

TAIEX Regional Workshop on Obstacles to Good governance in the Western Balkans: How to Effectively Prevent and Address Corruption in the Private Sector

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- Bulgaria: a history of anticorruption pain
- State capture: defining the risks
- The hidden economy and corruption in SEE
- Corruption and anti-corruption diagnostics in SEE
- Examples:
 - Monitoring anticorruption management
 - Monitoring public procurement

Key SELDI recommendations

Deliver effective prosecution of high-level corruption vs. state capture

- Sentencing of corrupt politicians from the top political echelon provides a strong example for everyone and have proven very effective in strengthening anti-corruption measures in Croatia and Slovenia, etc.

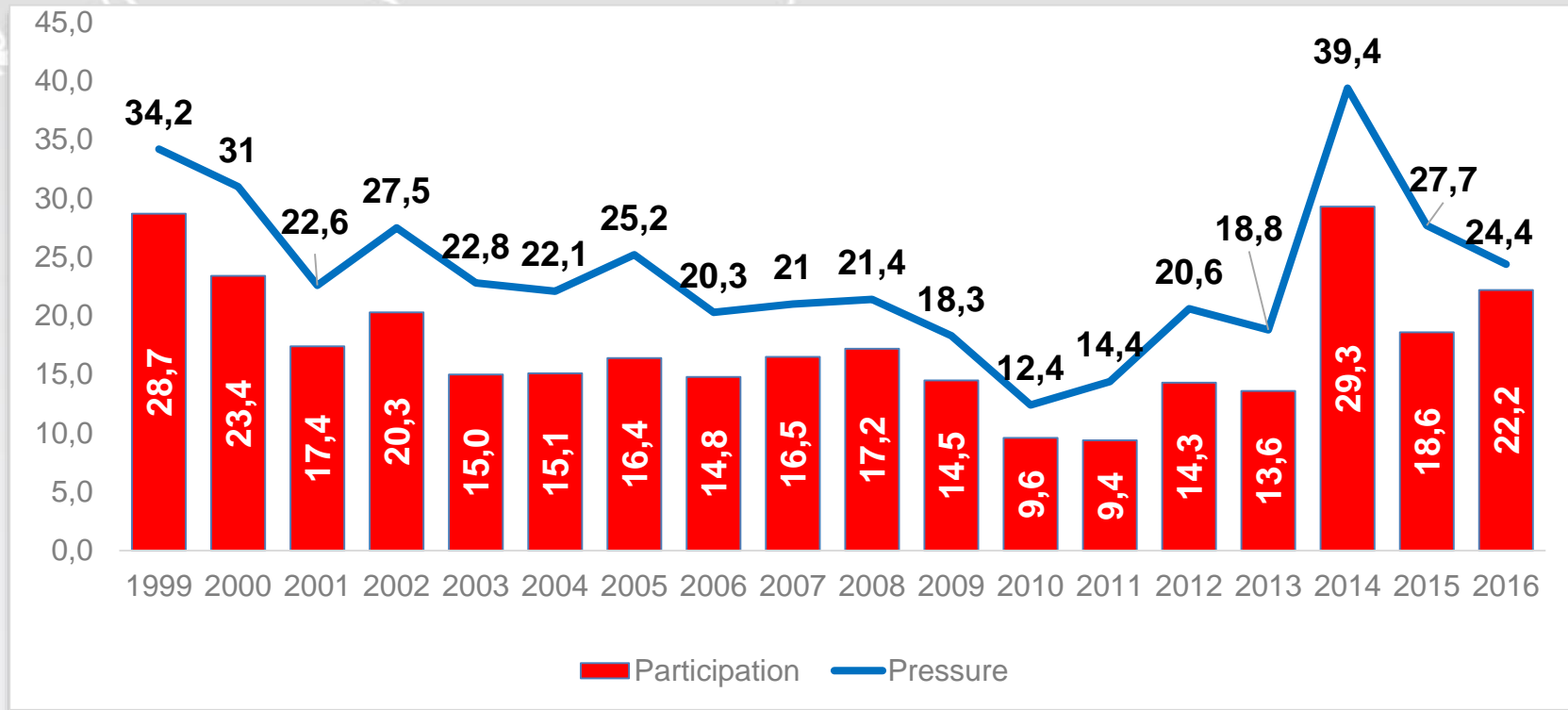
Adopt an independent corruption and anti-corruption monitoring mechanism

- The mechanism should be implemented through national and/or regional civil society network(s), and should be independent of direct national government funding. It should serve as a vehicle for opening up administrative data collection and public access to information.

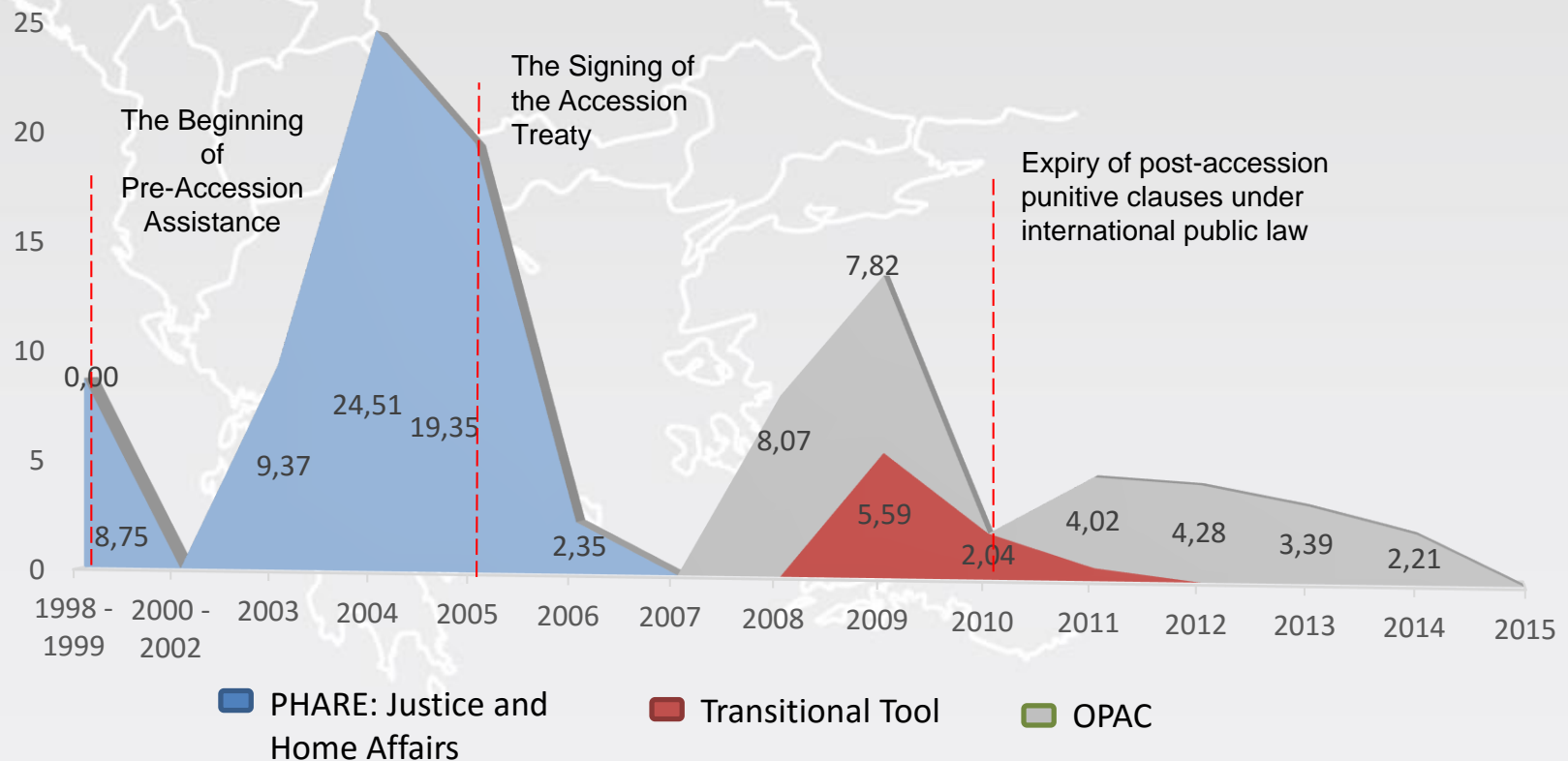
Anti-corruption efforts should be focused on critical sectors

- Energy, public procurement, corporate governance of state owned enterprises, large-scale investment projects.

