



# Empirical Study of Anti-Corruption Policies and Practices in Nordic Countries



# Introduction

The purpose of this research is to compile and analyze information on corruption in Nordic countries as well as the tools and practices used to combat corruption in order to identify effective practices which then could be implemented in Latvia. The countries we studied are Denmark, Iceland, Finland, Norway, and Sweden.

The research is constructed by separately analyzing each country's anti-corruption framework, and the nature of its public and private sectors in regards to combating corruption, as well as the role played by civic empowerment in each country. The sources used aim to be as recent as possible, with most coming from the past five years, however older sources are occasionally referenced when pertinent.

Certain trends regarding corruption can be identified across the Nordic countries. Cul-

turally, Nordic countries tend to see a high level of social cohesion, and thus ordinary citizens feel less of a need to engage in acts of corruption such as bribery. However, the construction and service industries are major sectors contributing to the shadow economies of Nordic countries. Foreign bribery also remains a problem in most of Nordic countries, and the major example of the Te-lia case will be examined. Despite thorough regulations on political party financing and asset disclosure for public officials, no Nordic countries have regulations on lobbying in place.

Though there is some overlap in terms of legislation combatting corruption in Nordic countries, there are tools and practices specific to individual countries as well. For example, Norway's National Authority for Investigation and Prosecution of Economic and Environmental Crime (*Økokrim*) is a highly

effective national organization which both investigates and prosecutes crimes of corruption. Iceland's International Modern Media Institute seeks to promote whistleblower protection as well as improved media legislation both domestically and internationally.

Overall, this research seeks to provide empirical data and information on effective anti-corruption practices and the state of corruption in Nordic countries. Though corruption is pervasive across all societies, there are nonetheless many positive examples of progress towards eliminating corruption from Nordic countries that can be emulated in places such as Latvia. Anti-corruption practices will be more effective if they are standardized and implemented across a number of countries.

## Country reports have the following structure:

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- Introduction
- Legal Framework
- Institutional Framework
- Corruption at local government level
- Transparency of lobbying
- Transparency of Financing of political parties
- Asset disclosure
- Fighting Foreign Bribery
- Shadow economy and money laundering
- Whistleblowing
- Identified Good practices

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# I Denmark

## INTRODUCTION

Whilst corruption in Denmark is limited, Danish companies are becoming international and, indeed, global in their orientation. Thus, they are frequently faced with corrupt markets. According to Barforte et al. (2016) Denmark along with other Nordic countries has presented itself numerously as the least corrupt country in the history of Corruption Perceptions Index (CPI). Nevertheless, Holmes (2015) claims that the CPI does not reach definite conclusions regarding successful corruption control anywhere, much less provide a full explanation of Denmark's record.

Denmark has a well-developed system of legislation, law enforcement and judicial authorities to deal with corruption, although there is no national anti-corruption strategy. Few studies and statistical analyses have examined the nature or extent of corruption in Denmark. The Danish International

Development Agency (DANIDA) within the Ministry of Foreign Affairs has established procedures for reporting corruption, provided training on integrity issues and conducted corruption risk management.

In the Danish culture a lot of attention is being focussed on the openness of information, and on an informed public. Open and transparent governance is considered a precondition for preventing and revealing corruption and maladministration (Danish Institute for Human Rights, 2005). Another notable point about Denmark is that its top political and administrative leaders lead decidedly modest lifestyles, and that the visible perquisites of political leadership are quite limited (Gilani, 2012). While the Danish royal family enjoys considerable outward prestige, the political leadership is much less given over to cults of personality or the symbolism of power (Holmes, 2015, p.14). The climate for

discussions remains open and free. Nonetheless, the fear of retaliation and tougher whistle-blower protection remains on the agenda in Denmark. It has only recently taken action to strengthen the legal protection for whistle-blowers (DLA-PIPER, 2015).

## LEGAL FRAMEWORK

Danish criminal legislation covers all forms of corruption offences contained in the Council of Europe Criminal Law Convention on Corruption and the Additional protocol, except trading in influence. In 2013, Parliament adopted legislative amendments intended to strengthen the prevention, investigation, and prosecution of cases regarding economic crimes. Regarding bribery, the maximum penalty for active bribery in the public sector increased from three to six years. For bribery in the private sector and bribery of arbitrators, the maximum penalty increased from one year and six months to

four years. Access to information is regulated by law and anyone may access documents of any public administrative figure. Additionally, in 2013 the Danish Parliament adopted a law that increases openness in the public administration and makes it easier to access documents. However, Denmark has not implemented the recommendations of the Council of Europe Group of States against Corruption (GRECO) aiming to improve the Danish regulation on financing of political parties, individual candidates, and election campaigns.

## INSTITUTIONAL FRAMEWORK

The Public Prosecutor for Serious Economic and International Crime is the main body responsible for investigating corruption, whose multidisciplinary team is composed of prosecutors and investigators. The Danish civil service is considered to have a high degree of integrity. Due to Denmark's tradi-

tion of high ethical standards and transparency in public procedures, few formal rules regulating integrity and anti-corruption are in place in the public administration. Denmark has had a Code of Conduct for public officials since 2007. The Code deals with situations that may arise in the public administration, including 'fundamental values and principles,' 'freedom of expression,' 'duty of confidentiality,' 'impartiality' and the 'acceptance of gifts.' The Code has been distributed in public-sector workplaces, and informational activities have been carried out in order to raise awareness about the Code. In 2007, The Ministry of Justice issued the brochure 'How to Avoid Corruption.' The brochure gives examples and interpretations of the Danish anti-corruption legislation.

## GOOD PRACTICES

According to the Code of Conduct the public sector is predominantly build upon values

such as openness, democracy, the rule of law, integrity, independence, impartiality and loyalty. The public sector is, at the same time, expected to perform tasks in a flexible and efficient manner, and to deliver a high-standard of services.

## CORRUPTION AT A LOCAL GOVERNMENT LEVEL

The case study below provides information concerning one of the most well-known situations of corruption on a local government level in Denmark. Despite this example, the general facts and figures about the local government corruption in Denmark remain unidentified.

## A case study of local government corruption in Denmark



With the background knowledge that Denmark is one of the least corrupt countries, this explores the case of a mayor that for eight years worked “miracles” for “his” municipality (Langsted, 2012, p.1).

The mayor of the Farum, (a town of 18,000 inhabitants 20km from Copenhagen) Peter Brixtofte, and his administration implemented several projects between 1986 and 2002. It turned out that the mayor raised loans up to EUR 134 million without the agreement or consultation of the national government or local parliament (Bjella, Kaiser, & Hennl, 2013).

The mayor then spent public money on the gift-like entertainment of his guests, and on his own private hobbies and interests such as bottles of wine for EUR 850 (Lang-

sted). This constitutes corruption in this case. After similar cases appeared in the media and a court process of more than six years, Brixtofte was sentenced to two years of imprisonment in 2008, and again for additional two years in 2009 (Langsted, 2012).

In the aftermath of the Farum Commissions report this year, some debate was raised whether Peter Brixtofte might have been stopped at an earlier stage if the municipality had had some sort of whistleblower mechanism. One former employee, however, believed that Peter Brixtofte would immediately have been able to spot a whistleblower and stopped his whistling before anyone would hear it (Langsted, 2012, p.12).

## TRANSPARENCY OF LOBBYING

Lobbying is not regulated in Denmark. There is no specific obligation to register or report contacts between public officials and lobbyists. An American consultancy firm argued in a report from 2009 that access to Danish regulators is markedly easier than in other European markets. Professional lobby groups in Denmark have requested a lobby register. However, Parliament recently abandoned plans to set up such a register.

## FINANCING OF POLITICAL PARTIES

The Danish system of transparency of political financing at the national level is regulated in the Accounts of Political Parties Act (APPA) and the Public Funding Act (PFA). These two laws have been gradually amended and improved in recent years to provide more transparency of political funding; for example, political parties are obliged to re-

port donations above EUR 2 700, and Parliament makes party account records available to the public.

Nevertheless, gaps still remain in the current legislation on the transparency of political party funding. For example, there are no limits on donations from abroad, from legal persons or from anonymous donors, and there are no restrictions on the amounts that may be donated. This leaves the public with few means to measure possible links between private funding and policy decisions.

Political parties in Denmark at the national, regional, and local levels receive significant public funding from the state. Despite this, the limited regulation of private funding of political parties and individual party members, together with the lack of rules on lobbying, asset declarations, and special regu-

lations governing conflict of interest, make the system potentially vulnerable to corruption.

According to Transparency International, the limited transparency of private party financing is one of the biggest weaknesses to the integrity of the Danish system. In a recent Global Corruption Barometer, the Danish respondents perceived political parties in Denmark to be one of the institutions most affected by corruption. GRECO submitted nine recommendations to Denmark to improve the transparency of party funding. After a discussion in the Danish Parliament, the Danish authorities saw ‘no need for any measures to be taken in order to amend the current legislative framework of party financing.’ In its compliance report, GRECO described it as disappointing that nothing substantial had been achieved in respect to the recommendations even though compliance does not necessarily require legislative



measures. The government plans to set up an Expert Committee to make recommendations to improve transparency of financing of political parties.

Despite a very low level of corruption, international monitoring institutions have criticised Denmark for its opaque rules on financing of political parties, and for insufficient enforcement of foreign bribery laws. Nonetheless, the government enforces their existing anti-corruption policies effectively.

## ASSET DISCLOSURE

Danish Members of Parliament (MPs) are under no legal obligation to disclose their assets, nor are they subject to any other form of rules to monitor conflicts of interest. However, certain political parties demand that their MPs disclose their assets, though without any formal obligation; the control is exercised by the Parliament Presidium. The

Presidium also deals with cases of conflict of interest relating to ministers or MPs. Moreover, the Danish Parliament has set a positive example in improving the transparency of ministers' expenses through the 'openness scheme,' an agreement between political parties whereby ministers are encouraged to declare their monthly spending, travel expenses, gifts received, and other relevant information. On a voluntary basis, ministers also disclose their personal and financial interests on the Prime Minister's Office website.

The Ministry of Taxation in Denmark has made so-called 'Fair Play', i.e. truthful reporting of income earned and wages paid in all sectors, a top priority. In Denmark, tax evasion or cheating is often punished with a payment equal to 200% or more of the tax that originally was avoided, the relevant percentage being determined by the amount of tax evaded.

## FOREIGN BRIBERY

As of 2013, the Eurobarometer shows that only 4% of Danish people within the business community believe that corruption is a problem when doing business in Denmark. Another survey shows that almost half of Danish companies believe they have to bribe or break formal rules if they want to do business in certain countries such as Brazil, Russia, India or China. Civil society representatives in Denmark have confirmed this perception.

The OECD's Working Group on Bribery expressed the concern that only one foreign bribery allegation out of 13 has resulted in prosecution and sanctions. The charges against this company were resolved out of court. Under the settlement, the company admitted to committing private corruption, which is a less serious offence than foreign bribery. The Danish authorities have also

concluded 14 cases of sanction evasion and breaches of the UN embargo on Iraq relating to the UN Oil-for-Food program. These cases did not result in court verdicts, as the statute of limitations had expired; however, the proceeds of the offences were confiscated.

Denmark has a system of sanctions for legal persons committing foreign bribery; they are subject to fines which are set taking into account the company's turnover. In the case referred to above, the defendant paid EUR 335 000 in fines, and a further EUR 2.7 million were confiscated in the out-of-court settlement. However, these sanctions appear to be low compared to the value of the bribe, which was EUR 760 000, and of the contract won by the defendant, EUR 109 million.

Moreover, the OECD Working Group on Bribery reports that the absence of prosecutions raises concern over whether sufficient inquiries have been made before cas-

es were closed, whether Danish authorities rely too much on investigations by foreign authorities, and whether adequate efforts have been made to secure foreign evidence and co-operation. GRECO has reported that the precondition of dual criminality for prosecuting bribery offences significantly limits Denmark's ability to fight corruption committed in certain foreign states. GRECO believes that this legal requirement sends the wrong message regarding Denmark's commitment to fight corruption.

There have been instances when Danish business people are encouraged to either make or receive bribes according to the political and social traditions of a country they are operating in. For example, "If Danish businesses want to export to Middle Eastern countries they will have to pay so that things run smoothly - otherwise they can forget about it" (Christian Bruun, manager

with Kuwait Danish Dairy Co (Ferrell, Fraedrich, and Ferrell 2002) p.12).

For the private sector, a crime of corruption has been committed when a person receives, demands, or accepts presents or any other advantages, or when a person gives, promises, or offers such a present or advantage (Danish Penal Code §299, number 2).

## SHADOW ECONOMY

According to Schneider (2013) the shadow economy constitutes 12% of Denmark's GDP. In Denmark, it is suggested that about half the population purchases shadow work (Schneider & Williams, 2013,p.7). In some sectors - such as construction - about half the workforce works within the shadow economy, often in addition to formal employment. Only a very small proportion of shadow economy workers can be accounted for by illegal immigrants in most countries.

# SHADOW ECONOMY



*Denmark*

Size of the  
shadow  
economy:

**12%**  
of GDP (2015)

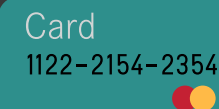
## Most affected sectors:

- construction;
- house maintenance;
- cleaning services;
- childcare



## Initiatives to fight the phenomenon:

- **“Home work” tax scheme:**  
tax reduction for services often purchased in the informal sector
- **No more cash payments** for businesses such as clothing retailers, gas stations, restaurants



According to a survey conducted in 1998, the construction industry in Denmark accounts for about half of the informal economy sector. Moreover, 70% of the work completed in the informal sector takes place within the service and construction industries (Petersen & Skov, 2014).

## MONEY LAUNDERING

Between 2006 and 2010, Denmark significantly upgraded its anti-money laundering systems as a result of consultations, and a certain amount of pressure, from the Financial Action Task Force (FATF), an international body established by the G-7 governments in 1989 (Holmes, 2015, p.18). Danish authorities report drug crimes and various types of economic crimes, particularly VAT and investment frauds, smuggling, and violations of intellectual property rights as major sources of money laundering (International Monetary Fund, 2007p.19).

## WHISTLEBLOWING

Denmark does not provide any comprehensive whistleblowing protection for employees in the public or private sector. Denmark's Code of Conduct for Public Servants provides guidelines that public employees are entitled to freely disclose non-confidential information to the press and to other external partners. The Danish Labour Code does not offer any protection against dismissal for private-sector employees reporting suspicions of bribery. In 2009, the Ministry of Employment published an Explanatory Memorandum and a Code of Guidance with particular focus on whistleblowing and freedom of speech for private-sector employees.

