

THE STATE WE ARE IN

David Officer and Yiouli Taki



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A needs analysis of refugees and those with International Protection supported both by European Commission funded projects and UNHCR in Cyprus also sharpened our ideas about how the state discharges its duties towards those least able to defend themselves.

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It goes without saying that the views expressed here are the responsibility of the named authors and do not reflect the views of any organisation or individual mentioned here.

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Prologue

By the end of 2010 overdue taxes owed to the state were €603.48 million, excluding interest. However, the total amount due, including interest and charges, which had accumulated over years amounted to something like €1.027,87 million. The situation has worsened since then; collected tax revenues have declined and the total tax debt has risen. And the gap between what the state calculates it should reap and what it actually receives continues to widen.

The annual auditor general's reports make for depressing reading if you are a minister or civil servant who is charged with the task of delivering minimal forms of social support to the tens of thousands who find themselves unemployed or of propping up a public health system heaving under the strain of new referrals who had previously been able to afford private health care.

Described in this way, money provided by taxation is commonly used by states to provide important public benefits to which could be included transportation networks, economic infrastructure, energy, water and waste management, public utilities, pensions systems and law and order institutions. Tax can be understood as a bargain struck between the citizen and the state in which consent to being taxed rests on the delivery of common goods and services which serves society as a whole rather than only one particular group or another.

This does not preclude the targeting of particular goods and services at specific sections of the population with a taxation regime to serve the purpose of redistributing some of society's collective wealth to the neediest. The imposition of this burden needs to secure people's general consent, based on the anticipation by them that they will get an appropriate return.

Why is it so difficult to collect tax in Cyprus?

So why does it appear so difficult to collect the revenues due in order to ensure that quality goods and services are delivered to the wider population? Again, the auditor general's report is sober reading. She identifies how the state was, in many ways, not up to the task of gathering the revenue owed. The courts and the police service were identified as inefficient in recovering taxes owed, and an understaffed tax service only compounded these problems further.

Turning attention from the state towards society at large reveals many opportunities to evade the payment of tax. It has been calculated that in 2012 the size of the underground economy in Cyprus, as a percentage of GDP, was 25.2%, a larger percentage than recorded for Greece (23.1%). In the same year it was reported by the labour ministry that 25% of the labour force was made up of undeclared workers.

But perhaps the greater difficulty confronted was the willingness of many to engage in widespread tax evasion, declaring unrealistically low incomes or by not submitting tax statements at all. Across a wide range of different types of taxes, related to property, business or employment. Ever more creative ways to avoid paying were not only evident but treated as a normal and legitimate activity by a large number of people.

In Cyprus it is easy to imagine a wide range of self-justificatory claims being made for not paying what is owed. Some might see that the tax burden does not fall equitably on every group as a range of professional groups have been reported time and time again as evading to a greater degree than others.. Others might identify endemic corruption within state institutions which dictate that the tax paid is distributed for someone else's benefit to which you will have no access.

A common claim made is that the state is inefficient and ineffective, only serving the purpose of providing work for a privileged class of public sector workers who take home a generous cheque at the end of the month. Still others will identify poor quality services which do not appear commensurate with the taxes demanded resulting in a rationale that elevates tax evasion as a justifiable act of price adjustment in terms of what is actually received.

The core argument of this book is that there might very well be evidence which underpins many of these rationalisations for tax evasion as a justified action. Perceptions of widespread corruption are considered and the extent to which public resources are captured by private interest is explored in some depth. Just how effective the state is in the delivery of a reasonable quality of governance is also given real consideration.

But, there remains an important, if neglected aspect of the tax evasion problem which is also brought into focus in this book. If you cannot trust those you share society with to play by commonly accepted rules there is no apparent incentive for you to do so as well. The assumption that evasion is a common practice, deeply embedded within Cypriot society and pursued by your fellow citizen has a profound influence on the choices you make and the way in which you choose to behave. After all, so the line of logic goes, there is nothing I can do to change the rules by which the game is being played and there is no advantage in being the only straight player in a crooked game of poker.

This book also dwells on the outcomes that arise out of the gap which opens up between the formal rules that any liberal democracy claims to adhere to and the informal rules which actually govern state practice. We also ask what is the likely outcome of public goods and services being widely perceived to be distributed on the basis of whom you know or the party to which you belong? What is likely to happen if meritocratic recruitment to a public service position is thought to be suspended or objective criteria through which a benefit or allowance is made accessible appear undermined?

Put in more technical language, the evidence considered here raises questions about the outcomes which flow from the widely held view, reinforced by much experience, that procedural justice, fair outcomes and impartial consideration do not generally characterise the citizen's engagement with the state. The encounter is frequently played by different, informal rules, which in order to get your just deserts requires you to play by those rules yourself. And whilst you would prefer that everyone else play fairly since all would ultimately benefit, you cannot trust others to do the same.

It is a dilemma that carries many different names, variously described as a social trap or the tragedy of the commons. And because it results in an estimation that people will cooperate only if they can trust that others will also cooperate, it gives rise to what is called a collective action problem.

The State We Are In

This book was written in the closing months of 2013, in the middle of an economic crisis which had rapidly engulfed the island, tearing down banks, casting tens of thousands into unemployment, markets stagnated and the national debt has ballooned. In the meantime governments have come and gone, bail ins have been followed by bail outs and international lenders passed their verdict. We do not tell that story here but what we aim to do is clear some of the ground in order to understand a little more about why that story is now being told.

Our objective is to understand with greater clarity what others describe as a 'Cypriot way of doing things' through the lens of what the social theorist C. Wright Mills described as the 'sociological imagination.' He proposed the cultivation of a critical attitude to the world around us which aimed to make the familiar strange and to explore what many take to be the 'common sense' through which the informal rules of any society become taken to be self-evident truths. We would argue that given the accumulation of so many self-evident truths and habituated ways of doing things throughout the short history of the Republic the current crisis provides an opportunity to reassess just how we arrived at the state we are in.

That said, we have purposely avoided many of the conventions of academic writing in order to produce a book which we hope is accessible to the general reader. But, as a consequence, we have had to defer many of the knotty theoretical and methodological issues necessarily raised here to another time and another place.

Instead, the ideas presented here, as well as the evidence upon which they are based, seeks to address issues already raised by others within the public domain. Talk of corruption, a decline in trust vested in others and the sense that the state does not treat the citizen in anything approaching a fair or impartial manner is the stuff of everyday conversation. And because the long period of relative economic prosperity has come to an end and so has the ability to defer discussions of this sort.

This book is a modest contribution to that task.

Chapter 1 - The Expanding State and the Segmenting Society

When Cyprus secured independence from British colonial rule in 1960, the particular circumstances, within which the Republic of Cyprus came into existence, did not appear particularly auspicious. Presaged by a four year struggle mounted by Greek Cypriot nationalists, their struggle against the British had apparently been won but the objective aimed for, that is union with Greece or Enosis, had not been realised. Rather than achieve Enosis, a 'reluctant Republic' was born which satisfied none of the main political actors on the island.

A complex system of power sharing permeated the legislative and the executive aspects of government, key powers and responsibilities were distributed to communal chambers, the most senior positions for all independent offices and in the civil service were allocated according to a principle of communal equality, whilst this constitutional order and the territorial integrity of the new state were guaranteed by Britain, Turkey and Greece.

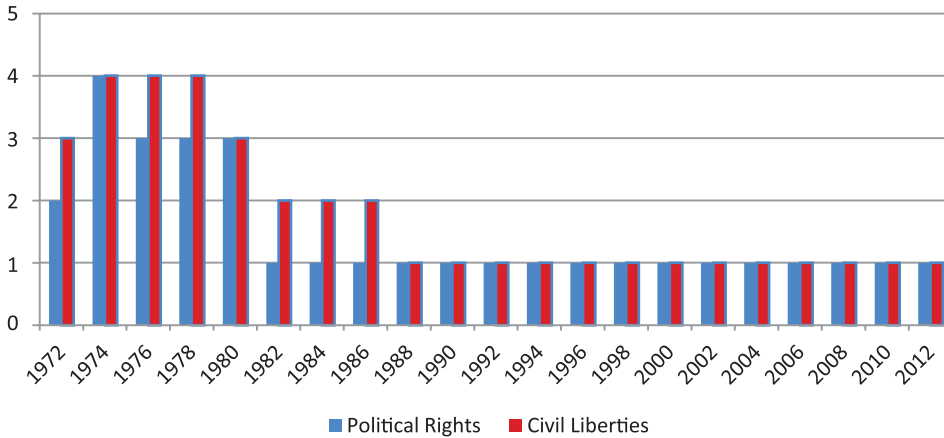
This new system of governance linked the inhabitants to the state as citizens, just as any other, but it first emphasised their identity as either Greek Cypriots or Turkish Cypriots. Within three years the legitimacy of the state was to be challenged as the two communities failed to establish a common political agenda, each pulling in a different direction, and this process culminated in the withdrawal of Turkish Cypriots from the state, including representative political bodies and the institutions of public administration.

If, from 1964 onwards, there was an uneasy truce between the communities, punctuated by periods of tension, outbreaks of violence and prolonged negotiations which aimed to ameliorate the worst of these divisions. The Greek inspired coup, the Turkish invasion and the years of recovery that followed all represented severe challenges to the quality of democracy on the island in general and the institutions of the state in particular. The absolute separation of the communities following the imposition of partition had left the Republic in the hands of Greek Cypriots. However liberal democratic politics and its institutions became increasingly refined as time went on. Inter-party democracy consolidated and the instruments of representative governance were established on a firmer foundation. Accession to the European Union in 2004 both confirmed this general path of development and accelerated the speed at which this was taking place.

There is little disputing the fact that the Republic of Cyprus constitutes a functioning liberal democracy judged by a range of criteria, including free and fair and regular elections, a set of extensive rights and protected liberties, separation of powers between the executive, legislature and judiciary and so forth. Where debate has taken place is in terms of what period was reached when Cyprus passed the threshold to be fitfully described as such. In terms of the formal structures and imputed relationships, it is possible to assert that the Republic always conformed to that designation, although many commentators have also drawn attention to the actual dysfunctions in its operation during the 1960s and 70s. Flawed elections, suspended elections, human rights abuses, direct challenges to the legitimacy of the state as well as the sheer turbulence of the mid-1970s all contributed to a verdict that the threshold was not passed until the early 1980s. And this happened only after the severest challenge to the integrity of the Republic had been overcome: the forceful imposition of de facto restrictions on its territorial boundaries, a failure to protect and maintain the general right to private property and the subsequent confirmation of the state as being in the exclusive hands of the Greek Cypriot population.

For a rough picture of how progress was made, one set of indicators, from the US Government funded Freedom House, marks the progress of the Republic over the recent past. By assessing what is designated as political rights and civil liberties in a given state, a general index is elaborated through which scores are allocated for each dimension in the range of one to seven.

Figure 1. Index of Political Rights and Civil Liberties for the Republic of Cyprus – 1972-2012 (Scale from 1 ‘most free’ to 7 ‘least free’)



Source: Freedom House

Figure 1 demonstrates that over the past 40 years a dual score has been allocated to the Republic which records the detrimental effect which the events of 1974 had on the full access of political rights and civil liberties. Between then and the early 1980s, the Republic was judged to only ‘moderately protect’ rights and liberties. Comprehensive political rights, in which there were observed to be free and fair elections as well as a competitive party political system with an enabled opposition, were noted as fully realised by 1982. Six years later a wide range of civil liberties, including civil and political freedoms and a ‘generally fair’ rule of law, had also been secured. From that period on, Cyprus, along with other members of the European Union, has been deemed by the Freedom House to occupy a position among top-ranked states.

Cyprus’s progress towards increased democracy and comprehensive panoply of liberal rights, which this simple outline of a two-dimensional rating indicates, appears to conform to a similar trajectory recorded in many other parts of the world. In 1972, only a minority of countries were rated as free. However, since then the number of free countries rose steadily, and since the 1990s there are more free than either ‘partly free’ or ‘not free’ countries. But, having acquired that status, it remains unclear what further utility is served by the Freedom House index. The variation in quality or substance of democratic rule amongst similarly ranked states is difficult to determine given the lack of precision across a scale of one to seven. Instead Cyprus joins the ranks of very different countries and states such as Andorra, Bulgaria, Norway, Chile, South Africa and the United States but how different, in what ways, is impossible to determine from this evidence.

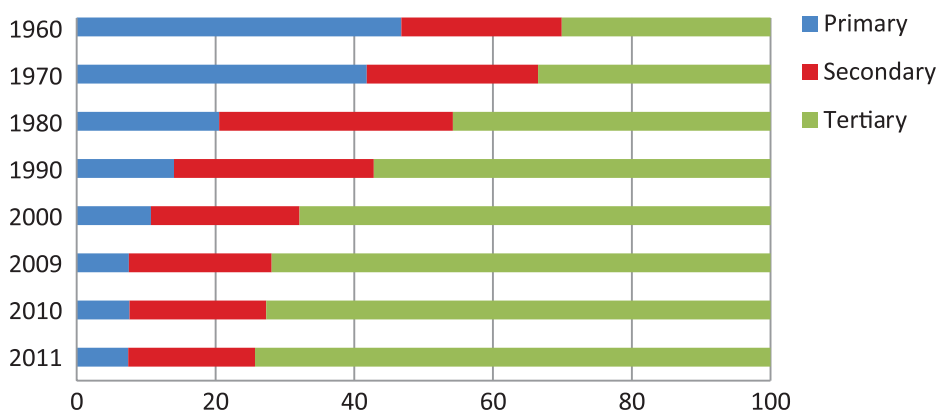
Economy and Society

Accompanying the unfolding narrative of state building and consolidation, from the birth of the Republic in 1960 through to the early decades of the 21st century, was a marked recomposition of Cypriot society. Urban centres expanded and the rural population gradually drifted towards towns and cities; the size of families contracted and women started to make some inroads into previously male-dominated sectors of employment. The Cypriot labour market saw a decline in agricultural labour and an expansion of skilled and semi-skilled forms of work, particularly those associated with retail industries and public administration. The latter is directly tied to the expanding role of the state as it acquired more and more regulatory functions and provided a wider range of public goods in the form of health and education provision, a modern police service and justice system as well as a rudimentary social insurance, pensions and welfare system.

Within the economic realm, the productive base of Cypriot society had witnessed both expansion and transformation from the early 1960s onwards as it moved from an economy based largely on agricultural production to an increasing emphasis, post-1974, on the creation of service-based activity, primarily in the fields of tourism and financial services, including banking. Cyprus went from a pre-1960 economy, where the policy of the colonial administration has been characterised as one of ‘benign neglect’, to an economy characterised as in a rude state of health from the early 1980s onwards.

But what sort of society and economy had also been shaped by what could be seen as an increasingly mature, liberal and democratic state? In what ways did the state act as a mechanism through which this new found affluence become distributed between sectors of the Cypriot population? And what were the consequences for both the form and function of the state, particularly as this may have had an impact on the quality of government actually delivered?

Figure 2. Employment by Broad Sectors (% distribution)

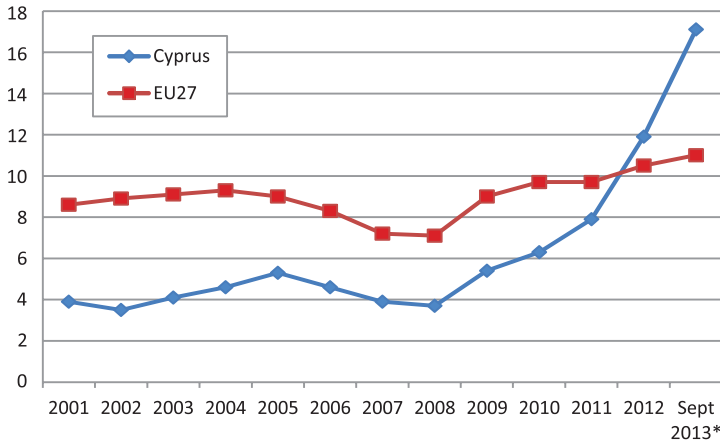


Source: CYSTAT, National Accounts 1995-2010

One of the indicators of a robust economy is the level of unemployment experienced by the working population. Measured against this criterion Cypriot society had enjoyed low rates of unemployment soon after the economy stabilised and began to expand from the early 1980s onwards. This was an advantageous outcome, which had the effect of ensuring that the Republic consistently recorded the

level of unemployment on the island as being substantially below the mean average across the European Union. Little thought and limited resources were directed towards those without work since the working assumption was that most unemployment that was experienced was transitional in nature as a person moved from one available job to another. Of course, the consequences of this lack of experience in dealing with medium to long-term unemployment, combined with limited social protection extended to those who now find themselves jobless, has become one of the more pressing challenges which the state has to respond to as a consequence of the current crisis.

Figure 3. Unemployment Rates in Cyprus and in the EU-27 (2001-2013)



Source: Eurostat *EU28

Whilst the available data presented in Figure 3 does tend to indicate that the fluctuations in unemployment rates in Cyprus and within the wider EU mirrored each other, it was only the onset of the current crisis which propelled the Cypriot unemployment rate up above the EU average, and which continues to ascend sharply from 2010 to the present.

What the data also puts into perspective is how medium to long-term unemployment encompassing ever larger numbers is a genuinely novel feature of Cypriot society, when compared with over three decades of near full employment. Prior to 2009, the highest level of unemployment in Cyprus, at any point since independence in 1960, was registered in 2005 at 5.3%, with the exception of the emergency years immediately following the invasion. In all other years unemployment was recorded at 5% or lower, always remaining well below the EU average.

Another important indicator of what had appeared to be a never-ending expansion of relative affluence is the increasing number of non-Cypriots entering the labour market. Their numbers rose from 7,897 in 1991, to 30,196 in 2001, to 119,867 in 2011; a 282% increase in the first 10 years and 297% during the second decade. But, of course, a significant majority of those workers, particularly from Third Countries, were recruited as guest workers on limited work permits and labour contracts in order to undertake specific forms of work in what increasingly became a deeply segmented labour market. Invariably these guest workers took jobs which would be characterised by low pay and low status, and concentrated as domestic workers in households, and as labourers in the hospitality and construction industries as well as the wholesale and retail trade. Recruitment from this international pool of labour was a deliberate strategy

of the Republic from the early 1990s, which saw an initial influx of Pontian Greeks from the Black Sea region following the demise of the Soviet Union, joined by others who were recruited from further afield, including the Asian sub-continent. In short, these workers had been recruited to fill gaps in the labour market which had been vacated by Cypriots. Affluence had raised expectations and stimulated social mobility, with parents having to do little to encourage their children to aspire to work, better rewarded and carrying greater status than they themselves had previously enjoyed

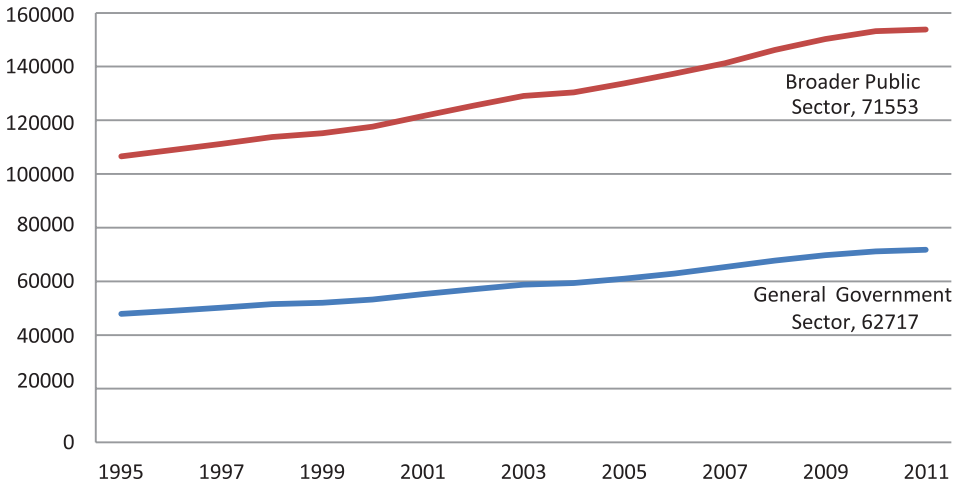
Of course the increasing prosperity apparent within Cypriot society was not evenly distributed and some Cypriots remained locked into low pay, low status jobs, and resulting poverty. These conditions were disproportionately experienced by the elderly and those living in rural areas. On the other hand, some of the more obvious beneficiaries of this transformation were large numbers of women living in households which could employ a domestic worker to undertake tasks which had normally been undertaken as an unpaid duty. In a situation where the state had not come under sustained pressure to provide services such as childcare or eldercare, the substitution of social support with foreign workers to undertake those tasks provided a privatised solution to what other states and societies addressed by the provision of public goods and services. Privatised solutions, enabled by relative affluence, extended well beyond the hiring of domestic labour to other key sectors including the increased demand for private health and educational services, which proliferated from the 1980s on.

But the segregated nature of the labour market which developed during this period did not just turn on ethnic distinction a person's place of origin. Gender has remained an important determinant of the kind of work available and the remuneration secured, a deeply entrenched feature of Cypriot society which has, nevertheless, been perceptibly moderated in recent years. However, it is important to note that Cyprus continues to exhibit the most substantial wage gap between men and women in Europe in the private sector (25%) and the highest proportion of low wage earners amongst women (31.4%). Whilst a segmented labour market on the grounds of ethnicity or gender is also characteristic of other European societies, there remains one other line of demarcation which, in its extremity, is particular to Cyprus.

There is a clear and marked distinction within Cypriot economy and society which turns on a clear division between the public and private sectors. This is a cleavage which has been accorded increasing significance since many have implicated this prominent socio-economic dimension as one of the conditions which helped precipitate the current crisis. According to an analysis of this order, the balance between public revenue and expenditure could not, in retrospect, be sustained. Further, the sheer size of the public service, the wage scales and accompanying benefits commanded within it, as well as the related issue of performance and labour productivity have also come in for increasing scrutiny. Significantly, the sense of just how deep the division between the public sector and private sector employees might actually be rests on the observation that the overwhelming majority of those who are currently unemployed are private sector workers or college and university leavers. For public sector employees, their fate is, for the time being, distinctly different, with unions charged with the responsibility to defend and protect the benefits and advantages previously secured, rather than respond to imminent job losses.

But how might this division be better described, and what significance might be attached to it being a dominant feature of economy and society and what might this reveal about the Cypriot state?

Figure 4. Increase in the Number of Employees within the Government and Wider Public Sector (1995-2011)



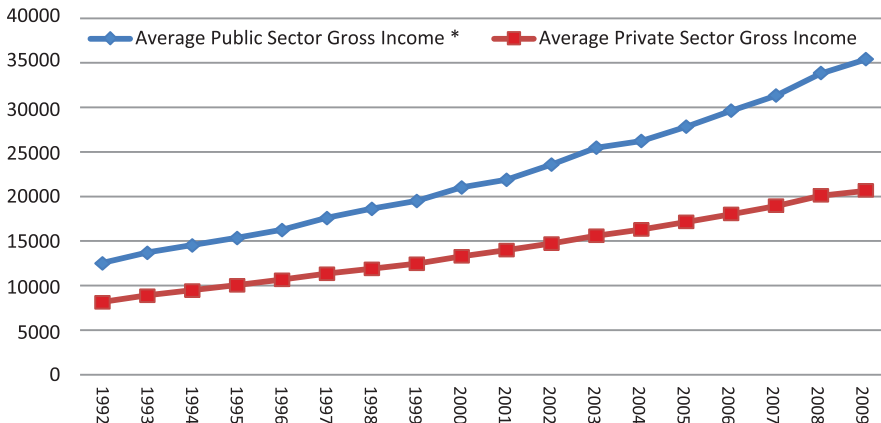
Source: Labour Statistics 2003-2011, Statistical Service, Republic of Cyprus

The data presented in this graph gives an indication of the size of the workforce employed within the public sector and how that sector has expanded since the mid-1990s. The general government sector includes all those employed by central government and local authorities whilst the broader public sector also includes those employed by semi-governmental organisations.

According to a recent report prepared by ex-President Vassiliou (2011), in 1980 the number of people employed in the broader public sector was 32,639. This evidence indicates clearly that, in the space of 20 years, employment in this sector more than doubled.

The report also presents evidence in relation to the variation in average wages across the public and the private sectors over time in Cyprus. This provides a concrete indication of a significant gap between the two sectors as demonstrated in the graph below.

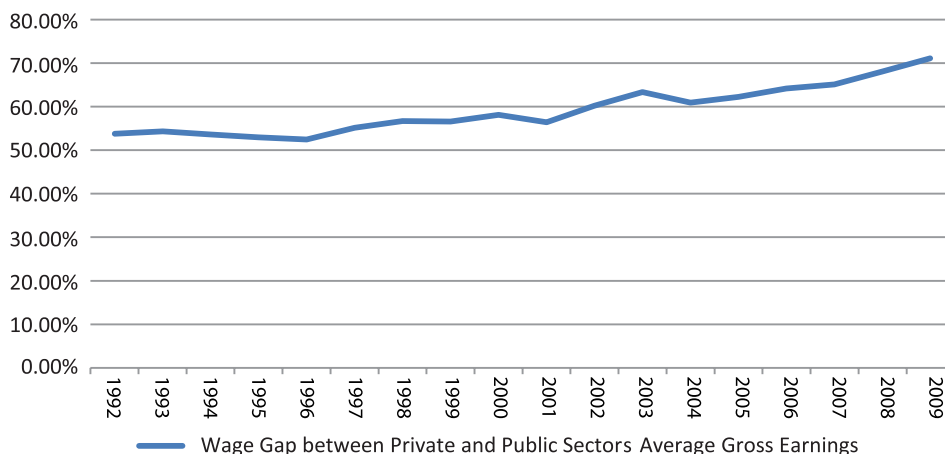
Figure 5. Income Differentials Between the Public and Private Sector in Euros (1992-2009)



Source: Vassiliou 2011 * Includes overtime and shift benefit

What is also evident from the data is that the income differentials between the sectors continued to grow ever wider throughout the period represented. Put differently, the average annual gross income for public sector employees was higher than those commanded in the private sector by 54% in 1991. Almost two decades later this figure had risen to 71% in 2009. This data is presented in the graph below.

Figure 6. Wage Gap Between Public and Private Sector Workers – Average Gross Earnings (1992-2009)



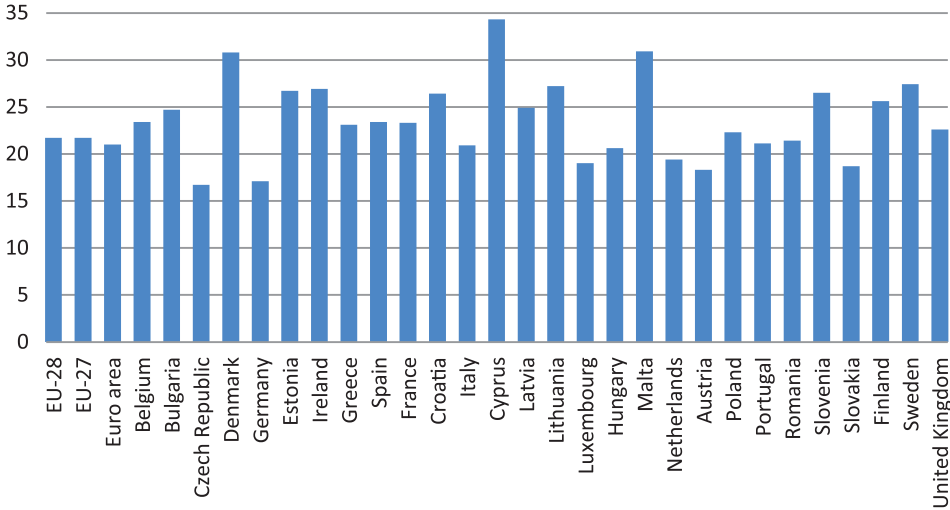
Source: Vassiliou 2011

To add to this, according to the estimate contained in Vassiliou's report, it can be calculated that the annual increase of the public payroll since 1992 has been of the order of 8.6%; a growth 2 to 3 times faster than the increase in the rate of inflation.

To make better sense of the significance of what is presented here, it is instructive to compare data from other EU states which might indicate whether something quite exceptional is captured here or whether this conforms to wider European patterns of a similar kind.

One way to approach this task is to compare and contrast levels of public expenditure directed towards compensating public employees as a percentage of general government expenditure.

Figure 7. Compensation of Public Employees as a % of General Government Expenditure in the EU-28 (2011)

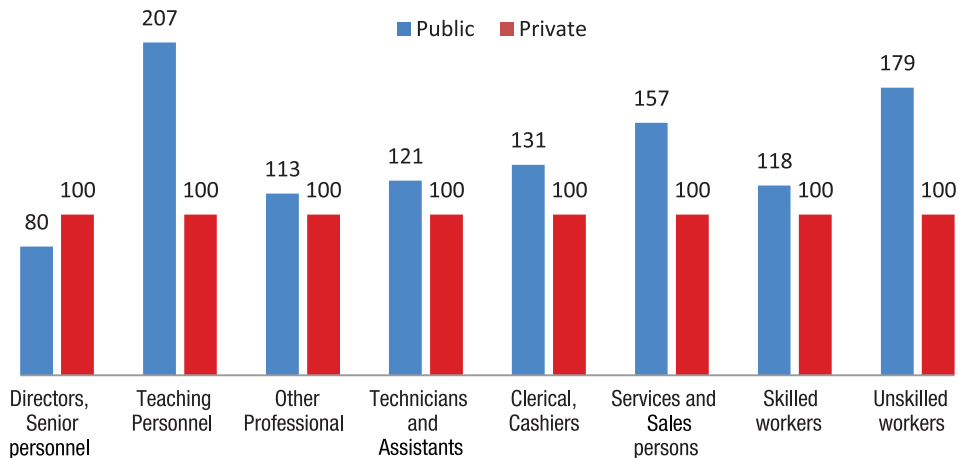


Source: Eurostat

This figure demonstrates how Cyprus services a larger payroll than any other EU member state, with more than a third of government expenditure devoted to this major budget line. Only Malta and Denmark come anywhere near to the figure recorded for the Republic.

And whilst the employees in the public sector represent 14.8% of those gainfully employed, their portion in the gross income was nearly double that. The gap between income levels in the public and private sectors is also drawn out by data generated by the Centre of Economic Studies of the University of Cyprus and presented in graph form below.

Figure 8. Pay Differentials in % Across Different Occupational Groups in the Public and Private Sectors



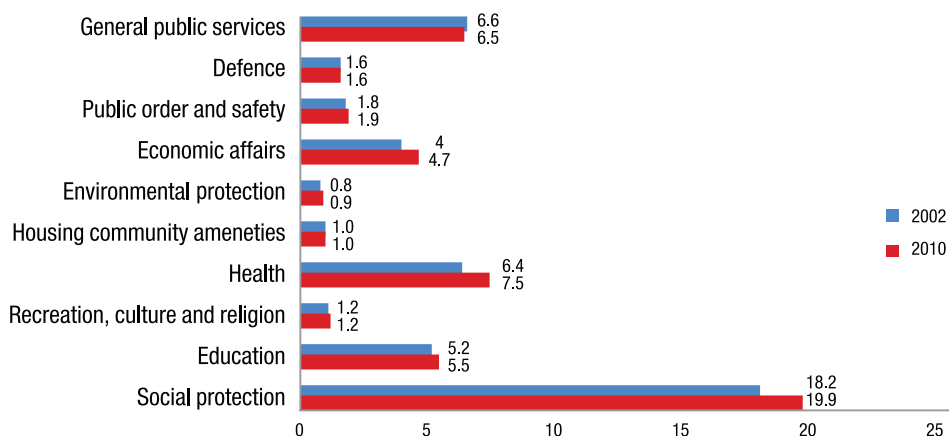
Source: Pashiardes (2011)

The extent of the public servants' payroll, coupled with privileged benefits and enhanced pension rights, has risen to increasing prominence and, more recently, become an object of discussion and disputation. This has been precipitated by the economic crisis but also amplified by questions raised about and enquires held into the effective function of governance in general and the public service in particular following the Mari explosion in 2011. Critical enquiry into government effectiveness and a lack of regulatory control joined what has become felt by many as an increasing divide between the relative security enjoyed by public sector workers and a precarious private sector experiencing severe contraction.

In his report, George Vassiliou expressed what was becoming an increasingly widespread sentiment when he concluded, 'Essentially you can divide Cypriots into public sector workers and non-public sector workers in terms of income, including benefits, pensions etc.' As a concrete example of this division it should be noted that, until recently, one of those public benefits to which public sector workers had unhindered access was an under-funded health service to which access for others was subject to a means test.

But the implications of this market segregation, expressed in differential incomes and benefits, commanded in different ways and levels by public and private sector employees, does not end there. Turning now to public expenditure, more generally, it can be observed that Cyprus sustains, proportionally, the highest public service wage bill when compared with the other EU member states. But the Republic also records the lowest level of expenditure as a proportion of public expenditure on the key public goods: health service provision and social protection. Both noted as being major forms of state expenditure with a strong and distinct redistributive character.

Figure 9. General Government Expenditure by Main Function Across the EU-27 as a % of GDP, (2002 and 2010)

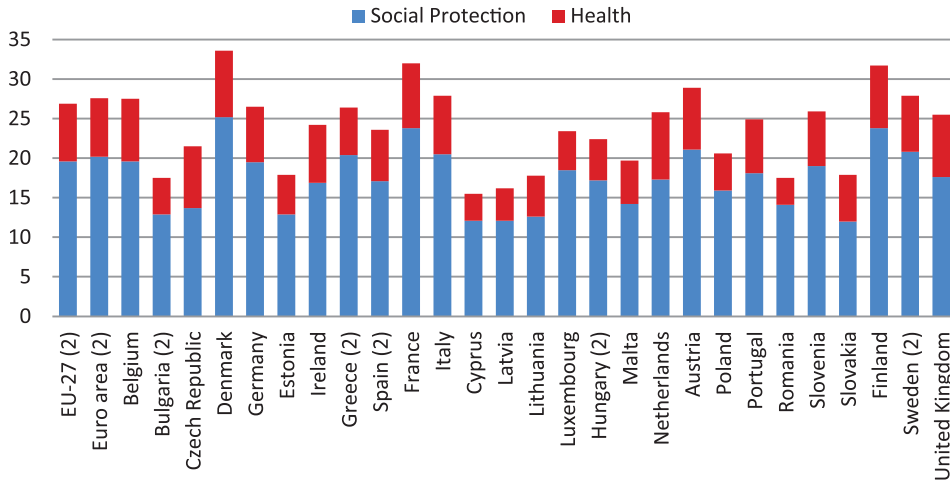


Source: Eurostat Statistics in Focus 33/2012 General Government Expenditure: Analysis by detailed economic function.

Figure 9 demonstrates, in a mean average across the 27 EU member states, that social protection, health services and the provision of general public services (a category used to cover expenses relating to the executive and legislative organs, financial and fiscal affairs, foreign economic aid, basic research and expenses relating to aid) are the three largest items of public expenditure. It is notable that expenditure on the first two items had risen between 2002 and 2010 whilst general public services had registered a modest fall.

Comparing the data above, which is from the EU as a whole, with Cyprus-specific data is revealing. For both 2002 and 2010 Cyprus recorded the lowest expenditure directed towards social protection by any state within the EU. (8.7% of GDP in 2002 and 11.7% of GDP in 2010). Similarly, the proportional expenditure on health in the same years also saw Cyprus recording the lowest expenditure on this item (3.1% in 2002 and 3.3% in 2010). By contrast, the Republics' expenditure on general public services stood at 10.7% of GDP in 2010 against an EU average of 6.5%, trumped only by Greece as the state which devoted such a high level of resources to those services.

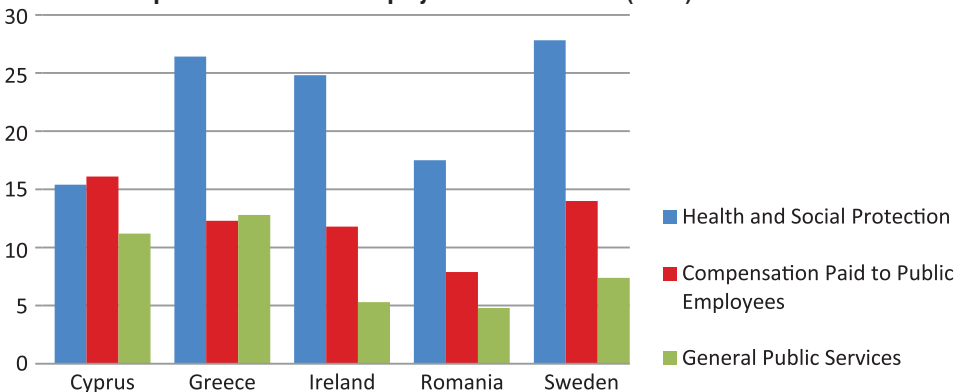
Figure 10. Expenditure on Social Protection and Health Across the EU-27 as a % of GDP (2011)



Source: Eurostat (2) Provisional

The data presented in Figure 10 captures clearly the prioritisation of public expenditure for each of the states across the European Union as this relates to the key areas of health and social protection. In doing so it reinforces the conclusions drawn from the previous figure that, compared with elsewhere, Cyprus records the lowest expenditure on social protection, a position it shares with Slovakia, and the lowest expenditure on health services across the EU as a whole.