Administrative corruption in Bulgaria 1999 - 2016



Financial support for anti-corruption activities in Bulgaria



Anecdotal evidence of state capture

- Legislative amendments, which allow concentration of market power
- Public procurement abuses
- The mechanisms of the hidden economy
 - VAT and other tax frauds
 - Smuggling and illegal markets (drugs, prostitution, car thefts, trafficking in human beings, etc.)
 - Violations of customs and tax legislation and large-scale participation in activities prohibited by the law
- Blocking or using law enforcement institutions for private use
- Media capture: hidden property and media control
- Capture of or influence over the judiciary

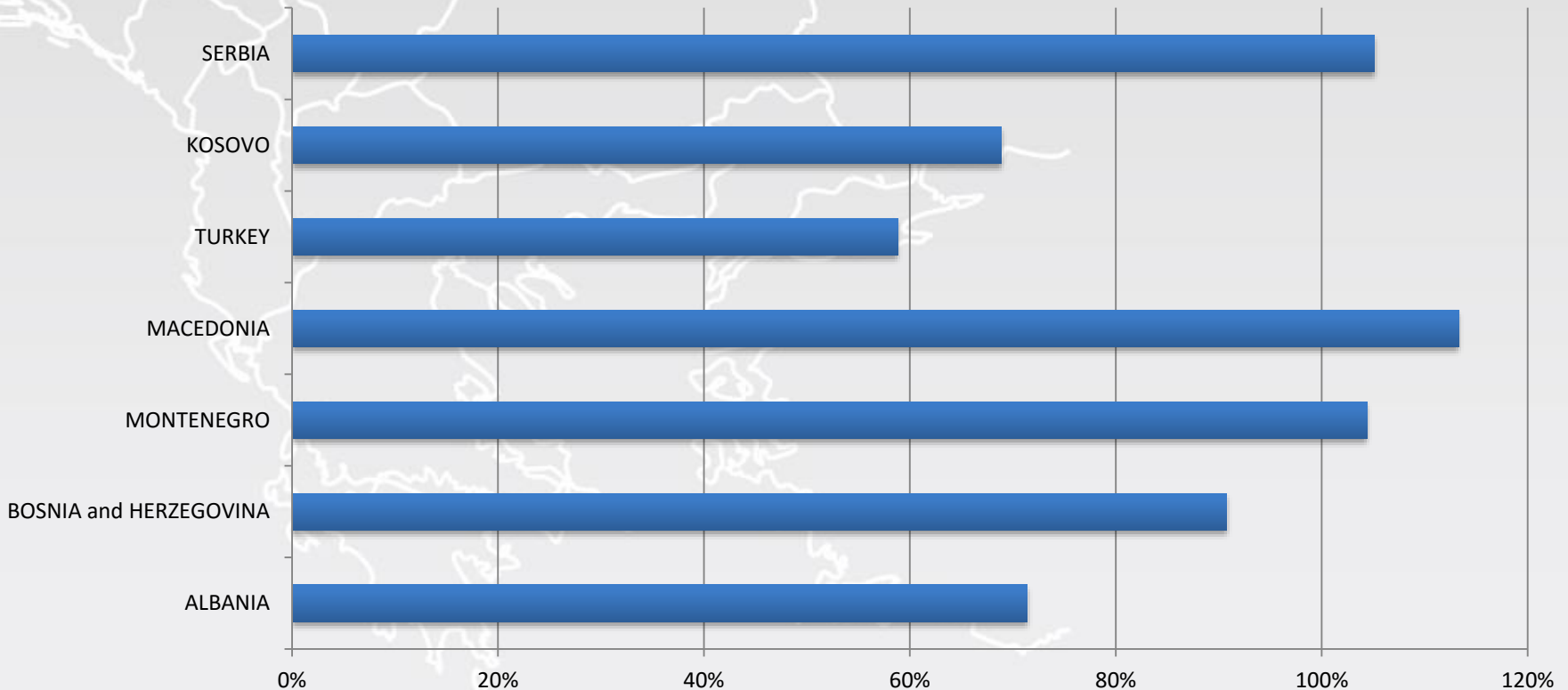
Common sense definitions of state capture

- Monopoly on resources in key (regulated) sectors or guaranteed economic advantage
- (Ab)use of allocation public funds/SOEs, large infrastructure projects, public procurement/
- Privatisation of the state
- Exclusive institutions
- The merging of market and political power in circular manner
- Powerful networks between business and government that privatise public policy

The hidden economy and corruption in SEE

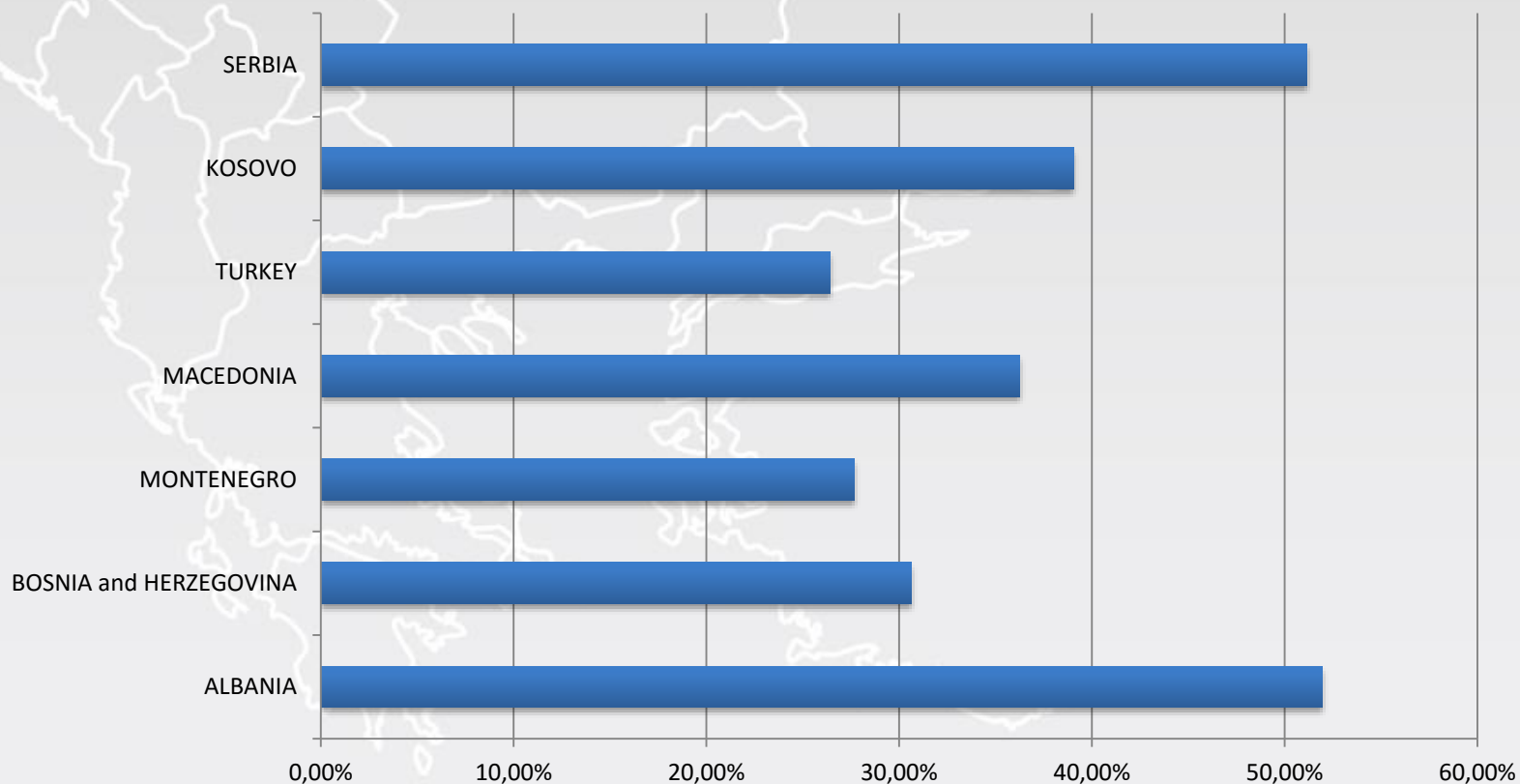
- Institutional asymmetry and non-alignment between formal and informal institutions vs traditional rational cost-benefit optimization models
- Monitoring institutional asymmetry

Openness of SEE countries (trade to GDP)



Mirror statistics

Discrepancies in reported imports vs reported exports by partner countries EU28+SEE



