

**BACKGROUND DOCUMENT  
ON CORRUPTION IN SOUTHEAST  
EUROPE**

*July 2001*

**Southeast Europe Legal Development Initiative**

ISBN 954-477-096-8

Southeast Europe Legal Development Initiative

All rights reserved.

Center for the Study of Democracy

1 Lazar Stanev str., Sofia

Tel. (+ 359 2) 971 3000, Fax (+ 359 2) 971 2233

[www.seldi.net](http://www.seldi.net)

This paper was developed as part of a project supported by the United States Agency for International Development (USAID). The project was implemented in the framework of the Southeast European Legal Development Initiative (SELDI), an effort launched by the International Development Law Institute (IDLI), an intergovernmental organization, and the Center for the Study of Democracy (CSD), a Bulgarian think tank.

The paper is based on the contributions of a network of partner organizations throughout Southeast Europe. It is intended as a first step - providing general overview of the issues - towards the development of a Regional Corruption Assessment Report for Southeast Europe. The Report will be modeled on the Corruption Assessment Report developed on an annual basis by *Coalition 2000*, a public-private partnership against corruption in Bulgaria.

This paper includes the first ever region-wide diagnostics of the scope and dynamics of corruption in the region. More detailed information about the surveys through which the diagnostics were carried out is published in a separate volume.



## CONTENTS

<b>1. INSTITUTIONAL AND LEGAL ENVIRONMENT FOR CURBING CORRUPTION . .</b>	<b>7</b>
1.1. PUBLIC ADMINISTRATION REFORM AND THE ROLE OF THE STATE - THE LEGISLATIVE FRAMEWORK . . . . .	7
1.2. ESTABLISHING NEW INSTITUTIONS AND OFFICES WITH CONTROLLING AND MONITORING FUNCTIONS AND IMPROVING THE EXISTING ONES . . . . .	12
<b>2. THE JUDICIARY . . . . .</b>	<b>16</b>
2.1. DEVELOPING THE INSTITUTIONAL AND LEGAL BASIS OF THE JUDICIARY . . . . .	16
2.2. IMPROVING CRIMINAL, CIVIL AND ADMINISTRATIVE LAW AND PROCEDURE . . . . .	17
2.3. PROFESSIONAL TRAINING . . . . .	18
2.4. REFORMING COURT ADMINISTRATION . . . . .	19
<b>3. CURBING CORRUPTION IN THE ECONOMY OF SEE COUNTRIES . . . . .</b>	<b>21</b>
<b>4. CIVIL SOCIETY AND THE FIGHT AGAINST CORRUPTION ON THE BALKANS . .</b>	<b>39</b>
4.1. NGO PARTICIPATION IN ANTI-CORRUPTION ACTIVITIES . . . . .	39
4.2. MEDIA AND ANTI-CORRUPTION . . . . .	41
<b>5. INTERNATIONAL COOPERATION . . . . .</b>	<b>43</b>
<b>6. REGIONAL CORRUPTION MONITORING . . . . .</b>	<b>49</b>
6.1. CORRUPTION INDEXES . . . . .	49
6.2. MAIN PROBLEMS FACED BY THE BALKAN COUNTRIES . . . . .	49
6.3. ATTITUDES TOWARDS CORRUPTION . . . . .	50
6.4. INVOLVEMENT IN CORRUPT PRACTICES . . . . .	52
6.5. ASSESSMENTS OF THE SPREAD OF CORRUPTION . . . . .	54
6.6. CORRUPTION EXPECTATIONS . . . . .	60



## **1. INSTITUTIONAL AND LEGAL ENVIRONMENT FOR CURBING CORRUPTION**

### ***1.1. Public Administration Reform and the Role of the State - the Legislative Framework***

As public administration is one of the spheres most vulnerable to corruption, the fundamental goal of the administrative reforms in the Southeast Europe has been to make transparency and accountability an intrinsic feature of the structures of government in order to restrict the risks of abuses of power and allow citizens to have better access to public services.

The present state of the central and local administration corresponds to the transitional nature of the Southeast European countries statehood and the lack of adequate legal and institutional tradition. The inherited and newly acquired flows of red-tape bureaucracy impede the clear-cut differentiation of the public from the private sector and favor the proliferation of corruption in central and local government. On the other hand, lack of professionalism, poor organization, obscure criteria and inadequate division of powers and responsibilities, as well as coordination among the different institutions and official positions hamper reform and lead to the destabilization of government authority. The spheres where corrupt practices are most rampant include licensing, collection of budget revenues (custom duties, taxes), exercise of controlling functions and the imposition of sanctions, public procurement, etc.