Figure 11. General Government Expenditure on 'Health and Social Protection', General Public Services and Compensation to Public Employees as a % of GDP (2011)



Source: Eurostat

Figure 11 compares state total outlay in 2011 on the three main items of state expenditure (health and social protection, which are here aggregated, general public services and compensation paid to public employees) and calls up data from four other states to offer a comparison of state expenditure patterns with Cyprus. The four states have been selected because they are representative of states which are frequently clustered together on the basis of shared characteristics; Sweden within the northern European cluster, Ireland within western Europe, Romania to the east and Greece along with Cyprus in the south.

By comparison with these four states, Cyprus appears not to prioritise investment in health and social protection, but expends the greatest amount of any of the comparable states on compensation paid to public employees and records the second highest level of expenditure on general public services.

Taken together, this evidence reinforces a number of general conclusions drawn from data presented in this chapter. Not only has the state become increasingly liberal and democratic, it has also expanded in size as measured by a steady increase in the size of the public sector. And, partly as a consequence of this, a significant level of public expenditure has necessarily been devoted to servicing the state and compensating those who work within it. Further, the number of those employed by the state has grown, but their conditions of employment have significantly outstripped equivalent forms of work in the private sector. Other forms of public expenditure have not been prioritised when judged against patterns of expenditure elsewhere; social protection and public health provision have been under-resourced, and, in doing so, the redistributive function of the state has been partly curtailed.

Given uninterrupted economic growth over the past 30 years, and the increasing affluence experienced by large swathes of the population, there was limited need to make recourse to the underfunded services which the state had largely neglected. Consequently, there was little concerted pressure placed on the state to develop and implement a comprehensive national health service or shift the modality through which social protection was delivered from cash benefits to the provision of social services and other forms of professional support. Instead, those who could, opted to pursue privatised solutions to collective problems by securing private health care for themselves and domestic workers to attend to the needs of both their young and old family members.

However by 2008, there had accumulated many circumstantial and structural factors which combined to derail what had appeared, on the surface at least, as an ever-expanding economy, accompanying wealth accumulation, stable internal markets and low levels of unemployment which characterised the Republic's economy until recently. Expanding public debt, a banking crisis and the apparent inability of political actors either to respond in a timely manner or to self-generate social and economic policies in response to rapidly deteriorating circumstances suggest that few were able to anticipate just how serious the crisis was becoming.

By 2013, Cyprus was in deep recession: two major banks had been brought down, its financial services sector had been thoroughly compromised, unemployment levels had risen sharply and previously buoyant sectors of the economy such as the construction industry and housing market had become severely depressed. Bank 'bail-ins', Troika edicts and piecemeal policy initiatives were the consequences.

In this challenging context considerable pressure was placed on the institutions of the Republic, forced, as they were, to readjust to declining state revenue, increasing demands made upon many services provided and on a public sector, which had enjoyed steady expansion since the 1960s, that was now being forced to check its growth if not contract.

For those in the private sector who found themselves without employment, the rudimentary social insurance system of funding them for the first six months of their absence from paid work proved unsustainable in circumstances where many were experiencing unemployment for much longer than that, forcing the government to reconsider the basis upon which the social insurance system had been developed up to this point. Where once opting out of being reliant on state-provided services meant that recourse to the public health system or dependence on under-resourced social protection schemes could be avoided by purchasing private services, recourse to the state was now a necessity.

Within the public sphere sharp questions were now being raised about the state in which people found themselves, how the crisis was having a differential impact on those in the public and private sectors and how some had managed to secure privileged access to public resources which they were reluctant to surrender. The circumstances within which this economic crisis had transpired also provoked questions about the quality of governance delivered by the Republic more generally.

Close to the centre of the banking crisis were serious issues that began to be raised about the quality of management, risk analysis, due diligence and other general governance issues. What had become apparent was a private sector, dominated by the Bank of Cyprus and the Laiki Bank as well as the public regulatory authority, in the form of the state's own Central Bank, which were on the verge of spectacularly failing. In short, the banks and the state's regulatory authorities not only failed to avert the impending crisis, but appeared to play a lead role in creating the conditions out of which the crisis had originated.

Whilst these issues began to be aired extensively through the establishment of an investigative committee, in the courts and via the media, more and more detail accumulated. As committees met and witnesses were called to give testimony, the ascription of culpability by journalists, politicians and the general public drew ever wider as individuals, management boards and prominent private institutions were drawn within the net. But what also came into focus was the role of state institutions in failing to discharge their appropriate regulatory function as well as the culpability of large sections of a political class in failing to anticipate either the depth or the extent of the problems which had been revealed. These problems were not only revealed as mistakes made by key individuals but suggested the possibility they arose out of endemic structural problems which adhered to the very institutions, and the relationships which they promoted, irrespective of those in charge.

Chapter 2 - The State We Are In

The previous chapter described the development of the Cypriot state from its independence to a situation today where most observers would describe it as a functioning liberal democracy, confirmed by its recent accession to the European Union. The key features of liberal democratic governance are in place, such as free and fair elections, a functioning rule of law and a separation of powers between the legislature, executive and judiciary. Just when a threshold was crossed which allowed the Republic to be described as a substantive liberal democracy is a matter for historical conjecture, but some evidence consulted in the previous chapter suggests that by the early 1980s important elements of such a political order were firmly in place.

This account then turned to evidence, which also captured aspects of the changing nature of Cypriot society more generally, with an emphasis on the segmented nature of the labour market, particularly as this related to an ever-widening split between the public and private sectors within the economy. To a large extent, the way in which the state became increasingly expansive, playing an elaborated role within society as it intervened in the lives of citizens is also the story of a significant gulf opening up within Cypriot society. It was also an effect of widespread affluence, which had the consequence of deferring the task of shaping a state which could meet the challenge of delivering quality public goods in the form of comprehensive health care or social and welfare services. Pressure was relieved on the state to shape better public goods and services by the ability of many people to secure their privatised equivalent in order to meet their needs. Underpinning these developments were robust growth rates associated with the Cypriot economy averaging 6.1% in the 1980s, and then oscillating between a low point of 1.85% in 1996 to a highpoint of 5.3% in 2007.

However, from 2008 onwards the economic crisis, which began to grip the island profoundly, disrupted the conditions within which Cypriot state and society had reproduced itself over the previous decades. The economy contracted, state revenue declined, unemployment levels began to increase and tens of thousands became dependent on the state, placing a considerable load on social protection and health systems. And, whilst everyone was affected by the worsening situation, some were affected very differently from others. Unemployment was overwhelmingly visited upon the young school leaver and large and disproportionate numbers of private sector workers whereas those in the public sector remained, for the time being, secure in their jobs. However, the Troika defined conditions for financial support, including demands for a rolling privatisation programme, threatened to consign the employees of major semi-governmental organisations to private sector employment or the dole queue, with all the insecurities associated with that newly allotted place in the labour market.

Within the political realm, contending interests sought to gain advantage as considerable effort was expended to identify who was responsible for the island's predicament. Within the broader public sphere responsibility was also allotted to a range of ever widening targets (governments, banks, tax evaders, the public sector, unions, etc). Accompanying this, issues were now also being raised not only about the long-term development of a deeply segmented society but also about the failure of the state to deliver social goods and services through which the resulting social divisions could have been ameliorated. The targets aimed at became wider still, with questions posed as to how the state had failed to regulate risk, respond adroitly to the impending crisis and deliver timely, efficient and effective actions to meet the profound challenges now being faced. In short, public deliberation had become fixed on issues that ultimately relate to the broader category of the quality of governance delivered by the state.

This was not the first time that such discussions had raised issues of corruption, the phenomenon of rousfeti, gross state inefficiency, poor regulatory control and excessive bureaucracy. These topics had regularly punctuated the daily news in the past but had become particularly prominent in the last few years. These were also issues raised in everyday conversations which arose out of the experiences citizens and residents had of the common difficulties in securing public goods and services which were rightfully theirs. Indeed, so commonplace was this experience that it could be rationalised and endured as simply the way in which things were done, accepted fatalistically.

However, there had been various moments in the recent history of the Republic where the consequences of a low quality of governance were felt in a concentrated way, with some of these events having very serious consequences. The stock market crash in 1999 and the Helios airliner disaster in 2005 had both prompted widespread public debate, official enquires, the apportioning of blame and the subsequent identification of some state practices as having contributed significantly to these unfortunate outcomes.

In 2011, this was joined by the tragic circumstances which unfolded close to the village of Mari, where a consignment of arms and munitions, held in containers by the state, exploded in July of that year, severely disabling the islands' main power station and, in the process, causing the deaths of 13 people. As had been the case on similar occasions, a public enquiry was swiftly called and the eminent lawyer Polys Polyviou was assigned as the independent state-appointed investigator. The result was a 643-page report which apportioned part of the blame to the then President Christofias as both an individual and as having presided over a set of institutional relationships which contributed to the conditions out of which the deadly event had transpired.

Significantly, Polyviou concluded that the fatal explosion was not the outcome of unique circumstances but rather 'an accident waiting to happen'.

For Polyviou the central question to be addressed was how did it become possible for the cargo of munitions and armaments, that had earlier been seized, to be subsequently relocated, with 'inexcusable negligence, indifference and irresponsibility', to a naval base next to the largest power station in Cyprus? And how was it also possible to neglect increasing volatile and dangerous materials which, by July 2011, had been stored in the open for two and a half years?

Within the remit given to him, Polyviou focused his inquiry on apportioning both political and institutional responsibilities for the subsequent outcome. But his report also addressed the wider significance of the evidence given by key public servants, including senior members of the fire service and the army, who had privileged access to information related to the contents of the stored containers and, by implication, knowledge of their potential volatility.

In general, those public servants, called to give evidence at the enquiry, denied any form of negligence or responsibility accruing to them when asked what measures had been taken to prevent the explosion. The overall conclusion that could be drawn from the position they took was that competence to act and responsibility for managing key aspects of the unfolding situation was displaced elsewhere, and all asserted that they had acted competently within their own narrowly defined jobs. Therefore, even in the face of the very real danger posed by the presence of the combustible containers, they claimed that only 'vague and unsubstantiated "political reasons"' had been given for continuing to maintain them. Consequently, a warrant for inertia and the subsequent displacement of any felt responsibility was, according to the explanations offered by the public servants at the enquiry, how they justified their own conduct.

In short, the lack of any clear direction given by the political leadership as to what the primary purpose ought to be in holding this seized cargo or what ultimately ought to happen with it was met by the systemic shortcomings of the public service and provided the grounds upon which everyone involved could justify to themselves that they had no responsibility for the explosion that then occurred.

In his report, Polyviou observed that many public servants are commonly characterised by the traits of procrastination, resulting in delayed responses and hesitancy in carrying out their allotted duties. Significantly, it was also understood that a characteristic of public administration on the island was that public servants did not tend to express themselves freely when communicating with their political superiors, and neither were they said, in general, to exhibit any particular initiative in the work they discharged. Rather, they saw themselves purely as the passive functionaries of government driven policy. As a consequence, any pronounced sense of responsibility towards protecting or enhancing the public good, that had the capacity to transcend narrow political horizons, tended to become muted, if not erased. This is compounded further by the absence of a 'whistle blowing' culture which was a factor in a serious failure of the state to estimate and act upon the ever-growing risks associated with the unsatisfactory storage of highly volatile explosive material.

The report identified the mentality and related practices associated with the denial of responsibility, aversion to taking initiative and a lack of a sense of servicing the wider public interest even if it might trump the immediate interests of the individual concerned or the party to which he or she is affiliated. It could be argued that Polyviou went well beyond the original remit of the enquiry over which he presided by directing attention to the general context and institutional culture within which bad decision-making punctuated by long periods of inertia characterised the context out of which the Mari explosion resulted. But, in doing so, he made concrete perceptions widely shared within Cypriot society that the state's conduct was frequently not guided by serving the public good and was serviced by civil servants, many of whom had acquired their positions on partisan grounds rather than as an outcome of meritocratic recruitment. It was believed by many that, once public servants are in a relatively privileged and protected position, many of them engage in procrastination, negligence and ineffective conduct.

Pushing this description, Polyviou's report also identified the prominence of populism in politics and clientalism as an everyday practice which characterised the link between parties and sections of the electorate and elaborated that the relationship between the Cypriot citizen and the politicians was not one that was entered into freely. According to his analysis, the free citizen has been transformed, as he described, into a begging 'client'. Instead of pursuing the public good, the relationship between party, politician and citizen had become one of undesirable, if not illegal, transactions and commitments which served specific interests rather than equally accessible public goods and services.

In its own way the circumstances which led up the fatal blast at the naval base less than two years earlier, which cost 13 lives and partially destroyed the neighbouring Vasiliko power station, the largest generator of electricity on the island, as well as state responses to it had prefigured many of the problems which were now being witnessed as part of the economic crisis. Dispersed responsibility, aversion to risk assessment, convoluted decision-making procedures, ineffective lines of communication and extraneous political criteria colouring technocratic judgement were just some of the features which became exemplified by this event and the state's part in it. Polyviou's report identified aspects of dysfunctional relationships between the civil service and their political masters, between civil servants and the efficient and effective roles they might be expected to discharge, as well as problematic relationships between citizen and political party. For many, these problems so identified were implicated in the failure of

the state to adequately anticipate the economic crisis which rapidly engulfed Cyprus or to provide an effective means of mitigating its worst effects. In short, the specific report delivered following the Mari explosion and the wider public debate which has accompanied the onset of the economic crisis as well as reactions to it served to focus attention on the quality of governance delivered by the Republic.

The State in Practice – A Thick Description

This section takes a closer look at both qualitative and quantitative evidence in relation to the quality of governance delivered by the Republic of Cyprus. It is based on publically available reports, news articles as well as academic research made available over the past five years or so. The issues raised here, and the supporting evidence which fleshes them out, do not aim at a comprehensive coverage of all state institutions or attendant concerns which arise in their operation but serve as a way of grasping some of the more prominent features of how the governance system actually functions.

Presented here is a modest overview of how a representative sample of state institutions function, particularly as this becomes expressed through what appear to be dysfunctional aspects of their performance. This is done by first considering the performance of multi-level governance in Cyprus starting with the ministries and departments of state, proceeding on to municipalities and drilling down to the local level in the form of community councils. Consideration is then given to semi-governmental organisations before turning to the performance of the Cypriot justice system, particularly as this relates to the execution of court orders and efficient collection of state revenue. Finally, attention is then paid to two cross-cutting themes which are at the core of any modern state's role: the efficient and timely discharge of duties associated with providing oversight and regulatory control.

1. Turning first to the actual operation and functioning of the **Ministries and Departments** of the central state administration, there are widespread shortcomings and weaknesses in the implementation of internal systems of control. In particular, the recovery of revenues which are in arrears (€1,123 million by the end of 2009, of which €625.8 was outstanding tax arrears), the weak management of departmental resources, and a common failure to comply with relevant laws, regulations and guidelines has meant that expenditure has been managed poorly which contributed to frequent discrepancies between projected budgets and actual expenditure. This has been compounded by the common practice of inadequate bookkeeping or the timely issuance of reliable financial reports and other information necessary for effective decision-making.

Contributing to this has been the continual delays in the execution of the Computer Master Plan for the public service, which have undermined the provision of economical and efficient public services. That objective has also been compromised because departments, other agencies and ministries lack coordination between themselves, which together hamper the implementation of the policy, planned project and efficient services with consequent increases in related costs and poor delivery to the intended beneficiary.

A means through which state resources continued to haemorrhage has been clearly identified with the system of state expropriations in the process of executing planned projects. Land would be acquired and property expropriated in order to lay roads or construct state facilities. But the time gap between initiating a project of this sort and completing it tends to exceed the original planning decision not only by years but, in some cases, almost two decades. This is what happened with the proposed construction of a state archive in which a former landowner secured an out-of-court settlement of €598,000. The idea

to build a state archive arose out of a cabinet decision from over 18 years ago to erect a new building, however the cost of the work rose from an estimated €9.2 million in 2007 to €16.2 million in 2010. In these circumstances, compensation payments to former owners consequently also rise, are commonly delayed for an inordinate amount of time and become subject to court action. Sometimes, court decisions secure confiscation orders against the Republic and the former owners repossess what had originally been theirs. The authorities' efforts to reach out-of-court settlements, in an attempt to retain the property, then incur additional compensation, administrative and other costs.

Another prominent example of this issue has been the proposed Paphos-Polis highway, which, since its inception as a planning proposal over a decade ago, has yet to be realised. However, land was expropriated and, given the uncertainties which have bedevilled the project's implementation, by April 2011, the state owed over €285 million to private landowners – a figure which has inevitably risen since then because the state needs to also pay interest on the amount outstanding.

2. Systemic weaknesses have been consistently recorded in the way **Municipalities** function, which have a detrimental impact on the quality of services delivered. As a general characterisation of this maladministration, it has been observed consistently that there remain inadequate organisational structures in place, the widespread practice of not adhering to laws, regulations and approved procedures, and weaknesses relating to internal financial control systems. Specifically, weaknesses and omissions have been recorded which include the failure to promptly collect taxes owed or to monitor this non-compliance; the failure to keep up-to-date registers of the local population, the failure to monitor the appropriateness of salaries paid to employees and the inadequate oversight performed when issuing payment vouchers which require supporting documentation.

A combination of lax procedures, small scale communities and direct, personalised relationships between the municipal authorities and the local populace would appear to create conditions within which a widespread abuse of power can transpire. Newspaper accounts as well as the Auditor General's Reports are replete with examples of this kind of abuse which can take a wide variety of different forms. A cursory examination of the evidence suggests that cases of this sort can involve a misallocation of price (frequent undervaluation) to public property, which is then sold off to private interests, for example.

Municipalities also fail to follow appropriate tendering procedures for selecting and contracting the supply of services for the provision of road repairs and improvements. This allows considerable scope for corrupt payments to be exchanged between key public figures and the preferred service provider. Again, it would appear not uncommon for some exercising local state power to fail to declare personal interests which are likely to influence the distribution of public resources beyond appropriate criteria.

3. Drilling down further to Community Councils, similar problems are commonly confronted at this local level of governance. Indeed, given even more close knit interaction between public office holders and community members, the latitude for an abuse of public office to occur may be magnified. Again, reports and newspaper evidence bear out a situation within which there is widespread laxity in conformity to rules and procedures sanctioned by law.

An itemisation of concerns would include: the frequent failure to record minutes of council meetings, which is a clear and unambiguous breach of the relevant legislation; financial statements prepared by several community councils commonly presented with serious errors and omissions, making it near impossible for regulatory authorities, such as the Auditor General's Office to conduct an audit. Further, it

is not an uncommon if informal practice to delay the updating of accounting books and preparation of final accounts which places a further obstacle in the way of appropriate oversight. Annual budgets of several councils are not approved before the beginning of the financial year to which they refer.

Given what can be a chaotic accounting, auditing and ad hoc decision-making system used by community councils, the auditor general regularly reports the outcome of both financial deficits and surpluses in council accounts which cannot be subsequently explained. It should also be added that councils are commonly in substantial arrears in payment of taxes and water rates.

In terms of what is held on behalf of the local communities which they serve, there are limited records of both movable and immovable property for most community councils as well as an absence of computerized systems through which this could be managed. Other systemic problems identified also include a common failure to follow appropriate tendering procedures for the procurement of services from private contractors and a common failure to adhere to staff service plans, which results in many employees being placed in a tier higher than they should be or being granted additional annual increments improperly.

4. Semi-Governmental Organisations are frequently identified as being, in part, dysfunctional public entities which appear largely inured to meaningful reform. Surveying the auditor general's reports over the past decade reveals persistent problems repeated across different types of organisation, and although the problems are identified they remain unaddressed from one year to the next.

Some SGOs appear blighted by poor management, resulting in a failure to plan effectively, manage resources or follow appropriate rules, procedures and regulations. Taking two representative examples, the auditor general's annual report in 2009 identified the Cyprus Grain Commission as failing in its duty to provide accurate and timely audited statements of account. What had been submitted were unsigned, rough financial estimates for 2004-08 and the requirement to submit a further statement for 2009 had not been forthcoming, and it was not until 2010 when the auditor general received them.

A serious lack of timely planning if not disorganisation also appeared to plague the Cyprus Theater Organization's plan to build a new theatre in the capital. This was exemplified by a serious delay in the appointment of mechanical and electrical subcontractors as part of the project. The subcontracted electrical work actually agreed was 33.7% higher than the original estimate and the serious deviation from the tender originally submitted gave rise to 'serious reservations about whether healthy competition' between different tenders had been secured.

Dubious decision-making, a selective enforcement of the rules, the failure to adhere to due procedures as well as opacity in operation and a lack of accountability to the appropriate authorities characterise much of this prominent sector. These include prominent entities such as the Electricity Authority of Cyprus (EAC) and telecommunications company CyTA.

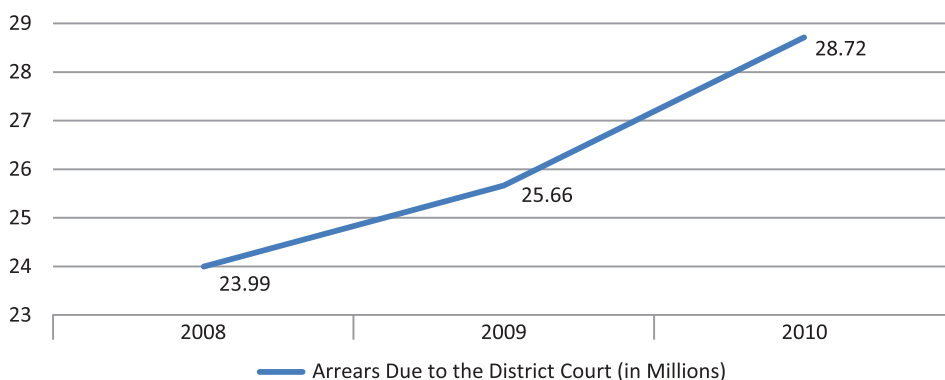
Attention has been consistently brought to the EAC's selective enforcement of its rules when it comes to unpaid bills, cutting power to consumers who owe small and insignificant amounts, yet a different policy is pursued in relation to large business entities. This arbitrariness was demonstrated in a case in which the EAC agreed with a Nicosia company, which owed €336,000, in October 2010 to pay its outstanding dues in monthly instalments. This was apparently subject to a proviso that if the company failed to comply, the EAC would cut its power supply. Since the agreement was not honoured, the EAC's chief financial officer requested permission from the Nicosia district manager to cut the company's power supply. However, the district manager agreed a second repayment deal which included a provision for the

company to give the EAC a personal guarantee of €150,000 from one of the owners. This was submitted in the form of two post-dated cheques (for the end of the year) from a second company, or third party.

This was contrary to the normal procedure through which the EAC would deal with all customers, which would result in either immediately cutting the supply or insisting on the provision of secure bank guarantees. Similar examples to those cited suggest that this was not an isolated case.

5. Serious weaknesses were also identified in the Cypriot **justice system**, with many problems recurring from one year to the next without any apparent reformatory response from the authorities concerned. Two prominent issues stand out, conditioned by common factors, in the form of the slow pace at which justice is administered through the courts coupled with the regular failure, in many cases, to secure outstanding fines. Both have the effect of seriously compromising the quality of justice, which not only has a negative effect on the specific individuals involved but a detrimental outcome for society as a whole.

Figure 12. Arrears Due to the District Court – 2008-2010



Source: Auditor General's Annual Report 2011

Put into a longer timeline, as of 2010, the amount of arrears of revenue warrants in criminal cases, which had not been enforceable, increased sixfold over the past 13 years. It should also be noted that the figures presented here might be higher again since there were significant errors and omissions reported in the preparation of overdue income statements. Not only does it appear that the amount owed continues to rise, but remedial action by the appropriate authorities, which might ameliorate this outcome, has been neither prioritised nor effective.

The auditor general's annual report for 2011 recorded that a total of €136 million remained uncollected since the police have not efficiently executed payment warrants for many years, if not decades. Approximately €92 million, or 69 per cent, of the uncollected revenue was owed to the state in the form of outstanding social insurance payments, traffic fines, VAT and fines arising out of various court decisions.

It remains a specific duty of the police to execute payment warrants to identifiable individuals, which according to the auditor general herself, include prominent members of the local community, such as politicians, entrepreneurs, journalists and sports officials. In 2011, there were approximately 750 warrants, valued at over €800,000, owed by active lawyers, while an additional 2,000 warrants, worth €1.1 million, remained unpaid by civil servants. A further 300 pending warrants, to the value of €140,000, were connected with members of the police, the fire service and prison staff.

It was reported that the police service cited various reasons for their failure to execute these warrants, including being unable to locate the people to whom the warrants were addressed. Indeed, despite public pronouncements by the police to seek to improve the rate of execution, 2010 saw the police execute 50,917 warrants compared with 56,173 in 2009: a 10 per cent decrease.

Whilst the slothful execution of statutory duties by the police is an apparent point of real weakness in the justice system, this outcome is also the result of a bureaucratic inertia which characterises the process as a whole, from the government agencies or municipalities to whom the cash is owed, through the long drawn-out court procedures through which the warrants are eventually issued, and then the police. This entails considerable administrative costs as well as considerable labour time which, more often than not, ends in stasis.

6. The tax collection system of the Republic involves other institutions beyond the justice system. Total income tax receipts in 2010 were €1.271,26 million, a decline from €1.310,90 million. In the same year there were 19,502 objections lodged over income tax, capital gains tax, property tax and special defence contribution amounting to a total of €321.51 million. A further 12,293 appeals were pending, which totalled the amount of disputed taxes to the tune of €239.72 million. Finally, according to existent data, overdue taxes owed by the end of that year, excluding interest, was €603.48 million, and the total amount due, including interest and charges, amounted to €1.027,87 million.

If outstanding tax arrears had reached such substantial proportions, this did not represent the final figure which Inland Revenue ought to arrive at, since, according to the auditor general, it was observed 'that a large number of people commit fraud, either by declaring low income or by not submitting accurate tax statements.' What compounded this problem was the identification of such persons, since access to relevant information held in the records of other government departments or agencies was held to be in contravention of legislation on personal data.

Property owners withholding accurate information or providing inaccurate valuations was also a widely applied method through which tax on real estate was evaded. They achieved this by either declaring the value of the property below the tax threshold or by not registering with the Real Estate Office of the Department of Inland Revenue. In a number of cases related to property transactions, it was also observed that the contracting parties declared lower selling prices for the property concerned in an effort to evade payment of the appropriate capital gains tax. Consequently, for the period 2000-2010, the loss, as calculated by the department amounted to an estimated €383.41 million, or approximately €34.86 million every year.

However, problems were also identified with the Inland Revenue Service itself which had not always taken timely and effective action to secure taxes due. Also ineffective was the court procedure Inland Revenue needed to follow to secure accurate information to levy the appropriate level of tax. In many cases the process was either interrupted or the case withdrawn because of an inability to support the case appropriately. Consequently, the settlement of tax cases in those instances remains pending.

7. One of the fundamental tasks undertaken by a state is the extension of rule-making, rule monitoring and rule enforcement over society, which together constitutes an enforceable regulatory framework. This incorporates a wide range of tasks and activities that stretch across many fields, including consumer protection, health and safety issues and media broadcasting standards as well as general regulation of economic and social transactions. Highlighted here are a small number of issues, from amongst many that could have been selected, which are indicative of an incomplete regulatory regime delivered by the Republic. Amongst some of the deleterious outcomes which arise out of this situation is a substantial loss of state revenue.

The auditor general's consistent judgement has been that there are aspects of the way in which the state's regulatory functions are impaired that serve to facilitate widespread tax evasion. In the 2008 report she observed that evasion was, in her estimation a major phenomenon, '[T]here is a tax evasion by a great number of persons, either through the declaration by them of low income, or failing to submit any declarations, with the result that they remain unknown to the Department.' What has continued to hinder the pursuit of cases where tax evasion is suspected has been the way in which personal data laws have been interpreted to preclude the possibility of different government departments sharing data on individuals who are not known to the Tax Department. As she observed, 'I expressed the view that, this constitutes an unequal treatment between the citizens, because the Department has the right to investigate all the persons having an assessment file, while those who are failing to comply with the provisions of the legislation remain unknown and are not subject to the tax.'

Revenue lost as well as a failure to provide the grounds for effective oversight of the business world in Cyprus can also be clearly associated with the grossly inefficient Registrar of Companies. In 2008 it was reported that of 122,064 registered companies, which were obliged to submit their annual reports by the end of the year, only 37,513 annual reports were submitted and the amount of €641.097 was collected, which meant the registrar lost an estimated €7.7m of public revenue from this situation. Despite this being a recurring problem, no measures were taken by the companies registry for the timely submission of the reports, 'due to insufficient staffing of the Department, which is not in a position to cope with any additional number of annual reports.' It was also reported that many foreign companies continued to delay the submitting their annual reports over the past 15 years, without any measures taken against them, thus, considerable amounts owed was not collected, resulting in a loss of revenue.

The failure to implement timely and effective computerisation of bureaucratic procedures is a constant point of reference throughout the auditor general's annual reports. This is particularly the case with basic but important services associated with the Land Registry, including the issuing of building permits and the demarcation of land. The evaluation of this situation indicates that no substantial efforts up to 2011 have been made to install and operate an integrated computerized system in the registry to monitor the procedures for receiving and examining applications and issuing permits of one sort or another. An integrated system would contribute to the acceleration of the examination of applications thereby reducing outstanding cases it was claimed. Yet, this situation had continued despite the fact that there have remained thousands of applications pending for the issuing of building permits and of licenses for the demarcation of land.

The state has a responsibility to offer effective regulation across other aspects of social and economic life in order to ensure the implementation of rules, regulations and procedures, enshrined in law. The purpose of which is to ensure conformity to appropriate standards of services provided to the public and monitor that these are delivered with due consideration towards matters of health and safety, for example.

A consistent feature of the Republic's performance has been the long-term failure of state regulatory bodies to undertake this basic task in relation to a number of service providers such as petrol stations, public swimming pools, entertainment establishments and places selling alcohol. As part of the lead up to accession to the EU, there was a need to amend the Law for Regulation of the Construction, Establishment and Operation of the Petroleum Stations. Out of 185 petrol stations, 141 were operating without securing a license from the Petroleum Law. It was observed by the auditor general amongst others that no measures are taken against the owners of the petrol stations.

A study was commissioned by the state on the topic in December 2001 and a technical committee was set up in 2002, consisting of the district officer of Nicosia and officers of the Ministries of Interior and Labour and Social Insurance (Labour Inspection Department) and of the Department of Electrical and Mechanical Services tasked to deal with this matter. But the technical committee's work remained incomplete.

The operation of a swimming pool without the necessary licence constitutes a criminal offence. The relevant law foresees the police to locate all of the public swimming pools which operate without a licence for investigation purposes. It was ascertained by the auditor general that, in 2007, there were over 700 public swimming pools operating without a license. In 2011 there were still 672 swimming pools operating without a licence, leaving a paltry 23% of public swimming pools operating in Cyprus legally. The issue of authorisation extends also to gaming machines and similar forms of entertainment. It was noted that, in general, owners had not secured authorization, nor have they given the record of machines and game entertainment as is required by the relevant law. This failure of the public administration to regulate also applies to the large number of premises in which alcoholic beverages are sold, but whose owners do not renew their license to sell when they should.

As a final example, concern has also been raised over the health and safety regulations for the workplace. Regular inspections of major machinery are mandated under the Republic's Factory Act. During 2009, 1,157 machines were inspected, compared to 13,045 that should be conducted under the law.

Conclusion

Some of the major issues which arise from this evidence include the repeated and widespread failure of the state to close the gap between anticipated tax revenue and its actual collection. By 2013, the state was owed €1.6 billion in tax and other revenues, which have gone uncollected. Of that amount at least €380 million would now be written off as bad debts. The slow, cumbersome and frequently ineffective system of tax recovery through the courts and the police service over many years contributed to this outcome. This combined with a not uncommon discrepancy between assets owned by citizens and the tax statements which they made suggesting that the revenue anticipated to be collected from both income and property tax would be higher than the general amount actually received.

Inefficient, cumbersome and bureaucratic procedures did not only adhere to the tax collection service and the justice system but also characterise large swathes of governmental institutions, from those provided by the Republic's ministries to municipalities and down to local community councils. What this does is create conditions of arbitrariness and a departure from established mechanisms through which decisions are taken and outcomes transpire. Consequently, the equal treatment of citizens is commonly violated and the conditions within which other criteria, such as party political affiliation or familial connection, play an important role in securing a particular result. In many specific circumstances this appears to encourage corrupt relationships, particularly as this relates to the distribution of public resources and embeds party political clientalism or rousfeti.

The inefficiencies of the state also appear to extend in a number of other directions with deleterious effect. Frequently the basic relationship between the input of agreed policy on the one hand and the implementation and delivery of the desired outcome on the other that the state seeks to enable is plainly dysfunctional. Lack of appropriate deliberation, planning and efficient administrative procedures would appear to hamper delivery, as the length of time between the decision to proceed and the date of completion

widens, budgetary expenditure inflates and the actual utility of the project can become degraded through delay. A specific consequence of this has been the notable proliferation of costs associated with land and property expropriation.

Finally, it could be justifiably claimed that the state functions in a way which is both inefficient and incomplete, particularly in its fulfilment of regulatory duties in the adherence to rules and regulations and the monitoring of their application.

But if this overview captures something of the actual performance of the state, how does the Republic compare with states elsewhere, and on what basis can a comparative measure be captured in terms of the quality of governance delivered. It is to this task that the next chapter turns.

Chapter 3 - Quality of Governance: According to the World Bank

During the 1990s, the wider policy agenda, promoted by transnational organisations which aimed at assisting developing countries and those states in transition from planned to free market economies, became fixed on the important variable of the quality of governance in promoting change.

This was to become a particular preoccupation of the International Monetary Fund and the World Bank, organisations that increasingly identified positive economic development with a range of necessary conditions within which to promote a successful market economy. During the 1980s and early 1990s, much of this work carried a not-so-subtle ideological inflection that chimed with dominant economic orthodoxies at the time which, for example, tended to conflate a better functioning public service, with restricted state intervention in the economy, and a contraction of services provided by the state, to be filled by private service providers. Collectively this had been known as the 'Washington Consensus', which also included an emphasis on the deregulation of markets, particularly financial markets, a general reduction in public spending and the drive to privatise state assets, that had been close to the core of what had been identified as Thatcherism in the UK and Reaganomics in the United States.

By the mid-1990s a perceptible shift of emphasis could be detected, with attention also beginning to be paid to the perceived importance attached to adherence to the rule of law, the development of anti-corruption strategies and elevating an accountable and efficient public sector as a previously downplayed or neglected aspect of the promotion of socio-economic development. These were a set of institutions, policies and strategies that had been taken for granted by the dominant economic orthodoxies of the time but were conspicuously weak or sometimes absent in states beyond the so-called core western countries.

It was becoming clearer to some that many socio-economic problems could be traced back to the relative inability of many states to be able to deliver a functioning regulatory framework which would curb or undermine a wide range of corrupt behaviours that privileged some over others. Conditions within which monopolies flourished for example and had deleterious social consequences by undermining cooperation, destroying social trust and social cohesion as well as generating conflict.

The issues that were raised were also becoming that much clearer in other respects. It was also during this period that an organisation such as Transparency International was established with the explicit mission to raise awareness of corruption worldwide and to promote strategies through which the phenomenon might be best ameliorated or eradicated. In undertaking their initial work that organisation recognised the need to develop an index through which corruption could be understood on a state-by-state basis, opening up the possibility of measuring its breadth and depth. The Corruption Perceptions Index (CPI) was originated in 1995 and served to annually rank countries by their perceived levels of corruption. It eventually incorporated 176 states, ranking them on a scale from 100 (very clean) down to 0 (highly corrupt).

Over the next decade, the CPI was joined by a wide variety of other means and methods, through which aspects of social, economic and political life were audited, measured and indexed, most commonly in a ranked order from one state to the next according to particular indicators of performance or quality. These included the Global Competitiveness Index, an annual publication from the World Economic Forum, which commenced in 2004. The Global Competitiveness Report ranks countries based on the Global Competitiveness Index. The Democracy Index, compiled by the Economist Intelligence Unit, that measures the state of democracy in 167 countries, was also originated during the same period. It is based on 60

indicators, grouped in five different categories: electoral process and pluralism, civil liberties, functioning of government, political participation, and political culture.

Much of the resulting data produced has been made available in a quantitative form which allows for comparison across states and for contrasts to be made between the imputed qualities of governance experienced within one state and another. And, with many of the surveys updated periodically using the same or similar procedures, comparison is also made possible across time.

A major consequence of this conversion of qualitative questions into quantitative measures, aimed at capturing the nature of governance is the resulting ability to either rank scores from individual states in a number of hierarchical orders or to assess whether the development of governance is advancing or regressing over time.