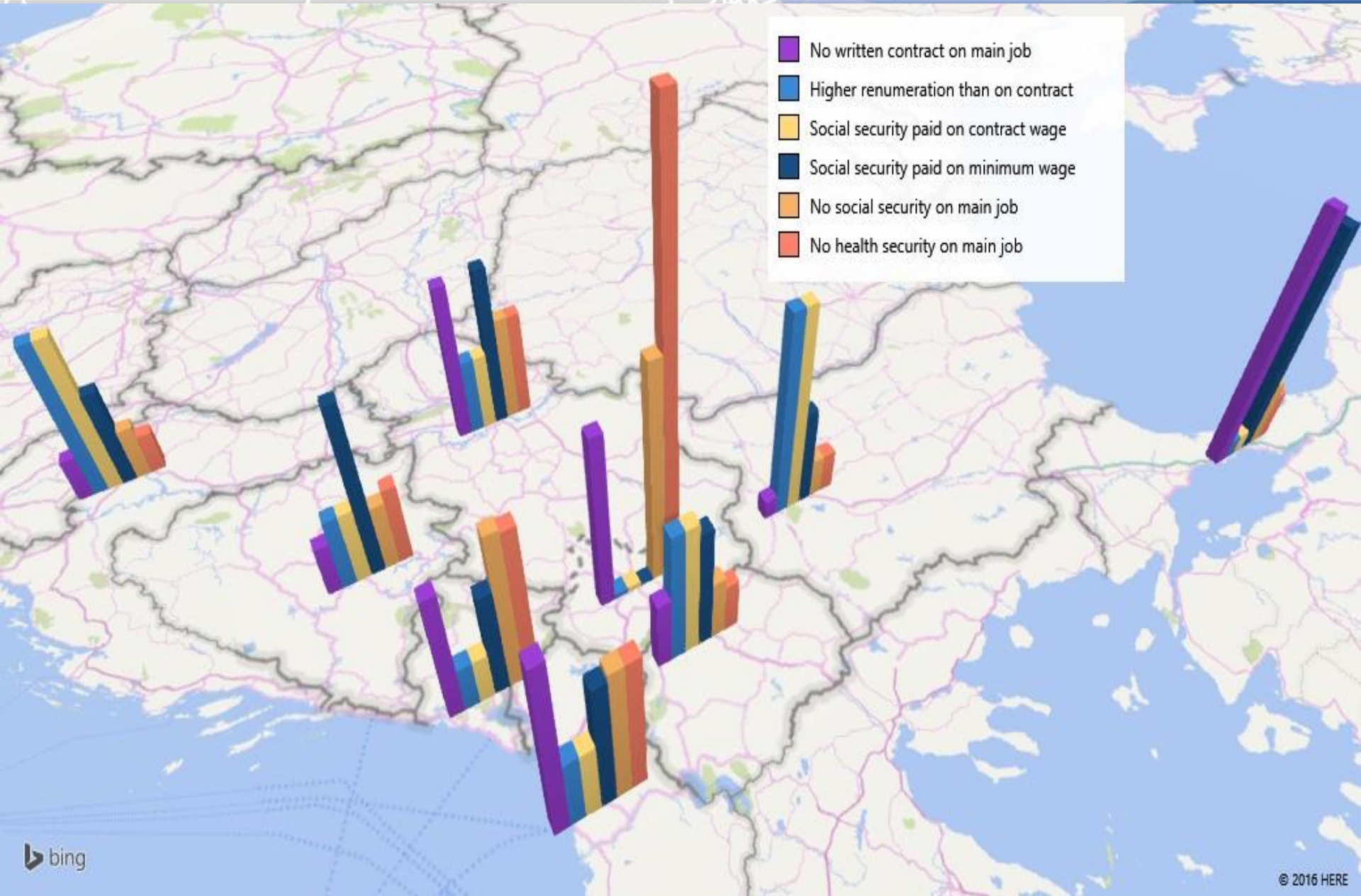
Major trade partner and discrepancy

REPROTING COUNTRY	MAJOR TRADE PARTNER	Discrepancy (%)
ALBANIA	ITALY	-46
BOSNIA and HERZEGOVINA	CROATIA	-26
MONTENEGRO	BOSNIA and HERZEGOVINA	3
MACEDONIA	GERMANY	-28
TURKEY	GERMANY	-22
KOSOVO	GERMANY	85
SERBIA	GERMANY	-20

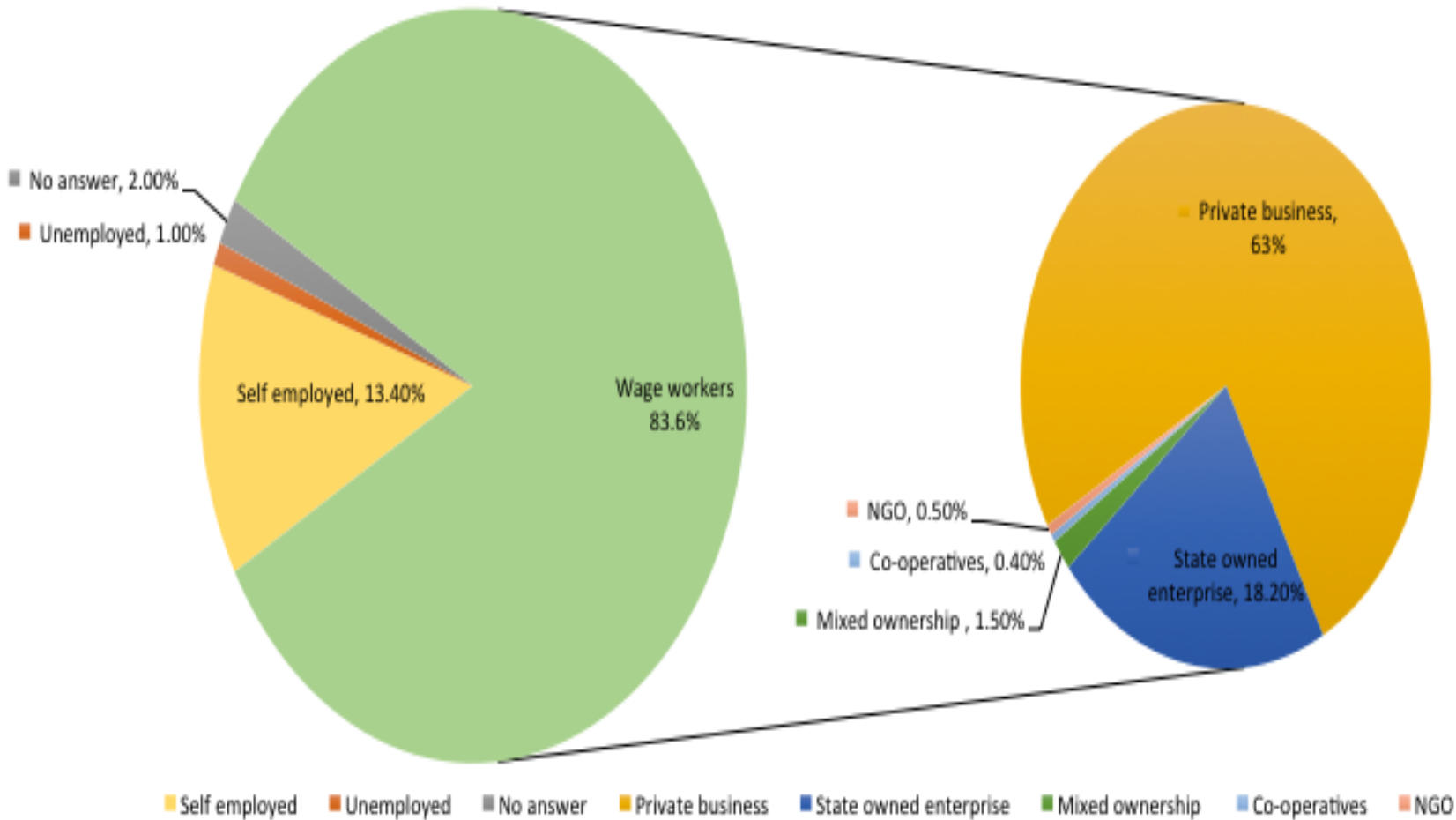
Hidden employment

- No written contract with the employer at the main job;
- The actual remuneration received last month was higher than the one written in the contract with the main employer, but was agreed verbally with him/her;
- There is no social security on the main job;
- The base for the social security paid is at the minimum wage, despite the actual salary is higher;
- The base for the social security paid is the amount written in the contract and not the actual received, which is higher;
- There is no health insurance on the main job