- A whistle-blower program can be organised in many ways. In most cases, it is advisable to establish a special unit to handle reports. This unit should be placed outside the normal management structure and refer directly to top man-



## SCARCE LEVEL OF WHISTLE-BLOWING PROTECTION

Denmark has no comprehensive law for whistleblowing protection. Guidance can be found in various statutory provisions, but with no overall protection for whistle-blowers.

- **Code of Conduct for public servants:** guidelines for the disclosure of NON-confidential information to the media or other third parts
- **Danish Labour Code:** no protection against dismissal of private-sector employees reporting suspicions of bribery
- **Ministry of Employment:** 2009 – Explanatory Memorandum and Code of Guidance for whistleblowing in the private sector  
→ suggestion for companies to set up special units to handle reports of irregularities

agement or the Board (Dansk Industri, 2006,p.75)

## GOOD PRACTICES

- Nearly all tax authorities pursue initiatives to improve the effectiveness of inspections. These initiatives range from increasing the number of inspections through to improving the effectiveness of inspections in terms of, for example, the number of instances of shadow work identified, and the value of the undeclared tax collected or sanctions imposed. To achieve this, administrations have, for instance, concentrated inspections on ‘suspect’ sectors where shadow work is prominent. ‘Announced inspection visits’ have also been used, whereby a particular workplace is informed that a visit is to occur in the near future. This has been done in industries such as hotels and restaurants in Denmark. The pre-announcement of the visit can be expected to lead to a reduction in tax evasion without penalties being imposed (Schneider & Williams, 2013,p.56)
- The Danish government said as of next year (from 2016), businesses such as clothing retailers, gas stations, and restaurants should no longer be legally-bound to accept cash (Tange, 2015).
- In 2011, the government introduced a tax deduction called the “Home Work Scheme”. This policy initiative gave a tax deduction to households for expenditures on a specified list of services. The list includes services often purchased in the informal sector, such as home maintenance and improvement, cleaning services, and childcare. The tax deduction applies only to the services provided, and not to the materials required. For example, if a carpenter is contracted to replace a roof, the tax deduction only covers the hours spent on the job by the carpenter, and not the roofing materials. One of the explicit goals of the policy was to reduce activity in the informal sector by making it less costly to purchase the same activities in the formal sector (Petersen & Skov, 2014,p.9).
- An online form established by the Ministry of Foreign Affairs for reporting instances of corruption abroad. <http://um.dk/en/danida-en/about-danida/Danida-transparency/Report-corruption/>
- A company’s anti-corruption policy should not be just another document; rather it must be referred to on a regular basis. The document also has to be embraced by the management team, and employees must see that it pays off career wise to live by the rules (Ferrell, Fraedrich, and Ferrell 2002).p.18).



## II Iceland

### INTRODUCTION

Iceland ranks 13th on the 2015 Corruption Perceptions Index, perceived as the most corrupt of the Nordic countries. Though still a top ranking country globally and generally perceived by the world community to be an un-corrupt country, problems in Iceland exist on the local level and with regards to foreign bribery. Icelandic legislation does not adequately regulate foreign bribery. A certain degree of corruption exists within some local governments due to political mayors having strong authority. Icelanders perceive political parties to be the most corrupt public institution.

Iceland has clearly defined laws in place with regards to bribery and codes of conduct for government officials. There are in-depth laws regarding political party financing and the disclosure of financial records of members of government and political parties. Iceland's

shadow economy comprises 14.4% of its GDP as of 2010, which is comparatively low within the EU27.

Arguably, a contributing factor as to why Iceland is perceived as having little corruption is its small population of 331,727 people, and its strong civic society. As of 2012, Iceland has a poverty ratio of 0.063, which is low in comparison to the rest of the world. Iceland also has an employment rate of 85.2%. With low poverty, high employment, strong welfare state and rule of law, citizens are less compelled to operate in the shadow economy.

Iceland mainly combats corruption through legislation and suppressive measures. There are some curative measures in place, but least of all preventative measures. Iceland seems to lack anti-corruption awareness raising efforts, particularly with foreign bribery. Although since 2013 Iceland has been includ-

ed in Transparency International Exporting Corruption Report, but due to the small size of its economy, the measurements were not deemed statistically significant. Also, there is now an association actively working on becoming a national chapter of Transparency International, raising awareness through social media, and various events and publications ([www.gagnsaei.is](http://www.gagnsaei.is)).

## LEGAL FRAMEWORK

Iceland's General Penal Code (GPC) criminalizes the act of giving and receiving a bribe, abuse of office, trading influence, and fraud. Individuals and companies are criminally liable, and bribery between business and Icelandic and foreign public officials is forbidden. The Penal Code fails to effectively criminalize bribery of officials in foreign state-owned entities, and the obligation of officials to report foreign bribery is not clear. The GPC does not differentiate between bribes and facilitations

payments. The legality of gifts and hospitality depend on intent and benefit obtained, and if the act has led to an undue advantage or improper influence of a person's decision making. A company can be held criminally liable and fined for corruption offences committed by persons acting on the company's behalf. Other legal anti-corruption measures consist of codes of conduct for government staff and ministers to regulate conflicts of interest. Those affected by illegal activities are required to report them. A code of conduct for Members of Parliament (MP) was adopted in July, 2015, in accordance with the code of conduct for MP Assembly of the Council of Europe. Political parties are required to disclose their account and donation information. Iceland is a signatory to the OECD Anti-Bribery Convention, the United Nations Convention Against Corruption (UNCAC), the Council of Europe's Criminal Law Convention against Corruption, and the Group of States Against Corruption (GRECO).

Sanctions range from thirty days to three years imprisonment for active bribery (domestic and foreign), and a maximum of six years for passive bribery. For fines to be imposed on a natural person, prosecution will need to establish that a financial advantage was either obtained or sought.

## INSTITUTIONAL FRAMEWORK

The Althing is the national parliament of Iceland. Institutions operating under the Althing are:

- the National Audit Bureau, which audits state-owned enterprises; examines the efficiency and effectiveness of public spending, and evaluates the internal control and performance of state agencies
- the Althing Ombudsman, which monitors the administration of the State and local authorities and safeguards the rights of the citizens vis-à-vis the authorities.

## **CORRUPTION AT LOCAL GOVERNMENTS**

Icelandic local governments are similar to Southern European local governments, with small local government units and relatively strong mayors. This tends to lead to more corruption on the local level.

Iceland does not have a system for corruption prevention at the local level. Auditing is highly decentralized, and very few municipalities have developed agencies to deal with citizen complaints, such as a local ombudsperson. The effectiveness of corruption prevention by the national government is considered to vary by locality, and the level of transparency varies in proportion to administrative capacity. Towns with “political mayors” are more likely to have higher levels of corruption than towns with “mayor managers”.

A study out of the University of Iceland used the influence of the National Planning Agency (NPA) to determine the level of local monitoring by the national government. One role of the NPA is to review spatial plans with local authorities. Ratings of local transparency were evaluated on the basis of the question, “Do you think that the local government in your municipality does a good job of making plans for big construction projects or changes to existing plans public known—or are you neutral with regards to this?” The ratings ranged from 1 (very badly presented) to 5 (very well presented). The mean among municipalities was 3.3, with a standard deviation of 0.3.

According to research conducted by Transparency International in 2010, 3% of Icelanders reported paying a bribe. 78% feel that their government’s efforts to fight corruption

are ineffective, and 53% feel that the level of corruption in the country has increased from 2007–10. Political parties are perceived to be most affected by corruption. In 2013, 76% of respondents to a University of Iceland survey say that they have little or no trust in parliament.

## **TRANSPARENCY OF LOBBYING**

Iceland does not have any lobbying regulation.



## Transparency of Financing of political parties

The following are Iceland's regulations regarding political financing:



- There is a ban on donations from foreign interests to political parties
- There is a ban on donations from foreign interests to candidates
- [Domestic] companies may donate to political parties
- Corporations may donate to candidates
- There is a ban on donations from corporations with government contracts or partial government ownership to candidates
- Trade unions may donate to political parties
- Trade unions may donate to candidates
- There is a ban on anonymous donations to candidates
- There is a ban on state resources being given to or received by political parties or candidates (excluding regulated public funding)
- There is not a ban on any other form of donation
- There is a limit on the amount a donor can contribute to a political party over a time period: 400 000 ISK (3 040 EUR) per year from any individual donor
- There is regularly provided public funding to political parties
- Funding is provided to parties that won at least 2.5% of the vote in the last election.
- Municipal support to parties with local council representation or which won at least 5% of the vote in the last election.
- State funding is partly allocated equally and partly proportionally by votes gained.
- There are not provisions for how direct public funding should be used.
- There are provisions for free or subsidized access to media for political parties.
- There is equal distribution of access to free or subsidized media
- There are not provisions for free or subsidized access to media for candidates.
- Tax relief is another form of indirect public funding.
- The provision of direct public funding to political parties is not related to gender equality among candidates.
- There are not provisions for other financial advantages to encourage gender equality in political parties.
- There is a ban on vote buying.
- There are not bans on state resources being used in favour or against a political party or candidate.
- There are no limits on the amount a political party can spend
- Candidates running for internal party selection must not exceed 1,000,000 ISK (8,295 EUR)
- in addition to a supplement which is calculated in inverse proportion to the number of inhabitants entitled to vote in the relevant electoral district. For presidential elections, the limit is 35 million ISK. The limit for candidate nomination is 100,000 ISK.
- Political parties annually report their finances.
- Political parties report on their finances in relation to election campaigns within their annual report.
- Candidates who spend less than 300,000 ISK are exempt from reporting.
- Certain information in reports from political parties and/or candidates can be made public.
- All donations from legal persons over 300,000 ISK from individuals must be made public.
- The National Audit Office receives financial reports from political parties and/or candidates.
- The National Audit Office is responsible for examining financial reports and/or investigating violations.
- Decisions regarding political finance oversight can be appealed to the Supreme Court.
- Political finance infractions can bring fines, forfeiture, and prison for up to two years.

## ASSET DISCLOSURE

Disclosures in Iceland are available online.

In 2009, MPs were asked to provide a public account of their financial interests and positions of trust outside Parliament. This became mandatory in 2011. The rules are published on the Althing website.

The obligation to declare extends to alternate members who take a permanent seat in Parliament, or those who have served in Parliament for four consecutive weeks. Ministers who are not MPs are also subject to the declaration requirement. The obligation to declare does not include the financial interests of MP's spouses or other family members.

Iceland had a major scandal when the new former Prime Minister Sigmundur Gunnlaugsson was named in the Panama Papers. He and his wife owned an offshore company but did not declare it when he entered parliament

in 2009. He sold 50% of the company to his wife for \$1 eight months later. At the time, the transaction did not break Icelandic law regarding asset declaration. In 2015, Gunnlaugsson's wife funneled millions of dollars of inherited money into the offshore company. Gunnlaugsson naturally denied any wrongdoing, stating that their company had been reported as an asset on his wife's income tax returns since 2008. Protests and anger amongst the Icelandic people regarding this scandal compelled Gunnlaugsson to step down.

## The following interests must be disclosed:

### **Paid activities:**

- Paid Service on the board of directors of private or public companies. Position and name of company should be disclosed.
- Paid work or tasks (other than salaried parliamentary work). The position and name of employer should be disclosed.
- Business conducted concurrently with parliamentary work, which generates income for the member or a company that he owns in part or in full. The type of business should be disclosed.

### **Financial support, gifts, travels abroad, and debt cancellation:**

- Financial contributions or other financial support from domestic and foreign legal entities and private individuals, including support in the forms of office facilities or similar services not included in the support provided by Althing or the member's

party, where the value of the support exceeds 50,000 ISK (336 EUR), and the gift is given because of membership of Althing. The name of the giver and nature of the support should be disclosed.

- Travels and visits in Iceland and abroad which could be linked to an MPs parliamentary duties, where the expenses are not paid in full by the State Treasurer, the member's political party, or the member their self. The person carrying the expense of the travel, its duration, and destinations should be disclosed.
- Forgiveness of residual debt and concessive changes in the terms of contract with the lender. The name of the lender and the nature of the contract should be disclosed.

### Assets

- Any property which is one third or more in ownership of a member of parliament

or a company in which he holds a quarter share or more, other than premises for the personal use of the member of parliament and his family, and the land rights to such property. The name of the landing and its location should be disclosed.

- The name of any company, savings bank, or foundation engaged in business activities in which the member holds a share exceeding any of the following criteria:
  - The share at fair value amounts to more than 1,000,000 ISK (6,734 EUR) at 31 December each year;
  - The share is 1% or more in a company, savings bank, or foundation where assets at year-end are 230,000,000 ISK (3,100,000 EUR) or more;
  - The share amounts to 25% or more of the share capital or initial capital of a company, savings bank, or foundation.
- Any agreement with a former employer which is financial in nature, including any

agreement on vacation, unpaid leave absence, continued wage payments or benefits, pension rights etc. during membership of parliament. The type of agreement and name of employer should be disclosed.

- Any agreement with a prospective employer on employment, regardless of whether the employment does not take effect until after the member leaves parliament. The type of agreement and name of employer should be disclosed.
- Positions of trust outside the Althing: information on service on boards of directors and other positions of trust for interest groups, public organizations, municipalities, and associations other than political parties should be disclosed, regardless of whether such work is remunerated or not. The name of the association, interest group organization, or municipality and the nature of the position of trust should be disclosed.

## FIGHTING FOREIGN BRIBERY

Iceland's Phase 3 Report from the OECD recommended the Icelandic government enhance awareness of the Convention and of the foreign bribery offence within the public and private sectors. Since Phase 3, Iceland has not provided any awareness-raising or training to public officials of foreign bribery. The Ministry of Interior committed to writing other relevant Ministries, including the Overseas Business Development Department in the Ministry of Foreign Affairs, to urge them to take action. Iceland has yet to promote the Good Practice Guidance on Internal Controls, Ethics, and Compliance set out in Annex II to the 2009 Anti-Bribery Recommendation. There has not been training or awareness-raising among auditors, though the Ministry of Industries and Innovation plan to address this matter.

Since Iceland's Phase 2 evaluation, initiatives have not been taken to cooperate on raising

awareness of foreign bribery with companies (including SMEs), business associations, professional organisations, trade unions, NGOs, universities, business schools, the media, as well as the general public. Accordingly, Iceland did not take steps to address its Phase 2 recommendation to cooperate with the private sector in order to raise awareness of companies, and in particular, encourage and promote internal corporate compliance programs for exporting companies. Neither did it provide guidance on how to deal with bribe solicitation. There are government bodies charged with assisting Icelandic companies operating abroad, including the Overseas Business Development Department within the Ministry of Foreign Affairs. The Promote Iceland partnership oversees trade promotion abroad in cooperation with the Ministry of Foreign Affairs. However, these bodies do not provide any guidance to companies on how to address bribe solicitation.

