled by high levels of secrecy and confidentiality. The industry's size and market concentration provide many openings for corruption: diversion of funds and supplies, illegal resale of weapons, corruption in arms production, and revolving door hiring. Annual defence spending in the EU stands at a record quarter-trillion euro, and this is expected to grow due to the Russian war of aggression against Ukraine and the need to meet NATO commitments. Because its enormous budgets are simultaneously appropriated, regulated and spent by government officials, supply and procurement decisions are subject to political misuse.

*Construction and infrastructure* are identified as a high-risk area in need of in-depth study in particular because corruption affects a broad cross-section of populations, involves a broad range of public and private sector players, features most major forms of corruption, is rising in European and global anti-corruption agendas, and is linked to other high-risk areas. Construction and infrastructure corruption touches innumerable types of projects, including roads, bridges, school buildings, drinking water systems, power plants, ports, hospitals and railways. The sector is the largest industrial employer in the EU, workforce and contributes about 5% to EU's total gross value added. Up to one-fifth of construction costs is lost to bribes. Corruption may lead to contracts being awarded to incompetent contractors which use substandard or unapproved materials, safety hazards such as collapses and injuries, non-compliance with safety codes, compromised safety inspections, and deficiencies such as roads without guardrails and buildings without emergency exits.

*Sports* is identified as a high-risk area in need of in-depth study in particular because corruption has significant cross-border implications, features most major forms of corruption, is rising on European and global anti-corruption agendas, and is linked to other high-risk areas. Sports corruption extends far beyond the occasional high-profile case of a fixed football match. Any form of betting can be corrupted by fixing, manipulation, fake games and illegal gambling. Europe has the world's highest rate of sports manipulation. Football is the most corrupt sport in Europe, especially in lower leagues and smaller countries where players and coaches are more vulnerable to bribery and coercion. Though fewer than 1% of games are fixed, criminals take in millions of euro every year. Football and tennis are targeted most by international criminals; basketball, handball, beach volleyball and ice hockey are also vulnerable. Asian-linked organised crime groups engage in bribery and money laundering. Fixed games ruin the wholesomeness of sports. This has a harmful effect on fans, young and old, who develop an emotional connection with teams and players. Corruption, bribery and related crimes can also occur in procurement procedures for stadiums and other construction projects, and when countries and cities compete to host regional or international tournaments and championships.

The in-depth analysis explores the character, causes, and consequences of corruption in each of these areas while finding commonalities and contrasts among them.

One of this report's key findings is that corruption can be seen as a single, unified problem: it is a closely related family of acts centred around greed, power, deception, manipulation, opportunity and planning. It is not an impulse act, but rather the outcome of planning that can take weeks, months or even years. In order to be successful, all corruption-related acts require well-developed skill and patience on the part of the perpetrators.

It is not surprising, then, that many elements are common to most or all six of the high-risk areas. Corruption is fine-tuned for each area, but most of the basic methods are similar or even identical. Bribery, fraud, political corruption, money laundering, conflicts of interest, organised crime groups and information technology tricks are nearly ubiquitous. And, almost without exception, under-skilled, under-resourced, under-motivated, or outright corrupt public institutions and officials are at least partly to blame.

The *character of corruption* in all six areas is strikingly similar, sharing many of the same incentives, goals, tactics and players. In all six high-risk areas, bribery, fraud, embezzlement, favouritism, conflict of interest and other misconduct are common, even widespread and systemic. Across the board, criminals find and exploit weaknesses in oversight so they can corruptly gain money, power, status and access. The types of people and organisations involved in corruption are similar in all areas, although their titles and roles may vary. Elected officials, government officials, civil servants, private companies, law enforcement institutions, and organised crime groups all play important roles – often in coordination – to keep the corrupt machinery intact, operational and profitable. Increasingly, professional enablers such as attorneys, accountants, investment and tax advisors, and real estate brokers are emerging as important conspirators who often if not typically escape detection and prosecution even after their corrupt clients are caught.

Similarly, the *causes of corruption* and the fundamental ingredients of corrupt acts do not vary significantly across the areas. Corruption is likely to be committed when and where the expected rewards outweigh the potential costs. All criminals are gamblers. The successful ones push the envelope of how much they think they can get away with, and for how long. Corruption occurs when criminals master and exploit new products, industries and technologies before public authorities have the chance to set up oversight systems. Criminals and their enablers are ambivalent about the type

of corruption they commit and the sectors in which they commit it; their only incentives are money and power. Having noted this, most of the high-risk areas present many shared features that help to explain their vulnerability to corruption – most prominently, large amounts of public and private funding, complex institutional arrangements, weak institutional and regulatory systems, and a lack of transparency.

The *consequences of corruption* are massive across all six areas. The types and scale of victims, financial costs and social harm will vary somewhat, but corruption always benefits a relatively small but very powerful corrupt elite at the cost of the many. The consequences range from financial losses and missed investments for the individual firm, the distortion and misallocation of public investments and resources, the loss of trust in and legitimacy of public institutions and authority, and the loss of life chances and well-being for the broader population. In short, where corruption thrives, society suffers. Many of the consequences are distributed across society and thus are subtle and difficult to identify and measure. Theft in a public works project may total in billions of euro, but only cost individual families a few cents. Manipulated exchange rates could create a massive windfall for dishonest bankers and traders, but only negligibly harm an individual consumer. Nonetheless, the damage is done.

At the same time, many unique features make identifying, investigating and remedying corruption in a particular area in line with a 'one-size-fits-all' approach difficult. Overcoming these peculiarities may demand passing new criminal codes, changing expectations about how the "system works," sharpening investigation and prosecution strategies, and deepening inter-jurisdictional cooperation.

Among the many differences between the six high-risk areas, some have more of an *international character* than others. In particular, multinational companies, international financial tools and instruments, and multi-country organised crime groups are very active in the finance, construction and infrastructure, defence and sports sectors. This requires seamless, rapid and reliable cooperation among corrupt actors to carry out their schemes, as well as among public authorities and law enforcement to investigate and stop the schemes. *Organised crime groups* play varying roles among the areas, being especially prominent in the finance, construction infrastructure, and sports sectors. This is due to these sectors' horizontal diversity, digital vulnerabilities, fragmented regulation and oversight, favourable risk-versus-reward calculations, and the draw of large, fast monetary returns.

The *role of government regulation and oversight* differs among the areas, assuming greater importance in the finance, healthcare, public procurement, and construction and infrastructure sectors. Here, given the prominent roles of elected and public officials, the risks and realities of bribery, favouritism, conflict of interest, influence peddling and policy capture are especially high. The degree to which *individual citizens* are targeted varies among the areas. Individual consumers are more likely to be defrauded by unscrupulous players in the healthcare, finance and sports sectors, whereas taxpayers as a whole typically are victimised by corruption in procurement, construction and infrastructure, and defence.

*IT tricks* are more or less prevalent in different sectors. Online fraud and swindles are commonplace in the finance and sports sectors, especially when people are reckless in sharing their personal and banking information. However, cybercrime has the potential to become a larger problem in other areas. *Fraud* has been identified as a concern in all sectors, particularly in finance, construction, defence and procurement. *Public health and well-being* are important issues in healthcare and sports, the latter due to doping by athletes and the spread of gambling addiction amidst the population.

The *private sector's position* with regard to corruption in these areas ranges from perpetrator to victim, and from enabler to condoner. Private companies and their employees have been found culpable of myriad crimes in all of the areas, but the manner in which they design and carry out corrupt schemes differs. Defence, healthcare and construction companies rely heavily on *governmental decisions and public funding*, which means they are required to interact with public institutions and officials. Criminal elements in the finance and public procurement sectors must develop expertise in government regulations and procedures, and the limitations of regulation and law enforcement. Those in the sports industry need to have a deep understanding of *psychological pressures and sociological patterns*.

Ultimately, while corruption arguably can be classified as a single problem caused by like-minded perpetrators, a much more complex picture emerges when it is placed under the microscope. Culturally, it is usually reduced to a single word. Functionally, corruption is a web of individual crimes that, though interdependent and overlapping, have at least their own colloquial if not legal definition, as well as their own causes, character and consequences.

The report ends with a discussion about ways ahead. What became clear in researching this report is a significant and surprising shortage of coherent and systematised information about corruption in general and within specific sectors. The amount of available information about the problem is not commensurate with its scale. Even basic data about the costs and number of certain types of corruption cases is missing, not updated or poorly supported.

This intelligence gap is noteworthy considering the huge social damage and financial losses caused by corruption, estimated at 6% of the EU's gross domestic product. These gaps likely are stifling how effectively corruption crimes are being diagnosed, investigated and ultimately prosecuted. Transforming the knowledge gap into a knowledge surplus would give authorities a fighting chance to stay one step ahead of the criminals. This report is to be seen as a step in this direction.

# 1 Introduction

## 1.1 The problem of corruption

Corruption – broadly defined as the abuse of entrusted power for private gain – has detrimental consequences for social, economic, and political development and is widely recognised as one of the most significant challenges to a prosperous society and human well-being.

In May 2023, the European Commission responded to this insight by presenting a new anti-corruption package<sup>4</sup> – a milestone in the fight against corruption at the national and EU levels. Key elements of the anti-corruption package include a joint communication that sets out, among other things, the agenda for a new EU Network Against Corruption, bringing together law enforcement, public authorities, practitioners, civil society, and other stakeholders; a proposal for a directive on combating corruption, emphasizing the need for stricter rules, awareness raising, public sector accountability, increased resources, and the harmonisation of the legal anti-corruption framework across the EU Member States, and an expansion of the Common Foreign and Security Policy sanctions toolbox to cover severe acts of corruption.

With the new anti-corruption package, the EU puts itself at the forefront of the global fight against and prevention of corruption. Yet, for this fight to be as effective and efficient as possible, we need to know our ‘enemy’. And to prevent this, we need to know our ‘weaknesses’.

This report takes on this task by investigating high-risk areas of corruption in the EU. It does so by 1) mapping high-risk areas of corruption among EU Member States, 2) identifying six high-risk areas of particular relevance for an in-depth analysis, and 3) analysing the character, causes, and consequences of corruption in the identified six high-risk areas: health, finance, public procurement, defence and security, construction and infrastructure, and sports. By analysing these six areas, the study seeks to uncover common patterns and unique challenges associated with corruption, offering insights into how it disrupts basic services and the effects of this on Member States within and outside their borders.

## 1.2 Aim and scope of the study

Under the Consultancy ‘technical assistance and support in the field of fight against and prevention of corruption’ (HOME/2023/OP/0003), a series of comparative studies on various topics linked to the fight against and prevention of corruption are to be prepared. The goal is to provide a deeper knowledge base on the state of play on certain corruption-related topics both in the EU Member States and on an academic level. DG HOME requested that the first study, due in 2024, be a report on the areas that are particularly vulnerable to corruption in the EU. This study feeds into this task foreseen in the Joint Communication on the fight against Corruption,<sup>5</sup> which includes a mapping and analysis of the common high-risk areas of corruption by 2024. The insights from this mapping and analysis will potentially inform a future EU Anti-Corruption Strategy.

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<sup>4</sup> “European Commission presented a new anti-corruption package,” European Commission, 3 May 2023; [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_2516](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2516).

<sup>5</sup> European Commission, Joint Communication on the fight Against Corruption, 3 May 2023; [https://commission.europa.eu/publications/joint-communication-fight-against-corruption\\_en](https://commission.europa.eu/publications/joint-communication-fight-against-corruption_en).

Within this framework, the specific aim of this Comparative Study is to carry out a corruption risk identification and analysis in the EU.<sup>6</sup> The corruption risk identification and analysis consist of two major parts:

**Part 1: Mapping and Identification of Common High-Risk Areas of Corruption:** This part provides empirical evidence of the high-risk areas of corruption in the EU. Based on multiple data sources, we offer a mapping of the areas that we identified as being exposed to corruption and perceived or reported as being at high risk. We then employ an analytical framework to identify which areas need to be prioritised and merit deeper analysis. This information forms a crucial basis for stepping up European Union-level efforts to combat corruption.

**Part 2: In-Depth Analysis of a selection of High-Risk Areas:** This part offers detailed insight regarding the *character*, *causes*, and *consequences* of corruption in a selection of high-risk areas. It will help determine whether corruption manifests similarly across different sectors or requires tailored approaches for each area.

The findings will contribute to the EU's ongoing efforts to develop a cohesive and effective Anti-Corruption Strategy, ensuring that public resources are safeguarded, and services are delivered with integrity.

### 1.3 Relevance of the study

Few things can be considered more relevant and urgent than taking firm action against corruption. Corruption has detrimental consequences for social, economic, and political development and is widely recognised as one of the most significant challenges to human welfare and well-being.

The hidden character of corruption makes it difficult to nail down the exact impact and costs of the problem, but it is safe to say that the consequences are enormous. In terms of direct financial costs, a popular estimate is that more than USD 2.6 trillion, or 5% of the global Gross Domestic Product (GDP), is lost to corruption annually worldwide. The World Bank estimates that USD 1 trillion is paid in bribes yearly. In the EU, the economic costs of corruption have been estimated at EUR179 billion to EUR990 billion per year, including indirect costs.<sup>7</sup> This reduces the EU's GDP by about 6% annually – an estimated EUR990 billion – including indirect damage such as lost tax revenues and decreased foreign investment.<sup>8</sup>

Corruption impedes economic growth, exacerbates inflation, and leads to social inequality and poverty. It violates the fundamental principles of democracy, such as equality, fairness, transparency, and accountability, and threatens the stability of political structures. It leads to the systematic manipulation and decay of political institutions and law, established rules of procedures and regulations, and undermines the rule of law. It diverts resources away from the people who need them most to those who are powerful enough to influence their allocation. It lowers citizens' trust in political institutions and processes and erodes general trust in society. It has perilous consequences for the legitimacy of a political system, particularly for young democracies. Moreover, people report higher levels of subjective well-being when governments are 'clean' rather than corrupt. In short,

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<sup>6</sup> As set out in the Commission's Anti-Fraud Strategy Action Plan - 2023 revision (COM(2023) 405 final).

<sup>7</sup> Fernandes, Meenakshi and Jančová, Lenka, "Stepping up the EU's efforts to tackle corruption: Cost of Non-Europe Report," European Parliamentary Research Service, European Parliament, January 2023; [https://www.europarl.europa.eu/RegData/etudes/STUD/2023/734687/EPRS\\_STU\(2023\)734687\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/734687/EPRS_STU(2023)734687_EN.pdf).

<sup>8</sup> The Costs of Corruption Across the EU," The Greens/EFA Group in the European Parliament, 2018; [https://www.greens-efa.eu/files/assets/docs/the\\_cost\\_of\\_corruption\\_across\\_the\\_eu\\_final\\_report\\_07.12.2018.pdf](https://www.greens-efa.eu/files/assets/docs/the_cost_of_corruption_across_the_eu_final_report_07.12.2018.pdf).



corruption destroys societies and hurts everyone whose life depends on someone in a position of entrusted authority.

By mapping and cataloguing the similarities and differences in corrupt practices across different areas, this study aims to inform the development of effective EU-wide solutions and policies. Understanding these patterns is crucial for creating robust strategies to prevent and combat corruption, ultimately ensuring the efficient and honest delivery of services that citizens support through their taxes.

## 2 Methodological framework

This section presents some of the key concepts in the focus of the report, the material and data collection methods used, the case selection strategy, and the analytical approach.

### 2.1 Key definitions and conceptualisations

Several key concepts in the focus of the report need to be defined before we can proceed with the analysis of high-risk areas, particularly [corruption](#) and [high-risk areas](#).

#### Corruption

There is no real consensus in the academic literature or among practitioners about what defines corruption and the kind of behaviours that should be included in the definition. Whereas most definitions circle around the abuse/misuse of entrusted power, divisions in the literature concern, among other things, whether abuse of both public and private entrusted power should be included in the definition. For instance, whereas the World Bank defines corruption as “the abuse of public office for private gain,”<sup>9</sup> Transparency International defines corruption in considerably broader terms – as “the abuse of entrusted power for private gain.”<sup>10</sup> Another definitional divide concerns whether corruption should be defined in strictly legal terms, or whether it could include also behaviours and phenomena that are not always or typically criminalised.<sup>11</sup> In relation to this latter discussion, yet another line of discussion concerns what exact behaviours and phenomena should fall under the heading ‘corruption’.

Depending on the more exact definition, corruption could potentially cover a wide range of behaviours and acts – from bribery, favouritism, nepotism, and conflicts of interest to revolving doors, fraud, money laundering, kleptocracy, state capture, tax evasion, organised crime, and sextortion. For instance, the European Commission’s proposed Directive on corruption states there is “no single definition of corruption,” as it is “an endemic phenomenon that takes multiple shapes and forms across all facets of society.”<sup>12</sup> UNCAC refrains from defining corruption, as the Convention’s negotiators concluded that trying to define it comprehensively inevitably would exclude some crimes.<sup>13</sup> Instead, UNCAC approaches corruption as a ‘machinery’ involving a large number of different acts, including bribery and embezzlement in the public and private sectors, as well as trading in influence, abuse of functions, illicit enrichment, money laundering, concealment, and obstruction of justice. Indeed, UNCAC stresses the importance of identifying links between corruption and other types of crime, including money laundering and other economic crimes, as well as seizing and returning illicit assets<sup>14</sup>.

<sup>9</sup> World Bank (2020). <https://www.worldbank.org/en/news/factsheet/2020/02/19/anticorruption-factsheet#:~:text=Corruption%E2%80%94the%20abuse%20of%20public.affected%20by%20fragility%20and%20conflict>.

<sup>10</sup> Transparency International. <https://www.transparency.org/en/what-is-corruption>

<sup>11</sup> See Kaufmann, Daniel & Vicente, Pedro C., 2005. “[Legal Corruption](#),” [MPRA Paper](#) 8186, University Library of Munich, Germany.

<sup>12</sup> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on combating corruption, replacing Council Framework Decision 2003/568/JHA and the Convention on the fight against corruption involving officials of the European Communities or officials of Member States of the European Union and amending Directive (EU) 2017/1371 of the European Parliament and of the Council COM/2023/234 final; <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A52023PC0234> p6.

<sup>13</sup> See Travaux Préparatoires of the negotiations for the elaboration of the United Nations Convention against Corruption UNODC 2010

[https://www.unodc.org/documents/treaties/UNCAC/Publications/Travaux/Travaux\\_Preparatoires\\_-\\_UNCAC\\_E.pdf](https://www.unodc.org/documents/treaties/UNCAC/Publications/Travaux/Travaux_Preparatoires_-_UNCAC_E.pdf) Ibid.

<sup>14</sup> UNCAC. <https://www.unodc.org/corruption/en/learn/what-is-corruption.html>.

Adopting a similar approach, a recent book by Turksen *et al.* calls for the importance of also including tax evasion, money laundering, and organised crime in the conceptual machinery surrounding corruption.<sup>15</sup> In particular, money laundering in its various forms is the chosen method of organised crime groups to first hide their corrupt proceeds and then recirculate them into further corruption crimes. The European Commission's proposed Directive on corruption says money laundering is "intrinsically linked" with corruption, and that combating it is "the cornerstone of the broader agenda to fight serious crime." Through these discussions, one can detect a blurred line between "corruption" and "crime" that, from the perspective of policymakers, investigators and the general public, may be best served if it is maintained rather than hardened into stone.

At the same time, it is important to note that the activities of criminals and organised crime groups do not always fall within specific definitions and categories. Criminals do not generally think or behave in accordance with how their actions may be scoped or defined by criminal codes. One corrupt act may be covered by several or many criminal codes, while their enterprises often involve several or many intertwining crimes that may not fit within traditional definitions of corruption. Therefore, narrowing the definition of corruption and limiting the number of corrupt acts could constrain the ability of policymakers and criminal justice agencies to fully diagnose and combat it. Given that corruption assumes many forms that defy labels, a more accurate and comprehensive definition may be developed by also identifying the consequences of corruption – a "victim-centred approach" – rather than focusing primarily on the intentions and actions of the perpetrators. Because of the very strong correlation between the phenomena in real life in the EU Member States, these phenomena can be targeted only through an integrated model, which combines what the authors call a "whole-of-government approach" and "responsibilisation strategy" in the private and public sectors.

Acknowledging the pros and cons of different approaches to defining and conceptualising corruption, in the comparative report we adopt a comprehensive definition of corruption as "the abuse of entrusted power for private gain," acknowledging its pervasive presence across public, private, and political domains. This conceptualisation encompasses the different phenomena described as corruption by the European Commission.<sup>16</sup> But it even extends beyond this conceptualisation to include a discussion of other, according to empirical evidence, closely related phenomena – including *fraud*, *money laundering*, *tax evasion*, *money laundering*, and *organised crime*. As such, the report can be argued to approach corruption from a "corruption machinery" perspective, within the framework of which a large number of corruption-related phenomena often serve each other's cause and thus become to some extent analytically inseparable. In the end, due to its encompassing scope, our approach allows us to investigate a large variety of interrelated corrupt phenomena, some of which may not fall under criminal law as cases of corruption – or at all – in some or many of the EU Member States, but which are still key in terms of serving and maintaining the corrupt machinery.

### High-risk area

Mapping common **high-risk areas** for corruption is complex and can be approached through multiple lenses depending on how the concept of high-risk area is understood and defined. Drawing from methodologies advocated by organisations like U4, the report utilises four main approaches to analytically capture the concept of high-risk areas: *frequency-based*, *theory-based*, *consequence-based*, and *anticipatory*. The frequency-based approach identifies areas where corruption is widespread. The theory-based approach uses academic insights to predict likely areas of corruption based on known risk factors. Meanwhile, the consequence-based approach evaluates the impact of

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<sup>15</sup> Turksen et al. (2023). <https://academic.oup.com/book/45658/chapter/398028707?login=false>.

<sup>16</sup> European Commission, Directorate General for Migration and Home Affairs, "Corruption." Source: [https://home-affairs.ec.europa.eu/policies/internal-security/corruption\\_en](https://home-affairs.ec.europa.eu/policies/internal-security/corruption_en) (retrieved on November 2, 2023).

corruption on societal values and goals, such as inclusive democracy and economic development. Lastly, the anticipatory approach focuses on emerging areas like digitalisation and critical EU strategic domains to proactively assess potential corruption risks.

In the [frequency-based approach](#), a high-risk area of corruption is understood as a sector or area in which one or several types of [corruption are \(perceived to be\) widespread](#). The [theory-based approach](#) instead understands the concept of high-risk areas in [academic terms: in what areas is corruption most likely to occur](#), based on the knowledge we have about known risk factors? Yet an additional way to think about what constitutes a high-risk sector or area is to instead consider the [consequences of corruption](#) in different areas and sectors – and put these consequences in relation to the values and goals prioritised and strived for in more general terms. In such an exercise, the task will in the first step be to identify which values and goals are indeed prioritised and strived for – might it be an inclusive and democratic society, increased development and welfare, or an EU free from transnational corruption. In a second step, the costs, and consequences of corruption in different sectors and areas then need to be placed in relation to these values and goals.

A final way to approach the concept of high-risk areas of corruption is the [anticipatory approach](#). This approach focuses on the anticipation of risks in emerging areas, such as digitalisation, and/or in areas of strategic importance to the EU, like security and institutional stability.<sup>17</sup> Through its focus on the anticipation of risks even in areas that we do not have much knowledge about based on the other approaches, the anticipatory approach has the potential to capture risks even in areas where the other approaches fall short.

Areas that could be of potential importance for risk assessment include different [sectors](#) (transportation, energy, etc.), as well as different [governmental functions](#) that are common in most sectors (public procurement, budgeting, etc.).

## 2.2 Data sources and material

To provide a mapping and in-depth analysis of high-risk areas of corruption in the EU, we rely on several different data sources and materials: desk research, original data collection, as well as original expert informant interviews with key stakeholders from institutions and organisations that specialise in corruption research, analysis, policymaking, investigation and enforcement. The timeframe of the study spanned between October 2023 and August 2024.

### [Desk research/Literature review](#)

The [desk research](#) is based on existing corruption risk assessments, academic work, and various reports from EU institutions and agencies such as the European Commission, Europol and Eurojust, and organisations such as Transparency International, U4 Anti-Corruption Resource Centre, Interpol, UNODC, OECD, and GRECO. An emphasis was placed on identifying agreements and common approaches among researchers concerning high-risk areas, the definition of corruption and corruption-related crimes, and the character, causes and consequences of corruption. In addition, reports and surveys such as the European Union's Rule of Law Reports,<sup>18</sup> Eurobarometer,

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<sup>17</sup> This latter way of anticipating risks is similar yet distinct from the consequence-based assessment approach.

<sup>18</sup> The European Union Rule of Law reports provide a detailed assessment of adherence to the rule of law within EU Member States, with a significant focus on the anti-corruption framework. The Rule of Law reports underscore the ongoing challenges and diverse landscape of corruption within the EU, calling for significant efforts to create a more transparent, accountable, and corruption-free environment. These reports have been analysed according to the prevalent areas with high-risk of corruption in parallel to the countries in which these sectors are most prevalent. Annex II delves further into the approach of analysis and specific results of the synthesis.

Transparency International's Corruption Perceptions Index (CPI), and Global Corruption Barometer will provide important information regarding high-risk sectors and areas.

### **LRCC Expert Survey**

The study moreover benefits from a targeted survey sent out to the [Local Research Correspondents on Corruption](#) (LRCC).<sup>19</sup> This survey aimed to collect any potential additional information about the status of different sectors and areas in the respective countries, which is not covered in existing reports.<sup>20</sup> The survey moreover serves as a validation of previous research on high-risk areas of corruption in the EU. Data collection took place between December 2023 and March 2024. The survey moreover aimed at identifying any potential errors or misunderstandings in the reports and work covered in the desk research. The survey moreover served to collect information of relevance for part two of the report concerning the identification of six high-risk areas which merit further analysis. The survey consisted of 23 questions of which 14 were multiple choice questions which permitted elaboration in comments and 9 open questions. The open questions allowed the experts to further delve into the variables surrounding corruption within their country, focusing on possible (legal) consequences, obstacles and main actors involved. The survey analysis was conducted by synthesising all questions specifically and thoroughly in relation to each other. This is further highlighted in Annex 1, where the narrative of the survey is emphasised further through visual aid.

### **Key expert informant interviews**

In addition to desk research and the information gathered from data collection based on the LRCC Expert Survey, information and insights for this report were collected through 23 interviews with, and written submissions from, key stakeholders at EU institutions, agencies and organisations. These include Basel Institute on Governance, Corporate Europe Observatory, Europol, Eurojust, European Parliament, GRECO, International Anti-Corruption Academy, Interpol, Organisation for Economic Co-operation and Development (OECD), the European Anti-Fraud Office (OLAF), Open Government Partnership, United Nations Convention Against Corruption Coalition and United Nations Office on Drugs and Crime (UNODC).<sup>21</sup>

Finally, through the triangulation of these different data collection methods, sources, and materials, we can provide a thorough and detailed account of the high-risk areas of corruption in the EU.

## **2.3 Approach of the Study**

The study was conducted in two parts. In the first part of the Study, a mapping of the high-risk areas in the EU was conducted, after which the identification of six areas of particular relevance for further study was carried out. In the second part, these six areas were analysed in more detail.

### **Part 1 – the mapping of high-risk areas in the EU**

The mapping was guided analytically by all four approaches to high-risk areas of corruption outlined above. That is, to identify the high-risk areas of corruption in the EU, we looked into the frequency of corruption in different areas, the extent to which corruption is theoretically expected, the consequences of corruption, and the future anticipation of corruption. Based on these different

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<sup>19</sup> <https://fightagainstcorruption.eu/>.

<sup>20</sup> See the detailed mapping and narrative of the LRCC Expert Survey in Annex I.

<sup>21</sup> Full list of the interviewees can be found at the end of the study.

approaches, we identified the high-risk areas of corruption in the EU, resulting in a *long-list of 20 areas*.<sup>22</sup>

**Figure 2.1 Long list of high-risk areas of corruption**

**Long list of high risk areas of corruption**

Healthcare, Education, Infrastructure, Construction, Judicial sector, Political sector, Financial sector and banking, Business sector, Transportation and storage, Mining, Public procurement, Sports, EU support and funding, Welfare sector, Documents, licenses and permits, Customs, Law enforcement, Defense/military, Consumer products and services, Other.

*Subsequently, we identified six high-risk areas of particular relevance and urgency for further study based on criteria that consider how each area:*

- affects a broad cross-section of populations, communities, employees and consumers across the EU;
- has significant cross-border implications within the EU;
- involves a wide range of public institutions, private companies, professions and disciplines;
- features most or all major forms of corruption;
- has risen on the European and global anti-corruption agendas; and
- interlinks with other areas where corruption is commonplace and damaging.

This resulted in the *short-list* of:

- Public procurement;
- Health sector;
- Financial sector;
- Construction and infrastructure;
- Defence and security;
- Sports.

**Figure 2.2 Short list of high-risk areas of corruption**

**Short list of high risk areas of corruption**

Public procurement; Health sector; Financial sector; Construction and infrastructure; Defence and security; Sports

Care was taken to consider all inputs equally and appropriately while adding emphasis to particularly salient research and feedback. An interpretive and priority-balancing exercise was utilised to select these areas, rather than a quantitative and mathematical approach strictly based on rankings and indicators. This made for a more comprehensive and realistic process that was based as much on qualitative as on quantitative information. Input from anti-corruption practitioners with an in-depth familiarity with cases and investigations gave the process needed practical perspectives.

In deciding that these six areas necessitate increased attention, the totality of input from the full range of sources was weighed and taken into account. This includes the mapping presented below,

<sup>22</sup> Healthcare, Education, Infrastructure, Construction, Judicial sector, Political sector, Financial sector and banking, Business sector, Transportation and storage, Mining, Public procurement, Sports, EU support and funding, Welfare sector, Documents, licenses and permits, Customs, Law enforcement, Defense/military, Consumer products and services, Other.

research by recognised experts in each area, and feedback from more than 20 corruption experts from EU institutions, international organisations, research centres and civil society.

It is important to note that currently there is no accepted methodology to rank corruption risks in the EU. No such model could be relied upon. Therefore, a basic framework for such a methodology was developed for this report in the form of the four pillars for assessing high-risk areas of corruption described above: *frequency*, *academic*, *consequences*, and *anticipatory*. This framework considers each sector's importance for the EU's overall economic and social health and sustainability, the various forms of harm inflicted on institutions and citizens, the urgency in addressing corruption problems before they have a chance to deepen, and the availability of high-quality and updated information.

Identifying the six high-risk areas reflects a strategic approach to addressing systemic vulnerabilities that affect a [broad cross-section of populations across all Member States](#). In deciding whether an area meets this criterion, it was determined that corruption is victimising a representative sample of organisations and people throughout the EU. The corruption crimes involve a wide diversity of perpetrators and victims alike, and the consequences radiate in many directions throughout society. Eventually, anyone could potentially be a victim, however remotely or indirectly.

Criminals do not think or behave in terms of geographic borders – only opportunities. With [cross-border corruption cases](#) on the rise, this is a key criterion in identifying high-risk areas of further interest to study – particularly with regard to developing EU-wide strategies and solutions. Bribery and money laundering are among the most common cross-border crimes. Organised crime groups (OCGs) feature prominently in such schemes. Particularly in high-risk areas, solving these crimes requires effective judicial cooperation, exchanging banking and financial information, and joint investigation teams. In deciding whether an area meets this criterion, it was determined that corruption schemes transcend national borders, involve multinational companies and/or OGCs, involve the transfer of illicit funds among countries, and require multi-jurisdictional responses, investigations and prosecution.

Decisions were made to ensure the six sectors represented a cross-section of society and encompass a [broad range of public institutions, private companies, professions and disciplines](#). The sectors touch upon diverse populations as well as society at large. In deciding whether an area meets this criterion, it was determined that corruption is being caused by a large variety of organisations and people with a wide range of tactics, knowledge and skills. Many corruption schemes are carried out by networks of public institutions, private companies and/or OGCs, and entangle a range of conspirers and enablers. Each high-risk area is a mega-industry that becomes the venue for mega-schemes.

Another significant criterion is the fact that nearly all [major forms of corruption are present](#) in all six areas. This enables the identification of common traits of corruption among the sectors. Additionally, activities such as inter-agency investigations and multi-jurisdictional cooperation are essential for combating corruption in all of these areas. In deciding whether an area meets this criterion, it was determined that corruption involves many or most prominent corruption-related crimes, including bribery, fraud, money laundering, abuse of public funds and power, tax evasion and political corruption.

It is also important to note that all six areas recently have risen [higher on the European and global anti-corruption agendas](#). This trend in itself makes them worthy of deeper study. In deciding whether an area meets this criterion, it was determined that the area is receiving significant and growing

attention from policymakers, has been labelled as high risk and in need of remedies, by a critical mass of officials and experts, and corruption is causing massive harm and is not being adequately checked, and has been the subject of significant research and analysis in recent years.

Additionally, these six areas necessitate special attention due to [their links to other areas in which corruption is commonplace and damaging](#). These other areas are prominent in the LRCC Expert Survey and various reports and studies, and have been labelled by experts as urgent priorities. They include the political sphere, the expenditure and use of EU funds, the issuance of licenses and permits, and the broader business sector. Examining these areas as they intertwine with the high-risk sectors can reduce the chance that corruption vulnerabilities will fall between the cracks. This approach also reinforces the notion that corruption fundamentally may be a singular problem that assumes different forms and feeds simultaneously off of multiple sectors. In deciding whether an area meets this criterion, it was determined that corruption is not committed in isolation but rather often targets or is targeted by corruption in at least one other area.

Added emphasis on the selection was given to the anticipatory approach of assessing and addressing corruption. While any form of corruption in any sector is deserving of serious official attention, the future policy and investigatory considerations related to the six chosen areas are significant. This has been emphasised by research, periodic reports of law enforcement agencies, and expert input. Unless significantly checked, corruption in these sectors could spiral.

Though the political sphere was not chosen as a separate high-risk area for in-depth analysis for the purpose of this report, politically related corruption plays a significant role in all six areas included in the report. This is due to bribery of public officials, trading in influence, conflicts of interest, illicit campaign and political party contributions, and other factors. Where relevant, politically related corruption is discussed.

Given the measurable growth and diversification of corrupt acts and actors in these six sectors, priority should be given to staying one step ahead of these acts and actors. Falling behind would erode public trust in governments and increase the monetary and social costs of corruption, and the number of victims. EU institutions and Member States now have a window of opportunity to make significant headway in these emerging corruption fields, before corruption can gain a stronger foothold.

Despite the well-recognised risks and realities, comprehensive information and data still are lacking. Researchers and commentators agree that this intelligence gap is slowing and limiting policy, regulatory and investigatory responses to corruption in these sectors. Even in public procurement and the financial sector, which are very closely regulated and receive significant public attention, significant knowledge shortages are hindering official responses. The UNODC says limited data is hampering the development and implementation of evidence-based initiatives to combat sports corruption, and also slowing the awareness of its true scale, scope and impact.<sup>16</sup> Criminals and criminal organisations exploit and benefit from these intelligence gaps, which could be closed with targeted research initiatives. This report aims to help identify and close these gaps (See section 6.2).

In the end, as described in greater detail in the below in-depth analysis, each of the selected high-risk sectors presents new, complex and unique dangers to public budgets, public institutions, companies and citizens that justify timely policy, oversight and enforcement responses:



## Part 2 – the in-depth analysis of a selection of high-risk areas

The in-depth analysis of the six high-risk areas identified as particularly relevant and urgent is based on the analysis of what we call the 3 Cs, i.e. the *character*, *causes*, and *consequences* of corruption. To empirically capture the *character*, *causes*, and *consequences* of corruption in high-risk areas, the following research questions guide the analysis:

### *The character of corruption*

The basic ingredients of corruption-related crimes committed by or upon the sector are analysed, including the general and specific types of crimes, the elements of these, who is committing them and how, emerging criminal tactics, and the scale of corruption in the sector and any sub-sectors.

Exploratory questions:

- What is the scope of the corruption problem in the area? (e.g. Frequency)
- What form(s) does corruption take? (Bribery? Conflict of Interest? Sextortion? Favouritism? Nepotism? State capture? Other?)
- What actors are involved? (And who are the winners/losers?)
- What are the means/methods used?

To determine the character of corruption, the main types of crimes and misconduct were identified based on research by public authorities, law enforcement, prosecution offices, independent experts and media reports. This information was cross-referenced in order to develop a cohesive picture of corruption within each area. Economic and societal trends were taken into account to place corruption in a contemporary context, and relevant cases, examples and observations from expert practitioners are included.

### *The causes of corruption*

The reasons corruption-related crimes are committed by or upon the sector are analysed, including the opportunities to obtain money and power corruptly, favourable risk-vs-reward calculations, motivations of criminals, vulnerabilities of victims, and weakness in enforcement and oversight.

Exploratory questions:

- What are the individual-level causes and vulnerabilities? (Need, greed, to gain access to goods or services, to divert or control domestic wealth, gain influence over decisions, gain funds for political campaigns, to protect power alignments, to protect large deals, etc.)
- What are the system-level causes and vulnerabilities? (Gaps in or lack of laws and policies, informal institution of shared expectations, culture, lack of information and transparency, lack of accountability mechanisms, etc.)

To determine the causes of corruption, a system-wide approach was taken to identify the economic, power-seeking and other incentives of the perpetrators, traditional and emerging opportunities to commit corruption within the sector, industry and technological developments that enable new forms of corruption, and challenges in regulation, oversight and investigation. Relevant cases and examples are included.

### *The consequences of corruption*

The damage caused by corruption-related crimes committed by or upon the sector is analysed, including the types of harm caused (i.e. monetary, political, societal, and public health), the scale and monetary amount of harm (if known), and the main and secondary victims. Intangible damages such as loss of faith and lowered trust are mentioned where relevant.

Exploratory questions:

- What is the scope of consequences?
- What suffers or is affected as a result, and how?
- Who suffers or is affected as a result, and how?
- How extensive and costly is the damage?

To determine the consequences of corruption, relevant data and information from public authorities and experts were presented in order to portray various types of harm to governmental structures, the economy, financial systems, individual industries, consumers, citizens and the broader public interest. Consequences can be narrow and defined (affecting individuals), or broad-based and generic (affecting society). Relevant cases and examples are included.

## **Part 1: Mapping and identifying high-risk sectors and areas of corruption**

## 3 Mapping and identifying high-risk areas

### 3.1 Results from desk research

What does previous research say about which are the high-risk areas of corruption in the EU? Whereas several different reports and surveys have aimed at identifying those – including the Eurobarometer and the Global Corruption Barometer - there is still not any established consensus on which areas constitute the main risk areas, but depending on perspective, a variety of risk areas can be identified. One reason for this lack of consensus in the previous literature is, as discussed, the fact that different scholars and organisations tend to approach the concept of corruption from different perspectives. The same goes for the concept of risk; whereas some think about risk areas in terms of frequency, others instead tend to approach the concept from the perspective of theory, consequences, or anticipation. Moreover, different scholars and organisations tend to understand the term “area” in different ways. While some understand the concept in terms of sectors such as construction, health, or migration, others tend to approach the concept in terms of government functions, such as public procurement. Moreover, while some surveys include a focus on different positions (police, judges, businesses, etc.), others do not include such a focus. Taken together, these differences in approach towards both the concept of “corruption”, “high risk” and “area” make it difficult to draw any clear-cut conclusions regarding which specific areas are in fact the most high-risk in *general* terms. Below follows instead an assessment of risk areas in line with the four different approaches to risk identified above – i.e. the frequency-based assessment, the theory-based assessment, the consequence-based assessment, and the anticipatory assessment.<sup>23</sup>

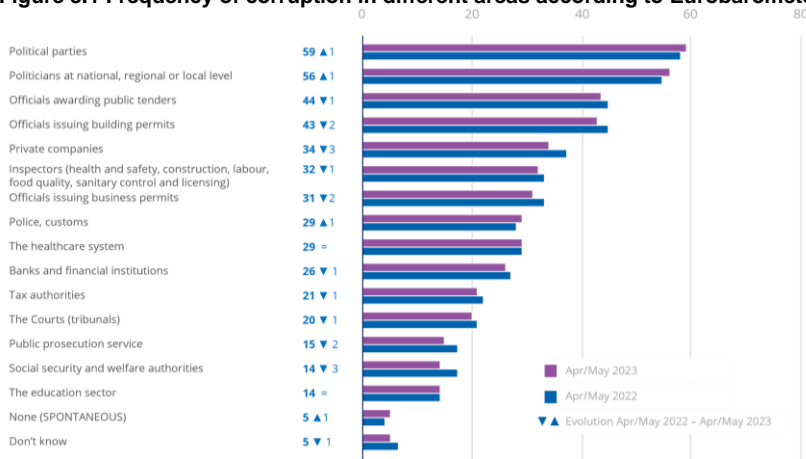
#### Approach 1 | FREQUENCY-BASED ASSESSMENT

In line with the frequency-based approach, sectors and areas that can be considered of particularly high risk among the EU Member States include the business sector, the welfare sector, the political sphere, public procurement, state-owned enterprises, and the construction sector. In the [2023 Eurobarometer](#) survey (Figure 3.1 below), these sectors all stand out as high risk, with 37% of the respondents believing “the giving and taking of bribes and the abuse of power for personal gain” to be “widespread” among private companies; 56% believing it to be widespread among politicians at the national, regional, and local level; 59% believing it to be widespread among political parties, 44% believing it to be widespread both among public officials awarding public tenders and 43% believing it to be widespread among public officials issuing building permits.<sup>24</sup>

<sup>23</sup> This latter way of anticipating risks is similar to if yet distinct from the consequence-based assessment approach.

<sup>24</sup> European Commission. 2022. “Special Eurobarometer 523: Corruption.” Source: <https://europa.eu/eurobarometer/surveys/detail/2658>, (retrieved on November 2, 2023).

**Figure 3.1 Frequency of corruption in different areas according to Eurobarometer 2023**

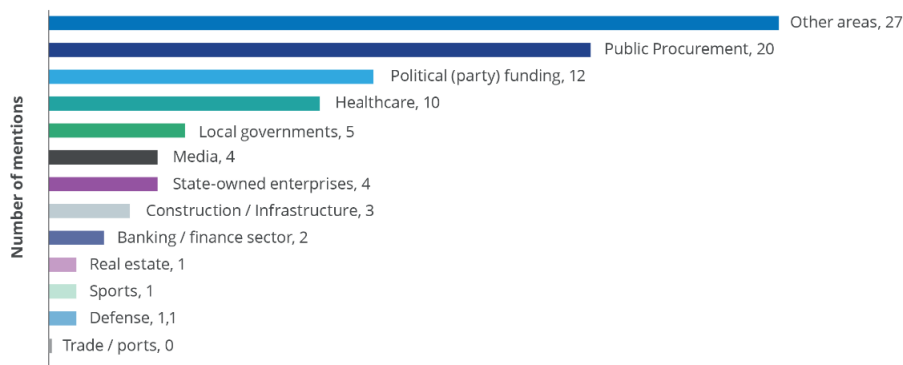


Source: Figure adapted from [Eurobarometer \(2023\)](https://ec.europa.eu/eurobarometer/).

Transparency International’s Global Corruption Barometer reveals that among public service users in the EU, reported bribery rates are the highest among users of public schools and social security benefits – 8%.<sup>25</sup> The same survey reveals that the parliament is the institution which most respondents find corrupt (28% of the respondents), and the police is the institution that most respondents find the least corrupt (11% of the respondents).<sup>26</sup> Exploring the EU Rule of Law Reports spanning 2020 to 2023 reveals a nuanced narrative of integrity issues across EU Member States. Despite concerted efforts, corruption persists in familiar forms such as favouritism, nepotism, and the misuse of public resources. Among the most frequently cited issues are lobbying, conflicts of interest, and the revolving door phenomenon, where public officials move to private-sector roles and vice versa. These types of corruption pose systemic risks to transparency, accountability, and fair competition within national economies. These reports uncover sectors like public procurement, political finance, health care, and construction, as notably susceptible to malpractice as the figure below indicates (for a detailed elaboration on the frequency, nature and areas vulnerable to corruption as indicated in the EU Rule of Law Reports see Annex II).<sup>27</sup>

**Figure 3.2 Number of times high-risk areas are mentioned in Rule of Law reports (2020 - 2023)**

**High risk areas of corruption indicated in the EU Rule of Law reports**



<sup>25</sup> Transparency International. 2021. „Global Corruption Barometer.” <https://www.transparency.org/en/gcb/eu/european-union-2021/results/aut> (retrieved on December 14, 2023).

<sup>26</sup> Transparency International. 2021. „Global Corruption Barometer.” <https://www.transparency.org/en/news/gcb-eu-2021-survey-people-worry-corruption-unchecked-impunity-business-politics> (retrieved on December 14, 2023).

<sup>27</sup> EC Rule of Law Report 2023: Progress on 65% of recommendations, but further action needed.

## Approach 2 | THEORY-BASED ASSESSMENT

Another way to approach the concept of high-risk would be to instead think about it in academic terms. Based on dominating scholarly theories of corruption – particularly Principal-Agent Theory and Collective Action Theory – we know that the risk of corruption increases with the number of opportunities and incentives favouring corrupt behaviour.<sup>28</sup> According to research, opportunities and incentives to engage in corruption transactions typically arise when the benefits of engaging in corruption are high, the risks for detection and punishment – and thus the costs – are low, there are a lot of resources involved, transaction chains are complex and non-transparent, there is a monopoly, an ethical code is lacking, the work process is concealed, and there is a need for many licences and permits.

Based on this academic conceptualisation of high-risk sectors and areas, there seems to be agreement that sectors and areas such as the mining industry, public procurement, finance, construction and infrastructure, transportation, and storage are particularly vulnerable to corruption.<sup>29</sup>

## Approach 3 | CONSEQUENCE-BASED ASSESSMENT

Yet an additional way to think about what constitutes a high-risk sector or area is to instead consider the impact of corruption in different areas and sectors – and put these costs and consequences in relation to the values and goals prioritised and strived for in more general terms. In such an exercise, the task will in a first step be to identify which values and goals are indeed prioritised and strived for – might it be an inclusive and democratic society, increased development and welfare, or an EU free from transnational corruption. In a second step, the costs and consequences of corruption in different sectors and areas then need to be put in relation to these values and goals.

In practice, the understanding of what constitutes a high-risk sector or area will vary depending on what these values and goals might be. For instance, many countries in the EU with relatively “clean” public sectors continue to enable transnational corruption.<sup>30</sup> If an EU free from foreign bribery and transnational corruption is understood as an important goal to strive for, high-risk sectors to focus on would be the extractive and construction sectors. According to the OECD’s Foreign Bribery Report, 15% and 15% of foreign bribery cases occurred in these two sectors, which makes them the most vulnerable in this regard.<sup>31</sup> Public procurement would be another area to focus on; according to the same report, 57% of cases of foreign bribery involve bribes to obtain public procurement contracts.

## Approach 4 | ANTICIPATORY ASSESSMENT

The anticipatory assessment approach focuses on [the anticipation of risks](#) – in emerging areas, such as digitalisation, and/or in areas of strategic importance to the EU, like security and institutional stability.<sup>32</sup> Through its focus on the anticipation of risks even in areas that we do not have much knowledge about already from the perspective of corruption, the approach has the potential to capture

<sup>28</sup> Klitgaard, Robert. 1988. *Controlling Corruption*. Berkeley: University of California Press; Becker, Gary S., and George J. Stigler. 1974. “Law Enforcement, Malfeasance, and Compensation of Enforcers.” *Journal of Legal Studies* 3 (1): 1–18; Rose-Ackerman, Susan. 1978. *Corruption: A Study in Political Economy*. New York: Academic Press. Rose-Ackerman, Susan. 1999. *Corruption and Government: Causes, Consequences, and Reform*. New York: Cambridge University Press; Persson, Anna, Rothstein, Bo, and Teorell, Jan. 2013. “Why Anti-Corruption Reforms Fail – Systemic Corruption as a Collective Action Problem.” *Governance: An International Journal of Policy, Administration, and Institutions* 26(3): 449-471.; Persson, Anna, Rothstein, Bo, and Teorell Jan. 2019. “Getting the Basic Nature of Systemic Corruption Right.” *Governance: An International Journal of Policy, Administration, and Institutions* 32 (4): 799-810.

<sup>29</sup> Investopedia. 2022. „Why These Industries are Prone to Corruption.” <https://www.investopedia.com/articles/investing/072115/why-these-industries-are-prone-corruption.asp>. (retrieved on December 14, 2023).

<sup>30</sup> Transparency International. “Corruption Perceptions Index 2021.” Source: <https://www.transparency.org/en/cpi/2021>, (retrieved on November 2, 2023).