This outcome has important consequences. Quantitative scores and hierarchical ordering, as well as judgement about progress or regression across time, are offered based on key factors which determine fluctuations in the quality of governance, the impact of policy decisions, the prescription of future policy objectives or the dispensation of development aid amongst others. In short, measuring the quality of governance by states and international organizations have become increasingly important, extending beyond the boundaries of the academy and into the policy-making process and the how the decisions are made regarding the allocation of resources at both the local and international levels.

These outcomes were implicit, given the origins of a systematic effort to develop accurate indicators of governance which aimed at having a global reach. During the 1990s, the academic debate about the relationship between economic growth and the quality of institutions became an issue of importance to peak international organisations, such as the World Bank, a forum within which this debate took on particular significance. In drawing a clear relationship between aid effectiveness, in large part understood by the World Bank as playing the role of stimulating increased levels of growth, and 'good governance', the need to identify clearly what distinguishes 'good' from 'bad' governance became a matter of considerable importance. Consequently, the World Bank felt the pressing need to accompany decisions about the level and form of loans provided to a potential recipient state with a robust means of adjudicating between different qualities of governance. By the turn of the new century, aid eligibility had become, in part, conditioned by the quality of governance, not only for the World Bank but also as part of the US Government's foreign aid policy.

The World Bank's Governance Indicators

The World Bank's Governance Indicators, first launched in 2002, have become the most comprehensive and widely consulted general indexation of what constitutes quality of governance and how it ought to be measured. They are based on aggregated data which captures the perceptions of multiple groups of respondents, collected in a large number of surveys and other cross-country assessments of governance. In essence, these indicators built on the proliferation of other indexes, surveys and reports, which had been developed by other institutions and organisations launched during the 1990s and early 2000s.

For the World Bank, good governance is identified with 'predictable, open and enlightened policy making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law' (World Bank: 1994). Given this broad definition, specific 'governance indicators' have been produced to measure six aspects of good governance identified as: Voice and Accountability, Political Stability and Violence, Government Effectiveness, Rule of Law, Regulatory Quality, and Control of Corruption. The indicators are then filled out

for each state by bringing together data from 32 available sources in the form of approximately 340 variables. The sources include a mixture of commercial information providers, surveys of firms and households, civil society and public sector organizations, amongst others.

In producing a single master survey, it also provided the opportunity to rank the quality of governance apparent in one state in comparison with another as well as make an informed judgement about how that quality changed, for better or worse, from one reporting period to the next.

The 'World Governance Indicators' (WGI) are marshalled around the essential dimensions of 'good governance' as follows:

1. **Voice and Accountability** – which are judged against a measure of how far a state's citizens participate in the selection of governments, the extent of the freedoms of expression and association, as well as the existence of a free media.
2. **Political Stability and the Absence of Violence** – a measurement of the perceptions of 'the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including political violence or terrorism.'
3. **Government Effectiveness** – a measurement of 'the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formation and implementation, and the credibility of the government's commitment to such policies.'
4. **Regulatory Quality** – a measurement of 'the ability of the government to formulate and implement sound policies and regulations that commit and promote private sector development.'
5. **Rule of Law** – a measurement of 'the extent that agents have confidence in and abide by the rules of society, and in particular, the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence.'
6. **Control of Corruption** – a measurement of 'the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the "capture" of the state by elites and private interests.'

However, these indicators and related measures should be treated with caution and approached advisedly. Their utility is providing an indication of general conditions as well as patterns or trends from one year to the next. Used in this way, they can serve to indicate a constellation of issues that might be prioritised for reform, but the evidence is frequently so broad that it is not practically useful in developing a reform programme as such.

What has not been attempted here is to explore detailed cross-state comparability or long-term trends measured through one or more indicators; still less does the data presented disclose the relationship between a particular indicator and the underlying processes or relationships which may affect its score.

A danger to be avoided is to treat measuring quality of governance as an exact science. Care must be taken in asserting claims about changes in the indicators from year to year, because these are, more often than not, found to be within the margin of error, and cannot therefore be taken as indicating a definite trend. Statistical uncertainty and sampling bias are inherent in most types of governance indicators, in particular those derived from survey data and judgement of a small number of experts on panels, who may very well have a distinct ideological bias.

Further, it should always be born in mind that they are measures that are made from a combination of up to 35 separate sources. As an example, the WGI Voice and Accountability measure combines perception measurements derived from polling data with expert judgements, and includes indicators which stretch across a wide range of topics, including accountability issues, freedom of the press, budget transparency as well as political rights. Aggregated in this way, it can be difficult to gauge what the final measure does in fact record let alone what significance can be attached to such an outcome. In many cases, concerns can also be raised as to how the individual indicators have been produced, since there is not always transparency in a full disclosure of the methodologies employed or the scoring systems used.

These problems are magnified when dealing with a broad and frequently opaque category, such as governance, which can incorporate a sometimes never-ending range of themes, issues and dimensions, a particular problem identified with the World Bank's approach. Take as an example the performance of the justice system in Cyprus measured against a general criterion of 'good governance'. It is possible to identify verifiable, qualitative information which suggests strongly that the system here is performing particularly badly when considering the considerable delays which are apparent in the way in which justice is administered through a slow and bureaucratic court process. This poor performance is open to clear demonstration and can be accurately measured. But for an assessment to be made of just how independent that system is from the executive branch and more general political interference from other sources, including individual political actors or political parties, it is more difficult to access the information, let alone measure it quantitatively.

One of the potential problems with any assumption about the current demands being made by the Troika, in an attempt to improve the standard of governance in Cyprus, is that they tend to involve specific measures which can be captured by narrow, more specific and measurable indicators, such as a particular change in legislation or tangible reform of an institution. This can have the effect of neglecting broader and more fundamental problems related to governance which may cross a number of sectors and simply may not be easily identified and worked on in this way.

Being aware of the limitations which accompany any attempt to accurately capture the quality of governance requires a balanced approach which recognises the value of measurement. In short, absolutely robust measurement is an aspiration rather than a reality, and it needs to be used in conjunction with qualitative and subjective assessments which may be much better at uncovering some of the relationships or conditioning factors which underpin the particular phenomenon being measured.

These indicators seem beguiling as they give the appearance of being carefully constructed, extend the promise of global coverage and are grounded on the claim that real precision can be achieved. So, while the World Bank has been careful to assert that they have 'no official standing', they nevertheless carry the prestige of being authenticated by a major transnational institution.

A cursory examination of the mean scores ascribed to the 27 EU member states, across these six major indicators, suggest a marked geographical distribution which conforms to a general pattern. This evidence would indicate that governance quality is at its highest in Finland, Denmark and Sweden, whilst for a large group of Western European countries, such as Ireland, France, the Netherlands and the UK, the quality of governance would be judged to be good. A third distinct group stretches across the Mediterranean, from Portugal and Spain through to Greece and Cyprus, in which the mean scores acquired tend to be average or below the EU average. A final group, identified as northern and eastern countries, which are more geographically dispersed but share a common history as former communist states, and exhibits the lowest mean scores.

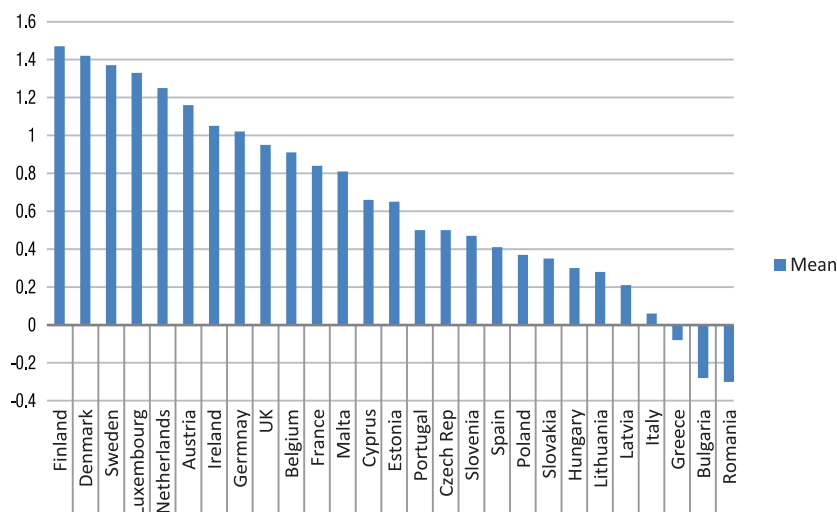
Among the EU countries, control of corruption is the measure that varies the most. While most indicators stay above the average, the control of corruption measure has negative values for many countries. In Spain and Greece, the perceptions of political stability are remarkably high. In Bulgaria and Romania, the problems with government effectiveness and rule of law should be pointed out in addition to the corruption problems.

What follows is an overview of the data, captured by each of the World Governance Indicators, as they relate to Cyprus. The data is presented in a number of different ways, each of which gives a particular perspective on what the data might mean in measuring the quality of governance as this can be compared with other EU member states. We are looking at the data of a number of countries, including Cyprus, during the period from 2008 to 2012, to establish whether there have been more recent changes in the measure ‘quality of governance’ across Europe.

Whilst the first figure offers the mean average score across all six indicators for each state within the European Union, the figures which follow include smaller samples. Two figures are presented for each; the first compares the mean average score secured by Cyprus in comparison with the five other states in southern Europe. These are, in many respects, more comparable states sharing a developmental history, political culture and particular styles of capitalism than is the case in the European Union as a whole.

When interpreting the following graphs, it should be kept in mind that the standard normal units of the governance indicator range from -2.5 (extremely poor) to 2.5 (extremely good).

Figure 13. Indicators of Governance for the EU-27

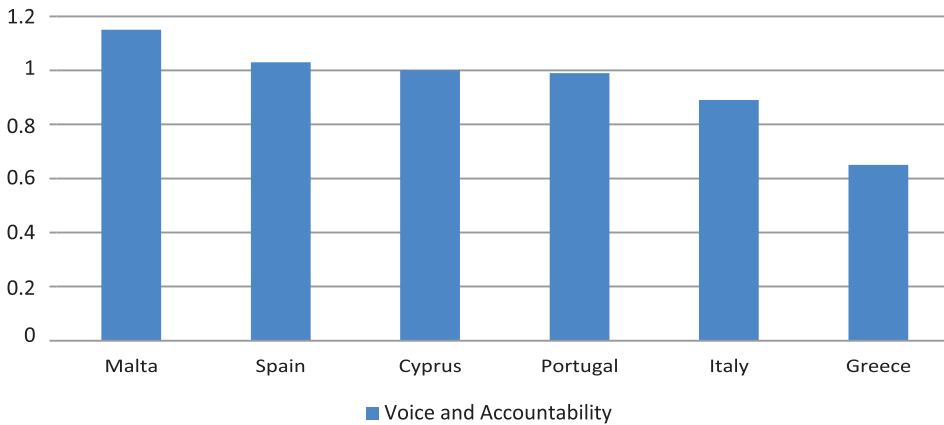


Source: World Bank Data 2010

Cyprus (0.66) occupies a mid-point position at the higher end of the southern European group of smaller states, including Malta (.81), Estonia (.65) and Portugal (.50). It is also important to note that the southern European cluster also includes two states, Italy (.06) and Greece (-.08), both recording a markedly low quality of governance. This tends to suggest that, whilst Cyprus occupies a middle ranking within the European Union, as a whole it scores a relatively high level of performance within the group to which it is consigned.

In order to dig down deeper into what its significance might be, what follows takes a closer look at each of the governance indicators one by one. The objective pursued here is threefold. In the first instance reducing the measurement of quality of governance to a single numerical score can obscure variations in scores across the six dimensions which together constitute what the World Bank posits as a quality of governance. The concern here is to explore whether there is significant variation between the dimensions, perhaps noticeably weak according to one general indicator such as ‘Voice and Accountability’ and stronger in ‘Rule of Law’. Secondly, the data is presented to display scores secured by those southern European states that are similar to Cyprus in order to allow comparison. Thirdly, a further figure for each indicator has been generated that introduces data gathered between 2008 and 2012, which enables the possibility to roughly capture trends in the scores acquired over that four year period. This exercise is undertaken advisedly given the margin of error which accompanies the production of the original data and should be read as engaging in speculative observation. It should be noted that we have selected states from each of the four major clusters with which to compare Cyprus’s score. Those states are: Sweden from the North, Ireland from the West, Romania from the East, and Greece, which shares a position within the southern cluster along with Cyprus. Finally, since each of these indicators are themselves composite measures based on a large number of underlying data sources, where it is appropriate we have returned to those original sources to explore how they may have influenced fluctuations in the overall indicator score acquired between 2008 and 2012.

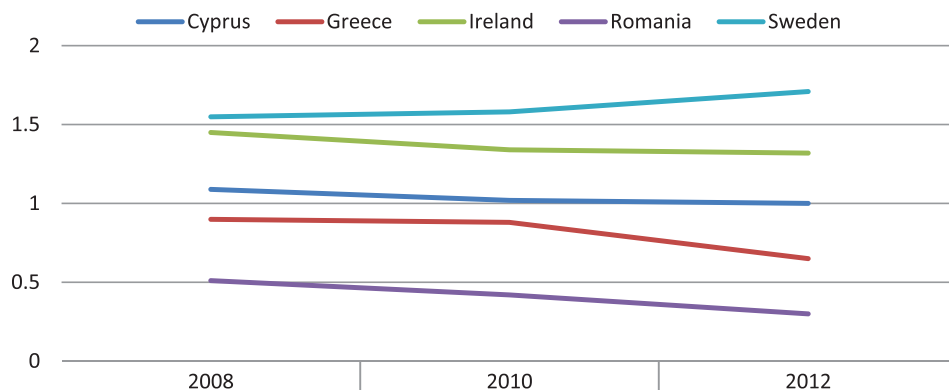
Figure 14. Voice and Accountability - Comparison Across Southern European Countries



Source: World Bank 2012

Cyprus occupies a position which is close to the mean average score across the southern states of Europe. According to this assessment, the Republic gets reasonable marks in enabling its citizens to participate in selecting their government as well as in allowing the related freedom of expression, freedom of association and a free media when compared with Greece, for example.

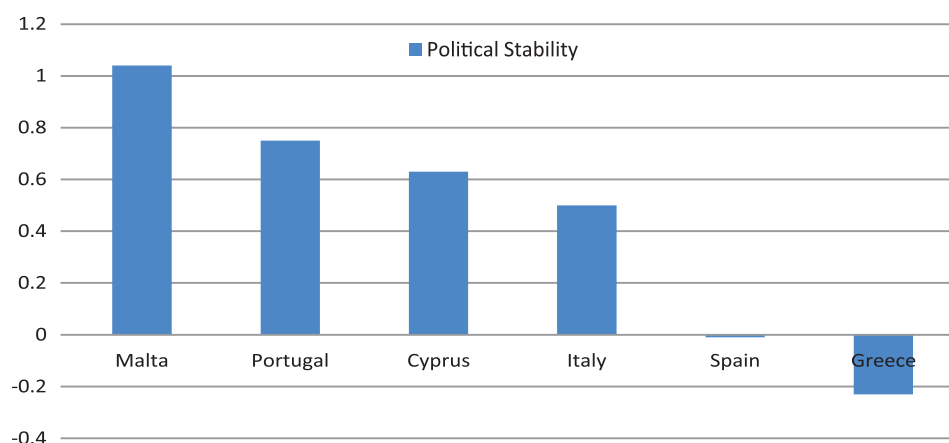
Figure 15. Voice and Accountability - Comparison with Representative States from Across Clusters in the EU Between 2008 and 2012



Source: World Bank 2012

However, when looking at the scores over the years, the data suggests that there has been a small but perceptible decline in the quality of citizens' relationship with their states as far as their experiences of key freedoms are concerned and the resulting ability to articulate opinions, raise issues of concern and hold those in public office to account. Looking closer at the underlying data, the downward shift in this indicator appears to have been recorded by opinion polling data from the Gallup World Poll rather than expert opinion derived from the Economist Intelligence Unit or the Political Risk Services International. The only other recent period when a similar decline occurred in Cyprus was between 2002 and 2004, which might have reflected the fraught nature of the public sphere in the lead up to the Annan Plan referendum in 2004. Compared with the other states represented in this figure, all but Sweden have experienced a perceptible downward drift.

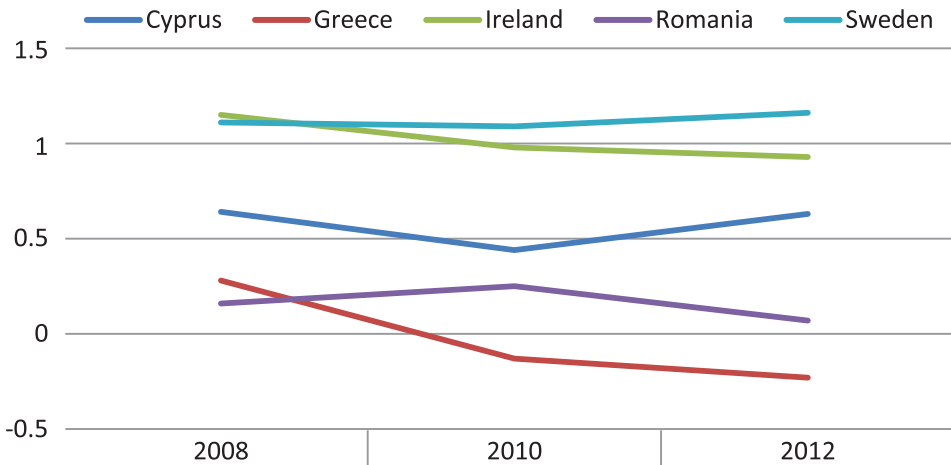
Figure 16. Political Stability and Absence of Violence/Terrorism – Comparison Across Southern European Countries



Source: World Bank 2012

Again, when Cyprus is compared with other southern European states, especially Spain and Greece, it appears to enjoy an ascribed score which marks it as a relatively stable state and society. There is little doubt that the onset of severe recession has disproportionately affected these clustered states in general, but it has had a significant impact on the political stability of Greece in particular. Both Greece and Spain had also entered that recession phase well before Cyprus had begun to feel the full effect of the economic crisis which might begin to explain these particular scores. Whilst Malta has, so far, managed to escape the worst effects of the downturn, this is not the case with Portugal which might appear uncharacteristic in the relatively high estimation of its imputed political stability during this period. However, it should be borne in mind that political stability is not simply determined as a crude outcome of economic crisis but is best judged as being the result of complex responses by both state and society to a contracting economy. Many factors would influence just how stable a society and state would be under those circumstances, including the nature of party politics and the ability to form effective coalitions or the propensity to deliver polarising electoral outcomes. It is also likely that the tendency to engage in violent street protests, a hallmark of some Greek responses to the imposition of austerity measures, is likely to have played a part in determining that state's score.

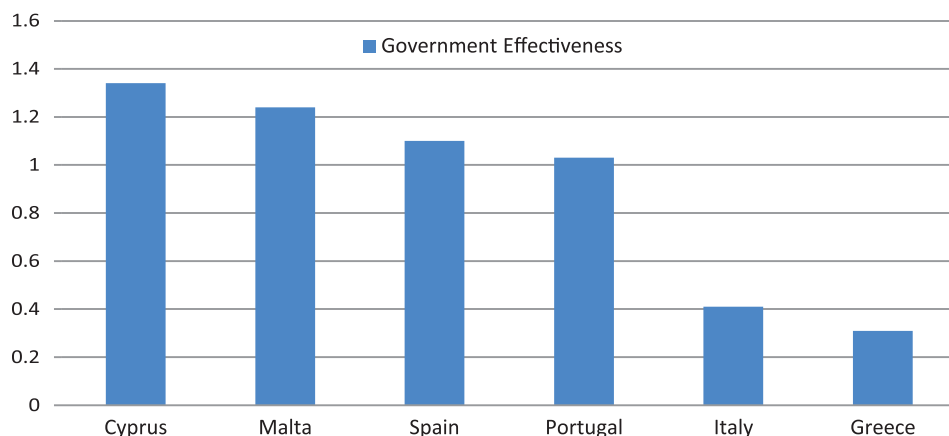
Figure 17. Political Stability and Absence of Violence/Terrorism – Comparison with Representative States from Across Clusters in the EU Between 2008 and 2012



Source: World Bank 2012

This evidence, which comes from seven separate data sources, suggests that there has been a noticeable decline in political stability in Cyprus from what had been a high point in 2008 to a low in 2010. From that year to 2012 the expert perceptions upon which this evidence is based record a recovery of stability, which is only matched by Sweden. According to this evidence the low point was actually reached in 2009 and has gradually risen ever since. The street disturbances following the explosion at Mari in 2011, as well as the tailing away of those events, are part of this period captured in the data.

Figure 18. Government Effectiveness – Comparison Across Southern European Countries

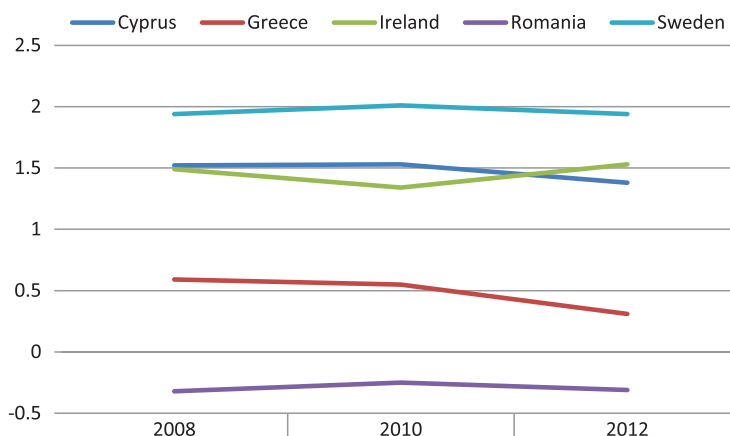


Source: World Bank 2012

What is said to constitute government effectiveness, as employed by the World Bank here, includes the quality of public services, a state’s civil service and the degree of its independence from illegitimate political pressure. The indicator also aims to capture the relative quality of policy formulation as well as the effectiveness of its implementation, and the credibility of the government’s commitment to such policies. In short, the indicator is intended to be used to capture a range of state capabilities and, in the case of Cyprus, it draws on expert opinion delivered by such organisations as the Economist Intelligence Unit and the World Economic Forum. Polling evidence is also drawn from the Gallup World Poll to capture public perceptions.

According to this evidence Cyprus experiences the highest level of government effectiveness with the southern European cluster, well out-pacing the two laggards of this group, Italy and Greece.

Figure 19. Government Effectiveness – Comparison with Representative States from Across Clusters in the EU Between 2008 and 2012



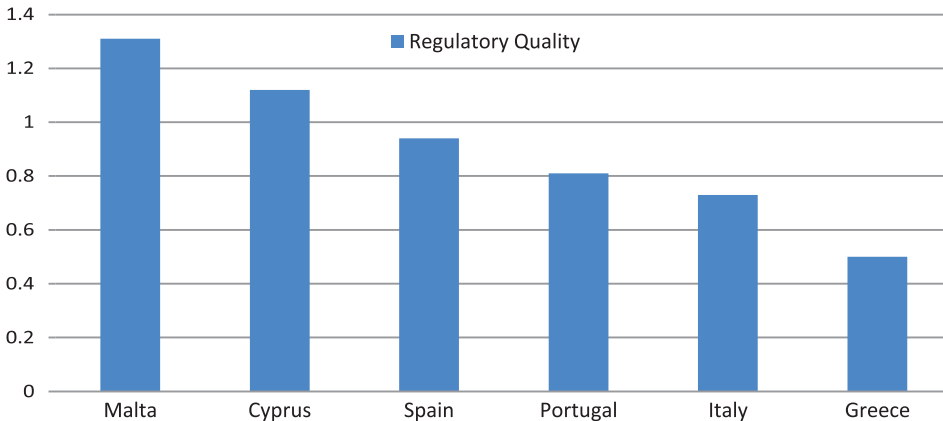
Source: World Bank 2012

Placed in this comparative context it would suggest that whilst the quality of government may have experienced a small decline over the past number of years, it remains relatively high within a broader EU context. A closer look at the data sources, which have been aggregated to produce a single yearly score, shows apparent differences in the underlying trends recorded in the individual datasets. This, it should be borne in mind, might very well reflect the ambitiously extensive range of phenomena that this indicator tries to capture for which a specific survey may be more attuned than another. In short, the survey evidence employed may be recording very different aspects of what is broadly defined as government effectiveness.

However, it is noticeable that the Economist Intelligence Unit has recorded a substantial rise in government effectiveness, from a low point in 2003 to a high and stable measure in 2012. A similar, but less dramatic improvement across a similar timeframe is captured by the World Economic Forum’s Global Competitiveness Survey. It should also be added that public perception captured in Gallop data also traces a rise in perceptions of effectiveness from 2006 to 2012. The data that records a decline from 2011 to 2012 which then becomes manifest in the figure above is derived from the Institutional Profiles Database and the survey on business and risk conducted by Global Insight.

In considering this evidence it is important to register that Cyprus’s accession to the European Union and the effect which this has had on multiple levels of governance in Cyprus might, in part, account for the gradual rise in perceived effectiveness. However, the continued rise in this score in the years between 2009 and 2011 may appear particularly curious to some. It might have been anticipated that in both public and expert opinion that the rapid onset of a profound economic crisis would have been reflected in a marked decline in peoples’ perceptions of a state in efficient and effective control from 2010 at least. Indeed, the Economist Intelligence Unit in particular traces a sharp rise in effectiveness between 2009 and 2010 and has recorded no decline since.

Figure 20. Regulatory Quality – Comparison Across Southern European Countries



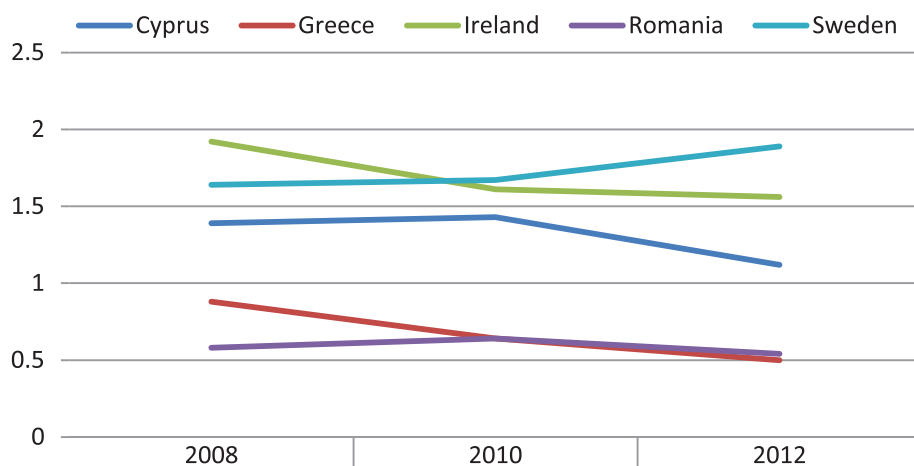
Source: World Bank 2012

What the World Bank refers to as Regulatory Quality aims at recording peoples’ perceptions of the ability of the government to formulate and implement what it vaguely refers to as ‘sound policies’ and the effectiveness of its regulatory regime which both permits and promotes private sector development. This is perhaps the most ideologically loaded of the indicators presented so far as the definition of what

constitutes sound policies in this area are very much open to dispute. It is also important to note that the regulatory framework is judged against its effectiveness in promoting private business interests rather than regulatory regimes governing the production and distribution of public goods for example.

With that in mind, Cyprus can be distinguished from other states within this cluster as having a relatively high quality regulatory regime which is only outscored by Malta. Surveying the underlying data there is a heavy reliance on business-orientated surveys and expert opinions which are aimed primarily at the international business market. The Economist Intelligence Unit, Political Risk Services and Global Insight, for example, are commercial organisations which provide information services, first and foremost, to foreign investors. It could be argued that given a very clear segmentation in the Cypriot economy between small-scale, local companies and the owners and investors of foreign capital that the surveys undertaken by these organisations are skewed towards studying the experiences and needs of their primary client group. Given the efforts which the Republic has devoted to facilitating Cyprus as an international financial centre, which has typically involved the conscious provision of a loose regulatory framework to encourage the routing of finance capital through the island in the service of private interests, the data should be treated with due caution.

Figure 21. Regulatory Quality – Comparison with Representative States from Across Clusters in the EU Between 2008 and 2012

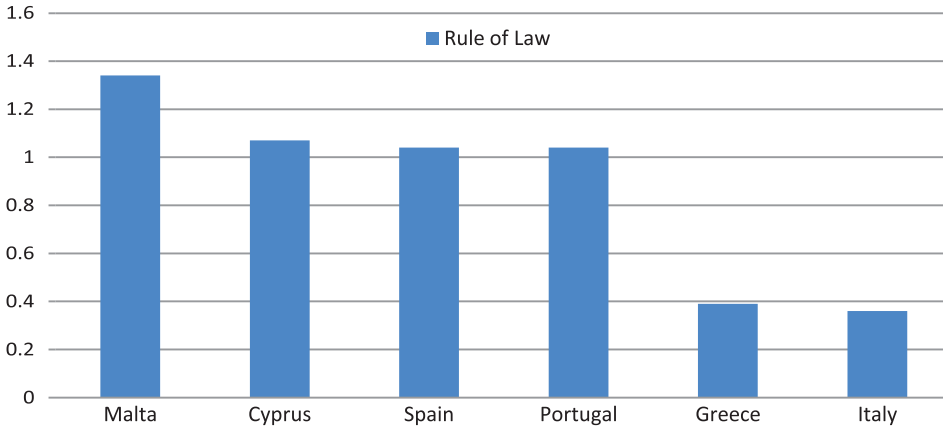


Source: World Bank 2012

It is of little surprise that, amongst the states appearing in the figure on Regulatory Quality, Cyprus records the sharpest drop in perceived regulatory quality between 2010 and 2012. This was the period when the local banking system began to unravel and serious questions began to be asked about the regulatory framework provided by the Central Bank amongst others. It is notable that Ireland, which faced problems like those which became evident in Cyprus at a later point, experienced a similar decline, as measured by this indicator, between 2008 and 2012.

Looking at the underlying data, both Global Insight's Business Conditions and Risk Indicators and the Economist Intelligence Unit were still recording high and stable measures of regulatory quality throughout the period from 2008 to 2012. Only the Political Risk Service's International Country Risk Guide recorded a significant deterioration between 2010 and 2012.

Figure 22. Rule of Law – Comparison Across Southern European Countries

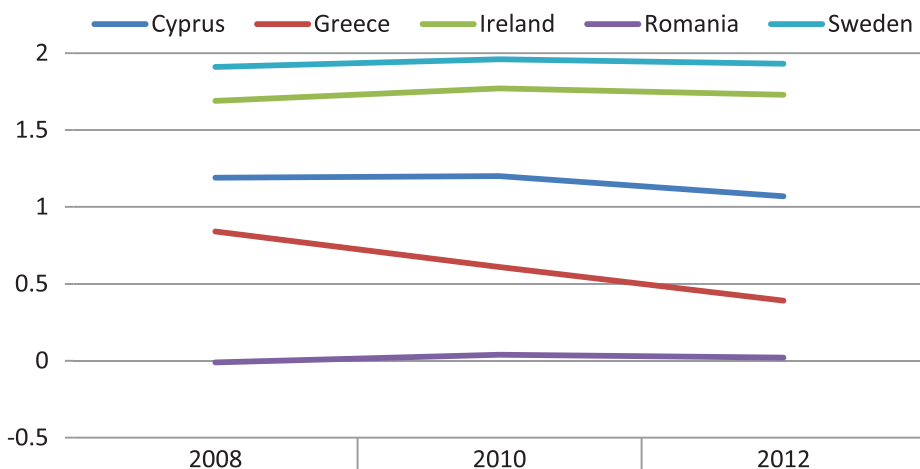


Source: World Bank 2012

The Rule of Law indicator is based on perceptions of the extent to which people have confidence in and abide by the formal rules of society, and in particular the quality of contract enforcement, particularly as this relates to property rights. It is also based on the perceived quality of the performance of the law and order and justice systems, as well as the likelihood of crime and violence occurring. Again Cyprus occupies a comfortable position in the upper half of the figure, whereas both Italy and Greece cluster towards the bottom. It is likely that the low level of local crime in both Cyprus and Malta as distinct from the larger states recorded here may be a significant factor in shaping this evidence. However, it is curious that noted delays apparent in the Cypriot justice system, the low confidence placed in the Cypriot police service as well as the widespread infraction of rules and regulations within wider society did not seriously deflate the overall score achieved.

Again it is worth noting that the data sources, from which the aggregated score is derived, come overwhelmingly from organisations servicing international business interests, which may have placed greater weight on aspects of this indicator which were more relevant to its clientele rather than the local citizenry. In this regard, however, general polling data was alone in recording evidence of a perceived decline in those aspects of the rule of law between a high point in 2006 and a low point in 2012.

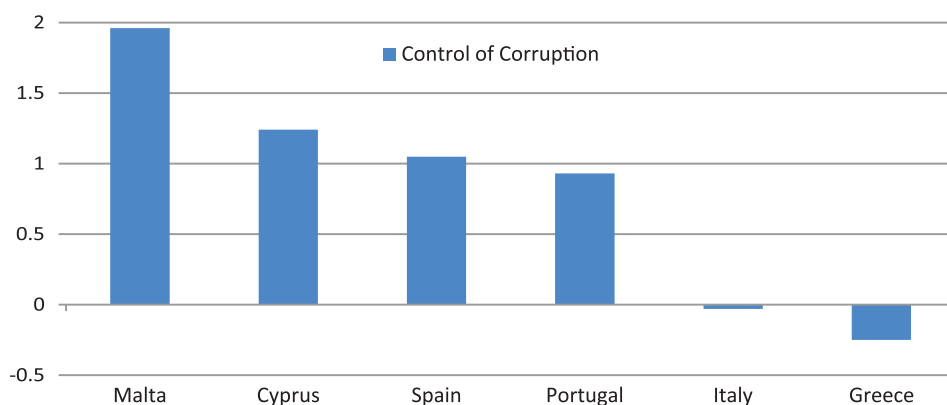
Figure 23. Rule of Law – Comparison with Representative States from Across Clusters in the EU Between 2008 and 2012



Source: World Bank 2012

All states record a decline in the observance of the rule of law between 2008 and 2012, with the decline sharpest in Greece, followed by a gentler decline in Cyprus. The underlying data records a steady rise in this measure from about 2004, along with Cyprus’s accession to the European Union, and peaking in 2010.

Figure 24. Control of Corruption – Comparison Across Southern European Countries

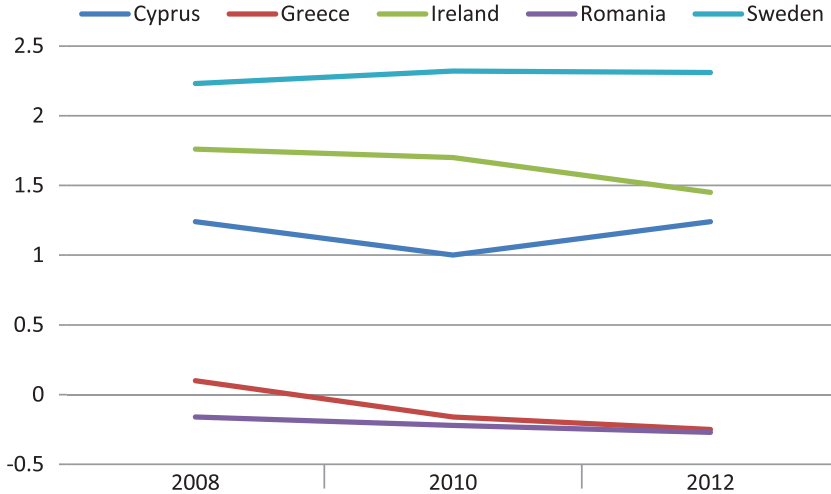


Source: World Bank 2012

The World Bank’s definition of corruption is when public power is exercised for private gain and it takes account of both the petty and grand forms which it can take, as well as the possibility that the state has been ‘captured’ by elites and private interests. Whilst Malta far outpaces the other states in exercising due control over corruption, in sharp contrast to both Italy and Greece, Cyprus is ranked as one of the better performers in this regard when compared within its regional context.

The aggregated data relies largely on expert opinion from the providers of commercial services but also incorporates polling evidence of the perceptions held by the general public in the form of Transparency International’s Global Corruption Barometer Survey and the Gallop World Poll.