Public administration reform, initiated by the reform governments in some countries in the region and/or the non-governmental sector, is designed to establish a modern legal framework of administrative activities and public services. Despite some differences the general purposes of the reform are to incorporate the principle of curbing and preventing corruption through legal mechanisms and appropriate legislative and institutional measures; to facilitate managerial and organizational development and clear-cut regulation of interrelations between government authorities on the one hand, and the private sector and citizens, on the other. Each of these countries has succeeded to a different degree in reaching this goal.

In Serbia, most institutions inherited from the previous regime at all levels were paralyzed and dysfunctional. Because of this, the Serbian fight against corruption has been set as a priority and a number of significant steps have been taken to achieve this goal. Draft

Amendments to the Criminal Code have been proposed in order to introduce more severe punishments for criminal offences linked to bribery and to introduce an institution for the protection of witnesses, thus helping whistleblowers. A Draft Law on Local Government has been produced by a Working Group consisting of governmental and independent experts as well as NGOs.

Despite these positive developments, the Serbian fight against corruption faces serious problems because even if the previous regime's laws are discarded as not useful and undemocratic, they still remain effective until the new ones are adopted by the Parliament. Hence, Serbia faces an urgent need to educate its civil servants at all levels, and to increase the diffusion of knowledge about how to prevent corruption.

In Romania the first steps against corruption were taken in 1998 with the signing of the Protocol of Cooperation by the Ministry of Interior, the Ministry of Justice, the General Prosecutor, the Romanian Intelligence Service, the Romanian External Service, and the Ministry of Finance.

A number of laws were adopted concerning anti-corruption and public administration reform such as Law on Combating Drug Trafficking, Law on Preventing and Countering Money Laundering, Law on Prevention, Finding and Punishing Corruption Deeds, Law on Financial Disclosure. Additional legislative measures were the adoption of the Law on the Statute of Public Servants, defining the general rights and duties of public servants, and the process for selecting, evaluating and promoting them, and the Law on Ministerial Responsibility, defining how the government as a whole and the Ministers individually are held accountable. The Law on Public Purchasing Ordinance established the fundamental principles to guide public procurement: free competition, efficiency of using public funds, transparency and access to information, non-discrimination, and appropriate confidentiality.

In 2000, the Romanian Parliament adopted the Anti Corruption Law, extending the definition of "traditional" corruption crimes to the private sector, increasing the maximum criminal penalties for corruption convictions, establishing new offences relating to economic activities and expanding the access to bank records in anti corruption cases. However the law is criticized for the harsh sanctions provided, which may lead to weak enforcement.



Work has begun to strengthen internal rules to prevent corruption within ministries, including a code of conduct for the Ministry of Justice and for the police.

In Bosnia and Herzegovina, the first attempts at an anti-corruption strategy have been articulated somewhat differently. A comprehensive budget system law was adopted. A Provisional Election Commission has made several changes in the election procedures regarding conflict of interest issues so that elected officials cannot perform any position in state-owned companies as well as regarding the financing of the political parties so that the parties are obliged to submit an application for certification.

Comparatively, in Albania, progress seems even slower since only one law has been approved, the Law on the Status of Civil Service which covers the institutions of both central and local public administration. There is a need not only to improve the existing Law as regards the declarations of public officials' property, which in its current state does not define or allow for verifications of these declarations, but also, the Law for Confiscation of Wealth received by illegal sources must be drafted in order to further impede corruption in the public administration. Moreover, because public procurement is one of the areas mostly affected by corruption, there is a clear need to improve the Law on Public Procurement in order to bring it in line with those of Western countries. This can be done by improving the training of the Public Procurement Agency's staff, establishing a reward system in order to motivate them to work more effectively and limiting the instances in which trained employees leave their place of work after they have been trained. Finally, there is also a need to reform the political party sphere to increase transparency in order to make public the financial sources of parties as well as their expenses.