## SHADOW ECONOMY AND MONEY LAUNDERING

The shadow economy makes up 14.4 +% of Iceland's GDP as of 2010. Undeclared work in Iceland is likely to largely involve paid favors made to close social relations. Iceland remains weak on pursuing curative measures that seek to transition workers out of the undeclared economy.

There are no agencies combating undeclared work in Iceland. There is not a state department officially responsible for tackling undeclared work, although the Internal Revenue Department (IRD) undertakes workplace inspections to detect undeclared work, though with limited resources.

As of September 2010, a law came into effect which issued ID cards in the workplace, specifically for the building and construction industries, and the hotel and restaurant sec-

# SHADOW ECONOMY



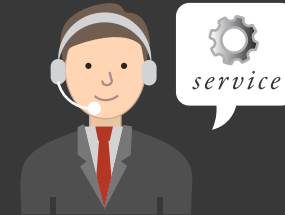
*Iceland*

Size of the  
shadow  
economy:

**14.4%**  
of GDP (2015)

## Most affected sectors:

- construction;
- service industry;
- hotels and restaurants;
- paid favors to close social relations;
- high percentage of undeclared work and especially underpaid immigrant workers



## Initiatives to fight the phenomenon:

- Cooperation between the **Icelandic Confederation of Labor** (ICL) and the **Confederation of Icelandic Employers** (CIE) led to a law, passed in 2010, under which construction, hotel and restaurant industries are obliged to supply employees with ID cards since the first day of work, to make inspection on undeclared work more effective.

**“Fair play” initiative** by ICL and CIE:

- awareness-raising campaign against undeclared work to enable unions to better safeguard employees right and to show how undeclared work is a threat for the welfare of the Icelandic society



tors. The current boom in the tourism industry (an estimated 2 million visitors per year 2016) is having an impact on the increase of undeclared and underpaid foreign migrant workers, and the Icelandic enforcement system was poorly prepared to anticipate the negative aspects of the tourism boom, such as instances of human trafficking.

Icelandic authorities adopted Act No. 64/2006 in June of 2006, which works in conjunction with the Third EU Money Laundering Directive. The Act requires parties engaging in financial undertakings to obtain knowledge of their customers and their business activities and to report to authorities any knowledge of illegal activity pertaining to money laundering and terrorist financing.

## WHISTLEBLOWING

In 2010, Icelandic Parliament passed the Icelandic Modern Media Initiative resolution,

with the aim of making Iceland a journalistic safe haven. The accompanying International Modern Media Institute (IMMI) was founded in Iceland in 2011. The IMMI combines the laws most friendly to journalists so that Iceland-based media would be immune from the least friendly laws elsewhere. It takes from Sweden's law on the protection of sources, which mandates that journalists are not allowed to reveal sources. Freedom of information laws are pulled from Norway and Estonia for their presumption of public access to all government documents.

Iceland is widely regarded as a safe haven for whistleblowers, however, Iceland does not have any measures to protect whistleblowers that would apply to foreign bribery cases.

A legislative bill specifically designed to protect whistleblowers was introduced to Parliament in 2015 but it is not likely to be addressed before upcoming elections.

## ICELAND – THE INTERNATIONAL MODERN MEDIA INSTITUTE

The International Modern Media Institute (IMMI) was founded in Iceland in 2011 following the scandals involving Icelandic banks in the context of the 2008 Economic Crisis. Recognizing the importance of the freedom of the press in unveiling shady practices that, when conducted in businesses such as banking can have serious negative repercussions on the general welfare of a country, the overall aim of the Institute is “to build in Iceland a comprehensive policy and legal framework to protect the freedom of expression needed for investigative journalism and other politically important publishing as well as to inspire other nations to follow suit by strengthening their own laws”.<sup>1</sup>

In order to pursue their objective, the IMMI is particularly active in 6 areas, namely the Government's Freedom of Information Act; source

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<sup>1</sup> IMMI website. <https://en.immi.is/about-immi/>



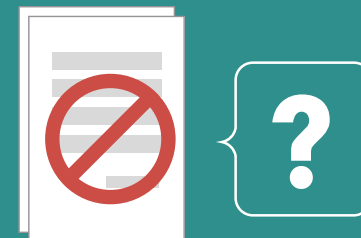
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Open access to  
public documents



Online proactive  
disclosure



All exceptions regarding  
disclosure must be explicit  
and weighed against  
the public interest

protection; whistle-blower protection; communications protection; prior restraint of information of public interest; history protection. For each area problems are identified and specific proposals are elaborated and submitted to the authorities in order to tackle them.

### **1) Freedom of Information (Fol)**

**Act.** In this area, the main concern of the IMMI was the current Icelandic Freedom of Information Act 50/1996, which did not comply with the international standards set in the 1998 Aarhus Convention and the 2009 Council of Europe Convention. The proposal to reform the Fol Act reflected a radical commitment to transparency in government as a way of ensuring online general access to public information and effective democratic control. Moreover, eventual exceptions regarding disclosure must be explicit and weighed against the public interest. This proposal relies on the assumption that the general public necessar-

ily knows what to request from the government. Following the proposal, a new Information Act was passed in 2013 but it does not satisfy the IMMI resolution's level of quality and assurance, as referred to with regards to the public's access to information. The new Act is currently under review by the IMMI.<sup>2</sup>

### **2) Source and Whistle-blower**

**Protection.** The IMMI puts special emphasis on the protection of the confidentiality of journalistic sources as a critical requirement of the freedom of the press. Though the Icelandic law on criminal procedure recognized journalists' right not to disclose their sources, there was also an overly broad exception, in part undermining the right. Thus, the IMMI suggested to model the law on Chapter 3 of the Swedish Freedom of the Press Act, which entails criminal liability for those who disregard their duty of confidentiality towards their sources. Beside source

protection, the IMMI also proposed stronger measures to encourage whistle-blowers, referring to the U.S. Federal False Claim Act, and specifically the clause that provides that guarantee for whistle-blowers to preserve seniority status and salary and allowing her/him to be awarded a portion of the proceeds from the whistle-blowing action.<sup>3</sup>

### **3) Communications protection.**

The IMMI emphasizes the need to protect all communications between sources and journalist, taking as its primary model the Belgian law on the protection of journalistic sources. Data retention (policies of storage of data for business or compliance reasons) is a critical issue to secure source-journalist communication. The IMMI found that the Icelandic Electronic Communication was not in compliance with the 2006 EU Directive on data retention policy, therefore suggesting to review this measure on account of a general trend

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<sup>2</sup> <https://en.immi.is/immi-resolution/progression/>

<sup>3</sup> Fernandez-Delgado F. & Balanza M., 'Beyond Wikileaks: The Icelandic Modern Media Initiative and the Creation of Free Speech Havens', *International Journal of Communication*, 2012



towards more privacy awareness. Another important element of the IMMI is intermediary protection in source-journalist communications. On this issue, the IMMI advanced the proposal of specification of the exact circumstances under which an Internet service provider or host can be held liable for the information it transmits or hosts.<sup>4</sup>

**4) Prior restraint over the coverage of information of public interest.** According to Icelandic law it is possible to acquire an injunction prohibiting certain material to be shown or published by the media. Injunctions of this kind can place severe restrictions on freedom of information and freedom of expression and in most democratic states there are strong and even universal limitations put on such injunctions. The IMMI explores mechanisms that guarantee strong limitations on prior restraint and prevent legal abuses intended to limit freedom of expression.<sup>5</sup>

**5) History protection.** As more and more information moves from multiple physical archives to centralized Internet servers, and as copyright laws make it very difficult to republish the information elsewhere on the Web, it is increasingly easy for powerful organizations to drop compromising information about them into the so-called “digital memory holes”. To prevent the destruction of historically significant documents, the IMMI refers to the French Criminal Law, which establishes a limitation period of three months for libel action and a ceiling for damages of € 15.000.<sup>6</sup>

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<sup>4</sup> *ibid.*

<sup>5</sup> <https://en.immi.is/immi-resolution/progression/>

<sup>6</sup> Fernandez-Delgado F. & Balanza M., ‘Beyond Wikileaks: The Icelandic Modern Media Initiative and the Creation of Free Speech Havens’, *International Journal of Communication*, 2012

### III Finland

#### INTRODUCTION

There is a low level of perceived corruption in Finland. As Transparency International's Corruption Perceptions Index (CPI) shows, Finland has performed well even among the Nordic countries (table 1).

In 2013, the Special Eurobarometer on Corruption places Finland among the least corrupt countries in the EU.

According to the Finnish Ministry of Foreign Affairs, "in the case of Finland, the historical diminution of corruption cannot be attributed to any specific reforms undertaken in specific sectors. The establishment and maintenance of a social order that provides very barren ground for corruption to take root can be itself considered as constituting Finland's main strength. But the Finnish social order is characterised by number of specific strengths that can be considered to

**Table 1.** *Within the past ten years, Finland has been among the top countries in the CPI.*

Year	Score (rank)
2015	90 (2nd)
2014	83 (3rd)
2013	89 (3rd)
2012	90 (1st)
2011	94 (2nd)
2010	92 (4th)
2009	89 (6th)
2008	90 (5th)
2007	94 (1st)
2006	96 (1st)

be of special added value in international anticorruption efforts.

Four such strengths are particularly worth noting and emphasising:

- 1) a value system that includes moderation, personal restraint, and work towards the common good,
- 2) legislative, judicial, and administrative

structures that closely monitor and guard against abuse of power,

3) prominence of women in political decision-making,

4) and low income disparities and adequate wages.”

## ANTI-CORRUPTION FRAMEWORK

### Strategic Approach

According to the European Commission 2014 Report on Finland, “corruption is not perceived as a serious threat and Finland has no dedicated national anti-corruption strategy”, although draft projects have been developed recently. In 1996, the Finnish Parliament approved its first program designed to reduce economic crime and the shadow economy. The current Action Plan covers the years 2012–2015, but anti-corruption measures are not among

the prioritized objectives of the program. A separate program, the Internal Security Program 2012, discusses the risks of corruption in public procurement and for Finnish enterprises or their representatives when conducting business abroad. In order to prevent corruption, the Internal Security Programme stresses the need for greater international cooperation and sector specific preventive measures for public officials and for the business sector. In 2002, the Ministry of Justice set up a specialist anti-corruption network which meets to discuss and exchange information. Questions have been raised as to the effectiveness of cooperation between the various bodies responsible for the detection and prevention of corruption, especially between law enforcement and tax authorities. The tax administration has, however, after recommendations from the OECD, published guidelines for tax offi-

cials stating their obligation to report suspected criminal offences including foreign bribery to law enforcement authorities.

### Legal Framework

According to the EU report on corruption in Finland, “Finland has a well-functioning criminal justice system which is capable of dealing with high-level corruption cases and which benefits from having institutionally independent prosecutors”. The principle of free access to public records is laid down in the Constitution as well as in the Openness of Government Activities Act. Finland amended the Political Parties Act in 2010, taking into account all of the recommendations made by the Council of Europe Group of States against Corruption (GRECO). The new legal framework aims to provide transparency in respect to the financing of election candidates, political parties, and other entities affiliated with political parties.

## Institutional Framework

Finland relies on several watchdog institutions to implement impartially the above mentioned anti-corruption laws. The key watchdog institutions are the Parliamentary Audit Committee, Ombudsman, Chancellor of Justice, National Audit Office, and the media. The low level of perceived corruption in Finland indicates that these watchdog institutions have been rather effective in implementing the various anti-corruption laws.

The functions of these institutions are partly implemented by the Finnish Parliament. The Parliamentary Audit Committee oversees the management of government finances and compliance with the budget. The Committee concentrates on the general state and management of government finances as well as issues on which Parliament ought to be informed. Another organ

is the group of four auditors, elected among its members, where one member is chosen outside the Parliament, which works with public liability. The public reports are provided by the auditing activities.

Two institutions represent legal regulation and supervision of legality in Finland, as mandated in the Finnish Constitution. They are the Chancellor of Justice (2013), who reports to the government and to the Parliament, and the Parliamentary Ombudsman (2013). They differ from the administrative courts where cases of integrity violations of public servants are handled, accused, and sentenced. However, the amount of control is very strong. The Chancellor of Justice is more concentrated on wrongdoing (disqualification, misuse of power) cases of public servants than the Ombudsman, who concentrates on violations of the principles of equality

and impartiality. The aim of Ombudsman is to ensure that the principles of constitutional and human rights and good administration are followed. Alongside investigating complaints, the Chancellor of Justice has the task of overseeing the legality of the government's actions, and hence is present at cabinet sessions and examines all the plenary sessions of the government as well as presidential sessions. The review process of the Chancellor of Justice focuses on the consideration of issues of legality, instead of the appropriateness of decisions or any other political assessment. Additionally, all government agencies have a unit for internal control. If internal units find misuse or references to corruption, they refer the case to the police authorities.

National Audit Office (NAO) is the country's supreme audit institution. The office has several roles in controlling integrity vi-

olations and corruption. As an external auditor, it has an independent position and broad rights to gather information on the Finnish public administration. The audit work covers the whole state economy in the areas of fiscal policy, finances, compliance, and performance. The NAO is a special whistle-blowing instrument for citizens and organizations. As part of the formal audit everyone is able to turn to the NAO concerning complaints about suspected illegalities of financial management of the state including illegal procedures in state-owned companies.

The role of media is important in curbing corruption. Media uncovers integrity violations through investigative journalism, and makes possible public debate of accountability among politicians. Media raises public awareness of corruption and helps public sector authorities to investigate cor-

ruption cases. Greater press freedom is linked to lower levels of corruption.

According to the 2014 EU report on corruption, “the Finnish administration is regarded as being transparent in its practices and is characterised by high standards, relatively non-hierarchical structures and little if any politicisation of key civil service positions. Combined with other social factors, these features contribute to a low level of corruption in public institutions. Rules and principles of conduct are to be found in several types of legislation such as the Constitution and the State Civil Servants Act (750/94). The handbook, “Values in the Daily Job – Civil Servant’s Ethics,” illustrates and provides guidelines on ethics for civil servants working in the state administration with the aim of maintaining Finland’s high standards of integrity and ensuring low levels of corruption.

Finland does not have an authority specifically charged with the prevention of corruption. The Ministry of Justice is responsible for the coordination of anti-corruption matters, although Finland’s anti-corruption contact point for EU purposes is in the Ministry of the Interior. In 2002, the Ministry of Justice set up a special anti-corruption network which meets to discuss and exchange information. The National Bureau of Investigation has an officer whose full-time duty is to follow matters related to corruption in Finland. The tax administration has, after recommendations from the OECD, published guidelines for tax officials stating their obligation to report suspected criminal offences, including foreign bribery. The Ministry of Finance has also published guidelines for government officials on hospitality, benefits, and gifts.