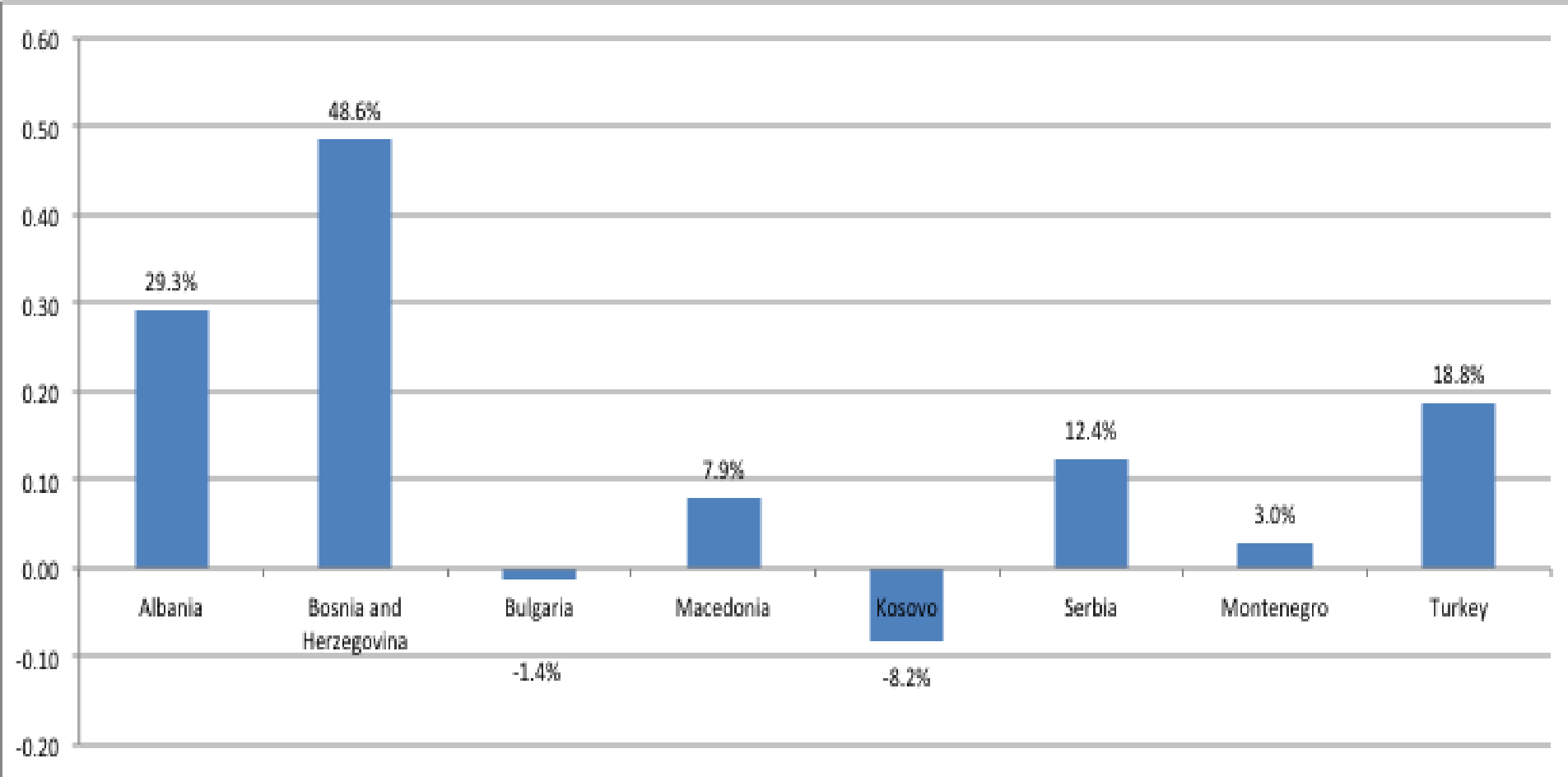
- No written contract on main job
- Higher remuneration than on contract
- Social security paid on contract wage
- Social security paid on minimum wage
- No social security on main job
- No health security on main job



Where Does Hidden Economy Occur?



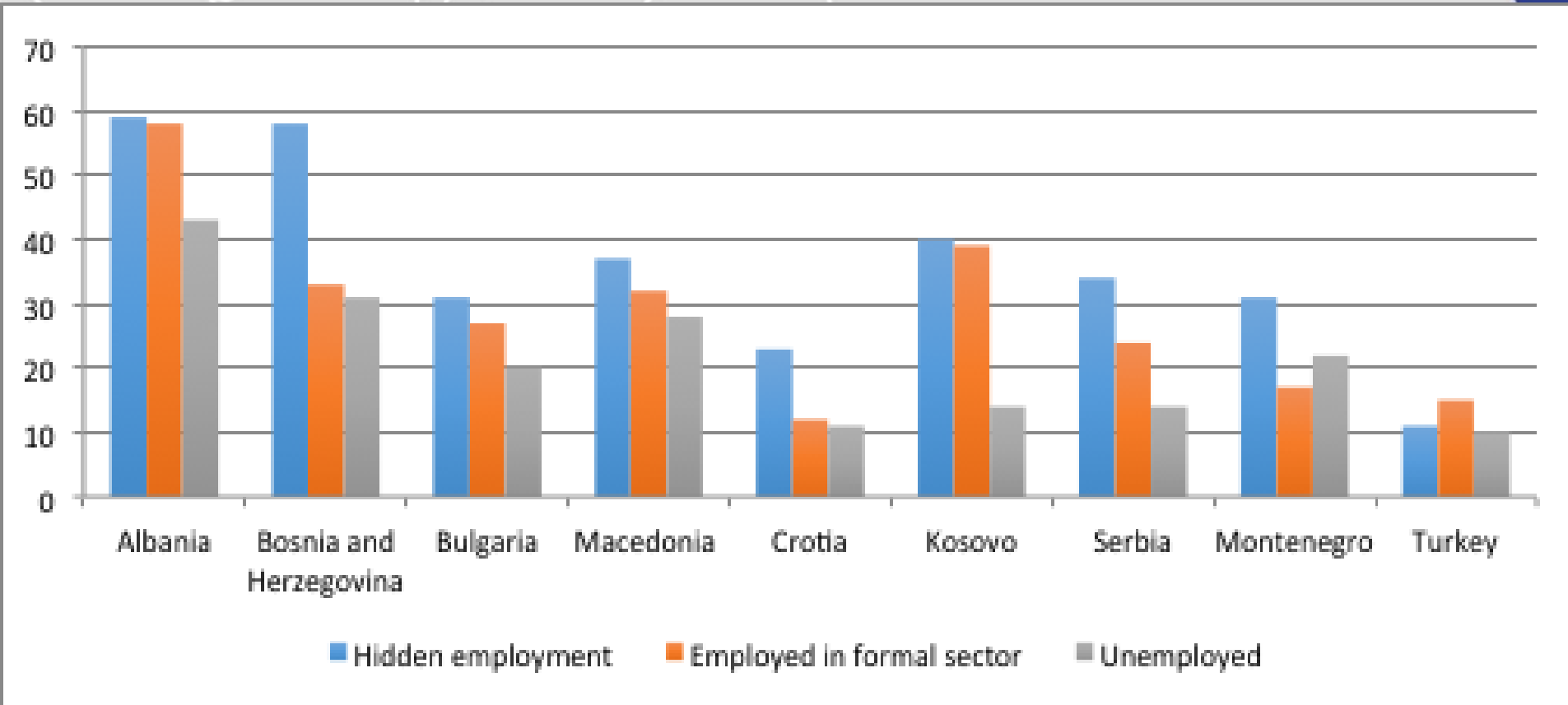
Wage premium of formal vs. hidden economy



Demographics of hidden employment

- slightly younger (2 years on average),
- male (62%) – more than average employed
- work more (longer) at job and at home (and private farm),
- tend to know more people also part of the hidden economy
- are more relaxed (not judgmental) towards morale in society
- subjective feeling of happiness is slightly lower than the country average, but this does not affect subjective positioning of self in hierarchy of the society.
- The only exception is Macedonia, where hidden employment significantly hinders self-esteem in terms of where one sits in the society

People in hidden employment are subject to higher corruption pressure



Hidden economy and corruption: some recommendations

- **Immense differences** also in GDP calculation with respect to hidden economy – between 2 % to 4 % (Turkey and Montenegro) and 31% and 33 % (Albania and Bosnia and Herzegovina) – hence synchronization needed
- Policies tackling the hidden economy should be linked to those **countering corruption and improving law enforcement**, while embedding them all in the overall economic growth strategy of the country. Countries in **SEE need to double their annual average real GDP per capita growth rates at least**, if they are to achieve and sustain lasting governance change.
- Countries in SEE should **cooperate** with each other, especially on **cross-border issues** linked to hidden economy - trade and travel.