In Macedonia, not only has the law on Political Parties been enacted so that political parties may not receive funds from foreign sources but also a Law on Public Procurement has been enacted in order for Macedonia to meet international standards regarding procurement such as openness, fair competition, and transparency. This being so, because there are some unclear provisions in the law, which prevent its adequate implementation by the authorities and thus create some opportunities for abuse, the amending of the law is in the procedure. Despite such initiatives, the level of corruption in Macedonia has increased significantly in the last couple of years with public administration being the sphere where the corruption persists the most. To counter this situation, the package of laws on public

administration reform which has been adopted also include the Law on Civil Servants to set up a uniform classification of positions in public administration and same level of salary for same positions.

An Agency for Civil Servants has been established with the objective to bring the legislation aligned with European standards for professionalism and de-politicization of civil servants. Also, in the context of adopting an Anti-Corruption Program to prevent corruption in the public administration and improve the behavior of public officials, 3800 employees from the public sector have been laid off or sent to early pension, some public functions have been transferred into private ones and some government agencies have been transformed into independent institutions.

Despite these positive developments, further improvement should be made mainly regarding the establishment of a Central Register to promote full access to all information and a Code of Conduct for civil servants including rules of anti-corruption should be adopted. Also, even if the Law on Foreign Exchange Operations has been amended to bring it in line with European Union legislation, no law on money laundering prevention has been adopted yet, even if its urgent adoption is essential to remedy the current situation. Unfortunately, the government does not seem to consider this issue as an important one and has been postponing the adoption of the law.

In contrast, in Bulgaria, not only has the passing of the Law on Foreign Exchange considerably liberalized the foreign exchange transactions, but moreover, the Law on Measures against Money Laundering has been amended and supplemented in order to bring the Bulgarian law fully into line with the Directive of the Council of the European Community on prevention of the use of the financial system for money laundering. In addition to this, further developments include, the passing of the Law on State Financial Control, the enforcement of the Law on Civil Servants (although with a major drawback, mainly due to the fact that the circle of persons to which it applies has unduly been restricted), the adoption of the Law on Property Disclosure by Persons Occupying Senior Positions in the State obliging civil servants to declare their property. Furthermore, the passing of the Law on Access to Public Information is expected to provide the legal prerequisites for the transparent functioning of the public administration, even though some difficulties must be acknowledged, mainly due to the fact that the existing registers are

incomplete and contain mistakes, and there are no provisions to ensure general access to them.

Further developments include the adoption of a Code of Tax Procedure aimed at preventing and detecting tax offences and reducing corruption in the tax authorities, the setting up of an Agency for State Receivables and Internal Audit Units, the modification of the Law on Public Procurement, in order to increase transparency in awarding public contracts and faster and more efficient appeal procedures, and the elaboration of the Law on political parties. Last but not least, after a delay of almost 10 years, the Law on Non-Profit Legal Entities became effective in 2001 thus allowing for more openness and control of the operations and finances of the public benefit organizations thereby constituting an important tool in resisting abuse and corruption.

Overall, despite numerous difficulties such as the flawed regulatory framework, the inertia of governmental structures, the conservative mentality of civil servants and the inefficient public support to the reform process, which all have impeded the enforcement of the laws passed in 1999, Bulgaria seems to be the country that has been the most active in its attempt to reform the public administration. Nonetheless, regardless of the formal progress concerning the development of the legislative framework, the sectors most exposed to corrupt practices have not yet been affected tangibly. For example, the efficient implementation of the Law on Administrative Services for Natural and Legal Persons as well as the Law on State Liability for Damages Caused to Citizens has been prevented by the slow pace of public administration reforms and the lack of clarity surrounding them. In addition, the Law on Personal Data Protection and the Law on Official Information has not been passed, and because of this, domestic legislation in force fails to offer protection of those data and information by virtue of the law.

In Croatia, despite recent changes to the Criminal Code in order to meet the country's obligations under a number of international legal anti-corruption instruments e.g. inclusion of the main criminal offences relating to corruption, including active and passive bribery, trade in influence etc. - there are still no special prosecutors for corruption cases, although prosecution exists at the local level for economic crimes.

In the field of public procurement, the 1998 law is based on the UNCITRAL Model Law with decentralized system envisaged. Procurement under international agreements, grant-

funded procurement, defense and emergencies procurement are not covered by the law and there is a public procurement agency.

Regarding the civil service, Croatian law distinguishes between the status of senior government officials who are appointed for a limited duration, and experts who are tenured. There is a draft law, which will regulate on a separate basis the civil service at the local government level. There is no comprehensive training system installed for the Croatian civil service, which could promote anti-corruption standards.