<sup>31</sup> OECD. 2014. “OECD Foreign Bribery Report.” Source: [https://read.oecd-ilibrary.org/governance/oecd-foreign-bribery-report\\_9789264226616-en#page1](https://read.oecd-ilibrary.org/governance/oecd-foreign-bribery-report_9789264226616-en#page1) (retrieved on November 2, 2023).

<sup>32</sup> This latter way of anticipating risks is similar to if yet distinct from the consequence-based assessment approach.

risks even in areas where the other approaches fall short. For instance, corruption risks in the digitalisation of the public sector (including digital infrastructures, e-governance, e-democracy, use of AI in public services, etc.) are difficult to substantiate through particularly the first two assessment approaches, since the corruption forms and their consequences are underexplored. The same goes for the sports sector, which has gained increased attention in the last couple of years.

Given certain current societal developments, there is moreover reason to believe that certain areas that have so far not gained much attention might attract a greater focus in the future. For instance, the [EU Rule of Law reports](#) highlight emerging risks in the areas of both defence and security, as well as the intricate landscape of energy and climate policies. Given the Russian war of aggression against Ukraine and the yet again intensified conflict in the Middle East, it is possible to anticipate the increasing importance of the defence and migration sectors.<sup>33</sup> While corruption risk assessments in the energy sector are common, focusing on infrastructure and extractive industries, the anticipatory approach suggests a focus on corruption risks related to climate change (renewable energy, CO2 emission regulations, etc.). Further, increasing securitisation requires rethinking the consequences of political corruption. In political finance, elections and decision-making, the frequent instances of strategic corruption and citizens' susceptibility to political populism alert that corruption is part of hybrid warfare that can undermine political institutions from within, which increases severeness of corruption consequences.

In the end, the mapping of high-risk areas in the EU based on previous research suggests that the following areas should be expected to be particularly vulnerable to corruption:

**Table 3.1 High-risk areas identified by desk research**

Frequency	Academic	Consequences	Anticipation
<ul style="list-style-type: none"> <li>Public procurement</li> <li>Construction &amp; Infrastructure</li> <li>Political sphere</li> <li>Business sector</li> <li>State-owned Companies</li> <li>Political Finance</li> <li>Welfare sector</li> </ul>	<ul style="list-style-type: none"> <li>Mining</li> <li>Public Procurement</li> <li>Construction &amp; Infrastructure</li> <li>Transportation &amp; Storage</li> </ul>	<ul style="list-style-type: none"> <li>(will vary depending on values and priorities, but it is safe to say that independently on where corruption strikes, it has negative consequences for somewhat and someone)</li> </ul>	<ul style="list-style-type: none"> <li>Political Finance</li> <li>Defence</li> <li>Digitalisation</li> <li>Energy &amp; Climate</li> <li>Migration</li> <li>Sports</li> </ul>

In the next section, we add to our mapping of high-risk areas of corruption from original data collection based on an expert survey of the country experts of the LRCC.

### 3.2 Results from original data collection

Original data collection was conducted through the LRCC Expert Survey to ensure comprehensive and reliable results. The LRCC Expert Survey offered valuable insights by capturing current expert opinions and experiences, thereby reflecting the immediate consensus on corruption and high-risk

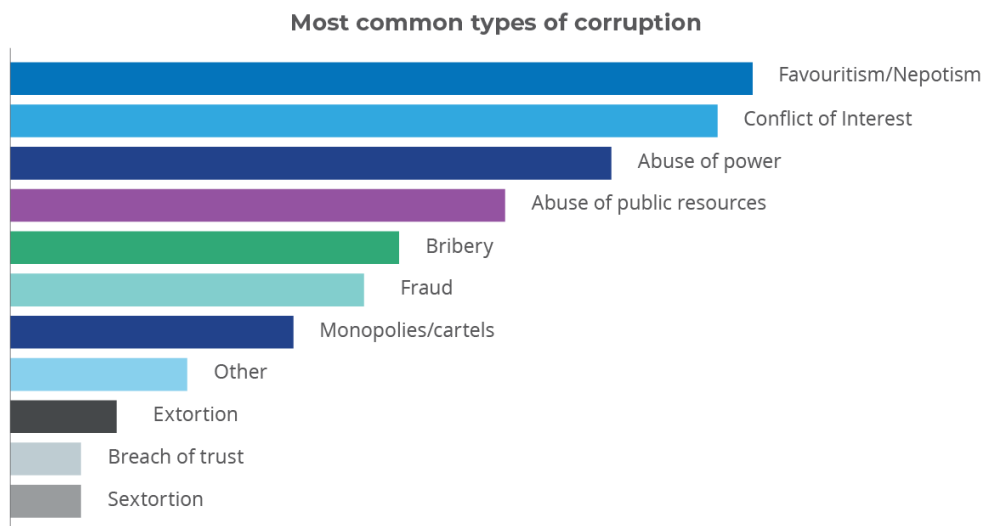
<sup>33</sup> Joly J. 2021. "Peacebuilding & Corruption: Look through an Anti-Corruption lens toward Security Sector Reform" CJL Blog. <https://www.corruptionjusticeandlegitimacy.org/post/peacebuilding-corruption-look-through-an-anti-corruption-lens-toward-security-sector-reform>

areas. This taken together with the desk research facilitated a robust mapping of the high-risk areas of corruption in the EU Member States.

### Results from the LRCC Expert Survey

Through the LRCC Expert survey, it became evident that the most prevalent types of corruption identified by respondents are favouritism/nepotism, conflict of interest (Col), abuse of public resources, abuse of power, and bribery. Participants highlighted how favouritism and nepotism often lead to unfair advantages in public sector hiring and promotions, undermining meritocracy. Col was frequently cited, with many pointing to the troubling overlaps between public duties and private interests that compromise decision-making integrity. The abuse of public resources emerged as a significant concern, with examples ranging from the misallocation of funds to the misuse of government facilities for personal gain. Similarly, the abuse of power was noted for its detrimental impact on public trust, as officials exploit their positions for personal or political gain. Bribery, while perhaps the most universally recognised form of corruption, remains a persistent challenge, with respondents detailing its corrosive effects on the fairness and transparency of governmental processes.

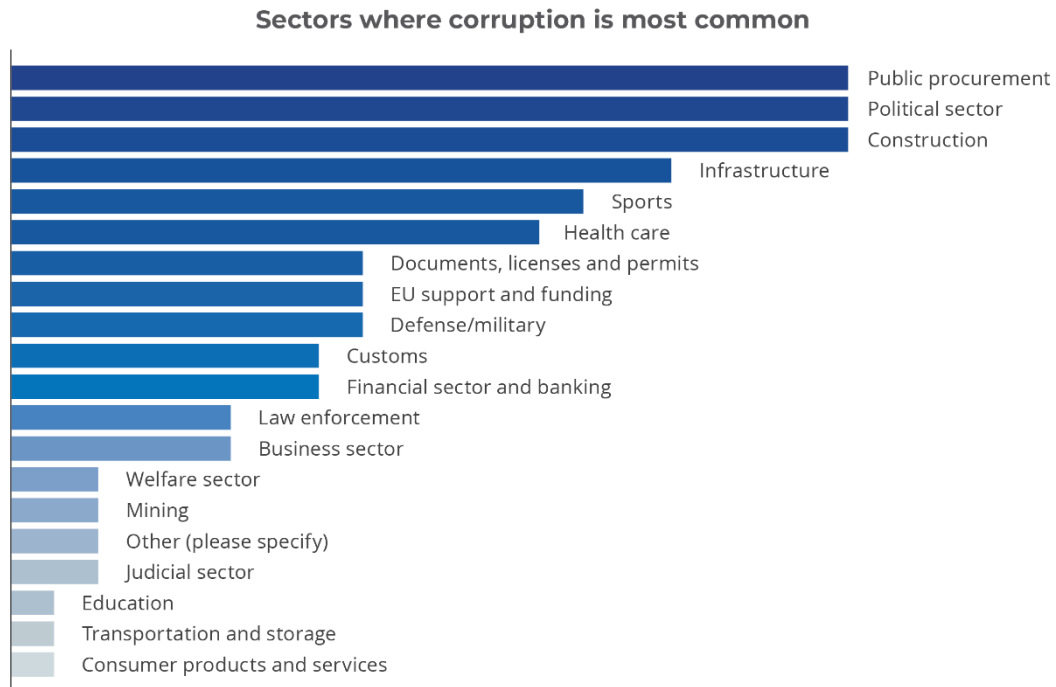
**Figure 3.3 Most common types of corruption from the LRCC Expert Survey conducted**



Additionally, the survey conducted amongst the country experts of the Local Research Correspondents on Corruption revealed that corruption is most commonly found in the construction, political, public procurement, infrastructure, EU funding, and healthcare sectors. Respondents were remarkably unanimous in their reasoning, citing similar factors contributing to the prevalence of corruption across these areas. The frequency of corruption in each sector scored similarly high responses, indicating a widespread and systemic problem. In the construction sector, the opaque processes and large sums of money involved often lead to bribery and bid-rigging. The political sector was highlighted for its susceptibility to favouritism and nepotism, undermining democratic principles. Public procurement and infrastructure were noted for frequent conflicts of interest and abuse of public resources, as contracts are awarded based on connections rather than merit. Corruption in sports often manifests through match-fixing and the misappropriation of funds, while the healthcare sector suffers from fraudulent billing practices and the unfair distribution of medical supplies. The survey results underscore the alarming frequency of corruption across these sectors, pointing to the urgent need for targeted anti-corruption measures and robust regulatory frameworks to mitigate these pervasive issues.



Figure 3.4 Areas where corruption is most common



In addition to the prevalence of corruption, the survey underscored the significant issue of fraud across various sectors. Areas with the highest risks of both corruption and fraud included public procurement, which received the most substantial number of responses, along with construction, infrastructure, and sectors involving EU support and funding. These areas were identified by a few correspondents to be particularly vulnerable due to their intricate processes and the large sums of money involved, creating ample opportunities for fraudulent activities such as falsifying invoices, manipulating tender processes, and embezzling funds. The construction sector, with its extensive projects and financial transactions, remains a hotspot for fraudulent practices. Infrastructure projects are similarly at risk, where the misappropriation of funds and material quality fraud can result in substandard public assets. EU support and funding programs are also susceptible to fraud, with respondents noting issues like the misallocation of grants and subsidies. Interestingly, the sports, defence, and military sectors scored lower in terms of corruption and fraud risks compared to other sectors, suggesting that while these areas still face challenges, they may benefit from more stringent oversight mechanisms or distinct operational dynamics that mitigate some forms of corruption and fraud.

**Figure 3.5 Areas with high risk of corruption and high risk of fraud**

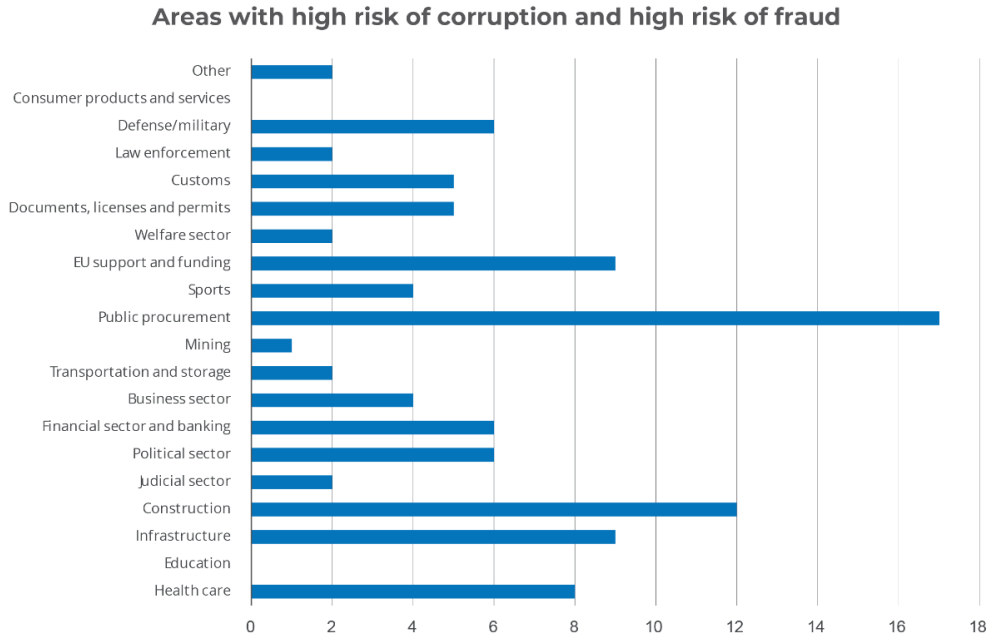


Figure 3.6 below presents the compilation of high-risk of corruption and high-risk of fraud areas based on the LRCC Expert Survey analysis. These were compiled using the collective responses of question 10 in which these areas were tied in with the risk of fraud as well.

**Figure 3.6 Areas with high risk of corruption and high risk of fraud based on LRCC Expert Survey analysis**



Source: LRCC Expert Survey question 10, conducted in 2023-2024.

Furthermore, the survey highlighted anticipated areas of corruption risk in various countries, identifying defence and other aspects of security, energy and climate, as well as political finance as sectors of increasing concern. These areas are becoming more susceptible to corrupt practices due to their growing complexity, high financial stakes, and the rapid pace of change. In the defence and security sectors, the opaque nature of procurement processes and the significant budgets involved create fertile ground for corruption. The energy and climate sectors face risks related to the allocation of funds for green initiatives and the potential for collusion in the bidding processes for large projects. Political finance is also under scrutiny, as the flow of money in politics can lead to undue influence and lack of transparency in decision-making. Conversely, the survey indicated that stolen assets, political decision-making, and digitalisation and AI are not currently considered as emerging areas of corruption risk. While these sectors certainly face challenges, are for some reason not perceived to exhibit the same level of increasing vulnerability as the aforementioned areas. This distinction

underscores the need for targeted anti-corruption measures that address the specific risks within these emerging areas while maintaining vigilance across all sectors to prevent and combat corruption effectively.

The survey results underscore the multifaceted nature of corruption within the EU and the convergence of parallels between the 27 Member States. In the end, the list of focused high-risk areas in the *EU based on the LRCC Expert survey* was compiled using the frequency approach of which sectors appeared most often in the survey in combination with the anticipatory approach in which the more underdeveloped and under-researched sectors are put forward. Using the responses from the LRCC Expert survey, the following areas should be expected to be particularly vulnerable to corruption:

**Figure 3.7 High-risk areas identified by the LRCC Expert survey**

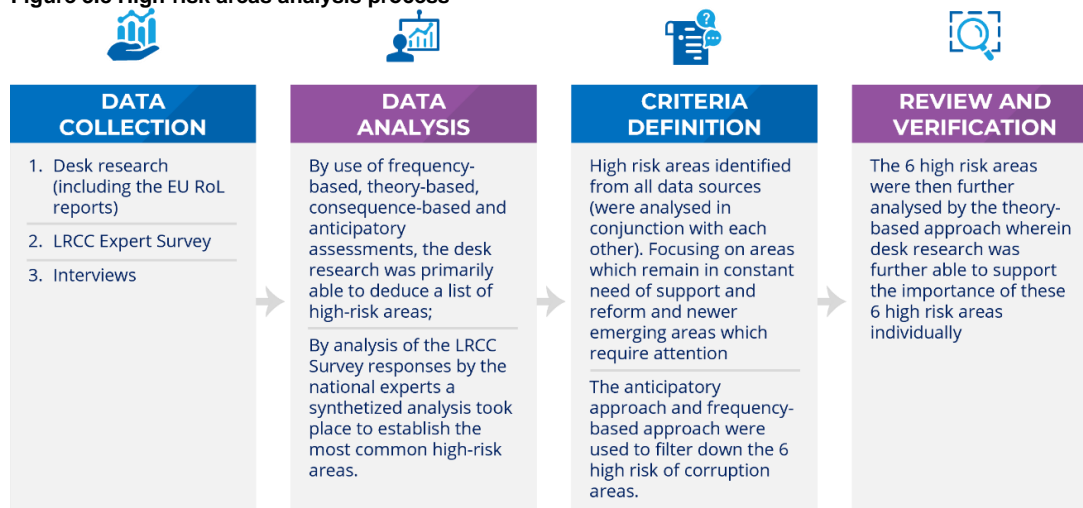


Source: own elaboration.

### 3.3 Summary of mapping

By the use of frequency-based, theory-based, consequence-based, and anticipatory assessments, this section has provided a mapping of high-risk areas of corruption among EU Member States based on desk research, the LRCC Expert Survey, and expert interviews (see Figure 3.8). The mapping points to a number of different areas as being of high risk in the EU, including public procurement, the health sector, state-owned enterprises, the political sector, political party funding, construction and infrastructure, sports, the financial sector, banking, migration, defence and military, EU funds, customs, the business sector, documents, licenses and permits, mining, transportation and storage, migration, digitalisation, and energy and climate.

Figure 3.8 High-risk areas analysis process



EUR.

### 3.4 Identification of the six high-risk areas of merit for further analysis

As described in the methodology section, the identification process of the six high-risk areas of particular relevance and urgency is based on criteria that consider how each area:

- affects a broad cross-section of populations, communities, employees and consumers across the EU;
- has significant cross-border implications within the EU;
- involves a wide range of public institutions, private companies, professions and disciplines;
- features most or all major forms of corruption;
- has risen on the European and global anti-corruption agendas; and
- interlinks with other areas where corruption is commonplace and damaging.

To identify the areas, we relied on quantitative and qualitative information, essentially in equal measure. Quantitative data was used to identify a long list of high-risk areas and group these roughly according to relevance and urgency. Qualitative information, chiefly from research and expert interviews, was utilised to distil from this long list a short list of areas deemed necessary for in-depth exploration – with an eye on the current priorities and future needs of policymakers, investigators and law enforcement.

The identification process resulted in the *short-list* of:

1. Public procurement;
  2. Health sector;
  3. Financial sector;
  4. Construction and infrastructure;
  5. Defence and security;
  6. Sports.
- *Public procurement* is among the most corruption-prone activities undertaken by governments, with risks increasing significantly among EU Member States, according to several organisations and reports. This is mainly because of the immense volume and number of transactions involving public funds; the complexity and lack of transparency of the process; the typically close interaction between public officials and bidding businesses, and the multitude of stakeholders involved. More than 250.000 public authorities in the EU annually spend about EUR 2 trillion, or 14% of the EU's GDP, on public procurement. Opaque processes make it difficult to assess the true scale of these

problems, though corruption losses in the EU are estimated to range from 13 to 25% of contract values. Aggravating factors for corruption include pressure to spend funds remaining at the end of a budget year, rushed contracts signed during natural disasters and other crises, inadequate access to information, opaque tendering and bidding procedures, and conflicts of interest involving public officials who own stakes in contracting companies. Corruption can take on many forms, including bribery, collusion, extortion, embezzlement, illicit enrichment, trading in influence and favouritism. Bidders may act corruptly to access confidential information about tender requirements and competitors' bids, and bribe or pressure public officials to improperly gear tenders to their companies.

- *Healthcare* corruption can be committed by or target many parties, including patients; providers such as hospitals and pharmacies; payers such as private insurers and government health funds; public institutions; and suppliers of medical equipment, pharmaceutical drugs and ambulances. It is one of the largest sectors in the EU, with Member States spending an average of 11% of their GDP on health care. Annual corruption losses in Europe have been estimated at up to EUR 56 billion. Of the EUR 6.8 trillion spent globally on health each year, EUR 450 billion is estimated to be lost to corruption. Virtually anyone can be a victim of healthcare corruption, and the harm reaches far beyond monetary costs and system effects. Receiving medical care and drugs often is a matter of life and death, which makes people dependent on doctors, hospitals and pharmacies for their well-being or even their survival. This places them in a position of weakness that easily can be exploited by health professionals, drug companies and insurers. Patients can be victimised by fake or substandard diagnoses and treatments, kickback-driven referrals, unnecessary procedures, and the unavailability of high-quality medicines due to theft or extortion. Corruption is enabled by complex governance structures with multiple stakeholders, large budgets, regulatory weakness and capture, information asymmetry, limited transparency, and globalised supply chains for drugs and medical devices.
- *Financial sector* corruption is everywhere and is committed at every level of society – from individual scammers on laptops, to unscrupulous bankers and investment houses, to international terrorism financing networks. It is an enormous, ever-evolving industry that is both a perpetrator and a victim of corruption. Because these roles are not always easily distinguishable from each other, a unique approach in assessing risks in the sector is required. In either case, financial companies are an enabler and a venue for corruption. Many types of serious crimes are categorised as corruption, including money laundering, tax evasion, hidden assets, consumer fraud, terrorism financing and cybercrimes. Banks, in particular, both condone and are victimised by money launderers and tax evaders. Eurojust reported more than 2,000 money laundering cases in 2023, and the EU annually loses up to EUR 1 trillion due to tax evasion and tax fraud. Half of Eurojust's more than 10,000 new and ongoing cases in 2022 were for money laundering, swindling and fraud. As the financial sector becomes more decentralised and unwieldy, the opportunities to become a perpetrator and/or a victim continue to grow. Corruption enablers including lawyers, notaries, accountants, real estate agents and other professionals sell their expertise to help criminals hide their money, avoid paying taxes and evade detection. Organised crime groups (OCGs), which Europol Executive Director Catherine De Bolle says have built a "parallel global criminal economy" in the EU, are at the heart of much of the corruption in the sector.
- *Construction and infrastructure* corruption touches innumerable types of projects, including roads, bridges, school buildings, drinking water systems, power plants, ports, hospitals and railways. The construction sector is the largest industrial employer in the EU, whose 15 million employees comprise about 7% of the total workforce. Construction contributes about 5% to EU's total gross

value added. Up to one-fifth of construction costs is lost to bribes; this could be even higher. Corruption can happen during any phase of a project, from initiation and procurement, to implementation and disposal, when the final product is transferred or sold. Infrastructure projects often are long-term and complex with an inherent information asymmetry, and conducted under time pressures that can lead to corners being cut and oversight being compromised. Corruption may lead to contracts being awarded to incompetent contractors that use substandard or unapproved materials, safety hazards such as collapses and injuries, non-compliance with safety codes, compromised safety inspections, and deficiencies such as roads without guardrails and buildings without emergency exits. It also can cause environmental degradation and undermine efforts to build climate mitigation and adaptation infrastructure.

- *Defence and security* corruption is enabled by high levels of secrecy and confidentiality in the weapons industry and defence ministries. The industry and policymakers are very closely intertwined, making it difficult to ascertain whether corruption originated with a company, a ministry or both. The size of the industry and its market concentration provide many openings for corruption. Annual defence spending in the EU stands at a record quarter-trillion euro, and this is expected to grow due to the Ukraine war and the need to meet NATO commitments. One assessment identified “moderate” corruption risks in 15 EU countries, and every country had “alarming” scores for corruption risks in military operations. Defence markets have been described as monopsonies (a single buyer) and monopolies or oligopolies (one or very few suppliers). Because its enormous budgets are simultaneously appropriated, regulated and spent by government officials, supply and procurement decisions are subject to conflicts of interest, bribery, favouritism and political misuse. Corrupt acts can take on many forms, including diversion of funds and supplies, illegal resale of weapons, corruption in arms production, and revolving door hiring. In addition to secrecy and large budgets, other causes of corruption include complex contracts, dealings with doubtful regimes, a lack of political will to combat corruption, and the sector’s disproportionate significance for governments.
- *Sports* corruption extends far beyond the occasional high-profile case of a fixed football match. Aided by websites and apps, people can now gamble on a single point in tennis, the recipient of a red card in football, and the winner of a pillow fight. Any form of betting can be corrupted by fixing, manipulation, fake games and illegal gambling operations. Europe has been ranked as the region with the highest rates of sports manipulation, and Europol has identified corruption in sports as one of the 11 main activities of organised crime within the EU. More than three-fourths of football fans say there probably is corruption in FIFA. Football is the most corrupt sport in Europe, especially in lower leagues and smaller countries where players and coaches are more vulnerable to bribery and coercion, media attention is lower, and investigators’ capacity is thin. Though fewer than 1% of games are believed to be fixed, criminals take in millions of euro in ill-gotten profits every year. Football and tennis are targeted most by international criminals; basketball, handball, beach volleyball and ice hockey also are vulnerable. Much of this corruption is committed by Asian-linked organised crime groups that also engage in bribery and money laundering. Competition to host major sporting events and obtain broadcasting rights opens other opportunities for bribery, collusion and influence peddling.

The identification of these six areas does not suggest that others are not worthy of deeper study and reflection. As other qualitative and quantitative data show, including the LRCC survey, there are many high-risk areas in the EU. In the context of this study, and for the purposes of supporting the EU Anti-Corruption Strategy, these six areas were deemed most appropriate for further analysis.

In the next section, we turn to an in-depth analysis of the *character, causes, and consequences* of corruption in these six high-risk areas.

## Part 2: In-depth analysis

This part presents the results from the in-depth analysis of the nature and intricacies of the corruption problem in a selection of areas – public procurement, health, finance, construction & infrastructure, defence & security, and sports – at the EU level. More specifically, the analysis focuses on the character, causes, and consequences of corruption in these high-risk areas, with the ultimate aim being to contribute important insights regarding whether EU Member States are facing the same problem of corruption in these areas, or whether any attempt to fight corruption in EU Member States will in fact require that measures be tailored to the specific area in focus.

## 4 Analysis of high-risk areas of corruption

### 4.1 The nature and intricacies of the problem of corruption in public procurement

#### 4.1.1 Introduction

Public procurement is the process by which governments purchase goods, services and works that are required to serve the public and promote welfare from the private sector.<sup>34</sup> Public procurement is thus an intricate part of all sectors and areas that in some sense or another involve the government, including health, education, infrastructure, environmental protection, construction, economic affairs, transport, communication, energy, public order, defence, and security. In fact, besides grants and social programs, public procurement is one of the main ways taxpayers' money is spent.<sup>35</sup> The global expenditure in public procurement is estimated to amount to about USD 11 trillion, constituting on average 12% of the global GDP.<sup>36</sup> Also in the EU, public procurement is a key element, both from an economic perspective and from that of integration. According to recent figures, every year over 250.000 public authorities in the EU spend around EUR 2 trillion, or 14% of the EU's GDP, on public procurement.<sup>37</sup> In many sectors such as energy, transport, waste management, social protection and the provision of health and education services, public authorities are the principal buyers.<sup>38</sup>

To ensure that a harmonised set of rules and procedures are applied when contracts are awarded, the EU has established several directives.<sup>39</sup> These rules govern the way public authorities and certain public utility operators purchase goods, works and services. They are transposed into national legislation and apply to tenders whose monetary value exceeds a certain amount. For tenders of lower value, national rules apply.<sup>40</sup> Directive 2014/24/EU defines generally applicable public procurement rules,<sup>41</sup> while Directive 2009/81/EC focuses on certain aspects of defence procurement,<sup>42</sup> Directive 2014/25/EU defines the legal framework for procurement by entities operating in the water, energy, transport, and postal services sectors,<sup>43</sup> and Directive 2014/23/EU delineates the legal framework for the award of concession contracts.<sup>44</sup>

Public procurement can potentially be a channel to boost jobs, growth and investment, and to create an economy that is more socially inclusive, innovative, and resource and energy-efficient. It moreover helps public authorities achieve the best value for money when purchasing works, goods and

<sup>34</sup> <https://www.oecd.org/governance/public-procurement/>; [https://single-market-economy.ec.europa.eu/single-market/public-procurement\\_en](https://single-market-economy.ec.europa.eu/single-market/public-procurement_en)

<sup>35</sup> UNODC "Knowledge Tools for Academics and Professionals" UNODC Module Series on Anti-Corruption, [https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption\\_Module\\_4\\_Public\\_Sector\\_Corruption.pdf](https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption_Module_4_Public_Sector_Corruption.pdf)

<sup>36</sup> Malo & Ochoa "Corruption in public procurement is a women's rights issue too" Governance for Development, December 2022; <https://blogs.worldbank.org/en/governance/corruption-public-procurement-womens-rights-issue-too>

<sup>37</sup> [https://www.eca.europa.eu/ECAPublications/SR-2023-28/SR-2023-28\\_EN.pdf](https://www.eca.europa.eu/ECAPublications/SR-2023-28/SR-2023-28_EN.pdf); [https://single-market-economy.ec.europa.eu/single-market/public-procurement\\_en](https://single-market-economy.ec.europa.eu/single-market/public-procurement_en)

<sup>38</sup> [https://single-market-economy.ec.europa.eu/single-market/public-procurement\\_en](https://single-market-economy.ec.europa.eu/single-market/public-procurement_en)

<sup>39</sup> Important to note is that EU rules apply only above a certain threshold, below this national procurement rules apply.

<sup>40</sup> Nevertheless, these national rules also have to respect the general principles of EU law. [https://single-market-economy.ec.europa.eu/single-market/public-procurement\\_en](https://single-market-economy.ec.europa.eu/single-market/public-procurement_en)

<sup>41</sup> Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC.

<sup>42</sup> Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC.

<sup>43</sup> Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC.

<sup>44</sup> Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts.



services. In the end, high-quality public services depend on modern, well-managed and efficient procurement.<sup>45</sup>

Having said this, however, there is a lot of room for corrupt players to strike during the public procurement process – with substantial negative implications for the potential of public procurement to play a positive role in the strive for a prosperous and inclusive EU.<sup>46</sup> According to several organisations and reports, public procurement is among the areas most vulnerable to corruption.<sup>47</sup> As in any sector, because of the secretive and hidden character of corruption, the exact scope of the problem is difficult to assess. However, existing evidence points in the direction that public procurement is in many countries “[...] the gateway to fortune”<sup>48</sup>

Gaps in Member States' procurement frameworks and practices, according to UNODC, include inadequate rules for technical specifications for tenders, non-existent or ineffective systems of domestic review and appeal, inadequate selection and training of procurement officials, and the absence of obligations for procurement officials to declare their assets and interests.<sup>49</sup>

The [2024 Eurobarometer](#) as well as Transparency International's [Global Corruption Barometer](#) reveal widespread concerns about the level of corruption and irregularities in how government contracts are awarded in the EU. In the [2024 Eurobarometer](#), 37% of the respondents agree with the statement that the giving and taking of bribes and the abuse of power for personal gain is widespread among officials awarding public tenders. In a similar vein, as Figure 3.9 below reveals, 52% of the EU respondents in Transparency International's [Global Corruption Barometer](#) doubt that government contracts are allocated in a competitive manner. Instead, they think that the procurement of goods and services in their countries is often or very often allocated based on bribes or personal connections. This view is shared by at least half of people in 16 EU Member States, including France (51%), [Germany](#) (57%), Bulgaria (75%), Cyprus (74%), and Greece (74%).

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<sup>45</sup> [https://single-market-economy.ec.europa.eu/single-market/public-procurement\\_en](https://single-market-economy.ec.europa.eu/single-market/public-procurement_en).

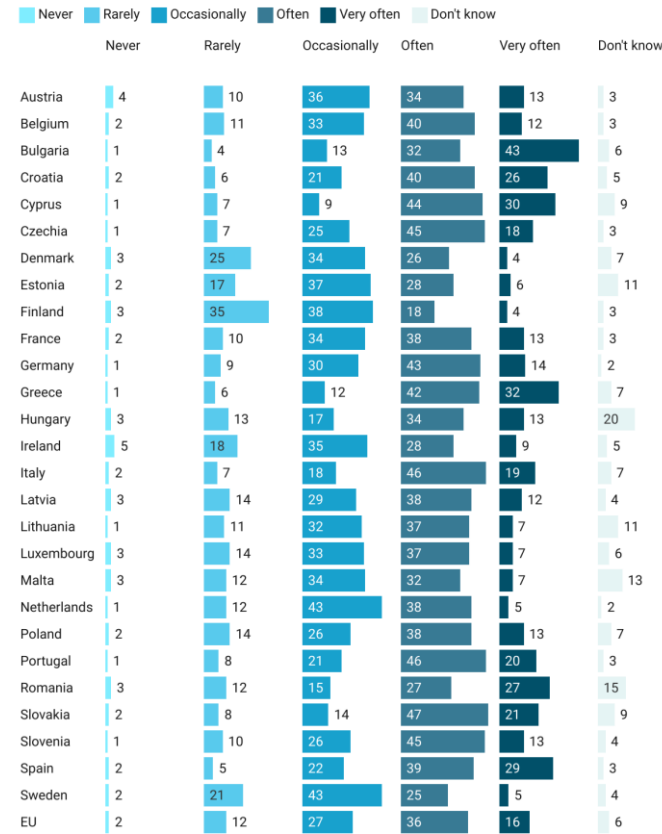
<sup>46</sup> EESC “Corruption in Public Procurement/Internal Market”, 2023; <https://www.eesc.europa.eu/en/news-media/press-summaries/corruption-public-procurementinternal-market>.

<sup>47</sup> <https://www.unodc.org/e4i/zh/anti-corruption/module-4/key-issues/corruption-in-public-procurement.html#:~:text=Procurement%20corruption%20may%20occur%20as,the%20awarding%20of%20these%20privileges>.

<sup>48</sup> Salisu, Mohammed, “Corruption in Nigeria,” Working Paper, Lancaster University Management School, 2000; <https://1library.net/document/y811nr2z-corruption-in-nigeria.html>, see also E. Colonnelli and M. Prem, Corruption and Firms. *Review of Economic Studies* 89 (2): 695–732, 2022; A. Abdou, O. Basdevant, E. David-Barrett and M. Fazekas, Assessing Vulnerabilities to Corruption in Public Procurement and Their Price Impact, Working Paper No. 2022/094, 2022; Fernandes, Meenakshi & Jančová, Lenka (2023). *Stepping up EU's Efforts to Tackle Corruption*. EPRS | European Parliamentary Research Service.

<sup>49</sup> Written submission from UNODC, 28 June 2024.

**Figure 4.1** People who think that companies often use bribes or connections to secure public contracts



The bars show the percentage of the respondents reporting that they think companies often use bribes or connections to secure profitable government contracts.

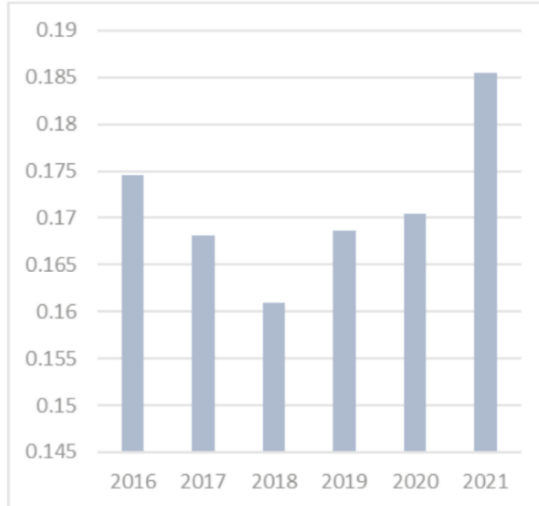
Source: Transparency International (2021). "Global Corruption Barometer: European Union 2021." Created with Datawrapper

It is important to note that the latest Global Corruption Barometer was conducted during the Covid pandemic, which might have influenced the results since, in general, both crisis and the influx of new (and big) funds tend to open up for corruption (cf. de la Porta and Vannucci, 2001). During the Covid pandemic, people across the EU watched procurement scandals unfold, revealing cases of politicians profiting from procurement deals, large contracts being awarded to companies with no known experience in health care or even alleged fraudsters. However, even in calmer times, public procurement is particularly vulnerable to corruption.

Based on data from Opentender, the EPRS report of 2023 on Stepping up the EU's efforts to tackle corruption estimates the corruption risk in public procurement among EU's Member States to have increased quite significantly in the last couple of years, with an average Corruption Risk Index of 0.186 in 2021 (see Figure 4.2).<sup>50</sup> The Corruption Risk Index (CRI) runs from 0-1 (1 indicating the highest risk of corruption) and is constructed based on a set of 'red flags'. For example, single bidder contracts, which are contracts awarded to a bidder when there was only one bidder, were marked with a red flag, as well as contracts that were not publicly advertised or published in the Official Journal. Contracts marked with a red flag have a higher risk of corrupt practices.

<sup>50</sup> Fernandes, Meenakshi & Jančová, Lenka (2023). *Stepping up EU's Efforts to Tackle Corruption*. EPRS | European Parliamentary Research Service.

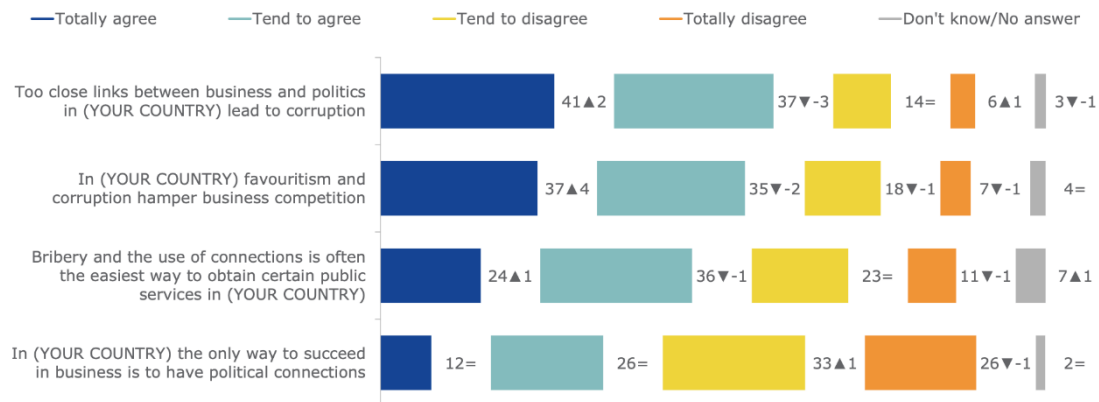
Figure 4.2 Corruption Risk Index in Public Procurement



Source: Adapted from Fernandes & Jančová (2023)<sup>51</sup>

As demonstrated in Figure 4.3 below, the [2024 Flash Eurobarometer on Businesses' attitudes towards corruption](#) reveals that 75% of companies report that they think that favouritism and corruption hamper business competition in their country. Moreover, 60% agree that bribery and the use of connections are often the easiest way to obtain certain public services in their country, whereas 40% agree that, in their country, the only way to succeed in business is to have political connections.

Figure 4.3 Companies' views on corruption in public procurement



▼▲ Evolution 2023-2022 (comparison with Flash Eurobarometer 507, April 2022)  
Base: all companies (2023: n=12 875; 2022: n=12 790)

Source: European Commission (2023). [2023 Flash Eurobarometer on Businesses' attitudes towards corruption](#).

In addition to being a widespread problem *within* EU states, corruption in public procurement is often also exported to countries outside the EU, by EU-based companies. Transparency International refers to such export of corruption as “trouble at the top”, referring to how companies in rich countries take advantage of the weak rule of law elsewhere to win business through bribes, kickbacks and other corrupt deals.<sup>52</sup> Estimates by the OECD show that 57% of all foreign bribery cases are due to procurement corruption.<sup>53</sup> Some of the largest documented schemes of corruption, such as [Operation](#)

<sup>51</sup> Fernandes, Meenakshi & Jančová, Lenka (2023). *Stepping up EU's Efforts to Tackle Corruption*. EPRS | European Parliamentary Research Service.

<sup>52</sup> Transparency International (2020). <https://www.transparency.org/en/news/cpi-2020-trouble-at-the-top>.

<sup>53</sup> “OECD Foreign Bribery Report”, December 2014; <https://www.oecd.org/corruption/oecd-foreign-bribery-report-9789264226616-en.htm>.

[Car Wash](#) (the Odebrecht case), have moreover occurred in public procurement. Adding to this description of the transnational character of corruption in public procurement, OLAF reports that “OLAF cases frequently concern cross-border procurement fraud or corruption in public procurement procedures involving EU financing.”<sup>54</sup>

Against this backdrop, the remainder of this section explores the *character, causes, and consequences* of corruption in public procurement among EU Member States.

#### 4.1.2 The character of corruption in public procurement

The procurement process comprises at least three main stages: 1) *Pre-tendering phase*, including needs assessment, project design, and drafting the call for bids; 2) *Tendering phase*, including drafting the technical specifications and selection criteria, publication of the tender, bid submission, bid evaluation, and contract award, and; 3) *Post-award phase*, including contract management and execution, asset disposal, contract renegotiation, and variation orders, payments, record keeping and auditing.<sup>55</sup>

Depending on in which specific phase of the procurement process corruption takes place, it is likely to take different forms and involve different actors and means.

The UN Convention against Corruption reports that there are at least four different forms of corruption and related activities taking place in public procurement (Figure 4.4):<sup>56</sup>

**Figure 4.4 Corruption and related activities in public procurement**

<b>Corrupt practices</b>	Involve offering, giving, receiving, or soliciting anything of value to sway the actions of a public official during the selection process or contract execution.
<b>Fraudulent practices</b>	Entails misrepresentation or withholding of facts to influence the selection process or contract execution; the falsification of books, records and accounts.
<b>Collusive practices</b>	Involve agreements between two or more respondents, aiming to set prices at artificially non-competitive levels (bid-rigging), sometimes without the procuring entity's knowledge.
<b>Coercive and extortive practices</b>	Involve harming or threatening harm to individuals or their property to influence their involvement in a procurement process or affect contract execution, as well as blackmailing.

In terms of the more specific forms of [corrupt practices](#), these encompass such activities as bribery, embezzlement, illicit enrichment, trading in influence, and abuse of authority, which may involve favouritism and nepotism. Corruption can be initiated either by the private sector (either directly or through agents and middlemen) – the supply side – or by a government official – the demand side. Perhaps the most obvious form of corruption associated with public procurement is the bribery of government officials to obtain a favourable contract decision where no right or claim to such a decision exists. More subtle forms of corruption may occur when bribes are used to manipulate budget allocations and project selection, even before the contracting process begins, through the

<sup>54</sup> OLAF 2020, [https://anti-fraud.ec.europa.eu/system/files/2021-12/olaf\\_report\\_2020\\_en.pdf](https://anti-fraud.ec.europa.eu/system/files/2021-12/olaf_report_2020_en.pdf).

<sup>55</sup> UNODC “Knowledge Tools for Academics and Professionals” UNODC Module Series on Anti-Corruption, [https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption\\_Module\\_4\\_Public\\_Sector\\_Corruption.pdf](https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption_Module_4_Public_Sector_Corruption.pdf); OECD (2016), <https://www.oecd.org/gov/ethics/Corruption-Public-Procurement-Brochure.pdf>.

<sup>56</sup> “United Nations Convention against Corruption: implementing procurement-related aspects” CAC, February 2008; <https://uncitral.un.org/sites/uncitral.un.org/files/cac-cosp-2008-crp.2.pdf>.

manipulation of eligibility criteria in the tender documents, or having technical specifications that are biased and without merit. Bribes could take the form of gifts, money, favours, jobs for family members and donations to political parties or charities.<sup>57</sup> According to many studies, public procurement is especially vulnerable to corrupt practices like price-fixing collusion, cartel maintenance, and other behaviours that undermine competition and prevent the government from obtaining value for money in the procurement process.<sup>58</sup> In many countries, significant corruption risks in addition arise from conflicts of interests in decision-making, which may distort the allocation of resources through public procurement. Moreover, bid-rigging and cartelism may further undermine the procurement process.<sup>59</sup> Slush funds – money that is set aside for miscellaneous income and expenses – are frequently used for corruption agreements in the public procurement sector.<sup>60</sup>

Examples of **fraudulent practices** in procurement are when a government official or a bidder deliberately misleads or misrepresents the facts by submitting false invoices or statements of prior work experience or fails to share key bidding information with all bidders.<sup>61</sup>

**Collusive practices** are secret agreements between parties, in the public and/or private sector, to conspire to commit actions aimed at deceiving or committing fraud with the objective of illicit financial gain. In public procurement, collusion between government officials and bidders can, for example, result in arrangements to inhibit competition by deceiving or depriving others of their rights to secure an unfair advantage. Moreover, collusion among bidders can rig the bid to manipulate the award decision and can be a particular problem in smaller markets where there are fewer competitors.<sup>62</sup>

Finally, public procurement can also suffer from **coercive and extortive practices**. Extortion in procurement occurs when a government official demands something of value in return for assisting a company to win a bid or for taking a required action, such as making a valid contract payment. Coercion can occur when one bidder threatens another to keep them from bidding.

As described by U4 Anti-corruption Resource Center, depending on what phase the procurement process is in, some forms of corrupt and related activities might be more likely:<sup>63</sup>

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<sup>57</sup> Transparency International (2014). [https://images.transparencycdn.org/images/2014\\_AntiCorruption\\_PublicProcurement\\_Guide\\_EN.pdf](https://images.transparencycdn.org/images/2014_AntiCorruption_PublicProcurement_Guide_EN.pdf); U4 Anti-Corruption Resource Centre “The nature of corruption in public procurement”; <https://www.u4.no/topics/procurement/basics>.

<sup>58</sup> UNODC “Knowledge Tools for Academics and Professionals” UNODC Module Series on Anti-Corruption, [https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption\\_Module\\_4\\_Public\\_Sector\\_Corruption.pdf](https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption_Module_4_Public_Sector_Corruption.pdf).

<sup>59</sup> OECD (2016), <https://www.oecd.org/gov/ethics/Corruption-Public-Procurement-Brochure.pdf>.

<sup>60</sup> OECD “Bribery in Public Procurement”, 2007; <https://www.oecd.org/investment/anti-bribery/anti-briberyconvention/44956834.pdf>.

<sup>61</sup> Transparency International (2014), [https://images.transparencycdn.org/images/2014\\_AntiCorruption\\_PublicProcurement\\_Guide\\_EN.pdf](https://images.transparencycdn.org/images/2014_AntiCorruption_PublicProcurement_Guide_EN.pdf).

<sup>62</sup> Transparency International (2014), [https://images.transparencycdn.org/images/2014\\_AntiCorruption\\_PublicProcurement\\_Guide\\_EN.pdf](https://images.transparencycdn.org/images/2014_AntiCorruption_PublicProcurement_Guide_EN.pdf).

<sup>63</sup> U4 Anti-Corruption Resource Centre “The nature of corruption in public procurement”; <https://www.u4.no/topics/procurement/basics>; UNODC “Knowledge Tools for Academics and Professionals” UNODC Module Series on Anti-Corruption, [https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption\\_Module\\_4\\_Public\\_Sector\\_Corruption.pdf](https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption_Module_4_Public_Sector_Corruption.pdf).

**Figure 4.5 Corrupt activities in the different phases of public procurement**

<b>Pre-tendering phase</b>	<ul style="list-style-type: none"> <li>• Pressure from higher level influences the procurement process.</li> <li>• Arranging the demand of the particular good or service based on conflict of interest to ensure that a particular supplier benefits from the purchase.</li> <li>• Bidding documents designed for one company or unnecessarily complex to hide corrupt actions.</li> <li>• Selection criteria not defined objectively and transparent.</li> <li>• Possibilities for unqualified companies to be allowed to partake in the bidding process.</li> <li>• Unrealistic deadlines to favour actors that are informed earlier on.</li> </ul>	<b>1</b>
<b>Tendering phase</b>	<ul style="list-style-type: none"> <li>• Lack of public notice for tender invitations, the criteria for selection, or lack of competition.</li> <li>• Collusive bidding and misuse of confidential information.</li> <li>• Lack of access to records of the awarding process.</li> <li>• Conflict of interest among members of awarding commission.</li> </ul>	<b>2</b>
<b>Post-award phase</b>	<ul style="list-style-type: none"> <li>• Changes made to elements of the proposal when the contracts are being signed.</li> <li>• Compromising bribes done to win the contracts by delivering bad services after signing</li> <li>• Modifications to the requirements needed from the contractors after the increase of the cost of the contract based on collusion</li> <li>• World Customs Organization "Guide to prevent procurement corruption in customs"; <a href="https://www.wcoomd.org/-/media/wco/public/global/pdf/topics/integrity/instruments-and-tools/procurement_guide_june_2015.pdf?la=en">https://www.wcoomd.org/-/media/wco/public/global/pdf/topics/integrity/instruments-and-tools/procurement_guide_june_2015.pdf?la=en</a></li> </ul>	<b>3</b>

Similarly, different forms of corruption might be used for different purposes in the procurement process. U4 identifies six different purposes and ways in which corruption is used in public procurement:<sup>64</sup>

#### 1. Getting rid of competition

Company representatives might engage in corrupt practices to ensure that their company wins contracts. Corrupt activities such as collusion, cartels, price-fixing, mergers, bribes, intimidation, etc. can for example result in a company being the only one invited to bid. The terms might moreover be tailored so that a particular company is the only provider who can meet them – discouraging other companies from bidding.