Figure 25. Control of Corruption – Comparison with Representative States from Across Clusters in the EU Between 2008 and 2012



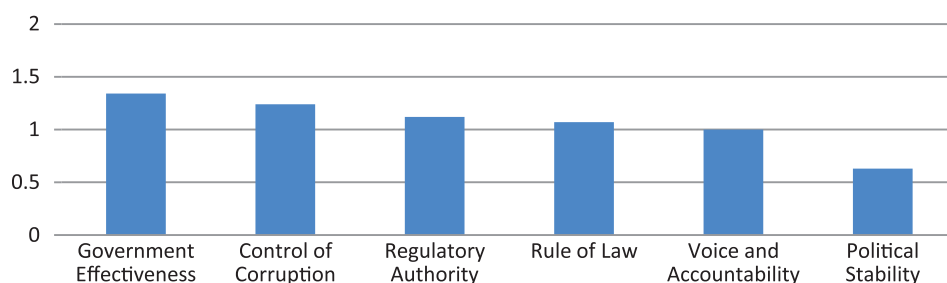
Source: World Bank 2012

Judged against states which are representative of clusters of states elsewhere in Europe, Cyprus is presented in the figure on the Control of Corruption as occupying a middling position within the EU as a whole when the effective control of corruption is measured. Strikingly, Figure 25 records an improvement in that control from a recent low point in 2011 to a high point a year later.

The individual sources of data used to construct this aggregated measure exhibit possible imprecision in their calibration with three of those sources recording no fluctuations from one year to the next between 2006 and 2012. This is true for the Economist Intelligence Unit, Political Risk Services and Global Insight. A further source, the Institutional Profiles Database, moves dramatically in rating a considerable improvement in corruption control between 2011 and 2012.

Finally, public perceptions, as measured by the Gallop World Poll, pull in the opposite direction, with citizens in Cyprus asserting that corruption control has markedly declined since the period between 2006 and 2008 to a low point in 2012. It is important to remain cautious in how these striking differences of perception can be understood; after all, given the broad description of what corruption control encompasses for the World Bank, the different surveys may be capturing related, but different, phenomena which can be collectively labelled as corruption. However, where a significant gap appears between the different forms of surveys conducted, it is most apparent when comparing those delivered by experts as a commercial service and those public opinions captured through polling data.

By way of concluding the presentation of the World Bank data as it shows the Republic of Cyprus across the six indicators which aim to measure the quality of government, the figure below brings together those indicators and the values ascribed to each for the year 2012.

Figure 26. Quality of Government Indicators for Cyprus World Bank 2012

Source: World Bank 2012

This chart on Quality of Government displays the data as it relates to each of the individual indicators and places them within the evaluation framework which measures across a range from -2.5 (very poor) to 2.5 (extremely good) and captures significant variation between each of the indicators. As such, it provides a rough and ready indication of the relative strengths and weaknesses associated with particular forms of governance. According to this evidence, the Republic manages to score across a range, from a measure of Government Effectiveness of 1.34 to a measure of Voice and Accountability of 1.0. Only the value attached to an estimation of Political Stability falls significantly behind with a value of 0.63.

Two general characterisations can be made about the relative position of the Cypriot state, as seen by these indicators, when compared with other states elsewhere. Firstly, in the context of the European Union as a whole, the Republic occupies a middling position located equidistant from poorly performing states, such as Bulgaria and Romania, and those which are judged to perform at the top end of the range, such as Finland and Sweden. Placed within a southern European regional context, the Republic consistently performs well when judged in relation to states such as Italy and Greece, which acquire notably low scores. Cyprus joins Malta and Portugal as well performing states within this cluster but without approaching the mean average scores associated with either western European States or those located in the very north of the EU.

It is important that this data and how it is read should be done with caution. It has been noted that the underlying data out of which aggregated scores are generated by the World Bank ought to be critically appraised. At times there are contradictory trends, recorded over time, from one data source to another. There are also suggestive discrepancies between data generated through polling evidence and that delivered by panels of experts. It is difficult to pursue these issues further since organisations such as the Economist Intelligence Unit and the Political Risks Services are commercial enterprises which fail to be absolutely transparent about the methodologies they apply in generating data or the detailed framework of analysis they employ in making sense of those results. Particular caution also ought to be extended to the production of data which is intended to service international business interests, particularly so on an island like Cyprus where there appears to be a clear division within the economy between the local, small-scale business sector and a raft of international businesses whose primary activity is not to directly invest in the local economy but to facilitate the flow of capital through a low-tax jurisdiction.

But a critical appraisal of the World Bank's attempt to render governance as a measurable set of concrete outputs and outcomes has also been subject to critical scrutiny by scholars and international experts. This to the extent that others have proposed other ways of defining what quality of governance constitutes and how it might be measured effectively. In short, any assessment of this sort also needs to be triangulated with data generated through other research methods and analysed according to a range of different criteria. Chapter Two began that task and the following chapters take this further with a particular emphasis on how the quality of governance also has a bearing on the phenomenon of corruption as well as the trust people invest in state institutions as well as each other.

Chapter 4 - Living by the Rules: The Making and Breaking of Trust

It would be an uncontroversial observation to remark that one of the major casualties of the unfolding economic crisis has been the trust that would have previously been invested in a wide range of institutions on the island and off it. In particular, evidence could be easily generated to demonstrate that Cypriot banks had once been perceived as a safe and secure place within which money could be safely stored, accessed or moved at will. But now having had the unpleasant experience of 'bail ins', the imposition of capital controls and the collapse of at least one major banking concern has resulted in considerable uncertainty to circulate around a set of institutions which had previously given every appearance of solidity, if not probity and reliability in the services they discharged.

This was a crisis which directly challenged the very ability of the local banking sector to survive. The imposition of what many saw as harsh, onerous, if not destructive conditions imposed by international lenders, as a condition of the bailout only compounded the sense of mistrust many depositors felt towards those who were meant to act as stewards of their money. Mistrust was directed towards those who might have had prior knowledge of the impending bail-in and moved their money out of the country. And it only got worse throughout 2013 as accounts were given by leading banking officials in the media or before a committee of enquiry which revealed slack practices, poor investment decisions and a general impression that the banks had been controlled by men who had treated these intuitions as personal resources used to fund their own investment portfolios.

All this had wider ramifications. In the language of media commentators, economists and business people, the ebbing away of confidence in the economy by international investors, small shop owners and general consumers alike became a simple way of explaining the economic downturn, the stagnation of the economy and the conditions within which a full-scale recession was precipitated. Conversely, it was claimed, without institutions, which you could extend trust to, confidence could not be restored and the crisis only prolonged.

Trust was also said to ebb from the key institutions of the Republic including Parliament as well as others who populated the political landscape including political parties and leading politicians. The withdrawal of trust extended, beyond that, to some of Cyprus's European partners as well as the institutions of the European Union itself. The issue of trust, how it could be withdrawn or extended, created or destroyed, became a popular and beguilingly simple way of reading the crisis.

This chapter takes a closer look at just what the causes and consequences of a decline in trust might mean but also links trust to a number of other issues or characteristics which mark Cypriot society, whether it is the performance of the state, the reproduction of corrupt relationships or the infringement of a basic sense of social justice which accompanies partial treatment by those public officials charged with behaving in an impartial way. In short, the line of argument ultimately pursued here is that the quality of governance delivered by any state can have a marked effect on particular forms and levels of trust expressed within the society over which it presides. This, in turn, meets a further claim that without widespread trust invested within institutions the state becomes significantly constrained in what it can deliver.

At the outset it needs to be conceded that trust can be a particularly complicated concept easily overloaded with meaning. However, it is important to distinguish between different forms of trust with which we are familiar.

There is direct or personal form of trust, which is commonly extended to those around us and is expressed towards people who are bound to us through networks based on family and friends for example. The general expectation is that trust can be invested in them as individuals and one can rely upon them to behave in a trustworthy manner. In making this judgement, a wager is made that their actions will be informed by trustworthy intentions.

However, beyond isolated, small-scale communities, human beings today do not only interact within tightly drawn or closed family or friendship networks but within large and increasingly complex societies, which necessitate less personal or intimate forms of trust. By the very nature of contemporary society individuals are forced to interact with others whose intentions are not necessarily known to us. Nevertheless, a wager has to be made as part of any specific interaction with others that the person being dealt with will behave in a trustworthy manner. And, for any transaction like this to work, there also needs to be a basic level of trust reciprocated if cooperation is to ensue.

What this suggests is that there are distinct qualities associated with particular forms of trust directed towards those who are known, in whom considerable investment has been made and who remain as a constant reference point in people's economic, social and emotional lives. A much more limited form of trust is waged on those who are not known to a person, who will only be trusted as long as they appear to behave in a trustworthy manner. One of the ways in which trust of this sort can proceed, and the wager made is seen to pay off, is when there is compliance to a set of rules which provide a measure against which trustworthy behaviour can be judged and conformity to those rules can promise predictable behaviour in those who otherwise are not known.

It can be argued that this type of trust is a necessary prerequisite for any complex and diverse society such as Cyprus to work. It would be difficult to conceive of how any community could function without a reservoir of trust out of which cooperation could ensue, complex actions effectively coordinated and complex relationships managed. In the language of economics trust of this sort lowers transaction costs and substantially enhances the conditions within which goods and services are exchanged.

Within the academic literature on this topic, other social scientists make a distinction between two very different ways in which people either extend or withdraw trust to those whom they do not know, who are not embedded in their family or friendship networks.

There are those who mistrust people in general (i.e. all people outside their immediate circle of peers), who are graced with the title of 'particularisers.' They are a group who tend towards a fatalistic perspective believing that they possess limited opportunities to shape their own lives. They also have a tendency to mistrust many social institutions and can behave defensively out of the belief that institutions are structured in a way that disfavors them personally.

By contrast, what might be called the group of 'generalised trusters' commonly extend trust to those they do not know, making a wager that trust will be reciprocated. Characteristic of this group is that they tend to hold to a moral norm that people should trust other people in general, and not limit the extension of trust to those within their immediate circle. This is also a group that invests in the claim that, if others were to "play by the rules", all have the possibility of being reasonably well rewarded. Their disposition is also one that tends towards assuming that trusting other people can deliver mutual benefits rather than constituting a risky proposition. In short, generalised trusters are also very likely to be good cooperators.

Finally, it is important to note that trust is not only expressed towards, or withdrawn from, individuals or groups, but is also invested in institutions. Trust in an institution is in part rooted in the predictable,

rule-bound ways in which it is perceived to operate, to the extent that trust does not have to be vested in any particular individual working within it but in the institution ensuring that those working there abide by the rules which it sets itself. The argument could be made that without at least a basic level of trust being extended to a range of institutions then a complex society, such as Cyprus, could not exist in the form that it does.

Having identified three major forms that trust can take, trust in those we know, trust directed towards those we do not know and trust invested in institutions, this chapter now turns to Cyprus data which provides an insight into the varying patterns of trust expressed through opinion polling data with a focus on trust which is extended towards institutions and political actors. The section which follows this employs multiple sources in order to capture the extent of generalised trust and, in doing so, offers comparison with data generated in other European Union states. Attention is also paid to how patterns of trust vary over time and concludes with a brief discussion about why variation occurs across time and space and linkages which can be made with other themes pursued in this book.

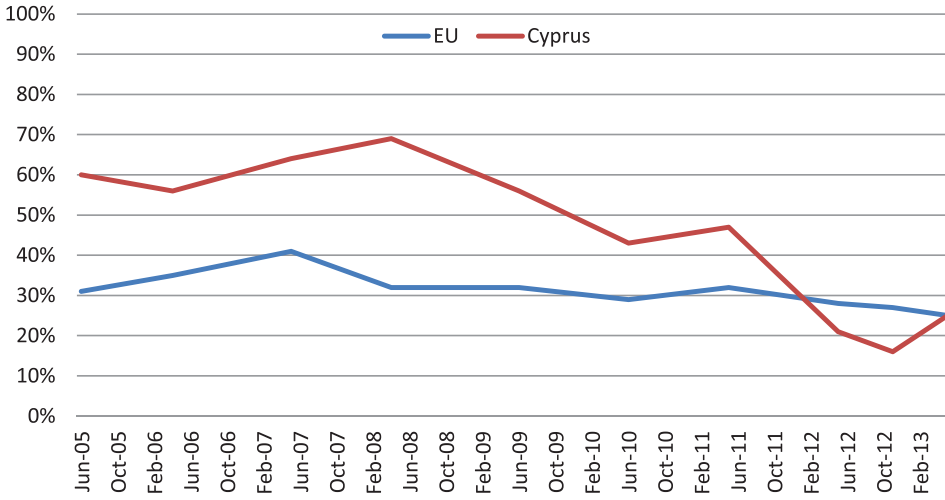
Trust in Institutions and Political Actors

The following survey results derive from select Eurobarometer surveys that were conducted in the period from 2004 to spring 2013. Together they capture levels of trust in key institutions within Cypriot society, including the government, parliament, local authorities and political parties. Whilst each are intimately linked, it is important to distinguish between these entities since they discharge different functions and have varying relations with each other within the political process at large.

Government is the executive branch within the state, and it is headed in Cyprus by the President, who presides over the Council of Ministers, and is commonly made up of a coalition of political parties, whose representatives secure ministerial positions. Parliament is constituted by the single chamber House of Representatives, its members are elected for a five-year term. It is generally the case that members are elected on a party ticket and together they function as the legislature within the political system. Local authorities can be interpreted to mean both municipalities and community councils as forms of governance which stretch into local communities providing basic services to local residents. The population is distributed into 30 municipalities and 386 communities. Municipalities are established with a minimum population of 5000. They do not command extensive powers and are generally under resourced. Finally, political parties are, by their very nature, partisan political organisations which are organised in such a way to secure votes, send representatives to local political institutions with the aim of commanding political power or wielding influence. It should be noted that party membership in Cyprus is likely to be proportionately the highest anywhere in Europe.

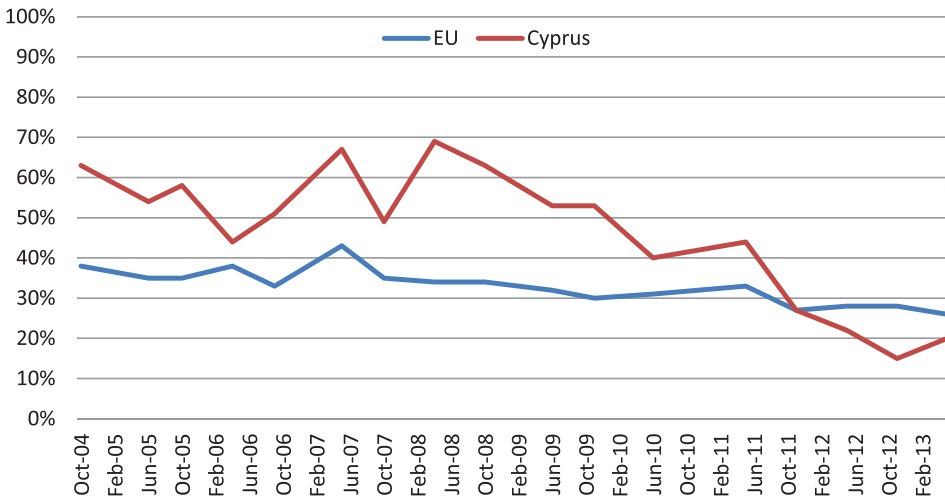
Each of the following figures offers data which can be read in two distinct ways. Using standard questions which are repeated in the same form twice a year, Eurobarometer polls are conducted across the European Union allowing data to be compared from year to the next and the responses in one state with another.

Figure 27. Tend to Trust my Country's Government – Cyprus and the EU (average)

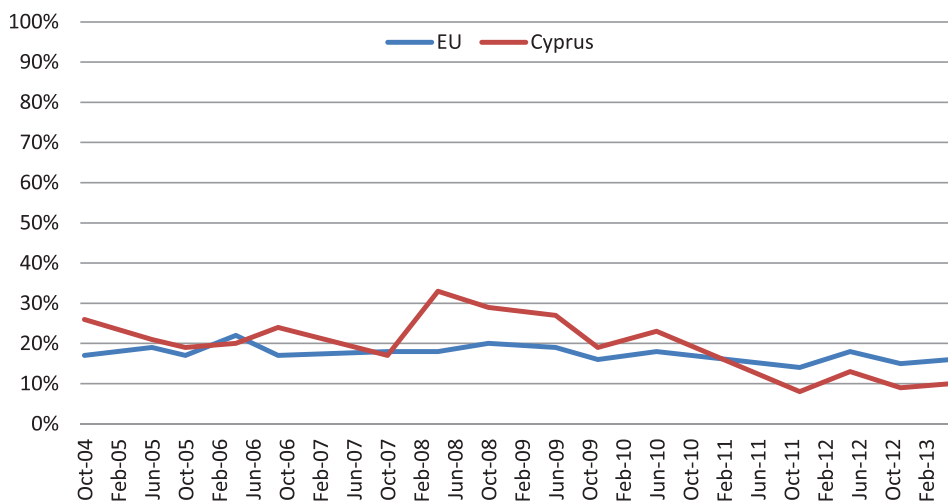


Source: Eurobarometer Spring 2013

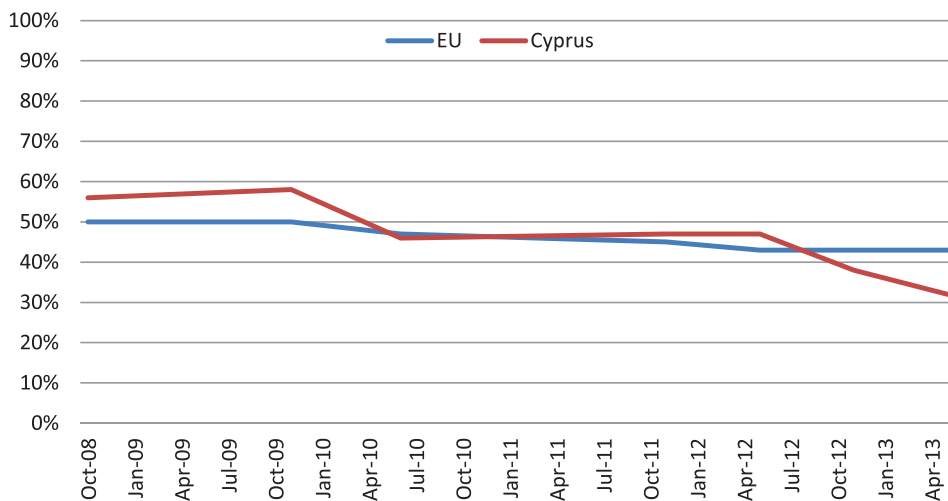
Figure 28. Tend to Trust my Country's Parliament – Cyprus and the EU (average)



Source: Eurobarometer Spring 2013

Figure 29. Tend to Trust Political Parties in my Country – Cyprus and the EU (average)

Source: Eurobarometer Spring 2013

Figure 30. Tend to Trust the Local Authorities in my Country – Cyprus and the EU (average)

Source: Eurobarometer Spring 2013

A striking feature represented across all four institutions and political actors under consideration is the common decline in trust expressed by Cyprus-based respondents. However, in all four institutions the rate of decline varies between them. The most striking is a substantial decline in trust vested in Parliament which, in 2004, commanded a level of 63%, and peaked at 69% in mid-2008, only to decline to a current level of 20%. A similar pattern of decline, but over a shorter range, characterised levels of trust in government recorded in mid-2005 of 60%, falling away to only 25% in 2013. However, the year before, trust in government had reached an all-time low of just 16% in the dying days of the Christofias presidency.

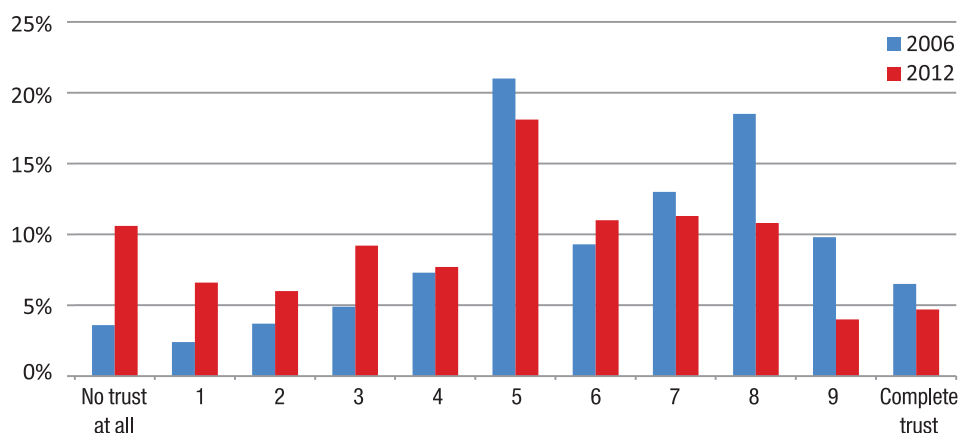
Similarly, trust in local authorities had also dissipated from 56% in 2008 to 32% in 2013, resulting in more people extending trust to this level of governance than others, albeit trust expressed by less than one in three respondents questioned. Finally, political parties had begun with a lower level of trust than any of the other three institutions, that is 26% in 2004, peaking at 33% during the election year of 2008 and declining to a current level 10%.

Turning to comparisons between levels of trust expressed in Cyprus as against the EU average, the headline trend here is that less than 10 years ago Cyprus-based respondents exhibited far higher levels of trust than the EU average in relation to its government, parliament and political parties. By 2013, levels of trust had dipped below the EU average, at some point between 2011 and early 2012, with the exception of local authorities which crossed that threshold in July 2012.

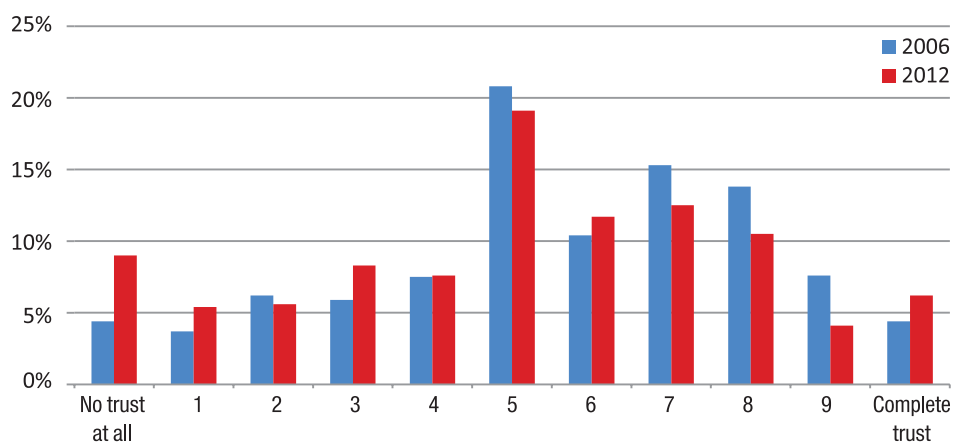
This is striking data because, judged against the EU average, the four institutions and political actors in Cyprus had previously commanded levels of trust well above their general EU equivalents. So, in terms of trust vested in government, taking the year 2004, the EU average was 31%, whilst for Cyprus this was 60%. Similarly, in 2005, trust in the Cypriot parliament was 63% and in the EU at large, 38%; for local authorities in Cyprus, 58% as opposed to an EU average of 50%, and in political parties 26% as opposed to 17% elsewhere.

In short, Cyprus is an interesting case, since, until relatively recently, key political institutions and political actors enjoyed significantly higher trust than the EU average only to see a general and rapid decline, particularly over the last five years. From 2008 there has been a 64% decline in trust in government, 71% decline in trust in parliament, 70% decline in trust in political parties and 43% decline in trust in local authorities.

Attention is now turned to institutions of a different type, which are at the centre of the justice and law and order system. Evidence of trust levels for these has been gathered from the European Social Survey, which measures levels of trust on a scale of 0 – don't trust at all – to 10 – complete trust. The institutions of concern here are clearly differentiated from the institutions previously considered since they lie firmly on what can be called the output side of the political process. That is to say, they are first and foremost the implementers of policy, the deliverers of services and the overseers of laws, rules and regulations which have been formulated on the input side, or policy formation side, of the governance equation. What this also clearly implies is that they are also institutions which tend to be judged according to a general principle of fairness or impartiality and, if they are functioning according to the normative claims made for them, within a political order described as liberal democratic, beyond partisan political control or influence.

Figure 31. Trust in the Legal System – Cyprus 2006-2012

Source: European Social Survey

Figure 32. Trust in the Police – Cyprus 2006-2012

Source: European Social Survey

In order to appreciate the shift in levels of trust that the public extended to these institutions in 2006 and in 2012, all responses that evaluate the trustworthiness of these institutions at 5 or above have here been treated as expressions of average-to-positive levels of trust. A substantial majority of respondents, totalling 78%, extended their trust in the legal system in 2006 but by 2012, that number had declined to 59%. Similarly, the police service has commanded trust at the same general level (72%) in 2006 only to see a decline, but a significantly smaller one, to 64% by 2012. The differential rates of decline for both over that period were 37% for the legal system and 11% for the police service.

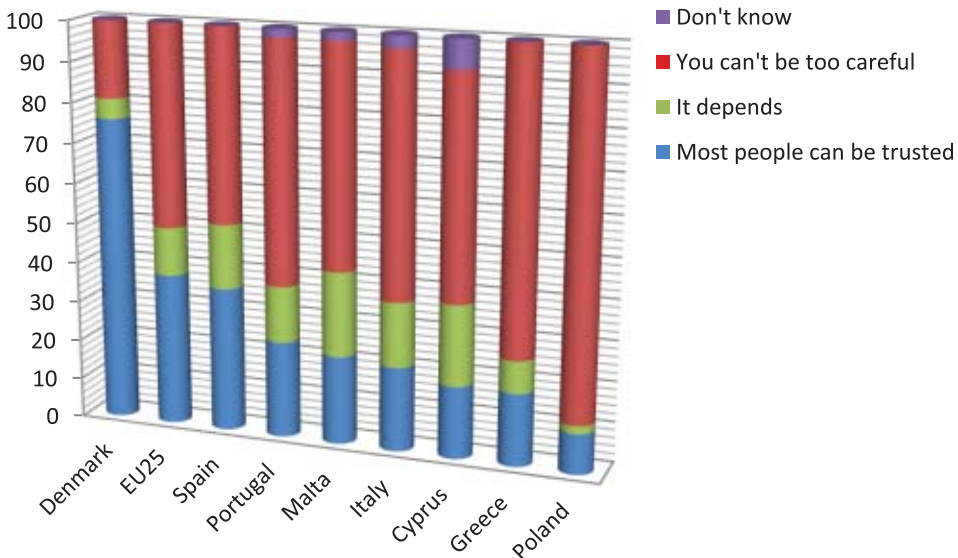
Generalised Trust

Turning now to data in relation to how people trust each other rather than the trust displayed towards institutions within the political sphere, attention is drawn to different forms of trust expressed within Cypriot society and compared with polling data from elsewhere.

The data aims to capture trust which is extended to people we have little or no knowledge of, described as 'generalised trust'. The now conventionalised method through which to access and measure levels of generalised trust within any given society is through the administration of the question 'Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people'. This is the formulation used in some of the Eurobarometer evidence used here (Eurobarometer, 2004) and is also employed in other surveys conducted. There are also variations in how a question like this can be posed which figure in other results presented below.

Further, it is important to register that because of the use of multiple sources published between 2004 and 2012, variations between the results from one data source to the next are to be expected. With this in mind it should be noted that the purpose pursued here is not to capture the finer detail of fluctuations in this type of trust but rather to grasp, in broad outline, just how extensive are expressions of generalised trust amongst Cypriot respondents, particularly when compared with respondents in other EU member states. In short, the aim is to give a rough and ready answer to the question as to whether the local results indicate conformity to levels of trust elsewhere and whether it is possible to trace a rise or fall in those levels during the recent past.

Figure 33. Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?



Source: Eurobarometer (2004)

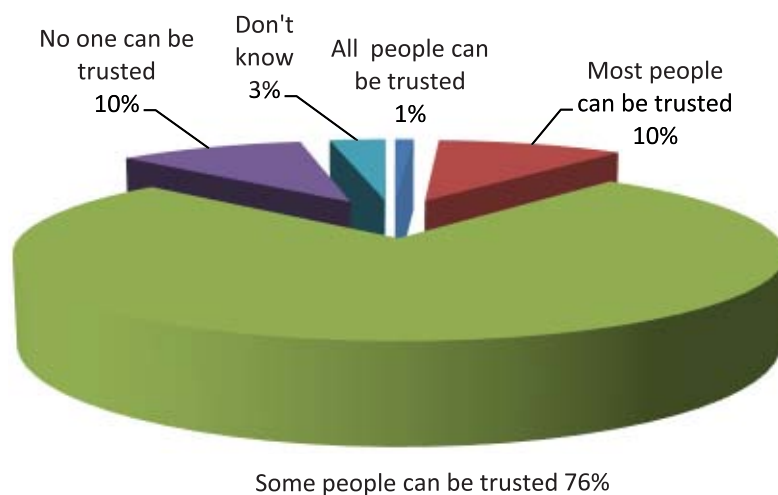
The Eurobarometer data is important because it provides a basis upon which to compare responses to the same question, administered within the same timeframe, across, what was then, the EU25 and, as presented in the figure above, the opportunity to offer comparison between respondents in southern European states.

The extent of generalised trust indicated by a response that 'most people can be trusted' varied from a high of 76% of respondents in Denmark to a low of only 10% in Poland; across the southern European countries, both Cyprus and Greece recorded a low of 18% and Spain a high of 36%. The relatively small number of respondents in Cyprus who express generalised trust, at 18%, is significantly lower than the southern European countries' average of 28.16%. This low level of trust in people who are not known is matched by a majority sentiment of 55% who claim that 'you cannot be too careful', a cautious response which compares with a southern EU member states' average of 58.66% of respondents who recorded the same reaction.

To be more precise, Cypriot respondents were, along with their Greek counterparts, the most reluctant to extend generalised trust, but this did not simply translate to a mirrored sentiment of simply adjudicating that 'you cannot be too careful'. The opinion Cypriots expressed in making this choice (55%) was less than that recorded in Greece (74%), Portugal and Italy (60%) and the same percentage as Malta (55%). Only in Spain did fewer respondents opt for this choice (48%). However, it is of significance that in Cyprus 20% expressed the view that either the extension or withholding of generalised trust 'depends' on a range of other, non-specified, factors and 7% did not record a response.

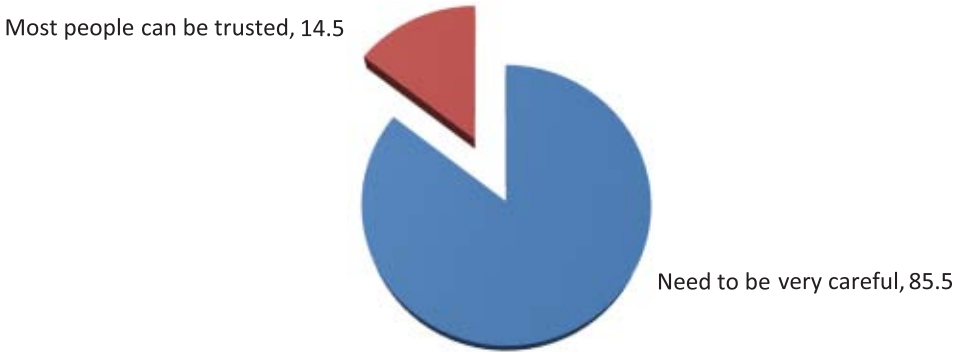
We can also compare these results with three other locally originated surveys (Civicus, 2005 and 2011; CEPS, 2008) within which similar questions directed towards disclosing levels of generalised trust were posed.

Figure 34. Generalised Trust Expressed Towards Others



Source: Civicus (2005)

Figure 35. Do we need to be very careful when it comes to trusting other people?

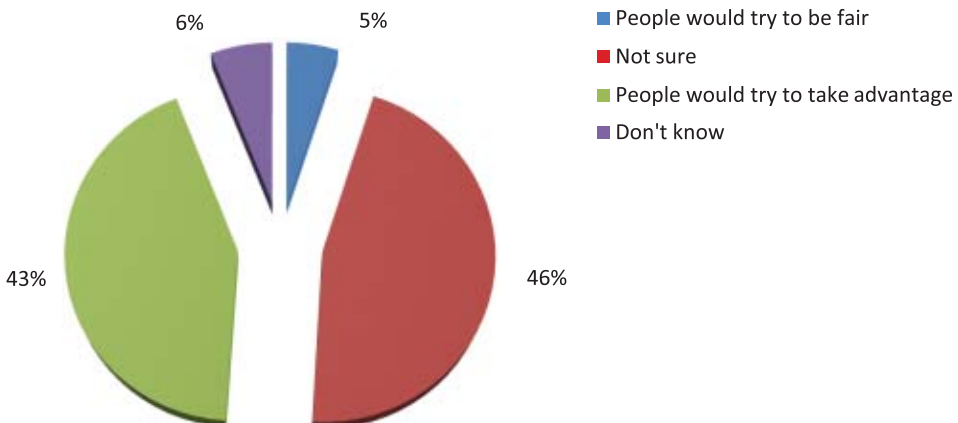


Source: Civicus (2011)

This locally produced data again appears to point towards a conclusion that generalised trust is in short supply on the island as a whole, with the overwhelming number of responses to the question of how others can be trusted admitting they were, at the very least, cautious when making that assessment. In considering these and other results, variation between them can arise because of the ways in which respondents were offered alternate answers to choose from. So, for example, in 2005, the Civicus exploration of generalised trust asked respondents whether, in relation to their ‘fellow citizens’, if ‘all people’, ‘most people’, ‘some people’ or ‘no one’ can be trusted. Those who expressed varying degrees of trust in a majority of people generally were clearly in a minority of 11%. The overwhelming majority, 86%, offered judgements that either ‘some people’ or ‘no one’ can be trusted. The 2011 research limited the number of responses available to two options. When it comes to trusting other people you ‘need to be very careful’, an opinion offered by 85.5% in Cyprus, or ‘most people can be trusted’, articulated by 14.5%.

The Centre for European Policy Studies (CEPS) designed a survey in collaboration with local consultants in 2008 and administered a related question taken from the battery of questions (The Rosenberg Trust Scale) which are often used internationally to gauge levels of generalised trust.

Figure 36. Do you think most people would try to take advantage of you if they had the chance, or would they try to be fair?



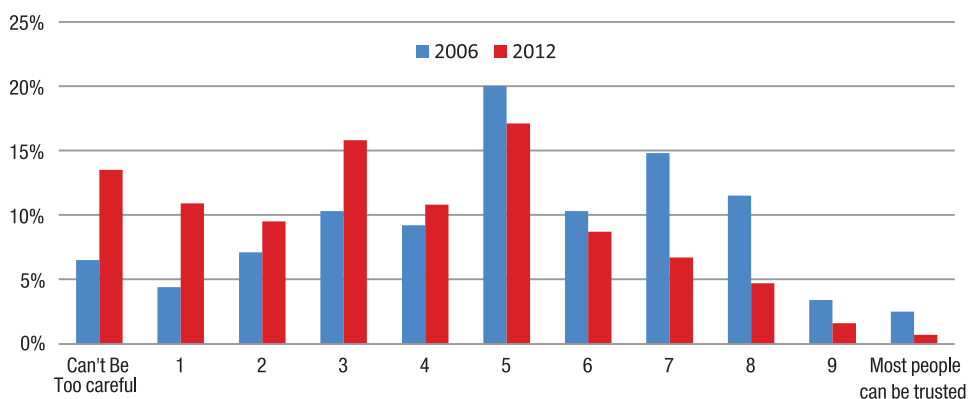
Source: CEPS (2008)

The CEPS survey employed a differently formulated question to explore trust which did not ask about trust as such but asked for estimates of the propensity of others to either take advantage of or be fair to the respondent. Again, the evidence suggests that when respondents had an emphatic opinion they tended towards an estimate which suggests a lack of trust in others. Of those who responded, 43% estimate that 'people would try to take advantage' whilst only 5% suggest that 'people would try to be fair'. This data also indicates that there are substantial numbers of respondents, 46%, who are 'not sure' either way.

Again, this would seem to indicate that in many encounters with others who are not personally known to the respondent the spontaneous disposition is not to extend trust as such, but that other contextualising signs need to be calculated before an assessment can be made. An attempt to read the other in any encounter within which information may be exchanged about where you were born, for example, in order to establish greater certainty about who the person is you are dealing with and whether there are any mutually shared networks of which you may be a part.

Finally, evidence from the European Social Survey, which compares results from 2006 and 2012, also confirm what were already low levels of generalised trust apparent in Cyprus compared with elsewhere but also captures how generalised trust would appear to have been steadily dissipated, from a low base measure, over the course of that six-year period.