SELDI: Regional Anti-corruption Reports

anticorruption
reloaded



Assessment of Southeast Europe

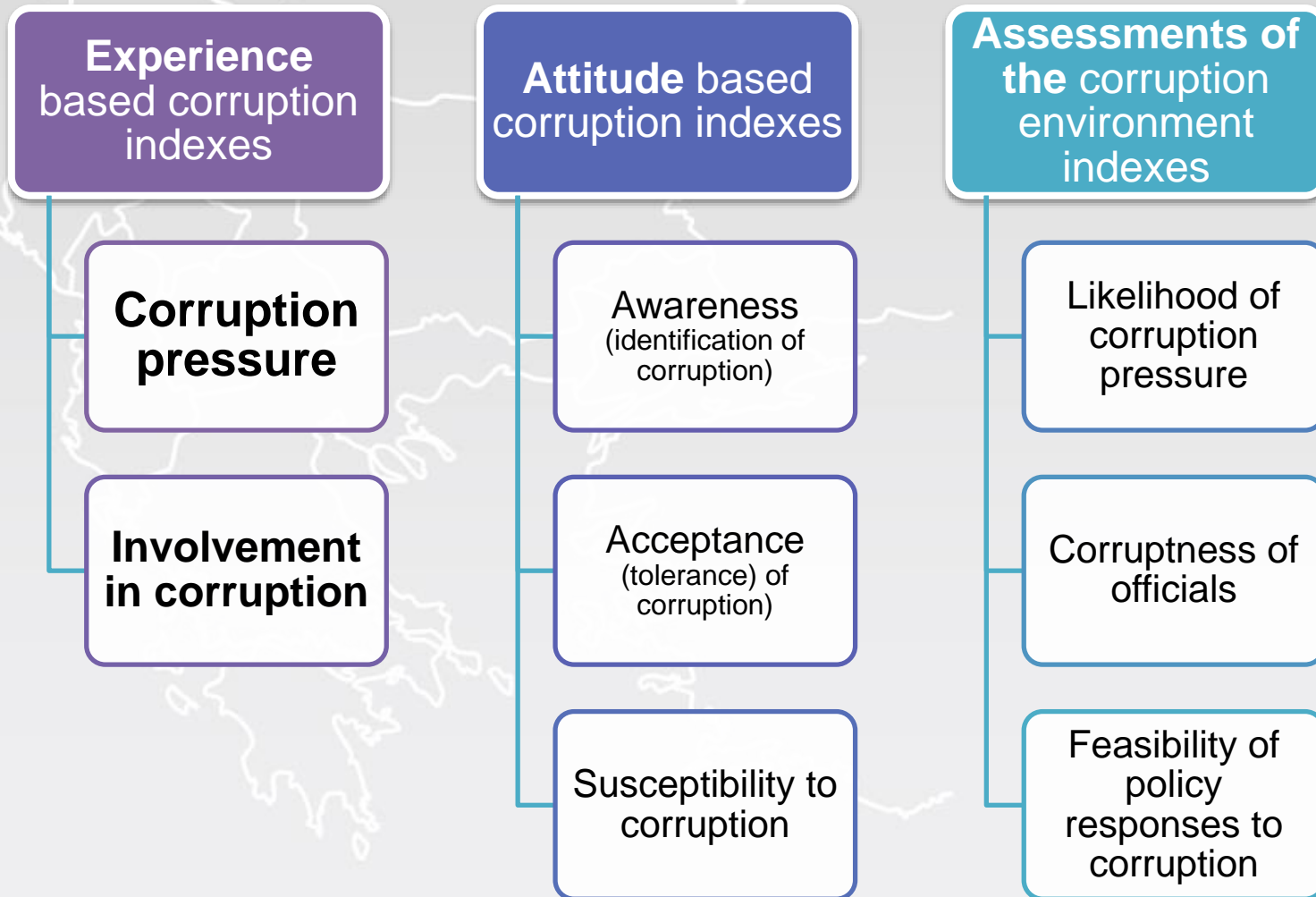
Methodological approaches on monitoring

- Victimisation or perception surveys
- Expert qualitative assessments
- Checklists or algorithms filled in by experts
- Econometric models
- Mixed approaches
- Level of analysis: from macro/societal to level of public organisations to level of key economic sectors

EC Annual Report - Anticorruption

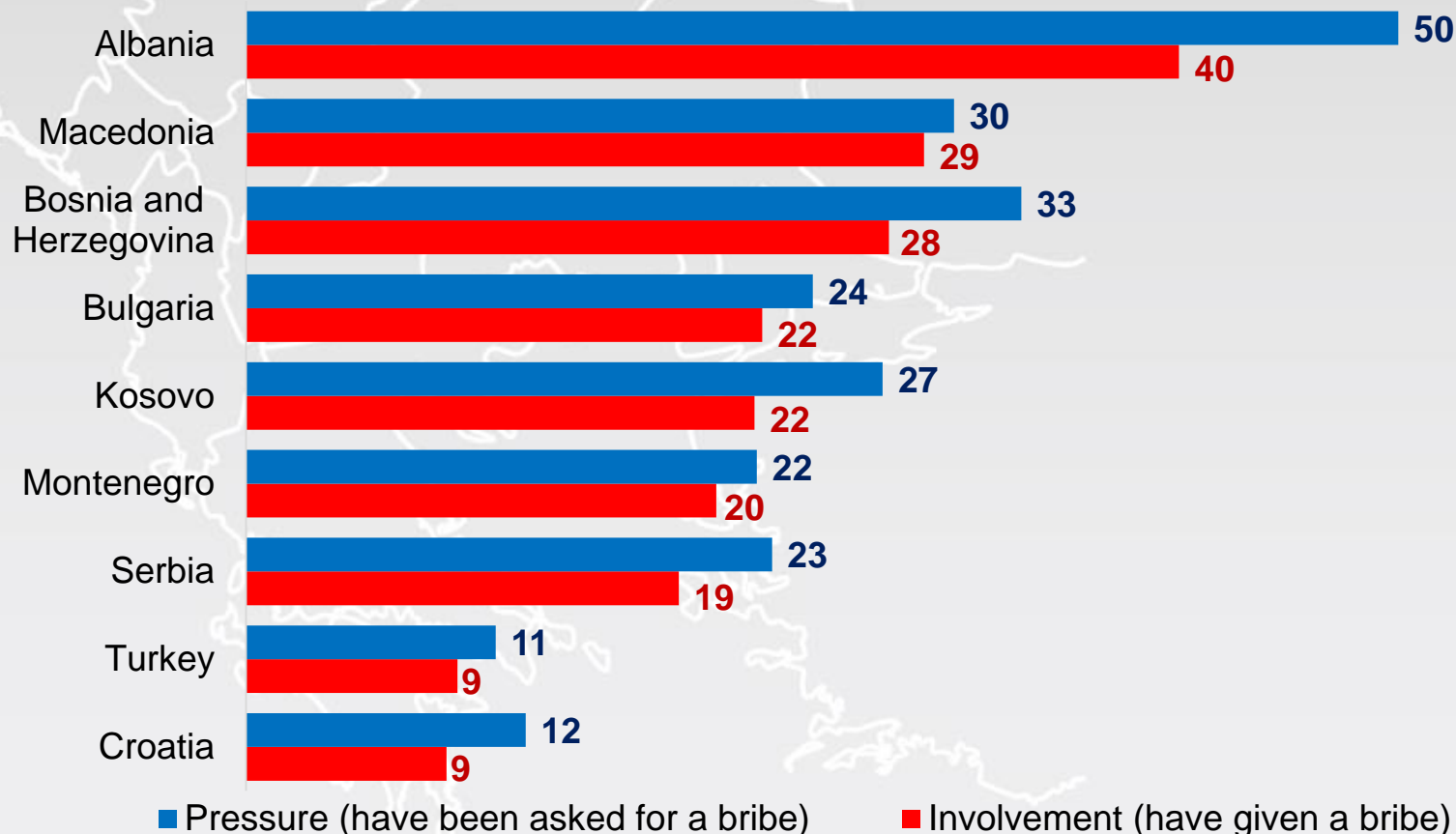
Report Area	Anti-Corruption							
Country	TR	MNE	SER	FYRoM	AL	BiH	KOS	
State of play								
Early stage								Light Green
Some level of preparation	Light Green							
Moderately prepared								
Good level of preparation								
Well advanced								
Progress								
Backsliding					Red			
No progress				Grey				
Some progress	Light Blue					Light Blue		
Good progress								Blue
Very good progress								

Structure of the Corruption Monitoring System



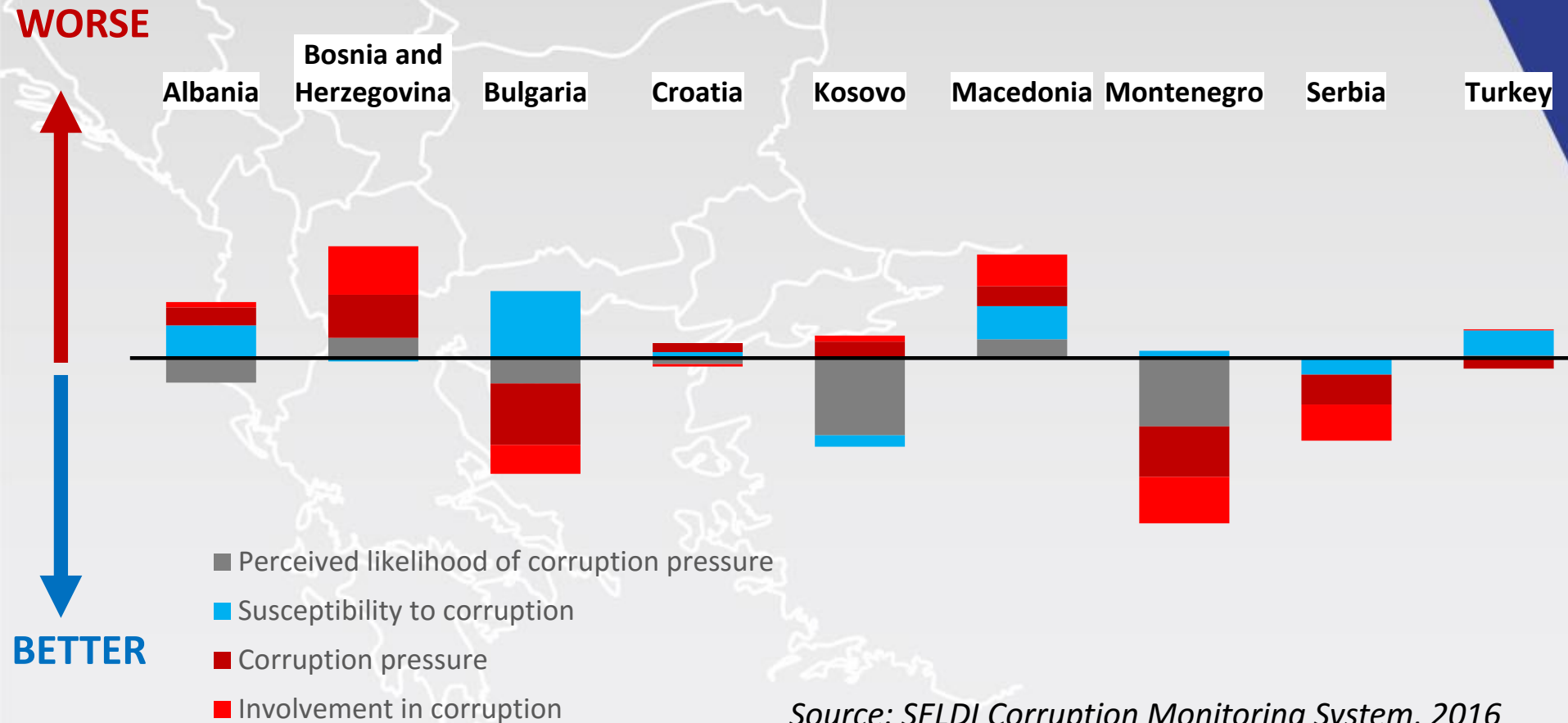
Corruption pressure and involvement in corruption (2016)