## Legal enforcement

Corruption in Finland is covered by the Criminal Code and issues penalties ranging from fines to imprisonment of up to four years. Both giving and accepting a bribe is considered a criminal act under the Criminal Code.

Finland's Criminal Code prohibits active and passive bribery, embezzlement, fraud, abuse of office, breach of trust, and abuse of insider information. It criminalizes bribery between businesses, of Finnish and foreign public officials, and through intermediaries (agents, consultants or other representatives). The Criminal Code distinguishes between non-aggravated bribery and aggravated bribery, with the latter carrying penalties of up to four years imprisonment. A company can be held criminally liable for corruption offences committed by individuals working on its behalf, and may

be ordered to pay corporate fines of up to EUR 850,000 for violations.

Subject to certain conditions, a ban on business operations may be imposed on a natural person found guilty of bribery in business ([Act on Bans of Business Operations 1059/1985](#)).

Finland's law offers no distinction between bribes and facilitation payment, while the propriety of gifts and hospitality depends on their value, intent, and potential benefit obtained. The Ministry of Finance has issued guidelines for civil servants regarding gifts, benefits, and hospitality. MPs are not allowed to keep gifts exceeding a value of EUR 100.

Other relevant legislation includes the Political Parties Act, which requires candidates and parties to report campaign donations exceeding EUR 800 in local elections, and

EUR 1,500 in parliamentary elections. The Act on Public Contracts instates mandatory exclusion of bidders from competitive tendering if they have been convicted of a serious offence such as bribery.

Corruption at the local government level  
Corruption at the local government level does not seem to be a problem for Finland. No scandal involving local administrations has been reported in recent years.

## Transparency of lobbying

Lobbying is not regulated in Finland. There are no rules or legislation governing the regulation of lobbyists in the Finnish parliamentary system. Interest groups are not registered in the Finnish parliament. Lobbyists may contact members of parliament informally as they wish. There is no specific requirement for lobbyists to register or for contacts between public officials and

lobbyists to be reported. After receiving recommendations from GRECO, the Finnish Parliament has set up a working group in order to prepare ethical guidelines on conflicts of interest, including lobbying for parliamentarians.

### **Transparency of Financing of political parties**

In 2007 there were funding controversies regarding the parliamentary election campaign of the Centre Party, which received extensive funding from a wealthy group of real estate developers with keen interest in the construction of out-of-town shopping malls via the Kehittyvien Maakuntien Suomi (KMS) association. It is now known that KMS was established for the specific purpose of steering the Centre Party to victory and its financiers had met with Prime Minister Matti Vanhanen at his residence on January 22<sup>nd</sup>, 2007.

Finland amended the Political Parties Act in 2010 to take into account all of the recommendations made by GRECO. According to the National Audit Office's report to Parliament on the monitoring of the funding of political parties in 2015, "the Act on Political Parties (10/1969, amended 683/2010) contains mandatory provisions aimed at promoting the transparency of funding for political parties and party associations. According to the Act, all contributions in the form of money, goods, services or other such services are regarded as financial support. Only certain contributions that are expressly mentioned in the Act are not regarded as financial support and therefore do not come within the sphere of regulation. A political party, a party association, or an entity affiliated with a party may receive contributions up to a maximum value of 30,000 EUR from the same donor in a calendar year. This restriction does not apply

to financial support given to a political party or a party association by an entity affiliated with a party, however. In addition, the Act contains a ban on receiving contributions from certain public-sector organisations or receiving foreign contributions or contributions from an unidentified donor. The Act on Political Parties requires a political party, a party association, or an entity affiliated with a political party to disclose to the National Audit Office, as well as the identity of their donors. Political parties and associations mentioned in a party subsidy decision must itemise election campaign costs and funding. When election campaign costs and funding are itemised, each individual contribution and its donor must also be mentioned separately if the value of a contribution exceeds 1,500 euros. Information is entered in the party funding register and made available to the public.

The monitoring of political parties is the responsibility of the National Audit Office, the Ministry of Justice, and the auditors of the organisations and foundations in question.

The National Audit Office oversees election and party funding, and receives and publishes the documents stipulated in the Act on Political Parties and the Act on a Candidate's Election Funding. The tasks prescribed in the Act on Political Parties and the Act on a Candidate's Election Funding concern mandatory disclosures. The National Audit Office can require a monitored entity to fulfil its obligations on pain of a penalty. A penalty can be imposed only after an entity has been cautioned, however, and if the breach is considered substantial.

According to the National Audit Office's reports to Parliament on the monitoring

of election funding in the 2012 municipal and presidential elections, the new legal framework creates conditions which are favourable to openness in candidates and political parties' funding and generally functions well. Nevertheless, concerns have been raised as to whether the National Audit Office has enough resources to verify the information given by political parties and individual candidates, and whether it has the authority to control the parties' compliance with the Act. For instance, the National Audit Office does not have the authority to request accounts and additional information from third parties in order to check the accuracy of a disclosure. According to the National Audit Office, this restriction has a detrimental effect on the Office's ability to monitor disclosures.<sup>1</sup>

### Asset disclosure

The State Civil Servants' Act Section 8a and

18, the Municipal Officeholders Act Section 18, and the Local Government Act Sections 35 and 36 include provisions against conflicts of interest. High-ranking civil servants, before appointment, are obliged to give an account of their involvement in business, company share holdings, secondary jobs etc. Members of Parliament (MPs) are required to file a notification of interest ('disclosure of outside ties') to the Parliamentary office at the beginning of each parliamentary term and the information provided is then published on the Parliament's website. There is however no legal obligation on MPs to declare assets. GRECO has therefore recommended that Finland make its reporting arrangements mandatory. The prevention of conflicts of interest for MPs is currently regulated under Article 32 of the Constitution. According to GRECO, this rule on conflicts of interest needs further clarification in order to guide MPs as to how

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<sup>1</sup> EU Report, [http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014\\_acr\\_finland\\_chapter\\_en.pdf](http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014_acr_finland_chapter_en.pdf)



to act when faced with actual or potential conflicts of interest.<sup>2</sup>

## Public procurement

The Ministry of Employment and the Economy is responsible for preparing the legislation relating to public procurement. The value of procurement of goods and services by public sector bodies, as well as the construction work they commission, is about EUR 33–35 billion annually. The significance of public procurement has continuously increased because many public services are delivered by private service providers. The way in which bodies that carry out public procurement use their buying power has a lot of impact on the development of markets in certain sectors. The proportion of companies' turnover that is accounted for by public procurement is considerable, for example, in the construction and private social and health care

services. Public procurement is an important target area in combatting against the shadow economy. According to the Parliament's Audit Committee, the embedding of corruption in public sector procurement and local decision making puts a strain on services paid for by taxation, and distorts healthy competition in business as well as weakens the confidence of citizens in decision makers. According to calculations by the City of Helsinki's Audit Department, Helsinki loses about EUR 50–60 million a year in tax revenue because of the shadow economy.<sup>3</sup>

The Ministry of Employment and the Economy proposed enacting a new law to replace the 2007 Act and Decree on public contracts.

## Private Sector

Finland has correctly transposed the

provisions of the Framework Decision 2003/568/JHA regarding the definition of active and passive corruption in the private sector. The OECD Working Group on Bribery commended the efforts made by Finland to investigate suspected foreign bribery cases and to raise awareness of foreign bribery both within the public and private sectors. Nevertheless, according to the OECD, more could be done to raise awareness of Finland's framework for combating foreign bribery in high-risk sectors such as the defence industry, and among state-owned enterprises, SMEs and the legal, accounting, and auditing professions.<sup>4</sup>

There is scarcely any empirical information available on the extent of corruption in the private sector in Finland. Only rarely have cases of suspected bribery in the private sector come to court. According to crime statistics, most of the cases of bribery

<sup>2</sup> EU Report, [http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014\\_acr\\_finland\\_chapter\\_en.pdf](http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014_acr_finland_chapter_en.pdf)

<sup>3</sup> Page 5, GreyEconomy 2015, file:///C:/Users/Admin/Downloads/Grey\_Economy\_2015%20(1).pdf

<sup>4</sup> EU Report, [http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014\\_acr\\_finland\\_chapter\\_en.pdf](http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014_acr_finland_chapter_en.pdf)

that come to the attention of the authorities have involved the public sector, and public officials. Although considerable attention has been paid to the control of public procurements in the public sector, the structure of decision-making in the private sector is more opaque. Some studies provide a key-hole view of the extent of corruption, at least in international trade. A series of studies was conducted during the 1990s regarding the experience of Finnish companies trying to get a foothold in the emerging economies in the Baltic republics and in Russia (see Aromaa and Lehti, esp. pp. 172-177). The focus of the studies was on the experiences of these companies with crime. The methodology was based on interviews with company representatives. The studies indicated that the majority of Finnish companies involved had experience in paying bribes in this region. (Subsequent reports suggest a clear diminishment of the

prevalence of corruption.) A striking feature of the studies was that many of the company representatives, although regretting the need to pay bribes, regarded it nonetheless as a cost of business in those particular circumstances. PriceWaterhouseCoopers recently conducted a small-scale international study on how often companies have been the victim of economic crime. According to the results, about one half of Finnish company representatives stated that their company had been the victim of an economic crime when doing business abroad. About 5% of the Finnish companies in question had been the victim of corruption-related offences; this figure is lower than for other countries included in the study. A study commissioned by the Ministry of Justice regarding corruption on the Finnish - Russian border suggested that an appreciable number of Finnish companies doing business cross-border

have experiences with corruption (Aromaa et al 2009). As noted earlier, corruption is harmful to the fundamental principles of a market economy and free trade. It could be added that, although paying a bribe may be a business strategy for companies struggling in a difficult market, it brings various risks, ranging from the “costs” associated with possible law enforcement and punishment, to the negative impact that public knowledge of bribery may have on the reputation of the company. Earlier mention has also been made of the guidelines prepared by the International Chamber of Commerce on principles of ethical business activity, and of anti-bribery, and the work of the Finnish Central Chamber of Commerce to promote implementation. In addition, many large Finnish companies have specific anti-corruption policies and programs, often based on a “zero-tolerance” approach both domestically and when doing business abroad.<sup>5</sup>

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<sup>5</sup> <http://www.oikeusministerio.fi/material/attachments/om/tiedotteet/en/2009/6AH99u1tG/Corruption.pdf>

## Fighting Foreign Bribery

Finnish citizens do not come across corruption in their daily life, yet the country is home to a string of companies accused of receiving bribes from places ranging from Slovenia to Kenya. Last year the OECD wrote to the Finnish prime minister out of concern for the country's failure to implement 12 of the 19 recommendations to improve its foreign bribery.<sup>5</sup>

In March of 2013, a Finnish court dismissed allegations of bribery against the company Wärtsilä Finland Oy, which denied the charges. A former senior manager at Wärtsilä was also convicted of bribery in Kenya to secure a tender to build a power plant.

Ongoing allegations of bribery by the Finnish state-controlled arms company Patria Oy continue to play out in Croatia and Slovenia. Courts cleared the company and a

number of its senior executives in Egypt last year, and upheld lesser accounting offences, according to Transparency International.<sup>6</sup>

## Shadow economy and money laundering

The Act regulating the operations of the Grey Economy Information Unit (1207/2010) entered into force on 1 January 2011. Under the Act, the task of the unit is to promote and support the combating of the grey or shadow economy by providing information about the shadow economy and the effort to combat it. In 2015, the unit completed a total of 55 information provision tasks, published reports on offences aimed at hampering tax control, business tax liabilities, warehouse operators of the Finnish Customs, real estate and landscape management, foreign exchange operations, and purchases by the City of Helsinki<sup>7</sup>.

The shadow economy is particularly present in sectors that utilize a lot of manual labor and in sectors that operate on a cash basis. The common factor is the utilization of an undeclared workforce. Examples of industries that utilize a lot of manual labor are the construction, hotel and catering, transport, cleaning and maintenance industries, barbers and hairdressing, as well as beauty services. Nowadays, issues related to the use of foreign companies or foreign workers are coming to the forefront when considering the shadow economy.<sup>8</sup>

## Whistleblowing

There is no specific protection for whistleblowers in Finland. Employees in the public or private sector, who report suspected acts to competent authorities, in good faith and on reasonable grounds, are not explicitly protected from discriminatory or disciplinary action. Instead, the Finnish

<sup>6</sup> <https://www.icij.org/blog/2014/02/worlds-least-corrupt-nations-fail-police-bribery-abroad>

<sup>7</sup> Greyeconomycontrolstatistics 2015, <https://www.icij.org/blog/2014/02/worlds-least-corrupt-nations-fail-police-bribery-abroad>

<sup>8</sup> Vero Skatt, page 4 The Grey Economy 2015, GREY ECONOMY INFORMATION UNIT FINNISH TAX ADMINISTRATION

# SHADOW ECONOMY



*Finland*

Size of the  
shadow  
economy:

**12.4%**  
of GDP (2015)

## Most affected sectors:

- construction;
- hotel and catering;
- transport;
- cleaning and maintenance.



*Hotel*

Strong presence of undeclared workforce

## Initiatives to fight the phenomenon:

- **Massive investigation in 2015** by the Finnish Grey Economic Unit on restaurants, warehouse operators, landscape management business, foreign exchange operations, public procurement in the city of Helsinki; advisory project aimed at enhancing the fulfilment of tax requirements for the real estate business carried out directly at the construction sites
- **Action plan 2016–2020** for tackling the shadow economy issued by the Ministry of the Interior. The emphasis is put more on preventative measures, better exchange of information between public and private units and forging of new common operating modes



authorities rely on the provisions for the protection of victims and witnesses and on the provisions made within administrative and labor law. Witness protection is however limited, and labor law protects in principle against dismissal, but does not cover other forms of discrimination that may follow a whistleblower's report. The United Nations Convention against Corruption (UNCAC), the OECD, GRECO and Transparency International has therefore encouraged Finland to explore the possibility of establishing a comprehensive system for the protection of whistleblowers.<sup>9</sup>

The former Minister of Justice Anna-Maja Henriksson has also highlighted the importance of whistleblower protection, and the Ministry of Justice recently set up a working group to evaluate the current status of whistleblower protection in relation to corruption cases. This initiative could be linked

to an international trend of increasing protection for whistleblowers, such as a new proposal to establish an independent shelter for whistleblowers in the Netherlands, which will receive funding from the Dutch government and will offer legal protection to employees who denounce abuse in the private and public sectors.<sup>10</sup>

### GOOD PRACTICES

- Public administration with good reputation – a strong sense of the rule of law: public officials and citizens take it for granted that the law must and will be followed.
- Prevention of conflicts of interest: the general and absolute requirement that no public official may participate in making a decision in which he or she (or close relatives or dependants) has a personal interest.
- Thereferendary system: any decision must be signed off by more than one official.
- The simplicity and transparency of the administrative and judicial system: all parties with an interest in a decision have a constitutional right to be heard by the appropriate authority, all administrative and judicial decisions must be made in writing, with the substantive and legal grounds for the decision clearly laid out, and instructions given for appeal.
- Public scrutiny of the work of the public officials; anyone, anywhere can request information regarding any documents held by the public authorities, unless a specific exception is laid down in law.
- Education and awareness of what the law requires: citizens tend to be well-informed about their rights and about the law, and will insist on having a matter dealt with properly.