#### 2. Subverting competitive processes

Company representatives might engage in corrupt practices to subvert competitive procurement processes. For example, they may try to influence public servants in charge of the procurement process (the procurers) through bribes. They might also seek an advantage over other bidders by actively seeking inside information on requirements and conditions that other bidders do not get. In addition, they might influence procurers to tailor-make elements of the process that fit their company, as well as try to create unfair biases when procurers evaluate bids.

#### 3. Deceitful practices during delivery

During delivery, company representatives might over-bill, seek [false payments](#), and deliver sub-standard and sub-quantity goods and services.

#### 4. Collusion

Corrupt procurement processes might involve collusion between the buyer and supplier. It can be that the buyer and supplier agree on the terms, conditions or payments that make the procurement less than competitive and as such provide an unfair advantage to the deceiving company.

#### 5. Conflict of Interest (Col)

Another form of corruption that might be found in procurement is Col. Procurers might ask for bribes in return for shaping tender rules that favour one bidder or to evaluate one company more favourably than another, including businesses where they themselves have a private interest. They can also publish tenders where 'outsiders' are unable to find them.

<sup>64</sup> U4, <https://www.u4.no/topics/procurement/basics>.

## 6. State capture and kleptocracy

In extreme cases, corrupt company strategies can lead to [state capture](#). This is when government decisions are significantly influenced and manipulated by big business. The other side of the coin is [kleptocracy](#) – government leaders abusing their power for personal enrichment.

In terms of the actors involved, corruption in the procurement sector can be carried out by individual players as well as by a network of people either inside or outside the government. It might also involve different levels of government. As argued by Søreide, it may be useful to distinguish between political or high-level corruption and administrative or bureaucratic corruption.<sup>65</sup> Corruption in the form of everyday abuse of entrusted power by low- and mid-level public officials most often occurs in smaller-scale procurements, such as purchasing office equipment or textbooks, or in local service delivery, such as hospital and school admissions. Corrupt acts committed at a higher level of government, are, on the other hand, likely to involve larger funds, such as public works projects, procurement of large quantities of goods, and privatisation projects. Political corruption may occur when policies, institutions and rules of procedure in the allocation of resources are manipulated during the needs assessment and budget planning phase.

In the end, however, in many countries, it does not make any sense to differentiate between political and bureaucratic corruption in public procurement (or in other sectors, for that sake), since corruption is systemic and thus not only involves but also connects all levels of government in what can be described as a ‘corrupt matrix’. In the next section, we turn to the causes of, in many countries systemic, corruption in public procurement.

### 4.1.3 The causes of corruption in public procurement

Public procurement is one of the government activities most vulnerable to corruption. The main reasons for this are at least fourfold: 1) the volume of transactions and financial interests at stake; 2) the complexity of the process, 3) the close interaction between public officials and businesses, and; 4) the multitude of stakeholders involved.<sup>66</sup>

Given these characteristics of public procurement, the frequent association between corruption and procurement should come as no surprise. However, there are several additional factors that influence the likelihood that corruption will indeed occur in the procurement process. Transparency International lists several **special risk factors and circumstances**, which are likely to further increase the risk for corruption making its way into the procurement process. While some of these factors and circumstances are specific to public procurement, others are arguably more general in character.<sup>67</sup>

#### Urgent purchases by the end of the fiscal year

Urgent purchases made at the end of a fiscal year are often less strictly controlled since, in many government agencies, the unspent portions of the public budget cannot be carried over into the next fiscal year. This creates pressure to spend available monies as the fiscal year draws to a close. Sometimes this is called an “emergency” situation, which enables direct contracting procedures when

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<sup>65</sup> Søreide (2002), <https://www.cmi.no/publications/file/843>, cf. Tanzi (1998), “Corruption Around the World: Causes, Consequences, Scope, and Cures” IMF Staff Papers, Vol.45, No. 4.

<sup>66</sup> OECD (2016), <https://www.oecd.org/gov/ethics/Corruption-Public-Procurement-Brochure.pdf>; UNODC “Knowledge Tools for Academics and Professionals” UNODC Module Series on Anti-Corruption, [https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption\\_Module\\_4\\_Public\\_Sector\\_Corruption.pdf](https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption_Module_4_Public_Sector_Corruption.pdf)

<sup>67</sup> Transparency International (2014), [https://images.transparencycdn.org/images/2014\\_AntiCorruption\\_PublicProcurement\\_Guide\\_EN.pdf](https://images.transparencycdn.org/images/2014_AntiCorruption_PublicProcurement_Guide_EN.pdf)

otherwise only open bidding would be possible. This, in turn, is likely to increase the risk for corruption.

### **Emergencies and crises**

Procurement in cases of war, natural disaster and other emergencies and crises is particularly at risk from corruption because of the large sums of money usually involved, particularly for the provision of basic needs such as food, shelter, water, sanitation, and health care. Procurement activities in emergency and crisis situations often take place in difficult environments and situations. In such cases, procurement occurs with enormous pressure to deliver relief quickly and often with high staff turnover. Preventing corruption in emergency and crisis situations must thus be seen in the context of other competing priorities; there may well be a need for considered, documented trade-offs, such as between efficiency in rapidly meeting the needs of the people and trying to prevent corruption. The COVID pandemic is only one recent example of how a crisis might increase corruption.<sup>68</sup>

### **Inadequate access to information**

As many reports and studies bear witness to, corruption thrives in the shadows. A lack of information on government activity and decision-making can easily hide corrupt manipulation of decisions in a procurement process.

### **Use of non-standardised bidding documents**

Standardised bidding documents, use of e-procurement and other procurement documentation are widely considered important tools in ensuring predictability and systematic treatment of tenders. Non-standard bidding documents, by contrast, risk creating room for manipulation and lead to opaque decision-making.

### **Participation of companies owned by government officials**

The participation of bidders owned fully or partly by government officials can be problematic due to the potential CoI or chance of undue influence with regard to decision-making. The problem is heightened when the ownership of a company participating in a procurement process is not disclosed. In all cases, government officials that have a financial interest (either directly or indirectly through family members) in any bidder imply a risk in terms of corruption.

### **Participation of front or shell companies**

A front or shell company is a corporation that has no physical presence, no employees and no commercial activity in the jurisdiction in which it is created, most often with the purpose of insulating the real beneficiaries from taxes, disclosure or both. In the procurement process, it can as such be used to disguise the identity of government officials and their families and for collusive agreements between bidders.

### **Participation of state-owned enterprises**

There is often an inherent CoI presented by state-owned enterprises competing with the private sector for procurement opportunities in their home country, even though it is often difficult to measure the more exact risk of a CoI in any given tender since information about shareholdings and managerial control of state-owned companies is often not publicly available. The opportunities for corruption are particularly heightened when a state-owned enterprise is bidding for a tender from its controlling government agency.

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<sup>68</sup> Usman et al. (2022), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8742567/>.



### Decentralisation of procurement

Even though decentralisation is often promoted to increase accountability, there is also a risk that moving procurement decisions from the national to sub-national government might lead to increased corruption. This is worrying given that, in OECD countries, over 50% of public procurement occurs at the sub-national level. According to Transparency International, there are several factors that might cause corruption to flourish with decentralisation: procurement officials on the sub-national level are typically less well-trained; the local government often has its own procurement rules that are not consistent with those of the national government; local officials are more likely to know the significant companies in their locality and regularly interact with company officials, and; procurements are often issued in smaller values, avoiding the need for open competitive bidding, and. Moreover, in some contexts, accountability structures might in fact be weaker than at the national level because of low Internet connectivity and/or computer literacy, which could preclude the use of e-procurement and hinder the effective disclosure of information.<sup>69</sup>

### Sector vulnerability

Because of certain characteristics, there are some sectors of the economy - such as construction and infrastructure, defence and security, and health - that are typically more prone to corruption. Depending on whether public procurement is carried out in one of these sectors or areas, the risk of corruption is likely to increase.

### Negotiated procedures

A negotiated procedure is an exceptional procedure which allows contracting authorities to negotiate the terms of the contract with a bidder and award a contract without a sealed bid. Although limited to situations, for example, where the nature of the works, supplies or services are such that prior overall pricing is not possible or where collusion is suspected, the negotiated procedures can be used to subvert the competitive bidding process.

In the end, as argued by the World Bank, the multifaceted nature of these specific risk factors and circumstances creates extraordinary challenges in preventing corruption in public procurement.<sup>70</sup> This might particularly be the case in contexts in which corruption in procurement takes place systematically via a network involving multiple firms and individuals both inside and outside of government. In some countries, corruption networks are strong and entrenched, have lasted many years, and involve the entire market for a good or service. In such settings, the money obtained through systematic relational corruption in public procurement fuels political parties and plays an essential role in financing politics. That is, public procurement serves as a channel for economic elites to capture contracts and public funds and for political elites to finance their continued power and authority.<sup>71</sup> In such contexts, one of the major causes for corruption in public procurement is likely to be that corruption plays in the hands of these powerful vested interests. As demonstrated by Persson *et al.*, challenging such a corrupt system where powerful vested interests are at play might be very costly. In some cases, you may even have to pay with your life.<sup>72</sup>

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<sup>69</sup> Transparency International (2014), [https://images.transparencycdn.org/images/2014\\_AntiCorruption\\_PublicProcurement\\_Guide\\_EN.pdf](https://images.transparencycdn.org/images/2014_AntiCorruption_PublicProcurement_Guide_EN.pdf).

<sup>70</sup> World Bank (2021), <https://thedocs.worldbank.org/en/doc/742971611679066058-0090022021/original/PublicProcurement.pdf>.

<sup>71</sup> Bajpai & Myers (2020), "Public Procurement" Enhancing Government Effectiveness and Transparency," <https://thedocs.worldbank.org/en/doc/742971611679066058-0090022021/original/PublicProcurement.pdf>; cf. Persson *et al.* 2013.

<sup>72</sup> Persson, Anna, Rothstein, Bo, & Teorell, Jan (2013). "Why Anti-Corruption Reforms Fail – Systemic Corruption as a Collective Action Problem." *Governance: An International Journal of Policy, Administration, and Institutions* 26(3): 449-471.

#### 4.1.4 The consequences of corruption in public procurement

The consequences of corruption in public procurement are massive and extend far beyond economic losses. Research commissioned by OLAF suggests that in the European Union direct losses from procurement corruption may be up to 18% of project costs (PwC, 2013). According to other estimations, the loss due to corruption in public procurement in the EU is, on average, between 13 and 25% of the estimated value of the contract, which means that approximately 3-5% of EU's annual GDP is lost to corrupt practices in public procurement.<sup>73</sup> In addition to the direct financial losses and increases in the cost of government contracts (Rose-Ackerman and Palifka, 2016), procurement corruption causes harm to citizens, the public and private sectors, as well as to society in general.

Transparency International divides the main consequences of corruption in public procurement into five different categories:<sup>74</sup>

Figure 4.6 Public Procurement division by Transparency International



Source: Transparency International (2014).

In terms of the financial impact, OECD divides the costs of corruption in public procurement into two categories; direct and indirect.<sup>75</sup> Direct costs of corruption in public procurement include the loss of public funds through misallocations or higher expenses and lower quality of goods, services and works. The misallocations are in the form of those paying bribes seeking to recover their money by inflating prices, billing for work not performed, failing to meet contract standards, reducing the quality of work or using inferior materials. This results in exaggerated costs and a decrease in quality.

In terms of indirect costs, corruption in public procurement leads to distortion of competition, limited market access and reduced business appetite for foreign investors.

<sup>73</sup> [Javier Miranzo Díaz European Procurement & Public Private Partnership Law Review](https://www.jstor.org/stable/26695480), Vol. 12, No. 4 (2017), pp. 383-395 (13 pages) <https://www.jstor.org/stable/26695480>.

<sup>74</sup> Transparency International (2014), [https://images.transparencycdn.org/images/2014\\_AntiCorruption\\_PublicProcurement\\_Guide\\_EN.pdf](https://images.transparencycdn.org/images/2014_AntiCorruption_PublicProcurement_Guide_EN.pdf).

<sup>75</sup> OECD (2016), <https://www.oecd.org/qov/ethics/Corruption-Public-Procurement-Brochure.pdf>.

In sum, according to a significant number of studies and reports, few examples of corruption cause greater damage to the public purse and harm public interests to such a grave extent as corruption in public procurement.<sup>76</sup> To combat corruption in public procurement is thus of significant importance for the sake of the well-being of our society.

#### 4.1.5 Concluding discussion

This section has provided an in-depth analysis of the nature and intricacies of corruption in public procurement. It has shown that corruption in public procurement takes many different forms and spans through the entire procurement process, and in all sectors. It has discussed the causes of corruption in public procurement, demonstrating that there are several main factors making public procurement susceptible to corruption; 1) the volume of transactions and financial interests at stake; 2) the complexity of the process, 3) the close interaction between public officials and businesses, and 4) the multitude of stakeholders involved. In addition, there are a number of risk factors and circumstances which may increase the risk of corruption even further, including crises, lack of information, and the involvement of state-owned enterprises. It has finally shown that the consequences of corruption in public procurement are massive and constitute a substantial threat to the well-being of our society.

Where does this leave us in terms of policy implications? As is often the case when complex societal processes and phenomena are dealt with, there is no straightforward answer to this question.<sup>77</sup> However, a few insights from the in-depth analysis warrant further attention. Particularly, to effectively be able to fight corruption in public procurement it is important to take into consideration the implications of the volume of transactions and financial interests at stake. With such massive resources involved comes powerful vested interests, and in many countries even in the EU corruption in public procurement is systemic in character.<sup>78</sup> Consequently, any attempt to fight corruption in public procurement will necessarily be political in character, as it must in a first step make sure to win these powerful actors over to 'the right side'. *How* this can be most effectively done, however, is beyond the scope of this report.

<sup>76</sup> Transparency International (2014), [https://images.transparencycdn.org/images/2014\\_AntiCorruption\\_PublicProcurement\\_Guide\\_EN.pdf](https://images.transparencycdn.org/images/2014_AntiCorruption_PublicProcurement_Guide_EN.pdf); UNODC "Knowledge Tools for Academics and Professionals" UNODC Module Series on Anti-Corruption, [https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption\\_Module\\_4\\_Public\\_Sector\\_Corruption.pdf](https://grace.unodc.org/grace/uploads/documents/academics/Anti-Corruption_Module_4_Public_Sector_Corruption.pdf); Hafner et al. (2016); IMF 2022, <https://www.imf.org/en/Publications/WP/Issues/2022/05/20/Assessing-Vulnerabilities-to-Corruption-in-Public-Procurement-and-Their-Price-Impact-518197>; Malo & Ochoa (2022). "Corruption in public procurement is a women's rights issue too" Governance for Development, December 2022; <https://blogs.worldbank.org/en/governance/corruption-public-procurement-womens-rights-issue-too>.

<sup>77</sup> As argued by the World Bank (2022), however, a growing literature and a vast number of organisations provide guidance on fighting corruption in standard public procurement transactions through the provision of 'checklists' for public procurers. Such 'checklists' often provide similar guidance, including guidance on bidding documents that define the required technical specifications, design elements, and inputs required. The Methodology for Assessing Procurement Systems (MAPS), an internationally developed standard for evaluating procurement systems, identifies the features of procurement systems that operate with integrity, and allows countries to determine what needs to be put in place to address corruption vulnerabilities. Core principles to inform the fight have moreover been set out in publications, such as the OECD's Preventing Corruption in Public Procurement. The guidance provided in this and other similar publications primarily restates the stipulations on procurement in the UN Convention against Corruption and the OECD's own Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 1997). Books and papers by groups like Transparency International provide complementary pointers and lessons on using particular tools in fighting corruption, such as integrity pacts or participatory governance.

<sup>78</sup> Fazekas & Kotic (2020). <https://www.cambridge.org/core/journals/british-journal-of-political-science/article/uncoveringhighlevel-corruption-crossnational-objective-corruption-risk-indicators-using-public-procurementdata/8A1742693965AA92BE4D2BA53EADDFD0>; Fazekas & David-Barett (2020), [https://www.researchgate.net/profile/Elizabeth-David-Barrett/publication/307578627\\_Corruption\\_Risks\\_in\\_UK\\_Public\\_Procurement\\_and\\_New\\_Anti-Corruption\\_Tools/links/57c9e7bf08ae89cd1e81ee38/Corruption-Risks-in-UK-Public-Procurement-and-New-Anti-Corruption-Tools.pdf](https://www.researchgate.net/profile/Elizabeth-David-Barrett/publication/307578627_Corruption_Risks_in_UK_Public_Procurement_and_New_Anti-Corruption_Tools/links/57c9e7bf08ae89cd1e81ee38/Corruption-Risks-in-UK-Public-Procurement-and-New-Anti-Corruption-Tools.pdf).

## 4.2 The nature and intricacies of the problem of corruption in the health sector

### 4.2.1 Introduction

Good health is the foundation of a good life. Good health is moreover a precondition for, as well as an outcome and indicator of, sustainable development.<sup>79</sup> To achieve this goal, universal health coverage (UHC) – including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all – and the strengthening of health systems are widely regarded as a prerequisite.<sup>80</sup> This is also at the core of EU health systems.<sup>81</sup>

While the European Union has committed itself to implementing the 2030 Agenda, including Goal number 3 and striving for universal health coverage and the strengthening of health systems<sup>82</sup> – and while some cross-border health care is mandated by the European Commission<sup>83</sup> – in essence, health care is primarily a national responsibility of EU Member States. In 2021, EU Member States spent on average 10.87% of their GDP on health care, making it one of the largest sectors.<sup>84</sup> This includes any interventions that may be used to promote health, to prevent, diagnose or treat disease or for rehabilitation or long-term care such as pharmaceuticals, medical devices, procedures and organisational systems used in healthcare.

However, despite the health sector being comparatively large, there is still a long way to go to achieve SDG 3 among the EU Member States. Although European countries have made progress toward achieving universal health coverage, there are still gaps in coverage and access.<sup>85</sup>

Whereas there are presumably many reasons for this, corruption is certainly one of them. Because of the secretive and hidden character of corruption, the exact scope of the problem in the health sector – as in any sector – is difficult to assess. However, existing evidence points in the direction of the health sector as a corruption hotspot across the world, including in EU Member States.<sup>86</sup> Although there is significant variation across Member States, the 2021 Global Corruption Barometer for the European Union reveals that, even though just 6% of the respondents report to have paid a bribe for health care in public clinics and hospitals during the year preceding the survey, as Figure 4.7 below

<sup>79</sup> Mushkin, S. J. 1962. "Health as an Investment." *Journal of Political Economy* 70(5): 129–57.

<sup>80</sup> United Nations 2023; WHO 2023. Indeed, the [2015 Addis Ababa Action Agenda Third International Conference on Financing for Development](#) made a plea to politicians and policymakers across the world to start viewing health care as investment spending, not consumption spending.

<sup>81</sup> [Eurostat 2024](#).

<sup>82</sup> While UHC is primarily a responsibility of individual Member States, as defined in the Treaties, the EU has supported initiatives and policies that contribute to its realisation. The EU's European Pillar of Social Rights emphasises the right to timely access to affordable, preventive, and curative health care of good quality. Furthermore, the EU provides funding for healthcare research and infrastructure projects, and sets broad health and safety standards and facilitates cross-border healthcare services through the Regulation (883/2004) on the coordination of social security systems and the Patients' Rights Directive (2011/24/EU). (van Ginneken, Ewout. 2023. Briefing Paper: Public debate on the future health priorities of the European Union. WHO: European Observatory on Health Systems and Policies; European Commission. 2024. [https://international-partnerships.ec.europa.eu/policies/human-development/health-and-demography\\_en](https://international-partnerships.ec.europa.eu/policies/human-development/health-and-demography_en)).

<sup>83</sup> However, Directive 2011/24/EU on patients' rights in cross-border health care mandates the European Commission to ensure patient mobility in the European Union, to facilitate cooperation in healthcare across member states and to establish rules facilitating access to safe and high-quality cross-border health care. Cross-border health care is in this context defined as "[...] healthcare provided or prescribed in a Member State other than the Member State of affiliation" (Directive 2011/24/EU).

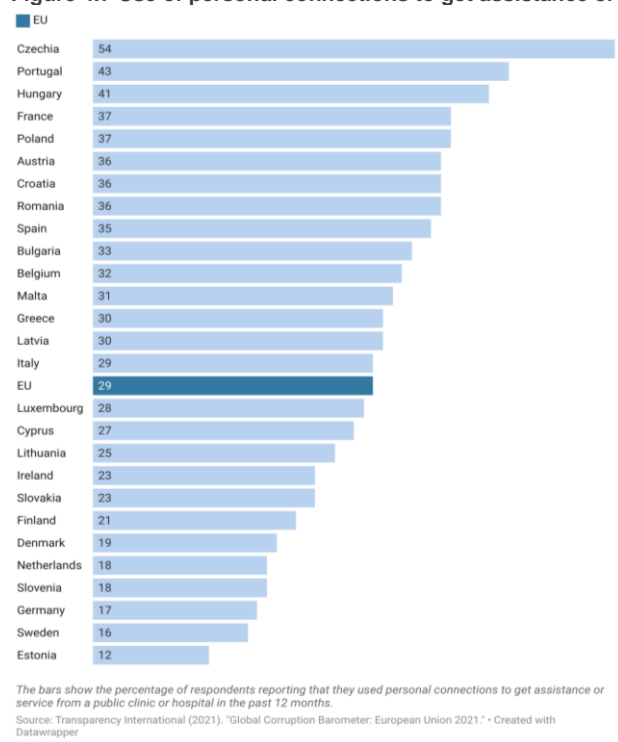
<sup>84</sup> Eurostat (2024). Health in the European Union – Facts and Figures. [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Health\\_in\\_the\\_European\\_Union\\_-\\_facts\\_and\\_figures](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Health_in_the_European_Union_-_facts_and_figures). Retrieved May 28, 2024.

<sup>85</sup> van Ginneken, Ewout. 2023. Briefing Paper: Public debate on the future health priorities of the European Union. WHO: European Observatory on Health Systems and Policies; European Commission.

<sup>86</sup> Transparency International (2021), [Global Corruption Barometer 2021](#).; European Commission (2017), [Updated Study on Corruption in the Healthcare Sector](#) Corruption in the Healthcare Sector.

reveals, 29% of EU residents reported that they had relied on personal connections to get medical care.<sup>87</sup>

**Figure 4.7 Use of personal connections to get assistance or service from a public clinic or hospital**



In addition, there is evidence pointing to corruption being widespread, even systemic, also in other parts of the health sector, particularly in the pharmaceutical and health product supply chain.<sup>88</sup> It has been estimated that the amount of healthcare funds which is stolen through corruption around the world each year is more than what would be required to achieve universal health coverage for all. Of the USD 7.5 trillion spent globally on health each year, USD 500 billion is estimated to be lost to corruption.<sup>89</sup>

Against this backdrop, the remainder of this section explores the *character, causes, and consequences* of corruption in the health sector in EU Member States.

#### 4.2.2 The character of corruption in the health sector

The health sector consists of all public and private agencies, organisations, and businesses involved in the provision and coordination of medical and related goods and services. As such, it involves services, procedures, and functions as varied as 1) Health system governance; 2) Health system

<sup>87</sup> Transparency International (2021). [Global Corruption Barometer 2021](#).

<sup>88</sup> Braithwaite 1984; Kohler et al. 2016), and in procurement (Stamouli et al. 2023; Gasparinatou et al. 2022 Gasparinatou M, Stamouli E, Kouroutzas Ch(2022) "The institutionalization of corruption in the Greek health care system: An ongoing state-facilitated crime", journal Antigone, The Question, June 2022 v. II, n. 3., pp. 8–38 (in Greek). The pharmaceutical sector accounts for a significant portion of health budgets globally. Spending on retail pharmaceuticals (including other medical non-durables) averaged EUR 462 per person across the EU in 2020. Around three out of every four euros spent on retail pharmaceuticals (including other medical non-durables) goes on prescription medicines, with most of the rest on over-the-counter medicines (OTC). According to the World Health Organization (WHO), medicines account for three of the top ten leading sources of inefficiency in the health system, with corruption being the leading source of inefficiency (World Health Organisation, The World Health Report (2010), p.61). Unnecessary spending on medicines, substandard and falsified medicines infiltrating the health system, and inappropriate and ineffective medicine use have inadvertently led to a waste of resources necessary to provide quality and affordable care.


<sup>89</sup> Transparency International (2024). "Our [Priorities: Health](#)."

regulation; 3) Research & Development; 4) Marketing; 5) Procurement; 6) Product distribution and storage; 7) Financial and workforce management, and 8) Delivery of health care services.<sup>90</sup>

Depending on the specific service, procedure, or function of the health sector, corruption is likely to take different **forms** and involve different **actors** and **means**.<sup>91</sup> Moreover, different health systems are prone to different types of corruption, and the risks for abuse depend in part on how funds are mobilised, managed, and paid.<sup>92</sup>

At the service delivery level, where patients directly interact with the health system and individual providers, individual instances of corruption are typically small in scale, but – as Figure 4.8 indicates – high in terms of frequency, which in many settings causes significant cumulative damage.<sup>93</sup> Corruption involving other aspects of the health sector, including corruption taking place at higher levels, is also a substantial problem, and in many instances, several of the corruption types found at the level of service delivery are enabled, exacerbated, or even generated, by higher-level corrupt dynamics.<sup>94</sup> Figures 8 and 9 below summarise the most common forms of corruption typically found in the health sector.

**Figure 4.8 Forms of corruption in the health sector**

<p><b>Health System Governance</b></p> <ul style="list-style-type: none"> <li>Capture of health policy</li> </ul> 	<p><b>Health System Regulation</b></p> <ul style="list-style-type: none"> <li>Inappropriate approval of products</li> <li>Improper product quality inspection and GMP certification</li> <li>Inappropriate product selection</li> <li>Improper healthcare professional accreditation</li> <li>Inappropriate health facility certification</li> <li>Inappropriate health college certification</li> </ul>	<p><b>Research &amp; Development</b></p> <ul style="list-style-type: none"> <li>Abuse of research funding systems</li> <li>Improper trial/study design</li> <li>Improper trial/study conduct</li> <li>Misleading dissemination of trials/studies</li> </ul>	<p><b>Marketing</b></p> <ul style="list-style-type: none"> <li>Improper inducements to healthcare professionals</li> <li>Improper inducements to health facilities and health officials</li> <li>Improper inducements to patient organizations or professional associations</li> <li>Distortive funding or continuing education</li> <li>Improper post-marketing trials/studies</li> <li>False or misleading product claims</li> <li>Disease mongering</li> </ul>
<p><b>Procurement</b></p> <ul style="list-style-type: none"> <li>Unnecessary or ineffective purchases</li> <li>Rigged contract requirements</li> <li>Prefential selection of contractor</li> <li>Collusion between bidders</li> <li>Unfulfilled contract delivery</li> </ul>	<p><b>Product Distribution &amp; Storage</b></p> <ul style="list-style-type: none"> <li>Theft and diversion of products</li> <li>Infiltration of falsified and substandard products</li> <li>Re-packaged non-sterile and expired products</li> </ul>	<p><b>Financial &amp; Workforce Management</b></p> <ul style="list-style-type: none"> <li>Inappropriate selection for jobs, promotions and training</li> <li>Absenteeism</li> <li>False treatment reimbursement claims</li> <li>Embezzlement and misuse of national funds</li> <li>Embezzlement and misuse of donor funds</li> </ul>	<p><b>Delivery of Health Care Services</b></p> <ul style="list-style-type: none"> <li>Informal payments from patients</li> <li>Unnecessary referrals and procedures</li> <li>Private use of public products, equipment, facilities or time</li> <li>Favouritism</li> <li>Overcharging for services or providing inferior services</li> <li>Manipulation of outcome data</li> </ul>

Source: Transparency International (2019). "[The Ignored Pandemic](#)."

<sup>90</sup> Transparency International (2016). "Diagnosing [Corruption in Health Care](#)."

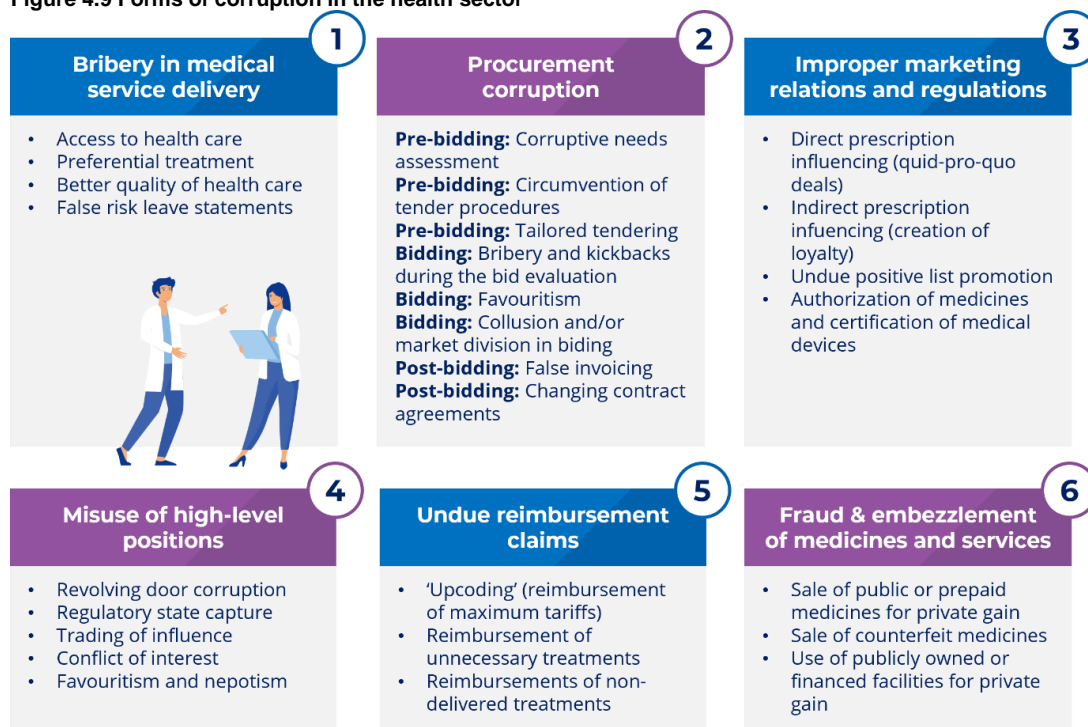
<sup>91</sup> Glynn, Emily H. (2022). "Corruption in the health sector: A problem in need of a systems-thinking approach." Gonzales-Aquines et al. (2021); European Commission (2013); Transparency International (2016). "Diagnosing [Corruption in Health Care](#)." Transparency International (2019). "[The Ignored Pandemic](#)."

<sup>92</sup> Hussman, Karen (2020). "[Health Sector Corruption](#)." U4 Issue 2020: 10.

<sup>93</sup> Transparency International (2019). "[The Ignored Pandemic](#)."

<sup>94</sup> Transparency International (2019). "[The Ignored Pandemic](#)."

Figure 4.9 Forms of corruption in the health sector



Source: [European Commission](#) (2017).

In terms of the actors involved, the health sector engages and involves at least five different types of actors:

- Consumers (patients);
- Providers (public and private hospitals, doctors, pharmacists, NGOs, faith-based organisations);
- Payers (public social security institutions, private insurers, government health funds);
- Government (parliaments, health ministries, and specialised health regulation, oversight, or public health agencies);
- Suppliers (medical equipment, pharmaceuticals, construction, ambulances).

As described in Figures 10 and 11, given the actors' different roles and positions in the health system, the forms of corruption they are involved in – as well as the means and methods used – are likely to differ.<sup>95</sup>

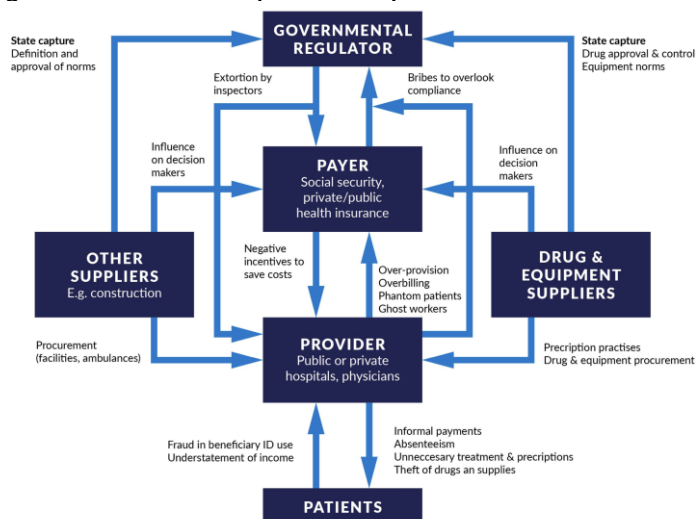
<sup>95</sup> As argued by Hussmann (2020), most research focuses on the service delivery level, that is, on interactions between providers and users, as well as on the pharmaceutical and health product supply chain. The risks of policy, regulatory, and institutional capture, and of corrupt interactions between payers and providers, tend to be under-researched, even though they have great impact on overall health system performance.

Figure 4.10 Forms of corruption among different actors in the health sector

Consumers	Providers	Payers	Government	Suppliers
<ul style="list-style-type: none"> <li>• Patient organizations or professional associations demand or accept gifts and favors from a supplier in return for an advantage;</li> <li>• Unofficial, under-the-table payments from patients to healthcare providers in return for receiving healthcare services.</li> </ul>	<ul style="list-style-type: none"> <li>• Unnecessary referrals and procedures;</li> <li>• Private use of public products, equipment, facilities or time;</li> <li>• Overcharging for services or providing inferior services;</li> <li>• Favouritism.</li> </ul>	<ul style="list-style-type: none"> <li>• Political influence and bribes in resource allocation;</li> <li>• Unnecessary or ineffective purchases;</li> <li>• Misuse of national and donor funds.</li> </ul>	<ul style="list-style-type: none"> <li>• Political interference in the definition of health policy and bribes in market regulations, insurance packages, etc.;</li> <li>• Officials provide unwarranted certification to a health facility due to personal or political connections with facility operators;</li> <li>• Procurement officials fix the bidding process to pre-determine the winner.</li> </ul>	<ul style="list-style-type: none"> <li>• Bribes to manipulate procurement and monitoring processes.</li> <li>• Unnecessary or ineffective purchases;</li> <li>• Preferential selection of contractor for private gain.</li> </ul>

Source: Transparency International (2016).

Figure 4.11 Forms of corrupt relationships in the health sector



Source: Adapted from Savedoff & Hussmann (2006).<sup>96</sup>

Whereas until recently, corruption was typically understood and framed as a *deviant* form of behaviour – as misconduct or criminal behaviour on behalf of a single individual – recent research has shown that, in countries with widespread and deeply rooted corruption, the problem is better understood as ‘the rules of the game’, a *system*.<sup>97</sup> In such a setting, health sector corruption often involves even other actors – and might also take other forms – than the ones described above. For example, the buying and selling of positions in hospital administration may be part of a clientelistic political party system. Health providers may be fake companies set up for money laundering and other illicit purposes; cartels of doctors or other health professionals may capture specific high-cost treatments to extract rents from health systems; hospital inputs and other equipment may be stolen by small local cartels; and pharmaceutical companies may capture groups of patients or patient

<sup>96</sup> Savedoff and Hussmann (2006). "Five Key Actors in the Health System," in Transparency International (Ed.), Global Corruption Report 2006.

<sup>97</sup> Persson, Anna, Rothstein, Bo, and Teorell, Jan. 2013. "Why Anti-Corruption Reforms Fail – Systemic Corruption as a Collective Action Problem." *Governance: An International Journal of Policy, Administration, and Institutions* 26(3): 449-471; Persson, Anna, Rothstein, Bo, and Teorell Jan. 2019. "Getting the Basic Nature of Systemic Corruption Right." *Governance: An International Journal of Policy, Administration, and Institutions* 32 (4): 799-810.



organisations for illicit purposes.<sup>98</sup> Corruption in the health sector might also constitute just one part of a broader set-up, involving a wide range of illegal activities, such as fraud and embezzlement. Studies show that fraud is indeed widespread in the health sector, involving patients and healthcare providers, as well as pharmacists, healthcare facility administrators, suppliers of pharmaceuticals, and suppliers of medical devices.<sup>99</sup> Overall, a distinction can be made between fraud related to healthcare demand, fraud related to the supply of healthcare services and products, and fraud related to healthcare administration and billing services.<sup>100</sup>

In this discussion, it is important to consider that corruption in the health sector might also have a *cross-border character*. In the health sector, cross-border cases involve the sale of legal, illegal or counterfeit medicines in foreign countries, as well as the illegal trading in organs.<sup>101</sup>

In the end, as Persson, Rothstein, and Teorell emphasise,<sup>102</sup> when designing preventive measures and mitigation strategies, it is important to understand the dynamics of and incentives for individual and group behaviour in relation to corruption and related behaviours to be able to identify potential allies and opponents to change. The next section turns to this matter, by exploring the causes of corruption in the health sector.

#### 4.2.3 *The causes of corruption in the health sector*

There are several factors that make the health sector particularly prone to corruption. Most studies and reports on the subject emphasise six main driving factors:<sup>103</sup>

##### 1. Citizens' great dependence on health services

Access to health care is often a matter of life and death, which makes patients dependent on the provision of health services for their health and well-being. As described by UNODC,<sup>104</sup> demand for health services is therefore inelastic, meaning that demand remains unchanged even in the case of an increase in cost due to a request for an illegal payment. This inelasticity can result in patients not only being forced to make illegal payments for treatment but also being unwilling to report these bribes or other forms of corruption for fear that they will be denied access to vital health services in the future.

##### 2. Complex governance structures with multiple stakeholders

National health systems are complex and fragmented with different sub-systems attending to the health needs of different populations. For example, there may be sub-systems for public sector employees, for workers in the formal economy with labour contracts, for the military and/or police, and for the informal sector and/or the poor. Most countries' health sectors moreover involve a combination of public and private health care providers (with the latter often far less regulated than the former), and there may also be a combination of public and private health insurers. The multiple logics of these sub-systems provide opportunities for corruption and for regulatory and policy capture.<sup>105</sup>

<sup>98</sup> Hoffmann 2020; Stamouli et al. 2023. Stamouli, E., Gasparinatos, M. & Kouroutzas, C. Corruption as state -corporate crime: the example of the health sector in Greece. *Trends Organ Crim* 26, 258–292 (2023). <https://doi.org/10.1007/s12117-022-09479-6>.

<sup>99</sup> Gee and Button 2015). "The Financial Costs of Health Care Fraud".

<sup>100</sup> European Commission 2018: "Study on cross-border health care".

<sup>101</sup> European Commission (2017).

<sup>102</sup> Persson, Anna, Rothstein, Bo, and Teorell, Jan. 2013. "Why Anti-Corruption Reforms Fail – Systemic Corruption as a Collective Action Problem." *Governance: An International Journal of Policy, Administration, and Institutions* 26(3): 449-471.

<sup>103</sup> UNODC 2023; Hussman, Karen (2020). "Health Sector Corruption." U4 Issue 2020: 10; Transparency International (2016). "Diagnosing Corruption in Health Care."; 7.

<sup>104</sup> UNODC (2023).

<sup>105</sup> UNODC 2023; Hussman, Karen (2020). "Health Sector Corruption." U4 Issue 2020: 10.

The complexity of the system is further emphasised by the fact that many different actors are often involved in the supply and delivery of health care. The complex web of relationships between these various actors can result in concerns that are often difficult to detect, such as conflicts of interest or the preferential allocation of contracts and tenders.<sup>106</sup> For example, UNODC describes how the involvement of multiple actors might lead to a situation in which suppliers may bribe government officials to register medicine without the requisite information, or whereby government officials may deliberately delay the registration of a pharmaceutical product to create more favourable market conditions for a preferred supplier, or slow down registration procedures in order to solicit payment from a supplier.<sup>107</sup>

Further adding to the complexity is the globalised nature of the supply chain for drugs and medical devices, which allows for undue market pressure, information manipulation, regulatory capture, and abuse.<sup>108</sup>

### 3. Extensive funds and resources

The value of the global, as well as the European, health system is vast, offering lucrative incentives for abuse and illicit gain. The World Health Organisation (WHO) placed global spending on health at USD 9 trillion in 2020, or almost 11% of global GDP. As aforementioned, EU Member States spent on average 10.87% of their GDP on health care in 2021, making it one of the largest sectors.<sup>109</sup> As argued by UNODC,<sup>110</sup> with such considerable amounts of public money involved, without adequate mechanisms in place to identify potential or existing corruption risks, it is clear that the health sector will both attract and be vulnerable to corrupt actors.<sup>111</sup>

### 4. Information asymmetry

The health sector is characterised by a high degree of information asymmetry, which makes it difficult to fully monitor the actions of different actors, hold them accountable, detect abuses, and assign responsibility.<sup>112</sup> For instance, in the relationship between patients and health care providers, patients do not typically have enough information to judge medical decisions made on their behalf or to assess the correctness of a bill, and the discretion given to providers puts patients in a weak position if providers choose to abuse their position.<sup>113</sup> Even insurance auditors may have a hard time evaluating whether a bill is correct or whether the services provided were necessary. Information asymmetry might also affect decisions related to procurement of medicines and medical devices. Pharmaceutical company representatives know more about their products than do the doctors who prescribe them, and regulators are hard pressed to ensure the quality of drugs and medical equipment. Policy and regulatory issues related to benefit packages, drug prices, and market access of new health technologies, among others, are also affected.

In short, information asymmetry makes it easier for corrupt acts to occur and harder for unscrupulous actors to be held accountable; patients may never realise which services they should have obtained or could have accessed for free, and governments may never identify which services rendered were unnecessary or overpriced.<sup>114</sup>

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<sup>106</sup> UNODC 2023; Hussman, Karen (2020). "[Health Sector Corruption](#)." U4 Issue 2020: 10.

<sup>107</sup> UNODC (2023).

<sup>108</sup> Hussman, Karen (2020). "[Health Sector Corruption](#)." U4 Issue 2020: 10.

<sup>109</sup> Eurostat (2024). Health in the European Union – Facts and Figures. [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Health\\_in\\_the\\_European\\_Union\\_-\\_facts\\_and\\_figures](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Health_in_the_European_Union_-_facts_and_figures). Retrieved May 28, 2024.

<sup>110</sup> UNODC (2023).

<sup>111</sup> UNODC 2023; cf. Hussman, Karen (2020). "[Health Sector Corruption](#)." U4 Issue 2020: 10.

<sup>112</sup> Hussman, Karen (2020). "Health Sector Corruption." U4 Issue 2020: 10; Vian, Taryn. 2008. "Review of Corruption in the Health Sector," Health Policy and Planning, 28 (2).

<sup>113</sup> Hussman, Karen (2020). "[Health Sector Corruption](#)."

<sup>114</sup> UNODC (2023Ö).

### 5. Regulatory weakness

In most countries, health systems are heavily regulated with the intention of protecting patients and health professionals. However, as described by UNODC,<sup>115</sup> the effectiveness of the regulations varies across different countries, with weaker regulatory agencies being more vulnerable to influence or capture by private interests. This can result in regulatory decisions that advance the interests of private sector actors at the expense of the public good, such as bribery to reduce compliance requirements or to overlook non-compliant goods or services. The inverse is also true; politicians or other powerful interest groups may use their ability to affect or capture regulatory or health policy decisions for their own political or personal gain.<sup>116</sup>

Even in the case of regulatory effectiveness, identifying and punishing corrupt practices in health might be difficult. This is because the lines between inefficiency or unintentional misconduct, on one hand, and unethical behaviour, intentional abuse, and criminal behaviour, on the other, can be blurred, and abuses may be hidden behind inefficiencies.<sup>117</sup>

### 6. Limited transparency

Finally, limited transparency opens the door for corruption in the health sector. If robust accountability and transparency mechanisms that allow for the monitoring of decisions are in place, the occurrence of corrupt practices related to such decreases.<sup>118</sup>

Yet additional factors that might have an impact on the opportunities and incentives for corruption, and which are often part of wider societal structures, include social, economic, economic, and political factors, such as income and gender inequalities, low education levels, and societal conflict.<sup>119</sup> For example, even though women make up around 70% of the global health-care workforce, they are significantly underrepresented in leadership roles, with only about 15% of leadership roles being filled by women.<sup>120</sup> This can result in the existence of predominantly male leadership networks, which have been shown to inhibit progress and transparency due to their selectiveness and their entrenchment of the prevailing status quo.<sup>121</sup>

Yet another factor which might influence the risk of corruption in the health sector is the character of the rest of the system. Much of the corruption found in the health sector is a reflection of general problems of governance and public sector accountability.<sup>122</sup> Corruption in healthcare is less likely in societies where there is broad adherence to the rule of law, transparency and trust, and where the public sector is ruled by effective civil service codes and strong accountability mechanisms. This relates to the previous discussion about the importance of separating societies in which corruption is the deviant behaviour on behalf of single individuals from societies in which corruption is the 'rule of the game'. In the latter form of society, any attempt to curb corruption in the health sector will by all likelihood need a more systemic approach, involving also other sectors.<sup>123</sup>

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<sup>115</sup> UNODC (2023).

<sup>116</sup> (UNODC 2023; Hussman, Karen (2020). "[Health Sector Corruption](#)."

<sup>117</sup> Hussman, Karen (2020). "[Health Sector Corruption](#)."

<sup>118</sup> (UNODC 2023; Hussman, Karen (2020). "[Health Sector Corruption](#)."

<sup>119</sup> UNODC 2023.

<sup>120</sup> UNODC 2023.

<sup>121</sup> cf. Stensöta, Helena, and Wängnerud, Lena (2018). *Gender and Corruption*. Palgrave Mac Millan.

<sup>122</sup> (Vian 2002, 2007).

<sup>123</sup> cf. Persson, Anna, Rothstein, Bo, & Teorell, Jan (2013). "Why Anti-Corruption Reforms Fail – Systemic Corruption as a Collective Action Problem." *Governance: An International Journal of Policy, Administration, and Institutions* 26(3): 449-471; Persson, Anna, Rothstein, Bo, and Teorell Jan. 2019. "Getting the Basic Nature of Systemic Corruption Right." *Governance: An International Journal of Policy, Administration, and Institutions* 32 (4): 799-810.

In sum, several different factors serve to make the health sector a corruption hotspot. In the following section, the consequences of corruption in the health sector are discussed.

#### 4.2.4 *The consequences of corruption in the health sector*

Corruption in the health sector can be the difference between life and death. This is because corruption in the health sector has severe consequences for all five dimensions of health system performance, i.e. *access, quality, equity, efficiency, and efficacy*.<sup>124</sup>

##### **Consequences for access**

There are several ways in which corruption in the health sector affects access to (health services). To begin with, access to health services can be seriously affected by absenteeism of medical staff, due to that this staff want to earn more money by illegal means.<sup>125</sup> Estimated prevalence rates of absenteeism range from 19% to 60% in low- and middle-income countries, with more qualified staff like doctors and pharmacists showing higher rates of absenteeism than less qualified staff.<sup>126</sup> Moreover, access can be negatively affected by demands for bribes in return for health care, or by that friends and family members are favoured. Demands of extra 'under the table' fees may deter some of those that are in most need of health care to visit health clinics, while limited access to the right contacts might block them. As previously described, 6% of the respondents in the 2021 Global Corruption Barometer reported that they had paid a bribe in return for health services, whereas 29% reported that they had relied on personal connections to get medical care.<sup>127</sup> This is likely to have severe consequences for universal access to health services.<sup>128</sup> Moreover, theft, embezzlement, and bribery also affect access to needed medicines, equipment, and supplies.<sup>129</sup>

##### **Consequences for quality**

In addition to consequences for access, the quality of health care might be compromised by corruption.<sup>130</sup> Patients may be charged for diagnostics and treatments that are fake, substandard or were not performed at all. Additional problems include kickback-driven referrals and unnecessary procedures.<sup>131</sup> Moreover, high-quality medicines may be unavailable due to drug theft, stockouts, or extortion. Profiteers use corrupt schemes to avoid government regulation of drugs. Globally, 10% of all drugs are believed to be fake, while in some African countries, the figure can amount to 50%. Counterfeit drugs can lead to severe illness and death, as well as to the spread of drug-resistant viral or bacterial strains within and across countries.

A study by Klomp and de Haan finds that the quality of the healthcare system is negatively affected by corruption, the quality being measured by such things as the number of healthcare personnel per 1000 inhabitants, and immunisation rates for four different illnesses (hepatitis, diphtheria, measles and tuberculosis). The study estimates that a 1% decrease in corruption leads to an increase of 0.55% in the quality of the health sector.<sup>132</sup>

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<sup>124</sup> Hussman 2020; European Commission 2017.

<sup>125</sup> Holmberg, Sören, & Rothstein, Bo (2011). "Dying of Corruption," *Health Econ Policy Law*, 6 (4): 529-547.