% of the population 18+ who have been asked to give and have given a bribe (money favour, gift) in the last year



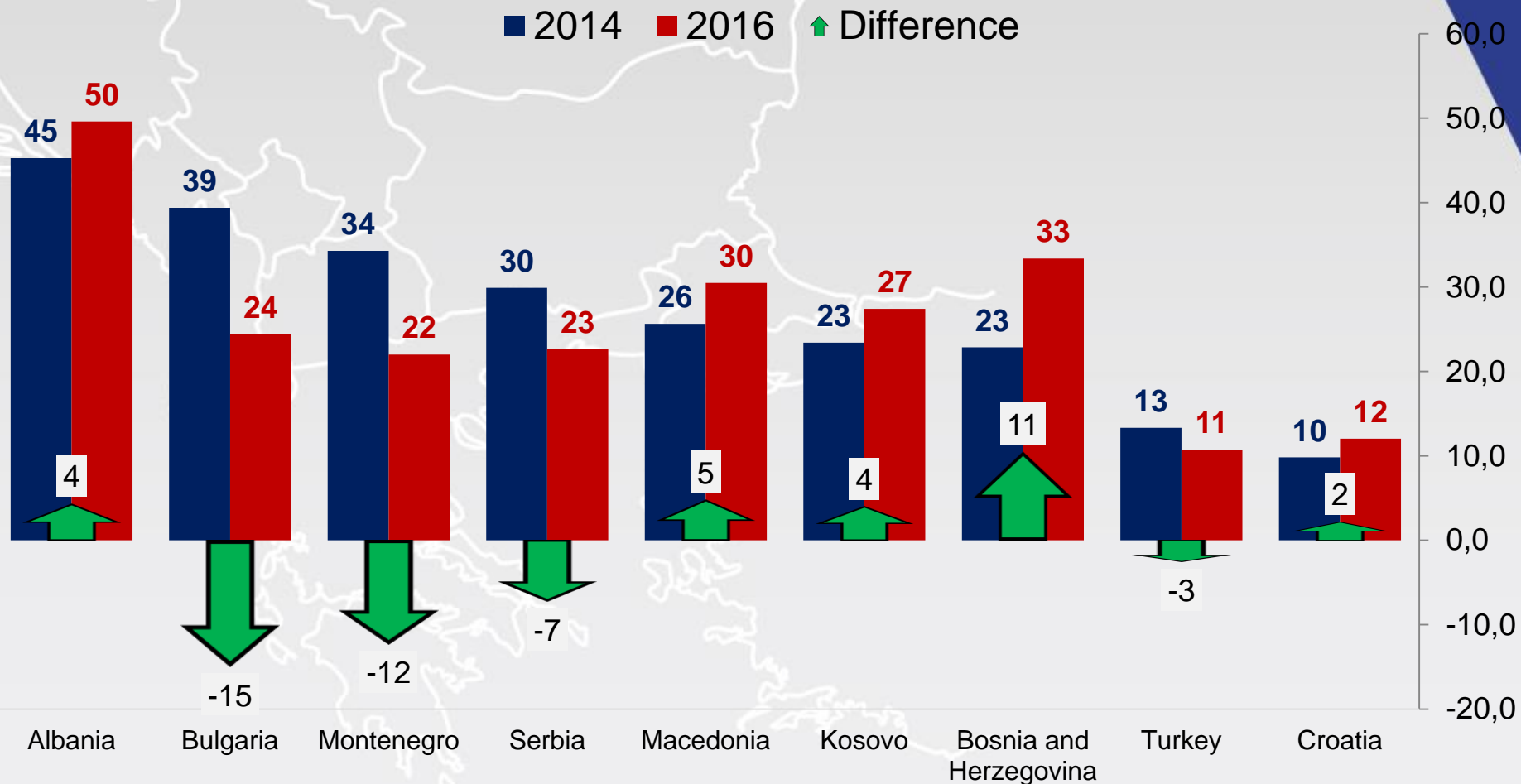
Source: SELDI/CSD Corruption Monitoring System, 2016

Corruption Dynamics: Difference 2016 - 2014, %



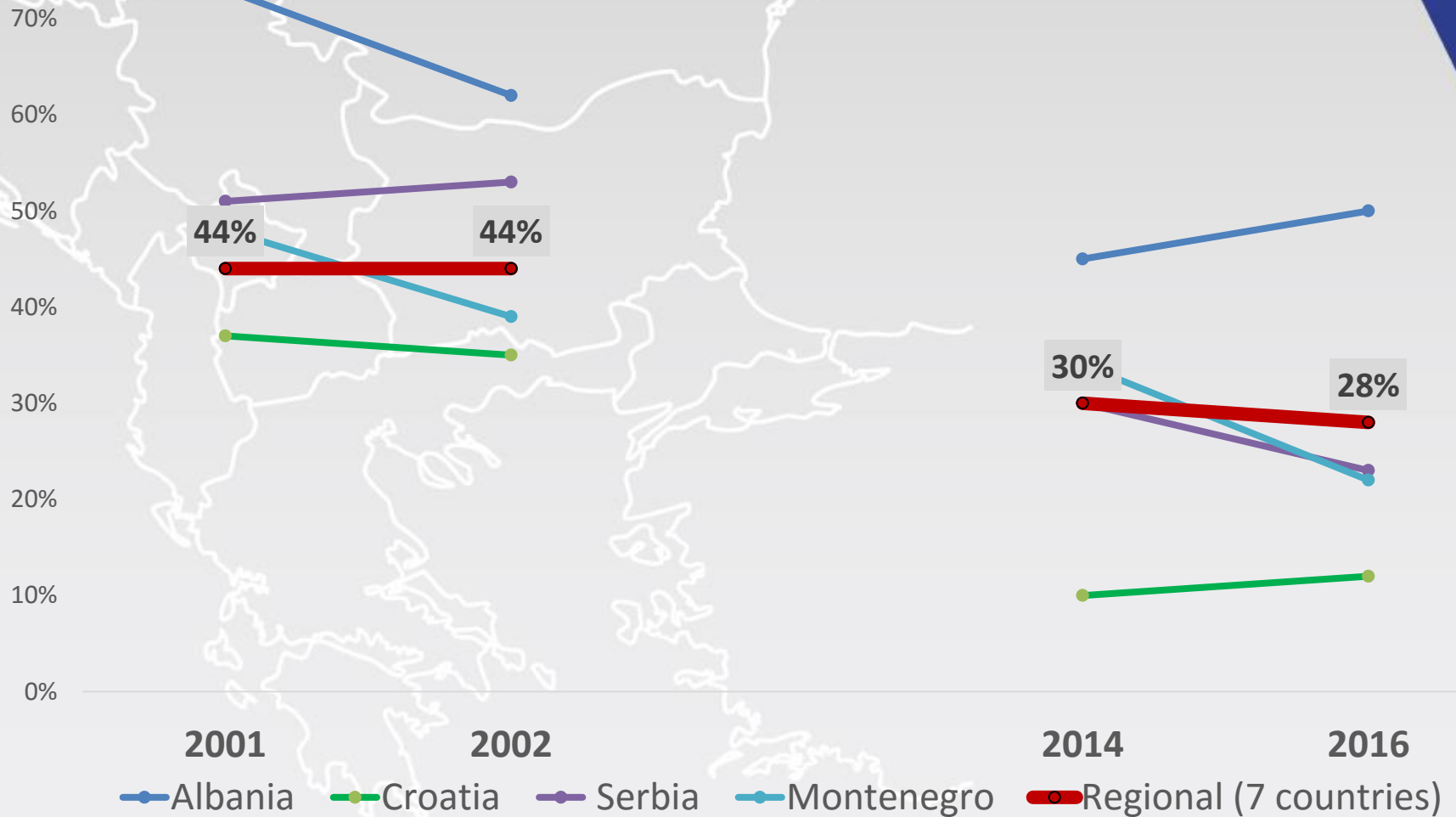
Source: SELDI Corruption Monitoring System, 2016

Corruption pressure, % (2014 and 2016)