<sup>9</sup> EU Report, [http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014\\_acr\\_finland\\_chapter\\_en.pdf](http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014_acr_finland_chapter_en.pdf)

<sup>10</sup> <http://www.nortonrosefulbright.com/knowledge/publications/137786/current-activities-in-the-finnish-anti-corruption-field#autofootnote1>

- Innovative e-democracy: to a large extent, applications and requests can be submitted to the authorities online.
- Ease and affordability of taking a case to court for those who believe that their rights have been violated.

Finland continues to carry out anticorruption work both domestically and internationally. Finland actively participates in the anticorruption efforts of its long-term development partners, and contributes to multilateral anticorruption programs. Since the turn of the millennium it has signed all relevant international conventions against corruption and bribery, such as the OECD, EU and Council of Europe Conventions on Bribery, the UN Convention Against Corruption, and the Cotonou Agreement. For the future, local cooperation funds coordinated by the Finnish foreign missions, the Global Programme Against Corruption (GPAC)

of the United Nations Office on Drugs and Crime (UNODC), the development cooperation and civil crisis-management instruments of the European Union as well as Finnish membership of the UN Commission on Crime Prevention and Criminal Justice, will all provide viable instruments for combating corruption internationally.

In April, 2012, the Finish court found parliament member and former foreign minister Ikka Kanerva guilty of accepting bribes and neglecting his official duties as chairman of the Regional Council of Southwest Finland's managing board, and issued a 15-month suspended jail sentence. Three codefendants received harsher sentences.



## IV Norway

### INTRODUCTION

Norway, perhaps similarly to other Nordic countries, sees generally very low rates of corruption. This is potentially due to the harsh penalties for corruption found in Norway's penal code. Additionally, Norway also has the the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (*Økokrim*), a separate investigative body whose purpose is to seek out and stop cases of corruption.

There is a high level of civic engagement in Norway, as well as public trust in the judicial system. Norway has a high level of social cohesion: with low wage inequality, high rates of employment, and redistribution of wealth through the tax and benefit system. With a relatively egalitarian society, there is less of a need in Norway to conduct business in the shadow economy or pay bribes.

Notably, though Norway has extensive regulations regarding political party financing, they are not always as strict as other countries. Corporations may donate to both political parties and individual candidates, and there is no limit to how much a donor can give. Additionally, Norway's efforts in cracking down on corruption and bribery committed by Norwegian companies abroad have been limited.

### ANTI-CORRUPTION FRAMEWORK

#### Strategic Approach

Norway primarily combats corruptions through repressive measures such as legislation. It has an investigative body, the *Økokrim*, which persecutes corruption-related crimes. Media and journalism also plays a role in exposing corruption. Norway seems to lack in curative or preventative approaches to combating corruption, and has had problems with foreign bribery scandals.

## LEGAL FRAMEWORK

### System of Legislation

The Norwegian Penal Code criminalizes active and passive bribery, trading in influence, fraud, extortion, breach of trust, and money laundering. A company can be held criminally liable for corruption offences committed by individuals acting on its behalf. Facilitation payments are prohibited, and gifts and hospitality can be considered illegal depending on their value, intent, and benefit obtained.

The Norwegian Money Laundering Act of 2009 imposes requirements on companies with a reporting obligation to prevent and detect transactions linked to crime or terrorist financing. Organizations must meet the following requirements in order to adhere to the Money Laundering Act:

- Risk-based customer appraisal of the organization and on-going monitoring

- Verification and registration of the customer's identity and owners of property rights
- Obtain information about the customer relationship's identity and owners of property rights
- Reinforced control measures for areas of high risk for money laundering/terrorist financing
- Identification of politically exposed persons (PEPs)
- Investigate suspicious transactions
- Reporting of suspicious transactions to the Financial Crime Unit (*Økokrim*)
- Internal control and communication routines.

Norway is a signatory of the OECD Anti-Bribery Convention, the United Nations Convention Against Corruption (UNAC), the Council of Europe's Civil and Criminal Law Conventions against Corruption, and the Group of States Against Corruption (GRECO). Both law

enforcement and the legal framework for combating corruption in Norway are considered very strong.

### Law Enforcement Fines

The penalty for fraud is fines or imprisonment for up to three years. Any person who aids in fraud is liable to the same penalty.

The penalty for gross fraud is imprisonment for up to six years. Additional fines may be imposed. Any person who aids in fraud is liable to the same penalty. Fraud is determined gross if it has caused considerable economic damage, if the offender has assumed or misused a position or assignment, if they have misled the public or a large group of persons, if they recorded false account information, prepared false accounting documents or false annual accounts, or if they knowingly caused material loss or endangered any person's life or health.



Any person who commits fraud through gross negligence shall be liable to fines or imprisonment for up to two years.

A person is guilty of breach of trust if they neglect another person's affairs which they manage or supervise, or acts against the other person's interest for the purpose of obtaining for themselves or another person unlawful gain or conflicting damage.

The penalty for breach of trust is imprisonment for up to three years. Additional fines may be imposed. Any person who aids in breach of trust shall be liable to the same penalty.

The penalty for gross breach of trust is imprisonment for up to six years. Additional fines may be imposed. Any person who aids in gross breach of trust shall be liable to the same penalty. A breach of trust is considered gross if the act has caused considerable economic

damage, it has been committed by a public official or any other person in breach of the special confidence placed upon them by virtue of their position or activity, if the offender has recorded false accounting information, prepared false accounting documents or false annual accounts, if they have destroyed, rendered useless, or concealed recorded accounting information or accounting material, books or other documents, or if they have knowingly caused material loss or endangered any person's life or health.

Any person who for themselves or other persons requests or receives an improper advantage or accepts an offer thereof in connection with a position, office, or assignment, or gives or offers any person an improper advantage in connection with a position office or assignment, shall be liable to a penalty for corruption.

The penalty for corruption is fines or imprisonment for up to three years. Any person who aids in corruption shall be liable to the same penalty.

Gross corruption is punishable by imprisonment for up to 10 years. Any person who aids in gross corruption shall be liable to the same penalty. The corruption is gross if the act has been committed by or in relation to a public official or any other person in breach of the special confidence placed in them by virtue of their position, office or assignment, if it has resulted in considerable economic advantage, if there was any risk of considerable damage of an economic or other nature, or if false accounting information has been recorded, or false accounting documents or false annual accounts have been prepared.

Any person who for themselves or other persons requests or receives an improper advantage or accepts an offer thereof in return

for influencing the conduct of any position, office or assignment, or gives or offers any person an improper advantage in return for influencing the conduct of a position, office, or assignment, is liable to a penalty for trading in influence.

Trading in influence is punishable by fines or imprisonment for up to three years. Any person who aids in trading of influence shall be liable to the same penalty.

Any person who, for the purpose of obtaining for themselves or another person an unlawful gain, compels any person by unlawful conduct or by threat of such conduct to commit an act that causes loss or risk of loss to them or the person for whom they are acting shall be guilty of extortion. Any person who aids in extortion is liable to the same penalty. The same applies to any person who for the said purpose unlawfully compels any person to commit such an

act by threatening or to make an accusation or report of any offense, or by making a defamatory allegation or giving harmful information or who aids thereto.

The penalty for extortion is imprisonment for up to five years. Additional fines may be imposed.

Any person who obtains or collects funds or other assets with the intention that such assets should be used, in full or part, to finance terrorist acts or any other contraventions is liable to imprisonment for up to 10 years. Any person who aids in such an offence is liable to the same penalty.

### **Judicial Authorities to Deal with Corruption**

Norway uses a three-tier court system, consisting of 70 district courts, 6 appeal courts, and the Supreme Court.

Additionally, the the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (*Økokrim*) is the central unit for investigation and prosecution of economic and environmental crime, and the main source of specialist skills for the police and the prosecuting authorities in their combat against corruption. *Økokrim* was established in 1989, and is both a police specialist agency and a public prosecutors' office with national authority.

### **Institutional Framework**

The Storting is the supreme parliament of Norway. There are 169 elected members, and elections take place every four years. There are not by-elections, nor any constitutional provision to dissolve the Storting between elections.

75% of people aged 15-64 in Norway have a paid job. 82% of adults aged 25-64 have completed upper secondary education. Life

expectancy at birth in Norway is 82 years. Voter turnout was 78% at recent elections.

Wage inequality in Norway is low. An egalitarian distribution of net household income is achieved through the tax and benefit system.

### **Corruption at local government level**

Norway has a two-tier system of local government: the municipalities and the county authorities. There are 428 municipalities and 19 county authorities.

Municipalities are subject to rules involving state supervision and control. State authorities control the legality of the municipal councils' fiscal resolutions only if they are registered as a municipality with economic problems. The state can check whether municipal decisions are legal. Individual residents may also file complaints against municipal resolutions.

Transparency is a basic principle of the Norwegian public sector, according to the Norwegian Freedom of Information Act.

Norway has a long-standing tradition of publishing transparent and comprehensive budget documents. Regarding the petroleum sector, Norwegian citizens are entitled to know which companies are operating on the Norwegian continental shelf and how much tax and other income is paid into the state treasury. Government decisions are subject to public review and consultation. Documents in the public administration are registered and the record is publicly accessible.

Norway does not appear to have had any recent corruption scandals at the local government level.

### **Transparency of lobbying**

Norway does not have any lobbying regulations.

- Foreign interests are banned from donating to political parties.

## Transparency of Financing of political parties

Rules regarding political party financing in Norway are as follows:



- Foreign interests may donate to individual candidates.
- Corporate donations to political parties are allowed.
- Corporate donations to individual candidates are allowed.
- Corporations with government contracts or partial government ownership are banned from donating to political parties.
- Corporations with government contracts or partial government ownership may donate to individual candidates.
- Trade Unions may donate to political parties.
- Trade Unions may donate to individual candidates.
- Anonymous donations to political parties are banned.
- Anonymous donations may be made to individual candidates.
- There is a ban on state resources (excluding regulated public funding) being given to or received by political parties or candidates.
- Any other forms of donation are allowed.
- There is no limit on the amount a donor can contribute to a political party over a time period.
- There is no limit on the amount a donor can contribute to a political party in relation to an election.
- There is no limit on the amount a donor can contribute to a candidate.
- There is regularly provided public funding to political authorities.
- The criteria to receive direct public funding are as follows: for “basic support” parties must receive 2.5% of the vote or have at least one seat in Parliament.
- Allocation of direct public funding is proportional to votes received.
- There are no provisions as to how direct public funding should be used.
- Subsidized access to media and political commercials are banned.
- There are no provisions for free or subsidized access to media for candidates.
- Political parties are exempt from income and capital tax.
- The provision of direct public funding to political parties is not related to gender equality among candidates.

- There are no provisions for other financial advantages to encourage gender equality in political parties.
- There are no limits on the amount a political party can spend.
- There are no limits on the amount a candidate can spend.
- Political parties are required to submit annual reports on income and expenditures as well assets and liabilities.
- Parties are required to file reports in relation to election campaigns if they receive donations above 10,000 kroner.
- Candidates do not have to report on the campaign finances.
- Information in reports from political parties and/or candidates are required to be made public.
- Political parties and/or candidates must reveal the identities of donors for donations with a total value of 35,000 kroner or more.
- The central register receives financial reports from political parties and/or candidates.
- The Political Parties Act Committee and the Party Auditing Committee are responsible for examining financial reports and investigating violations.
- The Ministry of Government Administration and Reform can recommend that government grants to a party are withheld. Decisions are made by the Political Parties Act Committee and can be challenged to the courts.
- Depending on the severity, sanctions for political finance infractions can include a formal warning, fines, prison, forfeiture, or loss of public funding.

## Foreign Bribery

Transparency International's 2014 Exporting Corruption report, which looks at how well countries are enforcing the OECD Anti-Bribery Convention, scored Norway as having limited enforcement when it comes to cracking down on bribery by Norwegian companies abroad, a trend that is surprisingly common among the Nordic Countries. The most recent examples of corruption scandals abroad involved the chemical company Yara and the telecommunications company Telenor.

Regarding Yara, Norwegian authorities had been informed by the company in 2011 that it might have been involved in corruption in connection with 2008 negotiations leading to the investment of 1.5 billion Norwegian kroner into a 50% share of Libyan Norwegian Fertiliser Company, or LIFECO, in 2009. In January 2014, the corporation agreed to pay a \$48 million fine in a case involving corruption

between 2004 and 2009. The company admitted bribing senior government officials in India and Libya, as well as to suppliers in Russia and India. The fine was the largest ever of its kind in Norway. The case puts two cohorts of Yara executives up against each other.

As for Telenor, in 2014 the company was allegedly involved in a corruption scandal in Uzbekistan with ties to the president Islam Karimov's daughter. According to the documents published by the Klassekampen daily, an Uzbek firm partially owned by Telenor paid \$25 million in bribes to obtain telecom licenses in the Central Asian nation. The money were paid to a company linked to president Karimov's oldest daughter, Gulnara Karimova. Though the bribes were not paid directly by Telenor, the scandal led to the resignation of Telenor's finance director and general counsel.

## Shadow economy and money laundering

Shadow economy has been recognized to be one of the most relevant societal problems in Norway. Norwegian authorities have been particularly concerned about determining the current real extent of the phenomenon and the negative consequences it might have in the long run for the stability of the welfare state and the quality of working conditions.