Figure 37. Most people can be trusted or you can't be too careful – Cyprus 2006-2012



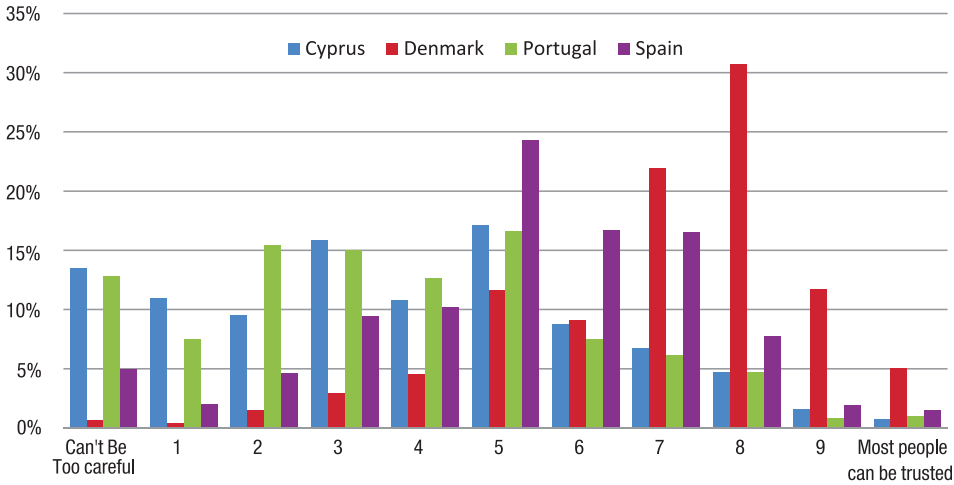
Source: European Social Survey

There is an evident shift in the levels of generalised trust across the periods 2006 and 2012, which, it should be noted, parallel a decline in trust invested in political institutions and political actors on the island reported earlier. The number of respondents expressing levels of generalised trust which were above 5 has decreased appreciably and, at the lower end of the trust scale, the number has increased. Tellingly, the largest increase in the numbers of those selecting a value on this scale accompanied the most emphatic statement that you 'can't be too careful.'

One way of capturing this general decline in a precise way is to note that, in 2006, 63% of respondents erred on the side of extending trust to most people in general (allocating a score of 5 or above) whilst in 2012 this number had dropped to 40%: a significant decline over that period of 37%.

In order to gauge the levels of generalised trust in Cyprus, in a comparative context, the following figure takes the latest available data from 2012 and places the local evidence beside that generated in Denmark, Portugal and Spain.

Figure 38. Most people can be trusted or you can't be too careful – Country Comparison 2012



Source: European Social Survey

This data is useful in demonstrating how varied the level of general trust can be across member states of the European Union, as it was recorded in 2012. Respondents in Denmark exhibit the highest level of this type of trust, with the overwhelming majority of 90% claiming, in varying degrees, that ‘most people can be trusted.’ And indeed, other survey data tends to draw a consistent conclusion that northern European countries in general and the Scandinavian countries in particular, register higher levels of this type of trust than elsewhere.

However, when comparing three countries across the southern European region, there is noticeable variation. Spain records high levels of generalised trust, expressed by 69% of respondents, when compared with the significantly lower levels recorded in both Cyprus (40%) and Portugal (37%).

In summary, only a small minority either extend trust or would expect others to be fair. The countervailing assumption that no one can be trusted and that people would try to take advantage was significantly higher by a factor of about five or six. The local surveys also indicate a large number of people were uncertain about whether or not they could be prone to being taken advantage of, which suggests that there are factors which would influence someone’s decision of whether to trust or not. However, as evidence from Civicus (2005) suggests, when offered the possibility to distinguish between trusting most people or trusting only some people, respondents erred on the side of ‘only trusting some’ by a factor of between six and seven.

The evidence as a whole also indicates clearly that the limited pool of generalised trust expressed by respondents in Cyprus has remained consistently below the average across the European Union. And, even when clustered together in a group of southern EU member states, which together tend to average as a cluster well below that EU average, Cypriot respondents are some of the least likely to demonstrate a propensity to express generalised trust. Finally, despite already meagre supplies of this type of trust possessed within the wider population, its stock has diminished significantly between 2006 and 2012.

Making Sense of Trust

An important conclusion that can be reached, with a real degree of confidence, is that what social scientists have labelled as generalised trust is not widely shared within the Cypriot population. What can also be observed in the polling evidence presented here is that Cypriots are less likely to trust anything or anyone they do not know, which is at the worst level it has been in the past number of years. Why this appears to be of particular significance is that, in comparing Cypriot society with other locations in the European Union, in this regard, Cyprus stands well apart from most other states.

If this claim is sustained, and the evidence does tend to confirm it, then three primary questions necessarily follow. Firstly, in what sorts of ways does the lack of generalised trust become manifest that would be familiar and thus recognisable as characteristic of the ways individuals and groups go about their business on the island? Secondly, what consequences might be identified which arise out of this sort of trust being in such low supply and does this predicament have a conditioning effect on other social phenomenon, including the ties which bind people into informal groups or more formal means of association? Finally, is it possible to identify anything approaching a causal mechanism which may account for why trust of this sort is generated in such meagre quantities? Whilst none of those questions can be addressed with any degree of satisfaction here, nevertheless, it is possible to speculate about how it is possible to approach questions of this sort, particularly as they relate to other themes explored in this book.

A distinctive characteristic of Cypriot society is the time and energy devoted to cultivating contacts and activating networks through which resources can be accessed or a desired outcome achieved. Family and friendship networks serve as important mechanisms through which this is done, and it is through the extended family in particular that information can be shared, access to a service or a resource secured or an introduction is made to another linked network. Family and friendship networks are often used to gain access to an individual working in a government department or another public service provider who might be able to provide information otherwise not easily available.

This sort of relationship can often go a stage beyond simply acting as conduit for information and can provide an efficient method of actually accessing the resource itself. A common perception, grounded in a tangible reality, is that there are public goods and desired services to which we have every right of access, but securing such access requires considerable time and effort to do so. Many governmental departments and public service providers have the reputation of being inefficient organisations and unnecessarily bureaucratic, evidence for which was presented in Chapter 2. They also tend to be opaque in the way they function. At one moment they present a set of formalistic, detailed procedures to which adherence is said to be necessary, but operate with a set of informal rules governing how, in the right circumstances and with the right connections, formal rules can be subverted or even suspended.

What can be inferred from this account has been identified by a number of researchers, including Bo Rothstein of the University of Gothenburg in Sweden. He considers the relationship between the quality of governance delivered to the ordinary citizen through everyday encounters, such as that described above, and how this might relate to the enhancement or destruction of generalised trust. In short, what he proposes is a causal mechanism which runs something like this: each of us makes inferences about how the world around us works on the basis of the information available to us. Irrespective of whether that information is true or not, that is what we have upon which we make our decisions and act accordingly. So, for example, if it is widely perceived that dealing with the state means encountering street-level

bureaucrats, who may treat you in an unfair or partial manner, resulting in others having privileged access to the goods or services you seek to access, then a strong signal is sent about which kind of rules this particular game is being played. As an outcome, despite knowing the formal rules, by which the game should be played, including the general principles of fairness, impartiality and equal treatment, little trust can be vested in a system, institution or individual who appears to deviate from those norms.

What is inferred here is that if everyone else confronts a similar situation and many then seek to secure unfair advantage by activating personal networks, exchanging favours or even resorting to bribery or nepotistic relationships, as it accrues to you at least, then you may feel compelled to engage in the very same practices yourself to secure what is believed to be rightfully yours.

This has important consequences since it strongly suggests that most other people, faced by a similar situation, cannot be trusted either, as they will also conform to these informal rules of the game. Further, to operate successfully in general circumstances, read in this way, they may very well feel compelled to take part in those very practices to overcome the disadvantageous position they would be in should they choose to do nothing. This illuminates circumstances in which there may very well be an apparent discrepancy between what people genuinely perceive to be the right, fair and proper way of behaving but feel compelled to do otherwise. This is justified by rationalising that there is no advantage to being the only straight player in a crooked game of cards.

As Rothstein also notes, what this also highlights is the importance people attach to what is called 'procedural justice.' That is to say that people are not only interested in the final outcome of their interactions with public institutions, whether it was the welfare benefits obtained or planning permission secured, but also whether the procedure followed in obtaining that outcome could be considered as fair and impartial. This can involve feeling as if they were treated with due respect, had the ability to make your case and, perhaps most importantly, have confirmed to their satisfaction that the treatment they have received has been the same way as everybody else in terms of the existing rules, regulations and procedures to be followed.

The wider implications of this characterisation of the basis upon which the state and citizen interact in everyday circumstances are the ways in which this connects the quality of governance state institutions deliver and what effect this has on the generation of specific types of trust. Where there is strong sense that public goods and services are not delivered on a fair and equal basis but can be accessed via personal networks mediated through family, friends or party affiliations, the need to cultivate particularised trust in those relationships working to your benefit becomes paramount. It also has the consequence of pitting your particular network against the networks of others, diminishing a sense of generalised trust in those whom you do not know. After all, the ability to speed an application for planning permission through the relevant government department delivers a significant benefit to you in securing an efficient and timely outcome, but it also has the consequence of everyone else's application being put one place back in the queue or shuffled to the bottom of a pile of cases residing on a public servant's desk. As an outcome, the sense that others cannot be trusted to take account of your interests means that reliance upon protecting those interests through tightly bounded forms of association only becomes heightened.

This may go some way in explaining how a large part of associational activity on the island is first and foremost about defending the interest of its members, which tends to subordinate the promotion of what can be called the general good. So, for example, organisations and institutions which serve to promote professional interests in the legal, commercial or health fields can represent these specific interest groups

with considerable effort expended in protecting market monopolies. This, in itself, is a rational position to adopt within a society where it is generally perceived that others cannot be trusted to take account of your interests in a fair or just way and there is a dearth of impartial procedures through which a clash of particular interests could be mediated. However, a problem arises when a professional association is, for example, also allocated the task of regulating its members' conduct to ensure that they offer fair, equitable and quality service to the public at large.

In these circumstances, the regulatory function, which professional associations are expected to discharge in the service of the general good, can become diminished or compromised, as the fundamental role of the association to protect the in-groups' collective interests can predominate over other considerations. The outcome of this might very well be an enhanced sense of in-group trust that members' interests are being served, but this only undermines the trust others have that the general good has been seen to be served. It can also have a deleterious impact on citizens' perceptions of how the state, in its capacity, manages to oversee and regulate in a reasonably fair and impartial manner, when it has delegated its regulatory authority to such an association or professional body, yet little active oversight is exerted over the actual outcome.

Take the situation as reported by the *Cyprus Mail* in November 2011, when a journalist approached the Cyprus Bar Association (CBA) and the accountants' professional association in Cyprus, the ICPAC, in order to seek information about how many of their members had faced disciplinary hearings following accusations of professional misconduct as well as what the outcomes were. The response from the head of the CBA was that the association had no intention of disclosing any figures in relation to the number of lawyers disbarred, since this information constituted personal data and could be used to portray a 'false view' of the association. For their part, the ICPAC reported that they did not collect any sort of data regarding disciplinary procedures, and therefore could not provide any figures on how many accountants had been stripped of their licence. Finally, these statements were reported in the context of an investigation as to why so few complaints made against doctors to their professional body, the Cyprus Medical Association (CMA), had resulted in disciplinary action (10 cases between 2000 and 2010). An investigation which prompted the head of the CMA to observe that: 'The criticism directed against us is that doctors will not vote against other doctors and will shy against forwarding cases to ...its disciplinary body...I would be lying if I said that this isn't a view expressed in certain CMA quarters.' The failure to recognise that the successful discharge of regulatory duties requires transparency, openness and a public demonstration of procedural justice in action tends to confirm that the regulatory function performed by interest groups such as these does not conform to its primary purpose of protecting the public as a whole.

The reliance upon personalised networks and forms of association in order to promote and protect your own or your families' specific interests reflects a wide variety of social strains and divisions within society as a whole. The imperative is to organise to defend or enhance what is yours in a situation within which the calculation is made that you cannot place much faith in the intention of others. And, it could be argued, in a society such as Cyprus where access to power and wealth as well as public goods and services is unequally distributed, the need to protect what is yours is only heightened.

This was much easier to achieve with the relative affluence and consistent economic growth enjoyed in Cyprus over the past 30 years or so, but much more difficult to pursue in the context of a profound economic crisis. Indeed, the argument could be sustained that the expansion of the economy created conditions within which those inequalities could proliferate but everyone could receive enough tangible benefits from a growing economy. In these circumstances, the significance of the ever-growing division

between the conditions of service and levels of remuneration enjoyed by the public and private sector respectively, for example, could be largely ignored as everyone ultimately benefited from the boom years albeit in ever increasingly unequal ways.

It is also of significance that, despite a long period of relative economic prosperity and increasing state revenues, the public sector rapidly expanded, particularly in terms of the jobs made available, but the delivery of good quality, universally accessible public goods and services was not significantly enhanced. Plans may have been drawn up over two decades ago to launch a modern national health service but they remained just that throughout this period, a set of plans filed away in a ministerial drawer. Political pressure was not exerted on the state to deliver, partly because many people were able to address their health needs by going to private doctors and clinics and therefore they could avoid relying on the relatively meagre services the state provided. This combined with many observers' assessments that the state may not have the capacity or competence to manage the strategic planning, the challenge of coordinating a complex public project or the transparent and accountable management of resources which this would entail.

The analysis, which has been sketched out here, shows a demonstrable connection between the Republic's relatively low quality of governance and the undercutting of conditions which could nurture generalised trust. Connection was also made with the prevalence of significant social divisions within society, which only grew during the economic expansion of the past three decades or so; whilst the general income levels of almost all households rose during this period, some incomes rose considerably faster than others. Further, some secured enhanced conditions of service, privileged access to state resources alongside an ever multiplying list of fringe benefits. But with relative affluence came the ability to opt out of the need to access public goods and services and substitute these with private alternatives. And, as a consequence, the pressure to enhance publically provided resources dissipated and the redistributive effect they might have had was dissipated and ultimately lost.

Whilst the divisions in society could be managed within the context of an expanding economy, their consequences became felt as the economy contracted. Everyone was to feel its effects but some felt those effects much more keenly than others. By 2013 the crisis had forced many tens of thousands of people to become dependent on the state in a way which had not been seen since the 1970s. Not only did this have the effect of seeing people lose trust in state institutions but it also caused what were already markedly low levels of trust expressed towards others to contract even further. Under these, circumstances disparate groups banded together to promote their own interests in the belief that others were in conflict with their own well-being.

Chapter 5 - Perceptions of Corruption: What the Citizen Thinks

Open a newspaper or watch a daily news broadcast in Cyprus and you would not be surprised to learn that yet another case of what appears to be a corrupt relationship between a businessman and a community leader, trade union official or party member had been exposed to the public. Nor would it be extraordinary to hear that a state official had been suspended from work, pending further investigation, with a charge that he had been issuing permits for cash.

However, media accounts can only take the reader or viewer so far in capturing both the nature and extent of corruption apparent on the island. By their very nature, corrupt practices and the relationships which enable them, aim to remain hidden from view and would not be successful from the perspective of the perpetrators unless this were to remain so. Therefore, the problem that is confronted here is how to successfully disclose, and begin to understand, activities which take place below the fold as it were.

How far can we rely on the perceptions people have about corruption taking place being an accurate measure of the actual event itself? And asking just what corruption is constitutes not quite the facile question it might first appear to be. Is exchanging money or providing 'favours' for access to public goods and services, which should be freely available, because the system is so slow and bureaucratic to be bracketed along with the politician who will receive significant remuneration for ensuring a government contract lands in the lap of a particular property developer? Whilst there may be a considerable difference in the sheer scale or net worth of what is being exchanged, is the nature of the relationships entered into any different?

In order to clarify this, the chapter begins with an outline of some of the principle definitions of corruption to identify the boundaries which can be drawn around activities associated with it as well as to identify the relationships which facilitate its reproduction.

What follows also explores evidence about the incidence of corruption in Cyprus in the recent past and offers some preliminary observations about various explanations as to why this phenomenon appears widespread within Cypriot society. But is the extent of corruption witnessed here any different from corruption manifest elsewhere in the southern European region or the European Union more generally? And do the forms of corruption vary significantly from one state to another?

This chapter begins to address these questions by drawing together important evidence from three major sources which record the perceptions of corruption, according to Cyprus-based respondents, and serve as a prelude to the concluding chapter which turns attention towards questions as to why corruption occurs and the Republic's success, or otherwise, in dealing with it. But first it is important to clear the ground by discussing just what corruption is and an indication of some of the ways in which this complex phenomenon can be captured.

There is no clear unanimity about how corruption ought to be defined. In an obvious sense this should not be surprising, since not only does the boundary around what constitutes corruption invariably demarcate a wide range of different but related phenomena, but that boundary might become redrawn significantly depending upon the time and place within which it is employed. As with any attempt to capture a complex phenomenon, such as this, there may also be considerable variation in how certain forms of behaviour are identified and named between one group and another, variations which might be attributed to gender, age, education and class position and so forth. Further, the distinction between corrupt and non-corrupt behaviour or relationships may be difficult to draw definitively with considerable latitude for indeterminate or intermediary positions between one pole and the other.

A simple way to establish a typology of corruption, in the first instance, would be one that specifies three major dimensions which need to be taken into account.

The first line of enquiry would seek to specify the institutional location of the public official involved. Taking this route provides the grounds for distinguishing between different types of corruption, of varying types or intensities, attaching themselves to particular types of public service, customs officials, the judiciary, the police, MPs etc. This approach also allows for a clear distinction between practices inherent to politicians ('political corruption') as opposed to civil servants ('bureaucratic corruption'). To rephrase this, corruption occurring at the policy-making phase, involving political actors amongst others (inputs) and the implementation of that policy (output stage) through the organs of the state.

Secondly, the direction of influence through which a corrupt relationship proceeds allows for a distinction to be made between bribery and extortion for example. In the first case individuals or groups which stand outside the state might employ extra-legal payments or other forms of exchange to influence state policy. In the case of extortion the relationship proceeds in the opposite direction from state officials to others outside the state through a demand for extra-legal payments for providing a service. Concentrating on the direction of the exchange and related characteristics of the transaction engaged in also allows for a distinction between forms of corruption in other ways. Thus, it is possible to differentiate between corrupt relations which are 'transactive' (based on a mutual arrangement between giver and recipient), 'extortive' (implying a harmful imposition on one of the parties), 'defensive' (arising out of an impelled act to protect), and 'investive' (where the benefits derived are not immediate but realisable in the longer-term and so forth)

And thirdly, a dimension takes account of the extent and frequency of corruption and allows for distinctions between 'grand' and 'petty' corruption as well as one off transactions and long-term relations built upon repeated exchanges.

This typology underscores the diversity of what might be justly described as corrupt, and the considerable range of relationships involved, indicative of the difficulties in constructing a general definition of what the phenomenon can be disclosed as constituting. One widely used definition of corruption relates to public office holders and has become widely disseminated in research circles: that corruption occurs when an official deviates from the formal duties allotted to a public role because of his or her private interests. This is a definition that hones in on the exercise of public power and deviations from the normative function office holders may engage in, and is commonly focused on where rules are observed to be broken and legal action triggered. However, this approach can lead to an outcome where the definition of corruption relates to behaviour which infracts legal codes of conduct and can result in the measure of corruption being reduced to successful detection and conviction of such offenses. The legal definition of corruption may appear precise but it is itself subject to change and open to multiple interpretations. Further, what may be defined as corrupt conduct within a legal code may not be in accord with broader definitions of corruption emanating from other sources, determined in the court of popular opinion. This discussion will be elaborated further in the following chapter.

Having briefly presented some of the ways in which a typology of corruption can be developed as well as more general definitions of corruption, the next section explores data which appears to capture the phenomenon within the local Cypriot setting. It is important to note that the primary purpose pursued here is to explore perceptions of corruption as they adhere to public institutions and state officials. This necessarily limits the line of enquiry pursued and excludes an exploration

of corruption as it might be an outcome of relationships between private individuals; a self-imposed limitation given the focus of this book on public institutions and the exercise of state power.

Evidence of the Scale and Regularity of Corruption in Cyprus

What is the regularity and the scale of corrupt practices experienced in Cyprus? In seeking to answer this question, three major data sets are explored, each derived through different methodological approaches and being reliant upon different sources of information through which the resulting outcomes are generated.

Corruption takes many forms but it is almost always a clandestine act. This being the case, a major obstacle is placed in the way of any attempt to either measure its extent or frequency. And whilst conviction rates relating to acts of corruption tell an important story, few would assume that the registered infraction of rules which have triggered legal action or administrative procedures records the actual occurrence of corruption within society, as such. So, for example, it would be premature to assume that a low conviction rate for corrupt acts necessarily indicates a relative absence of corruption. Quite the opposite might be inferred – that the detection of the activity is achieved with only limited success.

As a consequence, conviction rates are downplayed here whilst emphasis is placed on the reporting of perceptions of corruption, a decision common to researchers and organisations working in this field of investigation. In short, perceptions serve as a proxy measure of the phenomenon itself, with all the methodological problems that entails. Consequently, a high profile indexation of levels of corruption conducted on an annual basis by Transparency International or major evidence generated within the EU in the form of periodic Eurobarometer polls rests on the subjective perceptions of the public in general or of certain specialised groupings of experts in particular. Those perceptions, arising from whatever source, are based upon what a group or population thinks the forms are or how extensive corruption is rather than direct experience of it. The following sections consider data which is perceptions based. Transparency International's annual 'Corruption Perceptions Index' is in fact an aggregate of expert opinion about the susceptibility of a given state to corruption, whilst the locally generated polling evidence by Transparency International - Cyprus draws on the perceptions of Cyprus-based respondents within the population at large.

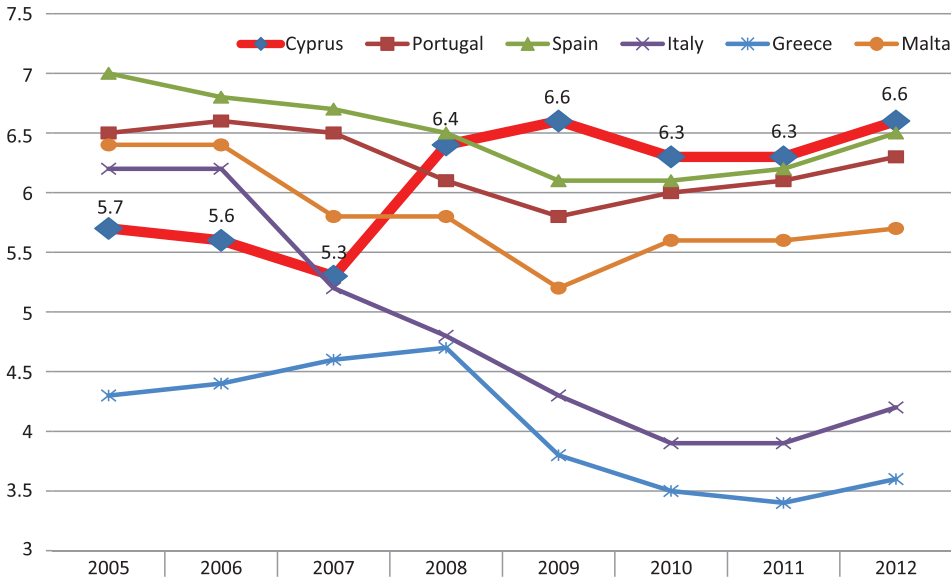
The annual Corruption Perceptions Index (CPI), published by Transparency International, is commonly assumed to be the most authoritative disclosure of corruption worldwide. Certainly its avowed aim to raise consciousness in relation to the issue is amply borne out by the media attention which accompanies its annual publication. However, what is sometimes overlooked is that the Index is in fact a perceptions-based analysis which aggregates inputs from a variety of expert-based opinions. The aggregation of these results into a single measure, which is then read against a scale from 0 (highly corrupt) to 10 (very clean), produces a simple-to-read index which distributes individual states across this range. The resulting ranking of states has the advantage of appearing beguilingly simple and straightforward to understand, with attention frequently directed by media reports to changes in the ranked position of the states across the world being compared. A methodologically naive presentation of data which Transparency International recognises as being problematic but which, despite the health warnings which accompany the distribution of the annual results is largely ignored by the media.

So, for example, the most recent CPI, published in 2012, ranked Cyprus 29th among 183 countries and territories in perceived levels of corruption in the public sector, with a higher ranking taken to suggest

a ‘cleaner’ state The underlying CPI score of 6.6 placed Cyprus amongst a cluster of countries including Spain, Estonia and Portugal, where corruption is apparent to a greater extent than Scandinavian countries for example, but not to the same degree as experienced by Greece, Bulgaria and Poland.

Taking a closer look at the data, the following figure tracks the changes in the CPI Index score for Cyprus and the other five southern EU states between 2005 and 2011.

Figure 39. Corruption Perceptions Index Scores for Cyprus and Other Southern EU States – 2005-2011 (on a scale where 0 = highly corrupt and 10 = very clean)



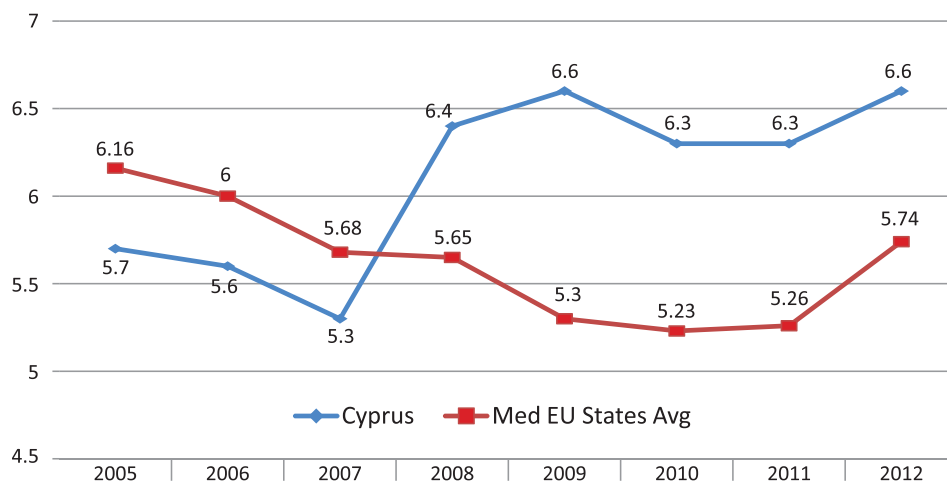
Source: Transparency International CPI

What is striking about the fluctuations in the score apportioned to Cyprus is the apparent worsening of its perception score, as it went down from 5.7 in 2005 to a low of 5.3 in 2007 (i.e., Cyprus was perceived to be more corrupt), followed by a sharp improvement in its score in 2008 (i.e., Cyprus seemed to be less corrupt). For the next four years, there was a stabilisation in the CPI score in that it ranges between 6.6 and 6.3. Placed in the regional context, the distinct improvement in the CPI score between 2007-2008 was matched nowhere else and occurred against a backdrop of increasing perceptions of corruption across the region. Taken at face value, this appears to record a creditable decline in corruption in Cyprus as the region polarised into two distinct clusters. One cluster, including both Italy and Greece, saw corruption perceptions become much more widespread throughout the period as a whole, whilst within the second cluster, the other countries of the region stabilized with a CPI score ranging between 5.6 and 6.6. Cyprus finds itself at the top end of this range heading the second group.

What is striking about this decline in perceptions of corruption recorded by CPI between 2007-2008 is the way in which, across nearly all the indicators of perceptions of corruption, the Eurobarometer poll for the same period registers a sharp rise in those perceptions.

Secondly, locating Cyprus in relation to both its regional and wider EU context throws up another sharp distinction between the two data sets consulted.

Figure 40. CPI Index Score for Cyprus Compared with the Average Score Across Southern EU Member States 2005-2011 (on a scale where 0 = highly corrupt and 10 = very clean)



Source: Transparency International CPI

The CPI Index suggests that Cyprus scores significantly better in perceptions of corruption than the regional average and has a score (for 2011) which is slightly above the EU-27 average. Again, this is in sharp contrast to the Eurobarometer findings where perceptions of corruption in Cyprus across almost all indicators are higher than the regional average and significantly higher than the average across the EU-27. This of course begs important questions about why there would appear to be substantial dissonance between perceptions recorded in the CPI Index compared with the Eurobarometer evidence.

The importance in unpacking this dissonance is reinforced not only by noting marked differences when comparing the recorded perceptions in Cyprus, but by looking at how Cyprus also compares with scores and percentages recorded in other states of a similar type. In other words, the CPI score suggests that perceptions of corruption in Cyprus are relatively low when compared with similar countries in the region, and just slightly above the EU-27 average, when put into a wider frame of reference. Eurobarometer evidence tells a very different story where corruption is seen as widespread, if not systemic, and joins Cyprus with states such as Greece and Bulgaria as being the most prone to widespread perceptions of corruption within the EU.

Importantly, the data upon which both polls are constructed exhibits considerable divergence, with issues of sampling and representativeness differently resolved. Eurobarometer aims at a representative sample of the adult population within a given state and derives its authority from ensuring that the sample reflects the principle characteristics of the population as a whole. By contrast the CPI is an aggregate of expert opinion which, in the case of Cyprus, is derived from four separate sources: World Economic Forum surveys, the Economist Intelligence Unit Country Risk Assessment, Global Insight Country Risk Ratings and the Political Risk Services' International Country Risk Guide. With the exception of the first source, the other three are commercial research organizations that primarily serve the private sector. Characteristic of their approach is to concentrate on how and to what degree does state corruption impinge upon the business environment within any given location.

Whilst it might be tempting to advocate for one over another proxy measure of corruption, a much more fruitful approach would be to recognise that each set of data represents a different measure of the same diverse and complex phenomenon of corruption. The methods of sampling and data collection are very different, which suggests that each may very well be capturing quite different aspects of the phenomenon. The Eurobarometer poll, based as it is on a representative sample of the adult population, might be a more sensitive instrument for measuring street-level, petty or everyday corruption as it is perceived. This appears substantiated by noting how certain issues which may have particular meaning for ordinary citizens or residents, the lack of meritocratic recruitment to the public service for example, may not detain others in the same way.

On the other hand, expert opinion, which together constitutes the aggregated index produced by Transparency International, is primarily generated to serve the private sector, particularly the international business class seeking to judge how the Cypriot environment facilitates large-scale business in Cyprus through the medium of an open market. This line of argument does tend to suggest that the evidence from both polls are not necessarily in contradiction with each other but measure very different aspects of the same general phenomenon. However, serious problems can arise when one measurement is taken to be more authoritative than the other.

But, as has been noted, Transparency International's CPI Index may be the most widely consulted but it is only one amongst many sources of data. Regular Eurobarometer polls are conducted on behalf of the European Commission and include a set of standardised questions which are not only administered across all EU member states but are repeated in further Eurobarometer polls on a periodic basis. This opens up a number of possibilities for the way in which the resulting data can be most productive when looking at the particular case of the corruption phenomenon in Cyprus.

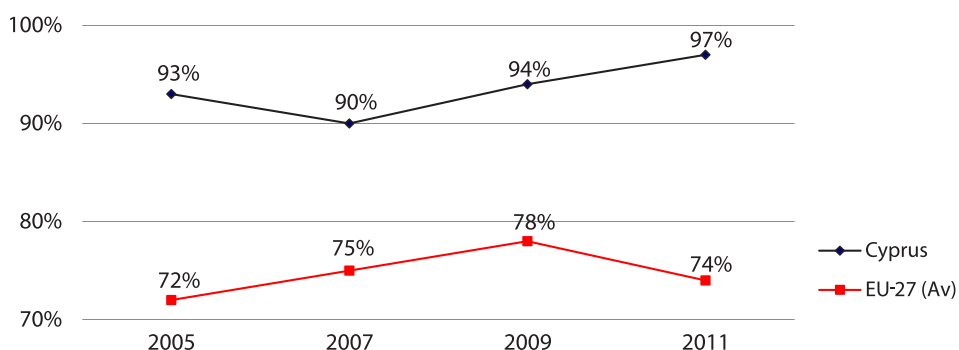
In the first place Eurobarometer poll data provides an opportunity to identify the resulting data from Cyprus-based respondents in the context of results from other states. Consequently, this presents an opportunity to judge the extent to which specific results correlate with or deviate from other individual EU states, regional groupings of EU states or the general data derived from member states as a whole. The ability to explore comparative data in this way opens up the possibility to transcend the parochial and self-referential approach to understanding a complex phenomenon such as corruption only within an isolated island setting but explore commonalities and differences within the entire southern Mediterranean (including Portugal, Spain, Italy, Malta and Greece) as well as against averaged results derived from the EU. Placing Cyprus within the broader southern European context is appropriate given what is often identified as common socio-economic and political conditions which characterise the region as a whole and differentiates it from other regions to the north, east and west. Further, a comparative perspective, which includes a state such as Malta, also allows informed speculation about how small island populations, which have experienced colonial domination in the recent past and have recently acceded to the EU, can be relevant in exploring the case of Cyprus that also bears similar characteristics.

In drawing evidence from a series of Eurobarometer polls from 2005 to 2011, the ability to track changing perceptions over time becomes possible. Thus, it allows for the identification of long-term trends, which can appear stable and consistent, as well as the possibility of apprehending short-term fluctuations in opinion which might be related to events or conditions which are specific to Cyprus as such. The polling data was gathered in the autumns of 2005, 2007, 2009 and 2011 and covers a six-year period marked by major events in Cyprus which may have had a conditioning influence on respondent's perceptions of corruption and the general conditions within which these perceptions were formed.

The Papadopoulos presidency was still in situ between 2005 and 2007 and was marked by the very recent accession to the EU, relative economic stability and the aftermath of a major political event during that period, the Annan Plan referendum. President Christofias was at the helm during 2009-2011, a period marked by increasing economic volatility as well as the Mari explosion in July 2011 and the political reverberations which flowed directly from it.

Turning to the evidence, it is important, in the first instance, to gauge the significance that respondents give to the idea that corruption is a 'major problem'. It would imply a chain of reasoning which prioritizes corruption according to other problems perceived within society as well as a calculation about the magnitude of this particular issue as opposed to others.

Figure 41. Perception of Corruption as a Major Problem in Cyprus and the Rest of the EU-27



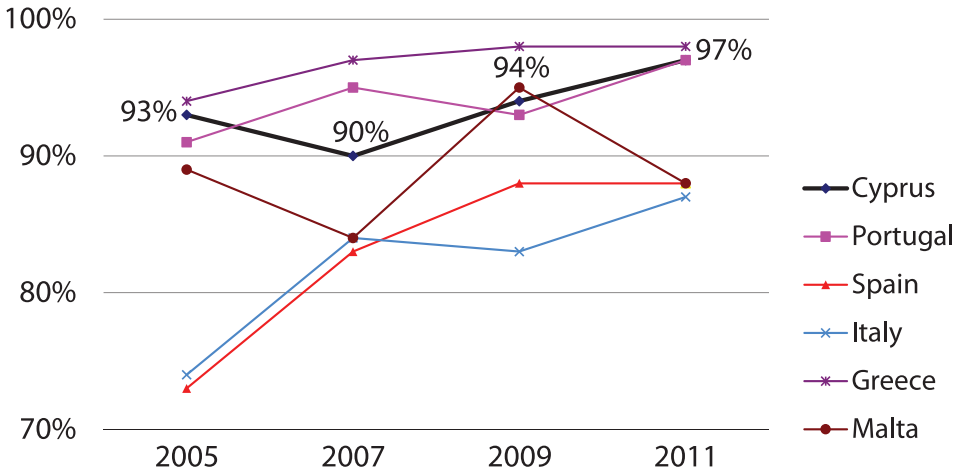
Source: Eurobarometer

Respondents were offered the possibility of a scaled response, moving from 'Totally Agree' to 'Tend to Agree' or 'Tend to Disagree' and 'Totally Disagree' as well as the possibility of recording a 'Don't Know'. Figure 41 combines the two responses from respondents in Cyprus of either totally agreeing or tending to agree with the statement and offers a comparison with the same responses across the EU-27.

What is striking about these basic results is that the Cypriot based perceptions of corruption as a major problem is consistently greater, by about 20 points, than the average across the EU-27. Further the trend in perceptions in Cyprus is out of step with broader trends across the EU-27, so when there was a rising perception of corruption across the EU-27 from 2005 to 2007, there was a recorded decline in Cyprus, and the reverse relationship was apparent from 2009 to 2011. Also notable is that there was a consolidation of Cyprus-based respondents perceiving corruption as a major problem to the extent that, by 2011, only 2 in every 100 people sampled would disagree.

Taking into account the results from across the EU, there are clear regional variations, with the northern Scandinavian countries recording much lower levels of perceived corruption, followed by north-eastern states and central and eastern European states. It is in southern European states that corruption is perceived as a significant problem, but within this group there are distinct regional variations. In order to highlight this, and place Cyprus within an expanded, but geographically specific context, Figure 42 compares perceptions across those states which are proximate to, or border, the Mediterranean.