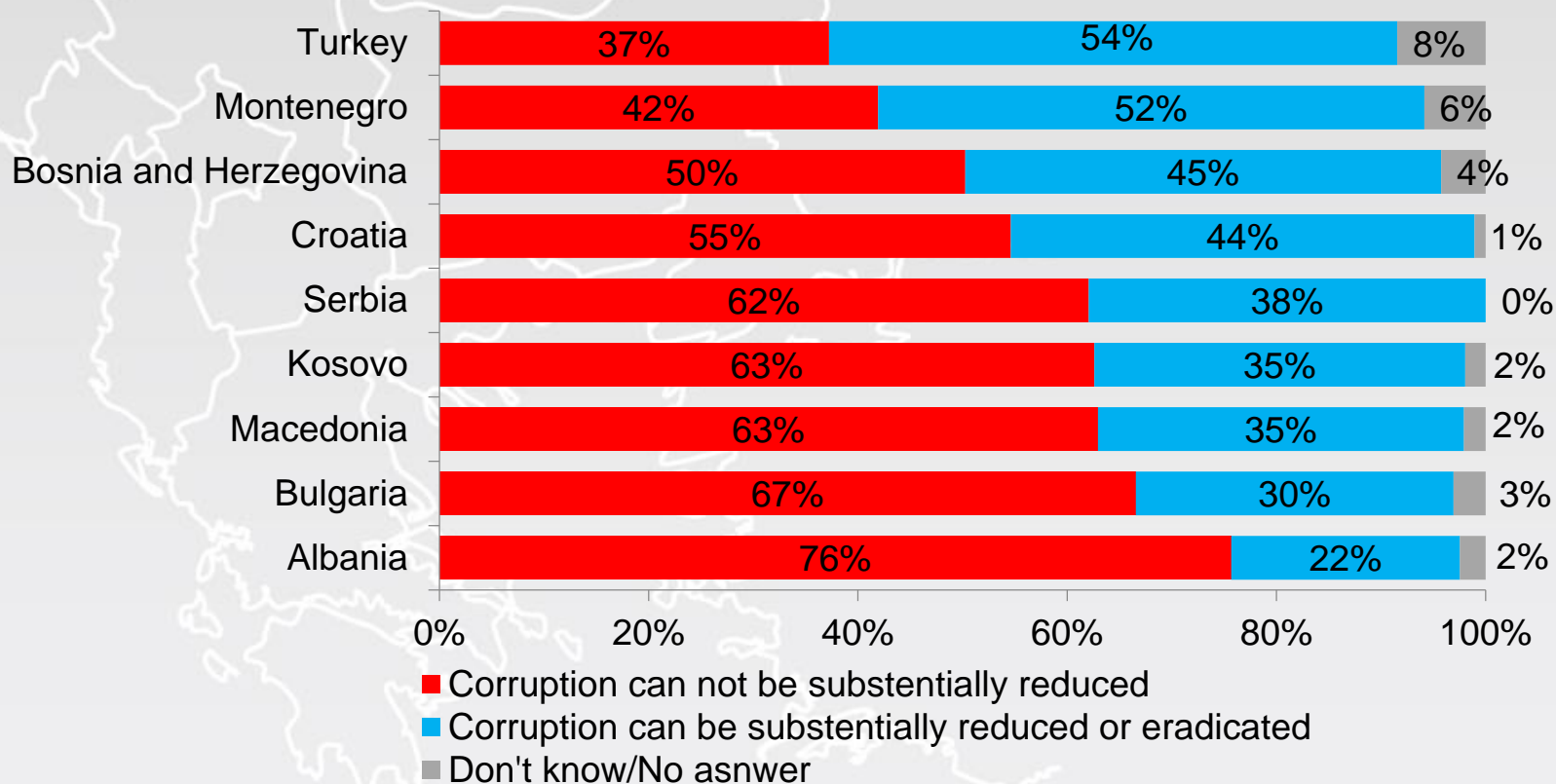
Source: SELDI Corruption Monitoring System, 2016

Corruption Pressure 2001, 2002, 2014, 2016



Feasibility of policy responses to corruption (%)

(% of the population 18+)



Source: SELDI Corruption Monitoring System, 2016

Corruption trends 2001 - 2016

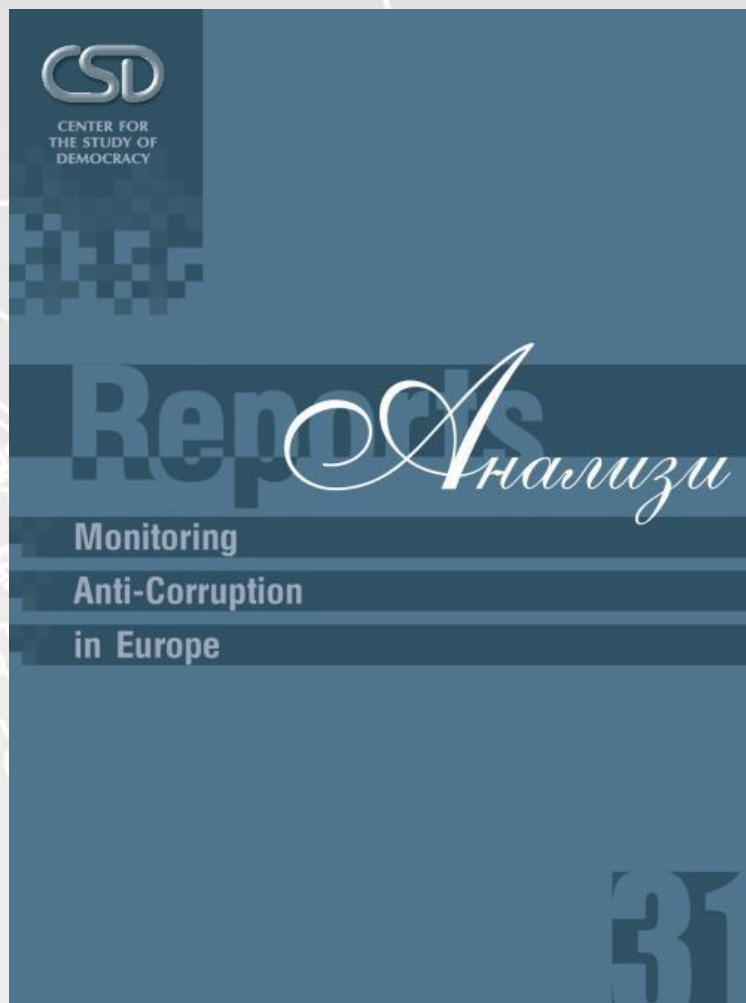
- Some improvement for the SEE region as a whole between 2001/2002 and 2014/2016
- Individual countries seldom show stable improvement over time.
- Decline in corruption pressure is typically followed by another increase with average levels of pressure remaining very high over a period of several years.
- What are the reasons for this pattern?

Rethinking corruption measurement and understanding why anticorruption policies don't work

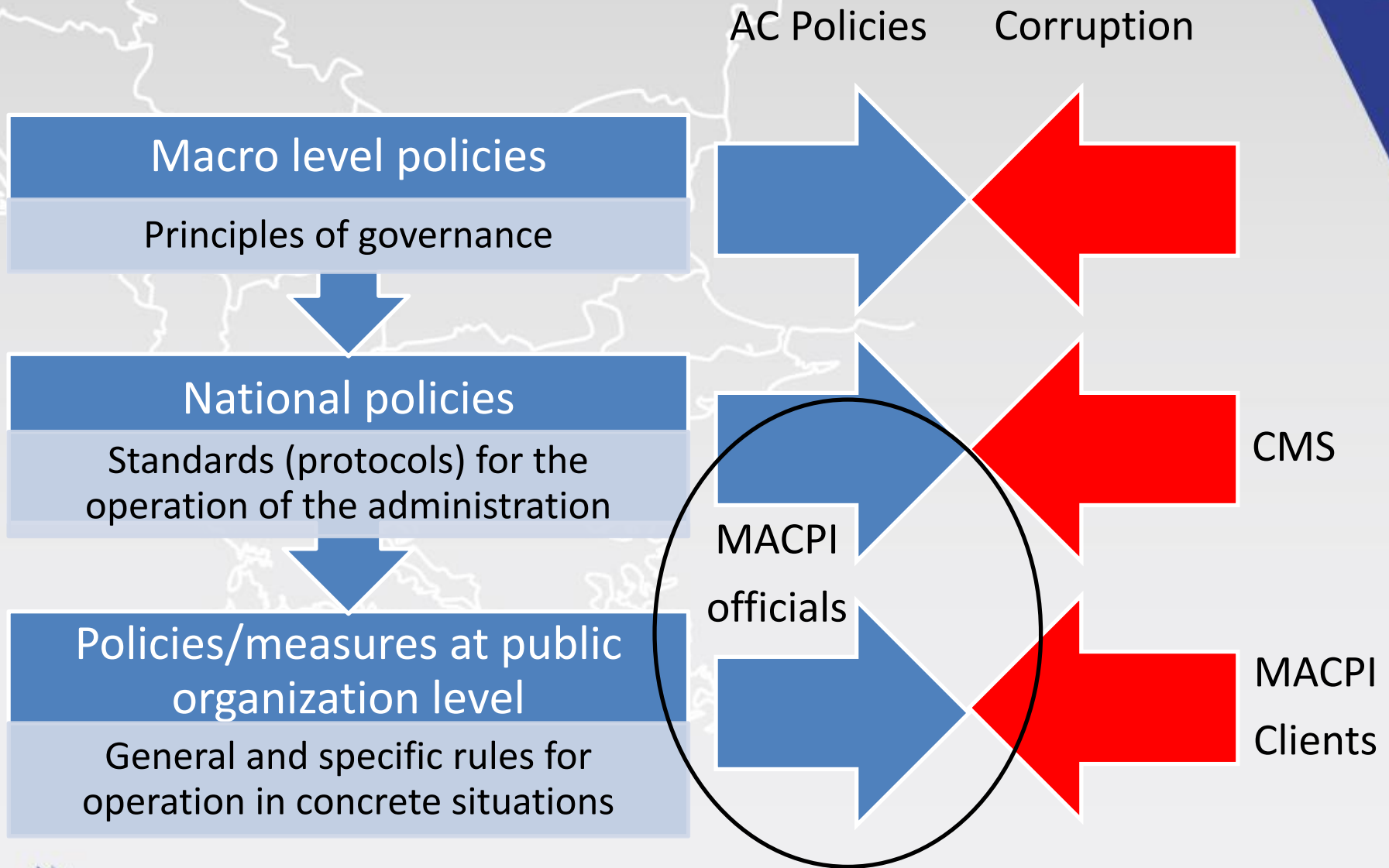
- Corruption decline is very slow in SEE and the reason is not the lack of anti-corruption legislation.
- Assessing, monitoring of AC policies and policy tools is important in order to understand corruption dynamics.
- Deep understanding of national-level AC policies requires studying and monitoring how these policies are implemented at the level of particular public organizations.
- We cannot really understand corruption without understanding the difficulties of anti-corruption in SEE.