Overall, the size of the shadow economy in Norway has been estimated to be oscillating between 13-14% of the GDP in the years 2010-2015. Among the sectors and businesses most involved in the shadow economy are the construction and cleaning trade, joineries and restaurants. Particularly concerning are the proportions of undeclared work. According to a survey conducted by the Norwegian authorities, in the period 2006-2011, 18% of the populations said they had bought undeclared work,

and this percentage is nowadays expected to be even higher.<sup>1</sup> According to another survey by the Agenda think tank, Norwegian private individuals purchase cleaning services to the tune of six million undeclared working hours per year, equivalent to 3.400 full time jobs just in the cleaning trade. Such an extent of the phenomenon makes really difficult for serious players to stay competitive.<sup>2</sup>

In order to fight the growing phenomenon, the “Joint Alliance Against the Black Economy” (*Samarbeid mot svart økonomi*) was originally established in 1997 through an agreement between the central social partners in Norwegian working and business life and the country’s Ministry of Finance and Tax Administration and in September 2008 the parties renegotiated the agreement with an ambition to further develop their work. The alliance’s overall objective is to ‘create zero tolerance for undeclared work in Norwegian society’.<sup>3</sup>

They work towards this objective through exchanging relevant knowledge in order to find effective measures against the black economy. Furthermore, the alliance members aim to pass their knowledge on to companies, entrepreneurs, workers and consumers so that it can help them ‘make the right choices’. To reach their objectives the alliance primarily engages in awareness raising activities, mainly through the websites *www.samarbeidmotsvartokonomi.no* (‘Collaboration against the black economy’), *www.handlehvit.no* (buy legally) and *www.spleiselaget.no* (‘the cost-sharing team’, directed at young people).

The website *Samarbeidmotsvartokonomi.no*, launched in 2009, is the alliance’s home and provides links to all its current projects, news related to black economy and information about the organization’s objectives; *Handlehvit.no* was launched in 2011 and it brings consumers information on current tax rules

and reporting routines when buying various services from private companies, as well as information on why it is important for society at large to tackle undeclared work; *Spleiselaget.no* was launched in 2006 as a part of an educational programme directed at young people, providing information on the Norwegian welfare model and on the importance of paying taxes and tackling black economy. Furthermore, the website makes possible for schools to meet with representatives from the alliance, offering dialogues and presentations on the consequences of undeclared work. Approximately 200.000 students participated in the educational programme from 2006 to 2012.

In 2015, the Norwegian Labour Inspection Authority, together with regional and municipal tax offices, the customs and The Norwegian Labour and Welfare Administration (NAV) have gathered in joint offices in Oslo, Bergen and Stavanger to cooperate in the fight against black

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<sup>1</sup> European Monitoring Centre on Change, “Joint Alliance Against the Black Economy, Norway”, 2013. <http://www.eurofound.europa.eu/observatories/emcc/case-studies/tackling-undeclared-work-in-europe/joint-alliance-against-the-black-economy-norway>

<sup>2</sup> Nordic Labour Journal, “Coordinated controls in fight against Norway’s Shadow Economy”, 2015. <http://www.nordiclbourjournal.org/i-fokus/in-focus-2015/how-the-nordics-fight-the-shadow-economy/article.2015-09-28.0304689051>

<sup>3</sup> Joint Alliance Against the Black Economy, Norway<sup>10</sup> <http://www.nortonrosefulbright.com/knowledge/publications/137786/current-activities-in-the-finnish-anti-corruption-field#autofootnote1>

# SHADOW ECONOMY



Norway

Size of the  
shadow  
economy:

**14%**  
of GDP (2010)

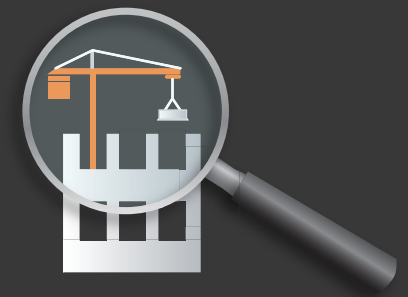
## Most affected sectors:

- undeclared work in construction sector;
- cleaning and joinery services;
- transport sector;
- mechanic and home maintenance



## Initiatives to fight the phenomenon:

- Massive investigation on construction sites carried out in cooperation by the **Norwegian Labor Inspection authority, Norwegian Welfare Administration (NAV)**, regional and municipal tax offices and customs. Along with the investigation, campaigns against undeclared work were carried out.
- Awareness-raising activities carried out by the **Joint Alliance** against black economy. In particular, the Alliance launched an educational program directed at young people and students in the high schools, with the aim of raising the awareness regarding the consequences of undeclared work. Approximately 200.000 students participated in the years 2006-2012





economy focussing mainly on undeclared work and working conditions. Building sites and other workplaces have been targeted in coordinated operations by 120 investigators. During the first major control, 430 businesses on various construction sites were investigated. Information was gathered on 1,200 individuals, 150 of them were thoroughly controlled. It turned out 20 of them were not registered to pay tax and four people who were illegally in the country were expelled. In 16 cases the work sites were closed down because of health and safety breaches, 10 million kroner (EUR 1.05m) in unpaid fees and taxes were discovered and 20 businesses were found not to be VAT registered.<sup>4</sup>

## Whistleblowing

According to the Preparatory Papers, “whistleblowing” is a term implying, “employees speaking out on critical conditions within the company.” “Critical conditions” implies conditions that are contrary to the law or other

ethical standards such as corruption, danger to life and health, and bad work environment.

Protection for whistleblowing under the Work Environment Act 2005 (WEA) is as follows:

- An employee has a right to notify concerning critical conditions at the undertaking.
- The employee shall follow an appropriate procedure in notifying.
- The employer has the burden of proof that notification has been made in breach of this position.
- Retaliation against an employee who notifies the pursuant to section 2-4 is prohibited. If the employee submits information that gives reason to believe the retaliation in breach of the first sentence has taken place, it shall be assumed that such retaliation has taken place unless the employer substantiates otherwise.

- Anyone who has been subjected to retaliation in breach of the first or second paragraph may claim compensation without regard to the fault of the employer. The compensation shall be fixed at the amount the court deems reasonable in view of the circumstances of the parties and other facts of the case.
- Employers are expected to develop internal routines for whistleblowing.

Gaps in the legislation include the following:

- No concrete definition of the term “whistleblowing” in the legislation.
- The vague language regarding, “critical conditions” and “appropriate procedures.”

WEA Section 2:4 does not cover former employees.

WEA Section 3:6 states an obligation for employers to develop routines for internal

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<sup>4</sup> Coordinated controls in fight against Norway’s shadow economy

notification but makes no mention of external disclosures.

- If the company does not have internal routines it would be difficult to conclude that an employee has reported a concern in an appropriate manner.
- It is not clear whether the WEA's right to notify covers both past and future circumstances.
- Greater clarity in terms of what should be reported and how it should be done might be useful for potential whistleblowers in Norway, especially in relation to external disclosures.

- 49% of the whistleblowing resulted in improvement in the wrongdoing;
- 54% of the whistleblowers reported positive reactions, and 35% did not experience any reactions.

According to Norwegian studies conducted in 2012:

- 34% of employees had observed serious wrongdoing at the workplace in the last 12 months;
- 53% of them blew the whistle on the wrongdoing;



## V Sweden

### INTRODUCTION

Sweden has, together with other Nordic countries, been at the forefront when it comes to developing societal structures that help prevent corruption. High living standards and the culture of openness are considered to be the main explanations for a low rate of corruption, but not only that, in Sweden, the public, and therefore the media, has the right and the will to access all official documents (Harter 2010). The culture of openness, transparency, and high respect for the principles of democracy makes corruption in government agencies more difficult to hide. With its reputation as one of the four least corrupt countries in the world, Sweden consistently ranks as least corrupt in TI indexes (Transparency International CPI 2009; Transparency International Global Corruption Barometer 2007).

### INSTITUTIONAL FRAMEWORK

The low levels of perceived and experienced corruption in Sweden are linked to a long tradition of openness and transparency in Swedish society, its institutions, and strong respect for the rule of law. The National Anti-Corruption Unit of the Office of the Prosecutor General was established in 2003 after recommendations made by Group of States against Corruption (GRECO). The Unit handles all suspicions of bribery, both giving and receiving, and also suspicions that are connected to such crimes. The Unit cooperates with other public authorities in order help prevent corruption. The National Anti-Corruption Unit has reported that between 2003 and 2009, 280 pre-investigations led to 90 convictions. In January 2012, the National Anti-Corruption Police Unit was created to support the National Anti-Corruption Unit in investigations, including foreign bribery (European Commission 2014,p.2).

## STRATEGIC APPROACH

Sweden has no national anti-corruption strategy but has carried out several risk assessment studies and reports on corruption. These assessments have covered, among other aspects, risk of corruption in local government, risk of corruption in public procurement, and risk of corruption in Swedish central authorities. In 2012 the government established a Council of Basic Values, which works to maintain public confidence in civil services by promoting a culture that prevents corruption, and will finish its work by the end of 2016 (<http://www.vardegrundsdelegation.se/in-english/>).

## Legal framework

Sweden has a well-developed system of legislation, law enforcement, and judicial authorities to deal with corruption. A revised anti-corruption law entered was enacted in 2012. The new law covers a broader range of

public officials and private individuals than the previous legislation. It also introduced two new offences: trading in influence and negligent financing of bribery. More general rules and principles of conduct, including provision on conflicts of interest, are set out in several legislative documents such as the Constitution, the Administrative Act (1986:223), and the Act on Public Employment (1994:260). The six principles in the ‘Shared Values for Civil Servants’ are based on laws and regulations and provide guidelines on how government agencies and employees should conduct their work (European Commission, 2014 p.2-3).

The six key principles according to which people regulate their behavior based on laws and regulations are:

**Democracy:** All public power in Sweden stems from the people Universal suffrage,

representative democracy and parliamentary system.

**Legality:** Public power shall be exercised under the law. Objectivity, impartiality and equal treatment.

**Equality of all persons before the law:** Government agencies and courts must treat all persons equally.

**Free formation of opinions and freedom of expression:** Swedish democracy is founded on the free formation of opinions.

**Respect:** Public power shall be exercised with respect for the freedom and equality of every person.

**Efficiency and service:** Public sector activities must be conducted as inexpensively and with as high quality as possible, given the resources available.

(European Commission, 2014).

## Corruption at local government level

Though it is a trend in many places for national government or supranational entities to be more corrupt, it is the opposite in Sweden. Compared to other countries, even the neighboring Nordic states, Swedish local government is prominent for being relatively corrupt ([The Quality of Government Institute, 2013p.4](#)). According to The Swedish National Council for Crime Prevention 2013 p.12) report on corruption prevention in Sweden claims that several instances of close ties between the private sector and public employees – in particular local government officials – appear to constitute a corruption risk.

In local government, cases show that persons with supervisory and control functions are particularly exposed. This relates to officials considering on-license applications,

registering food establishments, or granting building permits. Moreover, another at-risk group is personnel in healthcare and homecare services who are offered gifts or an inheritance by elderly persons needing care in exchange for commitments that are actually part of the employees' duties ([The Swedish National Council for Crime Prevention, 2013p.14](#)).

Stockholm county overshadows the rest of the country with almost half of all corruption cases, followed by Skåne and Västra Götaland. This is influenced by population density, but despite metropolitan dominance, corruption exists throughout Sweden ([The Swedish National Council for Crime Prevention, 2013p.13](#)).

## Transparency of lobbying

Lobbying is not regulated in Sweden. There

is no specific obligation for registration of lobbyists or reporting of contacts between public officials and lobbyists. The provision on trading in influence is applicable to illegal lobbying ([European Commission, 2014p.4](#)).

## Transparency of Financing of political parties

Political parties at the national level in Sweden receive significant public funding from the state and Parliament. The public funding system provides political parties with the possibility of pursuing their political activities on a long-term basis without being dependent on other contributions. In order to provide transparency on political parties' funding, the political parties have developed a voluntary Joint Agreement. The agreement provides that the parties' sources of income must be made as transparent as possible and that voters have a right to know how the parties and candidates finance their

activities and campaigns. Nonetheless, there is no ban on anonymous donations to political parties from private or legal persons and no regulation to make the accounts of political parties accessible to the public. The agreement does not cover all political parties in Parliament and it does not include parties at county and municipal level (European Commission, p.4-5).

After repeated criticism from GRECO, including suggestions from an Expert Committee, in 2014, the Swedish Government presented draft legislation aiming to increase the transparency of financing of political parties. The law was enacted in 2014. The same year the government appointed a commission charged with looking into the possibility of establishing a set of regulations covering not only the central government, but also party financing at local and regional levels. This commission is expected to report their

results in the autumn this year. According to the law, a party or an individual candidate must disclose information annually on their revenues and the information will be published on Kammarkollegiet's website. Political parties are obliged to report donations over EUR 2 500, including the identity of the donor and the amount of the donation (European Commission, 2014p.5) In 2016, GRECO (2016,p.5) has concluded that Sweden has satisfactorily implemented six of the ten recommendations contained in the Third Round Evaluation Report. Moreover, all remaining recommendations have been partly implemented.

### Asset Disclosure

GRECO has also suggested developing the current asset declarations system and including quantitative information, such as income the approximate value or number of shares owned.(European Commission,

2014,p.5). It is arguable that Sweden has the highest tax-to-GDP ratio in the world, and there is a presumption that the incentives for tax evasion would be particularly high in this economy (Engstrom & Holmlun, 2009 p. 5).

In Sweden, asset declaration requirements put emphasis only on parliamentarians. Declarations include information on assets and liabilities, loans, sources and levels of income, additional employment, gifts, and employment history. The reports filled by elected officials and senior public servants are available online. There are no legal sanctions and no strictly defined legal consequences for violations of the requirements but rather soft measures to achieve compliance. For example, if a member of parliament fails to submit information to the register, this compliance failure is announced at the plenary meeting (Transparency International, 2011, p.4).

Information that is directly or indirectly referable to a natural living person constitute personal data (Ministry of Justice 2006 p,10). Information in the population register is public. The Swedish Tax Agency does not provide information if there are special reasons to assume that doing so could be harmful to the persons that the information pertains to or anyone close to them. In such cases, the information is confidential (*Skatteverket, 2014,p.2*).

It is prohibited to process personal data that discloses race or ethnic origin, political opinions, religious or philosophical convictions, and membership of trade unions. It is also prohibited to process personal data relating to health or sexual life. The principle of public access to official documents, which is embodied in the Freedom of the Press Act means that the public authorities are liable upon request to provide copies of public

documents unless secrecy applies (*Ministry of Justice 2006, p.17*).

If the money involved in a case where a person is sentenced for a tax crime is significantly more than in a theft case, then the person sentenced for tax fraud gets a more severe punishment than the thief (*skatteverket, 2015,p.14*).

### Foreign bribery

In the past, bribes paid by Swedish companies to foreign politicians and officials have been accepted as certain forms of bribery and have only been explicitly forbidden as of 1999 (*Andersson, 2002*).