<sup>126</sup> Hussman, Karen (2020). *Health Sector Corruption*, U4 Issue 2020: 10.

<sup>127</sup> [Transparency International 2021](#). 2021 Global Corruption Barometer.

<sup>128</sup> cf. Holmberg, Sören, & Rothstein, Bo (2011). "Dying of Corruption," *Health Econ Policy Law*, 6 (4): 529-547.

<sup>129</sup> Hussman, Karen (2020). *Health Sector Corruption*, U4 Issue 2020: 10.

<sup>130</sup> (Holmberg & Rothstein 2011).

<sup>131</sup> Hussman, Karen (2020). *Health Sector Corruption*, U4 Issue 2020: 10.

<sup>132</sup> Klomp, J.de Haan, J. (2008), 'Effects of governance on health: a cross-national analysis of 101 countries', *Kyklos*, 61(4): 599–614.

### Consequences for equity

Corruption has been described as 'Robin Hood in reverse', since it takes from the poor and gives to the rich. This pattern is true also with regard to the consequences of corruption in the health sector. Evidence shows that bribes are regressive, imposing a major burden on poorer and marginalised households. Families fall into deeper poverty when they are forced to sell assets or go into debt in order to pay bribes for health services that they should have received without charge. Women's reliance on health services is also plagued by corruption making them vulnerable to abuse, blocking access to vital contraceptive, reproductive and child health services.<sup>133</sup>

### Consequences for efficiency

Corruption has enormous effects on the efficiency of the health sector. As aforementioned, globally, an estimated 7% of health spending, amounting to more than USD 500 billion per year, is lost to corruption and fraud. Even in Europe, the losses are high, estimated at up to EUR 56 billion annually.<sup>134</sup>

### Consequences for efficacy

In terms of efficacy, corruption in the health sector has a corrosive impact on the population's health. According to the Transparency International (TI) Health Initiative, 'Multiple studies have found that high levels of corruption are linked to weak health outcomes, and there is strong evidence to suggest that corruption significantly reduces the degree to which additional funding for the sector translates into improved health outcomes.' For instance, studies have found that corruption has a significant, negative effect on health indicators such as infant and child mortality,<sup>135</sup> as well as on healthy life expectancy, maternal mortality; and subjective health.<sup>136</sup> Indeed, the estimated USD 500 billion in public health spending lost globally to corruption every year is a lot more than would be required to achieve universal health coverage. In order to achieve UHC, an additional USD 370 billion per year would be needed until 2030. By this logic, the funds lost to corruption in the health sector globally could essentially fill the implementation gap for UHC. Corruption in the health sector is moreover argued to fuel the global rise in anti-microbial resistance, as well as hinder the fight against a large number of different diseases.<sup>137</sup> In short, as effectively summarised by Transparency International: "If we can address corruption in health systems, then we can achieve health for all."<sup>138</sup>

Corruption in the health sector moreover has negative effects that travel beyond health system performance. As argued by UNODC,<sup>139</sup> if left unchecked, it can moreover erode public trust in the health system and in the government's ability to protect health as an inalienable human right. In the end, such distrust is likely to spill over also to other sectors, and to society in large.<sup>140</sup>

In sum, the negative consequences of corruption in the health sector reach far beyond monetary value and system effects. Ultimately, it is a matter of life and death. To combat corruption in the health sector should thus be a priority for any actor concerned with human welfare and well-being.

<sup>133</sup> Hussman, Karen (2020). Health Sector Corruption, U4 Issue 2020: 10.

<sup>134</sup> Hussman, Karen (2020). Health Sector Corruption, U4 Issue 2020: 10.

<sup>135</sup> Gupta, S., Davoodi, H.Tiongson, E. (2000), Corruption and the Provision of Health Care and Education Services, Working Paper. Washington, DC: International Monetary Fund.

<sup>136</sup> Holmberg, Sören, & Rothstein, Bo (2011). "Dying of Corruption," Health Econ Policy Law, 6 (4): 529-547.

<sup>137</sup> Hussman, Karen (2020). Health Sector Corruption, U4 Issue 2020: 10.

<sup>138</sup> Transparency International (2024). Our priorities – Health.

<sup>139</sup> UNODC (2023). A Prescription for Health. United Nations, Vienna.

<sup>140</sup> Rothstein, Bo. (2011). The Quality of Government: Corruption, Social Trust and Inequality in International Perspective. Chicago, IL: The University of Chicago Press.

#### 4.2.5 Concluding discussion

This section has provided an in-depth analysis of the nature and intricacies of corruption in the health sector. It has shown that corruption in the health sector takes many different forms and spans through the entire healthcare system. It has discussed the causes of corruption in the health care system, arguing that there are at least six major main factors driving corruption: 1) Citizens' great dependence on health services; 2) Complex governance structures with multiple stakeholders; 3) Extensive funds and resources; 4) Information asymmetry; 5) Regulatory weakness, and; 6) Limited transparency. It has finally shown that corruption in the health sector is ultimately a question of life and death since it negatively affects all aspects of health system performance, i.e. *access, quality, equity, efficiency, and efficacy*.

The question that remains is what these insights leave us in terms of policy implications. While there is no straightforward answer to this question, a few things should be considered. To begin with, the insights derived from the in-depth analysis reveal that resources invested in reducing corruption in the health sector are well-invested resources, with potentially far-reaching implications in terms of universal health coverage and, eventually, the achievement of SDG 3. Furthermore, the insights derived from the in-depth analysis is that, due to its complex – and often systemic – character, corruption in the health care sector is a problem that needs to be tackled on many 'fronts' at the same time. *How* this can be most effectively done, however, is beyond the scope of this report.

### 4.3 The nature and intricacies of the problem of corruption in the financial sector

#### 4.3.1 Introduction

The financial sector is the backbone of the EU's economy and its place in international markets, trade and investments. It is a diverse, continuously evolving industry that provides an increasingly complex set of financial services and informational tools to commercial and retail customers. Financial companies include investment and commercial banks, insurance companies, investment houses, money managers, mortgage and other lenders, fintech and cryptocurrency companies, payment services and foreign exchange firms.

The net assets of EU financial companies totalled EUR 81 billion in 2022, continuing a steady growth trend since 2012. These assets equalled 3.2% of GDP. The largest subsector within the industry is financial institutions other than central banks.<sup>141</sup> Total assets held by the EU's more than 5,000 banks were EUR 41 trillion in 2021, growing for the fourth consecutive year.<sup>142</sup> The EU insurance market is estimated to be worth EUR 1.1 trillion in 2024.<sup>143</sup> The fintech industry's current value of EUR 59 billion is expected to triple by 2029.<sup>144</sup> The financial industry's growth and diversification are being fuelled by the expansion of the non-bank sector, such as money market, investment and hedge funds.

The European Commission notes that overall risks to the EU's financial stability and integration increased in 2022 and early 2023, though financial institutions have "robust capital and liquidity

<sup>141</sup> "Financial corporations - statistics on financial assets and liabilities," Eurostat, 26 October 2023; [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Financial\\_corporations\\_-\\_statistics\\_on\\_financial\\_assets\\_and\\_liabilities#Assets\\_and\\_liabilities](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Financial_corporations_-_statistics_on_financial_assets_and_liabilities#Assets_and_liabilities).

<sup>142</sup> "Banking in Europe: Facts and Figures 2022," European Banking Federation; <https://www.ebf.eu/wp-content/uploads/2022/12/Banking-in-Europe-EBF-Facts-and-Figures-2022.-FINAL.pdf>.

<sup>143</sup> "Insurances – EU-27," Statista, March 2024; <https://www.statista.com/outlook/fmo/insurances/eu-27#gross-written-premium>.

<sup>144</sup> "Europe Fintech Market Research Report," Market Data Forecast, March 2024; <https://www.marketdataforecast.com/market-reports/europe-fintech-market>.

positions to support their resilience.”<sup>145</sup> In order to help ensure its continued growth, the financial industry as of 2014 employed about 1,700 lobbyists to influence EU policies and spent EUR 123 million per year on lobbying in Brussels.<sup>146</sup>

Banking contributes significantly to the EU’s overall economic and societal stability. “It has a major role in financing the economy, being a key enabler of the ambition for a more competitive economy, the strategic autonomy of the EU, and the green and digital transitions.”<sup>147</sup> The financial sector also has an important role in upholding human rights and an “unparalleled ability to influence companies and scale up” implementation of the UN Guiding Principles on Business and Human Rights.<sup>148</sup>

Banks are intermediaries between savers/investors and companies, which receive 70% of their external financing from banks, with 56% coming in the form of loans.<sup>149</sup>

#### 4.3.2 *The Character of Corruption in the financial sector*

Perhaps more than any other area, assessing the *types* and *methods* of corruption in the financial sector is just as important as examining the *perpetrators* and *venues* of corruption. Granted this, money laundering and tax evasion are the most serious corruption-related crimes in the EU, and those that receive the most attention of policymakers and criminal justice agencies. These crimes involve many different types of people and organisations, including banks, investment advisors, OCGs and professional enablers. This complex and overlapping landscape complicates the corruption assessment, as the epicentre of any particular corrupt act is not always easy to pinpoint. The sector may also be the most diverse in terms of types and venues of corruption. One particular characteristic of corruption in the financial sector is that it is overwhelmingly carried out between private entities in the private sector, in the course of business activities.

Further, the “financial sector” does not have a precise definition, and the terms “financial corruption,” “financial crime” and “economic crime” often are interchanged by practitioners and researchers. The corresponding EU Framework Decision, still in force, also defines corruption in the private sector very broadly, understanding it as the provision of “undue advantage of any kind, [...] in order that that person should perform or refrain from performing any act, in breach of that person’s duties”.<sup>150</sup>

Corruption in the financial sector is especially intertwined with money laundering, fraud, embezzlement and tax evasion. The recent EU proposal on combating corruption also acknowledges

<sup>145</sup> “European Financial Stability and Integration Review 2023,” European Commission, DG Financial Stability, Financial Services and Capital Markets Union, 2023; [https://finance.ec.europa.eu/document/download/ffc80aa7-96a8-4500-b7a5-eaf1f8e607cf\\_en?filename=european-financial-stability-and-integration-review-2023\\_en\\_0.pdf](https://finance.ec.europa.eu/document/download/ffc80aa7-96a8-4500-b7a5-eaf1f8e607cf_en?filename=european-financial-stability-and-integration-review-2023_en_0.pdf).

<sup>146</sup> Wolf, Marcus et al, “The Fire Power of the Financial Lobby: A Survey of the Size of the Financial Lobby at the EU Level,” Corporate Europe Observatory, Austrian Federal Chamber of Labour and Austrian Trade Union Federation; 2014; [https://corporateeurope.org/sites/default/files/attachments/financial\\_lobby\\_report.pdf](https://corporateeurope.org/sites/default/files/attachments/financial_lobby_report.pdf).

<sup>147</sup> Garcia del Riego, Antonio, “The strategic importance of the EU financial sector – How to improve assessment and evaluation,” European Economic and Social Committee, 2023; <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/strategic-importance-eu-financial-sector-how-improve-assessment-and-evaluation>.

<sup>148</sup> “Financial Sector and the European Union Corporate Sustainability Due Diligence Directive: Statement by the United Nations Working Group on Business and Human Rights,” 12 July 2023; <https://www.ohchr.org/sites/default/files/documents/issues/business/workinggroupbusiness/Statement-Financial-Sector-WG-business-12July2023.pdf>.

<sup>149</sup> “Financing the Europe of Tomorrow: How to unlock Europe’s latent growth potential,” European Banking Federation, 2018; <https://www.ebf.eu/wp-content/uploads/2018/09/Financing-the-Europe-of-tomorrow-a-vision-for-policymakers-banks-and-markets-in-a-changing-world-September-2018.pdf>.

<sup>150</sup> Council Framework Decision 2003/568/JHA of 22 July 2003 on combating corruption in the private sector ELI: [http://data.europa.eu/eli/dec\\_framw/2003/568/oj](http://data.europa.eu/eli/dec_framw/2003/568/oj).

that corruption and money laundering are intrinsically linked.<sup>151</sup> It calls combating money laundering the "cornerstone of the broader agenda to fight serious crime, including corruption" by depriving criminals of their ill-gotten gains and by prosecuting those who assist in the laundering of such gains. It is very likely that many financial crimes could not be envisioned, much less successfully carried out, if offenders did not have methods to hide, move, re-label and surreptitiously retain access their illicit gains. Banks and other money laundering partners provide these methods.

In the same vein, the EU Directive on combating money laundering by criminal law,<sup>152</sup> which establishes the ground rules on the criminalisation of money laundering, sets out that corruption must be a predicate offence to money laundering. Fully mapping how money laundering is fed by and feeds into other crimes will aid policymakers and investigators combat these other crimes. Therefore, an analytical approach that excludes certain types of players and misconduct, or that does not consider the interplay of various crimes, will result in an incomplete and potentially an inaccurate picture.

### Scope of corruption in the financial sector

A very wide range of corruption offenses and other serious crimes are committed both *upon* and *within* the financial sector, including money laundering, tax evasion, hidden assets, consumer fraud, terrorism financing, fraudulent financial reporting and cybercrimes. Much of this is committed by organised crime groups (OCGs) working inside and outside the EU. In 2023, Eurojust reported 2,224 cases of money laundering, 4,190 cases of swindling and fraud, and 54 cases of intellectual property crimes, which include tax fraud and cybercrime.<sup>153</sup>

One-fourth of people in the EU believe bribery and abuse of power for personal gain are "widespread" in banks and financial institutions, according to a Eurobarometer survey.<sup>154</sup>

Dozens of major scandals involving banks and other financial companies have been investigated and reported in recent years. In 2018, a whistleblower Howard Wilkinson revealed how EUR 800 billion from Cyprus, Estonia, Latvia, Russia and other countries was channelled through the Estonian branch of Danske Bank from 2007-15. It is possibly the largest money laundering scandal in history. The European Banking Authority was "effectively forced" by national banking supervisors to close its investigation and find no violations of EU rules<sup>155</sup> In the "Russian Laundromat" affair, more than EUR 20 billion of illicit Russian funds were funnelled to Latvia's Trasta Komerbanka and then throughout the world. From 2010-14, 21 shell companies reportedly made 27,000 payments 732 banks, including banks in Cyprus, Denmark, Estonia, Germany, the Netherlands, Sweden and UK.<sup>156157</sup>

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<sup>151</sup> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on combating corruption, replacing Council Framework Decision 2003/568/JHA and the Convention on the fight against corruption involving officials of the European Communities or officials of Member States of the European Union and amending Directive (EU) 2017/1371 of the European Parliament and of the Council COM/2023/234 final p4.

<sup>152</sup> Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering by criminal law (OJ L 284, 12.11.2018).

<sup>153</sup> Eurojust. Economic crimes; Economic crimes | Eurojust | European Union Agency for Criminal Justice Cooperation (europa.eu).

<sup>154</sup> Citizens' attitudes toward corruption in the EU in 2024," Eurobarometer; <https://europa.eu/eurobarometer/surveys/detail/3217>.

<sup>155</sup> Gronholt-Pedersen, Jacob and Guarascio, Francesco, "EU states force clearing of Estonian, Danish regulators over Danske Bank," Reuters, 17 April 2019; <https://www.reuters.com/article/us-danske-bank-moneylaundering/eu-states-force-clearing-of-estonian-danish-regulators-over-danske-bank-idUSKCN1RT0VZ/>.

<sup>156</sup> Martini, Maira, "European banks in money laundering scandals: What lessons for the EU?", Transparency International, 26 February 2019; <https://www.transparency.org/en/blog/european-banks-in-money-laundering-scandals-what-lessons-for-the-eu>.

<sup>157</sup> [Five criminals behind multi-million pound benefit fraud convicted in the United Kingdom with support from Eurojust | Eurojust | European Union Agency for Criminal Justice Cooperation \(europa.eu\)](https://www.transparency.org/en/blog/european-banks-in-money-laundering-scandals-what-lessons-for-the-eu).



In addition to enabling outside parties to evade taxes, some EU-based banks allegedly have engaged in these practices themselves. Transparency International reported the “widespread use” of tax havens and profit shifting by some of Europe’s largest banks in 2015-20. In 39 EU and UK banks it examined, TI found 31 were utilising low-tax or zero-tax havens, and 29 appeared to be declaring high profits in countries where they did not have any staff. These “ghost operations” may indicate the banks were shifting profits to reduce their tax bills. HSBC reported EUR 1.59 billion in profits in Saudi Arabia, and Deutsche Bank made EUR 418 million in Malta, despite having no staff members in those countries. TI noted that several of the banks it studied – including HSBC, Barclays, Deutsche Bank and Standard Chartered – had been implicated in the FinCEN suspicious transaction scandal.<sup>158</sup> Estimating the scale and costs of corruption is challenging because much available research and many statistics combine financial and economic crimes together. It can be difficult to differentiate the cost of crimes that utilise or victimise the financial sector from the cost of economic crimes in general. In particular, the harm caused by organised crime typically is not differentiated.

Additionally, Europol notes that corruption in the sector “remains systematically under-investigated.”<sup>159</sup> In part, this is due to victims often being reluctant to report crimes to law enforcement, thus masking the true extent and impact of fraud.<sup>160</sup>

Moreover, transferring criminal proceeds online and using cash for lower-level bribery can make it difficult to detect financial flows and uncover corruption.<sup>161</sup> For this and other reasons, including the fact that more than 60% of OCGs in Europe use “corruptive methods to achieve their illicit objectives,” less than 2% of OCGs’ proceeds are seized each year.<sup>162</sup>

Making matters more difficult, nearly 70% of criminal networks operating in the EU use at least one form of money laundering to fund their activities and conceal their assets.<sup>163</sup> “The lines between the illicit and licit world become increasingly blurred,” according to Europol, “Criminal finances and investments are tangled with licit ones.”<sup>164</sup>

The European Public Prosecutor’s Office (EPPO) had 226 active money laundering cases at the end of 2023, making up 5% of its total caseload.<sup>165</sup> Eurojust recorded 2,870 money laundering cases in 2016-21, representing 12-14% of all cases. The annual total doubled during this period. The top five

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<sup>158</sup> “Transparency International EU reveals the murky tax affairs of Europe’s biggest banks,” Transparency International, 26 October 2020; <https://transparency.eu/tax-affairs-of-europes-biggest-banks/>.

<sup>159</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>160</sup> Interpol Global Financial Fraud Assessment, Interpol, May 2024; [https://www.interpol.int/content/download/21096/file/24COM005563-01%20-%20CAS\\_Global%20Financial%20Fraud%20Assessment\\_Public%20version\\_2024-03%20v2-1.pdf](https://www.interpol.int/content/download/21096/file/24COM005563-01%20-%20CAS_Global%20Financial%20Fraud%20Assessment_Public%20version_2024-03%20v2-1.pdf).

<sup>161</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>162</sup> “New Europol report shines light on multi-billion euro underground criminal economy,” Europol, 11 September 2023; <https://www.europol.europa.eu/media-press/newsroom/news/new-europol-report-shines-light-multi-billion-euro-underground-criminal-economy>.

<sup>163</sup> “INSIGHT: Europe’s massive money laundering and corruption problem; crime gangs exploit fintech, vIBANs and DeFi, Europol warns in report,” *AML Intelligence*, 11 September 2023; <https://www.amlintelligence.com/2023/09/breaking-europes-massive-money-laundering-and-corruption-problem-crime-gangs-exploit-fintech-vibans-and-defi-europol-warns-in-report/>.

<sup>164</sup> “European Financial and Economic Crime Threat Assessment 2023 – The Other Side of the Coin: An Analysis of Financial and Economic Crime,” Europol, 2023; <https://www.europol.europa.eu/cms/sites/default/files/documents/The%20Other%20Side%20of%20the%20Coin%20-%20Analysis%20of%20Financial%20and%20Economic%20Crime%20%28EN%29.pdf>.

<sup>165</sup> “Annual Report 2023,” European Public Prosecutor’s Office, 2024; [https://www.eppo.europa.eu/sites/default/files/2024-02/EPPO\\_Annual\\_Report\\_2023.pdf](https://www.eppo.europa.eu/sites/default/files/2024-02/EPPO_Annual_Report_2023.pdf).

EU countries involved with these cases are Italy, France, Spain, Germany and the Netherlands, and the top five non-EU countries are Switzerland, UK, US, Ukraine and Serbia.<sup>166</sup>

The EU annually loses up to EUR 1 trillion in tax evasion and tax fraud. “A relatively stable political environment makes the EU an attractive destination for laundering the proceeds of crimes... Not only does this constitute a threat to European financial stability, it also diverts money from the public purse, erodes services and undermines trust in institutions.”<sup>167</sup>

OCGs also are drawn to the EU, among many reasons, because of its strong economy and high standard of living. “Europe is an attractive terrain for investment in real estate.”<sup>168</sup> They also target countries and jurisdictions with gaps in international anti-money laundering (AML) standards and law enforcement cooperation.<sup>169</sup>

Due to lax money-laundering controls, EU-based banks paid more than EUR 16 billion in fines between 2012-18. More than three-fourths of these were levied by US authorities.<sup>170</sup>

One EU Member State has been singled out for lacking staff and resources to follow up on alerts of possible money laundering. “The many years-long acceptance of extreme lack of staff in financial crime units [in the country] amounts to a de facto institutional acceptance of money laundering. A prominent public prosecutor quit, complaining about a lack of political support for her work. This indicates that investigations in financial crimes lack staff and political support.”

Given these shortcomings, kleptocrats and their family members use European banks to launder their criminal proceeds, as well as their reputations. “Even when malpractice is identified, national authorities often don’t take appropriate action,” according to Transparency International (TI).

TI notes Member States have divergent supervisory practices that in many cases have been “ineffective in detecting malpractice by banks in a timely manner and resulting in sanctions.” It said the European Central Bank’s supervision of banks’ AML activities is “very limited” because many issues are handled by national authorities.<sup>171</sup>

*In the insurance industry, fraud cases are underreported because insurance companies often do not compensate victims’ financial losses incurred due to fraud. Internal vs. external corruption*

Though much available research does not make a distinction, corruption in the sector can be categorised as:

- corruption *caused, enabled or condoned* by the financial sector (internal origin); and
- corruption *inflicted upon* the financial sector (external origin).

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<sup>166</sup> “Eurojust Report on Money Laundering,” Eurojust, October 2022;

<https://www.eurojust.europa.eu/sites/default/files/assets/eurojust-report-money-laundering-2022.pdf>.

<sup>167</sup> “Financial flows & crime,” Transparency International; <https://transparency.eu/priority/financial-flows-crime/>.

<sup>168</sup> Personal interview with Radu Cotici, International Development Law Organization, 30 May 2024.

<sup>169</sup> “European Financial and Economic Crime Threat Assessment 2023 – The Other Side of the Coin: An Analysis of Financial and Economic Crime,” Europol, 2023;

<https://www.europol.europa.eu/cms/sites/default/files/documents/The%20Other%20Side%20of%20the%20Coin%20-%20Analysis%20of%20Financial%20and%20Economic%20Crime%20%28EN%29.pdf>

<sup>170</sup> Guarascio, Francesco, “Explainer - Europe’s money laundering scandal,” Reuters, 4 April 2019;

<https://www.reuters.com/article/idUSKCN1RG1XB/>

<sup>171</sup> Martini, Maíra, “European banks in money laundering scandals: what lessons for the EU?” Transparency International, 26 February 2019; <https://www.transparency.org/en/blog/european-banks-in-money-laundering-scandals-what-lessons-for-the-eu>

### (1) Corruption caused, enabled or condoned by the sector

Europol has placed some of the responsibility for corruption on financial companies themselves: "There is increased awareness that certain acts within the financial sector that were once considered to be merely poor business practice may in fact have been criminal. Widespread reckless investment, misrepresentation of financial statements and conspiring to manipulate inter-bank interest rates fall within the definition of serious and organised crime."<sup>172</sup>

Banks and other financial companies have made corruption worse by committing a wide range of misconduct, including hiding and distributing criminal proceeds, embezzlement, theft, fabricating financial statements and other documents, cyber-fraud, extortion, bribery, violating regulations and breaching confidentiality.

TI called the 2007-08 financial crisis "among the most glaring examples of a persistent integrity gap in private sector institutions." Recent scandals show "regulatory and judicial efforts have not delivered the much-needed systemic and cultural changes required to restore trust." It said corporate integrity standards do not adequately prevent corruption and undue influence, while the EU's regulation of companies does not properly address demand- and supply-side corruption.

In what has become known as the "cum-ex" scandal, an estimated EUR 55 billion in tax revenue has been lost due to banks and stockbrokers rapidly trading shares with ("cum") and without ("ex") dividend rights. This allows the identity of the actual owner to be concealed and both parties to claim tax rebates on capital gains tax that had only been paid once. Most of the activity occurred in Germany, though also affected were Austria, Belgium, Denmark, Finland, France, Italy, the Netherlands, Norway, Spain and Switzerland. A tax expert called the affair "the biggest tax robbery in European history."<sup>173</sup>

The US fined Deutsche Bank EUR 120 million in 2021 for its scheme to conceal corrupt payments and bribes to gain new business around the world. For seven years beginning in 2009, the bank paid about EUR 1 million in outright bribes and millions more for so-called "business development consultants" in countries including China, Italy, Saudi Arabia and UAE. The bank misrepresented the payments expenses in its recordkeeping.<sup>174</sup> In 2017 five major European banks – Deutsche Bank, ING, Santander, Société Générale and UniCredit – pulled out of financing a EUR 2.1 billion coal plant a Brazilian company was caught using bribes to secure construction contracts in Dominican Republic.<sup>175</sup>

In addition to specific corruption crimes, some companies engage in "behaviour that ignores the wider responsibility of banks towards depositors, taxpayers and society at large."<sup>176</sup> Such gaps were exposed by the "Luanda Leaks" scandal of 2020, when the International Consortium of Investigative Journalists revealed how Angolan oligarch Isabel dos Santos, daughter of former dictator José

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<sup>172</sup> "Enterprising criminals: Europe's fight against the global networks of financial and economic crime," Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>173</sup> "Cum-ex tax fraud cost €55 billion," *Deutsche Welle*, 18 October 2018; <https://www.dw.com/en/cum-ex-tax-scandal-cost-european-treasuries-55-billion/a-45935370>.

<sup>174</sup> Woodman, Spencer, "Deutsche Bank agrees to pay \$130 million in latest major US penalty," International Consortium of Investigative Journalists, 12 January 2021; <https://www.icij.org/investigations/fincen-files/deutsche-bank-agrees-to-pay-130-million-in-latest-major-us-penalty/>.

<sup>175</sup> "Odebrecht corruption in Dominican Republic – Five European banks urged to pull out of dirty coal plant financing," BankTrack, 18 January 2017; [https://www.banktrack.org/news/odebrecht\\_corruption\\_in\\_dominican\\_republic\\_five\\_european\\_banks\\_urged\\_to\\_pull\\_out\\_of\\_dirty\\_coal\\_plant\\_financing](https://www.banktrack.org/news/odebrecht_corruption_in_dominican_republic_five_european_banks_urged_to_pull_out_of_dirty_coal_plant_financing).

<sup>176</sup> "Financial flows & crime," Transparency International; <https://transparency.eu/priority/financial-flows-crime/>.

Eduardo dos Santos “made a fortune at the expense of the Angolan people.”<sup>177</sup> The European Banking Authority (EBA) found regulators across the EU “adopted significantly different approaches” for dealing with money laundering and terrorism financing risks that “varied beyond what the EBA would have expected.” And, not all authorities adequately exchanged information to improve their understanding of corruption risks. Because some public authorities took no action when the scandal broke, the EBA said some criminal proceeds of dos Santos and her associates may not have been detected and may have continued to be laundered in the EU. Nine Member States identified 35 credit and financial institutions that had links to people involved in the scandal.<sup>178,179</sup> German prosecutors fined the state-owned KfW Iplex-Bank EUR 150,000 following its EUR 50 million loan linked to Isabel dos Santos.<sup>180</sup>

A lack of openness has also been cited as a concern. In a study on 88 banks in Greece, Ireland, Italy, Portugal and Spain, researchers found that banks involved in corruption issues disclose less information about corruption-related matters than those that are not involved.<sup>181</sup>

## (2) Corruption inflicted upon the sector

Law enforcement agencies believe OCGs are expanding their networks internationally and in the EU. In response Interpol is especially focused on fraud, money laundering, illicit financial flows and payment crime.<sup>182</sup> “Transnational financial crime has grown exponentially in recent years, undermining global financial systems, impeding economic growth and causing huge losses to businesses and individuals worldwide. Corruption adds to the complexity of the problems, creating a fertile ground for organised criminal activities.”<sup>183</sup>

“Organised crime has built a parallel global criminal economy around money laundering, illicit financial transfers and corruption,” Europol Executive Director Catherine De Bolle announced in 2023. “Criminals exploit these three practices to conceal, move, and ultimately benefit from their criminal profits.”

“The ability to launder illicit proceeds on an industrial scale, to move them through a web of criminal financial brokers, and to corrupt the relevant actors, has become indispensable for modern organised

<sup>177</sup> Freedberg, Sydney P. et al, “Luanda Leaks: How Africa’s richest woman exploited family ties, shell companies and inside deals to build an empire,” International Consortium of Investigative Journalists, 19 January 2020;

<https://www.icij.org/investigations/luanda-leaks/how-africas-richest-woman-exploited-family-ties-shell-companies-and-inside-deals-to-build-an-empire/>.

<sup>178</sup> “EBA Report on competent authorities’ responses to the 2020 Luanda Leaks,” European Banking Authority, 22 February 2022;

[https://www.eba.europa.eu/sites/default/files/document\\_library/Publications/Reports/2022/1027361/Report%20Risk%20as%20on%20Luanda%20Leaks%20under%20art%209a.pdf](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2022/1027361/Report%20Risk%20as%20on%20Luanda%20Leaks%20under%20art%209a.pdf).

<sup>179</sup> “EBA concludes its Luanda leaks investigation and points to significant differences in competent authorities’ responses to emerging money laundering and terrorist financing risks,” European Banking Authority, 22 February 2020;

<https://www.eba.europa.eu/publications-and-media/press-releases/eba-concludes-its-luanda-leaks-investigation-and-points>.

<sup>180</sup> Basquill, John, “Germany’s KfW Iplex-Bank fined over loan linked to Angolan corruption scandal,” *Global Trade Review*, 8 September 2021; <https://www.gtreview.com/news/europe/germanys-kfw-plex-bank-fined-over-loan-linked-to-angolan-corruption-scandal/>.

<sup>181</sup> de Andrés, Pablo, et al, “Corruption-related disclosure in the banking industry: evidence from GIPSI countries,” *The European Journal of Finance*, 20 December 2022;

[https://www.tandfonline.com/doi/abs/10.1080/1351847X.2022.2153073?\\_cf\\_chl\\_tk=F6.rnGMqsZqUYXenWaiaJzdsA4QzI\\_ZgrNziaHBipQeo-1723494733-0.0.1.1-4180](https://www.tandfonline.com/doi/abs/10.1080/1351847X.2022.2153073?_cf_chl_tk=F6.rnGMqsZqUYXenWaiaJzdsA4QzI_ZgrNziaHBipQeo-1723494733-0.0.1.1-4180).

<sup>182</sup> “Our role in fighting financial crime,” Interpol; <https://www.interpol.int/en/Crimes/Financial-crime/Our-role-in-fighting-financial-crime>.

<sup>183</sup> “Interpol’s Financial Crime and Anti-Corruption Centre (IFCACC),” Interpol; <https://www.interpol.int/en/Crimes/Financial-crime/Our-role-in-fighting-financial-crime>.

crime,” De Bolle said, noting that new technologies have helped OCGs diversify their *modi operandi* to evade detection.<sup>184</sup>

In February 2024, authorities in Italy, Latvia and Lithuania shut down an international money laundering ring that was advertised online. Working with Eurojust and Europol, authorities arrested 18 people, searched 55 locations and froze EUR 11.5 million in assets and bank accounts. Centring around a Lithuanian financial institution, the OGC laundered an estimated EUR 2 billion in illicit funds derived from tax evasion, cyber fraud, fake bankruptcy and drug trafficking.<sup>185</sup> In August 2024, four men in the US were charged with laundering bribery funds via banks in Europe, the US and Asia as part of a voting machine deal in the Philippines. To disguise the corrupt payments, the men used coded language, fraudulent contracts and sham loan agreements.<sup>186</sup>

Money laundering and criminal finances are the “engines of organised crime,” according to Europol. “Without them, criminals would not be able to make use of the illicit profits from their various serious and organised crime activities in the EU.”<sup>187</sup> Risks of money laundering and terrorism financing, the European Commission acknowledges, remain “major concerns” for the financial system’s integrity and the security of citizens.<sup>188</sup>

Open Government Partnership calls preventing dictators and OCGs from preying on developed countries “an essential challenge for our time,” and crucial for protecting national security, democratic peace and development.<sup>189</sup>

### Forms of corruption

The illegal or improper utilisation of money, assets or financial instruments for organisational or personal gain can take many forms. Among the most common financial crimes are money laundering, tax evasion, investment and consumer fraud, insider trading, theft, embezzlement, falsified financial reporting, cybercrime and terrorism financing.

Money laundering is the process of masking how illicit funds were obtained by funnelling them through legitimate financial systems. Funds are introduced into the financial system, moved around through a series of complex transactions, and reintroduced into the legitimate economy so they appear to have been obtained legally. Thus, dirty money has been “cleaned.” Common tools are shell companies, underground banking systems, trade-based money laundering and cryptocurrencies.

Fraud is one of the most common and diverse types of financial crimes, involving deception or misrepresentation, according to the risk management firm Focal. Fraudsters engage in:

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<sup>184</sup> “European Financial and Economic Crime Threat Assessment 2023 – The Other Side of the Coin: An Analysis of Financial and Economic Crime,” Europol, 2023;

<https://www.europol.europa.eu/cms/sites/default/files/documents/The%20Other%20Side%20of%20the%20Coin%20-%20Analysis%20of%20Financial%20and%20Economic%20Crime%20%28EN%29.pdf>.

<sup>185</sup> “Full-scale action against EUR 2 billion money laundering network via Lithuanian financial institution,” Eurojust, 27 February 2024; <https://www.eurojust.europa.eu/news/full-scale-action-against-eur-2-billion-money-laundering-network-lithuanian-financial>.

<sup>186</sup> “Four Men Charged in Philippine Bribery and Money Laundering Scheme,” US Department of Justice, 8 August 2024; <https://www.justice.gov/opa/pr/four-men-charged-philippine-bribery-and-money-laundering-scheme>.

<sup>187</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>188</sup> “Financial sector and access to finance,” DG Structural Reform Support, European Commission, July 2020; [https://reform-support.ec.europa.eu/document/download/53af07bc-13cc-4e2d-8ce4-1e2400de7f9a\\_en?filename=ht0420249enn\\_0.pdf](https://reform-support.ec.europa.eu/document/download/53af07bc-13cc-4e2d-8ce4-1e2400de7f9a_en?filename=ht0420249enn_0.pdf).

<sup>189</sup> Foti, Joseph, “National Actions to Help Professional Services Ensure Financial System Integrity,” Open Government Partnership, November 2023; <https://www.opengovpartnership.org/wp-content/uploads/2023/11/National-Actions-to-Help-Professional-Services-Ensure-Financial-System-Integrity-.pdf>.

- investment fraud – using Ponzi and pyramid schemes, advanced-fee fraud and other crooked investment opportunities that promise unrealistically high returns and use new investor funds to pay “returns” to earlier investors;
- loan fraud – obtaining mortgages and other loans through false or misleading information, such as inflating income or assets, or using loans for unauthorised purposes;
- insurance fraud – submitting false claims or exaggerating losses to obtain insurance payouts, by staging accidents, falsifying medical records or misrepresenting the value of lost or damaged property;
- tax evasion – deliberately misrepresenting or concealing financial information to avoid paying taxes by underreporting income, claiming false deductions, or using offshore accounts to hide assets and income from tax authorities;
- terrorism financing – financially supporting terrorist groups or activities, often through complex money laundering schemes or the exploitation of legitimate businesses;
- accounting fraud – intentionally manipulating financial statements or records to misrepresent a company’s financial position, often to deceive investors or creditors.<sup>190</sup>

Cybercrime involves the illicit use of the Internet for hacking, phishing, identity theft and other crimes. Some examples, according to the fraud risk and compliance company Focal, include:

- phishing: attempting to obtain sensitive information such as login credentials or financial data;
- hacking: gaining unauthorised access to computer systems or networks to steal data, disrupt operations, or deploy ransomware;
- identity theft: obtaining and using someone else’s personal or financial information for fraudulent purposes, such as opening accounts, applying for loans, or making unauthorised transactions;
- malware and ransomware: malicious software designed to infiltrate systems, steal data, or hold data or systems hostage for ransom;
- cyber-extortion: threatening to disrupt or damage systems, leak sensitive data or carry out other malicious activities unless a ransom is paid;
- online fraud: e-commerce fraud, investment fraud and phishing scams targeting online accounts or financial information.<sup>191</sup>

The European Central Bank Supervisory Board Chair Claudia Buch has warned of a “worrying rise” in commercial bank fraud. Criminals steal log-in credentials by persuading businesses to log onto fake commercial websites, she notes, and then can gain unauthorised access to bank accounts and initiate fraudulent transactions.<sup>192</sup>

### Players involved

The universe of people, companies and informal groups that plan, execute and profit from financial crime is just as diverse and fluid as the industry itself.

It ranges from people who steal identities and scam customers from their laptop, to unscrupulous bankers and brokers who trick consumers with fine print and false promises, to banks and companies that engage in corruption from within and condone it from without, to OCGs that combine the professionalism of lawyers and accountants with the cunning and ruthlessness of the mafia.

Key players in corruption schemes include beneficial owners, politically exposed persons (PEPs), surrogates, frontmen and members of inner circles that surround politicians and business people. PEPs vying to corruptly exploit their position do not work alone, but in close proximity to their inner

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<sup>192</sup> “EU bank watchdog warns lenders of once ‘inconceivable’ risks”, PYMNTS, 12 February 2024; <https://www.pymnts.com/news/banking/2024/eu-bank-watchdog-warns-lenders-of-once-inconceivable-risks/>.

circle. These political advisors, relatives and well-connected friends and acquaintances help PEPs manage their financial as well as personal interests.<sup>193</sup>

GRECO said political advisors should be given particular attention because they are “often operating in a grey area and with a substantial political role and influence in decision-making processes.” They should be publicly identified and their legal status, responsibilities and obligations should be and “clearly” regulated. In addition to political advisors, GRECO said other persons with top executive functions (PTEFs) should be subject to *ad hoc* disclosure requirements and monitoring mechanisms.<sup>194</sup>

The range of victims is just as large – and actually closely mirrors the list of offenders. As the world becomes more interconnected, and as the financial sector becomes more decentralised and unwieldy, the opportunities to become a perpetrator and/or a victim continue to grow.

The list of corruption enablers also continues to grow: lawyers, notaries, accountants, real estate agents and people who work in legitimate professions sell their expertise to help criminals hide their money, avoid paying taxes and most importantly avoid investigation and prosecution.

“Many of these enablers have an obligation to report suspicious transactions and follow money laundering standards. But they are not as highly regulated as banks, and the mechanisms vary from country to country. These enablers and advisors help [criminals] overcome due diligence procedures. I don’t think banks are the only problem.”<sup>195</sup>

As with any other aspect of society, relationships are essential to breaking the law and getting away with it. Criminals and enablers build trust, common understanding and mutually reinforcing benefits. “The proximity of criminal groups to professionals is very important, and their personal-level relationships. This is done by repetition and accumulation of transactions.” Often, a criminal will approach a bank or other financial company and gauge their initial reaction to a suspicious transaction. If the criminal observes, “I see they are not asking questions or causing problems, then who knows where the relationship will go?”<sup>196</sup>

### Means and methods

There are large gaps in understanding the nexus between corruption and money laundering and the structures and mechanisms that allow these crimes to be committed, according to the Basel Institute on Governance. In general terms, it is known that secrecy jurisdictions and service providers such as financial intermediaries, lawyers, bankers and accountants “have emerged as constant actors in corruption and money laundering cases of all types, all over the world.”<sup>197</sup>

These players comprise webs of cross-border links and financial transactions that “disguise illicit connections between corrupt political elites and the businesses that thrive by bribing these

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<sup>193</sup> Costa, Jacopo, “Revealing the networks behind corruption and money laundering schemes: An analysis of the Toledo-Odebrecht case using social network analysis and network ethnography,” Basel Institute on Governance, Working Paper 36, July 2021; <https://baselgovernance.org/sites/default/files/2021-07/Working%20Paper%2036%20Odebrecht%20Toledo.pdf>.

<sup>194</sup> “24th General Activity Report (2023): Anti-corruption trends, challenges and good practices in Europe & the United States of America,” Group of States against Corruption (GRECO), March 2024; <https://rm.coe.int/general-activity-report-2023-greco-060424-gbr-web/1680afd7f2>.

<sup>195</sup> Personal interview with Radu Cotici, International Development Law Organization, 30 May 2024.

<sup>196</sup> Personal interview with Jacopo Costa, Basel Institute on Governance, 31 May 2024.

<sup>197</sup> Costa, Jacopo, “Revealing the networks behind corruption and money laundering schemes: An analysis of the Toledo-Odebrecht case using social network analysis and network ethnography,” Basel Institute on Governance, Working Paper 36, July 2021; <https://baselgovernance.org/sites/default/files/2021-07/Working%20Paper%2036%20Odebrecht%20Toledo.pdf>.

individuals,” according to the Basel Institute. These transnational networks also include offshore companies, corporate vehicles, intermediaries, service providers and financial institutions that conspire to move illicit assets and hide them from the public and law enforcement. These financial and legal service providers manage these networks and lower the transactional costs of international corruption.<sup>198</sup>

Offshore financial centres (OFCs) are uniquely skilled to simultaneously ensure the ownership and non-ownership of assets. This means they guarantee the indirect and mediated control of assets by their ultimate beneficiaries, all the while disguising the connections between OFCs and their beneficial owners. This is done via service providers, surrogates, frontmen and cross-border chains of offshore vehicles.

Also simultaneously, these structures occupy both the “upperworld” of formality and the “underworld” of informality. This is achieved by switching between the “legal facade of their business and political activities” and the “hidden financial infrastructure that helps to disguise their illicit transactions.”<sup>199</sup>

Aided by globalisation and under-regulated online platforms, money launderers can quickly move illicit funds in and out of the EU, from and to anywhere in the world. About 70% of OCGs operating in the EU use basic money laundering techniques, while the rest work with professional money laundering networks or underground banking systems that operate in multiple jurisdictions.<sup>200,201</sup> Various investigative agencies describe money laundering as perhaps the most widespread financial crime in the EU.

#### 4.3.3 *The Causes of Corruption*

Because of the industry’s complexity and the enormous size and number of transactions it handles, suspicious and illegal transactions can be difficult to identify, monitor and remedy. The inadequacy of mechanisms to watchdog transactions can lead to fraud, bribery, money laundering and other types of corruption.<sup>202</sup>

Europe’s financial industry has shown signs of improvement with regard to anti-corruption in recent years, but “considerable challenges” remain. One reason is executives’ “limited ability to evaluate and comprehend thoroughly” market trends, and corruption indicators.”<sup>203</sup>

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<sup>198</sup> Costa, Jacopo, “Revealing the networks behind corruption and money laundering schemes: An analysis of the Toledo-Odebrecht case using social network analysis and network ethnography,” Basel Institute on Governance, Working Paper 36, July 2021; <https://baselgovernance.org/sites/default/files/2021-07/Working%20Paper%2036%20Odebrecht%20Toledo.pdf>.

<sup>199</sup> Costa, Jacopo, “Revealing the networks behind corruption and money laundering schemes: An analysis of the Toledo-Odebrecht case using social network analysis and network ethnography,” Basel Institute on Governance, Working Paper 36, July 2021; <https://baselgovernance.org/sites/default/files/2021-07/Working%20Paper%2036%20Odebrecht%20Toledo.pdf>.

<sup>200</sup> “European Financial and Economic Crime Threat Assessment 2023 – The Other Side of the Coin: An Analysis of Financial and Economic Crime,” Europol, 2023; <https://www.europol.europa.eu/cms/sites/default/files/documents/The%20Other%20Side%20of%20the%20Coin%20-%20Analysis%20of%20Financial%20and%20Economic%20Crime%20%28EN%29.pdf>.

<sup>201</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>202</sup> Ragazou, Konstantina et al, “It is time for anti-bribery: Financial institutions set the new strategic ‘roadmap’ to mitigate illicit practices and corruption in the market,” *Administrative Sciences*, 12(4), 2022; <https://www.econstor.eu/handle/10419/275436>.

<sup>203</sup> Zafeiriou, Eleni et al, “Illicit and Corruption Mitigation Strategy in the Financial Sector: A Study with a Hybrid Methodological Approach,” *Sustainability*, 15(2), 11 January 2023; <https://www.mdpi.com/2071-1050/15/2/1366>.



Another major reason, according to Europol, is the low-risk and high-reward nature of financial crimes, which makes them “very attractive” to OCGs. Also, the complexity of these crimes and the sophisticated expertise required to commit them makes them difficult to detect and investigate. This problem has grown worse because of technical innovation and digitalisation of financial transactions. Because of this, “many of these crimes are now even less visible than before and more challenging to investigate.”<sup>204</sup>

The increasingly global character of financial crimes adds more challenges for regulators, according to Europol. “Successful law enforcement actions against these complex schemes require close international cooperation across several jurisdictions, often involving non-cooperative offshore tax havens, as criminals operate without regard for international borders.” International OCGs also benefit from differences in national laws and the inadequate awareness of victims.<sup>205</sup>

In particular, Eurojust said it is challenged by differences in national laws used to identify predicate offences for money laundering. Other challenges include the increased use of cryptocurrencies, shell companies that hide the identity of beneficial owners of criminal assets, difficulties in identifying who is a victim and who can apply for compensation, and difficulties tracing money transfers to and from the EU.<sup>206</sup>

Europe “remains something of a black hole for dirty money ... Tax havens and loopholes continue to be the EU’s Achilles heel,” the International Bar Association observes. “[W]hatever laws and regulations are in place, enforcement agencies are failing to hold the corporate world adequately to account.”<sup>207</sup>

Transparency International EU (TI EU) notes several shortcomings in regulation and enforcement:

- corporate and asset ownership information, and financial data often is unavailable, inadequate, fragmented or of poor quality;
- not all authorities have direct, unfiltered access to information necessary to detect, investigate and prosecute cross-border corruption, including information from non-EU countries;
- authorities may lack tools and technical expertise to crosscheck, process and use the information;
- law enforcement authorities and financial intelligence units often are underfunded and understaffed; and
- coordination among authorities within and outside the EU needs to be improved.<sup>208</sup>

“For us, one of biggest structural problems is getting access to beneficial ownership registries,” adds TI EU.<sup>209</sup> Addressing this problem is one of the many aims of the sixth EU Directive on money laundering approved in May 2024. Under the measure, access to beneficial ownership registries should be granted to people and organisations with a “legitimate interest” in preventing or combating

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<sup>204</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime.pdf).

<sup>205</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime.pdf).

<sup>206</sup> “Eurojust Report on Money Laundering,” Eurojust, October 2022; <https://www.eurojust.europa.eu/sites/default/files/assets/eurojust-report-money-laundering-2022.pdf>.

<sup>207</sup> Green, Ruth, “The fight against corruption: Europe’s black hole,” International Bar Association, 2019; <https://www.ibanet.org/article/7616EA92-EC08-4610-8DF4-99A4845903A9>.

<sup>208</sup> Transparency International EU, “Strengthened enforcement capacities of public authorities (STEP EU),” <https://www.transparency.org/en/projects/strengthened-enforcement-capacities-of-public-authorities-step-eu>.