Figure 42. Perceptions of Corruption as a ‘Major Problem’ Across Southern Europe

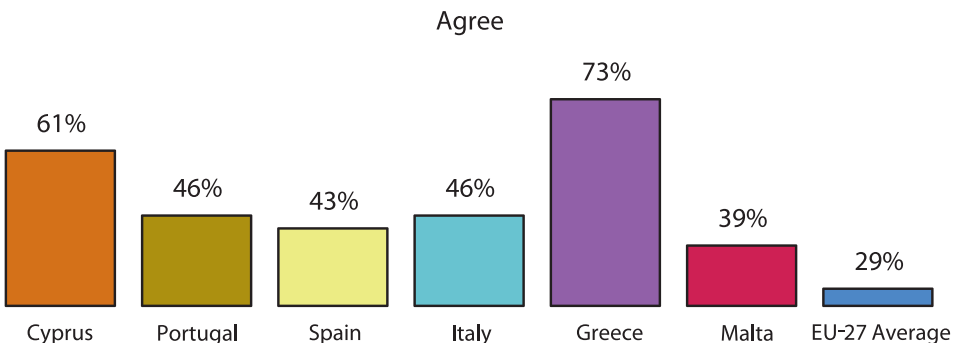


Source: Eurobarometer

Whilst the perception of corruption as a major problem is shared across the region there had been a notable increase in this general view since 2005. Portugal, Greece and Cyprus constitute the group of countries which converged, to the extent that it is a near universal view, with a second group comprising Spain, Malta and Italy, where this view was not so widespread.

Given the near unanimity amongst Cyprus-based respondents that corruption constituted a problem of a serious nature, on what evidence was this based? It might be the case that corrupt practices are the subject of rumour radiating through private networks or widely reported within the public sphere, thus creating an impression that corruption within society constituted a common set of practices. The effective detection of such activities, coupled with an efficient judicial process and an alert mass media may, according to researchers in the field, have the effect of amplifying the phenomenon to the extent that the problem appears more significant than it really is. On the other hand, a measure of whether corruption is a phenomenon which has a direct impact on the experience of daily life would serve to indicate that the respondent sees corruption as structuring the context within which social relations are engaged in as part of normal life.

Figure 43. Perceptions of the Extent to Which Respondents are Personally Affected by Corruption in Daily Life



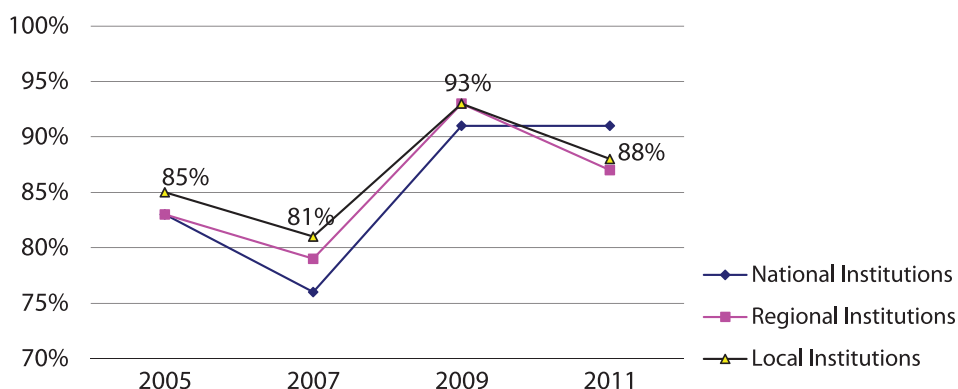
Source: Eurobarometer (2011)

Figure 43 aggregates the two responses which either totally or tend to affirm the statement for respondents in Cyprus and offers a comparison with the same responses across the EU-27.

Whilst out-paced by Greece amongst southern Mediterranean states, nearly one in three Cypriot respondents record a perceived effect of corruption on their daily life: the third highest response across the EU-27 as a whole and double the EU-27 average of 29%. Separating out those responses which 'strongly agreed' with the question reveals that 31% of Cyprus-based respondents assented to this statement and is only comparable with similar results originating in Greece (30%) and markedly higher than the EU 27 average (10%). It should be noted that only one other state in the EU, Romania, records a higher response (41%).

Having established that Cyprus-based respondents perceive corruption to be widespread, a set of questions and the responses to them provide evidence of a more nuanced and discriminating set of perceptions, which presents a picture of the different levels of corruption that are attached to specified groups and institutions. In the survey a distinction is offered between national, regional and local institutions.

Figure 44. Perceptions of Corruption Associated with National, Regional and Local Institutions



Source: Eurobarometer

The perceptions of corrupt relationships and resulting practices being associated with institutions generally mirror the course of perceptions as these are related to overall assumptions of the problem as a whole. That is to say, corruption is said to have dipped across the three types of institutions between 2005-07, only to rise from 2007-09 and then, for both regional and local institutions, to dip marginally from 2009-11. Perceptions of corruption at national institutions remained at a high of 91% between 2007-11. Taking into account the organisation of government institutions in Cyprus, it appears predictable that there is no clear distinction between perceptions attached to them. Institutions in a small state are proximate to each other, never far from the centre and populated by the same party political actors; so limited is the range from national to local institutions, it might be hard to discern distinctly regional institutions. On the other hand, local and national institutions have quite distinct powers and access to resources, with the former limited in its field of action and with few resources at its disposal.

If the proximity of state institutions to everyday interactions appears to have a decisive role in determining a significantly different perception of corruption that is attached to each level of state

organisation, attention ought to be turned towards whether there is a significant variation in perceptions attached to different political actors, state institutions, as well as groups of public sector workers.

The Eurobarometer questionnaire schedule asks a standardised question ‘Do you think that the giving and taking of bribes, and the abuse of positions of power for personal gain are widespread?’ in relation to a variety of institutions and state services. The question makes concrete two forms of corruption, the phenomenon of bribery and the more general and less specific ‘abuse of positions of power for personal gain.’ As has already been previously noted, using money in the form of a bribe as a way to corrupt a relation would not appear to be widely experienced, but the second aspect of the question, which leaves much more room for interpreting a range of acts as corrupt, serves to broaden the definition of the phenomenon. Further, the question also prompts the respondent to evaluate the scale of the phenomenon which would suggest that the perception is attached to more than a one off event or experience but a perception that registers a systematic pattern.

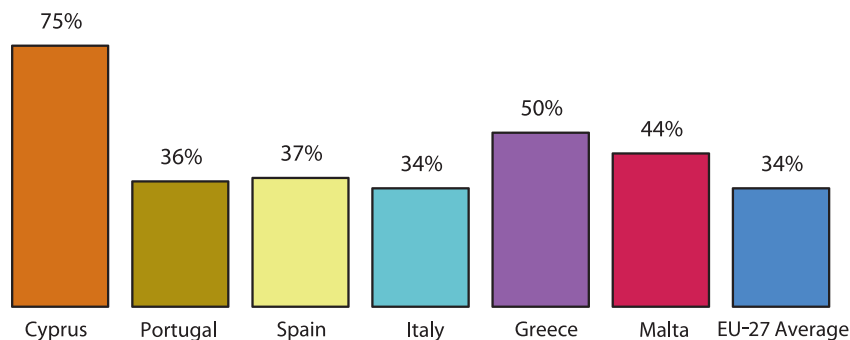
The data generated is of significance because it allows for respondents to identify amongst a wide range of public services where they perceive corrupt practices to happen. Eleven different institutions, political actors or regulatory authorities are specifically listed in the question. Each can be grouped according to the general functions they perform as well as the part they play in the exercise of power and the distribution of public resources. In the first instance, it is possible to group perceptions directed towards national, regional and local politicians who collectively, but to varying degree, vie to secure election and exercise executive control over public services and collective resources. The second group is comprised of primarily law and order institutions, such as the police and judicial services, and intimately connected with the exercise of the rule of law. A third group is the regulatory authorities, covering the provision of services, including public tenders and those charged with conducting health and safety inspections, the issuing of building or business permits as well as the customs service. Finally, public service providers, in the form of health and education, are grouped together.

However, before examining these groups in detail, it is important to take account of fluctuations in perception over time. The notable trend to emerge is the ‘S’-shape movement of perception from 2005 to 2011, which tracks similar results apparent in Figure 44, where respondents were asked about the perception of corruption adhering to national, regional and local institutions. Between 2005 and 2007, there was a reduction in the perception attached to public service institutions and services, with the exception of public inspectors, which saw a modest rise in perceived corruption attached to those services. Without exception, corruption was seen to have sharply risen across all services and public institutions between 2007 and 2009. Whilst there was a more modest dip in that perception between 2009 and 2011, in no case did the relative diminishment of corruption return to 2007 levels. In most cases the decline of perception in corruption did not return to 2005 levels either. The one notable exception to this trend was the perceived corruption of national politicians, which was the only form of public service which bucked the downward trend between 2009 and 2011 to register a rise during that period.

Justice and Law and Order Institutions

This group includes the police service and judicial institutions, whose collective objective is to underpin the rule of law and deliver procedural justice. It should also be noted that they also have a very particular relationship to the phenomenon of corruption which is not shared with other institutions in that they are collectively charged with the task of detecting and successfully prosecuting its manifestation. As such, they are at the heart of the state’s anti-corruption strategy.

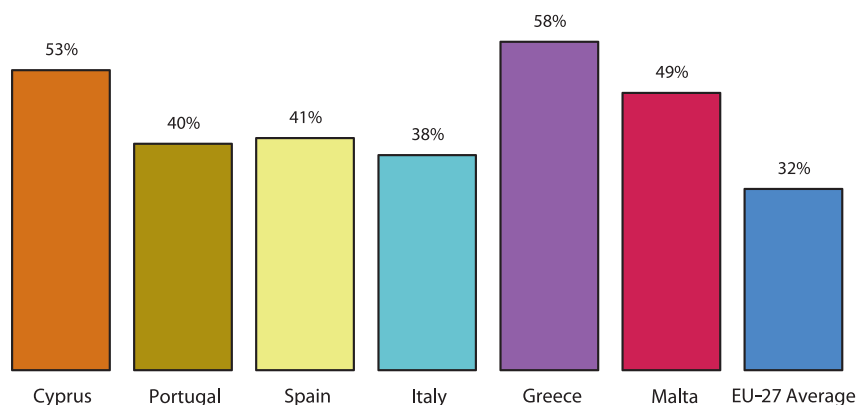
Figure 45. Perceptions of Corruption Associated With the Police Service in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



Source: Eurobarometer (2011)

The police service is perceived to be where the occurrence of corruption is most prevalent, with 3 in every 4 respondents (75%) making this identification. This is more than double the average perception across the 27 EU member states, and it is perceived to be the most corrupt police service anywhere in Europe. Only Bulgaria (70%), Latvia (66%) and Romania (64%) come anywhere close. However, this widespread perception actually constitutes a significant decrease in perceptions of corruption previously directed towards the Cyprus police service, since in 2009, 89% of respondents identified the service in this way, a drop of 16%. It should be noted that this downward trend was also apparent across a significant majority of other EU states, with Greece registering a striking decline of 31%. What is striking about this data in a comparative context is how Cyprus-based perceptions are not only exceptional in the wider EU-27 context but also out of step with the southern European region more generally, comparable only with a small number of former Eastern European and Baltic states, which have engaged fitfully in the transition from authoritarian forms of governance to an emerging liberal democratic order.

Figure 46. Perceptions of Corruption Associated With People Working in the Judicial Services in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



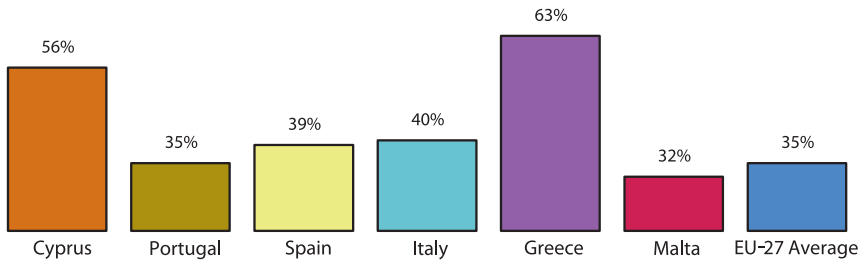
Source: Eurobarometer (2011)

Over one in two respondents (53%) based in Cyprus perceive widespread corruption amongst those working for the local judicial services, and this is only outstripped by Greece within the cluster of southern European states. However, that figure is closer to the regional average than other services or institutions with which it could be compared. Amongst the EU-27, Cyprus’s judicial services is perceived as the eighth most corrupt, those who rank above, with the exception of Greece, were all previously satellites of the former Soviet Union.

Regulatory Authorities

This third group includes four institutions whose primary function is to extend regulatory control by the state over private rights in order to protect and enhance the public good. These take the form of the customs service, which oversees the trade in and distribution of goods both to and from Cyprus, and the officials charged with the responsibility of conducting inspections in the fields of health, construction, food quality, sanitary control and licensing, as well as the issuing public tenders, building permits and business permits.

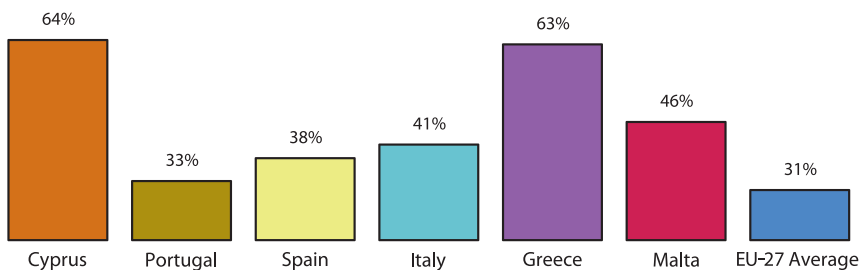
Figure 47. Perceptions of Corruption Amongst Inspectors (Health, Construction, Food Quality, Sanitary Control and Licensing) in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



Source: Eurobarometer (2011)

Public Service inspectors covering the areas of health, construction, food quality, sanitary control and licencing in Cyprus are perceived by more than one in two respondents (56%) to be associated with ‘widespread’ corrupt practices. This represents the third highest percentage across the EU-27 states, with only Slovenia (66%) and Greece (63%) outstripping that figure. In the context of the southern European states, only Cyprus and Greece significantly outstrip the EU wide average. It should also be noted that the 2011 figure for Cyprus has decreased from 65% respondents perceiving widespread corruption amongst inspectors in 2009 to the current figure. This was a downward trend across most EU states.

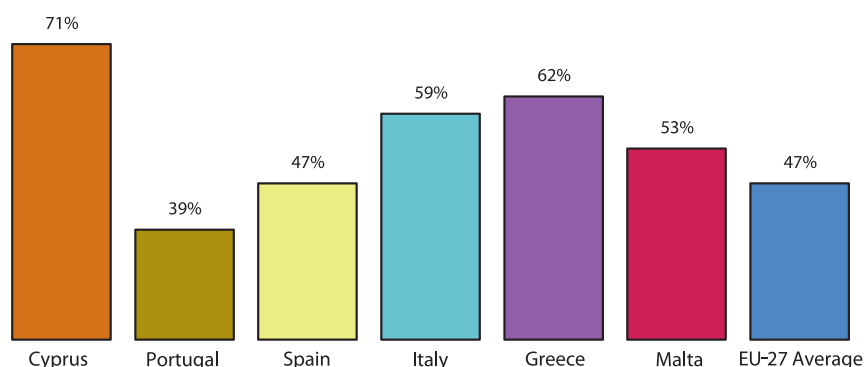
Figure 48. Perceptions of Corruption Associated With People Working in the Customs Service in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



Source Eurobarometer (2011)

Perceptions associated with those working for the customs service in Cyprus indicate that over two in three respondents (64%) identify corrupt practices as 'widespread'. This represents the third highest percentage across the EU-27 states, with only Bulgaria (77%) and Romania (71%) outstripping that figure. In comparison with other southern European states, only Greece-based respondents associated similar levels of corruption to their own customs service. It should also be noted that the 2011 figure for Cyprus has decreased from 72% respondents perceiving widespread corruption in 2009 to the current figure. A significant majority of EU states also registered a decline in similar perceptions and only two states registered an increase.

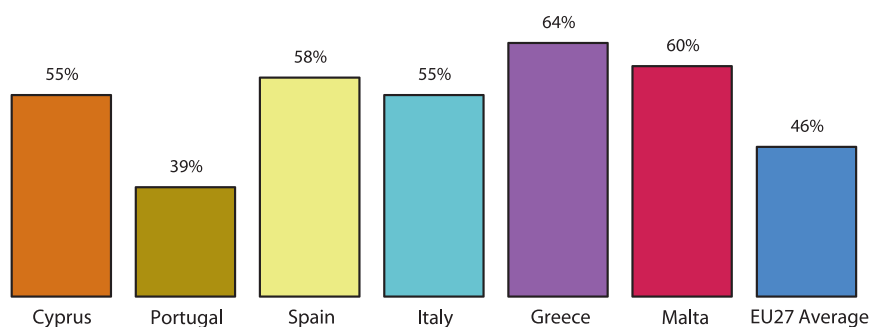
Figure 49. Perceptions of Corruption Associated With Officials Awarding Public Tenders in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



Source: Eurobarometer (2011)

The 71% of respondents in Cyprus who identified widespread corruption amongst those involved in awarding public tenders was the highest anywhere in the EU-27. The next highest were Slovenia (68%), the Czech Republic (66%) and Greece (62%). The Cyprus figure represents a fall from 76% registered in 2009, a similar decline was registered elsewhere in Europe amongst the majority of member states during the same period.

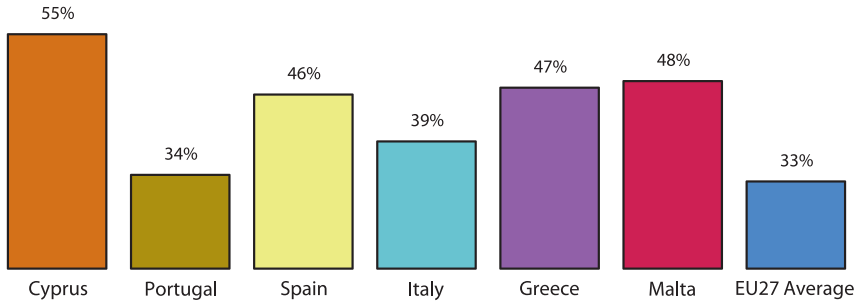
Figure 50. Perceptions of Corruption Associated With Officials Issuing Building Permits in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



Source: Eurobarometer (2011)

Whilst 55% of Cyprus-based respondents perceive widespread corruption amongst those issuing building permits, this is an average perception within the southern European region as a whole and adheres relatively closely to the EU-27 average. Nevertheless, the figure of 55% constitutes the sixth highest across the European Union. This represents a 15-point improvement on the 2009 score, the largest anywhere in the EU, and a downward trend again generally reflected elsewhere if not to the same extent.

Figure 51. Perceptions of Corruption Associated With Officials Issuing Business Permits in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



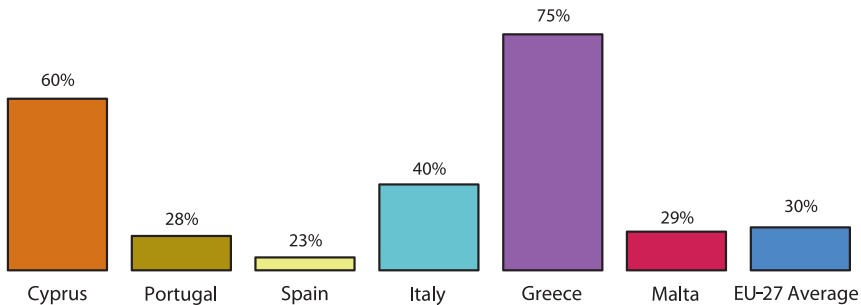
Source: Eurobarometer (2011)

Just over half of the Cyprus-based respondents (55%) perceive widespread corruption amongst those issuing building contracts, which is the second highest recorded perception of corruption in the EU-27, and only in Slovenia is it higher (57%). However, this represents a 7-point improvement on 2009, a downward trend recorded in all other member states, with the exception of Slovenia and Spain.

Public Service Providers

State-funded education and health services represent two of the most important public goods to which there ought to be free and equal access.

Figure 52. Perceptions of Corruption Associated With People Working in the Public Health Sector in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average

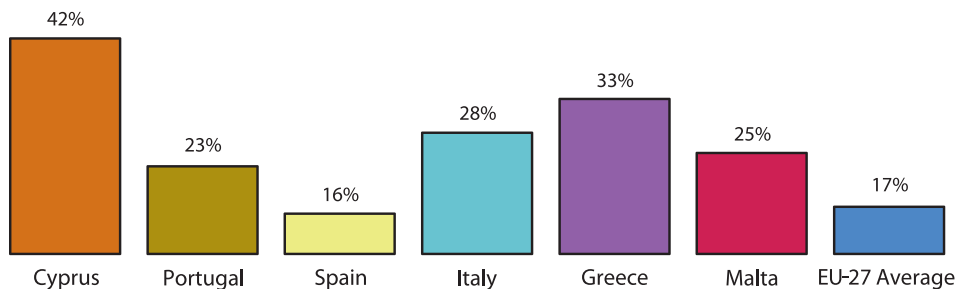


Source: Eurobarometer (2011)

The perception of widespread corruption in the public health sectors exhibits considerable diversity within the southern European group of states. Three states record perceptions of corruption below the EU-27 average and three above, including Cyprus-based responses, whose aggregated perception is

double the EU-27 average and the fifth highest across the EU as a whole. Only Greece records significantly more extensive perceptions of corruption amongst the southern states.

Figure 53. Perceptions of Corruption Associated with People Working in the Public Education Sector in Cyprus Compared with Other Southern Mediterranean Countries and the EU-27 Average



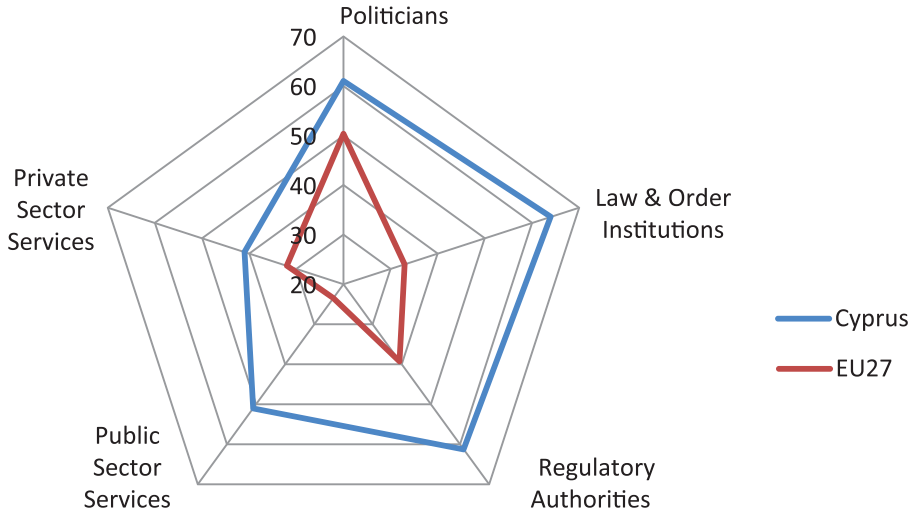
Source: Eurobarometer (2011)

More Cyprus-based respondents perceive that corruption is more widespread amongst those delivering state education than anywhere else in the EU-27. Only the eastern European states of Slovenia (36%), Romania (34%), Bulgaria (34%) as well as Greece (33%) come anywhere close. This represents a 3-point decline in the perception of corruption in Cyprus, and is a downward trend reflected across most states within the EU.

Drawing this evidence together it is apparent that, across the four groups, into which these institutions and their respective services have been organised, widespread corruption is perceived to characterise their operation. It is notable that of the 11 public services or institutions that respondents were asked to judge in relation to 'widespread' corruption adhering to their operation, ten were judged by the majority to be characterised in this way, with only public education workers falling below 50%. By contrast, as an average across the EU-27, no public service or institution rises above the 50% mark, with the exception of national politicians as a group.

The radar chart below offers a clear representation of the divergence between perceptions of corruption in Cyprus and the average perception of corruption as they are directed towards five types of institutions or actors. By way of comparison, extending beyond the exercise of power, decision-making and resource allocation in the public realm, also included are the figures related to perceptions of widespread corruption in the provision of private sector services.

Figure 54. Percentage of respondents who consider that there is widespread corruption across different types of institutions, public and private services and political actors. Comparison between Cyprus and the EU-27



Source: Eurobarometer (2011)

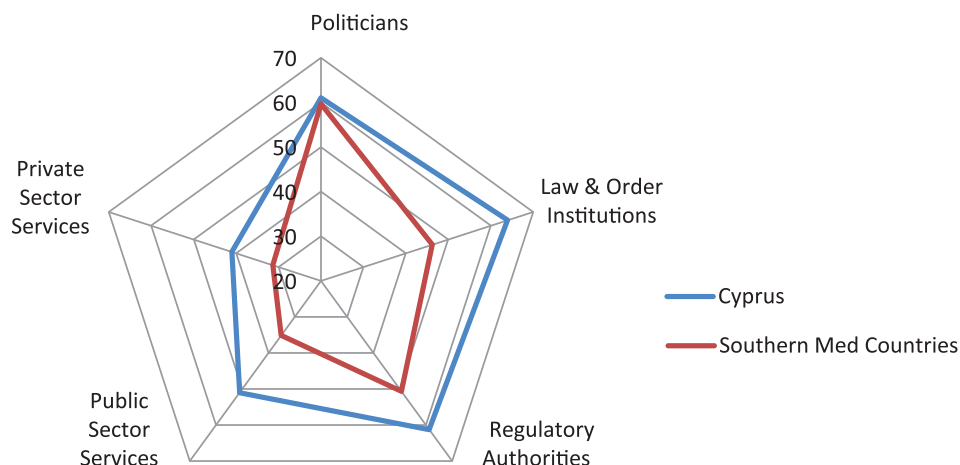
In all categories the Cyprus-derived results deviate significantly from the EU-27 average. In order of the magnitude of that deviation:

1. Public Sector Services 117% higher
2. Law and Order Institutions 94% higher
3. Regulatory Authorities 57% higher
4. Private Sector Services +28% higher
5. Politicians 21% higher

This striking evidence highlights how the patterns of perception recorded in Cyprus, as they are attached to particular institutions, groups or sectors, vary considerably from the wider European Union norm. In particular the provision of public goods and services as well as the wider regulatory function of the state appear markedly at variance with elsewhere. But, perhaps most critically, given the allotted role of justice and law and order institutions in any successful anti-corruption strategy, are the high levels of corruption associated with their operation when placed in a wider EU context.

We turn now to a comparison with other southern Mediterranean EU member states.

Figure 55. Percentage of respondents who consider that there is widespread corruption across different types of institutions, public services and private services and political actors. Comparison between Cyprus and southern Mediterranean EU States



Source: Eurobarometer (2011)

The disproportionately high number of Cyprus-based respondents who identified widespread corruption was also a distinctive feature when placed in the context of southern European states within the EU. The deviation from this collective norm can be ranked as follows:

1. Public Sector Services 45% higher
2. Law and Order Institutions 38% higher
3. Private Sector Services 31% higher
4. Regulatory Authorities 23% higher
5. Politicians 2% higher

Shifting the frame of reference between the Cyprus results and the EU-wide and southern Mediterranean results allows for a number of general conclusions about what the results indicate. All the evidence points to Cyprus recording a perception of widespread corruption not only significantly higher than across the EU-27 as an average but also within the island's regional context. The most significant deviations from the EU-wide average and that found within the region relate to public sector service provision, closely followed by law and order institutions. The fourth sector, regulatory services, also records a well above average perception of corruption attached to their delivery, and is 57% above the EU average and 23% of the southern states average. Politicians as a group, drawn from three different levels of governmental administration, recorded a 21% advance on the EU average but conformed to similar levels of perceived corruption within the regional context. This, of course does not suggest that political actors in Cyprus are seen as relatively incorrupt, but that across the EU as a whole this class is seen as particularly corrupt compared with other actors or institutions.

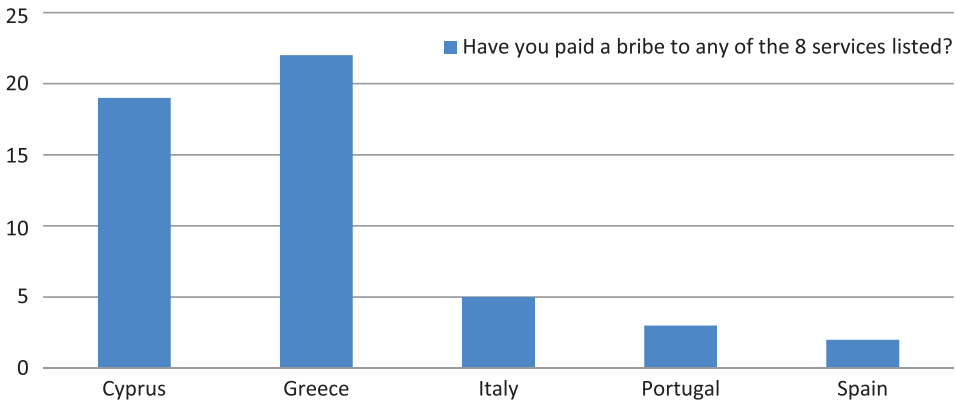
One final comparator was also registered: how extensive corruption was believed to adhere to the delivery of services in the private sector. This dimension offers a valuable indicator of wider relationships within society that goes beyond decision-making and resource allocation of public goods and services.

Strikingly, the perception of widespread corruption within this sector was consistently about 31% higher when compared across the EU-27 or within the regional context.

Corruption – From Perceptions to Experience

As has been previously noted, caution needs to be exercised when interpreting the data presented so far and avoid assuming that perceptions of the phenomenon are effective and unproblematic proxy when measuring the actual level of corruption within a given society. In conclusion, the evidence presented turns away from assessments based on respondent’s perceptions of corruption, the extent it is thought to be prevalent in society and the institutions to which people perceive it tends to be associated with. The following figures solicit information about whether respondents have any direct experience of participating in what is emphatically defined as a corrupt transaction – the paying of a bribe to a public official in order to gain access to public goods or services.

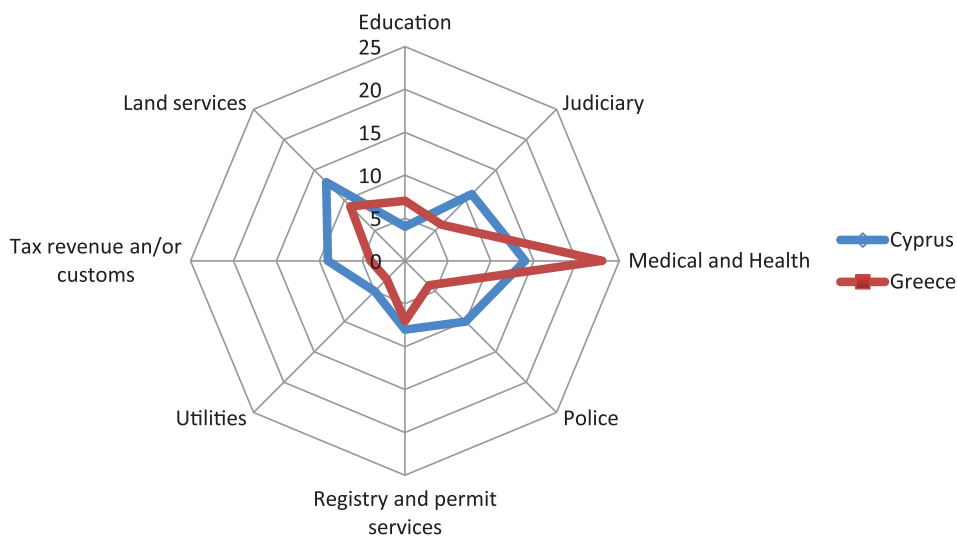
Figure 56. Percentage of respondents who have paid a bribe to any of the following: education, judiciary, medical and health, police, registry and permit services, tax revenue and or customs, land services



Source: Transparency International (2013), Global Corruption Barometer 2013

Compared with other southern European countries there is a clear distinction to be made between Greece and Cyprus on the one hand and the rest. In Cyprus, 19% of respondents claimed to have engaged in such a practice and it is not unlikely that the number involved could be higher again as this constitutes the admission of an illegal act which some would wish to conceal and this remains unreported in the data. The data is clearly indicative of a divergent experience across the Mediterranean and suggests that giving and taking bribes in Cyprus is a relatively common phenomenon. However, it should not be assumed that this measure can stand as a proxy for the more general experience of corruption beyond the specific form of bribery itself. Bribery is conceived as enforcing a financial transaction in order to access a desired resource. It should also be noted that this evidence arises out of solicited information about the paying of a bribe and not the non-monetarised exchange of favours which would appear to be an even more widespread practice on the island. The results can be refined further since respondents were asked to identify in which public service the recipient was located to whom the bribe had been paid. This is reported in the following graph and comparison made with data generated by Greek respondents as a point of comparison.

Figure 57. Percentage of respondents in Cyprus and in Greece who have paid a bribe to any of the following: education, judiciary, medical and health, police, registry and permit services, tax revenue and or customs, land services



Source: TI, *Global Corruption Barometer (2013)*

The figure clearly demonstrates high levels of recorded experience of the payment of bribes which would appear to be evenly spread across all public services with the exception of education. Compared with elsewhere, there is no EU state which records such an even distribution across public goods and service provision as recorded in the case of Cyprus. In short, evidence of corruption, according to this one measure, in other member states tends to help identify the payment of bribes being a feature of one particular public service provider rather than another. The case of Greece, recorded above, being a case in point, where there appears to be a serious issue of corruption in the form of bribery which involves public health professionals and administrators. Of particular concern must be the way in which Cyprus is unique in Europe in seeing bribery reported as common, to a similar level, across all public services with the exception of education provision.

Possible explanations as to why this is the case will be explored further in the following chapter. However, for the time being, this chapter closes by addressing three major questions which arise out of the evidence considered so far.

Firstly, what do perceptions of corruption actually measure? It is important to be reminded again to be wary of the claim that the perception of corruption is a direct or reliable proxy for measuring the phenomenon itself. As discussions within the research community frequently highlight, a wide range of factors have a bearing on the shaping of those perceptions beyond the direct experience of corruption as such. This, of course, relates to an ever present methodological issue for the social sciences in general which can be baldly stated as to how individual and collective cognition of a particular aspect of the life world is shaped by direct experience and how far by the actual process of cognition itself.

Cognitive biases can result in the mismeasure of corruption arising out of what has been labelled the 'bandwagon effect' where an individual's views are influenced by commonly held perceptions, even

if they are not sustained by actual experience itself. However, it is important be aware that perceptions themselves can be important drivers or conditioning influences on corrupt behaviour.

Nevertheless, this has led many social scientists to assert that this does not invalidate data based on the ways in which people read the society they are embedded and that evidence of this sort can be valued in a different way. The proposition is that the data can constitute something like an expression of a moral evaluation of the people round you as well as society as a whole. In this context, the perception people have of widespread, if not systemic, corruption in Cyprus which adheres to certain institutions or particular relationships, may not provide a viable measurement of corruption itself. But it nevertheless reveals something else, of considerable significance; that many people perceive that others around them are likely to be corrupt or, at the very least, open to corrupt practices should the right circumstances present themselves. It goes without saying that such widespread perceptions have a deleterious effect on the promotion of generalised trust in others which was explored in the previous chapter.

However, there is no escape from a fundamental problem ever present in corruption research that without accurate data about the extent and magnitude of corruption it becomes difficult to develop an understanding of both its cause and effect or develop tested strategies through which to tackle its reproduction.

Secondly, do perceptions of the 'rules of the game' in Cyprus dictate compliance to small-scale, yet systematic, corrupt practices? The data derived from the Eurobarometer poll can be valued in a different way if we put aside the discussion as to the relationship between the experience of corruption and its perception. Whilst the possibility of a 'bandwagon effect' is rendered as a problem as it is construed to distort respondent's perceptions evidence of this effect might be an important driver of the actual reproduction of corrupt behaviour. To put it simply if there is a general unanimity that corruption is widespread amongst public officials and office holders is this not likely to have an effect on the behaviour of the general population as a whole? If expectations are that corrupt relationships are an inevitable part of doing business with the state, might this not then make a person predisposed to conform to this relationship whether it is morally objected or not? Put another way, there might very well be a general consensus that establishes the 'rules of the game' which the players may not find particularly edifying but since they appear to be the rules established they have to be played by in order to access those public resources which, by right, are there for taking.

Finally, what is distinct about the perception of corruption in Cyprus in comparison with states elsewhere in the region and the EU as a whole? Both the Eurobarometer and Transparency International – Cyprus polls suggest specific conditions that pertain within the local context. Of particular note is the widespread perception of corruption adhering to the Police Service which, as a primary law and order institution along with the judiciary and related legal services suggests why respondents judge the law to be unevenly applied and corruption frequently goes unpunished. Further, other regulatory authorities are also generally perceived to exhibit corrupting relationships which suggests that whilst there may be a welter of laws and regulations which seek to provide equal access to public resources (what might be call the input side of the governance equation equation) the actual implementation of those rules and regulations (the output side) is perceived to be compromised significantly.

In short, the quality of governance delivered by the Republic appears to have a significant, if not overwhelming, effect on the perceptions of widespread corruption in Cyprus. A proposition explored in greater detail in the following chapter.

Chapter 6 - The Experience of Corruption: What the State Does About It

In the previous chapter, compelling evidence was presented that there exists a widespread perception that corruption is a distinctive feature of Cypriot society and is particularly associated with transactions that bind state and society together. This is a generally held view which calls into question why this is the case despite rules and regulations that are encoded within the Republic's laws that have the avowed purpose of tackling the phenomenon.