It should be noted that there is no distinction in Sweden between bribery of a foreign public official and bribery of a domestic public official. Nonetheless, the apparent weakness of enforcement against companies for foreign bribery offences can, at least

partly, be attributed to the requirements of dual criminality and to the low level of sanctions applicable to legal persons, and lack of cooperation on the part of the country where the alleged crime has been committed.

Foreign bribery acts are being carried out through foreign affiliates, and as a result of Swedish authorities being unable to investigate foreign affiliates, many cases are left unsolved. Nonetheless, the Swedish authorities have reported that the new offence of ‘negligent financing of bribery’ from 2012 will address the challenges concerning intermediaries. As a result of international criticism in the UN, OECD and EU, a commission has been charged with reviewing the liabilities of legal person. Results are expected later this autumn.

In 2005, fines were determined for legal persons involved in foreign bribery from SEK

5000 to SEK 10 million (EUR 1.1 million). Within Swedish society, corporations of individuals involved or prosecuted in the cases of foreign bribery are not only prosecuted, but are also “sentenced” by the decline of reputation. The penalty for bribe-taking or bribe-giving is a fine or a maximum of two-years imprisonment. If a bribe-taking crime is regarded as gross or major the punishment is increased to a sentence of a minimum six-month to a maximum six-year imprisonment (Andersson, 2002).

In order to further the fight against corruption in cases of foreign bribery, international legal systems must be similar. In order for this plan to be effective, an accurate overview of dual criminality must be reviewed (European Commission, 2014). The story in Figure 1 illustrates the difficulty and new appearances of foreign bribery.

### Telia Uzbekistan Affair



After 2012, the allegations first time appeared on the National Television claiming that Swedish prosecutors are investigating the daughter of Uzbekistan’s president on suspicion of taking bribes (2.3 billion Swedish crowns (\$358 million) for a 3G licence in Uzbekistan) to let Nordic telecoms company TeliaSonera (37% owned by the Swedish state) enter the country’s market. Gulnara Karimova, daughter of President Islam Karimov, named by the Swiss public prosecutor as a suspect in the case which is also being investigated by Dutch and U.S. authorities (Nordenstam & Swahnberg, 2014) (Hansegard, 2015)

In 2016, Prosecutors asked the Amsterdam court to confiscate 300 million euros and impose a fine of nearly 5 million euros. They also called on the court to seize a 6 percent stake held by the front company, Takilant, in Ucell, the Uzbek subsidiary of Nordic telecoms operator Telia Company AB.”The bribes were paid in exchange for entry into the Uzbek telecommunications market,” prosecutors said in a statement. “The beneficiary of the money was the daughter of the Uzbek president.” Takilant was owned by Karimova, prosecutors said (Deutsch, 2016).

**Figure 1 to show:** The Teliasonera Uzbekistan foreign-bribery scandal



## SHADOW ECONOMY AND MONEY LAUNDERING

The term shadow economy does not appear that often in Sweden as it has a variety of synonymous terms to describe it such as black market, undeclared work, parallel economy, and black work. The term black work is the most commonly used in Sweden to refer to the shadow economy. Swedes think of black work as “undeclared pay in money or in favors” or “undeclared compensation for work”. (Skatteverket, 2006). According to Schneider (2015), in 2015 the shadow economy was responsible for 13.2% of Sweden’s GDP.

Where undeclared work makes up the largest part of the shadow economy, the second and the third largest sectors could be identified as prostitution and illegal drugs (Warmark, Bjorling, Papilla, & Engdahl, 2008). Moreover, there are two more industries which could

be also linked to shadow economy: alcohol and tobacco. According to CAN, in 2015 the 5.5% of alcohol consumed was a result of smuggling. In 2014, 2% of the consumption of cigarettes was a result of smuggling.

There is also the existence of “Shadow Banking” (Hansson, Oscarius, & Soderberg, 2014). It consists of financial organizations outside the regular banking system, which are not regulated or supervised as traditional banks. The monetary transactions in “Shadow Banking” vary from SEK 4-12 million (423.596 – 1,2M annually)

Swedish society encourages people to reduce their usage of cash (Schneider). For example, many bars do not accept cash, and tickets to events are purchased with a text message. Out of 780 bank branches in Sweden, 530 do not allow cash services. Although this can prevent illegitimate money

transactions from entering the market, little research has been conducted in this field.

## MONEY LAUNDERING

In the past, Sweden has been criticized by the Financial Action Task Force (FATF) for not having paid enough attention to money laundering crimes and not having introduced up to date legislation. The Swedish Financial Supervisory Authority (SFSA) is the agency which deals with money laundering. Its aim is to reduce money laundering by promoting stability and efficiency in the financial sector (International Bar Association, 2014).

The Swedish Bar Association (2015) describes money laundering as an illegal act used for the purpose of hiding or converting income which has been obtained from criminal activities. Investment firms, a significant number of companies, and other professionals outside the financial sector

# SHADOW ECONOMY



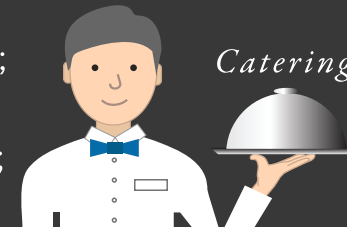
*Sweden*

Size of the  
shadow  
economy:

**13.2%**  
of GDP (2015)

## Most affected sectors:

- construction and renovation sector;
- catering and hotel services;
- housework and autorepair services;
- “Shadow banking”.



## Initiatives to fight the phenomenon:

- Massive reduction of cash payments for **retailing services**. Sweden is aiming at becoming the first "cashless" economy in the world.
- Tax reduction for **household services** (RUT) and for home repair and maintenance (ROT). 50% of tax deduction on services purchased in these sectors.

**50%**



are required to prevent money laundering by complying with governing regulations, recommendations and general guidelines (Finansinspektionen 2011).

Swedish legislation dealing with money laundering exists in the Penal Code and the Money Laundering Act (MLA). In practice, crimes associated with money laundering are prosecuted, but not money laundering itself. Most often, money laundering is prosecuted as tax evasion if no other direct connection to crime is found. Many money laundering incidents involve self-laundering, wherein a person tries to launder their own illegally obtained capital (U.S. Department of State, 2013).

## GOOD PRACTICES

- The code developed by the Swedish Anti-Corruption Institute, which is a business organization, promoting preventive

anti-corruption measures (<http://www.institutetmotmutor.se/en/publications/business-code/>).

- An online course where people can test their knowledge about corruption ([http://fxm.se/Utbildning\\_eng/story\\_html5.html](http://fxm.se/Utbildning_eng/story_html5.html)). The course was established by the Swedish Defense and Security Export Agency and it can be used as a form of training for new employees.
- Public access to information is critical to Swedish culture. Information about state and municipal activities are open and accessible to the general public and the media. This plays a key role in ensuring a high level of transparency and therefore is crucial for effective prevention of corruption.
- Low levels of “politization” among public servants and individuals. High standards and expectations for the principles of political neutrality among the public

employees (Dahlstrom & Lapuente, 2008).

- “Punishment” of politicians by not voting again for them, a high number and availability of clean alternative politicians and political parties (Esaiaasson & Munoz, 2014).
- Introducing a general ban on donations from donors whose identity is not known to the party or candidate and extending the scope of that legislation to cover regional and local levels (European Commission,p.10).
- Requiring municipalities and counties to secure a sufficient level of transparency in public contracts with private entrepreneurs. Ensuring the independence of municipal audits reviewing municipal activity and that monitoring of compliance at local governance level is prioritized (European Commission,p.10).
- Ensuring that the liability of legal persons for foreign bribery is enforced in cases

where the offence is committed through lower-level employees, intermediaries, subsidiaries, or third-party agents including non-Swedish nationals. Raising the level of fines for corporations and other legal entities. Consider reviewing the provision of dual criminality **(European Commission,p.10).**

- The perception of culture and norms among employees could be evaluated by means of surveys in which questions are asked about the employees' knowledge of operational rules and policies to combat corruption and irregularities **(National Council for Crime Prevention, 2013,p.36)**
- Training could be carried out about consequences and myths relating to corruption. Training can, for example, be conducted by industry associations in cooperation with police and prosecutors **(National Council for Crime Prevention, 2013,p.77)**

- There is an open exchange of anonymized information regarding potential cases of corruption. Representatives from the respective authorities (The Swedish Work Environment Authority, Swedish Economic Crime Authority, Swedish Social Insurance Agency, Swedish Competition Authority, Migration Agency, Swedish Tax Agency, Swedish Board for Accreditation and Conformity Assessment and The National Agency for Public procurement) meet approximately every 6 weeks to discuss issues and developments **(Lunning, 2016).**

## WHISTLEBLOWING

The laws protecting civil servants regarding the disclosure of information to the media and access to official records are clearly stated in the Freedom of the Press Act and the Freedom of Expression Act. The law also provides that civil servants have the right to

remain anonymous and it may constitute a criminal offence for a representative of an authority to inquire into a subject's identity or for the journalist to reveal it. There is no equivalent protection in the private sector. However, a recent Swedish government official report proposed new legislation to strengthen whistleblowing protection in the private sector for employees working in publically funded activities and services: health, education, and welfare. Furthermore, an independent expert committee of inquiry has been launched to review and propose recommendations to increase protection for employees who blow the whistle on various forms of misconduct, irregularities or offences **(European Commission 2014, p.4).**

It is important that the agency has a supportive attitude towards the person who blows the whistle. Keeping an eye open for irregularities should be encouraged. A person who

has the courage to report their observations should not risk being punished through direct or indirect reprisals from managers or colleagues. This is the management's responsibility.

- “Confront naivety and complacency and create risk awareness discussions regarding the results of a systematic risk analysis. Encourage workplace discussions on ethical dilemmas and setting boundaries. This contributes to an open climate for discussion and has a positive impact on learning” according to the Council on Basic Value.
- Emphasize basic values in the workplace. Set up a platform through introduction, training and regular workplace discussions that reaches all employees at all levels. Then keep the discussions on ethical dilemmas in the organization alive and regularly raise difficult issues to managerial level.

- Review and develop systematic risk analyses and control systems. Work on risk analyses and control systems should be arranged as active cooperation give all parties opportunities to understand and learn. Regularly follow up the results of risk analyses and controls. Discuss the results in the management team. Update and develop policy documents and systems as necessary.
- Annual employee performance reviews. Bring up the risk of irregularities at the annual employee performance review between managers and employees. In areas where there is a clear risk, discussions should address matters concerning possible exposure to inappropriate influence and how this can be dealt with.
- Promote external and internal openness and transparency. Discuss the purpose of openness and transparency, and what

this means in purely practical terms, in training and workplace discussions. Fine tune the functions that form the agency's public face. Show in words and action that management wants openness to also mean an open discussion climate within the agency.

- Inform the employees of their responsibility to react and take action if they observe misconduct and irregularities. Make clear that management welcomes information when an employee observes something inappropriate. Ensure that employees know who they can turn to in the organisation with this information. Protect and support whistle-blowers.
- Train managers to act quickly when signs of inappropriate behaviour come to light. Train managers and supervisors to observe signs of changed behaviour among employees or fellow managers. Require that they regularly initiate

constructive discussions that refer back to the basic values and issues related to the agency.

- Take open and forceful action in the event of exposure. Make the routines for dealing with suspected irregularities known and have measures prepared. It can be useful to conduct exercises for worst-case scenarios. Diffuse the spread of rumours and gossip by being open about past incidents and how they were dealt with.
- Avoid acting in a way that creates a culture of fear of reporting on one another.

(Marcusson & Cloarec, 2014,p.23-24).

## IDENTIFIED GOOD PRACTICES

According to surveys, reports and journal articles conducted both nationally and internationally, Sweden is labelled as a “Corruption-Free” country. Nonetheless, corruption exists, is visible, and can appear

in new forms. Examples of corruption in Sweden do not always involve monetary transactions. Corruption usually comes in the form of favors or assistance. The public does not view corruption as a pressing issue or something that has to be on the country’s main agenda.

Nonetheless, recently Sweden received criticism from the EU Commission for its inability to tackle the issue of foreign bribery. The most well-known case was when the Swedish telecommunications company Telia was involved in a foreign bribery scandal in Uzbekistan. The company attempted to bribe the Uzbekistan political elite in order to enter the market.

Sweden does not have a designated anti-corruption agency, but does have a number of bodies that may collectively be considered to fulfil an equivalent function (National

Council For Crime Prevention, 2013,p.73). The most common sanctions for corruption activities are day-fines, followed by a conditional sentence. In some cases, damages have also been awarded. Only 12% of those convicted of corruption charges receive prison sentences– and for about half of those, the length of imprisonment is at most one year (National Council For Crime Prevention, 2013,p.29-30).

## VI Conclusions

### **General trends and common issues of the Nordic countries**

Nordic countries have emerged over the years as “champions” in the fight against corruption, representing an example to follow for countries struggling for a more transparent, equal, and just society. Moreover, they placed several times at the highest position of the Corruption Perception Index. These remarkable results are due to various factors common amongst all of them, namely, strong social cohesion and a sense of the common good that reduces the need for citizens and public servants to get involved in corrupt practices, openness and transparency as fundamental principles of conduct of public affairs, efficient and equal justice systems, and very thorough laws on asset disclosure of government officials.

Denmark has a long tradition of openness and transparency regarding its Parliament

and Public Service. This, together with a well-informed society characterized by a strong cohesion, sense of common good, and high education levels, makes corruption an almost non-existent issue, as confirmed by its very high ranking in the CPI. The decidedly modest lifestyle of its political elite makes Denmark a remarkable example to follow.

Iceland has taken a very positive turn towards the freedom of press when the International Modern Media Institute was founded in 2011, combining various international laws most friendly to journalists. Therefore, this country represents a safe haven for journalists and whistle-blowers.

Finland is regarded as being very transparent in its governmental, legislative, and administrative procedures, and is characterised by high standards of living, relatively

non-hierarchical societal structures, and little if any politicisation of key civil service positions. In addition, Finland is very committed to international cooperation against corruption.

For several years, Norway has been in the top 5 least corrupt countries, mostly because of its harsh penalties that strongly discourage politicians and public servants from engaging in criminal practices. It is also the only Nordic country that has a clear and explicit law on whistle-blowers' protection, though flawed by some technical irregularities.

Sweden has been always famous for its good practices of transparency and openness in conducting public affairs, and for its citizens' trust in their government. Its laws on freedom of speech and freedom of press put Sweden not just on the frontline regarding whistleblowers' protection, but

also basic human rights. Sweden is also very active in increasing general knowledge on issues of corruption, having produced a series of studies and surveys for public officials and civil servants, and online courses for ordinary citizens.