<sup>209</sup> Personal interview with Nick Aiossa, Transparency International EU, 27 June 2024.

money laundering or terrorism financing. This includes NGOs, journalists and academics.<sup>210</sup> "A lot depends on how this Directive is transposed," remarked TI EU.<sup>211</sup>

New concepts of financial services including fintech, artificial intelligence, virtual IBANs (vIBANs), and decentralised finance (DeFi) such as cryptocurrencies and blockchain increasingly are being exploited by criminal networks to launder money and commit fraud and other crimes.<sup>212</sup>

Because increasing digitalisation and automation is resulting in fewer direct interactions with customers, this could weaken know-your-customer (KYC) procedures established to prevent tax fraud, online banking fraud, money laundering, terrorism financing and other crimes.<sup>213</sup>

Risks to citizens also are on the rise. An estimated 58% of banking customers in the EU regularly carry out transactions via online tools such as websites and apps. These platforms provide significant benefits to customers and companies alike. But, as Europol notes, many customers lack the technical knowledge and experience to protect them from cybercriminals who use phishing and malware to burrow into their online accounts.<sup>214</sup>

These risks to consumers have been fuelled by the huge expansion of online shopping. The proliferation of digital payment systems and the reduced ability to verify customers due to cross-border trade are making fraud prevention more complex. "At this point, no merchant, bank or payment service provider has all the data necessary to determine whether a transaction has been executed by the customer or a fraudster."<sup>215</sup>

Criminals also know when to take advantage of economic downturns. Tightened credit during a recession can lead companies and individual consumers to use unregulated financial services. These unlicensed, online banks and lenders are adept at scamming loan customers.<sup>216</sup>

The industry is not free of political corruption. There are "significant" risks of corruption in the context of financial companies which do business with public banks or sovereign wealth funds, according to Association Europe-Finances-Régulations.<sup>217</sup>

Underneath these larger forces lies the financial sector's own version of the "fraud triangle":

- *conditions*: excessive personal wants or ambitions of employees or executives, or excessive pressures they face to meet their objectives at work,

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<sup>210</sup> EU Directive 2024/1640 on the mechanisms to be put in place by Member States for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, 31 May 2024; [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202401640](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401640).

<sup>211</sup> Personal interview with Nick Aiossa, Transparency International EU, 27 June 2024.

<sup>212</sup> "INSIGHT: Europe's massive money laundering and corruption problem; crime gangs exploit fintech, vIBANs and DeFi, Europol warns in report," *AML Intelligence*, 11 September 2023; <https://www.amlintelligence.com/2023/09/breaking-europes-massive-money-laundering-and-corruption-problem-crime-gangs-exploit-fintech-vibans-and-defi-europol-warns-in-report/>.

<sup>213</sup> "Enterprising criminals: Europe's fight against the global networks of financial and economic crime," Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>214</sup> "Enterprising criminals: Europe's fight against the global networks of financial and economic crime," Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>215</sup> Forster, Horst, "European Fraud Report – Payments Industry Challenges," Nets Group, 2019; <https://www.nets.eu/solutions/fraud-and-dispute-services/Documents/Nets-Fraud-Report-2019.pdf>.

<sup>216</sup> "Enterprising criminals: Europe's fight against the global networks of financial and economic crime," Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime\\_.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime_.pdf).

<sup>217</sup> Montigny, Philippe, "Anti-corruption challenges for the financial sector," **Association Europe-Finances-Régulations**, 19 May 2016; <https://www.aefr.eu/en/news/4369/anti-corruption-challenges-for-the-financial-sector>.

- *corporate structure*: inadequate organisational and regulatory frameworks inside companies to prevent and remedy misconduct, and
- *character*: employees' belief that their misconduct will not be exposed and, if it is, they will be able to justify it.<sup>218</sup>

#### 4.3.4 *The Consequences of Corruption in the financial sector*

##### **Scope of the consequences**

Financial crime is a “highly complex, significant threat that affects millions of citizens and thousands of companies in the EU every year,” according to Europol. These crimes destabilise economies and undermine social security systems, depriving society of prosperity, economic growth and employment. “Although indirect, the impact these crimes have on society cannot be underestimated.”<sup>219</sup>

Corruption affects lending, undermines the efficient allocation of bank resources, and impairs the debt recovery of borrowers. Bribes increase loan costs and divert money from good projects to bad, decreasing the quality of loan portfolios and harming economic growth.<sup>220</sup>

Financial crimes, especially money laundering, not only infiltrate the legal economy but also “foster the growth of a parallel underground society” dominated by OCGs. “Vulnerable demographics, and especially vulnerable youngsters who are lacking trust in societal institutions and confidence in the rule of law, are the perfect target pool for such parallel underground society.”<sup>221</sup>

The indirect costs are even greater because they are felt by the entire economy, says the IMF. This can fuel boom-and-bust cycles, increase home prices, cause bank runs and volatility in international capital flows, reduce foreign investment, undermine good governance, cause political instability, and erode trust in governments and institutions.<sup>222</sup>

Corruption has been associated with non-performing loans (NPLs), which are debts repaid late or unlikely to be repaid at all. A link has been found between institutional corruption and NPLs in EU Member States and five neighbouring countries.<sup>223</sup> A study of 140 countries found a statistically significant relationship between corruption and NPLs. This is often due to crooked bank employees who knowingly approve loans for companies that do not meet loan requirements.<sup>224</sup> The value of

<sup>218</sup> Zafeiriou, Eleni et al, “Illicit and Corruption Mitigation Strategy in the Financial Sector: A Study with a Hybrid Methodological Approach,” *Sustainability*, 15(2), 11 January 2023; <https://www.mdpi.com/2071-1050/15/2/1366>.

<sup>219</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime.pdf).

<sup>220</sup> Sol Murta, Fátima and Gama, Paulo, “On the relationship between corruption and bank lending activity: European evidence,” *Journal of Financial Crime*, 30(6), October 2023; <https://ideas.repec.org/a/eme/fcpps/ffc-10-2022-0253.html>.

<sup>221</sup> “European Financial and Economic Crime Threat Assessment 2023 – The Other Side of the Coin: An Analysis of Financial and Economic Crime,” Europol, 2023; <https://www.europol.europa.eu/cms/sites/default/files/documents/The%20Other%20Side%20of%20the%20Coin%20-%20Analysis%20of%20Financial%20and%20Economic%20Crime%20%28EN%29.pdf>.

<sup>222</sup> Claver, Carolina, et al, “Financial Crimes Hurt Economies and Must be Better Understood and Curbed,” International Monetary Fund, 7 December 2023; <https://www.imf.org/en/Blogs/Articles/2023/12/07/financial-crimes-hurt-economies-and-must-be-better-understood-and-curbed>.

<sup>223</sup> Ofria, Ferdinando and Mucciardi, Massimo, “Government failures and non-performing loans in European countries: a spatial approach,” *Journal of Economic Studies*, July 2021; [https://www.researchgate.net/publication/352887077\\_Government\\_failures\\_and\\_non-performing\\_loans\\_in\\_European\\_countries\\_a\\_spatial\\_approach](https://www.researchgate.net/publication/352887077_Government_failures_and_non-performing_loans_in_European_countries_a_spatial_approach).

<sup>224</sup> Gjeçi, Ardit and Marinč, Matej, “Corruption and Non-Performing Loans,” *Economic and Business Review*, 24(4), December 2022; <https://www.ebrjournal.net/cgi/viewcontent.cgi?article=1312&context=home>.

NPLs for banks supervised by the European Central Bank was EUR 345 billion as of the third quarter of 2023.<sup>225</sup>

Fraud is a main ingredient, to a lesser or greater extent, in virtually every type of financial crime. Its economic impact is “staggering,” said Interpol, noting that tech-savvy fraudsters stay one step ahead of law enforcement by exploiting new vulnerabilities and circumventing security measures.”<sup>226</sup>

Whether concealing the origin of illicit funds, falsifying a bank’s financial records, setting up shell companies to hide beneficial owners and evading taxes, offering crooked investment opportunities, stealing and using another person’s identity – fraud is at the heart of financial crime and corruption.

Both the volume and methods of financial fraud are increasing and diversifying significantly. Financial fraud, which Interpol calls a “pervasive, global threat,” is a predatory crime perpetrated in anonymity and across borders. In Europe, the most prevalent types are investment fraud, business email compromise, romance fraud and telecom fraud. A hybrid scheme known as “pig-butcher” combines romance and investment fraud, often using cryptocurrencies. Victims of these swindles often are hesitant to come forward. Another new type of scam is “rug pull,” when cryptocurrency outfit suddenly abandon their investors.<sup>227</sup>

Criminals are utilising many new tools, such as phishing kits, remote administration tools, card dumps, databases of personal data, and fraud manuals posted on dark-web forums.<sup>228</sup>

Within banks and other financial companies, the “fraud tree” has three main branches: asset misappropriation, corruption and tax evasion. All of these, individually or in unison, can be a cause of another type of fraud: the misstatement of financial statements. “All the aspects of the fraud tree have become widespread in the past ten years in both the business and banking worlds.” Moreover, corruption and fraud in banking are “complex problems that confound researchers.”<sup>229</sup>

A growing area of fraud is Internet and cross-border card swindles, reaching EUR 1.8 billion as of 2016, according to the European Central Bank. That year, three-fourths of all fraud losses on cards issued in the Single Euro Payments Area were from “card-not-present payments” – namely, payments made by post, telephone or over the Internet.<sup>230</sup>

Many investment fraud schemes are now carried out exclusively online or via advertising on social media platforms. These schemes use tools such as Forex trading platforms, binary options and online crowdfunding. Advance-fee fraud schemes, in which people are promised a large sum of money in

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<sup>225</sup> “ECB publishes supervisory banking statistics on significant institutions for the third quarter of 2023,” European Central Bank, 12 January 2024;

<sup>226</sup> <https://www.bankingsupervision.europa.eu/press/pr/date/2024/html/ssm.pr240112~7843aa75fa.en.html>  
Interpol Global Financial Fraud Assessment, Interpol, May 2024;

<sup>227</sup> [https://www.interpol.int/content/download/21096/file/24COM005563-01%20-%20CAS\\_Global%20Financial%20Fraud%20Assessment\\_Public%20version\\_2024-03%20v2-1.pdf](https://www.interpol.int/content/download/21096/file/24COM005563-01%20-%20CAS_Global%20Financial%20Fraud%20Assessment_Public%20version_2024-03%20v2-1.pdf)  
Interpol Global Financial Fraud Assessment, Interpol, May 2024;

<sup>228</sup> [https://www.interpol.int/content/download/21096/file/24COM005563-01%20-%20CAS\\_Global%20Financial%20Fraud%20Assessment\\_Public%20version\\_2024-03%20v2-1.pdf](https://www.interpol.int/content/download/21096/file/24COM005563-01%20-%20CAS_Global%20Financial%20Fraud%20Assessment_Public%20version_2024-03%20v2-1.pdf)  
Interpol Global Financial Fraud Assessment, Interpol, May 2024;

<sup>229</sup> Zafeiriou, Eleni et al, “Illicit and Corruption Mitigation Strategy in the Financial Sector: A Study with a Hybrid Methodological Approach,” *Sustainability*, 15(2), 11 January 2023; <https://www.mdpi.com/2071-1050/15/2/1366>.

<sup>230</sup> Forster, Horst, “European Fraud Report – Payments Industry Challenges,” Nets Group, 2019; <https://www.nets.eu/solutions/fraud-and-dispute-services/Documents/Nets-Fraud-Report-2019.pdf>.

return for a small upfront payment, increasingly are being perpetrated with alternative payment methods such as online vouchers.<sup>231</sup>

Other tools used by fraudsters are digital or “neo” banks. These virtual financial institutions have no physical branches and are growing quickly to the benefit of fraudsters and money launderers. With IBANs, international payments can be made quickly while masking the identity of the master account, the issuer and the country of origin. This makes suspicious transactions tougher to detect and adds extra steps to investigations. In every EU Member State, digital payments are now being used for money laundering.<sup>232</sup>

Another major risk area is VAT fraud. Based on investigations by the European Public Prosecutor’s Office, OCGs finance VAT fraud schemes with illicit funds from other criminal activities. These groups easily can be set up in any country and recruit people with local connections and knowledge of the local market and law. “We see the same specialised operators laundering money from VAT fraud and the other criminal activities of these groups.” They choose EU Member States with weaker detection and investigation capabilities, spot loopholes, and utilise professional enablers, high-level brokers and financial channels outside the formal financial system.<sup>233</sup>

#### 4.3.5 Concluding discussion

The European Multidisciplinary Platform Against Criminal Threats (EMPACT), an internal security initiative of EU Member States, lists economic/financial crimes and fraud among its top 10 priorities for 2022-25. Also, on the list are combating high-risk criminal networks and cyber-attackers.<sup>234</sup> These align with the findings of Europol, Eurojust, Interpol and many other law enforcement agencies. Half of Eurojust’s more than 10,000 new and ongoing cases in 2022 were for money laundering, swindling and fraud.<sup>235</sup>

As a further sign of the emphasis on stopping financial crime, the European established the Anti-Money Laundering and Countering the Financing of Terrorism Authority (AMLA) on 30 May 2024. The new agency will supervise high-risk entities and support national-level financial intelligence units to “ensure that fraudsters, organised crime and terrorists will have no space left for legitimising their proceeds through the financial system.”<sup>236</sup>

In another significant step, the European Parliament in April 2024 kept Barbados, Gibraltar, Panama, Uganda and United Arab Emirates on the EU’s list of high-risk third countries with regard to money laundering and terrorism financing. In doing so, the Parliament overruled a European Commission recommendation and a Financial Action Task Force (FATF) decision to remove the five countries from the “grey list.” The Parliament cited “important and recent evidence” suggesting Gibraltar,

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<sup>231</sup> “Enterprising criminals: Europe’s fight against the global networks of financial and economic crime,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/efecc\\_-\\_enterprising\\_criminals\\_-\\_europes\\_fight\\_against\\_the\\_global\\_networks\\_of\\_financial\\_and\\_economic\\_crime.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/efecc_-_enterprising_criminals_-_europes_fight_against_the_global_networks_of_financial_and_economic_crime.pdf).

<sup>232</sup> “European Financial and Economic Crime Threat Assessment 2023 – The Other Side of the Coin: An Analysis of Financial and Economic Crime,” Europol, 2023; <https://www.europol.europa.eu/cms/sites/default/files/documents/The%20Other%20Side%20of%20the%20Coin%20-%20Analysis%20of%20Financial%20and%20Economic%20Crime%20%28EN%29.pdf>.

<sup>233</sup> “Annual Report 2023,” European Public Prosecutor’s Office, 2024; [https://www.eppo.europa.eu/sites/default/files/2024-02/EPPA\\_Annual\\_Report\\_2023.pdf](https://www.eppo.europa.eu/sites/default/files/2024-02/EPPA_Annual_Report_2023.pdf).

<sup>234</sup> “EU Policy Cycle – EMPACT,” Europol, <https://www.europol.europa.eu/crime-areas-and-statistics/empact>.

<sup>235</sup> “Casework: Overview of Eurojust casework by crime type 2022,” Eurojust; <https://www.eurojust.europa.eu/crime-types-and-cases/casework>.

<sup>236</sup> “Anti-money laundering: Council adopts package of rules,” Council of the European Union, 30 May, 2024; <https://www.consilium.europa.eu/en/press/press-releases/2024/05/30/anti-money-laundering-council-adopts-package-of-rules/>.

Panama and UAE were not doing enough to stop the evasion of sanctions against Russia following its attack on Ukraine.<sup>237</sup> “The EU should have a role that is more autonomous“ from the FATF, noted a Parliament staffer.<sup>238</sup> Despite the growing attention on financial crimes, and the significant amount of information collected through investigating and prosecuting cases, many knowledge gaps remain. In order to grasp the full extent of the consequences, says the IMF, the fiscal, monetary and structural costs of these crimes must be better understood.

More must be known about which sectors are most vulnerable to money laundering (for example, banking, real estate, virtual assets, precious metals), which countries export and integrate illicit money flows, and how illicit flows affect the economy. “This is needed to document just how financial integrity affects both a given country’s financial stability and the broader economy, plus how global financial stability might be affected.”<sup>239</sup>

Even though more research and intelligence are needed, industry regulators, experts and observers agree that money laundering, tax evasion and various frauds are the highest priority for investigators and law enforcement. Harmonising the definitions of corruption among Member States would simplify the investigation and prosecution of cross-border corruption cases, states Eurojust.<sup>240</sup>

They also agree that OCGs operating within and outside the EU – and linking the EU with their home countries – are responsible for a sizeable portion of the corruption, financial losses and economic disruption. The EU’s 2021-25 strategy for combating OCGs includes the financial aspects of organised crime.<sup>241</sup> Tracing, freezing and confiscating criminal assets are major focuses of Eurojust’s casework.<sup>242</sup> The challenges in investigating OCGs outside the EU include finding an appropriate legal basis for cooperation, and identifying predicate offences such as bribery and corruption in order to successfully prosecute money laundering.<sup>243</sup>

Ironically, another major problem are the new technologies being developed to help financial companies and their customers save time and money. Many of these tools are being weaponised and turned against the industry and citizens by fraudsters. “Bad actors are also embracing new technologies on top of their traditional techniques.”<sup>244</sup>

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<sup>237</sup> “European Parliament objects to removal of UAE and Gibraltar from ‘high-risk’ list,” *Sovereign*, 24 May 2024; [https://www.sovereigngroup.com/news/news-and-views/european-parliament-objects-to-removal-of-uae-and-gibraltar-from-high-risk-list/?utm\\_source=mondaq&utm\\_medium=syndication&utm\\_content=articleoriginal&utm\\_campaign=article](https://www.sovereigngroup.com/news/news-and-views/european-parliament-objects-to-removal-of-uae-and-gibraltar-from-high-risk-list/?utm_source=mondaq&utm_medium=syndication&utm_content=articleoriginal&utm_campaign=article).

<sup>238</sup> Personal interview with Marco Stefan, European Parliament Committee on Civil Liberties, Justice and Home Affairs, 18 June 2024.

<sup>239</sup> Claver, Carolina, et al, “Financial Crimes Hurt Economies and Must be Better Understood and Curbed,” International Monetary Fund, 7 December 2023; <https://www.imf.org/en/Blogs/Articles/2023/12/07/financial-crimes-hurt-economies-and-must-be-better-understood-and-curbed>

<sup>240</sup> “Eurojust Casework on Corruption: 2016-2021 Insights,” Europol, May 2022;

<https://www.eurojust.europa.eu/sites/default/files/assets/eurojust-casework-on-corruption-2016-2021-insights-report.pdf>.

<sup>241</sup> “Eurojust Casework on Corruption: 2016-2021 Insights,” Europol, May 2022;

<https://www.eurojust.europa.eu/sites/default/files/assets/eurojust-casework-on-corruption-2016-2021-insights-report.pdf>.

<sup>242</sup> “Annual Report 2022,” Europol; 2023; <https://www.eurojust.europa.eu/sites/default/files/assets/eurojust-annual-report-2022-en.pdf>.

<sup>243</sup> “Eurojust Casework on Corruption: 2016-2021 Insights,” Europol, May 2022;

<https://www.eurojust.europa.eu/sites/default/files/assets/eurojust-casework-on-corruption-2016-2021-insights-report.pdf>.

<sup>244</sup> Claver, Carolina, et al, “Financial Crimes Hurt Economies and Must be Better Understood and Curbed,” International Monetary Fund, 7 December 2023; <https://www.imf.org/en/Blogs/Articles/2023/12/07/financial-crimes-hurt-economies-and-must-be-better-understood-and-curbed>.

## 4.4 The nature and intricacies of the problem of corruption in the construction & infrastructure sector

### 4.4.1 Introduction

Infrastructure development plays an essential role in many key public sectors and policy areas, including transportation, telecommunication education, and healthcare, as well as encompasses physical installations and networks ranging from airports to bridges, dams, drinking water supply systems and treatment facilities, power generation plants and facilities, hazardous waste management facilities, hospitals, inland waterways, levees, ports, public parks, railways, roads, schools, solid waste management facilities, communications installations, transit systems, and wastewater flow systems and treatment facilities.<sup>245</sup>

As a result of the integral function of infrastructure development for society, the investments in infrastructure are huge; approximately half of all government fixed capital investments are directed toward the construction of public infrastructure.<sup>246</sup> The construction sector is vast, with an estimated annual worth surpassing USD 3.2 trillion, comprising 2-3% of developing countries' GDP and 5-7% of industrialised countries' GDP.<sup>247</sup> It is the largest industrial employer in the EU, with a workforce of around 15 million people, accounting for nearly 7% of the total European workforce. In 2015, construction activities contributed 5.4% to EU's total gross value added at basic prices.<sup>248</sup>

However, it is no secret that the construction and infrastructure sector is particularly vulnerable to corruption. The last time Transparency International included industry sectors in its Bribe Payers Index (in 2011), construction ranked first across all types of bribery (petty, grand, and private).<sup>249</sup> Estimates of the percentage of construction costs lost to bribe payments vary globally, ranging from 5 to 20%, or even higher.<sup>250</sup> An analysis of 527 cases of bribery in international business, conducted by OECD, revealed that two-thirds of the cases occurred in just four industries: extractive (19%); construction (15%); transportation and storage (15%); and information and communication (10%).<sup>251</sup> While the problem is typically more pronounced in developing countries, developed countries are not immune. For instance, a 2016 survey of 700 construction professionals in the UK, conducted by Chartered Institute of Building, revealed that nearly half of the respondents perceived corruption as commonplace in construction. Over a third stated that they had been offered a bribe, as well as having come across cartel activity in the UK construction industry, at least once.<sup>252</sup> In a similar vein, a 2020 survey by YouGov found that 97% of middle-market UK construction companies felt at risk of breaching anti-money laundering and bribery legislation.<sup>253</sup>

<sup>245</sup> Transparency International. 2018. "Model monitoring agreement and integrity pact for infrastructure: An implementation guide for civil society organisations," <https://www.transparency.org/en/publications/model-monitoring-agreement-and-integrity-pact-for-infrastructure>.

<sup>246</sup> Wells, J. (2015). Corruption in the construction of public infrastructure: Critical issues in project preparation. Chr. Michelsen Institute: U4, no. 8.

<sup>247</sup> LetsBuild. (2023). Why is Construction so Prone to Corruption? LetsBuild; <https://www.letsbuild.com/blog/construction-prone-corruption>.

<sup>248</sup> Sanz de Miguel, P., Mankki, L., Turlan, F., Surdykowska, B. (2017). Fraudulent Contracting of Work: Construction Sector. Eurofound; <https://www.eurofound.europa.eu/system/files/2020-01/wpef17004.pdf>.

<sup>249</sup> Transparency International (2011), "Bribe Payers Index 2011," [https://www.files.ethz.ch/isn/134888/Bribe%20Payers%20Index%202011\\_single%20pages.pdf](https://www.files.ethz.ch/isn/134888/Bribe%20Payers%20Index%202011_single%20pages.pdf).

<sup>250</sup> Wells, J. (2015). Corruption in the construction of public infrastructure: Critical issues in project preparation. Chr. Michelsen Institute: U4, no. 8.

<sup>251</sup> All of the cases looked at by the OECD have been prosecuted and reached a final judgment. OECD (2013); <https://edition.cnn.com/2014/12/02/news/bribery-foreign-corruption/index.html>.

<sup>252</sup> Barnes, David (2013), "Corruption in the UK Construction Industry," Chartered Institute of Building (CIOB), <https://www.ciob.org/industry/research/Corruption-UK-Construction-Industry>.

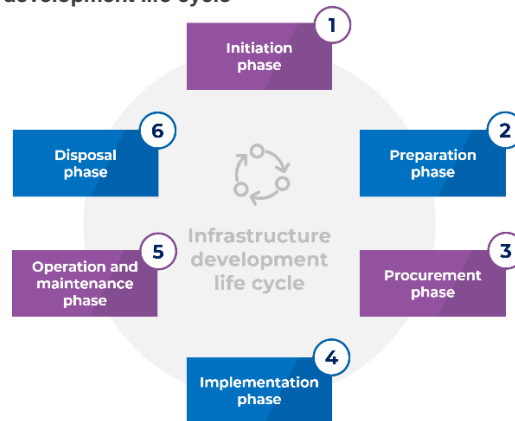
<sup>253</sup> RICS. (2021). The cost of corruption in construction. RICS; <https://www.rics.org/news-insights/wbef/the-cost-of-corruption-in-construction>.

Against this backdrop, the remainder of this section explores the character, causes, and consequences of corruption in infrastructure development among EU Member States.

#### 4.4.2 The character of corruption in infrastructure development

Infrastructure development projects comprise multiple consecutive phases that constitute the life cycle of infrastructures. Categorisations of these phases vary, but broadly speaking the process can be divided into six main phases as shown in Figure 4.12 below:<sup>254</sup>

Figure 4.12 Infrastructure development life cycle



Source: Figure adapted from Adam & Fazekas (2023).<sup>255</sup>

The **initiation phase** involves the identification of needs for an infrastructure project and the setting of development priorities for the selection of projects and resource allocation. The **preparation phase** entails project planning, including the determination of the feasibility in terms of technical, economic and social aspects, plus drawing up concrete designs and specifications. The **procurement phase** covers the selection of contractors or suppliers for the project and the negotiation and signing of contracts. The **implementation phase** involves the physical construction of the infrastructure project according to the plans and specifications developed previously which ends with the formal approval of completion. The **operation and maintenance phase** entails the ongoing operation and maintenance of the infrastructure project to ensure its continued functionality. The **disposal phase** involves the transfer or sale of assets to other entities or the public.

As argued by the World Bank,<sup>256</sup> attempts to measure corruption in the infrastructure sector have tended to focus predominantly on the procurement phase, resulting in a lack of understanding, as well as data, on the other phases. Yet, research consistently shows that corruption occurs at every stage along the project lifecycle of infrastructure development. Estimates of losses to bribery in construction, which lies downstream from procurement, are as high as 45% of construction costs. To illustrate, more than a quarter of the allegations against the road projects with World Bank involvement, concerned fraud during the construction phase.<sup>257</sup> Moreover, studies have shown that corruption during the early stages of project appraisal, design and budgeting may open doors for

<sup>254</sup> CMI (2023), <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-infrastructure-development/fullversion#background-on-corruption-in-infrastructure>.

<sup>255</sup> Adam & Fazekas (2023), <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-infrastructure-development/fullversion#background-on-corruption-in-infrastructure>.

<sup>256</sup> World Bank (2021), <https://thedocs.worldbank.org/en/doc/911661611783412604-0090022021/original/PublicInfrastructure.pdf>; cf. Benitez, Estache & Soreide (2010); Kenny (2006, 2009).

<sup>257</sup> World Bank (2021), <https://thedocs.worldbank.org/en/doc/911661611783412604-0090022021/original/PublicInfrastructure.pdf>.



wrongdoing later. Most countries have implemented mechanisms to reduce some of the more obvious entry points for corruption, such as by improving transparency and competitiveness during the main tender process. However, as argued by Dávid-Barrett and Fazekas by only targeting some types of risk, corruption may simply shift to other stages.<sup>258</sup> For instance, if the contract award is difficult to influence, corrupt activity may instead occur in the project design and appraisal phase, or through amendments to the contract during project implementation.<sup>259</sup>

To properly understand the character of corruption in infrastructure development, it is quite important to consider that every phase in an infrastructure project involves distinct combinations of **actors**, each with their own vulnerabilities to particular types of misconduct, resulting in to some extent different **forms** and **means** of corruption in the different phases of infrastructure development. A recent and thorough report by *Adam & Fazekas for U4 Anticorruption Resource Center at CMI* provides an excellent summary of the character of corruption in the different phases:<sup>260</sup>

### Phase 1: Initiation

Several corruption risks can undermine processes at this first stage of the project cycle. A weak institutional and regulatory setup allows undue influence and political interference to dictate the policy direction and strategic planning of infrastructure projects. Influence peddling and bribery can occur when project proponents (e.g. contractors) offer bribes or other inducements (e.g. campaign donations) to influence project decisions at the political level. Political interference occurs when public officials or politicians use their power to influence the decision to launch an infrastructure project driven by political interests or personal gain rather than objective criteria such as need or cost-benefit analysis. For example, in the period leading up to elections, politicians might interfere to push projects that benefit their constituents (e.g. roads and bridges). This can result in projects being approved based on political influence or personal connections rather than need or merit – leading to the selection of large projects and new construction over maintenance as well as “white elephant” projects with little or no social benefit, such as bridges without connecting roads, projects for which there is no operational budget to run services (e.g. hospitals or schools) or capital investment in projects that are never completed.<sup>261</sup> An infrastructure project may moreover be prioritised based on the location of influential politicians or their allies and supporters, rather than on actual need and feasibility, for example by favouring a certain ethnic group.

The initiation phase might also be characterised by unsolicited proposals, by private firms reaching out to the government with a proposal for an infrastructure project without the government having requested to do so. Unsolicited proposals are considered vulnerable to corruption for two reasons. First, because of their low levels of transparency, it is unclear what the origins of the project idea were and if bribery or lobbying by private contractors motivated a government official to orchestrate the proposal for private gain. Secondly, the lack of competition in unsolicited proposals raises concerns and opens the door to several vulnerabilities down the line.

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<sup>258</sup> Dávid-Barrett E. & Fazekas, M. 2020. Anti- corruption in aid-funded procurement: Is corruption reduced or merely displaced? *World Development*, Vol. 132.

<sup>259</sup> World Bank (2021), <https://thedocs.worldbank.org/en/doc/911661611783412604-0090022021/original/PublicInfrastructure.pdf>.

<sup>260</sup> The description of the character of corruption in infrastructure development in this report is very much based on the insights offered by Adam & Fazekas (2023), <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-infrastructure-development/fullversion#background-on-corruption-in-infrastructure>; see also Wells, J. (2015). *Corruption in the construction of public infrastructure: Critical issues in project preparation*. Chr. Michelsen Institute: U4, no. 8; RICS (2021), <https://www.rics.org/news-insights/wbef/the-cost-of-corruption-in-construction>.

<sup>261</sup> Cf. Wells, J. 2015. *Corruption in the construction of public infrastructure: Critical issues in project preparation*. Anti-corruption Resource Centre, U4 Issue Nr. 8.

### Phase 2: Preparation

Corruption can also occur during the preparation phase. Technical and financial feasibility studies, as well as environmental and social impact assessments, are required for most infrastructure projects and help to determine overall value for money. Corruption can occur when these assessments are incomplete, inaccurate or manipulated to support pre-determined project outcomes or minimise the negative impacts of the project on paper.<sup>262</sup> The financing of infrastructure projects can also be a source of corruption as political or private interests may push to get projects into the budget without appraisal. In addition, corruption in the selection of lenders and the provision of loans as well as the choice and setup of the financing model (publicly or in public-private partnership) may be influenced by considerations apart from the public good. For example, financial institutions might collude with decision-makers in charge of the financing model to agree on terms that are not competitive which may lead to inflated fees or interest rates. This could involve bribery by financial institutions or decision-makers having a private interest in or relationships with certain lenders.

The selection of project sites and acquisition is a critical part of the planning phase for infrastructure projects. Corruption risks can arise when the process is not transparent and potentially motivated by private or political interests, rather than objective assessment, or when compensation is not provided at market rates.

There can also be corruption risks related to planning permissions, import licenses, and license approval. Project designs may furthermore be incomplete or inaccurate on purpose to increase contractors' profits, favour a specific contractor, or leave room for later adjustments open to corrupt manipulation.

### Phase 3: Public procurement

The procurement process, from the definition of tender specifications, through choosing the procurement method, and selecting bidders, to awarding the contract is widely considered the stage of the project cycle most vulnerable to corruption, due to the complexity of the process and the manifold loopholes that can be used to steer a contract to a favoured bidder.<sup>263</sup> As described by Fazekas & Tóth and Fazekas, Tóth & King, the aim of corruption in procurement is usually to steer the contract to the favoured bidder without detection.<sup>264</sup> This requires at least two violations of principles of impartial distribution of public resources: avoiding competition by, for example, using unjustified sole-sourcing or direct contract awards, and; favouring a certain bidder by, for example, tailoring specifications or sharing inside information.

### Phase 4: Implementation

In the implementation phase, corruption may take many different forms. For instance, corruption can occur when contractors are allowed to inflate the cost of the original contract scope, or allowed to charge for extra, overpriced products.<sup>265</sup> Corruption can moreover take the form of embezzlement or misuse of materials; contractors can use sub-standard materials, fail to follow required quality control procedures or supply less equipment than specified to save money and pocket the difference.<sup>266</sup>

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<sup>262</sup> Williams, A. & Dupuy, K. 2017. Deciding over nature: Corruption and environmental impact assessments. *Environmental Impact Assessment Review*, Volume 65, July 2017, 118-124.

<sup>263</sup> Cf. Kingsford Owusu, E. and P.C. Chan, A. 2021. *Corruption in infrastructure procurement. Addressing the dynamic criticalities*. London and New York: Routledge.

<sup>264</sup> Fazekas, M. & Tóth, B. 2018. The extent and cost of corruption in transport infrastructure: New evidence from Europe. *Transportation Research Part A: Policy and Practice*. Vol. 113, July 2018, 35– 54; Fazekas, M., Tóth, I. J., & King, L. P. 2016. An objective corruption risk index using public procurement data. *European Journal of Criminal Policy and Research*, 22(3), 369–397.

<sup>265</sup> Cf. Dávid-Barrett E. & Fazekas, M. 2020. Anti-corruption in aid-funded procurement: Is corruption reduced or merely displaced? *World Development*.

<sup>266</sup> Cf. Stansbury, C. & Stansbury, N. 2008. *Examples of corruption in infrastructure*. Global Infrastructure Anti-Corruption Centre.

Corruption can moreover take the form of collusion between contractors and supervisors. Contractors may for example collude with project supervisors and inspectors to bypass quality control measures, to obtain formal approval for substandard work, to increase the contract price or adjust the work required to make extra profit, cover potential losses or recover money spent on bribes.<sup>267</sup> This can involve offering bribes, threats or other inducements to inspectors or supervising engineers.<sup>268</sup> Furthermore, the public officials who are managing project implementation on behalf of the client are often fully aware of this collusion or even actively collaborate in it, in many cases since the project preparation stage to systematically embezzle funds from projects.<sup>269</sup> Corrupt and fraudulent activities might furthermore be in the form of so-called ghost workers. Ghost workers are individuals who are listed on the payroll but do not actually work on the project. This can occur when corrupt officials or contractors inflate the number of workers on the project and then pocket the salaries of the non-existent workers. Contractors might moreover use delaying tactics to inflate costs and extend project timelines, leading to cost overruns and schedule delays. This can include slowing down work, submitting excessive paperwork or failing to meet milestones.

### **Phase 5: Operation and maintenance**

Corruption risks in the operation and maintenance phase include embezzlement of project funds, bribes for the provision of maintenance services and collusion among service providers. For instance, corruption can manifest in the embezzlement of funds allocated for the maintenance and operation of the infrastructure project. Moreover, bribery, nepotism and other corrupt practices similar to those highlighted in the procurement phase also apply to the awarding of maintenance contracts.

### **Phase 6: Disposal**

Disposal of assets is the final phase of an infrastructure project, and it involves the transfer or sale of assets to other entities or the public. The disposal of assets phase presents several corruption risks, including insider dealing in the sale of assets, manipulation of asset valuations and bribery of disposal officials. For instance, public officials involved in the disposal of assets may have personal interests that conflict with their official duties. This CoI can lead to corruption, where officials favour certain buyers or undervalue the assets for personal gain. This can moreover be related to bribery, with officials taking bribes from buyers or sellers to favour one over the other. In some cases, insiders may have access to confidential information about the assets that they can use to gain an unfair advantage in the sale or transfer of assets. Insider trading can lead to corruption, where insiders profit from their knowledge of the asset's true value.

In short, infrastructure development is a hotspot for almost all existing types of corruption and related activities, including bribery, collusion, nepotism, extortion, and fraudulent acts, such as dishonesty, money laundering and deception.<sup>270</sup>

As public procurement and especially infrastructure delivery involves huge sums, the typical corruption scenario is institutionalised and systemic in character and involves, in addition to public officials, contractors, and subcontractors, elites from both the public and private sectors, such as

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<sup>267</sup> Cf. Wells, J. 2015. Corruption in the construction of public infrastructure: Critical issues in project preparation. Anti-corruption Resource Centre, U4 Issue Nr. 8.

<sup>268</sup> Cf. OECD. 2012. Recommendation of the Council on fighting corruption in the public sector. Paris: OECD Publishing.; Wells, J. 2015. Corruption in the construction of public infrastructure: Critical issues in project preparation. Anti-corruption Resource Centre, U4 Issue Nr. 8.

<sup>269</sup> Cf. M Mawenya, A. S. 2007. "Challenges of delivering value for money [from] consulting engineering services in corruption prone sub-Saharan African countries." Paper presented at the 14th GAMA conference, Gaborone, Botswana, 14–17 May.

<sup>270</sup> Chan, A.P.C. & Owusu, E.K. (2017). Corruption Forms in the Construction Industry: Literature Review. *Journal of Construction Engineering and Management*, 143(8).

elected officials, high-level bureaucrats and business people.<sup>271</sup> Professional stakeholders such as quantity surveyors, project managers, engineers, and architects are typically involved as well.<sup>272</sup> In addition, organised crime is an important player in construction. According to a recent report by Europol, construction is one of the sectors most vulnerable to infiltration by organised crime.<sup>273</sup>

#### 4.4.3 The causes of corruption

Several factors make infrastructure development particularly susceptible to corruption. Studies and reports typically point to the importance of factors such as the often significant sums involved, the long-term character and complexity of the process implying an inherent information imbalance between clients and providers; the time pressure, the close interaction with the government, and the large number of stakeholders involved, including subcontractors.<sup>274</sup> The aforementioned report by Adam & Fazekas for U4 Anticorruption Resource Centre lists the following causes of corruption in infrastructure development:<sup>275</sup>

*To begin with*, infrastructure projects are often **large in size**, both in terms of the volume of funds and the many actors. Large projects are especially attractive for corruption as even a small percentage of the investment value can result in substantial corruption rents (Rose-Ackerman 1999).

*Second*, infrastructure projects are often both **long-term and complex, with an inherent information asymmetry**. Projects often cut across several institutions, jurisdictions, levels of government, and policy areas on their long-run path to delivery. This complexity makes corruption tricky to detect.<sup>276</sup> The long-term character of infrastructure development means that the gains of corruption – for example, through building with less/lower quality material – are realised early on, while costs arise only later. Thus, it is often difficult to assess the quality of the final product until long after the contract is concluded. Moreover, complex projects are difficult to monitor and regulate due to high information asymmetry, which makes it harder to detect inflated prices, inferior quality or sluggish delivery. Furthermore, complex infrastructure projects may require highly specialised skills and capacities, which can create monopoly power and pricing, making it even more difficult to detect and punish misconduct.<sup>277</sup> In addition, complex financial arrangements due to the use of subcontractors and multiple layers of contracting, tend to open up gaps for potential conflicts of interest and undue influence on one hand, while complicating accountability and oversight on the other, making it easier for corrupt practices to go undetected.<sup>278</sup>

<sup>271</sup> Fazekas, M. & Tóth, B. 2018. The extent and cost of corruption in transport infrastructure: New evidence from Europe. Transportation Research Part A: Policy and Practice. Vol. 113, July 2018, 35– 54.

<sup>272</sup> Ameyaw, E.E., Pam, E., Chan, P.C., Owusu-Manu, D.G. & David, E.J. (2017). Corrupt Practices in the Construction Industry: A survey of Ghanaian Experience. Journal of Management in Engineering, 33(6).

<sup>273</sup> Europol (2024). <https://www.europol.europa.eu/cms/sites/default/files/documents/Europol%20report%20on%20Decoding%20the%20EU-%20most%20threatening%20criminal%20networks.pdf>.

<sup>274</sup> See CMI (2023), <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-infrastructure-development/fullversion#background-on-corruption-in-infrastructure>; see also Wells, J. (2015). Corruption in the construction of public infrastructure: Critical issues in project preparation. Chr. Michelsen Institute: U4, no. 8; RICS (2021), <https://www.rics.org/news-insights/wbef/the-cost-of-corruption-in-construction>.

<sup>275</sup> See CMI (2023), <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-infrastructure-development/fullversion#background-on-corruption-in-infrastructure>; see also Wells, J. (2015). Corruption in the construction of public infrastructure: Critical issues in project preparation. Chr. Michelsen Institute: U4, no. 8; RICS (2021), <https://www.rics.org/news-insights/wbef/the-cost-of-corruption-in-construction>; World Bank (2021), <https://thedocs.worldbank.org/en/doc/911661611783412604-0090022021/original/PublicInfrastructure.pdf>; LetsBuild (2023), <https://www.letsbuild.com/blog/construction-prone-corruption>.

<sup>276</sup> World Bank (2021), <https://thedocs.worldbank.org/en/doc/911661611783412604-0090022021/original/PublicInfrastructure.pdf>.

<sup>277</sup> Golden, M. A., & Picci, L. 2005. Proposal for a new measure of corruption, illustrated with Italian data. Economics & Politics, 17(1), 37–75; Kenny, C. 2007. Construction, corruption, and developing countries (World Bank Policy Research Working Paper No. 4271). Washington, DC.; Kenny (2007).

<sup>278</sup> World Bank. 2020. Infrastructure governance: Assessment framework.

*Third*, infrastructure projects are often conducted under **time pressure**, which increases the likelihood of corners being cut and oversight institutions not conducting monitoring diligently. Especially in the procurement process, the time pressure, and resulting **lack of transparency**, can result in corrupt practices such as bid rigging, collusion, and favouritism.<sup>279</sup> In addition, the use of non-transparent procurement methods, such as direct contracting or emergency procurement, risks creating opportunities for corruption and limiting competition.<sup>280</sup> As described by CMI, non-transparent procedures may be used in the interest of time or are justified with reference to national security needs, particularly in the field of defence and security procurement. However, the decision to rely on these opaque procedures can also be motivated by interest from political actors and their (business) networks.<sup>281</sup>

A *fourth* factor causing corruption in infrastructure development is **weak governance systems** in terms of legal and regulatory frameworks and the institutional capacities of implementing agencies. This can include weak project management, inadequate oversight and insufficient resources for effective monitoring and enforcement,<sup>282</sup> which creates opportunities for rent-seeking behaviour by public officials, contractors and other actors involved in the project and limits the ability of stakeholders to hold public officials and other actors accountable.<sup>283</sup> Furthermore, the lack of effective enforcement mechanisms and penalties can lead to impunity for corrupt practices. Governments' authority and accountability duties risk being further undermined and challenged in contexts where supra-national bodies are involved, or where project implementation lies at the sub-national government level and the division of competencies and oversight authority is unclear in relation to national governments.

As emphasised by Adam & Fazekas, despite these factors rendering infrastructure projects particularly susceptible to corruption, it is important to keep in mind that infrastructure development is a diverse sector. In line with this insight, the IMF-funded *Corruption Cost Tracker* reveals that corruption risks within the infrastructure sector differ significantly by subsector; highly concentrated and high-value markets (e.g. public utilities and transport equipment) seem to be subject to a higher risk of corruption than subsectors with broad, competitive markets, such as construction materials.

#### 4.4.4 *The consequences of corruption*

The negative effects of corruption in infrastructure development are substantial and multi-fold as they range from economic loss, the ineffective allocation of public resources, as well as the deprivation of public resources from ordinary citizens to the benefit of the few and powerful, to the compromising of quality and safety. In addition, if bribes to win a bid for a building contract can successfully be offered to public officials, then those who are most successful in terms of extracting these funds get ahead to the detriment of more honest competitors who may perform better. If it is possible for construction companies to undermine competitors through bribery, construction companies may even lose the incentive to offer high-quality services and products. In the longer run, this can lead to the loss of intrinsic motivation and quality within organisations as both workers and managers are

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<sup>279</sup> Kenny, C. 2007. Construction, corruption, and developing countries (World Bank Policy Research Working Paper No. 4271). Washington, DC.; Auriol, E., & Blanc, A. 2019. Capture and corruption in public utilities: The cases of water and electricity in sub-Saharan Africa. *Journal of African Economies*, 28(1), 25-49.

<sup>280</sup> Bauhr, M., Czibik, A., Fazekas, M & de Fine Licht, J. 2019. Lights on the shadows of public procurement: Transparency as an antidote to corruption. *Governance*. 33(3).

<sup>281</sup> See CMI (2023), <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-infrastructure-development/fullversion#background-on-corruption-in-infrastructure>.

<sup>282</sup> Cf. Kim, Y., Lee, S., & Han, S. 2017. Corruption and infrastructure: An empirical study. *Infrastructure Complexity*, 4(1), 1-12.

<sup>283</sup> Cf. Auriol, E., & Blanc, A. 2019. Capture and corruption in public utilities: The cases of water and electricity in sub-Saharan Africa. *Journal of African Economies*, 28(1), 25-49.

demoralised.<sup>284</sup> In short, corruption in the construction sector leads to inappropriate project choices, high prices, poor quality, excessive time and cost overruns, inadequate maintenance, and low returns, among other challenges. Even worse, corruption in the construction sector kills. As reported by World Economic Forum,<sup>285</sup> when a bridge collapsed in Genoa in August 2018, killing 39 people, subsequent investigations found that a Mafia-controlled construction company appears to have used weakened cement in the building process. Reports of spontaneous collapse of new buildings from all over the world similarly testify to the devastating effects of widespread corruption in the construction sector.<sup>286</sup>

Adam & Fazekas divides the consequences of corruption in infrastructure development into five categories: financial loss, safety and quality, and human rights and sustainability:<sup>287</sup>

### Financial loss

Given the hidden character of corruption, the overall cost of corruption in infrastructure development is difficult to estimate as the financial impact goes beyond the sum of bribes paid. Corruption fundamentally diverts investments towards (unnecessary) projects with low returns in financial as well as social terms (value for money) at the expense of funding much-needed maintenance of existing infrastructure or the construction of more productive projects. Corruption not only distorts the project selection process, it disrupts the efficient and economic implementation of selected projects. Corrupt practices in infrastructure projects such as bribery, nepotism, fraud or coercion can cause financial losses to the public budget in three direct ways: increasing prices and inflating project costs, delaying project completion, and distorting the public spending structure.

According to a study by Fazekas & Tóth, corruption inflates prices of European road construction projects by 30%-35% on average.<sup>288</sup> In terms of delays in project completion, corrupt practices might lead to the award of contracts to entities that may not have the capacity (or willingness) to complete the project within the agreed timelines. Delays in project completion may lead to cost overruns and low-quality provision, or even non-completion.<sup>289</sup> According to the *European Court of Auditors*, EU-funded road projects between 2000-2013 experienced an average delay of 41%, which is equivalent to nine months longer.<sup>290</sup> Corruption in infrastructure development is moreover likely to distort the public spending structure. For example, when politicians and construction companies collude to extract gains from projects in a certain sector, public spending may be steered towards high-value investments in that sector, and not according to the actual public needs and demands – the funds for which may run empty.

### Safety & Quality

As aforementioned, corruption in infrastructure development risk leading to poor quality infrastructure as practices such as bribery, favouritism and nepotism may lead to the award of contracts to incompetent contractors who may not have the necessary qualifications, expertise, experience, or willingness to construct infrastructure projects to the required standards and may cut corners and use

<sup>284</sup> UNODC 2019, <https://www.unodc.org/e4/en/anti-corruption/module-1/key-issues/effects-of-corruption.html>.

<sup>285</sup> World Economic Forum (2016). This is Why Construction is so Corrupt. <https://www.weforum.org/agenda/2016/02/why-is-the-construction-industry-so-corrupt-and-what-can-we-do-about-it/>.

<sup>286</sup> Ambraseys & Bilham (2011), "Corruption Kills." *Nature*, 469: 153-155.

<sup>287</sup> AAdam & Fazekas (2023), <https://www.u4.no/publications/overview-of-corruption-and-anti-corruption-in-infrastructure-development/fullversion#background-on-corruption-in-infrastructure>.

<sup>288</sup> Fazekas, M. & Tóth, B. 2018. The extent and cost of corruption in transport infrastructure: New evidence from Europe. *Transportation Research Part A: Policy and Practice*. Vol. 113, July 2018, 35– 54.

<sup>289</sup> Cf. A Adegbite, E., Amaeshi, K., & Amao, O. 2013b. The politics of infrastructure development in Nigeria: A case study of electricity sector reform. *Commonwealth & Comparative Politics*, 51(4), 409- 432. doi: 10.1080/14662043.2013.839202; L Lewis-Faupel, S., Neggers, Y., Olken, B. A., & Pande, R. 2014. Can electronic procurement improve infrastructure provision? Evidence From Public Works in India and Indonesia (NBER Working Paper Series No. 20344).

<sup>290</sup> [European Court of Auditors \(2013\)](https://www.eurostat.ec.europa.eu/press-releases/2013/04).

substandard materials to reduce costs. As a result, such projects may lead to safety hazards such as collapses, accidents, and injuries.<sup>291</sup> This ultimately affects the quality of life of citizens who depend on the infrastructure for their daily activities. As previously discussed, it may even put people's lives at risk. Contractors may also ignore safety regulations to cut costs or increase their profits, resulting in safety hazards such as the use of unapproved construction materials, non-compliance with safety codes and failure to provide safety equipment.<sup>292</sup> Furthermore, corruption may compromise safety inspections as inspectors who are bribed may turn a blind eye to safety hazards. Corruption may also lead to infrastructure projects being completed without necessary safety features, such as roads being built without guardrails or lighting, or buildings not having emergency exits.<sup>293</sup>

#### Human rights & Sustainability

Since infrastructure development is crucial for fostering inclusive and green growth, corruption in the sector can consequently hinder sustainable development and ultimately violate human rights, such as the equitable access to basic goods and services. For instance, corrupt practices may lead to the award of infrastructure projects to contractors who have close ties with the government or ruling elites. Political leaders may moreover favour their home regions or own ethnic group in the allocation of infrastructure projects. Such political clientelism and patronage potentially affects the equitable distribution of infrastructure, which can lead to severe disparities in the provision of basic public goods and services, and even result in violations of fundamental rights such as the right to housing, water, and healthcare.<sup>294</sup> Studies moreover suggests that corruption in infrastructure development has a particularly severe impact on marginalised communities.<sup>295</sup> Corruption in infrastructure development can moreover lead to environmental degradation and violations of the right to a healthy environment as well as further undermining efforts to build climate mitigation and adaption infrastructure.