Monitoring Anti-Corruption in Europe

Bridging Policy Evaluation and Corruption Measurement



Anticorruption policies and legislation



MACPI indicators and methods

Indicators / Methods	MACPI Desk research	MACPI In-depth interview	MACPI officials /experts	MACPI Clients / CMS
Corruption interest	X	X	X	
Corruption pressure			X	X
Involvement in corruption				X
Corruption attitudes				X
Corruption reputation of sectors/ officials				X
Implementability of AC policies			X	
Implementation of AC policies			X	
Estimated effectiveness of AC policies			X	

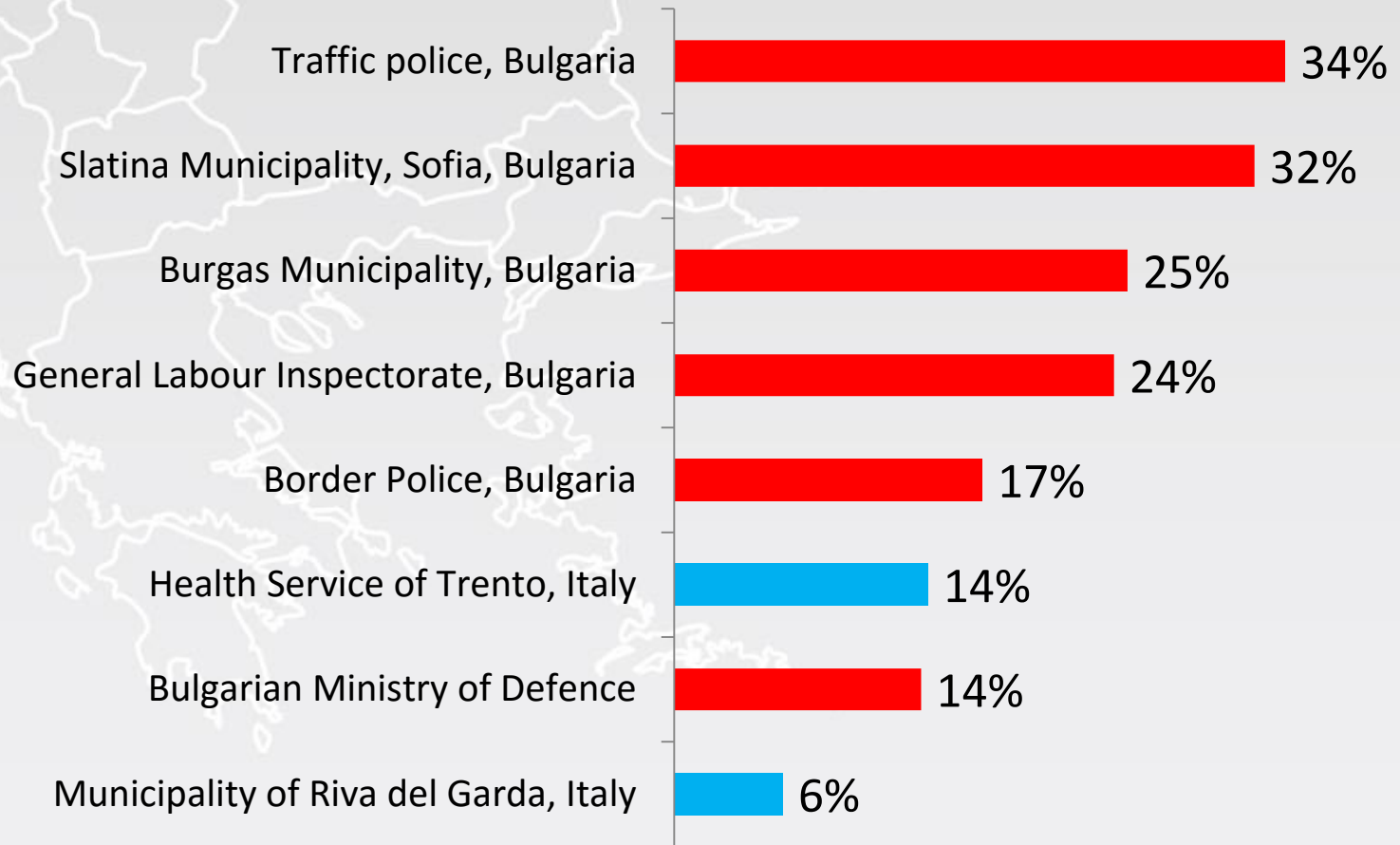
MACPI implementation so far

Public organization	MACPI v1	MACPI v2	MACPI v3	MACPI Clients
Slatina Municipality, Bulgaria	X			
Border Police, Bulgaria	X			
Health Service of Trento, Italy	X			
Municipality of Riva del Garda, Italy	X			
Traffic police, Bulgaria	X			X
Burgas Municipality, Bulgaria		X		
Bulgarian Ministry of Defense		X		
General Labour Inspectorate, Bulgaria			X	

Corruption Pressure, 2015

Bulgarian and Italian Public Organizations

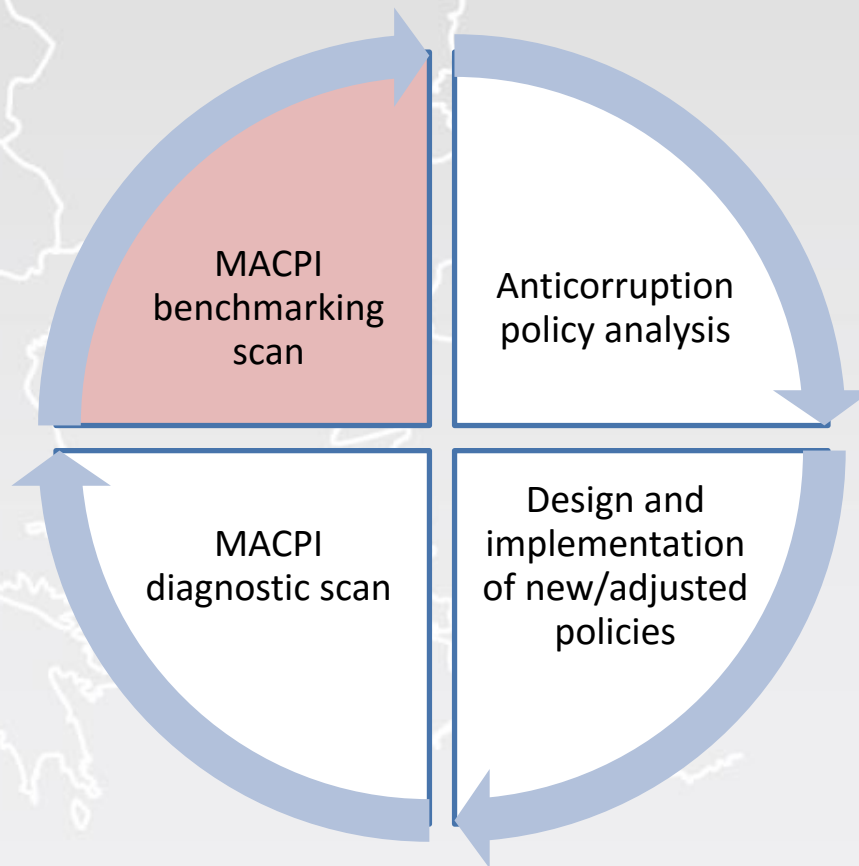
Incidence rates reported by officials



Assessments with MACPI

- First stage – interviews with experts from the assessed public organization; compilation of a list of the activities of and a list of the anti-corruption policies of the organization
- Second stage – an anonymous online survey among employees of the organization (MACPI); random sample;
- Third stage – an anonymous survey among clients of the organization (MACPI Clients)

MACPI implementation cycle





Thank you !

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