Despite the merits and achievements of the Nordic countries in the field of anti-corruption, as evident from this study, there are still pressing issues regarding corruption that need to be addressed properly, pertaining to four main areas: lobbying regulation, foreign bribery, protection of whistle-blowers, and the shadow economy. Though of course the performances of the five Nordic countries in these areas differ depending on their specific political and socio-economic context, in the past decade major international institutions such as the OECD, GRECO, EU, and the G7 have repeatedly insisted on increased efforts from Nordic governments

in tackling these issues in accordance with directives and recommendations produced over the years.



The table below presents a summary of the issues and the current state of these four areas by country.

	<b>Denmark</b>	<b>Iceland</b>	<b>Finland</b>	<b>Norway</b>	<b>Sweden</b>
<b>Lobbying</b>	Not regulated: a lobby register has been requested by some professional lobby groups but plans were recently abandoned by the Parliament.	Not regulated.	Not regulated: after GRECO recommendations, working group set up by Parliament in order to prepare ethical guidelines on conflict of interests and lobbying of MPs.	Not regulated: though provisions on trading in influence may be applied to illegal lobbying.	Not regulated: provisions on trading in influence are applicable to illegal lobbying.
<b>Foreign bribery</b>	Absence of consistent prosecutions raised doubts about the capacity of Denmark to pursue foreign bribery cases. Precondition of dual criminality may be a limit.	Recommendations from OECD (Phase 3 Report) to enhance the control of corruption abroad. No initiative has been taken by main institutions in order to raise awareness or train public officials.	Failure of the implementation of 12 out of 19 OECD recommendations to improve the control of foreign bribery. However, zero-tolerance policy on foreign bribery by many Finnish companies and very active on the international cooperation in this area.	Limited efforts in cracking down foreign bribery notwithstanding very tough internal anticorruption laws.	No distinction between bribery of domestic and foreign public officials. Limits due to precondition of dual criminality.

<b>Whistle-blowers protection</b>	<p>No comprehensive whistle-blowers protection framework. Code of conduct for public servants: guidelines for disclosure of non-confidential information.</p> <p>Ministry of Labor (2009): Code of guidance on whistleblowing and freedom of speech for private sector employees.</p>	<p>Due to the International Modern Media Institute, founded in 2011, Iceland is a journalistic safe haven and the institute works effectively as a whistleblowers protection tool.</p> <p>However, no measure for protecting whistle-blowers on foreign bribery cases.</p>	<p>No specific protection for whistle-blowers.</p> <p>After recommendations from OECD, GRECO and TI, a working group on the issue has been set up.</p> <p>The National Audit Office (NAO) can work as a whistleblowing instrument for citizens who want to report irregularities.</p>	<p>Whistleblowing protection regulation under the 2005 Work Environment Act (WEA). Right of the employees to notify irregularities and to receive a compensation if subject of retaliation.</p> <p>Vague language of the regulation and ambiguities in technical aspect may constitute a limit to the effectivity of the law.</p>	<p>Laws protecting civil servants for disclosure of information are clearly laid down in the Freedom of the Press Act and the Freedom of Expression Act. A recent report of from the government has proposed new legislation to strengthen whistleblowing protection in the private sector for employees working in publicly founded activities and a Committee of inquiry on the issue has recently been instituted.</p>
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<b>Shadow economy</b>	12% of the Danish GDP. The construction industry represents 50% of the shadow economy. “Home work” scheme of tax reduction for services usually purchased in the informal sector.	14,4% of Icelandic GDP (2010). No agencies against undeclared work in Iceland.	Grey Economy Information unit instituted in 2011. Labor-intensive sector the most involved in shadow economy.	Around 14% of gross GDP. Presence of mafia-like networks reported.	“Black work” represents 13,2% of Swedish GDP. Presence of “shadow banking” and large shadow economy based on alcohol, prostitution and drugs. Swedish authorities encourage people to reduce drastically the use of cash in their transactions.
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## Good practices from Nordic Countries that might be exported to and implemented in Latvia

Though the “faces” that corrupt practices might assume, and the ways in which the phenomenon can unfold, are closely related to the specific political and socio-economic-cultural context of a country, there are several good practices employed by the Nordic countries that Latvian policymakers could take as example and “import” in order to tackle the most relevant issues of corruption that affect Latvia. This can be done even while acknowledging the fundamental differences between Nordic countries and Latvia regarding history and societal patterns.

Transparency International’s 2015 Corruption Perception Index and the European Union Anti-Corruption report identified

three main areas and institutions of high relevance to corruption: political parties, parliament and legislative processes; public officials and civil servants; the shadow economy and money-laundering. A thorough intervention in these areas following the leading example provided by the Nordic countries might have a significant positive impact on the fight of corruption in Latvia.

**1) Political parties, Parliament and legislative processes.** The Latvian political system is characterized by a large number of small and weak political parties. Their small size and fragmentation makes them highly vulnerable to corruption, especially in the form of illegal or “shadow” party financing and lobbying. Often members of the business community, both domestic and foreign, are the source of shadow lobbying, and in this way influence and distort the legislative process in order to pursue their

interests, undermining the Latvian democratic process. Furthermore, Latvian citizens consider political parties, parliament, and legislature as the institutions most affected by corruption according to the TI 2015 Corruption Perception Index.

The Latvian National Anti-corruption authority, the KNAB, already has the power of legislative initiative and the task of monitoring political party financing. However, as noted by the EU anti-corruption report, the KNAB’s impartiality is put in doubt by the fact that its director is nominated by the government and approved by parliament, the very actors the KNAB is supposed to monitor. Therefore, increased independence of the KNAB from the government by involving other actors such as civil society or labor organization representatives would be a good starting point. In addition, the KNAB should be given powers of prosecution,

based the model of the Norwegian Økokrim. Other pertinent changes could be made regarding asset disclosure of members of parliament. Thorough asset declaration requirements, such as in Sweden, with an emphasis on the employment history of the individual MP, would be effective in exposing eventual conflicts of interest or relevant connections with members of the business community. Furthermore, in order to increase transparency and empower citizens, such asset declaration should be made available online, as in Iceland.

## **2) Public officials and civil servants.**

According to the Corruption Perception Index report on Latvia, public officials and civil servants are considered, along with political parties, most exposed to the risk of corruption, both active and passive. Public officials in Latvia are not only involved in hidden networks that allow them to exploit

their positions to make citizens pay for services they have a right to, they are also easy targets of passive corruption by the citizens themselves in order to avoid, for example, long bureaucratic procedures. This phenomenon has very negative repercussions on the overall equality of the provision of public services.

An effective whistle-blower protection system would be highly beneficial for exposing irregularities in public administration procedures and practices. A comprehensive system for protecting whistle-blowers in Latvia could be implemented based on the system in Norway under the Work Environment Act. Public officials seeking to escape corrupt systems should be guaranteed compensation, either monetary or of another nature, should they face retaliation from their superiors. Such measures would be also effective in the private sector, and it

should be implemented along with an obligation for companies and public administration to define clear whistleblowing procedures.

In addition to a whistle-blowers' protection system, measures should be taken to increase the transparency of public administrative procedures, for example making all documents of public officials accessible by citizens online, as in Denmark and Finland. All these potential measures could be accompanied, following Norway's example, by very harsh penalties for active and passive corruption to discourage people in getting involved in corruption practices.

**3) Shadow economy.** The shadow economy is another pressing problem for Latvia, since it represents around 21.3% of its annual GDP. The consequences of such massive undetected money traffic is very negative for citizens, since all the missed tax

revenues from the shadow economy could be used, for example, to improve public services and infrastructure, or to create more job opportunities.

There are many potential effective measures that Latvia could implement to reduce the size of its shadow economy following the example of the Nordic countries. The first step would be to create an institution similar to the Finnish Grey Economy Information Unit, with the task of publicizing information about the shadow economy and on how to reduce it. This institution could operate with a regular exchange of information with the KNAB, since the shadow economy and corruption are often intertwined.

A second potential measure, in the area of taxation policy, would be to implement a “Home Work Scheme” based on the Danish model. Such a scheme provides tax reduction

to households for expenditures on a specific list of services, encouraging people to purchase those services in the regular market. In the specific case of Latvia, it could be expanded to the construction sector to fight the so-called “envelope wages” phenomenon. Another example of an effective measure, again provided by Denmark, would be advanced announcement of tax authority inspections to companies suspected of tax avoidance. This measure would have the effect of reducing tax evasion without penalties being imposed.

Finally, following the example of Sweden, which has been particularly active in fighting the shadow economy and money-laundering, a simple but drastic reduction of cash payments could be enacted for those services that are thought to be susceptible of tax avoidance and money laundering.

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## VII Appendix

### *Appendix 1*

#### TAX CALCULATIONS

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- A Dutch court orders Takilant Ltd. to forfeit \$135 million, having been found guilty accepting bribes from VimpelCom Ltd. and Telia AB in exchange for wireless frequencies.
- The court also fined Takilant 1.6 million Euros/1.8 million USD on charges of complicity to foreign bribery and forgery.
- The US government is demanding \$550 million as the result of a money laundering scandal revolving around Gulnara Karimova in April

The Dutch prosecutor is still investigating Telia and thus it is doesn't seem possible to find information on any charges or legal actions besides the 1.6 million Euro fine.

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## Appendix 2

### TAX CALCULATIONS IN FINLAND, ACCORDING TO KPMG

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#### Annual income 24 000

Tax rate 14,07%

Net income after tax and socila costs 19 170

#### Annual income 72 000

Tax rate 30%

Net income after tax and socila costs 45 500

#### Annual income 120 000

Tax rate 37,7%

Net income after tax and socila costs 67 508

#### Annual income 36 000

Tax rate 20,8%

Net income after tax and socila costs 26 322

#### Annual income 84 000

Tax rate 32,8%

Net income after tax and socila costs 51 300

#### Annual income 48 000

Tax rate 25,4%

Net income after tax and socila costs 32 900

#### Annual income 90 000

Tax rate 34,8%

Net income after tax and socila costs 56 700

#### Annual income 60 000

Tax rate 28%

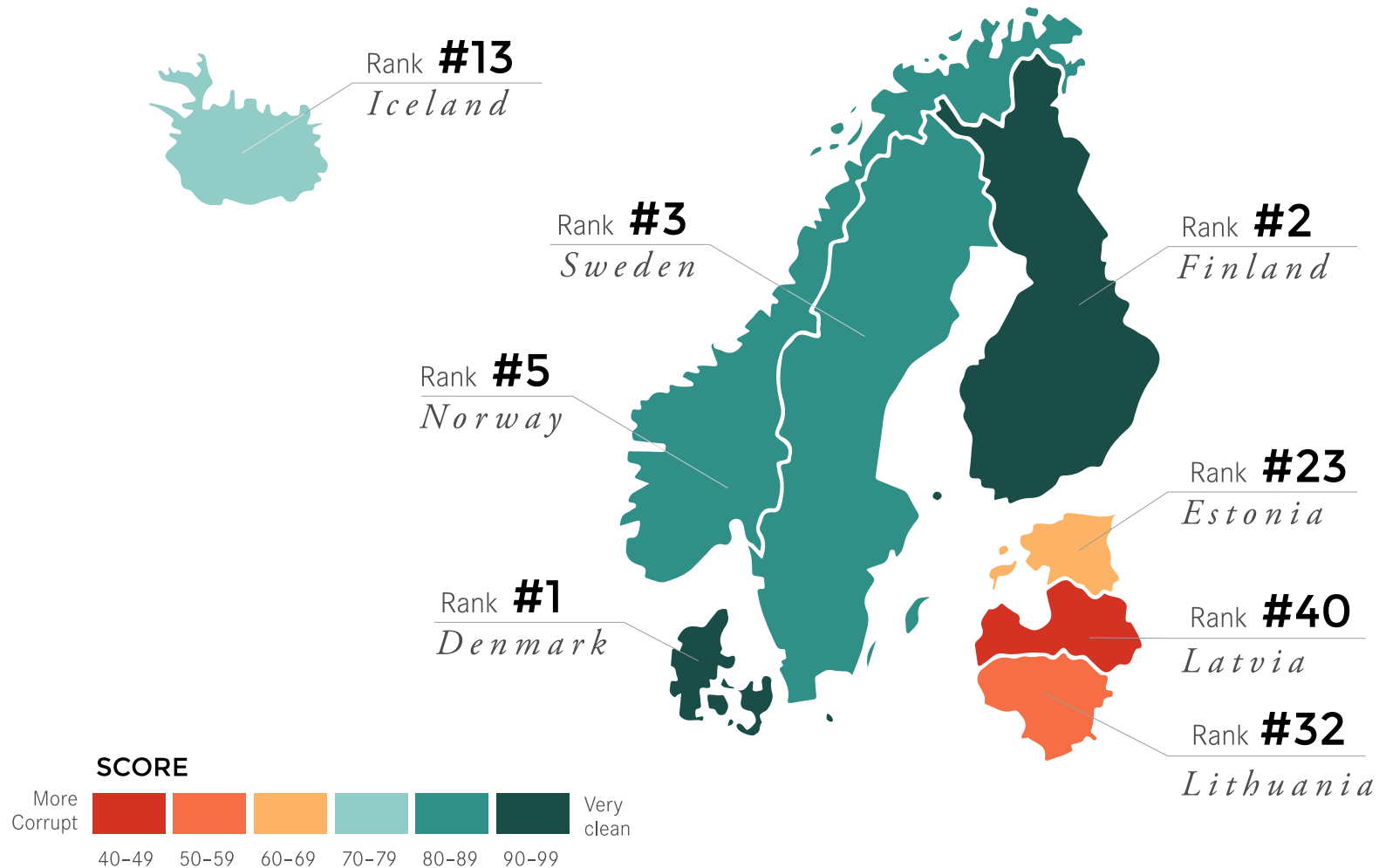
Net income after tax and socila costs 39 200

#### Annual income 108 000

Tax rate 36,3%

Net income after tax and socila costs 62 233

## CORRUPTION PERCEPTION INDEX (2015)



## Appendix 4

### TRUST IN PUBLIC INSTITUTIONS – NORDIC COUNTRIES

	Government	Parliament	Pol. parties	Judicial System
<b>Denmark</b>	46% (2015)	59% (2013)	36% (2013)	83% (2014)
<b>Finland</b>	47% (2015)	60% (2013)	37% (2013)	74% (2014)
<b>Iceland</b>	46% (2015)	31% (2012)	18% (2012)	63% (2014)
<b>Norway</b>	70% (2015)	66% (2012)	42% (2012)	83% (2014)
<b>Sweden</b>	56% (2015)	69% (2013)	40% (2013)	68% (2014)

#### Sources:

2012 – European Social Survey

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