In sum, corruption in infrastructure development cause substantial harm across many different areas, making it an important target for anticorruption work.

#### 4.4.5 Concluding discussion

This section has provided an in-depth analysis of the nature and intricacies of corruption in infrastructure development. It has shown that infrastructure development is one of the most corrupt sectors. It has moreover shown that corruption in infrastructure development takes many different forms and spans through the entire project cycle. It has discussed the causes of corruption in infrastructure development, demonstrating that there are several factors making infrastructure development susceptible to corruption; 1) The large financial interests at stake; 2) The long-term and complex character of infrastructure projects, 3) The inherent information asymmetry between buyers and providers; 4) The time pressure; 5) The lack of transparency, and; 6) Regulatory weakness. It has finally shown that the consequences of corruption in infrastructure development are substantial in terms of the prospects for financial sustainability, safety and quality, and human rights and environmental sustainability.

<sup>291</sup> Cf. Kim, Y., Lee, S., & Han, S. 2017. Corruption and infrastructure: An empirical study. *Infrastructure Complexity*, 4(1), 1-12.

<sup>292</sup> Cf. Oberoi, P., & Saksena, S. 2013. Effects of corruption and bad governance in the road sector: Evidence from South Asia. *Journal of Developing Areas*, 47(1), 209-229. doi:10.1353/jda.2013.0007.

<sup>293</sup> Cf. Ong'olo, D. O., & Gachanja, M. M. 2016. Effect of corruption on road safety in Kenya. *International Journal of Humanities and Social Science Invention*, 5(9), 57-64.

<sup>294</sup> Cf. Adegbite, E., Amaeshi, K., & Amao, O. 2013b. The politics of infrastructure development in Nigeria: A case study of electricity sector reform. *Commonwealth & Comparative Politics*, 51(4), 409-432. doi: 10.1080/14662043.2013.839202.

<sup>295</sup> Cf. Adegbite, E., Amaeshi, K., & Amao, O. 2013b. The politics of infrastructure development in Nigeria: A case study of electricity sector reform. *Commonwealth & Comparative Politics*, 51(4), 409-432. doi: 10.1080/14662043.2013.839202.

In terms of policy implications, these are not straightforward. However, a few insights from the in-depth analysis demand further attention. To begin with, for anticorruption work to be effective, more studies must be conducted on the pathways to corruption throughout the full project cycle. As aforementioned, most studies so far have focused mainly on the procurement phase, leaving the character, means, and causes of corruption in the remaining phases somewhat of a blank spot. Moreover, and perhaps even more important, as in for example public procurement, it is essential to recognise that with huge resources involved and many opportunities for corruption comes powerful vested interests. In many countries even in the EU corruption in infrastructure development is both systemic and institutionalised in character, typically engaging several influential and powerful actors – even organised crime, including the mafia. Consequently, any attempt to fight corruption in construction will typically be faced with significant resistance. It could even be a risky business. This is something that needs to be considered in any attempt to reduce corruption in the sector.

## 4.5 The nature and intricacies of the problem of corruption in the defence & security sector

### 4.5.1 Introduction

The defence and security sector provides weaponry, equipment and supplies that support the EU's goals of protecting its territory and citizens, preserving peace, preventing conflict, and strengthening international and regional cooperation. The industry also plays a role in research and development, humanitarian missions, and inspecting and controlling military equipment.

Various geopolitical developments such as Russia's war of aggression against Ukraine, persistent global and regional tensions, and terrorism attacks and threats are pressuring the EU to increase military spending, replenish weapons stocks, speed modernisation, improve readiness and deepen cooperation among Member States. Other factors driving an increase in spending and preparedness include greater independence from the US, increasingly complex weapons systems and privatisation of defence-related services.<sup>296</sup>

Collective EU defence spending reached a record EUR 240 billion in 2022, mainly due to Russia's war of aggression against Ukraine and a renewed commitment to meet NATO's threshold of devoting 2% of GDP to military spending. This was the eighth consecutive year of growth and includes a record EUR 58 billion for defence investments.<sup>297</sup> The combined revenues of the EU's top 10 defence companies were EUR 57 billion in 2023,<sup>298</sup> and the total backlog of orders for Europe's top seven companies is more than EUR 380 billion.<sup>299</sup> The European Defence Industrial Strategy urges Member States to spend to half of their defence budgets on EU suppliers by 2030 and 60% by 2035.<sup>300</sup> This would be up from 22%.<sup>301</sup>

<sup>296</sup> Willis, Jan et al, "A Growth Plan for the European Defense Industry: Only closer collaboration can fill capability gaps and drive revenues," Strategy & PwC, 2021; <https://www.strategyand.pwc.com/de/en/industries/aerospace-defense/a-growth-plan-for-the-european-defense-industry/growth-plan-foPfeir-the-european-defense-industry.pdf>.

<sup>297</sup> "Defence Data 2022: Key findings and analysis," European Defence Agency, 29 November 2023; [https://eda.europa.eu/docs/default-source/brochures/2022-eda\\_defencedata\\_web.pdf](https://eda.europa.eu/docs/default-source/brochures/2022-eda_defencedata_web.pdf).

<sup>298</sup> "Top 100 Defense Companies: Top 100 for 2023," *DefenseNews*; <https://people.defensenews.com/top-100/>.

<sup>299</sup> Pfeifer, Sylvia et al, "The companies benefiting from Europe's defence revival," *Financial Times*, 23 February 2024; <https://www.ft.com/content/e9939f2b-6454-4be8-b99d-05023f635e87>.

<sup>300</sup> "EDIS: European Defence Industrial Strategy," DG Defence Industry and Space, European Commission, 5 March 2024; [https://defence-industry-space.ec.europa.eu/document/download/333faee1-a851-44a6-965b-713247515d39\\_en?filename=DEFIS\\_EDIS\\_factsheet.pdf](https://defence-industry-space.ec.europa.eu/document/download/333faee1-a851-44a6-965b-713247515d39_en?filename=DEFIS_EDIS_factsheet.pdf).

<sup>301</sup> Cohen, Patricia and Alderman, Liz, "Europe Wants to Build a Stronger Defense Industry, but Can't Decide How," *The New York Times*, 22 May 2024; <https://www.nytimes.com/2024/05/20/business/economy/europe-defense-spending.html>.



Providing equipment and supplies to protect EU territory and citizens produces many side benefits for the economy and society. Across the EU, the defence sector is a significant driver of technological advancement, economic growth, dual-use R&D, company spin-offs, professional opportunities (including for women and young people), career stability and tax revenue. Crossover projects yield many benefits for both the defence and civilian sectors. The European Investment Bank's new definition of "dual-use" provides more financial support for small- and medium-sized enterprises that work in shipbuilding, aerospace, electronic materials, lasers, vehicles, chemicals, metals and other fields.<sup>302</sup> The defence industry – a growing one, in particular – helps stimulate and sustain innovation in the civilian economy.<sup>303</sup>

#### 4.5.2 *The character of corruption*

Assessing corruption in the defence industry presents many unique opportunities as well as challenges. On one hand, a comprehensive and honest assessment holds the potential to help solve many lingering problems and thus reduce excessive spending, improve the quality of military equipment and supplies, lead to more open and honest decisions about military interventions, and build public trust. On the other hand, the closely guarded relationships between defence companies and defence ministries foster secrecy that, even though justifiable in some ways, frustrates efforts by independent researchers and observers to learn the complete truth about how defence budgets are spent, and where and why weaponry is sold and utilised. Identifying what is not known, therefore, is just as important and knowing what is not known.

#### **Scope of corruption**

For many well-documented reasons, the defence industry is more vulnerable to corruption than many or most other sectors. This may go against common wisdom, as people favourably rank the military along with religious organisations and NGOs as being the least corrupt sectors of society.<sup>304</sup>

It is a secretive, high-profit industry tied to manufacturing, engineering, aerospace, IT and many other large and influential fields. "The defence sector often provides a fertile ground for...malign activities due to the culture of secrecy and impunity that shields it from rigorous scrutiny," observes NATO.<sup>305</sup>

The defence industry (the people who make the weapons) and defence ministries (the people who buy and use the weapons) are very closely intertwined. Not only is it a challenge to diagnose and cure corruption, it can be difficult to ascertain in any given case whether it originated with a company, a ministry or both.

"“You think these companies are independent of the government but they are typically not. They are very much entangled.” according to Mihály Fazekas of Central European University and Government Transparency Institute. " They are naturally dependent on each other, and the interdependence is very high. Governments and companies cooperate for a good outcome that might not be good for taxpayers."<sup>306</sup>

<sup>302</sup> Bonini, Emanuele, "EIB ready to support 'dual-use' technologies and defense SMEs," Eunews, 12 April 2024; <https://www.eunews.it/en/2024/04/12/eib-ready-to-support-dual-use-technologies-and-defense-smes/>.

<sup>303</sup> Cordina, Corinne, "Defence industry," European Parliament, October 2023; <https://www.europarl.europa.eu/factsheets/en/sheet/65/defence-industry>.

<sup>304</sup> Tagarev, Todor et al, "Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices," NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

<sup>305</sup> Tagarev, Todor et al, "Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices," NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

<sup>306</sup> Personal interview with Mihály Fazekas, 13 June 2024.

Because their enormous budgets are simultaneously appropriated, regulated and spent by government officials, supply and procurement decisions are subject to conflicts of interest, favouritism and political misuse. “Companies rarely have a ‘plan B’,” according to Fazekas, noting that governments are typically defence companies’ only clients. “Governments want to protect their own defence companies. They have their own champions.”<sup>307</sup>

The industry attracts organisations and people that often operate in legal grey areas or within criminal syndicates, and that often do business in unstable countries with unsavoury political and military leaders. Estimates of corruption costs in the sector vary; a 2010 estimate pins the global losses at EUR 18.5 billion per year.<sup>308</sup> “The arms trade is uniquely and disproportionately infected with corruption...[and]...is hard-wired for corruption.”<sup>309</sup> Patriotism, political expediency, profit motives and foreign policy objectives are among the many factors interfering with accountability and transparency efforts.

EU Member States are exposed to a “moderate” risk of defence corruption, with “alarming” weaknesses in some areas that require greater transparency and oversight, the Defence & Security Programme of Transparency International (TI) has found. The sector “operates in secrecy” and has “often inadequate policies and procedures to mitigate high corruption risks that have life-or-death consequences.”

“There is undue influence in the close relationships between the defence industry and defence ministries – blurred lines, revolving doors, and significantly inadequate regulation of defence sector lobbying. These blurred lines increase corruption risks. What is the cost of this?” according to Michael Ofori-Mensah, head of research for TI Defence & Security. “Globally there are a lot of worse regions that are not performing well. Europe is on the moderate side of corruption risks. There is still more to be done.” Ofori-Mensah notes “huge corruption risks” in military operations, and that secret military budgets should be reviewed by people with the proper clearance.<sup>310</sup>

TI’s 2020 Government Defence Integrity Index collectively gave 15 EU countries 59 points out of a 100, placing them in the “moderate” risk category. This is better than China (28), Russia (36) and the global average (39), and on par with the US (55). Nearly every EU country assessed scored well with regard to preventing corruption in policymaking, finances and personnel management.

However, “critical” risks were observed across the EU for lobbying, “very high” risks for monitoring offset contracts, and “high” risks for whistleblower protection. Three EU countries were judged to have a “high” corruption risk collectively for policymaking, finances, personnel management, military operations and procurement. Eight EU countries were judged to have a “moderate” risk for these five categories. Every country had “alarming” scores – as low as 0 – for corruption risks in military operations. This is because training and monitoring are not at the core of mission planning for most countries. This weakness is “especially worrying,” TI said, because some EU states have joined international operations in fragile areas.

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<sup>307</sup> Personal interview with Mihály Fazekas, 13 June 2024.

<sup>308</sup> Strategic Export Controls, Evidence submitted by Transparency International to the UK Parliament, 22 November 2010; <https://publications.parliament.uk/pa/cm201011/cmselect/cmquad/writew/arms/m4.htm>.

<sup>309</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011; <https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>310</sup> Personal interview with Michael Ofori-Mensah, Head of Research, Transparency International Defence & Security, 11 September 2024.

Countries scored poorly on parliamentary scrutiny of weapons exports, meaning MPs may have limited or no ability to shape decision-making. TI also found shortcomings in the regulation of defence sector lobbying and procurement in some EU countries.<sup>311,312</sup>

The EU's rapid and significant growth in military spending – necessary as it may be – should be examined through the lens of anti-corruption efforts. This is especially relevant given one expert's finding that "there are few accounts of anti-corruption reform of militaries and ministries of defence despite the many references to the relative vulnerability of the defence and security sectors to corruption." The sector in many countries has "used its national security status and the umbrella of essential secrecy to deflect pressure for reform."<sup>313</sup>

Rising defence expenditures are associated with weaker governance, TI Security & Defence has found. An increase of 1% in a country's military budget (as a percent of GDP) is linked to a decrease of nearly 5 points in its overall Government Defence Integrity Index score. "An increase in expenditure without corresponding corruption safeguards creates circumstances in which corruption vulnerabilities and governance inefficiencies can be exploited."

TI Defence & Security notes that Europe's top nine weapons manufacturers spent about EUR3.6 billion in lobbying in 2014 alone. "The risks of politically involved corruption are present in every market, although markets at particularly high risk of political corruption are spending more on defence than ever before."<sup>314</sup>

The 2009 EU Directive defence and sensitive security procurement established rules for procuring weapons, war materials and related services.<sup>315</sup> The European Commission found in 2016 that the measure led to an initial increase of defence procurement in EU-wide competition. However, "significant" spending still was being done outside the Directive, especially for high-value, strategic, complex defence systems. Also, the Directive was being unevenly applied in Member States.<sup>316</sup> A 2020 study by the European Parliamentary Research Service said transparency and information-sharing are needed to ensure better implementation of the Directive.<sup>317</sup>

### Forms of corruption

According to long-time researcher Mark Pyman, corruption risks include "diversion of funds intended to buy armaments, supplies and services; illegal resale of the weapons; corruption and nepotism in the establishment and/or enlargement of local arms production entities; and deliberate strategic corruption of those in government to undermine the effectiveness of the war effort." As vulnerable as public procurement is to corruption generally, risks are higher still in defence. "Overall, military procurement risks are higher than other procurement sectors in nearly all European countries." This

<sup>311</sup> Pearson, Lucinda, "New research reveals inadequate anti-corruption safeguards in defence governance around the EU," Transparency International, 16 November 2021; <https://transparency.eu/government-defence-integrity-eu-2020/>.

<sup>312</sup> GDI 2020 Global Report: Disruption, Democratic Governance, and Corruption Risk in Defence Institutions, Transparency International Security & Defence, December 2021; <https://ti-defence.org/publications/gdi-2020-global-report-disruption-democratic-governance-and-corruption-risk-in-defence-institutions/>.

<sup>313</sup> Pyman, Mark, "Addressing Corruption in Military Institutions," *Public Integrity*, 2017; <https://curbingcorruption.com/wp-content/uploads/2018/07/Pyman-2017-Addressing-corruption-in-military-institutions.pdf>.

<sup>314</sup> Dixon, K. et al., "Out of the Shadows: Promoting Openness and Accountability in the Global Defence Industry," Transparency International Defence & Security, 2018; <https://www.transparency.org.uk/publications/out-of-the-shadows>.

<sup>315</sup> Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC.

<sup>316</sup> European Commission, "Need for more effective implementation of EU defence procurement rules," [https://defence-industry-space.ec.europa.eu/eu-defence-industry/defence-procurement\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/defence-procurement_en).

<sup>317</sup> Ioannides, Isabelle (Ed.), "EU Defence Package: Defence Procurement and Intra-Community Transfers Directives," European Parliamentary Research Service, 2020; [https://www.iris-france.org/wp-content/uploads/2020/10/EPRS\\_STU2020654171\\_EN.pdf](https://www.iris-france.org/wp-content/uploads/2020/10/EPRS_STU2020654171_EN.pdf).

is due to the “large amounts of money involved, the complex and high-value contracts, high market concentration, and the fact that governments themselves are the enforcers of secrecy.”<sup>318</sup> These risks are deepened by the fact that the public has “limited options” for monitoring defence spending and holding governments accountable, due to confidentiality and a relative scarcity of public information.<sup>319</sup>

Additionally, research has found a significant positive correlation between corruption risks within an individual country’s military procurement sector and procurement corruption risks in general. “In other words, corruption risks in military procurement closely reflect corruption risk patterns at the national level.”<sup>320</sup> Encouragingly, researchers found that single bidding fell by nearly half and the Corruption Risk Index fell significantly in Member States that implemented EU Directive 2009/81/EC on procurement in defence and security.<sup>321</sup>

Defence procurement corruption is more prevalent in wealthier countries. In less wealthy countries, corruption “tends to be everywhere else,” including in asset sales, secret and deceptive budgets, salary theft and the illicit use of military intelligence.<sup>322</sup>

Defence corruption can take many forms, according to NATO, including paying kickbacks and bribes, awarding non-competitive procurement contracts and manipulating soldier payrolls.

Three prime descriptors of the industry that exacerbate these and other corrupt acts are *secrecy*, which NATO calls the “first and worst enemy of transparency” that severely limits oversight; *urgency*, which can cause arbitrary decisions and therefore foster corruption; and *populist slogans* such as “buy national,” “concern for the soldiers’ well-being” and “public benefit,” which can distort market mechanisms and lead to paybacks.<sup>323</sup>

The four most frequently used methods for buying or obtaining undue influence in the sector have been identified as:

- bribery;
- the failure to declare a conflict of interest;
- the promise of post-employment; and
- the offer of preferential business access.<sup>324</sup>

Except for bribery, these methods “assume a stable, long-lasting relationship in the background, rather than a one-off transaction, which points at likely state capture in this field.”<sup>325</sup>

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<sup>318</sup> Personal interview with Mark Pyman, 16 May 2024.

<sup>319</sup> Czibik, Ágnes, et al, “Networked Corruption Risks in European Defense Procurement,” In: Granados, O.M., Nicolás-Carlock, J.R. (eds), *Corruption Networks: Concepts and Applications* (Cham: Springer, 2021).

<sup>320</sup> Czibik, Ágnes, et al, “Networked Corruption Risks in European Defense Procurement,” In: Granados, O.M., Nicolás-Carlock, J.R. (eds), *Corruption Networks: Concepts and Applications* (Cham: Springer, 2021); [https://www.govtransparency.eu/wp-content/uploads/2022/08/Czibik-et-al\\_CorruptionNetworks\\_DefenseChapter\\_pre-editing\\_2021.pdf](https://www.govtransparency.eu/wp-content/uploads/2022/08/Czibik-et-al_CorruptionNetworks_DefenseChapter_pre-editing_2021.pdf).

<sup>321</sup> Czibik, Ágnes et al, “State Capture and Defence Procurement in the EU,” Government Transparency Institute, 2020; <https://www.govtransparency.eu/wp-content/uploads/2020/12/State-Capture-Policy-2020.pdf>.

<sup>322</sup> Pyman, Mark, “Curbing Corruption in Defence and the Military,” *CurbingCorruption.com*, 2021; <https://curbingcorruption.com/wp-content/uploads/2021/06/210618-Curbing-corruption-in-Defence-Military.pdf>.

<sup>323</sup> Tagarev, Todor et al, “Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices,” NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compendium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compendium_EN.pdf).

<sup>324</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011; <https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>325</sup> Czibik, Ágnes, et al, “Networked Corruption Risks in European Defense Procurement,” In: Granados, O.M., Nicolás-Carlock, J.R. (eds), *Corruption Networks: Concepts and Applications* (Cham: Springer, 2021);

NATO has identified nine areas within the industry where various corrupt acts are used to pervert processes and outcomes for illicit gains and influence.

### 1) *Personnel Policies*

This is often the most pervasive and corrosive type of corruption because it undermines the military's most vital resource – its people. Officials responsible for paying soldiers or providing them with food, uniforms or housing can steal these for their own use. They do this simply by not delivering the goods, or via deceptive techniques such as kickbacks and fictitious (“ghost”) soldiers. They also steal personal property or extort money by threatening a soldier's career or safety.

Bribes are paid, or information and favours are exchanged, in order to receive favourable personnel decisions, avoid being drafted, be accepted into career-enhancing officer training and educational programs, or be chosen for coveted positions abroad with the UN or NATO, international commands, multinational headquarters or peacekeeping operations. Bribes to join peacekeeping missions can reach 15-20% of a person's salary.

Corruption in personnel can “substantially undermine defence output – and national security – in favour of personal gain. Given the enormous resources and time invested in personnel – decades in the case of senior leaders and technical experts – the damage can be serious and lasting. The result can be the creation of a ‘shadow system’ based on personal contacts, loyalty and corruption. This subverts the regular chain of command and undermines the military ethos of shared risks, meritocracy and willingness to sacrifice personal profit for wider goals.”

### 2) *Budgeting and Financial Management*

Non-transparent financial management combined with subpar accountability are powerful enablers of corruption. Short of outright corruption, bad planning and policymaking, and poor control of expenditures can severely undermine performance and demotivate personnel. Problems can arise when payments are made outside defence budgets, budgeting processes are not examined comprehensively, and alternatives are not examined. A lack of financial transparency can adversely affect security and confidence.

The process of acquiring new weapons systems, equipment and supplies is rife with corruption risks. These risks are associated with exceptionally large budgets, the difficult process of linking defence needs to actual procurement, advanced technologies produced only by a handful of companies, and a lack of statistics on costs. Internationally, half of defence corruption cases tracked by TI relate to the acquisition of new weapon systems and equipment.

Highly ambiguous or confidential procurement procedures regularly lead to:

- insufficient examination of the rationale for procurement;
- decisional inefficiencies with consequences for national and regional security;
- apprehension in neighbouring countries;
- damage to public confidence in the armed forces, and
- unnecessary controversies.

### 3) *Offset Arrangements*

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[https://www.govtransparency.eu/wp-content/uploads/2022/08/Czibik-et-al\\_CorruptionNetworks\\_DefenseChapter\\_pre-editing\\_2021.pdf](https://www.govtransparency.eu/wp-content/uploads/2022/08/Czibik-et-al_CorruptionNetworks_DefenseChapter_pre-editing_2021.pdf)

Offsets are the practice of “compensating” a country that purchases military equipment by investing in that country or buying other items from that country. These deals are “remarkably unregulated and almost entirely opaque,” and easily can be used to funnel rewards to companies and individuals. The transactions either can be direct (included in the sales contract) or indirect (separate from the sales contract).

The true costs of offsets are not known because the transactions often are not separately broken out or identified. They are believed to range from 5-30% of the original contract value. These “goodies” can improperly or corruptly influence weapons procurement decisions.

It is “indisputable that opaque and un-professional offset implementation provides scope for corruption,” states the EDA. This can lead to deals that would not have been made on an open and transparent market. Researchers speculate whether offsets are used to conceal large bribes and/or unduly influence a country’s purchasing decision. “The real problem is that offsets distort decision making” and “allow for procurements to be overridden by extraneous considerations.”

#### *4) Outsourcing, Privatisation and Public-Private Partnerships (PPPs)*

Generally, privatising allows governments to improve efficiency and effectiveness, reduce government borrowing, generate revenues and focus on their core activities. Converting public resources to private assets also brings obvious corruption risks.

Companies may resort to lobbying and bribes in order to secure outsourcing, privatisation or PPPs deals. Long-serving public officials may have formed improper connections or dependencies with potential bribers. Asset declaration rules for public officials may not be enforced. “Non-traditional” contracting arrangements that depart from norms may be used. Whistleblower procedures to expose and remedy misconduct may not be adequate.

#### *5) Surplus Equipment and Infrastructure*

Though “[l]ess flashy” than procurement, the process of selling redundant weapons, equipment, ammunition and infrastructure is “rich with corruption.” Risks are associated with contracts to destroy surpluses, outsourcing security for weapons and ammunition storage areas, and placing surpluses up for sale. Though the buyer-seller relationship is reversed, there are similar risks. Vague rules and procedures, combined with a lack of transparency, increase the discretionary power of public officials and therefore corruption risks.

#### *6) Economic Activities*

Due to its sheer size, importance and role in political systems, the defence industry is deeply involved with economic activities. Among the downsides of this, the industry may become more interested in profit than providing security, exploit its lack of accountability, exchange favours and illicit funds with unsavoury business partners, and be involved with illegal activities on the side.

#### *7) Use of Contractors*

Private military contractors are essential in carrying out peacekeeping missions, including those undertaken by NATO. The dependency on these companies has grown rapidly since the end of the Cold War. Corruption risks have risen along the way. One vulnerability occurs when clear criteria and transparent procedures for selecting personnel to be deployed are lacking – particularly when payments are several times higher than usual salaries.

The UN has uncovered a pervasive pattern of fraud, corruption and mismanagement involving more than EUR 550 million in contracts for fuel, food, construction and other materials and services used by its peacekeeping operations.

#### 8) *Frozen Conflicts*

Corruption risks are substantially higher in regions with unresolved territorial disputes, in Europe and elsewhere. This is due to increased military expenditures, reduced transparency, legal grey zones and unregulated paramilitary groups. Added to this is heightened competitiveness, mistrust and militarisation. Secessionist enclaves become black holes with no international recognition that are not bound by international law. All forms of corruption can be exacerbated in such settings.<sup>326</sup>

#### **Players involved**

The defence industry and the military establishment, along with their respective and overlapping inner circles, have a uniquely intimate relationship involving influential people in government and companies. This landscape creates the ideal conditions for influence peddling, bribery, fraud and other misconduct.

When adding in the fundamental secrecy of decision-making, funds easily can be diverted by “behind-the-scenes networks” to improperly enrich corrupt officials, businesses, intermediaries, accountants and lawyers, according to NATO. This is facilitated by “spin doctors” and “fraudulent media.” Such grand corruption can lead to state capture, as “oligarchic circles of corrupt officials” and “shady businesses” criminalise the economy and political systems.<sup>327</sup>

Feinstein and colleagues describe the landscape of organisations and people involved in the weapons trade: The centrality of the arms trade to national security begets...an unusually close relationship between producer companies, agents, middlemen and dealers, and political establishments. Often deals are constructed in a complex and opaque manner that involves a number of brokers, shipping agents, purchasers and producers, frequently working in different countries.<sup>328</sup>

In some cases, arms deals are concluded between governments that then turn to manufacturers to fulfil them. In other instances, governments enter into contracts directly with commercial suppliers, which do business with each other or third parties, some of which are not even legal entities. These include non-state actors, ranging from armed militias to insurgent groups and informal clusters of “terrorists.”

Intermediaries of some sort tend to be involved in most arms transactions – large and small, legal and illegal, state and non-state – and are often crucial to the practice of bribery or corruption. The perpetrators of corruption have...learned to conceal their trails in complex arrangements between states, agents, companies and shell companies, hiding corrupt payments in commissions, consultancies, subcontracts, offsets and barter deals.<sup>329</sup>

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<sup>326</sup> Tagarev, Todor et al, “Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices,” NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010;

[https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

<sup>327</sup> Tagarev, Todor et al, “Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices,” NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010;

[https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

<sup>328</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011;

<https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>329</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011;

<https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

Defence markets have been described as monopsonies, in which there is a single buyer, and monopolies or oligopolies, in which there are one or very few suppliers. This small number of buyers and sellers makes addressing state capture more difficult. Compounding the culture of secrecy, these factors “create an environment of interdependence among insiders” that restricts the monitoring of wrongdoing.<sup>330</sup>

NATO observed that “the recent and rapid growth of private military and security companies – performing activities previously within the realm of the state that are outsourced in accordance with limited regulations – has further increased opportunities for graft.”<sup>331</sup>

### Means and methods

Bribery has been called the “most widely known method that is common to all types of weapon transaction.” These illicit payments are made or solicited to influence decisions on the purchase of military equipment and supplies. Funds are typically transferred via networks of international banks, which helps to obscure payments and relationships. Suppliers rarely pay bribes directly to defence officials or ministries. Rather, third parties are brought in to “grease the wheels” for arms deals.<sup>332</sup>

Conflicts of interest can occur when public officials or public institutions have a financial stake in a company’s success in closing a deal. “Public officials may direct contracts to the supplier in anticipation of personal financial reward, sometimes through a financial interest in a company that anticipates a substantial flow of income following the selection of a particular arms supplier.” These conflicts can come into play before a deal has been made or while it is in the works.<sup>333</sup>

A practice that occupies more of a legal grey area than bribery and Col is post-employment promises – or the “revolving door.” This is when public officials involved with military contracting decisions are hired by defence companies. In the most egregious cases, they are hired by the same companies they formerly regulated, and they are offered a company job while still serving as a public official. Such a questionable arrangement “blurs the line between the state and the defence industry.”<sup>334</sup>

In July 2021 the European Ombudsman recommended that the European Defence Agency forbid its senior staff from taking positions “where a clear Col arises with the legitimate interests of the EDA.” The Ombudsman told the agency to set criteria for forbidding such career moves.<sup>335</sup>

A common method used to obscure illicit payments and influence peddling is “countertrading.” This is when a country selling military equipment agrees to invest in the buying country, in order to “offset”

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<sup>330</sup> Czibik, Ágnes, et al, “Networked Corruption Risks in European Defense Procurement,” In: Granados, O.M., Nicolás-Carlock, J.R. (eds), *Corruption Networks: Concepts and Applications* (Cham: Springer, 2021); [https://www.govtransparency.eu/wp-content/uploads/2022/08/Czibik-et-al\\_CorruptionNetworks\\_DefenseChapter\\_pre-editing\\_2021.pdf](https://www.govtransparency.eu/wp-content/uploads/2022/08/Czibik-et-al_CorruptionNetworks_DefenseChapter_pre-editing_2021.pdf).

<sup>331</sup> Tagarev, Todor et al, “Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices,” NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

<sup>332</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011; <https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>333</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011; <https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>334</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011; <https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>335</sup> O'Reilly, Emily, “Recommendation on how the European Defence Agency handled the applications of its former Chief Executive to take on senior positions at Airbus (OI/3/2021/KR),” European Ombudsman, 13 July 2021; <https://www.ombudsman.europa.eu/en/recommendation/en/144268>.



the cost of the purchase. “Offsets often remain shrouded in secrecy as supplier companies and governments refuse oversight in deference to ‘commercial confidentiality’.”<sup>336</sup>

#### 4.5.3 *The causes of corruption*

“The defence sector will always be vulnerable to corruption,” notes Pyman. “Many of the leaderships have no desire to address the corruption, whether because they are benefiting, complicit, fear the consequences or feel powerless to affect it.”<sup>337</sup>

Many researchers have documented and explored the causes of corruption, some of which are unique to the sector. Many overlap and underpin each other. Thus it is important to understand each of them while also considering their interplay.

One of the first compendia of causes dates to 2005, by TI:

- secrecy cloaks the sector’s activities because of its role in national security;
- defence goods are complex and contracts contain many special requirements;
- governments use arms exports to foster links with sometimes doubtful regimes;
- there are no autonomous bodies with the power to bring corruption cases;
- there is little political will to combat corruption in the sector;
- companies and governments don’t want to cede market share to competitors;
- governments sell products into a market where price is not the first concern; and
- the sector’s significance for governments is out of proportion to its size, due to the sector’s role in national security and foreign policy, and its contributions to the economy.

At that time, the OECD reported that more than half of the bribe reports it received were for defence contracts – though these contracts accounted for less than 0.5% of global trade.<sup>338</sup> Regarding the point about price not being the first concern, other factors that influence procurement decisions are industrial policy, employment, control over know-how, and national security.<sup>339</sup>

One of the most comprehensive lists of corruption causes and risks was developed by TI’s Defence and Security Programme.<sup>340</sup> They are grouped into categories, which can assist in identifying patterns in corrupt players and behaviours, and in developing reforms and enforcement strategies:

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<sup>336</sup> Feinstein, Andrew et al, “Corruption and the arms trade: sins of commission,” *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011; <https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>337</sup> Pyman, Mark, “Curbing Corruption in Defence and the Military,” CurbingCorruption.com, 2021; <https://curbingcorruption.com/wp-content/uploads/2021/06/210618-Curbing-corruption-in-Defence-Military.pdf>.

<sup>338</sup> Roeber, Joe, “Hard-wired for corruption,” *Prospect*, 27 August 2005; <https://www.prospectmagazine.co.uk/essays/56912/hard-wired-for-corruption>.

<sup>339</sup> Czibik, Ágnes et al, “State Capture and Defence Procurement in the EU,” Government Transparency Institute, 2020; <https://www.govtransparency.eu/wp-content/uploads/2020/12/State-Capture-Policy-2020.pdf>.

<sup>340</sup> Pyman, Mark, “Building integrity and countering corruption in defense and security: 20 practical reforms,” Transparency International Defence & Security, 2011; <https://curbingcorruption.com/wp-content/uploads/2018/07/Pyman-2011-Building-integrity-and-countering-corruption-in-defence-and-security-20-practical-reforms.pdf>.

**Figure 4.13 Corruption causes and risk in the defence sector**

<b>Political:</b> undue influence over policies	<b>Personnel:</b> improper recruitment and payments	<b>Finance:</b> misuse of defence budgets	<b>Procurement:</b> vulnerabilities at all stages	<b>Operations:</b> misconduct during missions
Defence and security policy; Defence budgets; Nexus of defence and national assets; Organised crime; Control of intelligence services; Export controls.	Leadership behaviour; Payrol, prmotions, appointments, rewards; Conscription; Slaary chain; Values and standards; Small bribes.	Asset disposals; Secret budgets; Military-owned businesses; Illegal private enterprises.	Technical requirements/ specifications; Single sourcing; Agents / brokers; Collusive bidders; Financing package; Offsets; Contract awards, delivery; Subcontractors; Seller influence.	Disregard of corruption in country; Corruption within mission; Contracting; Private security companies.

Adapted from TI's Defence and Security Programme.

Among other significant risks, the sector's functions are highly centralised unlike locally run police services, and governments simultaneously act as the industry's regulator and its main customer.<sup>341</sup>

#### 4.5.4 The consequences of corruption

##### Scope of the consequences

According to NATO, uncurbed corruption in defence can lower the efficiency of the defence establishment, reduce the operational effectiveness of armed forces, lower the military's esteem in the eyes of society and international partners, endanger the security of citizens, and threaten democratic governance mechanisms and the foundations of modern states. "Overall, defence corruption has a negative impact on the prestige of the armed forces...in the eyes of allies, partners and international organisations such as NATO, as well as in the wider international community."<sup>342</sup>

The effects can be felt on the ground. Corruption diverts resources from defence capabilities needed carry out military missions, which can threaten the security of countries and their allies. Troops are put at greater risk because corruption can lower their operational effectiveness, reduce the quality of equipment, compromise operational security, lower morale, and aid terrorists and organised crime groups in acquiring information, dangerous materials and weapon technologies.<sup>343</sup>

Even occasional corruption cases "put a stain on the whole defence establishment," degrade pride and public trust in the military, and repel people from joining the service. This is made worse when publicly known corruption cases are not punished.<sup>344</sup>

According to Feinstein and colleagues, the costs of corruption can extend beyond direct financial harm:

- lost money that cannot be spent on health or education, or returned to taxpayers;

<sup>341</sup> GDI 2020 Global Report: Disruption, Democratic Governance, and Corruption Risk in Defence Institutions, Transparency International Security & Defence, December 2021; <https://ti-defence.org/publications/gdi-2020-global-report-disruption-democratic-governance-and-corruption-risk-in-defence-institutions/>.

<sup>342</sup> Tagarev, Todor et al, "Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices," NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

<sup>343</sup> Tagarev, Todor et al, "Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices," NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

<sup>344</sup> Tagarev, Todor et al, "Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices," NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

- weak attempts to investigate and prosecute corruption undermine a country's justice and oversight institutions;
- poor or corrupt procurement decisions weaken a country's ability to defend itself;
- citizens are deprived of socioeconomic benefits because of inappropriate or corrupt expenditure on weapons; and
- innocent bystanders pay with their lives because of corruption or the absence of adequate procedures.<sup>345</sup>

Procurement fraud represents one of the highest risk areas in the defence and security industry. Several large cases of fraud, theft and other crimes have been reported in recent years involving EU Member States and non-EU countries in Europe.

Procurement fraud can manifest in many ways, including knowingly ordering and purchasing equipment and supplies that are unnecessary, inadequate, defective or non-compliant with tender specifications; rigging tenders to favour certain bidders; unsubstantiated or deceptive overcharging by suppliers; using improper or inadequate materials; co-mingling of contracts; dishonest pricing; phantom vendors and fictitious invoicing.

Fraud and irregularities can be concealed through poor and disconnected accounting systems for defence budgets. "Even if irregularities are found, poor accounting makes it impossible to identify those responsible, and hold them to account."<sup>346</sup>

#### 4.5.5 Concluding discussion

The risks of corruption in the defence and security sector have been well documented for many years. They have been affirmed by public institutions, academic researchers, independent experts and civil society.

Experts taking a wide-angle view of the risks and problems they cause have presented a broad range of observations, opinions and solutions.

In interviews, defence officials explained to TI some of the reasons they are concerned about corruption risks:

- corruption wastes scarce resources, reduces operational effectiveness, and reduces public trust in the military;
- defence budgets, due to their secrecy, are an easy target for politicians seeking funds; and
- international companies shun corrupt economies.<sup>347</sup>

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<sup>345</sup> Feinstein, Andrew et al, "Corruption and the arms trade: sins of commission," *SIPRI Yearbook 2011: Armaments, Disarmament and International Security*, Stockholm International Peace Research Institute, 2011; <https://www.sipri.org/sites/default/files/SIPRIYB1101.pdf>.

<sup>346</sup> Pyman, Mark, "Building integrity and countering corruption in defense and security: 20 practical reforms," Transparency International Defense & Security, 2011; <https://curbingcorruption.com/wp-content/uploads/2018/07/Pyman-2011-Building-integrity-and-countering-corruption-in-defence-and-security-20-practical-reforms.pdf>.

<sup>347</sup> Pyman, Mark, "Building integrity and countering corruption in defense and security: 20 practical reforms," Transparency International Defense & Security, 2011. <https://curbingcorruption.com/wp-content/uploads/2018/07/Pyman-2011-Building-integrity-and-countering-corruption-in-defence-and-security-20-practical-reforms.pdf>.

The third point, above, is important because even though the military often is considered “exceptional and outside the remit of standard governance reform,” the public nonetheless expects “capable, efficient, open, inclusive, and accountable institutions that manage defence policies and practice.”<sup>348</sup>

Unfortunately, Pyman observes that “there is usually no discussion of the subject at the leadership level – it is never on the leadership agenda. There is little or no awareness of the importance of prevention as the key tool against corruption. There is no expectation that there could be a common leadership initiative against corruption.”<sup>349</sup>

A positive approach to solving corruption, says Pyman, would be to incentivise officials to change their behaviour. This can be achieved, among other ways, by appealing to their personal pride in the military, their ideals of military leadership and its accompanying authority to send troops into battle, and their patriotic interests in maintaining the military’s place as a core element of society. These incentives could motivate officials to support reforms even if they are complicit in corruption.<sup>350</sup>

Pyman provides additional recommendations for defence ministries and national armed forces:

- Thoroughly analyse corruption risks and vulnerabilities for each country. NATO’s Building Integrity Programme could be a resource for this;
- Establish task forces to examine each significant vulnerability and decide how to remediate them. Broaden task forces beyond insiders: civilian representatives can play a constructive role;
- Build the competence and confidence of defence ministry leadership in curbing corruption. Certain EU countries, such as Norway and Poland, have expertise in this area;
- Require audit institutions to focus on defence spending and require them to build specialist competence in the defence sector. This may require new enabling laws;
- Encourage civil society to scrutinise defence spending and defence assistance;
- Review and strengthen parliamentary oversight of defence spending and the completeness of relevant laws. Defence budgets often are not required to be hugely detailed, allowing secret budgets to escape parliamentary scrutiny.<sup>351</sup>

“Ultimately,” notes NATO, “the most effective means of combating corruption and building integrity in the defence sector is through a broader reform process: a norms transfer to inculcate the sector with the highest democratic ideals and practices, thus addressing the root causes of corruption.” Defence corruption, says NATO, must be attacked from both the supply side (the industry) and the demand side (government agencies).<sup>352</sup> In this way, these business partners also can be partners in integrity.

## 4.6 The nature and intricacies of the problem of corruption in sports

### 4.6.1 Introduction

The sports industry can be described in many different ways, and these definitions are constantly changing as the business of sports itself changes. In the absence of a standardised definition, and

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<sup>348</sup> GDI 2020 Global Report: Disruption, Democratic Governance, and Corruption Risk in Defence Institutions, Transparency International Security & Defence, December 2021; <https://ti-defence.org/publications/gdi-2020-global-report-disruption-democratic-governance-and-corruption-risk-in-defence-institutions/>.

<sup>349</sup> Pyman, Mark, “Addressing Corruption in Military Institutions,” *Public Integrity*, 2017; <https://curbingcorruption.com/wp-content/uploads/2018/07/Pyman-2017-Addressing-corruption-in-military-institutions.pdf>.

<sup>350</sup> Pyman, Mark, “Addressing Corruption in Military Institutions,” *Public Integrity*, 2017; <https://curbingcorruption.com/wp-content/uploads/2018/07/Pyman-2017-Addressing-corruption-in-military-institutions.pdf>.

<sup>351</sup> Personal interview with Mark Pyman, 16 May 2024.

<sup>352</sup> Tagarev, Todor et al, “Building Integrity and Reducing Corruption in Defence: A Compendium of Best Practices,” NATO and Geneva Centre for the Democratic Control of Armed Forces, 2010; [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/pdf\\_topics/20120607\\_BI\\_Compndium\\_EN.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_topics/20120607_BI_Compndium_EN.pdf).

for the purposes of examining corruption risks, the sports industry in this report will encompass professional sports leagues and teams, and some core businesses related to them. Activities such as youth and recreation clubs, educational programmes, fitness centres, sports nutrition and equipment are not included.

Estimates of the industry's economic value to the EU depend on which market segments are included and thus vary significantly. In any case, all estimates are in the hundreds of billions per year. In 2014 the European Commission said the sports industry as a whole contributes EUR 294 billion to the EU economy annually, or 3% of the total gross value added.<sup>353</sup>

Europe's sports landscape is as diverse as any region, with football, basketball, volleyball, ice hockey, field hockey, boxing, rugby, handball, golf and tennis among the most popular. The value of tickets sold online for professional sporting events is projected to be EUR 3.7 billion in 2024.<sup>354</sup> Teams collectively generated EUR 73 billion in revenues in 2022, with projected growth of 7% by 2029.<sup>355</sup> The four largest football leagues in the EU – in Germany, Spain, Italy and France – had combined revenues of EUR 10.8 billion in 2022.<sup>356</sup> Covering greater Europe, there are 40 professional football leagues comprised of more than 1,150 teams in 34 countries.<sup>357</sup> One of the fastest-growing sports businesses, and one that presents high corruption risks, is online betting. Customers place bets on sporting events in real-time, either before or during the matches, via websites and mobile apps. Currently, EUR 11 billion, the annual EU market for online gambling is expected to reach EUR 14 billion in 2029 – with 28 million betters and a user penetration of 7%.<sup>358</sup> Altogether, the gambling industry is larger than the sports industry. "The gambling market is growing and consolidating, and the competition is fierce."<sup>359</sup>

The football leagues which attract the most gambling are in Spain and Italy (where 70% of sports wagering is on football).<sup>360</sup> For all betting platforms worldwide, people wager EUR 1.7 trillion on sports each year. This generates EUR 120 million in criminal proceeds from betting-related match-fixing.<sup>361</sup> Some betting companies have increased their profile and access by sponsoring teams and signing contracts with sports governing organisations for exclusive data rights for sports competitions.<sup>362</sup> Professional sports not only contribute substantially to the EU's economy, workforce and tax base, but they also offer an entertainment outlet for individuals and families, nurture a bond between fans and their community, provide role models for youth, engender national pride and motivate people to be physically active themselves. Professional teams, in particular prominent football clubs, bring prestige and international notoriety to their home cities and countries. Stadiums serve as a hub for economic development, tourism and entertainment, and often are viewed as symbols of a city. The industry is riding several trends that advance EU priorities, including youth engagement, digital

<sup>353</sup> "Sport keeps not only you, but also industry fit," European Commission, 21 January 2014;

[https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_14\\_35](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_14_35).

<sup>354</sup> "Sport Events - EU-27," Statista, March 2024; <https://www.statista.com/outlook/dmo/eservices/event-tickets/sport-events/eu-27>.

<sup>355</sup> "European Sports Team and Club Market Size & Share Analysis," Mordor Intelligence, 2023;

<https://www.mordorintelligence.com/industry-reports/europe-sports-team-and-clubmarket>.

<sup>356</sup> "Revenue of the Big Five soccer leagues in Europe," Statista, 14 September 2023;

<https://www.statista.com/statistics/261218/big-five-european-soccer-leagues-revenue/>.

<sup>357</sup> "Who We Are," European Leagues; <https://europeanleagues.com/about/>.

<sup>358</sup> "Online Sports Betting - EU-27," Statista; <https://www.statista.com/outlook/amo/online-gambling/online-sports-betting/eu-27>.

<sup>359</sup> Personal interview with Dieter Braekeveld, Interpol, 20 June 2024.

<sup>360</sup> "Sports in Europe - Statistics & Facts," Statista, 1 March 2024; <https://www.statista.com/topics/3737/sports-in-europe/#topicOverview>.

<sup>361</sup> "The involvement of organised crime groups in sports corruption," Europol, 2020;

[https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf)

<sup>362</sup> "UNODC Global Report on Corruption in Sport," UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf)

innovation, diversity and inclusion, health and well-being, and environmental sustainability.<sup>363</sup> The sports industry is a “growth engine for the wider economy” that stimulates development and adds value and jobs in many manufacturing and service sectors. It is “characterised by constant and rapid waves of innovation” in collaboration with clothing, electronics and other industries.<sup>364</sup>

Employment in sports makes up 0.8% of the EU’s total workforce. As of 2022, 1.5 million people worked directly in the EU sports industry; one-third are 15-29 years old, which is double that of overall employment.<sup>365</sup> <sup>366</sup> Growth in the sector generates more employment than growth in the economy as a whole.<sup>367</sup>

#### 4.6.2 *The character of corruption*

Match-fixing, bribery, illegal gambling, doping and other offences have risen significantly on the European and international anti-corruption agendas in recent years. The phenomenon of sports corruption brings together many disparate elements such as athletes, team owners, OCGs, construction companies, referees, broadcasters and IT companies. Even teenage athletes can be caught up in bribery and match-fixing schemes. Because of its growth, complexity and international nature, sports corruption must be explored from many angles. All the while, this review must factor in the many types of crimes committed, the many types of people involved and how they interact, and the unique ways in which corruption is crafted and carried out.

#### **Scope of corruption**

Recent corruption scandals in sports have had “severe repercussions – not only on public finances but also on the image of sport as a school of high standards of conduct,” notes the OECD. When those involved “place their private interests above those of the public, they betray the fundamental values of sport.”<sup>368</sup>

Because of the “complex and multidimensional nature” of corruption in sports, pinpointing and solving the problems has presented “significant challenges” for policymakers and sports managers, Manoli and colleagues concluded in a recent study for the European Commission. “Despite a steady growth in knowledge about match-fixing, there is still an overall lack of systematic empirical evidence relating to causes and risks.”

Still, despite the “scarcity of empirical research” on corruption rates and prosecution, evidence suggests “a relatively high concentration of corruption issues in Europe compared to the rest of the

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<sup>363</sup> “The Future of Sport: Forces of change that will shape the sports industry by 2030.” Deloitte, April 2023; <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/deloitte-uk-future-of-sport-report-updated.pdf>

<sup>364</sup> “Sport keeps not only you, but also industry fit,” European Commission, 21 January 2014; <https://op.europa.eu/en/publication-detail/-/publication/865ef44c-5ca1-11e8-ab41-01aa75ed71a1/language-en>

<sup>365</sup> “Employment in sport,” Eurostat, 28 February 2024; [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Employment\\_in\\_sport&oldid=410974](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Employment_in_sport&oldid=410974)

<sup>366</sup> “Labour shortages and evolutions of the sport labour market in Europe,” European Association of Sports Employers, 9 March 2023; <https://www.easesport.eu/labour-shortages-and-evolutions-of-the-sport-labour-market-in-europe/>.