### ***1.2. Establishing New Institutions and Offices with Controlling and Monitoring Functions and Improving the Existing Ones***

The existing public agencies and departments with control and monitoring functions are not always capable of counteracting corrupt practices in a timely and effective manner. These specialized agencies are not themselves immune to corruption. There have been cases of abuse even among officials whose very prerogatives include prevention of the various forms of corruption.

In Bulgaria, during the lifetime of the previous Parliament (1997-2001), there was a Committee to Counter Crime and Corruption set up but was seen as largely ineffective. In the executive, there is a specialized investigative agency with a mandate relevant to the fight against corruption is the Bureau of Financial Intelligence. It was established as part of the measures against money laundering in the country. A new specialized law was adopted in 1998 and penalties were made more severe in the Criminal Code. New liability was introduced for officials (in addition to money "launderers") failing to cooperate with the law, appears as all the more important, along with the improvement of similar existing institutions and the establishment of new ones.

In Bosnia and Herzegovina two units have been established - an Anti-Fraud Unit to assist the authorities to identify illegal activities and to co-ordinate international technical assistance and a Procurement Monitoring Unit concerning the procurement processes in reconstruction. In Romania the amendment of the Anti Corruption Law establishing an independent National Anti-Corruption Advisory Commission reporting to the Prime Minister was eliminated by the Senate in the process of legislative approval but later the law

was amended and a Specialized Section for Combating Corruption and Organized Crime was set up in the General Prosecutor's Office, attached to the Supreme Court. New administrative structures related to the newly adopted laws were also established such as the Money Laundering Office. In Serbia Special Commission fighting against corruption has been formed to investigate the most severe cases of economic crimes in the past decade. The main problem associated with this Commission is that it has no authority to prosecute; its role is limited to cooperation with state bodies. In Albania the Civil Service Commission, which constitutes an independent institution charged with the supervisory responsibility over the management of the civil service, has to be brought to normal functioning in order to ensure that the hiring of the civil service is carried out on the basis of merit and to avoid instances of lack of professionalism, unaccountability and unethical behavior.

In most of the countries special attention is paid to the establishment and functioning of controlling and monitoring institutions outside the judicial system with varying status - either exercising proper control functions (national audit institutions) or having a supervisory and intermediary role without real powers and resources (ombudsman type institutions).

In Croatia, the government is preparing for the establishment of an Office for the Prevention of Corruption and Organized Crime, known under the abbreviation USKOK. This office will have preventive but also intelligence and investigative functions. It will have a multidisciplinary composition including specialized prosecutors, investigators, accountants and other specialists. This Office will coordinate the work of agencies on a national level and will play an important role in the international exchange of information of investigations relating to corruption and organized crime.

Some of the control of the public finances is exercised by the Budget Supervision Office at the Ministry of Finance. The Office monitors usage of budget revenues and expenditures, and advises on regulations effecting public expenditure. Among its current problems are staff shortages. The Office is in close cooperation with the State Audit Office, which has overall responsibility for auditing public accounts analyzing them in less detail than the Budget Supervision Office.

Also in Croatia, a specialised division for special criminal matters was created within the Ministry of the Interior responsible at national level for the use of special investigative methods and for receiving and centralizing relevant information. There is also the Office for

the Prevention of Money Laundering (AMLD) which is an independent body within the Financial Police of the Ministry of Finance to collect and process information and undertake measures for the prevention of money laundering.

In Albania the role of the Supreme Audit Office needs to be strengthened in order to improve the transparency in its auditing procedures, increase its independence in the Constitution, and ensure that most of its recommendations are taken into consideration by the respective institutions that receive them. In Macedonia State Audit Law and a Public Audit Law have been enacted making the State Auditor an independent institution in charge of carrying out financial control. While this institution has not made much progress, the Public Audit, on the other hand, carries out regularly its inspections. In Bulgaria there is still a necessity for enhancing the role of the National Audit Office as a supreme authority with independent external control over the implementation of the budgets approved by the National Assembly and municipal councils

The progress of the Ombudsman Institution in Albania is slower than it should be, its role needs to be improved mainly by designing a specific strategy within the office of the Ombudsman, having him prepare and present reports in order to increase his transparency, improving his relations with other governmental institutions, and especially with the prosecutor's office and finally improving its public image. In Bulgaria a Draft Law on the Ombudsman was developed by a number of NGOs and was introduced to the Parliament by a group of MPs. It puts forward with the idea of setting up of a specialized Ombudsman-type institution to supervise and monitor the work of the public administration. The passing of this later law would make it possible to built up a nation-wide mechanism in order to counteract abuses by the administration, to resist the blurring of the distinction between private and public sphere and to protect the citizens and their rights.