Consequently, this chapter turns to a set of questions which necessarily arise from what has been presented previously and which grapples with the thorny issue of what citizens themselves perceive corruption to be and the causes associated with its manifestation. In turn, this opens up an enquiry as to how the state has shaped an effective response to corruption's continued reproduction, if not proliferation, over the past number of years.

This is undertaken by consulting two different types of evidence. The opinions of people themselves is captured via polling data already consulted, but this chapter also goes on to explore the actions taken by the state to address the issues raised. This is partly based on the various evaluations provided by anti-corruption specialists from the Council of Europe measured in terms of the effectiveness of such activities as they assess it. Finally, this clears the ground for bringing the evidence presented in this and the preceding chapter into sharper view in order to conclude with a discussion as to why corruption appears such a persistent feature of state and society.

Before proceeding any further, it is important to return to the task of definition that was begun in the last chapter: to refine, with greater clarity, just what boundaries can be drawn around such a diverse and all-encompassing phenomenon such as this. The term 'corruption' can be used to refer to a very wide range of illicit or illegal activities. And it is in large part because the term can be stretched to cover so many activities that there exists no universal or comprehensive definition of what constitutes corrupt behaviour. However, the most prominent definitions emphasise *the abuse of public power or position for personal benefit, or, put differently, the misuse of public office for unofficial ends*. For this reason, corruption understood in this way is often also referred to as 'public corruption'. However, this is a reflection of the fact that the public sector is, or, should be publicly accountable and state officials should be serving the citizens at large rather than a failure to recognise that corruption also takes place within the private sector and that frequently the private sector is involved in most public corruption.

Public corruption draws attention to behaviour that departs from the formal duties of a public role in the pursuit of gains for the individual concerned, family members or close associates. Its delineation involves identifying the ways in which rules are violated in bringing private interests to bear within the public decision-making process. Actions of this sort can include *nepotism* or, what is locally identified as, *rousfeti* (the dispensation of patronage for mutual advantage rather than on the basis of merit), *bribery* (the use of a reward to undermine the judgment of a person in a position of trust), *speed money* (financial inducement paid to public officials to speed up relevant processes) and *misappropriation* (the illegal appropriation of public resources for private gain).

The 'private interests', which corrupt practices are said to be largely motivated by, can therefore assume a variety of forms. In practice, there is no clear and unambiguous answer as to what actions can be said to damage the 'public interest'. This lack of precision relates to how a separation between public and private interests ought to be established and by what authority this division is affected. Should this distinction be derived from a publically expressed consensus within society as a whole, through

specific legal standards, or general norms which are said to accompany liberal democratic societies? This issue has particular significance for Cypriot society where a comprehensive legal framework is in place, which does express the widely held liberal democratic norm that aims at a clear separation between public and private interests. As well as the expectation that a barrier be clearly erected and policed between each of those domains. However, there may be many forms of behaviour, including the exchange of 'favours' between family, friends, associates, voters and parties, which are widely tolerated, or at least recognised as an inevitable way to do business. These are transactions which quite clearly run contrary to the 'officially' accepted definition, encoded in law, rules and regulations, of what are defined as being appropriate practices associated with the exercise of public power.

Many states as well as international organisations and NGOs have tended to opt in favour of a set of general definitions of corruption which are broad enough to encompass the most prominent examples. There is a notable convergence in defining the phenomenon as *the misuse of public power for private profit or political gain*. This is the sort of general definition employed by the international NGO Transparency International as well as the World Bank and the Council of Europe and characterises the general norms circulated between major transnational institutions.

This is a minimal working definition - *the abuse of public office for private gain* – which tends to place those institutions and position holders who exercise power on behalf of the citizen at the centre of the phenomenon. If this is a general starting point, the phenomenon is dissected further given the fact that it becomes manifest in so many different ways. For example it can be identified on the basis of where it occurs: at the executive or bureaucratic levels of the state sector, or in their interaction with private institutions and companies. It can be defined according to its extent as well as its regularity depending on whether it is documented as a behaviour characterising isolated individuals or as a systematic phenomenon that permeates public institutions.

It is also important to note that there are particular types of corruption including grand as opposed to petty forms which relate to the small scale or sheer scale of the corruption entered into and local, national or transnational forms of corruption that clearly emphasise the geographical location within which the corrupt relationship transpires.

All of these types of corruption could be productively investigated in seeking to study the nature, form and extent of corruption in Cypriot society. But along with these we might identify two other aspects of this practice. One includes the recognition that familiar forms of corruption in Cyprus might involve offering benefits without expecting to receive an immediate favour or benefit in return but in anticipation of a future situation in which a favour or benefit may be required. And finally, the identification of corruption occurring when a single individual, or small group of people, who share common interests, profit from inside knowledge in relation to a policy outcome or a public decision.

Having offered a broad definition and an outline of the main forms of corruption, this section briefly explores some of the major approaches taken to disclosing how the phenomenon functions and the conditions within which it tends to flourish.

What is called the 'economic model' approach views the corrupt employee, for example, as a rational actor who decides whether to engage in corrupt activity by balancing the potential benefits against potential costs and consequences. According to this analysis, policies that heighten the consequences of engaging in corruption by increasing the severity of punishment and the likelihood of it being detected will necessarily lower corrupt activity. Academics and policy-makers in this field also identify other

important characteristics that might affect the incentives for corruption which can include: the probity and predictability of the judiciary, the ratio of civil service wages to general private sector wages, and the presence of merit-based recruitment and promotion in the public sector.

Other perspectives, of particular pertinence in the case of Cyprus, focus on institutional factors as a frequent, systemic root of corruption. Identified here is how a major characteristic of a system enabling corruption is the divergence between the formal and informal rules governing behaviour in the public sector. This divergence between formal and informal rules can result from the level of discretion in interpreting rules and regulation, a failure of oversight or bad management and the presence of weak monitoring procedures.

Elaborating on an aspect of this, attention has been drawn to the opportunity for corruption within institutions. As was noted in the previous chapter, the academic Robert Klitgaard has conceptualized the opportunity for corruption in a formula:

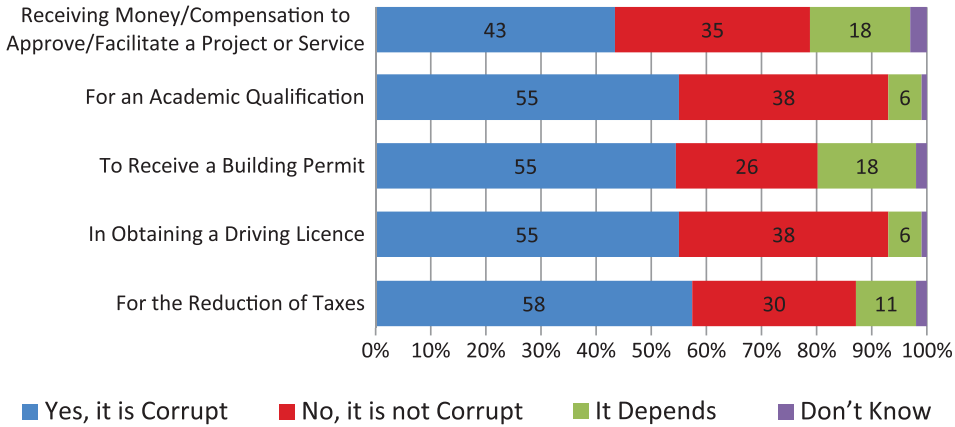
$$\mathbf{C \text{ (corruption)} = M \text{ (monopoly)} + D \text{ (discretion)} - A \text{ (accountability)}}$$

In other words, corruption is likely to occur when an organisation or individual (the public official, or the 'agent') enjoys monopoly power over information, goods or services (which are provided by the state), has the discretion to decide who is in receipt of those public resources and how much will be dispensed (in short, a system characterised by discretionary decision-making) and where this decision-maker is not accountable (where systems providing oversight are lacking).

But, it should be noted, there are other alternate readings which emphasize the normative or ethical failure of society as a whole, or particular groups or individuals within it, to appreciate the difference between right and wrong as being a substantive causal factor in generating corrupt practices. According to this view, corruption is a moral, ethical breach, and the solutions to this problem emphasise a reinforcement of the ethical and legal standards of professional behaviour through legislation, codes of ethics, and professional training. The danger of this approach is that it can ascribe moral failings to the particularities of a specific group or whole society and the culture it is said to express. Elevating culture or, more particularly, 'cultural failings' as a prime causal explanation for corrupt outcomes appears particularly problematic when attention then becomes focused on searching for the historical conditions which are said to have determined this outcome.

Whilst academics and policy-makers grapple with complex definitional issues, those asked in polling surveys how they identify examples of what corruption constitutes, are generally able to offer a firm opinion, although there remains a significant minority who are not able to do so.

Figure 58. What acts are identified as corrupt? (Giving money or other consideration in relation to the following services or access to public resources)

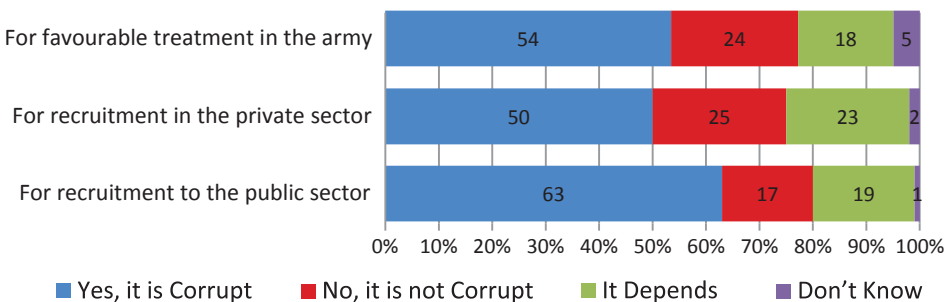


Source: TI Cyprus Chapter, Local Poll (2012)

What is perhaps most striking about the identification of corrupt acts is not so much the consistent 50% or more of respondents who identify four of the five scenarios as clear cases of corruption but the significant minority who dissent from that majority opinion. An outcome that suggests a relatively widespread tolerance amongst that minority to what would be, as far as the law and administrative procedures are concerned, unambiguously corrupt. Perhaps most striking is that the acquisition of an academic qualification or a driving licence are both based on what are assumed to be procedures involving tests and examinations which aim to provide an objective measure of either passing, failing or achieving a score allocated according to a clear and transparent scale.

Attention should also be drawn to the fact that only a minority of respondents perceived the exchange of money to facilitate a project or service as an example of corruption with a majority rejecting that proposition or admitting that it depends on the circumstances under which an event like this was to proceed. There may be some real significance in the fact that 18% of respondents identify contextualising factors as determining whether corruption has taken place for both this category of event and the process through which a building permit is secured. It could suggest that, for some, the labelling of such a situation as corrupt may be dependent upon the assumed purpose behind the choice being made. This may be indicative of greater tolerance being shown to those who might want to speed up a process which is, as is commonly the case in Cyprus, enmeshed in bureaucratic delay and hampered by arcane procedure.

Figure 59. What acts are identified as corrupt? (Using contacts to obtain the following services or public resources)



Source: TI Cyprus Chapter, Local Poll (2012)

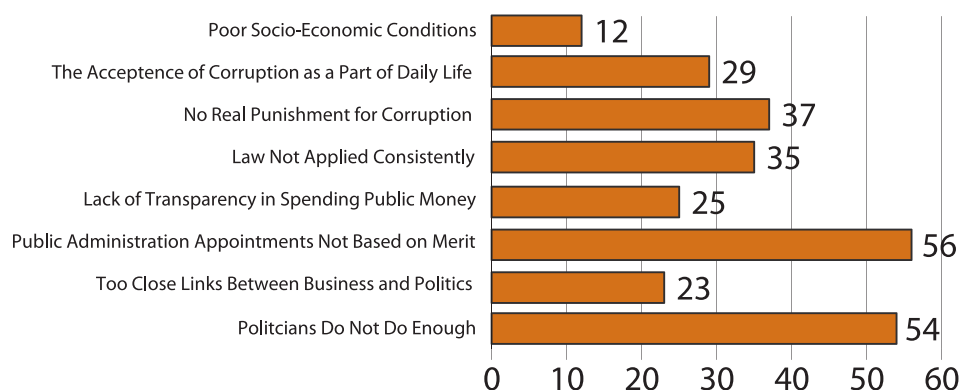
The significance of this evidence lies in the fact that what is perceived to be a commonplace practice in Cyprus- activating contacts in order to secure a position in the public sector- is seen as corrupt by two-thirds of respondents. This contrasts with the figures given for the private sector, where there is much greater tolerance attached to using networks of influence.

Taken together, it does not need saying, but the results are complex and not open to clear understanding. However, the large number of respondents who either do not identify an act which, it could be argued, is clearly corrupt or those who are prepared to countenance circumstances in which it could be acceptable is striking.

A speculative observation arises out of this. Could the fact that a significant minority of respondents justify such behaviour, which conforms to undue influence if it is not illegal and corrupt, be interpreted as a signal to others that unless you also do the same you will necessarily be disadvantaged at a job interview or in securing a particular public resource or service? This in turn might drive some who would describe such decisions as corrupt and wrong to give in to this behaviour despite defining it as such and justify this as the only way to remain in what has turned into a dishonest game. In these circumstances, a normative assumption about what is the right or wrong way to behave, and which may be genuinely held, is compromised. But this is a compromise which is justified on the basis of the expected behaviour of others which will result in an unfair disadvantage accruing to those who may wish to play by 'fair rules' but are aware that that is not how the game is being played.

Turning now to how respondents understand the underlying causes of corruption a recent Eurobarometer poll posed this question directly and provided the opportunity for one or more causes to be selected from a series of eight possibilities.

Figure 60. In your opinion, what are the reasons as to why there is corruption in society?



Source: Eurobarometer (2011)

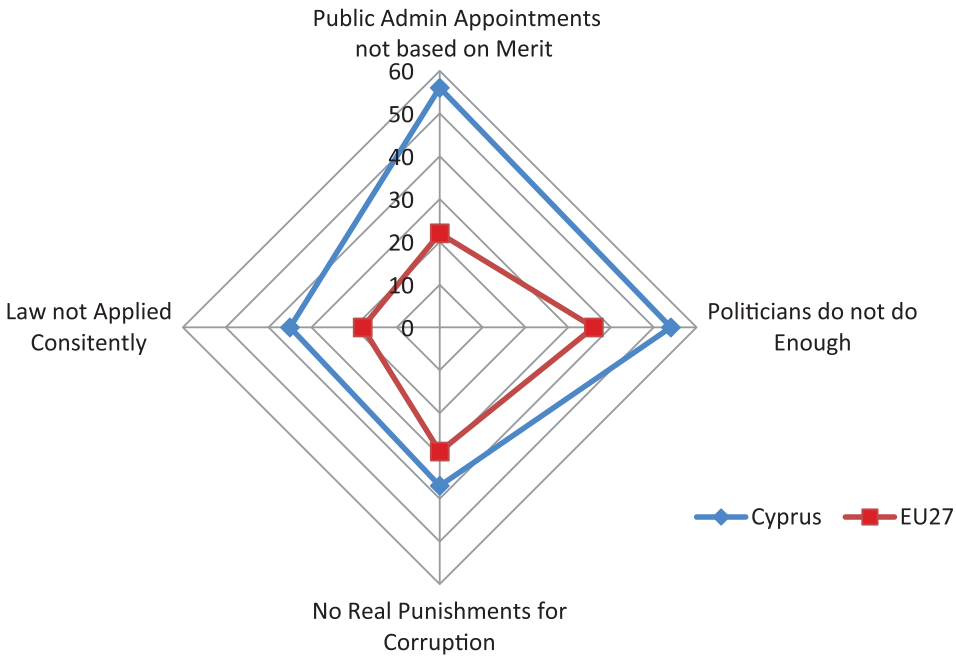
The data demonstrates that Cyprus-based respondents have a clear sense about how they might prioritise those factors, which together, create fertile conditions for corruption to flourish. Of the key factors identified, both the perception that national politicians were 'not doing enough' to combat corruption and the widespread assumption that access to public administration positions was not governed by meritocratic principles predominates over all others. Causal factors were also identified with the legal context that would appear, for many respondents, to either comprise of laws which are not applied consistently or which do not provide an effective deterrence.

It should also be noted that the fatalistic acceptance of corruption as a part of daily life also gained significant traction as an explanation. This identified factor carries with it the implication that the responsibility of citizens and residents in enabling the conditions within which corruption is acknowledged.

Comparing the results between 2009 and 2011 there are two notable shifts in opinion. Identifying politicians' failure to do enough was a causal factor in the creation of conditions within which corruption thrived rose by 23% from 44% previously. On the other hand, the assumption of too closer a relation between politicians and private business declined from 33% to 23%.

In order to gauge what are particular characteristics of the responses provided by Cyprus-based respondents the following figures place the Cyprus derived data in a comparative context with other southern European states.

Figure 61. Principle Causes of Corruption Identified in Cyprus Compared With the EU-27 Average



Source: Eurobarometer (2011)

In all the major causes of corruption selected by Cyprus-based respondents the magnitude of that opinion deviated significantly from the EU-27 average.

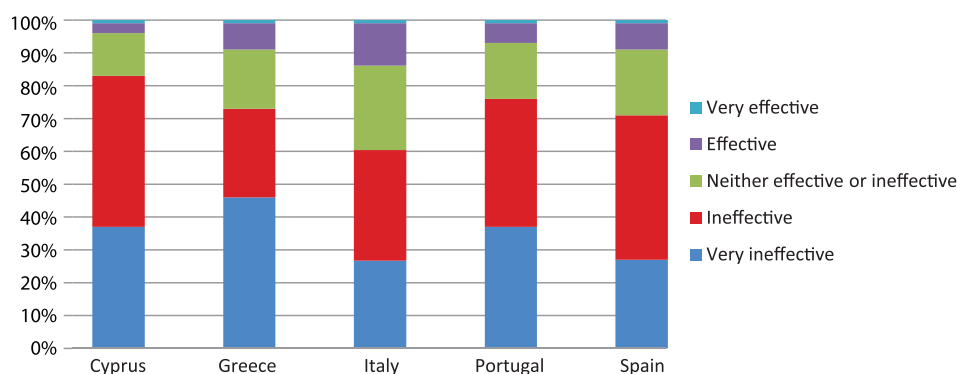
1. Public administration appointments are not based on merit +34%.
2. Politicians are not doing enough to fight corruption +18%.
3. There are no real punishments for corruption +8%.
4. The law is not applied by the authorities in charge +17%.

Across the four possible responses there was an appreciable gap between the evaluations offered in Cyprus in comparison with the EU-27. What clearly stands out is the considerable emphasis placed on the perception that appointments which were not based on merit were the single most important cause

of a corrupt outcome within society as a whole. Whilst for all other factors, even though the perceived lack of political will, the incomplete and inconsistent rule of law or the lack of appropriate penalties were highlighted in Cyprus as causal factors well above the EU average, the absence of meritocratic recruitment trumpeted them all.

With this compelling evidence in mind it does then raise questions as to what do respondents think about the effectiveness of anti-corruption measures pursued by the state and coordinated by the state.

Figure 62. Effectiveness of Government Actions in the Fight Against Corruption



Source: TI, *Global Corruption Barometer (2013)*

Aggregating these results in such a way so as to combine those who perceived the government's actions as either being ineffective or very ineffective has the outcome that Cyprus is ranked second, by its own citizens, as the least effective in discharging its anti-corruption duties. In this worldwide polling data, the unenviable position secured by Cyprus was only overtaken by Liberia (86% ineffective) and just ahead of the Ukraine (80%).

This striking result does prompt the question as to what regulatory framework the Republic has in place which appears to inspire little confidence. And how is the resulting anti-corruption strategy evaluated by specialist organisations, in terms of its performance, given their apparent ineffectiveness in the eyes of the wider population?

Anti-Corruption Strategies and their Evaluation

The Group of States against Corruption (GRECO) was established in 1999 by the Council of Europe to monitor States' compliance with the organisation's anti-corruption standards. GRECO's objective is to improve the capacity of its members to fight corruption by monitoring each member's compliance with Council of Europe anti-corruption standards through a process of mutual evaluation and peer pressure.

A major part of its activities is a periodic evaluation process which involves on-site visits to Cyprus providing an opportunity for evaluation teams to solicit further information during high-level discussions with state officials, leading to the drafting of evaluation reports. These reports are then examined and adopted by GRECO, and recommendations made to the relevant authorities, who aim to improve the level of compliance with the provisions under consideration in the concerned state. Measures taken to implement recommendations are subsequently assessed by GRECO under a separate compliance procedure.

As for Cyprus there are two main reports which will be concentrated on here, undertaken in 2001 and 2006, along with two follow-up compliance reports published in 2003 and 2010. The intention here is to present an overview, not only of the issues identified within them, but of the response of the Cypriot authorities. Much ground is covered in the GRECO reports, with a wide variety of high quality information presented which reflects the positions taken by official representatives of the Republic of Cyprus and expert opinion from the GRECO evaluation team itself.

This brief overview begins with how the general context is reported to outsiders. A repeated claim by the Republic's officials, and noted by the GRECO evaluation team, is that; 'According to the authorities and the representatives of the "civil society"...corruption does not occur on such a scale in Cyprus as to constitute a serious problem.' The 2001 report goes on to comment that 'This appeared to be a genuinely held view, which was also supported to a large degree by official statistics', thus allowing the evaluation team to report that 'Cyprus appears to belong to the group of the more fortunate European countries that are not particularly affected by corruption.' Five years later, the 2006 report again noted that the evaluation team 'had been repeatedly told that corruption was not a big problem in Cyprus as there were very few such cases.' And the GRECO team also remarked that 'international surveys confirm that corruption is not perceived to be widespread in Cyprus.' This appears unequivocal; according to the Republic's officials, there is little apparent corruption given the limited number of corruption cases which arises.

These striking statements do raise questions about what evidence the GRECO team's assertions of limited perceptions of corruption within Cypriot society were actually based on. It would not be an unfair presumption that this opinion relied exclusively on a cursory glance at Transparency International's Corruption Perceptions Index, based as it is on the aggregation of so-called expert opinion. That index does consistently record Cyprus as a 'relatively clean' state, when compared with others, but as has already been noted, there appears to be a significant gulf between how the expert reads the situation in this regard and the perceptions widely held within the general public.

Only taking account of the former and disregarding the evidence from opinion polling data led the evaluation team to give the official assessment of low levels of corruption on the island the benefit of the doubt. By implication, what was accepted was a line of logic, propagated by the state that the low number of convictions for corruption could be read as a healthy sign that corruption was a very limited event. The irony here is that GRECO reports, produced by the very same evaluation team, indicate serious weakness in the Republic's anti-corruption strategy, which may actually be the cause of the low number of corruption cases brought and the limited number of convictions secured.

It was not as if the evaluation team were inattentive to the fact that in Cyprus there were fertile conditions within which corruption could flourish. They observed in 2006 that 'Officials had articulated an argument that the small-sized nature of Cypriot society countered corrupt practices since it would be difficult to benefit from corruption without being discovered.' The evaluation team went on to suggest that the conditions for extensive corruption might in fact not only be present but also widespread. In 2001 they themselves commented on the small-sized nature of Cypriot society, but invested the observation with different meaning; '...[I]t cannot be excluded that the personal relations of trust that inevitably develop in societies of this size might lead to the creation of conditions favouring corruption. In the case of Cyprus the risk of corruption taking larger proportions appears to be accentuated by certain traits of the country's political culture.' In 2006, they also identified a second factor that was likely to be at work; 'In a small country which to a large extent people know each other, the willingness to report such activities as corruption may be less than a larger and more anonymous society...'

And, finally, since corruption was not perceived by officials to be a pressing problem, the team's concern was that this attitude might militate against the alertness of the authorities in proactively tackling the issue. This lack of alertness was manifested by the absence of a coherent or dedicated anti-corruption policy in Cyprus, until they were prompted to develop one by GRECO following their recommendations made in 2001. It is of course possible to speculate that the officials in question perceived no incentive in identifying corruption and that, at best, there was little political will to tackle the issue. A darker reading of this position could imply that there might very well be positive incentives for maintaining the situation as it was.

So what did the state do next? Following the original GRECO report in 2001 a specialist Co-ordinating Body Against Corruption was established in 2003 and charged with developing a more effective and systematic response by government departments to corruption and its causes within the public administration. However, as it was originally set up, the body 'was merely advisory 'without any targeted mandate and clear mission...'' (2006). This prompted GRECO to suggest that the body ought to 'place more emphasis in its work on problems of corruption in public administration and to give it a mandate to make proposals for a consolidated anti-corruption strategy for public administration. Not much progress appeared to have been made by 2008 since 'the authorities of Cyprus do not report any new development that would indicate that the role of the Co-ordinating Body against Corruption has been strengthened or re-defined...''.

Doubts can be legitimately raised, not only in relation to the effectiveness of this body, but whether it actually continued to meet on a regular basis after its foundation. There is no trace of this body's profile in the public domain and questions can be legitimately raised as to whether it actually meets at all, except, perhaps to give the appearance of activity taking place to satisfy external observers.

The GRECO reports are useful since they offer a critical appraisal of some of the principle elements central to the Republic's anti-corruption strategy as well as the key state institutions involved in its delivery. In this context, a vital element in any successful strategy is a competent police service which has a demonstrable track record of responding to perceived instances of corruption: a service in which the public has confidence to report and expect timely, efficient and effective response. A police service that fails to do this consistently does have the effect of sending out a message that the corruption phenomenon is neither perceived to be a priority or the service has a very limited capacity to tackle it. Consequently, the public has to have confidence not only in the service's capacity to act but also that its own police officers have a reputation for being beyond corruption themselves.

With this in mind, the GRECO team reported that the official figures produced by the authorities in 2001 suggested 'that the number of complaints against police officers is in general very low.' The Evaluation Team commented that 'The explanation for this could range from quasi-blind public confidence in the police service to lack of awareness or even absolute lack of confidence in the system.' And went on to suggest that the authorities 'consider(s) that the system of complaints against police should be put to a real test to assess whether it can provide an appropriate response to credible complaints against corruption.' By 2003, it was reported that new Police Internal Affairs Office was being prepared. This Office would aim to 'maintain Police integrity, professionalism and fairness by investigating in an impartial way allegations of police offences and misconducts, as well as by expeditiously identifying and punishing misconduct within Police ranks.'

In the 2006 report it was also felt necessary to recommend 'measures to enhance the specialisation and training of the police with regard to the investigation of offences and to try and encourage more proactive law enforcement.' This was a recommendation which resulted in the Chief of Police assigning responsibility for the investigation of corruption offences to a team of investigators from the Police Headquarters as well as to the Financial Crime Unit of the Police which is part of the Police Headquarters. Also planned was a training session in the Police Academy on the investigation of corruption offences, including the relevant legal provision, a training programme on money laundering. Circulars were distributed and training seminars/meetings on confiscation measures open to the police were also implemented over three months in 2007. Just how effective any of these initiatives have been remains impossible to judge.

The GRECO reports also raise important issues about the role and conduct of public office holders and other officials. In order to create conditions which militate against the development of corrupt practices and the relationships upon which they rest, a number of common and well tested initiatives need to be taken as well as related institutional and legal reform. In this context creating a culture within which public servants are pro-active in reporting a suspicion of corruption taking place was identified as a priority and facilitated by ensuring transparency and accountability in the ways in which decision-making takes place and how the distribution of public assets, goods and services proceeds.

In 2001 it was noted that the law-enforcement system in relation to corruption was not problem free. The report identified a major weakness in the reliance on incidents of corruption being reported as the principal mechanism for triggering a criminal investigation. The report goes on to say, 'What is, however, particularly striking in Cyprus is the absence of a clear domestic-law provision making it obligatory for civil servants to report suspicions of criminal offences. In the light of the above, the GRECO Evaluation Team recommends that the law should be amended to place civil servants under a clear obligation to report suspicions of corruption offences.'

In response the authorities reported that a Public Service Law, which provides for the obligations and responsibilities of the civil servants, was enacted at the end of 2003. According to the new Act, civil servants were now under a clear obligation to report to their superiors, their knowledge or suspicion that another civil servant was involved in acts of corruption, using his or her position in the Service. The report must be submitted in writing, giving all details of the case or suspicion.

In 2008 GRECO also recommended that there ought to be established regular training for all staff (permanent and temporary) on ethics in public administration. In response, the Cypriot Authorities reported 'that training seminars are organised in the Public Administration Academy on the existing provisions of the current Public Service Law on ethics in Public Administration, as well as the duties and obligations of civil servants.' GRECO remained to be convinced that any new initiatives had actually been adopted since the situation appeared the same as at the time of the on-site visit. As a consequence the recommendation was considered not implemented.

However, in 2010, it was reported that a code of ethics for public officials who are working with public procurement was enacted that year in May. The latter code sets out guidelines and principles (including transparency and high standards of professionalism) which apply to all persons involved in the procedures and conclusion of public contracts in Cyprus. Again, it should be noted that it is impossible to judge whether any of these initiatives had anything like a tangible result.

The tendency of the Republic, in this regard, is not to engage in systematic practices of bench-marking or qualitative evaluation, which is normally associated with modern public administration systems. What is substituted are reporting procedures which dwell on quantitative outputs rather than substantive investigation of qualitative outcomes, which is a poor basis upon which to judge the relative success or failure of any initiative taken or reform pursued. This problem extends well beyond the confines of this particular discussion, as the state's meagre practices in this regard extend to the evaluation of social and economic policy as well as the raft of so-called 'National Action Plans' put in place at the behest of the European Union.

On the issue of transparency in public administration, the evaluation team recommended in 2006 that a codified right of access, beyond constitutional provisions, ought to be formulated and the state become more pro-active in informing citizens of their rights of access.

In response, the Republic stated that 'Any possible future legislation to be adopted in this area will be examined following the conclusion of the European Convention on Access to Official Documents, and in line with its provisions (this convention is currently under preparation by a Council of Europe committee which includes a member of the Attorney General's Office of Cyprus).' In response GRECO noted its 'regrets that there have been no developments yet on such an important matter as the legal guarantees for ensuring access to information. GRECO recalls that in the Evaluation Report, it was considered that the (very basic) constitutional provisions needed to be complemented by a law regulating the various practical aspects of information access... As regards the third part of the recommendation, GRECO notes that Cyprus does not report any new measures to foster transparency in the administration.'

By 2010 GRECO concluded that it was '...not in a position to assess and evaluate all the texts referred to, however, it notes that they did all exist at the time of the adoption of the Evaluation Report and that the situation since then has not changed.' Further, GRECO do not appear to be impressed by the list of initiatives taken or general guidelines provided by the Cypriot state when it comes to the issue of access to public information.

The reports also indicate other weakness and identify evidence of how those become manifest. Fines for corruption were judged too low, creating conditions within which the incentive to pursue those practices were judged not to be adequately outweighed by the consequences of being caught. And finally, caution was voiced in terms of the reasons why the reporting of corruption by the public remained so low. The team were particularly 'surprised' to hear that the Ombudswoman had received no complaints about corruption. Investigating further, they were informed that she would 'never investigate "political decisions"... and that a number of public officials and institutions were excluded from his/her monitoring.' Surprising to them was also the fact that, as they wrote in 2006, the Company Registry reported that between 2002 and 2004 there were no convictions for corruption amongst 'legal persons' (companies etc).

Taken in the round, the abiding utility of the data generated by the GRECO evaluation process rests on its near exclusive concentration on assessing the institutional and legal mechanisms through which the Republic of Cyprus seeks to develop strategies to tackle corruption. Further, given the obligations incumbent on officials of the Republic not only to provide reasoned responses to evaluation questionnaires, but also to respond to any recommendations endorsed by the executive of GRECO, the data provided constitutes an important snapshot of just what rules, regulations and legal frameworks were operative during the evaluation visits.

Whilst their procedure generates hard empirical evidence which can be correlated with similar data from evaluation reports conducted in other GRECO member states, the data also reveals something of the official perceptions of corruption within the state and the reasoning which underpins anti-corruption measures being pursued, or not pursued, as the case may be. In this sense, the data is of a quite different order from the Transparency International Perceptions Index or the Eurobarometer polls previously examined.

However, it is important to note, that the GRECO evaluation process and subsequent reports are only periodic snapshots of the regulatory framework surrounding corruption issues as well as the measures taken to combat corruption more generally. What is striking is how the GRECO evaluation teams appear to have limited resources to judge the quality of the responses given by the Republic's officials let alone evaluate the implementation of previous recommendations. In this sense, the data generated should be treated as significant but circumscribed, limited in its extent but revealing in the partial view it allows of the state's response to the phenomenon in question.

Why Corruption?

This chapter concludes by trying to identify the specific significance of each of the insights provided by the individual data sets associated with the Corruption Perceptions Index, the Eurobarometer polls on corruption as well as the GRECO reports. This provides the ground upon which to draw general conclusions on the basis of the evidence considered and reflect on both the nature and the extent of corruption experienced in Cyprus as well as alternate ways of pursuing anti-corruption strategies.

Transparency International's Perception Index score for Cyprus, if taken at face value, might be bluntly interpreted to suggest that when compared with other states worldwide the experience of corruption is far from being either extensive let alone systematic, but a relatively minor problem deserving limited attention. However, the usefulness of the Index in disclosing corruption worldwide has become increasingly challenged and the particular problems associated with the datasets employed in the Cypriot case have already been alluded to earlier in this chapter. The Index score is a crude amalgam of four other datasets, three of which are generated by unspecified 'expert opinion' that each employ different search questions to arrive at their conclusions. It also remains unclear whether the experts involved were focused on the comprehensiveness of the legal framework employed to tackle corruption, institutional competence in pursuance of an anti-corruption strategy or general or group-specific perceptions of corruption.

As many critics have noted, there is little doubt, particularly following its initial launch by Transparency International in the 1990s, the Index has drawn attention to corruption as a worldwide phenomenon and embedded the issue within the consciousness of both public and policymakers. However, the specific utility of the raw index number derived as well as the ranking of Cyprus in comparison with other countries is little more than indicative rather than being treated as conclusive. Further, the sheer bluntness of the perception rating means it has virtually no use in offering actionable insights. Finally, the relatively high ranking which Cyprus has generally received over the past number of years might actually be a cause of complacency in relation to the issue of corruption contributing to its continued reproduction.

The second major source of data consulted was derived from Eurobarometer polling evidence as well as what may be available through Transparency International's own worldwide barometer on corruption, centred, as both are, on Cypriot respondent's perceptions of corruption. Quite unlike the Perceptions Index, this was a standardised questionnaire administered across the states of the EU-27 to representative samples of the population. Many of the same questions have now been repeated over many years,

therefore building a longitudinal measure of shifting perceptions over time, and they are comprehensive to the extent that they not only explore the perceived experience of corruption as such but also the public's perception of related factors which have been identified as enabling corruption as well as measures taken to combat it.

It hardly needs to be reiterated again that what the polling reveals are not levels and forms of corruption as such, but the public's perceptions of the phenomenon (not that the status of this data is any different, in this regard, from the perceptions recorded by expert panels). Consequently, in the face of this measurement difficulty, researchers and anti-corruption campaigners have resorted to surveys of public perceptions as at least a proxy measure. As we shall see, public perceptions of corruption can be understood as a lot more than a record of how disinterested individual perspectives become when aggregated into collective opinion but may also be seen as an active agent in facilitating the phenomenon.

The Eurobarometer results are striking in both offering a significantly high estimate of perceived corruption within the Republic of Cyprus as well as to what specific public institutions corruption adheres to. The public perception is that corruption is not only widespread but systemic, with an overwhelming majority identifying it as a 'major national problem', well over double the average identification across the EU.

In relation to specific sectors and public bodies, respondents were clear and decisive about where they perceived corruption to lie. National, regional and local institutions all recorded 90%+ identification as the loci of corruption.

Looking closer at particular services it is apparent that institutions associated with the administration of justice are rated as significantly corrupt. For example, 60% of respondents judged that corruption adhered to judicial services but, most worrying of all, the highest across the EU, 89% believe that there is widespread corruption and abuse of power in the police force. What this strongly suggests is that the institutions charged with a responsibility in detecting and taking appropriate measures to tackle corruption are not only perceived to be far from robust but are generally implicated in reproducing corrupt practices and relationships themselves. This is a serious outcome since the low reporting and conviction rate for corruption in the Republic's territory ought not to be an indication of low incidence of this phenomenon but an outcome of the lack of confidence citizens have in the appropriate institutions to respond to the phenomenon. This is perhaps manifest in a belief that laws, rules and regulations will not be appropriately policed, and that reporting breaches of the law will, in many cases, not be appropriately acted upon. This outcome can be correlated against another striking response recorded in the Eurobarometer poll which found that 40% of Cypriot respondents agreed with the statement that 'The law is not employed by the authorities in charge.' It should be noted that this is the proportionately highest response in agreement with the statement anywhere in the EU. Further, only 18% of respondents concurred with the statement that 'There are enough successful prosecutions to deter people from giving or receiving bribes.' In short, taking this evidence as a whole, a significant number of citizens see the rule of law as degraded since a fundamental condition of its function – a universal and disinterested application to all – appears compromised.