<sup>367</sup> “Sport keeps not only you, but also industry fit,” European Commission, 21 January 2014; <https://op.europa.eu/en/publication-detail/-/publication/865ef44c-5ca1-11e8-ab41-01aa75ed71a1/language-en>.

<sup>368</sup> “Mitigating Corruption Risks in the Procurement of Sporting Events,” OECD and International Partnership Against Corruption in Sport, 2019; <https://web.archive.org/2019-10-18/533443-mitigating-corruption-risks-procurement-sporting-events-IPACS.pdf>.

world.<sup>369</sup> A 2014 inventory of cases ranked Europe as the geographic region with the highest rates of sport manipulation.<sup>370</sup>

Despite the industry's relatively small economic footprint, Europol has identified corruption in sports as one of the 11 main activities of organised crime within the EU.<sup>371</sup> Though fewer than 1% of games in all sports are believed to be fixed, high betting turnover translates into millions of euro in ill-gotten profits for criminals each year.<sup>372</sup> Football and tennis are targeted most by international criminals; intelligence developed by law enforcement suggests basketball, handball, beach volleyball and ice hockey also are vulnerable.<sup>373</sup>

Football is the most corrupt sport in Europe, according to Podliehaiev and colleagues, "especially in the lower leagues and in smaller countries."<sup>374</sup> One study found that manipulation was suspected in 7% of 27,000 football matches played annually under the Union of European Football Associations.<sup>375</sup>

Only in recent years have efforts been made to determine the scale and costs of corruption in sports. Europol says estimating the costs of match-fixing, for example, has been difficult due to an "intelligence gap."<sup>376</sup> The actual number of corruption crimes in sports is "much higher than recorded" because of a high latency, according to a recent study.<sup>377</sup>

In one of the few attempts to quantify and document the problem, an international review of 2,089 cases from 2000-10 found Europe had the most doping (922) and match-fixing (30) cases. Football accounted for 70% of match-fixing and 72% of betting-related match-fixing cases in Europe. By far, most cases of doping in Europe were in track-and-field and cycling.<sup>378</sup>

A study of cases from 2010-18 in 11 EU countries found eight different types of corruption, led by match-fixing (32) and doping (24). Some cases combined two types of corruption, such as linking match-fixing bribery and illegal gambling.

<sup>369</sup> Ecorys and Manoli, Argyro Elisavet, "Mapping of Corruption in Sport in the EU," European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

<sup>370</sup> Vidal, Laurent, "Protecting the Integrity of Sport Competition – The Last Bet for Modern Sport," Sorbonne and Research Programme on Ethics and Sports at International Centre for Sport Security, 2014; [https://www.researchgate.net/publication/280112161\\_Protecting\\_the\\_Integrity\\_of\\_Sport\\_Competition\\_-\\_The\\_Last\\_Bet\\_for\\_Modern\\_Sport](https://www.researchgate.net/publication/280112161_Protecting_the_Integrity_of_Sport_Competition_-_The_Last_Bet_for_Modern_Sport).

<sup>371</sup> "European Union Serious and Organised Crime Threat Assessment – A Corrupting Influence: The Infiltration and Undermining of Europe's Economy and Society by Organised Crime," Europol, 2021; [https://www.europol.europa.eu/cms/sites/default/files/documents/socta2021\\_1.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/socta2021_1.pdf).

<sup>372</sup> "Crime Areas: Sports Corruption," Europol; <https://www.europol.europa.eu/crime-areas/corruption/sports-corruption>.

<sup>373</sup> "The Involvement of Organised Crime Groups in Sports Corruption," Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>374</sup> Podliehaiev, Kostiantyn, et al, "Types of Corruption Crimes in Sports in the Countries of the European Union," Retos, March 2024, 55:249-258;

[https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

<sup>375</sup> Savona, Ernesto and Riccardi, Michele (Eds.), "From illegal markets to legitimate businesses: the portfolio of organised crime in Europe," Final Report of Project OCP – Organised Crime Portfolio, Transcrime – Università degli Studi di Trento, 2015; <http://www.transcrime.it/wp-content/uploads/2015/12/ocp.pdf>.

<sup>376</sup> "The Involvement of Organised Crime Groups in Sports Corruption," Europol, 2020;

[https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>377</sup> Podliehaiev, Kostiantyn et al, "Types of Corruption Crimes in Sports in the Countries of the European Union," Retos, March 2024, 55:249-258;

[https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

<sup>378</sup> Gorse, Samantha and Chadwick, Simon, "The Prevalence of Corruption in International Sport: A Statistical Analysis," Centre for the International Business of Sport at Coventry University Business School, 2011; <http://www.iogoremoto.pt/docs/extra/G3jsJk.pdf>.

A 2012 review found 20 out of the then-28 EU Member States had experienced match-fixing scandals.<sup>379</sup> This was largely blamed on the proliferation of different betting methods and the spread of illegal gambling.<sup>380</sup>

Worldwide, Interpol has noted an increase in match-fixing, money laundering, ticket resale, doping, fake events and a focus on lower-stakes events. As of 2020, investigations were on the rise in basketball, boxing, cricket, football, tennis, horse racing, darts and table tennis.<sup>381</sup>

Anecdotally, the scale of sports corruption in Europe was made plain on 4 February 2013, when Europol announced the results of the largest-ever investigation into football match-fixing. Police in 13 European countries uncovered a Singapore-based criminal network of 425 officials, players and criminals suspected of trying to fix more than 380 professional matches, including championship games. A total of EUR 2 million in illicit payments yielded EUR 8 million in gambling profits. Rigging just one match involved up to 50 suspects in 10 countries. “The international nature of match-fixing,” Europol said, “presents a major challenge to investigators and prosecutors.” Links also were found to Russian-speaking and other criminal syndicates.<sup>382</sup>

### Forms of corruption

Corruption in sports takes on many forms, including:

- *match-fixing*: a game’s result is completely or partially pre-determined;
- *spot-fixing*: specific actions during a game, such as trying to score in a certain way, getting a red or yellow card in football, or injuring a player;
- *bribery*: illicit payments, for example, to players to underperform or to sporting officials to influence decisions on siting events;
- *illegal gambling*: betting that is not regulated, controlled, reported or taxed;
- *doping*: using performance-enhancing drugs;
- *money laundering*: illicit gains declared as profits through sport, allowing for the “legalisation” of the income;
- *fake games*: “rigged” non-existent games that are used to attract bets;
- *tax evasion*: unreported profits or exaggerated expenses;
- *inside information*: misusing confidential information by players or officials to win bets or manipulate competition;
- *commercial corruption / governance tricks*: scams such as selling fake tickets, falsely reporting ticket sales, counterfeit merchandise, misconduct in selling broadcasting rights and fake commercial agreements;
- *“Asian betting model”*: a multi-layered system in which large sums of money from certain Asian countries are used for bribes in Europe, with a high level of anonymity and a low level of traceability.<sup>383</sup>

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<sup>379</sup> Bozkurt, Emine, “Match Fixing and Fraud in Sport: Putting the Pieces Together,” European Parliament, 17 September 2012; <https://www.europarl.europa.eu/document/activities/cont/201209/20120925ATT52303/20120925ATT52303EN.pdf>.

<sup>380</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

<sup>381</sup> “Sport Corruption Barometer 2020,” Interpol and Abertay University; <https://www.interpol.int/content/download/16304/file/Sports%20Corruption%20Barometer.pdf>.

<sup>382</sup> “Update – Results from the largest football match-fixing investigation in Europe,” Europol, 6 February 2013; <https://www.europol.europa.eu/media-press/newsroom/news/update-results-largest-football-match-fixing-investigation-in-europe>.

<sup>383</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.



A recent review of cases in EU countries found 33 examples of match-fixing, 24 of doping, 6 of fraud, and 4 of laundering criminal proceeds.<sup>384</sup>

Match-fixing involves manipulating play on the field by bribing or coercing coaches, players and/or referees to alter the game or outright rig its outcome. According to the Council of Europe, it is “an improper alteration” of a sports competition aimed to “remove all or part of the unpredictable nature of the competition, with a view to obtaining an undue advantage for oneself or others.”<sup>385</sup> These undue advantages typically are ill-gotten gambling “winnings.”

In these instances, fans are robbed of the pleasure of watching an authentic competition: their favourite team may have won or lost for reasons other than its athletic ability. Trust in the results is lost. One of the main elements of sports – honest, hard-fought competition – is thus perverted.

Some sports teams and their owners commit corruption crimes that are commonplace in other sectors, such as money laundering, procurement fraud and political meddling. Also, because some teams are publicly traded on stock exchanges, match-fixing conceivably could be linked to insider trading. Stock prices can rise or fall depending on a team’s performance. If people know in advance whether a team is going to win or lose, they can trade shares accordingly. “The financial sector is highly regulated, but in sports, there is less control.”<sup>386</sup> Teams and owners may try to improperly influence elections so their preferred candidates win, and use bribery, harassment or nepotism in the appointment of officials to national or regional sports committees.<sup>387</sup>

Another high-risk area is the competition to host major sports events. Corruption can infiltrate the cities and countries bidding to for the event, as well as the sport organisations that select the hosts. Risks include opaque or unclear bidding rules and procedures, and a lack of genuine equality in the bidding process that improperly favours a particular bidder.<sup>388</sup>

Hosting major sports events requires huge amounts of money and significant participation of the private sector. This can lead to “conspicuous” corruption risks in building infrastructure as well as public procurement for arenas and other venues, media, hospitality and security contracts. Pressure to finish construction projects on time can result in renegotiation of contracts that could introduce additional fraud or corruption risks.<sup>389</sup>

Podliehaiev and colleagues developed these maps of corruption crimes in sports:<sup>390</sup>

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<sup>384</sup> Podliehaiev, Kostiantyn et al, “Types of Corruption Crimes in Sports in the Countries of the European Union,” *Retos*, March 2024, 55:249-258; [https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

<sup>385</sup> Council of Europe Convention on the Manipulation of Sports Competitions, Council of Europe Treaty Series - No. 215, 2014; <https://rm.coe.int/16801cdd7e>.

<sup>386</sup> Personal interview with Eduard Ivanov, International Anti-Corruption Academy, 27 June 2024.

<sup>387</sup> Ivanov, Eduard et al, “Integrity and Anti-Corruption Compliance in Sport,” International Anti-Corruption Academy, September 2023; [https://www.iaca.int/media/attachments/2023/09/25/iaca\\_intergrity-and-anti-corruption-compliance-in-sport\\_research-paper\\_final.pdf](https://www.iaca.int/media/attachments/2023/09/25/iaca_intergrity-and-anti-corruption-compliance-in-sport_research-paper_final.pdf).

<sup>388</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>389</sup> “Mitigating Corruption Risks in the Procurement of Sporting Events,” OECD and International Partnership Against Corruption in Sport, 2019; <https://web-archiv.oe.cd.org/2019-10-18/533443-mitigating-corruption-risks-procurement-sporting-events-IPACS.pdf>.

<sup>390</sup> Podliehaiev, Kostiantyn et al, “Types of Corruption Crimes in Sports in the Countries of the European Union,” *Retos*, March 2024, 55:249-258; [https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

**Table 4.1 Classification of corruption crimes in sports**

Classification of corruption crimes in sport	
Types of crimes	Bribery, extortion, embezzlement, self-interest conflict of interest, abuse of power, patronage, nepotism, influence paddling, pay-to-play etc. (match-fixing, bet related, and non-betting, doping, insider information for gambling, ring-ins, nobbling, salary caps, tanking, - refusal of match, intentional defeat, or absence of competition, often to falsify the results of the season, bribery of the host of prestigious sports events)
Type of activity in sports	Appointment of personnel, procurement, delivery of programmes or services, production (Construction), control (licensing/regulation/issuance of permits) administration (sports activities, conduct of fans, refereeing on the field and off the field, facilities maintenance, including field or ground preparation, sports medicine, team administration, club administration, league administration and sport policy)
Public policy sector	Local government, construction, health care, tax administration, environment, and water, forestry, customs and immigration, social security, systems, agriculture, urban planning, system law etc. (divided by sports and divided into professional and amateur football, baseball, rugby, cricket, boxing, billiards etc. )
The place (situation) of the corruption crime in sports	Countries, regions, settlements, cities, organisations, workplaces, etc. (on the field, off the field, training)
Level	International level – influenced the organisation of international sports competitions (appears in the activities of officials of international sports federations and organisations IOC, FIFA) National level – corrupt activity of officials of specialised central, higher executive or legislative bodies (status bodies engaged in sports policy of individual status) Local level Branch level

**Table 4.2 Types of corruption crimes in sports**

Types of corruption crimes in sport	Essence (concept) of corruption crime
Bribery	Forcing or inciting athletes, auxiliary sports personnel who participate in sports competition, officials in the field of sports to collude regarding the result of an official sports competition (contractual match) or regarding their provision of exclusive sports information or entering into such activities with them.
Illicit enrichment	Receiving money, securities, other property, using property-related services, receiving other benefits and advantages as a result of actions (bribery, conspiracy), or unauthorised use of exclusive sports information by athletes, persons of auxiliary sports personnel participating in a sports competition, officials in the field of sports.
Betting on sports	Betting on the results of an official sports competition by athletes in which they or their team participates, by auxiliary sports personnel who participate in a sports competition, by officials in the field of sports, aimed at improperly changing the course of an official sports competition or its result; violation of the ban on betting on sports related to the manipulation of an official sports competition with obtaining an illegal benefit as a result.
Match-fixing	Influencing the results of an official sports competition through bribery, coercion, or instigation or entering into a conspiracy regarding the results of an official sports competition with the aim of obtaining an illegitimate benefit for oneself or a third person or obtaining an illegitimate benefit for oneself or a third person as a result of

Types of corruption crimes in sport	Essence (concept) of corruption crime
	such actions, which is most common in team sports (football, hockey, basketball, etc).
Abuse of power	Implementation of personnel policy by officials in the field of sports (allocation of positions in sports management bodies in federations, clubs, state authorities, local self-government, etc.) in their own interest of third parties, with the aim of enrichment or receiving other benefits.
Legalisation (laundering) of criminal proceeds	Laundering through sports clubs and federations of income received from crimes committed outside the sector of physical culture and sports or in it (the prerequisites are oligarchisation or professional sports and the negligence of law enforcement agencies).
Fraud	Management of property, sports property complexes, budgetary and extra-budgetary funds, targeted allocations, using deception or abuse of trust.
Agency fraud	Acquisition by deception or abuse of trust of athletes' property by their agents (real or pretended) under the pretext of mediation in concluding contracts with sporty clubs.
Fraud of athletes	Committing illegal actions against agents, related to the non-payment of fees stipulated by the agency agreement when concluding a contract with a sports club.
Event and ticket fraud	Takes place in case of the ticket limit, which does not correspond to the existing demand (not related to match-fixing) for objective reasons (the capacity of the sports arena, hall, significant number of tickets booked for foreigners, etc).
Dope	<p>The use of doping by athletes, which affects (may affect) the result of sports competitions – as a rule, the achievement of the highest sports results and related awards (the presence of a prohibited substance, its metabolites or markers in the athlete's sample; the use of attempted use of a prohibited substance or prohibited substance method by the athlete; refusal or avoidance or sample collection; unavailability for out-of-competition testing, falsification of doping tests,; possessions of prohibited substances or methods; trafficking in prohibited substance or methods; administration of prohibited substances to athletes.</p> <p>Nobbling is a form of doping – a reduction in an athlete's ability to perform</p> <p>Ring-ins – replacing an athlete or animal with another one with a better performance</p>
Bribery of lower-level administrations or athletes	A private act of conduct that involves payment to misconduct or unsportsmanlike conduct.
Nepotism	Provision of better conditions of study, training, priority of right selection for competitions and overestimation of overall grades due to family ties in sports (with athletes or officials, administration, etc.)
Violent crimes in sports (conditionally corrupt)	<p>Intentional infliction of bodily harm not covered by the environment of sports competitions.</p> <p>Violent crimes committed against athletes outside the context of sports competition, but in connection with sports activities and/or other conduct at sports competitions, Criminal violence at the quasi-sports competitions (underground fights).</p>
Political crimes in sports (conditionally corrupt)	<p>Violent political crimes of a terrorist nature, the objective of which are (may be) athletes during competitions, as well as outsiders who are in the place of sports events.</p> <p>Non-violent political crimes, which involve a sports theme in its commission, as a rule, cover ongoing political criminal activity (boycotts of sports competitions, disinformation of the population about sports events, etc).</p>

## Players involved

Fixing a match or manipulating play on the field requires the participation of many people. People around the field of play include athletes, referees, coaches, team managers and staff, and sometimes family and friends. They are in a direct position to alter or fix the match according to the wishes of the corrupt people paying or coercing them. Known as “executors” or “passive manipulators,” they act on behalf of illegal gamblers and other criminals. They may be manipulated unknowingly, and serve as a “replaceable tool involved in a more or less complex process.”

Above them are the “instigators” or “active manipulators” who pay bribes to fix matches and in turn profit from illegal gambling or corrupted betting operations. These opportunists, including former athletes and team owners, use their connections and knowledge of sports to coax athletes into becoming accomplices in choreographing a match’s outcome.<sup>391</sup> Athletes, coaches, officials and team staff are easily approachable at sports venues and hotels where they stay during competitions.<sup>392</sup>

Because of high profits and low risks, OCGs increasingly are becoming involved in match-fixing. In addition to bribing, they may buy teams and use them as shells, collude with other teams to manipulate transfers of players and funds or threaten athletes to control their performances.<sup>393</sup> With this “professional” method, the team may be bought for the sole purpose of fixing matches and/or laundering money on an ongoing basis.<sup>394</sup>

In the EU, OCGs “operate the whole fraud”: orchestrating outcomes of matches through bribes, planning and executing bets, arranging logistics, and transferring money. Under an emerging system, different OCGs operate in different countries and different continents, usually with a Southeast Asia connection. One criminal group plans, organises and executes match-fixing in an EU country, while financiers outside the EU finance the operation. Money can be transferred by using cash couriers, bank transfers, money business services, e-wallets and alternative banking platforms.<sup>395</sup>

“What makes this difficult [to investigate] is that the people responsible don’t live here [in the EU]. With the Internet, you can do anything. The criminal activity is far, far broader than you would think. You just see the tip of the iceberg,” notes Anneke van Zanen-Nieberg, chairperson of the Dutch National Olympic Committee / Dutch Sports Federation.<sup>396</sup>

High levels of betting liquidity in Asia and the EU’s weak regulatory frameworks help criminals reap higher earnings, maintain anonymity and reduce traceability. “Bets of EUR 200,000 to EUR 300,000 could be placed on a Belgian second division football match through agents without risk of attracting attention and without driving changes in odds.”<sup>397</sup>

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<sup>391</sup> Council of Europe Convention on the manipulation of sports competitions – The Macolin Convention (CETS n°215), 8 November 2018; <https://rm.coe.int/t-mc-2018-87rev-e-concept-of-sports-manipulations-final/16808ecb6a>.

<sup>392</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>393</sup> Council of Europe Convention on the manipulation of sports competitions – The Macolin Convention (CETS n°215), 8 November 2018; <https://rm.coe.int/t-mc-2018-87rev-e-concept-of-sports-manipulations-final/16808ecb6a>.

<sup>394</sup> “The Involvement of Organised Crime Groups in Sports Corruption,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>395</sup> “The Involvement of Organised Crime Groups in Sports Corruption,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>396</sup> Personal interview with Anneke van Zanen-Nieberg, 31 May 2024.

<sup>397</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

OCG members have many tasks, including:

- deciding which matches to manipulate or fix;
- contacting associations, players, coaches, referees and/or officials;
- communicating the details of fixes and handing out bribes;
- maintaining contacts with national representatives based on language, nationality or background;
- recruiting “mules” to deliver money;
- opening betting accounts; and
- transporting money from Southeast Asia to cover costs and make bribes.<sup>398</sup>

### Means and methods

Investigations have revealed many corrupt methods to alter match outcomes:

- simple collusion between two athletes or teams;
- influencing player transfers in order to strengthen or weaken a team;
- taking advantage of clubs in difficulty to abuse positions of power;
- using clubs as shells to launder money via transfers between clubs;
- creating fake or ghost games to allow illicit betting; and
- influencing player line-ups to enable fixing.<sup>399</sup>

On-field meddling can be subtle and at times imperceptible to viewers:

- the winning margin is purposefully held below a certain number;
- a player or team purposefully underperforms;
- actions that may not affect the result, such as bowling a no-ball in cricket, kicking a ball out of play in football, or faking an injury;
- a player wearing a hat at a certain time during a match, to demonstrate how he or she is being controlled;
- publishing incorrect scores to fraudulently obtain a gambling advantage; and
- influencing player line-ups, substitutions or batting orders.<sup>400</sup>

Aided by online tools that have made an “immense difference” in betting behaviour, gamblers are able to wager on the minutiae of on-field play. In football, people can bet on who gets the first red card and who takes the first penalty kick. To prevent such bets, players from both cricket teams had to turn in their cell phones before a recent match in the Netherlands. “IT experts are always scanning activity before and during games.”<sup>401</sup> Alternatively, “there is someone along the sidelines signalling players with their hat or jacket.”<sup>402</sup>

In tennis, people can bet on who wins or loses a particular set, even though it might not affect the outcome of the match. “It’s legal to bet on almost anything in sports,” noted Lisanne Balk, senior researcher at the Mulier Institute and a former professional tennis player. She said because players compete in so many matches, being paid to intentionally lose a set on occasion will not significantly harm their career. Meanwhile, the extra money helps cover their costs. This is particularly commonplace in lower-level leagues, where bribes are high in proportion to the prize money.<sup>403</sup>

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<sup>398</sup> “The Involvement of Organised Crime Groups in Sports Corruption,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>399</sup> Council of Europe Convention on the manipulation of sports competitions – The Macolin Convention (CETS n°215), 8 November 2018; <https://rm.coe.int/t-mc-2018-87rev-e-concept-of-sports-manipulations-final/16808ecb6a>.

<sup>400</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>401</sup> Personal interview with Anneke van Zanen-Nieberg, 31 May 2024.

<sup>402</sup> Personal interview with Dieter Braekeveld, Interpol, 20 June 2024.

<sup>403</sup> Personal interview with Lisanne Balk, 6 June 2024.

"Tennis players don't make a lot of money and it is an expensive sport. Only the top 150 players are properly covered financially."<sup>404</sup>

Because these short-term bets only deliver 2-3% profits for gambling companies, they need to attract as many betters as possible. Such rapid-fire bets also are very addictive, because one quick bet easily can lead to the next. This is unlike weekly or monthly lotteries, which have higher profit yields and typically are less addictive.<sup>405</sup>

The tremendous growth in sports betting – legal and otherwise – means "more people are betting more money on more games, so it is getting easier to fix certain parts of a game without being detected. It is easier to hide fixing as the market gets bigger." Gambling companies will take bets on almost any sort of competition. "They are expanding their product offers – even friendly games and pillow fights." During the COVID-19 pandemic, when most large, outdoor events were cancelled, people started betting on indoor games such as table tennis. Whimsical events are dangled before the public to attract new customers. "People download the app and they are locked in. First, they try low-level leagues, then they go up from there."<sup>406</sup>

Illegal betting can occur in two settings. On the grey market, betting operators with a license in one jurisdiction accept bets where their gambling products are illegal. On the black market, unlicensed betting operators work in multiple jurisdictions and thus are a type of organised crime.

According to the UNODC, illegal betting operators are not subject to any anti-money laundering oversight measures in the legal betting or financial industries. They utilise secretive practices including hiding online gambling interfaces behind "doorways," laundering money via legitimate bookmakers, selling compromised accounts of bookmaker companies, hacking betting operators to gain competitive intelligence, and running illegal betting operations online.<sup>407</sup>

Europol reports that OCGs work transnationally and use a top-down, poly-criminal business model. These groups increasingly are using online betting in match-fixing and competition manipulation – using fake identities and "e-wallets" to place bets either before or during pre-arranged games.

Another trend is targeting lower-level competition across different sports where lower-paid players are easier to approach, and bribing costs therefore are lower. Because these games draw fewer fans and attract less public and media attention, there is a lower chance of video evidence of the manipulation.<sup>408</sup> Indeed, the assumption that all athletes are very well paid and enjoy sturdy social guarantees is not the case: "working conditions and wages are not equally good and high in all sports."<sup>409</sup>

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<sup>404</sup> Personal interview with Dieter Braekeveld, Interpol, 20 June 2024.

<sup>405</sup> Personal interview with Anneke van Zanen-Nieberg, 31 May 2024.

<sup>406</sup> Personal interview with Dieter Braekeveld, Interpol, 20 June 2024.

<sup>407</sup> "UNODC Global Report on Corruption in Sport," UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>408</sup> "The Involvement of Organised Crime Groups in Sports Corruption," Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>409</sup> Podliehaiev, Kostiantyn et al, "Types of Corruption Crimes in Sports in the Countries of the European Union," Retos, March 2024, 55:249-258; [https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

At these “grassroots” levels, match-fixing is common due to the “familiarity between players and administrators in the football circles” and the lack of monitoring.<sup>410</sup>

“The problem is not high-profile matches, such as Grand Slams. It’s happening more in the lower layers because these attract less attention. Nobody is watching the lower leagues,” said van Zanen-Nieberg. She stated that match-fixers are recruiting child athletes as young as 12, because they are more vulnerable and need money to pay for training or other costs.<sup>411</sup>

In sum, OGCs’ operational models enable high-level criminals to attract accomplices while shielding them from law enforcement. “The investigations focus normally on the lower-level targets who are directly and more apparently involved in the match-fixing scheme. The investigations aiming at higher levels of the OGCs require more resources, are lengthy and become costly.” Delayed responses by investigators enable higher-echelon criminals to anticipate and recognise law enforcement actions and give them time to leave the country and to relocate their operations.<sup>412</sup>

Investigations of competition manipulation are challenging because it can be difficult to gather evidence such as proof of betting, and to prove that an actual offence has been committed.<sup>413</sup>

#### 4.6.3 *The causes of corruption*

Several major trends have come together to create a more fertile enabling environment for corruption in sports. Among them are the globalisation of sports, the growing number of sub-sectors within the industry, media sensationalism of star players and popular teams, the advent and spread of online gambling and payment systems, the mainstreaming and accessibility of betting, and the growing addiction to gambling.

Corruption and other crimes in sports have significantly evolved over the years, according to the UNODC. These crimes have been influenced by these transformations themselves, including globalisation, an influx of funds in professional sports, expanding legal and illegal betting markets, and the emergence of e-sports and other technological advancements. “These changes have not only altered how sports are played and viewed but have also influenced the extent and nature of corruption and other crimes within the sports sector.”<sup>414</sup>

Manoli and colleagues cite de-amateurisation, medicalisation, politicisation and commercialisation of sports.<sup>415</sup> “At the current stage, these four trends have given rise to the fifth, the most socially dangerous – the criminalisation of sports.”<sup>416</sup> In one EU country, Manoli and colleagues attributed the

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<sup>410</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

<sup>411</sup> Personal interview with Anneke van Zanen-Nieberg, 31 May 2024.

<sup>412</sup> “The Involvement of Organised Crime Groups in Sports Corruption,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>413</sup> UNODC and International Olympic Committee, “Investigation of Cases of Competition Manipulation: A Practical Guide,” 2023; [https://www.unodc.org/documents/Safeguardingsport/Publications/GUIDE\\_PROSECUTION\\_COMPETITION\\_MANIPULATION\\_NOV23\\_compressed.pdf](https://www.unodc.org/documents/Safeguardingsport/Publications/GUIDE_PROSECUTION_COMPETITION_MANIPULATION_NOV23_compressed.pdf).

<sup>414</sup> Written submission from UNODC, 28 June 2024.

<sup>415</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

<sup>416</sup> Podliehaiev, Kostiantyn, et al, “Types of Corruption Crimes in Sports in the Countries of the European Union,” Retos, March 2024, 55:249-258; [https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

main corruption risks to the “social relations” of people involved in sports with criminals, the ease of betting, the financial difficulties of teams and players, and gambling addiction.<sup>417</sup>

Also coalescing are the myriad types of crimes that make up sports corruption, which are not fundamentally different from other corruption crimes,” write Podliehaiev and colleagues. “It is almost impossible to find the reasons for such widespread corruption in the sports sphere without determining the reasons for developing this type of corruption. ... Corruption crimes in the field of sports are not a homogeneous negative phenomenon, but a collective concept that includes a number of illegal socially dangerous acts that have signs of corruption and bribery.”<sup>418</sup>

Like other industries, the huge revenue streams and profits that pervade the sports industry are a strong draw for criminals. “Money draws criminals like moths to a flame – and today, there may be no more enticing flame than professional sports.”<sup>419</sup>

“The business of sports is so lucrative and increasingly professional across the board,” according to the Council of Europe, noting that many more types of people and organisations are now connected with the industry. Enforcement agencies have not been able to keep up with the industry’s rapid growth. “While some look to take advantage of the insufficient or inexistent legislative and political attention, others capitalise on the potential economic benefits.”<sup>420</sup>

Though the essence of sports corruption is somewhat different than in other areas of society, Podliehaiev and colleagues note that the motivation “does not fundamentally differ”: it is “still mainly a selfish motive, enrichment.”

Podliehaiev and colleagues also cite “the lack of special norms establishing responsibility for corruption crimes in this area.” The Council of Europe’s 2014 Convention on the Manipulation of Sports Competitions called on member countries to improve their national criminal laws to deal with sports corruption. However, a “vast majority” of countries have not complied. “It is obvious that there are no special rules on responsibility for corruption crimes in sports in the vast majority of the criminal legislations of the EU countries.” The result is that there are more sports corruption crimes in countries that lack such laws.<sup>421</sup>

OGCs understand and exploit these weaknesses. Perceiving match-fixing as a high-profit and low-risk crime, mafia-type groups operating globally are “investing” more in this lucrative business. The UNODC anticipates this trend will continue.<sup>422</sup> The potential profits are “enormous and when

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<sup>417</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

<sup>418</sup> Podliehaiev, Kostiantyn, et al, “Types of Corruption Crimes in Sports in the Countries of the European Union,” Retos, March 2024, 55:249-258; [https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

<sup>419</sup> Spiegelhalter, Steve and Silvertown, Jesse, “Athletes targeted by fraud: Almost \$600 million in potential fraud identified between 2004 and 2018,” EY, June 2019; [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_us/topics/assurance/ey-forensics-athletes-targeted-by-fraud-june-2019.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/topics/assurance/ey-forensics-athletes-targeted-by-fraud-june-2019.pdf).

<sup>420</sup> Council of Europe Convention on the manipulation of sports competitions – The Macolin Convention (CETS n°215), 8 November 2018; <https://rm.coe.int/t-mc-2018-87rev-e-concept-of-sports-manipulations-final/16808ecb6a>.

<sup>421</sup> Podliehaiev, Kostiantyn et al, “Types of Corruption Crimes in Sports in the Countries of the European Union,” Retos, March 2024, 55:249-258; [https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

<sup>422</sup> “Crime Areas: Sports Corruption,” Europol; <https://www.europol.europa.eu/crime-areas/corruption/sports-corruption>



compared to other activities, such as drug trafficking or counterfeiting, the entry costs are low and the chances of being caught are slim.”<sup>423</sup>

OGCs also know how to take advantage of teams in a weak financial position, especially those that suffered during the COVID-19 pandemic. Teams in low-tier leagues may be “vulnerable to infiltration or buyout by criminal networks seeking to use the club for match fixing and other criminal purposes.”<sup>424</sup>

Other opportunities are presented by technology including e-wallets, digital currencies and the “darknet,” which provides anonymity and a level of protection from law enforcement.<sup>425</sup>

#### 4.6.4 *The consequences of corruption*

There is a mystique of sports as a safe, wholesome place where fans can escape their daily routine and enjoy – if only vicariously – the purity of competition and the thrill of victory. Sport elicits admiration even from the casual follower. Committed fans are nothing less than devoted to their chosen teams and players. “Sports serve society by providing vivid examples of excellence,” wrote American essayist George Will.<sup>426</sup>

The damage caused by corruption goes beyond the material harm from match-fixing, doping and other swindles. These schemes soil the innocence that society hopes and expects will inoculate sports from the real world. Corruption “strips sport of its positive, transformative power”<sup>427</sup> and damages its “reputation for integrity and fair play.”<sup>428</sup>

The effects are far-reaching. Corruption stigmatises athletes and hurts the reputation of the institution of sports itself. It damages the integrity of sports and harms teams that run the risk of losing sponsors because of public scandals.<sup>429</sup> No one is untouched. Corruption hurts athletes, teams, fans, coaches, national and local sports organisations, and international sports committees. It discredits athletes, threatens their health when pressured to dope, damages the popularity and spread of sports, and erodes the public’s trust in honest competition.<sup>430</sup>

Dirty and dishonest play can repel fans. Smaller audiences and fewer viewers can translate into financial losses for teams, broadcasters and the many sub-sectors that support the broader industry.

Primarily due to organised crime groups and figures working in multiple countries and regions, many illicit behaviours are ingredients of the phenomenon of sports corruption. Among them are bribery,

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<sup>423</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>424</sup> “European Union Serious and Organised Crime Threat Assessment – A Corrupting Influence: The Infiltration and Undermining of Europe’s Economy and Society by Organised Crime,” Europol, 2021; [https://www.europol.europa.eu/cms/sites/default/files/documents/socta2021\\_1.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/socta2021_1.pdf).

<sup>425</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>426</sup> Taubenfeld, Emma, “76 Motivational Sports Quotes for Success On and Off the Field,” Reader’s Digest, 18 March 2024; <https://www.rd.com/article/sports-quotes/>.

<sup>427</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>428</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

<sup>429</sup> “Crime Areas: Sports Corruption,” Europol; <https://www.europol.europa.eu/crime-areas/corruption/sports-corruption>.

<sup>430</sup> Podliehaiev, Kostiantyn et al, “Types of Corruption Crimes in Sports in the Countries of the European Union,” Retos, March 2024, 55:249-258; [https://www.researchgate.net/publication/379387463\\_Types\\_of\\_Corruption\\_Crimes\\_in\\_Sports\\_in\\_the\\_Countries\\_of\\_the\\_European\\_Union](https://www.researchgate.net/publication/379387463_Types_of_Corruption_Crimes_in_Sports_in_the_Countries_of_the_European_Union).

money laundering, tax evasion, threats, and fraud in team operations, financial reporting, business transactions and other areas.

Money laundering is commonplace, especially in the context of betting-related match-fixing and online betting, either by exploiting legal betting companies or taking them over (so-called “criminally controlled gambling operators”).<sup>431</sup> Like investing their proceeds in real estate, criminals use football clubs to launder money, which is eased by a lack of transparency of the source of investments in clubs.<sup>432</sup>

Illegal online betting is another vehicle for money laundering, by stashing criminal proceeds in betting accounts and colluding with professional gamblers. According to Europol, cash couriers, money service businesses and e-wallets are used to transfer the proceeds of corruption and fuel online betting accounts for large-scale competition manipulation.<sup>433</sup>

On the human side, children and young adults can be victimised by unscrupulous scouts or criminals who pose agents. Manipulating young people with dreams of athletic stardom, they convince parents to pay for overseas trips to try-outs in Europe. With fees as high as EUR 3,500, some go into debt by selling possessions and cutting back on schooling for siblings and other family costs. After entering the EU on a short-term visitor visa, many young athletes are then effectively abandoned. When a try-out does lead to a contract to play on a professional team, the contract can be “highly exploitative and unfavourable for the players.” Agents can demand up to 50% of the player’s salary as a fee.<sup>434</sup>

#### 4.6.5 Concluding discussion

The material harm caused by match-fixing, illegal gambling, money laundering and other corruption crimes has been well-documented. Also well-known are the activities of mafia-type groups from inside and outside the EU, largely due to the relatively low risk and high rewards. Interpol, Europol and UNODC are helping to lead the response.

Nine operations by Interpol, known as SOccer GAMbling (SOGA), have led to 20,300 arrests, EUR 59 million in seized cash, the closure of 4,000 illegal gambling dens that handled more than EUR 6 billion in bets, and EUR 4.5 million in fines.<sup>435</sup>

The damage caused by corruption in sports is not limited to financial losses, instability in the industry, physical and career risks to players, and the committing of crimes. Hundreds of millions of people watch sports in the EU. A survey of three EU countries in 2022 found 52-69% of respondents watch sports.<sup>436</sup> Europe-wide, a record 209 million people attended football matches during the 2022-23 season.<sup>437</sup>

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<sup>431</sup> “The Involvement of Organised Crime Groups in Sports Corruption,” Europol, 2020; [https://www.europol.europa.eu/cms/sites/default/files/documents/the\\_involvement\\_of\\_organised\\_crime\\_groups\\_in\\_sports\\_corruption.pdf](https://www.europol.europa.eu/cms/sites/default/files/documents/the_involvement_of_organised_crime_groups_in_sports_corruption.pdf).

<sup>432</sup> Ecorys and Manoli, Argyro Elisavet, “Mapping of Corruption in Sport in the EU,” European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

<sup>433</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>434</sup> “UNODC Global Report on Corruption in Sport,” UNODC, 2021; [https://www.unodc.org/res/safeguardingsport/grcs/22-03221\\_SPORTS\\_CORRUPTION\\_2021\\_Full\\_report.pdf](https://www.unodc.org/res/safeguardingsport/grcs/22-03221_SPORTS_CORRUPTION_2021_Full_report.pdf).

<sup>435</sup> “Corruption in sport,” Interpol; <https://www.interpol.int/en/Crimes/Corruption/Corruption-in-sport>.

<sup>436</sup> Thomson, Stuart, “Sports viewing on the up internationally,” *Digital TV*, 28 September 2022; <https://www.digitaltveurope.com/2022/09/28/sports-viewing-on-the-up-internationally/#close-modal>.

<sup>437</sup> “New UEFA Landscape report shows European football’s strength and depth,” Union of European Football Associations, 14 September 2023; <https://www.uefa.com/news-media/news/0285-18fa8cc305f4-17acfa3b2445-1000--new-uefa-landscape-report-shows-european-football-s-strength/>.

Corruption scandals have led to many or most fans to lose trust in the authenticity of the games they watch. In a 2022 survey of three EU countries, 76-84% of football fans and 64-75% of people in general said there probably is corruption in FIFA.<sup>438</sup>

Manoli and colleagues highlight promising practices to reduce sports corruption:

- Stricter legal penalties have been shown to reduce match-fixing, including in countries with previously high rates of such schemes;
- Preventive measures and education programmes can improve players' awareness, influence their behaviour and encourage them to report corruption;
- Multi-stakeholder groups including police, judiciary, government ministries and national sport federations can prevent and tackle corruption collectively;
- Introducing good governance codes can help remedy corruption in team management, including financial crimes match-fixing.<sup>439</sup>

## 4.7 Concluding discussion Part 2

Part 2 of our study has revealed how corruption in all the six high-risk areas tends to be widespread in the EU Member States. As such, it disrupts societal life, including many basic services. In one way or another, and to a greater or lesser extent, taxpayers financially support all of these products and services: high-quality and dependable health care and medicines, trustworthy banks and other financial companies, honest and efficient spending of public funds, strong and properly equipped armed forces, safe and cost-effective public infrastructure, and wholesome entertainment.

The six boxes below summarise the main findings concerning the character, causes, and consequences of corruption for each of the six areas.

**PUBLIC PROCUREMENT**

**CHARACTER OF CORRUPTION**

- Corruption occurs in all phases of public procurement (pre-tendering, tendering, and post-award);
- Depending on the phase, corruption might take different forms and involve different actors and means;
- Bribery, embezzlement, illicit enrichment, trading in influence, abuse of authority, coercion, extortion, favouritism, and nepotism are all common;
- Often systemic in character.

**CAUSES OF CORRUPTION**

- Public procurement is considered one of the most high-risk areas;
- The volume of transactions and financial interests at stake, the complexity of the process, the close interaction between public officials and businesses, and the multitude of stakeholders help explain this;
- The multifaceted nature of these risk factors and powerful vested interests creates extraordinary challenges in preventing corruption.

**CONSEQUENCES OF CORRUPTION**

- Consequences of corruption are massive and extend far beyond economic losses;
- OLAF suggests that in the EU, corruption may be up to 18% of project costs;
- Corruption in procurement moreover causes harm to citizens, the public and private sector, and society overall.

<sup>438</sup> Smith, Matthew, "Across Western Europe, FIFA still suspected of corruption," YouGov, 18 November, 2022; <https://yougov.co.uk/sport/articles/44469-across-western-europe-fifa-still-suspected-corrupt>.

<sup>439</sup> Ecorys and Manoli, Argyro Elisavet, "Mapping of Corruption in Sport in the EU," European Commission, December 2018; <https://op.europa.eu/en/publication-detail/-/publication/71c67c33-1dff-11e9-8d04-01aa75ed71a1/language-en>.

## HEALTH

### CHARACTER OF CORRUPTION

- The health sector is often described as a 'corruption hotspot';
- Depending on the service, procedure, and function of the health sector, corruption is likely to take different forms, and involve different actors and means;
- Fraud is commonplace, as well as most other forms of corruption.

### CAUSES OF CORRUPTION

- Several factors make the health sector particularly prone to corruption;
- Citizens' heavy dependence on health services, complex governance structures, extensive funds and resources, information asymmetry, regulatory weakness, and limited transparency play important roles.

### CONSEQUENCES OF CORRUPTION

- Consequences of corruption in the health sector are massive and extend far beyond economic losses;
- Access, quality, equity, efficiency, and efficacy all negatively impacted by corruption;
- Corruption in the health sector moreover has spillover effects to other areas (trust in the political system and state).

## FINANCIAL SECTOR

### CHARACTER OF CORRUPTION

- Money laundering and tax evasion are the most serious crimes, which also receive most of the attention of the investigators;
- Internal corruption caused or enabled by the sector vs. external corruption inflicted upon the sector;
- Enablers help OCGs stash illicit funds in EU-based banks and build a "parallel global criminal economy".

### CAUSES OF CORRUPTION

- Suspicious and illegal transactions can be difficult to identify and remedy within an enormous industry;
- The low-risk and high-reward nature of financial crimes makes them "very attractive" to OCGs;
- IBA:<sup>440</sup> "Enforcement agencies are failing to hold the corporate world adequately to account".

### CONSEQUENCES OF CORRUPTION

- Destabilises economies, undermines social security systems and harms prosperity, growth and employment;
- Financial crimes foster the growth of a "parallel underground society" dominated by OCGs;
- Welcomes fraud such as falsified bank records, shell companies, crooked investments, and identity fraud.

## CONSTRUCTION & INFRASTRUCTURE

### CHARACTER OF CORRUPTION

- Construction and infrastructure particularly vulnerable to corruption;
- Corruption may occur during all phases of infrastructure development (initiation, preparation, procurement, implementation, operation and maintenance, and disposal);
- Depending on the phase, corruption is likely to take different forms, and involve different actors and means;
- Bribery, collusion, nepotism, extortion, fraud, money laundering, and deception all common;
- Corruption in construction and infrastructure often systemic in character.

### CAUSES OF CORRUPTION

- Several factors make construction and infrastructure particularly vulnerable to corruption;
- The typically large size of projects, the long-term and complex character, information asymmetry, time pressure, and weak governance structures all play important roles.

### CONSEQUENCES OF CORRUPTION

- Consequences massive and multifold;

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<sup>440</sup> International Bar Association [The fight against corruption: Europe's black hole.](#)

- Economic loss, the ineffective allocation and deprivation of public resources, the compromising of quality and safety, and the negative impact on human rights and sustainability are only some of the losses.

## **DEFENSE & SECURITY**

### **CHARACTER OF CORRUPTION**

- More vulnerable to corruption than many other sectors; every country "alarming" TI scores;
- Secretive, high-profit industry subject to conflicts of interest, political misuse, questionable deals;
- Bribery, conflict of interest, promise of post-employment, preferential business access ("offsets").

### **CAUSES OF CORRUPTION**

- Cloaked because of role in national security; used to foster links with questionable regimes;
- Little political will to combat corruption; governments don't want to cede market share to competitors;
- Price is not the first concern in the market.

### **CONSEQUENCES OF CORRUPTION**

- Reduced efficiency and operational effectiveness of armed forces; lowered esteem in society;
- Lost money cannot be spent on health or education, or returned to taxpayers;
- Weaken a country's ability to defend itself; innocent bystanders pay with their lives.

## **SPORTS**

### **CHARACTER OF CORRUPTION**

- Overall lack of systematic empirical evidence of causes and risks; Europol: "intelligence gap";
- Europe has the highest rates of sport manipulation worldwide; most doping and match-fixing cases;
- Match-fixing, illegal gambling, doping, bribery, money laundering, fake games, "Asian betting model".

### **CAUSES OF CORRUPTION**

- Globalisation, growing number of sub-sectors, media sensationalism of stars and teams;
- Online gambling and payment systems, mainstreaming and accessibility of betting, addiction;
- Legislative and regulatory gaps; "no special rules on responsibility for corruption crimes in sports".

### **CONSEQUENCES OF CORRUPTION**

- Stigmatises and discredits athletes and teams; hurts the reputation of the institution of sports itself;
- Strips sport of its positive, transformative power; damages its "reputation for integrity and fair play";
- Damages the popularity and spread of sports; erodes the public's trust in honest competition.

Given the devastating consequences of corruption, it is of greatest importance that we find measures to prevent and fight corruption in the EU Member States. Yet, for such measures to be effective, we need to know our 'enemy'. In particular, we need to know whether corruption in these different high-risk areas one problem is, that can be approached through similar measures or whether it is rather many different types of problems, which need to be tackled by in part different means. The reality is that both very likely are true. In the summary and conclusions of this report, we return to this issue.

## 5 Summary and conclusion of the report: Is corruption in EU Member States one problem or many?

Corruption is widely recognised as one of the greatest challenges to human welfare and well-being. Where corruption thrives, it rips through entire societies and as such counteracts both development and democracy, as well as undermines the very fundament of a well-functioning society in the form of rule of law, trust, and legitimacy.

Against this backdrop, in May 2023, the Commission presented a new anti-corruption package. With this new package, the EU places itself at the forefront of the global fight against corruption. Yet, for this fight to be as effective and efficient as possible, we need to know our 'enemy'. Responding to this call, this report has taken on the task of investigating high-risk areas of corruption in the EU. It has done so by providing: 1) A mapping of high-risk areas of corruption among EU's Member States, and; 2) An in-depth analysis of the character, causes, and consequences of corruption in a selection of six high-risk areas; health, finance, public procurement, defence & security, construction & infrastructure, and sports.

In terms of the mapping, the report finds that EU Member States face several actual and anticipated high-risk areas of corruption, including (but not exclusively): public procurement, healthcare, construction & infrastructure, political sphere, defence & military, the financial sector and banking, EU funds, political finance, local governance, and sports.

Subsequently to the mapping, we identified six high-risk areas of relevance for further investigation: public procurement, health, finance, construction & infrastructure, defence & security, and sports.

The six high-risk areas were identified via a combined quantitative-qualitative approach that considered hard data, research and input from expert practitioners. An interpretive and priority-balancing exercise was utilised to select these areas, rather than a quantitative and mathematical approach strictly based on rankings and indicators. This made for a more comprehensive and realistic process that was based as much on qualitative as on quantitative information.

Though many other sectors in the EU present corruption risks, some are quite serious, six main criteria reveal the relevance of focusing on these six areas: 1) they affect a broad cross-section of populations, communities, employees, and consumers across the EU; 2) they have significant cross-border implications within the EU; 3) they involve a wide range of public institutions, private companies, professions and disciplines; 4) they feature most or all major forms of corruption, which enables the identification of common traits of corruption among the sectors; 5) they have risen on the European and global anti-corruption agendas, and; 6) they interlink with other areas where corruption is commonplace and damaging. The totality of the information gathered reveals a consensus that all of them present urgent needs and are the venue for emerging corrupt actors and tactics.

The *in-depth analysis* of the character causes, and consequences of corruption in six of these high-risk areas – public procurement, health, finance, construction & infrastructure, defence & security, and sports – uncovers both common patterns and unique challenges associated with corruption in the different areas.

## 5.1 High-risk areas and their character, causes, and consequences

Based on the research conducted for this report, regularly occurring types of corruption and corrupt actors can be identified. By way of summarising these similarities across the selected high-risk areas, some of these emergent patterns are grouped below, via the character-causes-consequences model. This may assist in developing new criminal codes, investigation and enforcement approaches, and multi-agency and multi-jurisdiction cooperation strategies.

