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Abstract: This report, Deliverable 2.3 of the FALCON project, analyses the impacts of various forms of corruption, focusing on public procurement, sanctions, and border corruption. It highlights the economic inefficiencies caused by corruption in public procurement, the mixed effectiveness of sanctions, and the variation of economic losses due to border corruption. The report provides empirical evidence in form of case studies and statistical analysis to estimate these impacts and quantify the losses associated with corruption. The findings underscore the critical need for effective anti-corruption measures due to direct effect corruption has on effective distribution of public resources.

Executive Summary

This report is Deliverable D2.3 of the FALCON project, related to the task T2.3 “Comprehensive impact analysis of different forms of corruption”. The report enumerates, both conceptually and empirically, the different impacts of corruption, focusing on a) public procurement (including conflict of interest), b) sanctions against kleptocrats and oligarchs, and c) border corruption. It is structured according to the FALCON use cases, bringing UC1 and UC4 under the same chapter, each addressing a specific aspect of corruption and offering insights into estimations of its impacts.

The first chapter covers corruption and conflict of interest in public procurement. A variety of fraudulent practices in this domain can lead to inflated prices, low quality, suboptimal allocation of resources, as well as other inefficiencies as reviewed in the taxonomy of corruption costs section. The chapter also estimates the relationship between the Corruption Risk Index (CRI, as introduced in D2.2) and prices using Bulgaria and Croatia as examples. Our findings show that high-risk contracts lead to substantial extra spending due to corruption. For example, our models predict that a contract with the highest risks of corruption is around 9.4 percentage point more expensive than a contract without any risks in Bulgaria. The positive relationship between risks and prices is further amplified if the awarded supplier is politically exposed person (PEP). Our results indicate that mitigating these risks could lead to significant savings.

The second chapter examines the effectiveness of sanctions, a common tool used by the EU to achieve foreign policy objectives. This section provides an overview of possible measures of sanctions effectiveness, as well as case studies from court cases and media investigations that illustrate the potential losses from sanctions evasion. First, the effectiveness of sanctions in achieving these objectives is debated. While some studies show success in certain cases, others argue that sanctions often fail to achieve their intended goals. Economic sanctions impose significant costs on target countries by limiting trade, hence ultimately lowering their GDP. For example, the 2022 sanctions on Russia resulted in notable declines in GDP and trade. However, targeted countries frequently employ complex schemes to circumvent sanctions, which reduces their effectiveness. The costs of sanctions are also borne by the sanction-imposing countries. The report highlights the need for improved enforcement and monitoring mechanisms to enhance the impact of sanctions.

Lastly, chapter three reviews the impacts of border corruption, including activities such as rent-seeking, smuggling, and financial crimes. These activities lead to substantial economic losses and undermine state revenue. The report suggests methods to quantify both the direct and indirect costs of border corruption, using case studies to illustrate the impact on specific sectors, such as tobacco or textile production. The findings emphasize the significant economic burden of border corruption and the importance of robust mechanisms to combat these activities.