\* \* \*

The review of the process of creating institutional and legal preconditions to counter corruption in Southeast Europe reveals a number of deficiencies and shortcomings.

The lack of sufficient, sustainable legal prerequisites preventing corruption impacts immediately on the functioning of governmental institutions and of the civil society, and render the building up of an anti-corruptive institutional environment virtually impossible.

State institutions still manifest a stronger reflex of defensiveness and self-preservation rather than of developing mechanisms to protect the citizens and the society against the abuse of power. The democratic decentralization of the state has not taken place yet. The issue of the relationship between public administration and the private sector in the economic area remained unsolved.

The process of democratic transformation of the states is continuing but state power still remains extremely centralized. The presence of the state is still too strong with respect to economic and certain regulatory functions - permit and licensing regimes are increasing, state property continues to play an important role in the economy, monopolization retains many of the territories gained, i.e., the chief sources of corruption have not been tangibly limited. No sufficiently effective measures have been taken to create a favorable institutional environment for preventing corruption and fostering anti-corruption attitudes and climate.

Furthermore, the institutions of the states are still weak and ineffective in terms of their protective role regarding the citizens, and the necessary co-ordination between them is lacking. This is true for all three branches of power to a varying degree.

## 2. THE JUDICIARY

The main objective of the judicial reform in Southeast Europe is to improve its effectiveness and reduce the cases of corruption within the system through increasing the degree of independence and stability of the judiciary as well as the level of professionalism and the public confidence in it.

The judicial reform in Southeast European countries started with the active participation of non-governmental organizations and the legal, material and technical assistance of the international community following similar priorities: improving the legal basis of the reform in terms of substantive and procedural laws, education and training of judges, public prosecutors and investigators, the reform of court administration.

### ***2.1. Developing the Institutional and Legal Basis of the Judiciary***

The transition countries from Southeast Europe have recently adopted new legislation establishing the institutional and legal framework for the organization and functioning of the judiciary. However anti-corruption oriented amendments to this legislation are still in process of discussion in most of them.

In some of the countries the reform was based on special strategy documents. In Bosnia and Herzegovina *Judicial Reform Coordination Group* was set up to coordinate the numerous efforts in judicial system reform. A *Judicial System Assessment Program* was established by the United Nations Security Council in 1998 and was mandated to monitor and assess the court system as part of the overall program for legal reform. In Bulgaria *Judicial Reform Initiative* was launched in March 1999 as a joint endeavor of eight non-governmental organizations with the support of separate representatives of the Legislature, the Executive and the Judiciary. Within the framework of the Judicial Reform Initiative a *Program for Judicial Reform* was developed in the period 1999 - 2000. The structure of the Program is based on the priorities agreed and follows the main areas where the legal basis for achieving these priorities needs improvement. The Program is permanently in process of updating and implementing. It also serves as a base for more detailed projects in specific areas.



However the changes made or proposed depend on the current situation in the different countries. The most important ones include measures for strengthening the independence of the judicial system from the political influence of the executive. These changes refer to the status of the magistrates, including the procedures for their appointment, assignment, remuneration, and removal, as a significant prerequisite for their independence.

In Macedonia an independent judiciary budget is still to be introduced, while in Serbia the key problem is considered to be the unresolved problem of jurisdiction between the federal and the republic level. In Bulgaria the Judiciary has its own budget. It is a separate part from the state budget and is determined by the Parliament without the participation of the Executive. A problem still unsolved is the one of the coordination between the Supreme Judicial Council and the Bulgarian Ministry of Justice, which needs to be further developed.

However most of the transition countries in South and East Europe have not established yet a sufficiently independent and efficient judiciary.

Codes of Ethics for the judges have been adopted in Bulgaria and Bosnia and Herzegovina, intended to provide a common framework for conduct for the judges. In both of the countries these codes were prepared and adopted by professional guilds of judges - the Association of Judges in Bulgaria and the Association of Judges in Bosnia and Herzegovina. In Albania a similar Code of Ethics for the judges is in process of designing.