Indeed, the dispiriting picture that emerges from the polling evidence is that over 2/3 of Cypriot respondents see national politicians as giving and taking bribes and abusing public trust in them for their own advantage. Further, a wide range of public servants involved in diverse activities, including awarding public tenders, granting planning permission or business permits, overseeing customs control, acting as

inspectors or delivering health services, are also perceived to be open to being bribed or actively seeking bribes. Put in a comparative context, the Cypriot perceptions across this range of public services are ranked within the top three across the EU-27 as to the degree of corruption which adheres to them.

What also emerges from the data are some of the conditioning factors which facilitate widespread corruption as it is perceived in Cyprus. Whilst a number of options were available to respondents across Europe, a very particular local pattern emerges which identifies specific characteristics of Cypriot state and society that contribute to the reproduction of corruption. Of all the factors, the failure of the public administration to recruit and promote employees on a meritocratic basis was mentioned by more people here than anywhere else in the EU. This figure can be interpreted in a number of different ways, but it is of particular significance because the proportion of public sector jobs as part of the labour market as a whole is amongst the highest in Europe.

Further, a public sector job tends to be prized because it is invariably seen to be a permanent appointment, well rewarded, with enhanced pension rights and preferential access to a range of benefits and services. If appointments and promotions to and within the service are perceived as not primarily determined by merit, then other criteria are likely to be thought to play a part in granting access to the service or progress through the ranks. In this sense a considerable range of options might have to be necessarily developed in order to progress, including activating kinship or friendship networks, or the suggestion of mutual exchange between the potential recruit and the agent, i.e., the use of money inducements and gifts, or perhaps more seriously, the expectation of political favours or even outright bribery.

It may also be the case that in seeing the public sector as failing to conform to a basic meritocratic principle the assumption is that a fair and universal application of bureaucratic procedures, rules and regulations cannot be expected. This would then suggest the need to resort to similar strategies in order to secure the successful recruitment or promotion within the public service.

Finally, a major factor in the reproduction of corrupt practices, or at least in the consolidation of the opinion that corruption is widespread, rests on the fatalistic turn of Cypriot perceptions. This is clearly reflected in the fact that the second highest number of respondents in the EU (30%) 'accept corruption as part of daily life', and that 80% of Cypriot respondents believe 'corruption is unavoidable'. The naturalisation of the phenomenon suggests that it is something that cannot be successfully challenged, perhaps a reflection of its systemic character. This can have three deleterious outcomes: that little would be gained and little would be done by reporting such practices, and it is only something to be expected and therefore not worth being detained by.

In sharp distinction from the polling evidence discussed above, the data generated by the GRECO reports was of a quite different order and significance. The relationship between the Republic of Cyprus and the procedures through which an evaluation team delivers a report and suggests recommendations is one bound by mutual obligations and the provision of official data and formalised exchanges between state representatives and GRECO. Further, the approach of GRECO is to try and mobilise peer pressure between member states which aim at introducing best practice, institutional reform and a pro-active strategic approach to tackling corruption.

In the GRECO reports, and the responses of the Republic to them, there is a strong sense of an institutional path to reform being laid down and steps taken to proceed down this developmental route. International indicators are used to assess strengths and weakness of the institutional structures of

the Republic and corrective actions proposed, follow-up evaluations judge compliance to previous recommendations. Clearly the reports carry significant weight because the state's response is not to reject any proposed recommendations but negotiate its implementation.

With its near exclusive focus on the institutional structure and legal framework the reports seek to explore how the state works to close down the opportunity for corruption but also to provide robust mechanisms for tackling the phenomenon. With this in mind, whilst GRECO does evaluate the Republic as possessing a more than adequate set of institutions, laws and procedures to deal with corruption, there have been significant gaps exposed and remedial action proposed. Over the years, GRECO has recommended reform of the process through which complaints can be brought against the police, a law which would oblige 'high state officials' including MPs to declare their assets, new procedures to place the onus on public servants to report corruption and the increase in fines for corruption as a more adequate deterrent. The reports have occasionally ventured to suggest reforms which might undermine factors which are commonly associated with corruption, including enhanced transparency in public administration, training initiatives and the implementation of, codes of conduct in an attempt to embed a more pronounced anti-corruption ethos amongst public sector workers.

Perhaps the major achievement of the GRECO process has been the way in which the Republic has been consistently prompted to develop a somewhat more strategic approach to the corruption issue through the establishment of a Co-ordinating Body Against Corruption, which is said to meet on a regular basis and involves a number of high officials from relevant ministries and other institutions. However, what the longer-term impact of this body is, or whether it actually convenes at all, remains extremely difficult to judge since its proceedings are not made public and its work appears not to be evaluated. Further, there also appears to be a reluctance to extend its work into corruption issues as they relate to public administration, to generally strengthen its role or to give it a clearly targeted mandate or clear mission.

The most evident weakness of the GRECO driven evaluation and recommendation process is that the reports produced are quick snapshots rather than detailed assessments conducted by outsiders who are not in a position to verify the quality of the initiatives taken by the Republic. As a case in point consider the multiple recommendations that public officials, including the police, ought to either undergo training to ensure that the response to corruption is more pro-active or that ethics ought to be consistently taught to enhance the delivery of an equitable public service. Whilst the Republic responds to these recommendations with a handful of examples of seminars being organised, there is neither an indication that this constitutes on-going training or what the quality and ultimate effectiveness of the training is. In short, once GRECO is satisfied that an action has been taken, the issue tends to be left unmonitored by them and the quality of the action taken remains beyond the reach of the evaluation process as such.

Another strong impression is also created by the evidence that there is limited political will by the state to originate self-initiated anti-corruption activities, let alone a coherent strategy. No independent initiatives appear reported to GRECO, with the reform process being exclusively driven by what GRECO itself recommends. For example, take the issue of transparency, a vital dimension in any serious effort to undermine corrupt practices and relationships, since corruption thrives in circumstances where decisions may be taken away from public view and in circumstances where rules and regulations can be bent or circumvented to personal advantage. Officials appear to either reiterate that the constitution guarantees access to relevant information should a citizen request it or that various ministries and other public bodies have a web presence through which information can be accessed. What GRECO simply cannot assess is the actual practice, whether successful or not, in achieving access to information or even whether citizens are aware of this general right.

The data presented in the GRECO reports, as well as the reported responses to the questions, give the appearance of being both objective and verifiable. A consistent position taken by officials of the Republic is to deny that corruption is a significant phenomenon. This claim is said to be substantiated by the small number of corruption cases which reach the courts: an outcome which is said to be determined by the fact that Cyprus is a small-scale society within which 'it would be difficult to benefit from corruption without being discovered'. For its part, the GRECO reports are somewhat sceptical of these claims but, nevertheless, report that there is a satisfactory legal and institutional framework to deal with the phenomenon, even if there remains significant room for improvement.

However, there of course remains a significant body of evidence, based on the views of Cypriot citizens, which challenges both conclusions. A number of important issues arise, not least is an answer to whether corruption is minimally experienced or a widespread and all-enveloping experience, which itself raises a question about how and on what basis it would be possible to accurately measure a set of discrete activities which, by their nature, are subterranean and hidden from view. The Republic's officials base their claim on the low conviction rate for offenses related to corruption, but this is clearly an inadequate measure since that only relates to offenses which have been reported and have made their way to court. This low figure may very well be indicative of the effectiveness of corruption in remaining buried and beyond view, a reluctance on behalf of many people to report the phenomenon, which itself might be based on an assumption that in doing so no effective action will be taken.

There is strong evidence that the conditions for corruption are clearly evident in Cyprus, which itself raises questions about how the phenomenon might be best disclosed. Consequently, this chapter draws to a conclusion by utilising three broad approaches to the phenomenon in order to illuminate the Cypriot case but also to draw attention to how, depending on the approach taken, this can predetermine the shape of subsequent anti-corruption strategies.

As has been previously noted a common approach to understanding corruption has been provided by Robert Klitgaard, who has conceptualized the opportunity for engaging in these illicit activities in a formula:

$$\mathbf{C \text{ (corruption)} = M \text{ (monopoly)} + D \text{ (discretion)} - A \text{ (accountability)}}$$

This is a productive way of understanding a set of factors which together can create the conditions within which corruption can flourish and where significant circumstantial evidence suggests that these conditions exist in Cyprus. The state, by its nature, provides a wide range of monopolised services, to which citizens are compelled to make recourse. This is particularly true of a wide number of procedures surrounding economic activities including securing building and business permits, inspection certificates and so forth, as well as the provision of public services provided by, for example, the state education and health sectors.

Significant evidence exists that Cypriot citizens perceive widespread discretion in the application of law, rules and regulations, rather than them being applied in a universal or equitable manner. Not only does this perception adhere to numerous services and regulatory requirements provided by the state but it also extends to the application of the law aimed at rooting out corrupt practices. Consequently, of all the EU member states surveyed in the 2007 Eurobarometer poll, it was in Cyprus that the highest number of surveyed citizens (40%) affirmed that, in their view, 'The law is not applied by the authorities in charge.'

The discretionary application of rules and procedures would appear to extend to the process through which public services are themselves constituted. At the heart of liberal democratic theories of the state

is the principle of meritocracy in public appointments, guided by transparent criteria during the selection process and equitable recruitment and promotions procedures. Again, Cypriot citizens appear to identify the authorities' failure to live up to this ambition as a significant factor in creating the conditions for the reproduction of corrupt practices. A majority of Cypriot respondents (54% - the highest number anywhere in the EU) did not believe that appointments to the public sector were made on the basis of merit. Which of course begs the question as to what other criteria are perceived to govern the selection process. Further, if promotions within the public sector are not exclusively determined by merit, a significant incentive to perform according to very different criteria comes into play which militates against an efficient and equitable service, based on the principle of impartiality, being delivered.

The discretionary interpretation of rules and regulations in Cyprus also appears conditioned by the play of other interests. In relation to which, the GRECO evaluation team had noted the conditioning influence of, what was identified as, the prevailing 'political culture'. They observed the '...customer-provider type of relationship that exists between political parties and their voters, the pressures to which the holders of political office are increasingly subjected by powerful social and financial groups and the over-deferential attitude displayed by some categories of civil servants vis-à-vis political figures and members of their families.' All are noted as characteristic in the case of Cyprus; networked relationships which remain opaque and difficult to penetrate but inextricably linked to a political field which subverts the transparent and equitable distribution of public goods and services

Another prominent approach to corruption, associated with the work of Daniel Kaufmann, emphasises the importance of developing robust democratic governance as a necessary prerequisite in tackling the phenomenon. This is also reflected in the approach of GRECO which tends to concentrate its evaluation on state institutions and legal frameworks. Kaufmann's emphasis tends not to be on the need to develop yet more regulatory mechanisms for governing the detail of public sector conduct but on the necessity of encouraging greater transparency in public administration and governance more generally. With greater transparency in how decisions are made to allocate public resources or political parties are financed, the assets possessed by politicians and civil servants are disclosed, the opportunity to engage in corrupted practices are said to be considerably reduced.

Of course, how effectively the Republic conforms to these specific practices associated with liberal democratic governance remains very much open to question. There are clearly problems of this order identified in the GRECO reports, which in some cases appear to be longer term problems which remain to be effectively addressed. These include the opacity that surrounds the functioning of the Coordinating Body Against Corruption, the failure to agree legal regulations governing the disclosure of the assets of politicians and senior public officials, the lack of effective controls exerted over party financing, and the absence of a consolidated law guaranteeing transparency or access to public information, amongst others.

To conclude, whilst in terms of the letter of the law, GRECO has recorded that the legal framework for tackling corruption is at least adequate, even if there was also identified a significant room for improvement. The actual operation of the law as well the more general robustness of those institutions charged with delivering liberal democratic governance, through which the conditions for corruption practices would be undermined, have yet to be resolved.

The final approach to corruption that appears to be productive in considering the Cypriot context is associated with Bo Rothstein and his collaborators at Sweden's Quality of Government Institute. What Rothstein asserts is that too much attention has tended to be focused on legal frameworks and structural issues, necessary but largely formal enquiries which characterise the GRECO evaluation process for example. Instead, Rothstein emphasizes the role of 'cognition', that is how people see and understand the social world, as a way of exploring the basis upon which people then choose to act within it.

In short, from this perspective, the salient fact is that a large proportion of Cypriot citizens believe corruption to be widespread, if not systemic, and it is a prominent characteristic of the anticipated relationships citizens have with the state and its institutions. Seen in this way, it is not of paramount significance what the actual material reality of corruption that actually takes place is but rather the general perception of it. Consequently, collective perceptions have real effects since, if it is assumed that most people you deal with are themselves corrupt, or at least predicted to be, this then establishes the 'rules of the game' which you feel you have to play by. Put another way, if it is assumed that others are corrupt, then what possible advantage might there be to behaving in an uncorrupted manner? If you cannot trust others to behave in a fair and open way, and the state cannot enforce fair rules by which the game gets played, the compulsion to adapt to the resulting situation means that you become as 'corrupt' as everyone else. However, it should be noted that feeling the need to play the game in this way does not imply that those participating, from henceforth, see corrupt practices as morally legitimate acts. Participants feel the need to play by those (crooked) rules, over which it is felt they have little if any control, as the only means of staying within the game as it is actually being played out.

The result is that corruption in this case becomes what is called a 'sticky problem', very difficult to modify let alone dislodge. It is a game within which a 'negative equilibrium' has been established where there is little incentive for those participating to change their strategy. This is an equilibrium difficult to dislodge unless a shock is administered to the system and relationships of this sort are knocked out of kilter.

Chapter 7 - The Party Political Machine: Distributing the Spoils

Earlier chapters have considered the recent development of state and civil society as well as the performance of the Republic of Cyprus, judged against widely accepted standards employed by the World Bank. Attention was also drawn to how the low levels of generalised trust apparent within Cypriot society, as well as the widespread perceptions of endemic corruption are best understood within this context. Rather than disaggregate and discuss separately each of these aspects or elements, which together characterise something of the current state Cyprus is in, the ambition has been to trace their inter-connectedness.

However, the reader would be forgiven for intuiting that there is a lacuna in both the evidence and analysis presented so far; the absence of a familiar institution within the Cypriot landscape. Briefly alluded to at various points in previous chapters, but never given the attention such a prominent actor in the political system undoubtedly deserves.

Political parties stand close to the centre of a web of relationships which have been explored here. Firmly located in what we have called the input side of the political equation – where partisan views collide and diverse interests are aggregated and represented in the process of law and policy formation. As is typical in almost all electoral democracies this is largely achieved through the vehicle of the political party. These are formations which play a leading role in facilitating debate and deliberation by proposing contending policy and programmes and which seek election with the ambition of transforming those proposed policies into the outputs of state practice, the actual implementation of policy.

An indicator of just how important the party institution is in Cyprus, rarely acknowledged, is just how large they are as membership organisations. Quite unlike trends manifest everywhere else in Europe, party membership not only remains extraordinarily high, the total membership of parties in Cyprus appears to be growing with the reported addition of 19,000 members to the DIKO party lists in mid-2013. This swelling of the DIKO ranks may have been the result of various party factions seeking to secure support in forthcoming leadership election, but the numbers involved are indicative of the substantial hinterland of support which a party can command.

In 2009, 81,433 people were registered as party members (16.25% of the electorate) in Cyprus. The reported expansion of DIKO's membership list represents an approximate 25% addition in members, based on the 2009 figure. Taking this development into account, by 2013 something like 20% of the voting population was recorded as a member of one party or another. By comparison, 6.69% of the electorate in Greece were registered as party members in 2009. In sharp contrast, a western European country, such as the United Kingdom, records only 1.0% of the electorate as members of one of the three main political parties in 2010. This evidence does beg the question when one in every five adult Cypriot are party members, what incentive these formations provide which attract such large-scale attachment.

Parties are dominant institutions, not only in the political life of the Republic, but within society as a whole, and thus impossible to ignore. As institutions they seek to maximise their popularity within the electorate in the pursuit of votes through which to secure representation at all levels of government. In pursuing this role, some politicians have been known to elevate the place of political parties to the level of being described as being at the very centre of the island's democracy. And, in an important sense they are correct in making this evaluation.

According to conventional liberal democratic theory, conflicting interests within society ought to be managed by open, competitive and fair participation within a framework of legitimate and credible institutions that enable citizens to defend their interests, to act on issues they care about and to hold officials accountable for their decisions. In doing so, conflict is managed by aggregating competing demands into public policy which becomes the object of debate and deliberation. It is through a process of aggregation that programmatic statements emerge and are placed before the electorate as clear alternatives. It is generally understood that political parties are the key players in this process. And it is through the mechanism of elections, the securing of representation within an assembly, coalition building and the subsequent formation of a government that, it is assumed, the general will becomes expressed. In the Cypriot system the parties are also the kingmakers in presidential elections with no candidate likely to proceed very far without the declared support of one or more of the major party groupings.

What is sometimes neglected in theory which concentrates on the formality of the liberal democratic order is that political parties also function to provide a range of non-political benefits as well. They provide many people with a sense of recognition and status for people and groups, a sense of security, fraternity and efficacy. They also might provide some, including party members and supporters, with access to public goods and services which they might not otherwise be entitled to or have difficulty accessing given bureaucratic or inefficient procedures commonly involved.

The evidence derived from Cypriot sources suggests that it is difficult to ignore the informal function that all political parties perform, as a matter of course, even if many of these activities are, by their very nature, largely hidden from view.

Occasionally, leaked documents to the media, which have been inadvertently released in to the public domain, provide an insight into the role that parties play in mediating a relationship between the citizen and the state. In 2010, the General Secretary of AKEL was called to account when his secretary inadvertently leaked to the media an e-mail list detailing requests to the party for assistance in dealing with the state bureaucracy. The request came from people who had experienced varying forms of partiality in their treatment by the state, delays in accessing public resources that in many cases were indeed rightfully theirs. A combination of bureaucratic delay, labyrinthine procedures, unresponsive officials and general state inertia created conditions where the citizen sought out party representatives in order to secure an effective intervention in their favour. According to its General Secretary, the party receives numerous requests of this type on a daily basis.

In December of 2012, in another inadvertent leak from a party office, faxes sent from the office of the DIKO party leader leaked into the public domain. The information dated from the period when the party leader was President of the House of Representatives and listed the names of citizens, with an indication of the favours which had been done for them, or the favour they were requesting with an accompanying note about how each should be dealt with. The faxes had been sent in the lead up to the 2011 parliamentary elections with newspaper comment inferring that the faxed documents were the material manifestation of an exchange relationship being orchestrated. The citizen approaches a party of his or her choice and requests assistance, receives assistance which, in essence, creates a condition of indebtedness for which it might commonly be expected that the citizen will reciprocate by offering political support in the privacy of the polling booth. DIKO's defence at the time echoed similar statements made by AKEL in 2010 which presented this event as a justifiable relationship between citizen and party which

aimed to right the wrong to the extent that 'support for a just request or resolution of a problem that causes a citizen distress does not constitute rousfeti, when this is done on the basis of the principles of equality.'

According to this line of reasoning, the party machine provides a mechanism, accessible to all, which offers a disinterested corrective to unfair treatment by the state. What remains excluded from this explanation of how the party system functions is the expectation of reciprocity which is inherent in the relationship set in motion between the citizen and party or what is actually exchanged in the relationship so established. Further, any party offering a defensive explanation of how this system works is careful to present their actions as justifiable corrective action to help a citizen overcome a fundamentally unjust system. What is not acknowledged is how this system of exchange extends well beyond the provision of assistance in circumventing bureaucratic hurdles and arcane procedures.

The intervention of party political influence in appointments to the public sector or the procurement of contract work appears to be a widespread and habituated phenomenon which extends from access provided to centralised administrative bodies to local community councils. This informal, but widely recognised practice, also extends to semi-governmental organisations (SGO) which have proliferated over the past 30 years. This has not been a system underpinned by codified rules or delineable procedures but has the status of an informal institution which was rationalised under the Presidency of George Vassiliou who distributed seats on SGO boards to party representatives. Whilst the individuals so appointed may derive individual benefits from the positions acquired and may very well perform an effective role as board members, they remain party representatives with a clear understanding that they represent party interests. In short, the judgement conferred on the effectiveness of a board member from a party perspective is how able they are in ensuring the delivery of advantageous preferments to party members or supporters. They act to provide access to public goods such as appointments or, once in position, material advantages secured through promotions and to facilitate a crucial element in the exchange relationship which binds the party to its members or supporters. Vassiliou's presidency did not mark the origin of this arrangement but a more clearly identifiable, but nevertheless informal procedure through which access to public resources of this nature would be proportionately distributed between competing party interests. As an outcome, these interests negotiated a gentleman's agreement about how this system could remain in equilibrium and each particular party would be equally served.

This is not to suggest that this informal institutional arrangement is reproduced without difficulties. Each party pursues its own interests in order to ensure that no other party overreaches what is calculated to be an appropriate or proportionate access to the public goods and services on offer. Political disputes, as well as jockeying for advantage, which arise on this basis sometimes transcend the private negotiations undertaken between the parties. This is very much part of the sub-text which accompanies the negotiation of party coalitions during presidential elections or the confrontations which accompany attempts to modify the formal rules through which public appointments are made. In 2012 the House of Representatives passed a bill which aimed to make the appointment to the boards of SGOs coincide with the presidential term of five years. This was to be achieved by reducing the term of a board from 36 to 30 months and barring directors from serving more than two terms. The then president stymied such a move by declaring the proposed legislation as unconstitutional, although how this was the case remained unclear.

It would appear that the president at the time was mounting an important defence of his own party's interests and objecting to a realignment of the rules through which the informal distribution of party

appointments had been orchestrated up to this point. In short, the president refused to allow the proposed legislation to become law because he did not want those who his party, through his presidency, had appointed to the boards to have to relinquish their positions at the end of his term in office.

The hold that parties exert over SGOs, which shapes organisations such as CYTA, the EAC, Cyprus Airways and the Ports Authority, which between them employ nearly 10% of those in the wider public sector. This provides part of an explanation for why there are regular assessments that report them as overstaffed, inefficient and, some might argue, offering stable and secure employment well above the rate for equivalent work in the private sector. The enhancement of public sector positions has been a way of burnishing the relative value of public goods in the gift of the Republic's political parties, an outcome which benefits all those who are locked into these relationships. It also provides a clear incentive for the party political formations, irrespective of any ideological differences, to mount a defence of a system which has, up to now, clearly delivered important advantages to all those concerned. This goes some way to providing an explanation for the stout resistance being mounted against any threat of either a contraction of the public sector as a whole or the privatisation of SGOs in particular.

As evidence of appointments to the public service that betray party influence, it is a relatively common occurrence for the person who believes they have been excluded from fair and equal treatment in the recruitment process to make recourse to the Supreme Court. The court judgements reveal the Public Service Commission (PSC) violating accepted procedures by ignoring academic qualifications, for example, or failing to give due weight to relevant experience. This is usually done without good and specific justifications being offered in defence of their decision then taken to exclude a suitable candidate, making the PSC vulnerable to legal challenge.

Party interventions in the recruitment and hiring process of key personnel is also joined by influence exerted over the conferment of advantage to party members and supporters in their progress through the public sector. Given that there have been attempts, over many years, to introduce a reformed system for assessing the performance of state employees, it is notable that initiatives of this sort have been stymied in a variety of ways. The most prominent and public responses to such initiatives have tended to come from the trade unions involved and a long-term negotiations process has accompanied the attempt to introduce procedures, indicators and bench marks against which performance might be measured and assessed. However, what is also apparent is a general lack of political will to reform a system which leaves considerable scope for party interests to determine the prospects of promotion or transfers from one location in a public sector organisation to another.

As an example, a common point of contention between the parties engaged in the distribution of preferements and resources normally accompanies decisions taken within the police service. Promotions and transfers take place on a periodic basis and disputes frequently arise if it is felt that the interests of one particular political party outbid others. In February of each year the issue makes its way into the public domain with both DISY and AKEL leading repeated rounds of accusation and counter-accusation. In 2009 DISY led the way by accusing the then ruling party of facilitating the transfer and appointment of AKEL party members and supporters, to the chagrin of more experienced candidates.

In February 2009, the leader of DISY at the time charged that 'instead of upholding the irreproachable criteria of meritocracy, professional performance, honesty and ability, in the main what prevailed in the transfers were criteria dictated by party expediency and other such considerations and that this rendered

the police as akin to a 'control-mechanism for promoting party aims and expediency.' He went on to claim that 'It pains me to say so, but for some people, the country comes first; for others, the party comes first' and that now 'corruption reigns supreme, and meritocracy has reached its nadir.'

Responding to these charges, the government spokesman insisted that transfers did not take account of any party political identification since the government 'does not employ such practices.' And in a pointed side swipe to the previous DISY led administration, he went on to assert that: 'Such practices belong to the past, and when employed in the past they severely harmed the police force, with negative effects in terms of its capabilities.' In the exchanges back and forth it is notable that the evidence traded was of a highly detailed nature which included assessments of particular police officers described as 'open AKEL supporters or enjoy the government's complete confidence' for example. This suggests that each party puts considerable effort into ensuring the detailed monitoring of an employee's assumed political orientation or 'closeness' to someone who is identified that way. Similar complaints with a similar level of detail were repeated two years later with DISY Deputy Ionas Nicolaou repeating the claim that what was being witnessed was 'a lack of meritocracy, and party rule' within the police service. He went on to lay the charge that the minister concerned 'chooses to ignore our repeated warnings concerning inequality within the force among officers who are qualified, according to the promotion list, who then witness their colleagues overtake them for a promotion due to party influence.'

Disputes which surface between parties as to how the system should fairly advantage each on an equal basis are not limited to a perennial dispute between DISY and AKEL. Despite being coalition partners in the previous government, relationships were strained between DIKO and AKEL following the then President Christofias' distribution of positions on SGO boards in mid-2009. It was perceived that the ruling party had unfairly monopolised a number of key positions which had not displayed appropriate 'respect' to the government's allies. DIKO had apparently requested 10 of the 16 SGO chairmanships which were vacant, whilst Christofias had reportedly offered six. Further, the SGO's on offer were deemed of 'lesser value.' Backing out of the horse-trading that accompanies the distribution of these public resources, the DIKO leader claimed the moral high ground by asserting that bringing the issue into the public domain was driven by the desire for a 'speedy, transparent and democratically acceptable solution' to this problem. He also went on to proclaim his desire to 'change the antiquated practices and procedures (for appointments to the public sector) that cause offence to citizens and discredit politics.'

However, the institutionalisation of rousfeti also extends to seeking preferments in relation to compulsory service in the National Guard. In July 2010 the then head of the president's private office submitted his resignation following evidence leaked into the public domain which indicated that his office had sent a request to the Ministry of Defence for six national servicemen to be transferred or seconded to other posts. Clearly the request carried authority given the institution from which it had originated and threatened to subvert the established rules and procedures through which the ministry is meant to determine the admissibility of requests such as this. Indeed the President's Office, whoever the office holder happens to be, appears at the centre of relationships through which interventions of this order are orchestrated. This case illustrated the expectations raised by many citizens that a favourable outcome in relation to the particular issue or case they wished to pursue was both widespread and had many conduits through which the request could be made. At the time, a Ministry of Defence spokesman commented that dozens of requests for preferment regarding servicemen were received on a daily basis from political party leaders, party officials, MPs, organisations and parents.

Clientalism in Cypriot Society

Assessments of state capacity or the quality of governance delivered have tended to focus on the performance of the formal institutions of the state, the rule of law in general and codified legal frameworks in particular, which together are taken to be specific characteristics of a liberal democratic order. But what can be easily overlooked, by expert panels amongst others, is that in Cyprus as elsewhere there can be a set of relationships which bind politicians, political parties and the electorate which is not quite so amenable to straightforward analysis.

According to liberal democratic theory the linkage between politician, party and voter is based on an assumption that voters express preferences, grouped around issues, relating to the allocation or redistribution of resources via the state. Politicians and parties link these issues through programmes and articulate a general electoral platform they promise to enact if they should secure office.

During an election, the voter weighs up these propositions and selects the programme, presented by a variety of contenders, most compatible with their own preference (albeit tempered by strategic considerations about the relative electability of the party programme on offer and the credibility of the promises made). Once in office the focus switches to the implementation of that policy. But what is excluded from this model are other forms of linkage between politicians, parties and citizens which can have an important effect on the outcome of the democratic process and have a decisive impact on the quality of governance delivered.

In the case of Cyprus, particular attention needs to be directed towards transactions between the citizen and the politician lubricated by material inducements. This can be a transaction in which political loyalty, expressed through the giving of votes, for example, is met by preferred access to public goods and services being provided. The party political machine can deliver access to strategically useful information about employment or promotion opportunities as well as the provision of goods and services. In these circumstances a vote for a particular party does not tend to be allocated in return for the successful delivery of collective goods, such as a robust economy, monetary stability or national health care or improving overall distributive outcomes through particular forms of taxation or the development of social and enhanced benefits regimes. Rather, the reward is offered to the party on the basis of a particular benefit being conferred on the individual, family or group of which they are a part.

Rewards can take many forms, but some of the most prized have been public sector appointments and promotions, with public sector jobs carrying a particular lustre given how they have evolved into forms of work with enhanced conditions of reward attached; job security, higher salaries, privileged social rights and indexed pay. These were public goods which political parties had every incentive to both expand and enhance, thus creating a greater pool of resources to trade with potential supporters. Caught in this web of reciprocal exchanges, individuals were kept from defecting to others because, in a narrow sense, they perceived themselves to be better-off under a powerful party patron than to trust themselves to a system of recruitment or promotion that everyone knew, as a matter of 'common-sense' was, and remains, in large part dependent on the connections made and the favours exchanged.

A period of economic downturn now being currently experienced does severely limit the ability of parties to distribute public resources of this sort as they once might have done. Though it can be safely anticipated that should there be a contraction in public sector employment through the loss of jobs rather than an outcome of retirement the parties will play a key role in determining who will be retained and

who will be dispensed with. Consequently, the number of people bound to parties may contract but the strength of that bond is likely to be enhanced as people choose to cleave closely to those who may have real influence over the decision-making process involved.

The striking evidence, reported in an earlier chapter, that an overwhelming number of Cypriot respondents linked the causes of corruption to the failure of the authorities to promote meritocratic recruitment to the public sector bears out the importance of the issue raised. It also carries the message that there is widespread recognition that to compromise the principle of impartiality and to disregard the demands of procedural justice may secure an advantage for the person recruited or promoted, but it also degrades and diminishes everyone else. But this outcome can offend commonly held principles of social justice in other ways. Rather than distributing a reasonable range of public goods and services across a greater number of people, a high proportion of them become targeted on a critical mass of members, supporters or potential voters, whose support the party wishes to secure.

The parties' ability to compromise the principle of impartiality is also facilitated by the authorities' inconsistent adherence to detailed, transparent and codified rules in relation to the allocation of resources, which provides the scope to distribute goods and services freed from the application of an objective needs assessment. Discretionary decision-making moves to the fore, which can only be overcome, or at least uncertainty about it reduced, by securing the right contacts to ensure the desired outcome. The significance attached to this is magnified in Cyprus when uncertainties attend even small scale encounters with the state.

The leeway that this opens up for the discretionary principle of serving party political interests may particularly relate to business and market regulations, the award of specific market advantages, and procurement and operating contracts for government infrastructure. The field is also marked by semi-governmental organisations involved in public enterprise headed by political appointees – in these cases politicised economic governance structures feed directly into the partisan circuits of elector-politician linkages.

Given that there is a commonly reported gap in Cyprus between legislation (on the input side of the equation) and implementation (on the output side), voters have little incentive to take the mere promises of benefit offered at face value. However, since discretionary power in the implementation of state policy lies in the hands of both elected and appointed officials, the encounter between the citizen and the state is frequently marked by uncertainty including the risk that the goods or services you wish to access may not be made available to you at all. Family and friendship networks may only take you so far in mitigating those uncertainties and risks by establishing a relationship with those who control access to the services and goods you wish to acquire. The rich and diverse networks which extend across state services as a whole are possessed by the political parties. Importantly, parties do not trade in mere promises of that benefits will be derived by the intended recipient but trade on their track record of delivering in favour of an individual or group who feels compelled to seek their assistance.

A large part of everyday party business, as attested by the evidence outlined earlier, is spent protecting and reinforcing the perceived ability of the party to deliver. For this system to work efficiently, real importance is attached to having one's own men and women in key public administrative positions who can deliver the public goods or services required. It should be stressed that this need not necessarily entail providing access to a resource to which the person in receipt is not entitled but might commonly involve speeding an application through a congested route to a successful outcome.

In conclusion, it should be added that for any party to be successful it has to carefully balance the appearance of probity in public life whilst also demonstrating, by less public means, the party's ability to deliver access to public goods and services in an advantageous way. Considerable effort is expended in managing communication strategies to achieve these contradictory ends. Managing information also extends to the concealment of material advantages which can accrue to the party through the trading of access to state assets, favourable concessions or market advantage. As GRECO, the specialist anti-corruption body of the Council of Europe, consistently reports, transparency in party funding, the declaration of assets by publically elected office-holders and state officials lags well behind the international standard. There appears little political will to rectify this situation.

In summary, the analysis presented here has tried to make sense of why it is that political parties loom so large in the life of the Republic. This has been done with an awareness that such institutions are important in the life of a democracy in organising and aggregating diverse political opinions and presenting a choice to citizens at the ballot box. Political parties are, by their very nature, partisan organisations which serve to represent contending interests and shape programmes and policies which may be targeted at particular groups to the possible disadvantage of others. In short, partiality has a central place in the way in which parties function successfully, particularly within the electoral arena.

Finally, it should also be bourn in mind that those who do not possess a vote are largely excluded from this system of preferments since they have little to trade within the informal system so established. One in four of those people living within the effective boundaries of the Republic are residents rather than citizens they do not have the right to vote in parliamentary and presidential election and neither are they likely to have familial connections with people in key state institutions. Consequently, the sense of a deeply segmented society facilitated by clientelistic relations is only magnified.

What does appear deeply problematic is when political parties intervene on the implementation side of this equation, creating conditions within which public goods and services are distributed in ways that are at variance from the laws, regulations and policies which ought to govern this process. From securing employment or promotions for party supporters on the one hand, to speeding up a bureaucratic decision on the other – each are examples of a breach of the principle of impartial treatment, a breach which, as has been recorded elsewhere, has deleterious consequences for society as a whole.

Epilogue: The World of the Sicilian Taxi Driver

In his book, *Social Traps and the Problem of Trust*, Bo Rothstein recounts a story originally told by the Italian researcher Diego Gambetta, who describes a dilemma in three pages which we have taken over a hundred pages to achieve the same effect.

Gambetta takes us into the world of the Sicilian taxi driver as he drives the streets of the island's capital, Palermo. They are no different from taxi drivers in many parts of the world save for the fact that they do not use two-way radios and have dispensed with the services of a dispatch centre.

This may seem strange to others familiar with the taxi-driving business, since the use of radios and subsequent coordination provided by a dispatch centre would appear to benefit the driver, the taxi owner and the potential customer. For the passenger, there is the convenience of having only one point of contact to summon a cab as well as being served by the cab which is closest to them. The taxi owner stands to gain more customers carried over shorter routes.

Described like this it makes sense to pool resources and share the costs of establishing a call centre even though each taxi owner is in competition with the other. And whilst each owner is understandably interested in maximising his own profit, competition becomes that much more efficient when a common institution is mutually established in the pursuit of common benefit.

But for this to work, the call centre needs to allocate work on the basis of which driver happens to be closest to the passenger who has requested a cab. In this case distribution occurs on the basis of the impartial implementation of agreed rules rather than an arbitrary allocation of work on the basis of some other criteria.

For a brief period in the early 1980s Palermo taxi drivers were connected to call centres by two-way radios but, in a short time, the radios were abandoned and the dispatch centres fell into disuse. The system soon broke down as it was widely believed cab drivers aimed to maximise the number of fares they could take by providing false information to the dispatch centre. Informed of a customer's location many claimed to be only a few streets away from where the customer was irrespective of where they actually were in the city.

It did not take long for other drivers to cotton on to what was happening, and, in the words of Bo Rothstein who recounts this story: 'Soon everyone knew that everyone else was embroidering the truth, and so everyone added a few more stitches . . . and a few more.'

The proliferation of untruths told compelled all others to tell untruths themselves. And, in the absence of trusting that others would play by the rules of the game, the system broke down and faded away.

But the twist in the story is that, as Gambetta reports, the evidence that large numbers of taxi drivers were misreporting their location in order to secure advantage was uncertain at best. However, the perception that this was indeed the case was enough to break the trust required to make the system work.

Sicily is another small island in the Mediterranean and, if you go to Palermo today, you will see taxi drivers and their cabs waiting in ranks around the city. Each is in receipt of fewer fares and when a customer sometimes calls you directly you may have to travel some distance to pick them up. Every driver knows that more petrol is used up in doing this and the customer has become used to having to wait longer to be served.

Everyone loses despite the fact that everyone is aware that there were shared advantages to be won by committing to common rules of the game.

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