The in-depth analysis of the six different high-risk areas provided in Part 2 reveals that in many ways corruption is indeed the same type of problem across areas. Even though corruption continues to grow more specialised and complex, it always boils down to an act that abuses public resources, relies upon public and private sector collusion, violates societal norms, is concealed through deception or threats, and victimises communities and citizens. When all of these elements are at work simultaneously, corruption morphs into a powerful, unified force that demands an even more powerful and unified response.

### 5.1.1 Common characteristics

In terms of the [character of corruption](#) in the six high-risk areas analysed here, many elements, tactics and players are common to most or all six of the areas. In all the six high-risk areas, bribery, fraud, embezzlement, favouritism, conflict of interest and other misconduct are common, even widespread and systemic, effectively serving to maintain the corrupt machinery. Similarly, the actors involved in corruption seem to be about the same across the different areas (although their exact title and role may vary depending on the area). Elected officials, government officials, civil servants, private companies, law enforcement institutions, and organised crime all play important roles to keep the corrupt machinery afloat. Where corruption is widespread and systemic, it seems like all actors should be expected to be corruptible, because of the incentive system provided by the corrupt system.

Our analysis shows that bribes can appear anytime, anywhere and in any industry. Their use is virtually unlimited. Bribery is the most obvious form of corruption in many of the areas. For instance, within public procurement, public officials are paid to violate procurement rules to improperly approve contracts, usually in favour of their political allies or business cronies. Illicit payments also have been called the most widely known act of corruption in weapons transactions. Bribes typically are transferred and obscured via networks of international banks. Third parties act as “bag men” to “grease the wheels” and deliver payments to defence officials or ministries.

In addition to bribery, money laundering is one of the most prevalent financial crimes connected to corruption throughout Europe, and a popular pastime of organised crime. About 70% of criminal networks active in the EU use at least one form of money laundering to fund their activities and conceal their assets. Among the high-risk sectors, money laundering is commonplace in sports, especially for betting-related match-fixing and online betting. Criminals have been known to use football clubs not necessarily to perform well on the field but to launder money. Moreover, money laundering is taking place in the financial sector, as well as in the construction industry.

Fraud is yet another common type of corruption-related activity that appears in all six high-risk sectors. In public procurement, corrupt bidders submit false invoices or statements of prior work experience, and compromised public officials withhold information from certain bidders in order to favour others. Procurement fraud is a major problem in the health sector and defence and security industry as well. Knowingly inadequate, defective or unneeded supplies are ordered and purchased,

tenders are rigged to favour preferential bidders, and suppliers fraudulently overcharge their government clients. Fraud moreover assumes many forms in the financial sector, including in investments, loans, insurance, taxes and accounting. Interpol calls the economic impact of fraud “staggering” and fuelled by IT tricks. Financial companies falsify their financial records, shell companies are used to hide beneficial owners and evade taxes, and crooks offer fake investment opportunities and steal identities.

In the end, independently of the exact type of corruption, our analysis reveals how corruption is increasingly also a *cross-border problem*. Crooks exploit increasingly globalised supply and production chains, the many-spoked international financial system, inconsistencies in regulations and enforcement, and the ease with which money – including illicit funds – can be moved between countries and continents. In public procurement, bribes and kickbacks are used to win contracts in countries with weak rule of law. More than half of all foreign bribery cases involve procurement corruption. EU-funded projects that cross borders have been corrupted. Some healthcare crimes are multi-country, when illegal or counterfeit medicines are sold in other countries, organs are illegally traded, and globalised supply chains for drugs and medical devices are corrupted by information manipulation and regulatory capture.

Transnational networks comprised of offshore companies, intermediaries, service providers and financial institutions conspire to move illicit assets and hide them from law enforcement. Enablers help manage these networks and lower the transactional costs of international corruption. Whether criminal cash is obtained by rigging a public tender, illegally selling weapons or using subpar materials to build a dam, these illicit proceeds will be laundered in similar ways – and potentially via the same banks using the same enablers. Whether swaying public officials to approve a new pharmaceutical drug or direct public funds to build a new sports arena, the same types of bribery, cronyism, blackmailing and threats will be used. Shell companies and tax havens are ambivalent about who is utilising them, how and where stashed money was made, and where it might wind up. The same types of IT tricks are being used to swindle online shoppers, banking customers, singles and gamblers.

In terms of the *actors* involved, these also seem to be quite similar in character across the different areas, although they might vary on the margin. Elected officials, government officials and civil servants hold great responsibilities in their hands: they are entrusted with making decisions for the benefit of citizens and communities. Because their decisions can boost the bottom line of corrupt elements, they are subject to being corrupted.

In the healthcare industry, officials may take bribes to improperly register or delay the registration of medicines, or delay registration to solicit payments from a supplier. Officials may be improperly influenced to site or fund sporting venues or events, or to overlook impropriety within a financial institution. The revolving door phenomenon occurs in many industries including defence: people leave public service to work for an arms manufacturer that they perhaps had formerly regulated or for whom they had approved contracts. Or, they leave a company to join the government, where they direct contracts to their former employer.

Companies, whether legitimate or otherwise, play a major role in many corruption scandals. Pharmaceutical companies may capture groups of patients for illicit purposes and engage doctors, pharmacists and hospitals in their schemes. Banks and other financial companies, though often victimised, invest recklessly, misrepresent financial statements and manipulate interest rates. Construction companies and contractors embezzle or misuse materials, ignore quality control, or under-supply equipment and pocket the difference. Contractors and supervisors collude to bypass



quality controls get substandard work approved, and increase contract amounts to boost profits, cover losses or recover money spent on bribes. A leading corruption expert describes the defence industry as being excessively “entangled” with governments.

Law enforcement agencies believe organised crime groups (OCGs) are expanding their networks internationally and in the EU. The spread of fraud, money laundering, illicit financial flows and payment crimes is undermining global financial systems, impeding economic growth, and causing huge losses to businesses and people individuals worldwide. Europol Executive Director Catherine De Bolle warns of a “parallel global criminal economy around money laundering, illicit financial transfers and corruption.”

As a prime example, OCGs have established a foothold in sports corruption, where profits are high and the risks of detection and prosecution are low. In addition to match-fixing and illegal gambling, criminals are known to buy teams and use them as shells, collude with other teams to manipulate transfers of players and funds, or threaten athletes to control their performances. A team may be bought for the sole purpose of fixing matches and/or laundering money. Even though fewer than 1% of games are believed to be fixed, Europol lists sports corruption as one of the 11 main activities of organised crime within the EU.

Regulators and law enforcement agencies are growing more concerned about people and companies that help criminals commit corruption. In many ways, they are complicit in these crimes, but they are not always rounded up and prosecuted when the “main” criminals are caught. By day, they are legitimate professionals: attorneys, tax advisors, real estate brokers and investment specialists. By night, they are paid to help fraudsters, tax evaders and money launderers evade detection.

In the financial sector, enablers sell their expertise to help criminals hide their money, avoid paying taxes and most importantly avoid investigation and prosecution. As in any other aspect of society, relationships are essential to breaking the law and getting away with it. Criminals and enablers build trust, common understanding and mutually reinforcing benefits. In the construction industry, quantity surveyors, project managers, engineers, architects and a range of subcontractors help builders skirt safety laws, use substandard materials, artificially inflate contract amounts and avoid thorough inspections.

In the end, it is important to note that *corruption in itself corrupts*. Where corruption is widespread and systemic, such as it tends to be in some of the high-risk areas in at least some of the EU member states, all actors – independent of their role and position – should be expected to be corruptible. This is because, insofar as corruption is the expected behaviour – the ‘rule of the game’ - the benefits of playing by the corrupt rules will most often be considerably greater than the costs. Indeed, the costs of breaking the corrupt rules of the game might be quite massive, and of both material and non-material character. To be the only public official, politician, or judge who refuses to take a bribe might lead to one losing one’s job or being excluded from one’s social community. Or even worse; if criminal elements have vested interests in the maintenance of the corrupt system, refusing to take part of this might mean that one’s life is under threat.

### 5.1.2 Common causes

In terms of the *causes of corruption*, most criminals do not decide which types of crime to commit based on their personal interests or preferences. These choices are based on opportunity, incentives, expertise, and the age-old calculation of risk-versus-reward. The wellspring of greed and power is the same for all criminals. Therefore, the fundamental ingredients of all corrupt acts do not vary

significantly. Crimes are fine-tuned for each area or sector, but most of the basic methods are similar or even identical. The fundamental ingredients of all corrupt acts do not vary significantly across areas but corrupt acts will be likely to occur when the expected rewards of such outweigh the costs. Having noted this, most high-risk areas examined in this report present a number of shared features that might explain their vulnerability to corruption, most prominently *large amounts of funding, complex institutional arrangements, weak institutional and regulatory systems, and lack of transparency*.

Almost without exception, under-skilled, under-resourced, under-motivated or outright corrupt public institutions and officials are at least partly to blame if not significantly or primarily culpable. In all six high-risk areas, elected officials and public servants are approached by corrupt actors to join in their plots or simply look the other way, or they hatch corruption schemes themselves. In public tenders, officials accept gifts, money, favours, jobs for family members, or donations to their political parties or charities. In extreme cases, this can lead to outright state capture or kleptocracy. In some cases, bidding companies are fully or partly owned by public officials. Left undisclosed, this can create obvious and damaging conflicts of interest.

Sometimes there are outright threats involved, which make even the most honourable public officials commit crimes. As aforementioned, to be the only public official, politician, or judge in a corrupt system who stands up against corruption can mean the end of one's career or the exclusion from one's social networks. If organised crime is involved, the refusal to engage in corruption if you are a power holder might even mean the end of life. Many are the judges and politicians who have paid with their lives due to their integrity. If the fight against corruption should be effective, it is important to keep in mind the *vested and powerful corrupt interests* involved, who will be no means be willing to give up their source of income and wealth without considerable resistance.

Having said this, the six areas share a couple of features that might explain why they are the target of corruption. To begin with, *substantial amounts of public funds* are used to financially support all six high-risk areas. To name a few figures; more than 250,000 public authorities spend EUR 2 trillion on public procurement, equal to nearly one-sixth of the EU's GDP. EU countries on average spend more than 10% of their GDP on health care. Defence spending reached a record EUR 240 billion in 2022, marking the eighth consecutive year of growth. Where huge sums of money flow, corruption naturally follows. Spending on this enormous scale is a prime target for all forms of corruption.

In addition, many of the high-risk areas are *complex in character* – i.e. they involve multiple actors and institutions, jurisdictions, levels of government, and policy areas on their long path to completion. These are difficult to monitor and regulate due to high information asymmetry; inflated prices, inferior quality and sluggish delivery are hard to detect.

Complexity opens the door to conflicts of interest and undue influence, and complicates accountability and oversight. For instance, in the defence and sports industries, intermediaries not only help arrange and deliver bribes, but they actively conceal their actions in complex structures between countries and continents. In arms deals, agents and shell companies are used to hide corrupt payments in commissions, consultancies, subcontracts, offsets and barter deals.

*Weak institutional and regulatory systems* seem to be yet another cause of corruption in the six areas. For example, infrastructure projects can be corrupted if weak institutional and regulatory systems allow undue influence and political interference to dictate policy directions and strategic plans. Contractors offer bribes and campaign donations to influence decision-makers. Projects thus are

driven by political interests or personal gain rather than objective criteria such as need or cost-benefit analysis.

In health care, weak regulatory agencies vulnerable to influence or capture can make decisions that advance the interests of certain companies at the expense of the public good. Bribes are paid to reduce compliance requirements or overlook non-compliant products or services. Politicians or powerful interest groups may affect or capture regulatory or policy decisions for their own political or personal gain.

In the financial industry, regulators with political or personal connections with banks and other companies can downplay, delay or simply refuse to conduct needed investigations. There are also major corruption risks when financial companies do business with public banks or sovereign wealth funds.

As wondrous as they may be, many IT and online tools are being turned against the people, companies and organisations they were designed to help. Cybercriminals are using the Internet to hack, phish, steal identities, scam consumers, infect computers with malware and extort people with ransomware. To carry this out, criminals increasingly are utilising phishing kits, card dumps, databases of personal data and dark-web fraud manuals.

Like many types of crime, *a large pool of potential victims* equals opportunity. Three in five banking customers in the EU regularly do their transactions online. Many, however, lack the technical knowledge to fend off cybercriminals who crack into their account information. Criminal networks are laundering money and committing fraud with new financial services such as fintech, artificial intelligence, virtual IBANs, cryptocurrencies and blockchain.

Know-your-customer procedures may be weakened because digitalisation and automation are resulting in fewer personal interactions with customers. This could make it more difficult to detect and combat tax fraud, online banking fraud, money laundering and terrorism financing.

Finally, *a lack of transparency* in government and company operations can be, at the very least, a contributing factor to corruption. Knowing that certain information very likely will never see the light of day – unless a whistleblower comes forward – can be a prime motivator to act corruptly. In short, corruption thrives in the dark. If tendering procedures and contract decision-making are unclear or obscured, improper manipulation of procurement activities easily can be hidden. The defence and military establishment is fundamentally secretive, for many well-understood reasons related to national security. As a consequence, this high-profit industry, which is closely tied to engineering, aerospace, IT and many other fields, is also a “fertile ground for...malign activities,” states NATO.

### **Common consequences**

In terms of the *consequences of corruption*, no one knows the true and total damage corruption causes to citizens, public institutions and private companies in the EU. This exact figure of financial resources that could have been invested in society but that are instead lost to corruption is not possible to calculate. However, existing attempts to understand the consequences univocally point in the direction of that these are massive. According to one estimate, the annual economic costs range from EUR 179 billion to EUR 990 billion. This translates into a 6% reduction of the EU’s GDP – or nearly EUR 1 trillion. In addition to financial loss and missed investments for the individual firm, the consequences can be seen in the form of the distortion and misallocation of public investments and resources, the loss of trust in and legitimacy of public institutions and authority, and the loss of life chances and well-being for the broader population.

Depending on the exact area in which corruption takes place, the consequences and victims will vary somewhat, but in essence, corruption always benefits a small and powerful corrupt elite at the cost of the many. In the financial sector, victims of corruption range from consumers swindled by investment and online shopping scams to people whose identities have been stolen, to banks exploited by money launderers and terrorist-linked groups, to governments deprived of revenue by tax evaders, to regulators threatened by organised crime groups.

These offences destabilise the economy and deprive society of prosperity, economic growth and employment. Corruption affects lending, undermines the efficient allocation of bank resources, and impairs the debt recovery of borrowers. Bribes increase loan costs and divert money from good projects to bad ones.

Money laundering, in particular, fosters the growth of a parallel underground society dominated by organised crime groups. Vulnerable people including youth who lack trust in institutions are perfect targets of these criminal subcultures. The indirect costs of financial crimes harm the entire economy: increasing home prices, reducing foreign investment, undermining good governance, causing political instability, and eroding trust in governments and institutions.

In construction and infrastructure, bribery, favouritism and nepotism enable incompetent contractors to receive contracts and build roads, bridges, tunnels and other structures with substandard materials. These projects may lead to public safety hazards such as collapses, accidents and injuries. Corruption in infrastructure moreover causes an ineffective allocation of public resources, thus depriving ordinary citizens of public resources. Thus, corruption hinders sustainable development and violates the human right to equitable access to basic goods and services. Marginalised communities are especially affected, as are efforts to build climate mitigation and adaptation infrastructure.

The same is true for the health sector, in which the societal and humanitarian costs of corruption are massive and seldom comes down to the difference between life and death. Corruption in the health sector leads to the violation of the principle of need-based health care, within the framework of which those who are most ill get (the right and best) treatment first. Moreover, it leads to the development and production of medicines for the few and influential rather than medicines that could potentially save more lives. Corruption in the health sector is moreover closely tied to absenteeism of key health personnel, severely undermining the quality of the healthcare system.

Procurement corruption causes direct financial losses to governments while increasing the cost of government contracts, slowing the planning and completion of projects, and occasionally forcing projects to be re-tendered. Public funds are lost through misallocations, higher expenses, and lower-quality projects, goods and services.

In addition to theft, redundancy and waste, corruption in defence can reduce military efficiency and effectiveness, lower the military's esteem, endanger the security of citizens, and threaten democratic governance mechanisms. The institutions citizens rely on most for protection from external threats can be harmed by threats from within.

Victims of sports corruption are plentiful. These crimes hurt athletes, teams, fans, coaches, national and local sports organisations, and international sports committees. It discredits athletes, threatens their health when pressured to dope, damages the popularity and spread of sports, and erodes the

public's trust in honest competition. Dirty and dishonest play can repel fans. Smaller audiences and fewer viewers translate into financial losses for the industry.

For honest elected officials and public servants, corruption in government is dangerous, demoralising, self-defeating, and counter to why they chose a career in public service. It is not necessary for an entire department or division to be corrupt in order for a scandal to seriously harm a local, regional or national government. One or two “bad apples” can significantly harm a government's reputation and trustworthiness and bring down innocent people in an investigation's wake. In short, where corruption thrives, society suffers.

*By way of conclusion*, there are many similarities across the different high-risk areas in terms of the 3 Cs – i.e. the character, causes, and consequences of corruption – in focus of the analysis of this report that should make it possible to adopt a more general approach against corruption in the EU Member States. Further cataloguing and understanding these similarities in terms of the character, causes, and consequences would aid in honing EU-wide solutions and remedies.

### 5.1.3 *Not all corruption is alike*

Along with the many similarities across the high-risk areas analysed here, there are also many unique features that make identifying, investigating and remedying corruption in a particular area difficult. Different elements and tactics have varied levels of prominence and importance among the six sectors.

Among the many differences between the six high-risk areas, some have more of a *cross-border character* than others. In particular, multinational companies, international financial tools and instruments, and multi-country organised crime groups are very active in the finance, construction and infrastructure, defence and sports sectors. All of these industries feature huge conglomerates and professional organisations that have extensive global networks of creditors, partners, clients, customers, advisors and political connections. These sectors are globalised to the point that corrupt actors can conceal their activities amidst multilayered deals, subsidiaries, tax havens, surrogates, and myriad, ever-shifting corporate identities. They often utilise “third-party agents” who handle and deliver “facilitation payments” that often cross the line of legality to become bribes, particularly in countries where corruption is normalised and expected. This requires seamless, rapid and reliable cooperation among corrupt actors to carry out their schemes. On the other side, public authorities and law enforcement also must work in close tandem when investigating and working to stop the schemes.

*Organised crime groups (OCGs)* play varying roles among high-risk areas, being especially prominent in the finance, construction infrastructure, and sports sectors. This is due to these sectors' horizontal diversity, digital vulnerabilities, fragmented regulation and oversight, the political vulnerability of oversight authorities, favourable risk-versus-reward calculations, and the draw of large, fast monetary returns. OCGs have matured and specialised their tactics and mannerisms in recent decades. Taking on split personalities, they are adept at masquerading as legitimate operations while maintaining a mafia-style approach. Researchers agree that the stability of banks, uneven oversight, and the attractiveness of real estate and other investments make the EU a highly desirable place for OCGs to hide assets, launder illicit funds and seek new opportunities. Ironically, the EU's well-developed rule of law makes it a more favourable destination than criminals' home countries, where banks and other financial companies are not nearly as safe and reliable and are vulnerable to political uncertainty. Organised crime's infiltration of the sports sector– including

smaller, low-profile leagues where match-fixing and other schemes can be more easily hidden – is especially worrying.

The role of *government regulation, oversight and procedures* differs among the areas, assuming greater importance in the finance, healthcare, public procurement, and construction and infrastructure sectors. Here, given the prominent roles of elected and public officials, the risks and realities of bribery, favouritism, conflict of interest, influence peddling and policy capture are especially high. Criminal elements are adept at developing expertise in government operations and the limitations of regulation and law enforcement. So-called “legal corruption” can take the form of campaign contributions channelled through third parties, unethical or threat-based lobbying, and favours that evade the law. In addition to questionable and illegal tactics to obtain favourable decisions, companies also apply pressure to mould laws, regulations and policies to ease oversight and legalise previously illegal activities. Much of the corruption occurs in grey zones that escape scrutiny.

Defence, healthcare and construction companies rely heavily on *governmental decisions and public funding*, which means they are required to interact with public institutions and officials. Typically, the probity of these interactions is inversely proportionate to their level of transparency. There is a direct line between public budgets and the products and services these industries provide. Often there are only a few or even just one company in the position to win a particular public contract. Adding to the complexity and opacity of such contracts, they can be ripe for illicit actions. Government agencies and officials are in the position of policing themselves, a dangerous formula that criminal elements exploit for the benefit of both sides of the deal.

The degree to which *individual citizens* are targeted varies among the areas. Individual consumers are more likely to be ripped off by unscrupulous players in the healthcare, finance and sports sectors. Criminals routinely try to scam naive or overanxious customers with deals that are too good to be true, while stealing their money, identities, and personal and banking information. Many if not most people do not report being victimised, due to embarrassment or the belief nothing can be done. This complicates the task of tracking and quantifying these crimes. Taxpayers as a whole typically are victimised by corruption in procurement, construction and infrastructure, and defence. Calculating the per-family monetary loss caused by an artificially inflated highway construction project or weapons purchase can be difficult, as the losses are spread throughout a region or country. Criminals are motivated by these limitations.

*IT tricks* are more or less prevalent in different sectors. Online fraud and swindles are commonplace in the finance and sports sectors, especially when people are reckless in sharing their personal and banking information. However, cybercrime has the potential to become a bigger problem in other areas. Many people are scammed by online deals that technically may not be illegal but deceive people with fine print that carries hidden fees and convoluted membership provisions. Scammers offering cheap-sounding loans, get-rich-quick schemes and off-beat gambling opportunities prey on the weaknesses and emotions of people looking for instant gratification.

*Fraud* has been identified as a concern in all sectors, particularly in finance, construction, defence and procurement. Fraud is a broadly defined set of crimes that assumes different forms and typically is paired with other crimes. It often serves a supporting role or is a tool in a greater scheme. Deception and lies are essential in order to hide assets, evade taxes, falsify financial records, use improper building materials, sell ineffective or outdated weapons, or overbill in a public contract. Rarely is fraud the only crime committed by a corrupt person or organisation. Fully deconstructing the fraudulent act

can be a gateway for investigators into the larger scheme and circle of perpetrators, as well as the direct and secondary victims.

The position of the *private sector* in these areas ranges from perpetrator to victim, and from enabler to condoner. Private companies and their employees have been found culpable of myriad crimes in all of the areas, but the manner in which they design and carry out corrupt schemes differs. Defence, pharmaceutical and construction companies may supply intentionally substandard or dangerous products, while pressuring or convincing authorities to look the other way. Banks and other financial companies may approach corruption from various upstream and downstream angles, either individually or at the same time. Customers' and investors' money can be abused in countless ways, including profiting by betting against their own customers. Sports teams collude with underworld figures to lose games on purpose, while their players become pawns in demeaning spot-gambling scams.

*Public health and well-being* are endangered by corruption in healthcare and sports. Customers can be harmed by fraudulent or misleading insurance plans that deny coverage when it is most needed, hospitals and doctors that artificially inflate bills for services and medication, and harmful, useless or side effect-ridden pharmaceutical drugs. The sports industry has spawned the use of steroids and blood doping whilst hooking people on gambling packaged as entertainment.

Criminal elements in the sports industry need to have a deep understanding of *psychological pressures and sociological patterns* in order to ensnare athletes to jeopardise their careers by fixing matches and to enforce people into throwing away their hard-earned money on gambling. A recent survey in North America found 96% of respondents lose money, and that lower-income people are more "irresponsible" with their gambling spending than higher-income people. More than 40% of Canadians spend at least 1% of their salary on online gambling.

Overcoming these peculiarities may demand passing new and tailored criminal codes, changing expectations about how the 'system works', updating public institutions' enabling laws, sharpening investigation and prosecution strategies, and deepening inter-jurisdictional cooperation.

Most importantly, authorities and law enforcement must stay ahead of the criminals – rather than vice versa. This is particularly the case since, even though the 'losers' of corruption by far outweigh the 'winners', the few people and interests that actually benefit from corruption typically tend to be both very powerful and should moreover be expected to do everything in their hands to keep corruption afloat.

In short, where corruption thrives, society suffers. As aforementioned, whereas the exact figure of financial resources that could have been invested in society but that are instead lost to corruption in the EU Member States is not possible to calculate, the annual economic and other societal costs are estimated to be massive, robbing a large number of EU citizens of their future opportunities. By way of conclusion, corruption in the EU Member States is a critical problem in many areas and for many people and should as such be forcefully fought. However, in order to do so as effectively as possible, it is important that we understand corruption even better as it plays out in different areas. Because corruption is a single problem comprised of many interconnected forces, policymakers may consider developing solutions that have this same multifaceted character.

## 5.2 Ways forward: Closing the knowledge gap toward improving oversight and enforcement

Whereas this report has come some way in identifying both unique and common patterns across the six high-risk areas in the focus of the analysis, in the course of researching this report, it became clear that much important information is still lacking.

Many experts from public institutions, international organisations, research institutes and NGOs cited significant and surprising shortages of information about corruption in general and within specific sectors. Confirming this perception, our own desk research revealed many key reports and studies have been published only once and have not been updated. Others are updated, but not regularly. In other instances, expectations of finding an in-depth report about a key topic were not always realised.

Some basic data about the costs and number of cases for certain types of corruption is missing or poorly supported. Often, identical statistics are repeated without any apparent effort to update them or confirm their accuracy. In some cases, there are only one or two available estimates about a particular indicator that is deserving of deeper study.

This knowledge gap is noteworthy, considering that the equivalent of 6% of the EU's GDP is lost to corruption. The amount of information about the problem is not commensurate with its scale.

As aforementioned, crime cannot be effectively stopped unless it is fully understood. Officials and experts say the mechanisms of money laundering, the movements and structures of organised crime groups, and the vulnerabilities of cybercrime – to name just a few fundamental areas – are not always sufficiently documented or understood. Europol acknowledges that an “intelligence gap” is hampering the ability to estimate the cost of match-fixing. A recent study for the European Commission found an overall lack of empirical evidence about the causes and risks of match-fixing.

These information deficits are often attributed to the fact that much corruption is secretive and hidden. Also, many crimes are never reported, much less investigated and brought to conclusion. Some experts attribute this to the fluid, evolving character of criminals and their activities. Regardless of the reasons for these knowledge gaps, they likely are creating problems in diagnosing, investigating and ultimately prosecuting corruption crimes.

Despite the growing attention on financial crimes, more needs to be understood about the fiscal, monetary and structural costs of these crimes, as well as which sectors are most vulnerable to money laundering, illicit flows and other crimes. Financial crimes are systematically under-investigated, in part because victims often are reluctant to contact authorities. Another limiting factor is that less than 2% of organised crime proceeds are seized.

Cataloguing and understanding corruption vulnerabilities in the EU would benefit greatly from continuous research that is targeted, strategic and structured. Far beyond this, transforming the knowledge gap into a knowledge surplus would give authorities and law enforcement a fighting chance to stay one step ahead of the corrupt actors and criminals. Given the strong demand for deeper and more consistent information, an opportunity awaits to meet this demand by producing original research that public officials, law enforcement and independent experts agree is needed in order to make combating corruption a fair fight.



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## List of interviewees

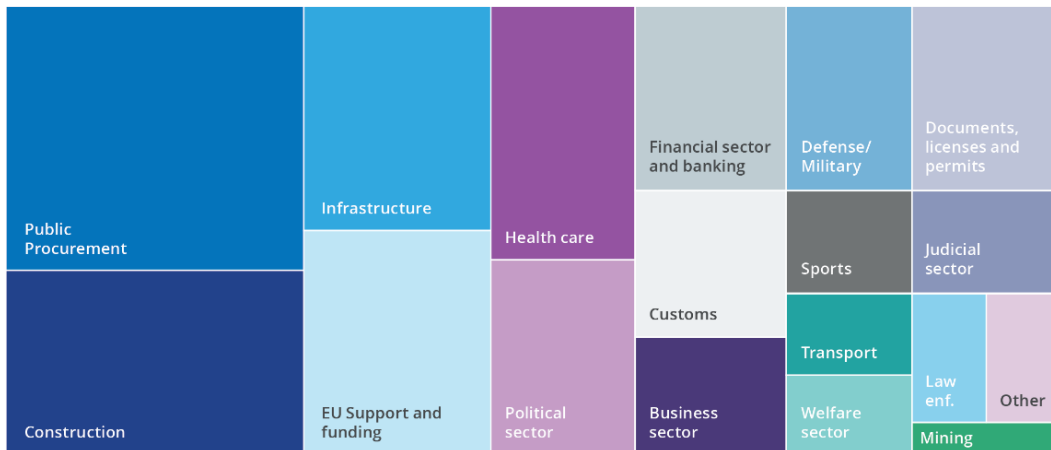
Interviewee	Organisation
1	International Development Law Organization
2	Basel Institute on Governance
3	Global Corruption Observatory
4	Curbing Corruption
5	Dutch National Olympic Committee / Dutch Sports Federation
6	Mulier Instituut
7	Transparency International EU
8	UNCAC Coalition
8	GRECO
10	Intergroup on Anti-Corruption, European Parliament
11	OECD
12	Interpol
13	Centre for the Study of Corruption, University of Sussex
14	Corporate Europe Observatory
15	UNCAC Coalition
16	International Anti-Corruption Academy
17	OECD
18	University of Bergamo
19	Open Government Partnership
20	Open Government Partnership
21	European Public Prosecutor's Office
22	Committee on Civil Liberties, Justice and Home Affairs, European Parliament
23	European Anti-Fraud Office
24	Transparency International Defence & Security

## Annex I LRCC Expert survey - mapping and narrative

The LRCC Expert survey was shared amongst the LRCC Network of experts across the 27 Member States. This survey comprised 23 questions of which all permitted the option to add clarification comments. In the analysis, the focus was on the questions which touched on the topic of identification of high-risk areas and the frequency of this (question 6 and question 7). The obstacles and effectiveness of measures currently in place were also analysed in conjunction with the responses of prevalent sectors and types of corruption.

**Figure A.1 Areas with high risk of corruption and fraud - LRCC Expert Survey**

### Areas with high risk of corruption and high risk of fraud



The analysis reveals a troubling landscape of corruption and fraud across various sectors within the Member States. Public procurement emerges as the most vulnerable area, flagged by 17 national experts for its susceptibility to corruption. Complex processes and high-value contracts make it a prime target for unethical practices.

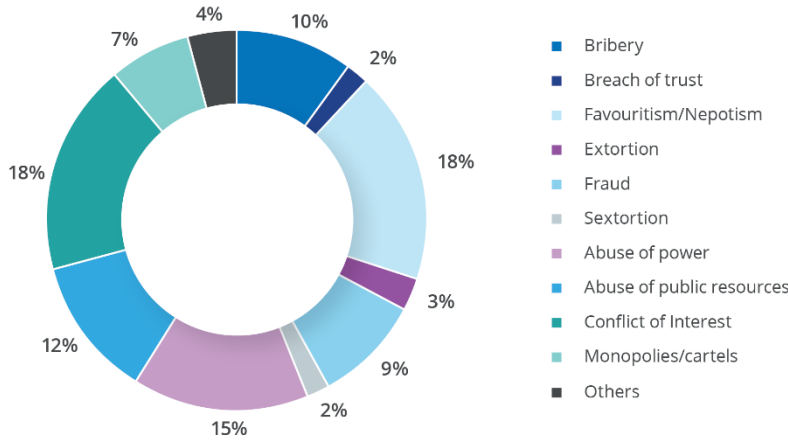
Construction follows closely, with 13 national experts highlighting risks. Major infrastructure projects often involve substantial public investments, making them prone to fraud and mismanagement. Healthcare and infrastructure sectors also stand out, each noted by 10 countries. The healthcare sector's vulnerabilities were particularly exposed during the COVID-19 pandemic, emphasizing the need for robust and transparent systems.

Political corruption is a significant issue in 7 countries, where a lack of transparency in political funding undermines democratic processes. The sports sector and EU funding support, each flagged by 6 countries, face governance challenges that require stringent oversight to prevent misuse. Financial sectors and banking, mentioned by 6 countries, underscore the need for strong regulatory frameworks to curb financial misconduct. Business sectors, highlighted by 5 countries, also face substantial risks, reflecting broader economic vulnerabilities.

The judicial, welfare, and transportation sectors, each identified by 3 national experts, point to systemic governance issues that need addressing. Meanwhile, defence and military concerns, flagged by 2 national experts, stress the importance of safeguarding national security interests from corruption.

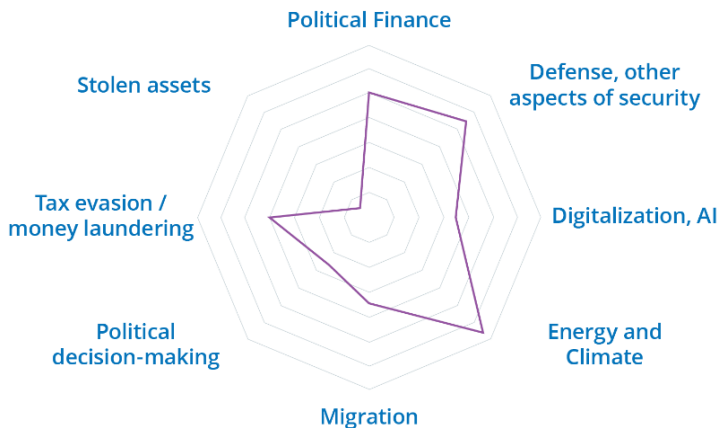
The data paints a comprehensive picture of the pervasive risks across the Member States according to the experts, underscoring the urgent need for more attention in public procurement, construction, healthcare, and political funding to foster a more transparent and accountable governance environment with less corruption and fraud.

**Figure A.2 Most common types of corruption from the LRCC Expert Survey conducted**  
**Most common types of corruption**



The survey responses also present a detailed analysis of the perceived frequency of corruption across various sectors in European Member States. A rating was to be given between 1-5 by each 27 Member State representative from low frequency (1) to high frequency (5). Health care, construction, and public procurement emerge as sectors with significant corruption issues, with respective total frequency scores of 74, 88, and 90. Political sectors and infrastructure also show high corruption frequencies, scoring 87 and 76 respectively. Education and the judicial sector report comparatively lower but notable frequencies of corruption, with scores of 40 and 49. Financial sectors, business sectors, and EU support and funding reflect moderate corruption levels. The frequency of corruption in transportation, mining, sports, welfare, and documents/licenses sectors varies, with several countries indicating frequent or very frequent occurrences. The data underscores the widespread nature of corruption across diverse sectors, highlighting the need for comprehensive anti-corruption measures.

**Figure A.3 Emerging areas of corruption risk - LRCC Expert Survey**  
**Emerging areas in terms of corruption risk in countries**



The LRCC Expert Survey also touched upon emerging corruption risks across several sectors in Member States. Political finance, including party financing and political campaigns, is a high-risk area in 10 countries. Defence and other security aspects are identified as vulnerable by 12 countries. Digitalisation and AI, covering e-governance and critical infrastructure, pose risks in 8 countries. Energy and climate sectors, particularly renewable energy and CO2 regulations, are flagged by 14 countries. Migration issues, including labour and asylum, are concerns in 8 countries. Tax evasion and money laundering are significant in 9 countries, while stolen assets are a noted risk in 2 countries. These findings underscore the need for targeted anti-corruption measures in these emerging areas.

In conclusion, it can be stated that the LRCC Expert Survey provided insights into the consensus of corruption within the EU Member States. The experts within the network offered valuable information on the current state of corruption in their countries which were further supported by news articles, research papers and primary sources. Through this analysis, using the similar lenses used for the desk research, the high-risk areas identified by the LRCC Expert Survey in Table 5.1 shows the various manners in which focus can be laid on the high-risk areas.

**Table A.1 High-risk areas identified by the LRCC Expert Survey**

Conventional approach to corruption risks	Anticipatory approach to risks
1   Public procurement	1   Political Finance
2   Construction & Infrastructure	2   Defence and military
3   Healthcare	3   EU Funds
4   Financial sector and banking	4   Customs
5   Business sector	5   Sports
6   Documents, licenses and permits	

## High-risk areas of corruption in EU Member States: A mapping and in-depth analysis

**Figure A.4 Snippet from LRCC Expert Survey synthesis**

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R
1	<b>Q.1 Would you say that corruption is widespread in your country?</b>																	
2																		
3																		
4	<b>Country</b>	<b>Answers</b>																
5		A. Very widespre	B. Widespread	C. Somewhat widespre	D. Not widespre	Comments												
6	Austria			x														
7	Belgium			x														
8	Bulgaria		x															
9	Croatia		x															
10	Cyprus		x															
11	Czech Republic		x															
12	Denmark					x												
13	Estonia					x												
14	Finland					x												
15	France			x														
16	Germany					x												
17	Greece	x																
18	Hungary		x															
19	Ireland					x												
20	Italy		x															
21	Latvia			x														
22	Lithuania			x														
23	Luxembourg					x												
24	Malta		x															
25	Netherlands			x														
26	Poland			x														
27	Portugal			x														
28	Romania																	
29	Slovakia		x															
30	Slovenia			x														
31	Spain		x															
32	Sweden					x												
33																		
34	<b>Total</b>		1	9		9	7											
35																		
36																		
37																		
38																		
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42																		
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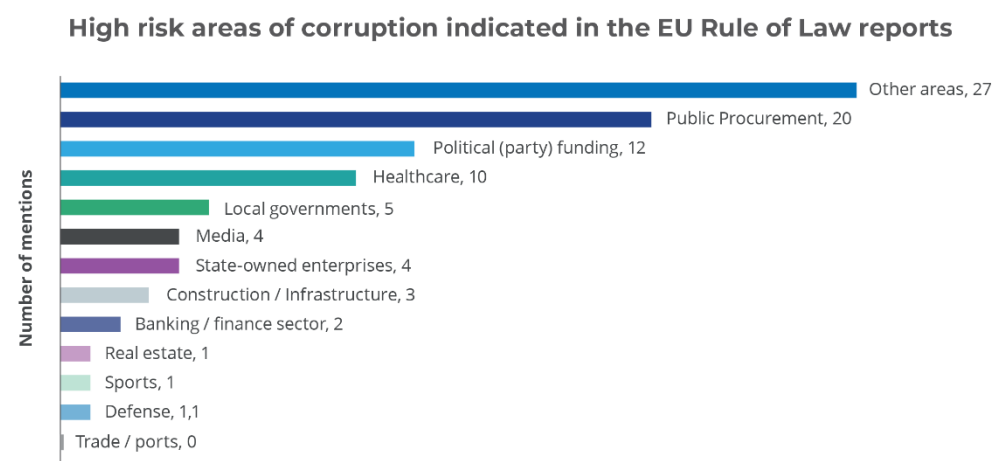


## Annex II EU Rule of Law Reports – mapping of corruption

The EU Rule of Law Reports spanning 2020 to 2023 underscore several prevalent types of corruption across Member States, revealing significant governance challenges. Among the most frequently cited issues are lobbying, conflicts of interest, and the revolving door phenomenon, where public officials move to private-sector roles and vice versa. These types of corruption pose systemic risks to transparency, accountability, and fair competition within national economies. Lobbying practices often lack sufficient regulation, allowing undue influence over decision-making processes. Conflicts of interest arise when public officials' personal interests intersect with their public duties, potentially compromising impartiality. Meanwhile, the revolving door phenomenon blurs the line between public service and private gain, raising concerns about regulatory capture and favouritism. These recurring themes in the EU reports highlight the need for robust anti-corruption measures across Member States. Strengthening regulatory frameworks, enhancing transparency in decision-making, and enforcing stricter rules on conflicts of interest and lobbying are critical steps. Moreover, fostering a culture of accountability and ethical conduct within both public and private sectors is essential to mitigate these pervasive risks effectively. By addressing these challenges comprehensively, EU countries can uphold the rule of law, bolster democratic institutions, and rebuild public trust in governance. Continued monitoring and collaboration at the EU level are crucial to drive meaningful reforms and ensure that anti-corruption efforts remain a priority across Member States.

Across Europe, a mosaic of governance challenges reflects both common trends and unique national circumstances. Despite variations, several critical issues stand out, shaping the governance landscape across the continent.

**Figure A.5 Number of times high-risk areas are mentioned in Rule of Law reports (2020 – 2023)**



**Lobbying** (other areas) emerges as a pervasive concern, affecting numerous countries. Austria, Bulgaria, Croatia, the Czech Republic, France, Germany, Greece, Hungary, Italy, Latvia, Luxembourg, the Netherlands, Poland, Portugal, Romania, Slovakia, and Slovenia all report significant issues with lobbying. This widespread problem highlights the need for robust regulations and transparency measures to ensure that policy-making processes are not unduly influenced by special interests. **Conflicts of interest** are another prevalent issue, noted in Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Poland, Slovakia, and Spain. Addressing conflicts of interest is crucial for maintaining public trust and ensuring that officials act in the public interest rather than for personal

gain. **Asset declaration and whistleblowing protection** are also significant concerns across many countries. Asset declaration issues are prominent in Austria, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, and Slovakia. Whistleblowing protection, crucial for exposing wrongdoing and fostering transparency, is a challenge in Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Slovakia, Slovenia, and Spain.

**The revolving door phenomenon**, where officials move between public office and private sector roles, raising potential conflicts of interest, is a significant issue in Austria, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Portugal, Slovakia, and Luxembourg. **Foreign bribery and high-level corruption** are notable issues in several countries. **Foreign bribery** concerns are highlighted in Belgium, Estonia, Finland, France, Hungary, Ireland, Slovakia, Sweden, and the Netherlands. **High-level corruption**, undermining governance and public trust, is a concern in Finland, Lithuania, Malta, Spain, and Hungary. Addressing these issues requires strong international cooperation and stringent domestic enforcement.

**The impact of COVID-19** on governance has been significant, with Austria, the Czech Republic, Denmark, and Italy noting challenges related to the pandemic. These impacts include issues with state aid distribution, procurement, and overall public sector integrity during crisis management. **Education and police corruption** also stand out as governance challenges. **Education-related issues** are particularly severe in Hungary and Romania, indicating systemic problems that require long-term investment and reform. **Police corruption**, noted in Bulgaria, Ireland, and Slovakia, underscores the need for robust oversight and accountability mechanisms within law enforcement agencies. **Public procurement and media integrity** are notable issues in Denmark, pointing to the need for transparent processes and unbiased information dissemination to ensure fair competition and informed public discourse.

Lastly, issues related to **bribery and embezzlement** are noted across various countries, including Belgium, Bulgaria, Germany, Greece, Hungary, Slovakia, and Spain. In conclusion, while each European country faces unique governance challenges, common issues such as lobbying, conflicts of interest, asset declaration, whistleblowing protection, and the revolving door phenomenon are pervasive. Addressing these requires comprehensive and coordinated efforts across the continent to enhance transparency, accountability, and public trust in governance institutions. Key findings reveal that lobbying, conflicts of interest, and revolving doors between public and private sectors are among the most commonly reported forms of corruption. These findings underscore the pervasive nature of influence peddling and insider dealings within EU governance structures. Addressing these challenges is critical for bolstering transparency, accountability, and public trust in institutions across Europe. Moving forward, concerted efforts to strengthen regulatory frameworks, enhance oversight mechanisms, and promote ethical standards are imperative to effectively combat these systemic issues and uphold the rule of law within the European Union.

# High-risk areas of corruption in EU Member States: A mapping and in-depth analysis

**Figure A.6 High-risk areas EU Rule of Law Reports analysis**

Flag	Country	Public Procurement	State-owned enterprises	Healthcare	Construction/ Infrastructure	Sports	Political party funding	Defence	Banking/ finance sector	Trade/ ports	Real Estate	Media	Local governments	Other areas	# mentioned in reports	% mentioned in reports
	Austria	(2021; 2022)	(2020)	(2021)			(2020; 2021; 2022)							lobbying (2020; 2021; 2022; 2023) declaration of assets (2020; 2021)	5	38%
	Belgium	(2020; 2022)											-2023	foreign bribery (2020; 2021; 2022; 2023)	2	15%
	Bulgaria	(2021; 2022)		(2021; 2022)							(2020; 2021)	(2020; 2021; 2022; 2023)		public consultation lobbying (2020; 2021; 2022; 2023) transparency and accountability of lobbying (2020; 2021; 2022; 2023)	5	38%
	Croatia	(2021; 2022)	(2020)									(2023)	(2020)	conflict of interest (2020; 2021)	6	46%
	Cyprus	(2023)				(2021)								lobbying (2020) conflict of interest (2020; 2021; 2022; 2023)	3	23%
	Czech Republic	(2020; 2021; 2022; 2023)	(2020; 2022)	(2020; 2021)			(2020; 2021; 2022; 2023)						(2020)	foreign bribery (2020; 2021; 2022; 2023)	6	46%
	Denmark						(2020; 2021; 2022)							conflict of interest declaration of assets (2020; 2022; 2023)	2	15%
	Estonia	(2020)		(2020; 2023)			(2021; 2022; 2023)						(2020; 2023)	whistleblowing (2020; 2022; 2023) lobbying (2020; 2022) education (2020) lobbying (2020; 2021; 2022)	5	38%
	Finland	-2023					(2021; 2022; 2023)							education (2020) lobbying (2020; 2021; 2022) revolving doors (2020; 2021; 2022; 2023)	2	15%
	France	(2021; 2022; 2023)				2023	(2021; 2022; 2023)		(2020)					lobbying (2021; 2022; 2023) whistleblowing (2021; 2023) lobbying (2020; 2021; 2022; 2023) asset declaration (2020; 2021; 2022; 2023)	4	31%
	Germany	(2021; 2022)			-2023		(2021; 2022; 2023)	(2022; 2023)						asset declaration (2020; 2021; 2022; 2023) declaration of assets (2020; 2021)	4	31%
	Greece	(2021; 2023)					(2021)							declaration of assets (2020; 2021; 2022; 2023) education (2020) law (2020) lobbying (2020; 2021; 2022; 2023)	3	23%
	Hungary	(2021; 2022; 2023)	(2022; 2023)	(2021; 2022)			(2020; 2021; 2022; 2023)		(2022)			(2020)	(2020)	education (2020) law (2020) lobbying (2020; 2021; 2022; 2023)	8	62%
	Ireland	(2021; 2020)		(2022)										Law enforcement, police corruption (2020; 2023), foreign bribery (2023) lobbying (2020) revolving doors (2020; 2023) emissions Lobbying (2021)	3	23%
	Italy	(2020; 2022 covid state aid)					(2022)					(2020; 2022; 2023)		lobbying (2020) revolving doors (2020; 2023) emissions Lobbying (2021)	4	31%
	Latvia	2020; 2022; 2023		(2023)	(2020)									high-level corruption (2020), investigation high level corruption of bribery and abuse of power (2020)	4	31%
	Lithuania	(2021; 2022; 2023)												High-level corruption (2021)	2	15%
	Luxembourg													no provisions 'revolving doors' and lobbying (2020)	1	8%
	Malta	(2023)												high-level corruption (2020), investigation high level corruption of bribery and abuse of power (2020)	2	15%
	Netherlands				(2020)				2020				(2020)	investigation high level corruption of bribery and abuse of power (2020)	3	23%
	Poland	2021		2021				2021						Public administration (2021; 2022); Environment (2021)	1	8%
	Portugal	2021; 2022; 2023		2021	2021									Environment (2021) revolving doors (2023), integrity issues (2023); limited oversight Education (2021); no restricting rules on lobbying and benefits for Weak protection whistleblowers (2020; 2022); document Protection of whistleblowers is overdue	2	15%
	Romania	2020; 2022; 2023 (mentioned, but not specifically as high-risk)		(2021; 2022)			2023							Education (2021); no restricting rules on lobbying and benefits for Weak protection whistleblowers (2020; 2022); document Protection of whistleblowers is overdue	3	23%
	Slovakia	(2021; 2022; 2023)		(2021)										Weak protection whistleblowers (2020; 2022); document Protection of whistleblowers is overdue	3	23%
	Slovenia			(2023)										Protection of whistleblowers is overdue	2	15%
	Spain	(2023)			(2023)		(2023)							whistleblowing (2020); public official fraud (2021; 2020); high-level Foreign bribery (2020; 2021; 2022; 2023)	4	31%
	Sweden													whistleblowing (2020); public official fraud (2021; 2020); high-level Foreign bribery (2020; 2021; 2022; 2023)	1	8%
	# mentioned in reports	20	4	10	3	1	12	1	2	0	1	4	5	27		
	% mentioned	74%	15%	37%	11%	4%	44%	4%	7%	0%	4%	15%	19%	100%		

Legend  
 Year 1, 2020  
 Year 2, 2021  
 Year 3, 2022  
 Year 4, 2023

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