

COLLEGE OF EUROPE
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TO WHAT EXTENT CORRUPTION EFFECTS THE RETURNS OF
FINANCIAL ASSISTANCE?

An empirical analysis of the impact of corruption on the returns of EU
financial aid in the European Neighbourhood countries.

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Abstract

This thesis sets out to examine the impact of corruption on the returns of EU financial assistance, focusing on the European Neighbourhood Policy and the involved Partnership countries. While the prevailing literature does not provide a clear answer of the conditional effect of corruption on financial appropriation, there are limited studies which effectively focus on proving the existence of any influence. Using fixed effects panel regression model, I conduct an empirical research for a total of 42 countries in the period 2007-2014. Despite the widespread belief that financial support fosters economic activity, this analysis finds that the effect is dependent upon corruption levels. The results of this study underline the importance of corruption having a direct impact on economic growth as well as being a moderator of the efficiency of the EU financial assistance provided to the Neighbourhood countries. The paper finds that the European funds have negative impact on the majority of Partnership states, while at the same time lower corruption can contribute to their positive effect. Finally, the study evaluates indirectly the success of the European Neighbourhood Policy and outlines the importance of EU to encounter the challenges in the region and to strengthen its role.