## ***2.2. Improving Criminal, Civil and Administrative Law and Procedure***

Since criminal law is considered to be one of the strongest means for fighting corruption, in all the countries amendments to the criminal legislation have been introduced. They expanded the forms of crimes related to corruption and increased the sanctions provided for their commitment.

Most of the countries have ratified the Criminal Law Convention on Corruption and the Civil Law Convention on Corruption of the Council of Europe (see 4. International Cooperation), but still have not fulfill their obligation under the conventions to introduce legal measures in civil and criminal law that sanction offenses of corruption. Amendments to the laws regulating the criminal procedure have been recently introduced or are still in process of preparation. The changes aim to ensure the transparency of criminal proceedings

and the rapid and non-expensive prosecution and penalizing of the offences. The measures proposed differ in the various countries. In Albania the proposals deal with the system of subpoenaing witnesses and the introduction of sanctions for intentional delays without any legal reason. In Macedonia the amendments focus on the appointment of the Public Prosecutor as well as on the independence of the Prosecutor Deputies. In Romania new provisions were added to the Penal Code concerning under-cover agents and witness protection while a number of other changes are still in process of designing including the establishment of legal and institutional framework for the special investigation techniques and the adoption of specific measures on electronic pursuits, communication intercepting and observation.

*Law enforcement* remains a significant and still unsolved problem. A variety of measures has been undertaken or are to be implemented in order to further improve the law enforcement mechanisms. Most of these measures refer to the laws governing the civil and the administrative procedures. Albania recently adopted the Law on Judicial Police, which is expected to turn into a working enforcement mechanism. In Bulgaria the main problems are considered to be the inadequate procedures for judgments execution as a separate part of the civil procedure and the inconsistency and contradictions in the administrative procedure legislation. In Macedonia the legislation concerning administrative disputes is in amending procedure aimed at ensuring simple, efficient and transparent procedure as a necessity for realization of citizens' rights.

In general, administration of justice in the South and East European countries is still slow, insufficiently effective and almost blocked concerning the imposition of sanctions for corruption related crimes.

### ***2.3. Professional Training***

In all of the countries special attention is paid to the professional training of magistrates. The level of professional skills and qualification of judges, prosecutors and investigators is a key factor for the effectiveness of the judiciary. In the separate countries the training activities are organized in a different way. *The Magistrate Training Center* in Bulgaria, the *Institute for Additional Education of the Employed in the Judiciary System* in Serbia, and the *Center for Continuing Education* in Macedonia are non-governmental organizations, while the *Magistrates School* in Albania was opened by the government. In Romania a *National Institute*

*of Magistrates* was set up and respective legislative measures were undertaken. Some additional training activities for the administrative staff of the judiciary are in process of development in Bulgaria and Macedonia, while Albania pays special attention to reforming and improving the legal education at university level. In Romania police training on special investigation techniques was organized.

Since various training activities have already started in the separate countries from the region there is a necessity of cooperation between the responsible institutions and the initiating organizations. As a result of this cooperation joint actions could be undertaken for training on European law as well as on common problems for the countries such as cross border crime, trafficking, etc.

#### ***2.4. Reforming Court Administration***

Court administration is responsible for facilitating the work of the magistrates. Throughout the process of judicial reform in the Southeast European countries the administrative staff of the judicial system has been unduly neglected. This staff is still organized in accordance with old-fashioned rules and it works in poor conditions, thus warranting the need of further improvement of its organization and operation.

Improvement of the social status of court administration as well as its working conditions also influences the operation of the courts. A significant aspect in this field is the ongoing process of automating the administrative functions in the judicial system. This process should result in developing a single compatible product for the administrative processing of papers received by all the units of the judicial system; implementing a single software application for statistical data gathered at all levels of the system; linking the information systems of the different courts in a single network and connecting that network to other institutions in order to enable the exchange and use of information.

In Croatia, among the main problems identified with respect to the functioning of the judicial system is the slow dispensation of justice. As regards the organizational aspects of the judiciary, despite some recent improvements there is still a gap in the professional training of judges.

\* \* \*

The development of the judicial reform should match to the fullest possible extent the general need for new legal regulation and organizational changes, in line with the new social and economic environment in the countries, and should be aimed at achieving both legal stability and confidence in the judicial system.

### 3. CURBING CORRUPTION IN THE ECONOMY OF SEE COUNTRIES

In modern times the Balkans have been always the least economically developed region of Europe. Even the accelerated industrialization of some of the countries from that region, which ended up in the Soviet block after the end of World War II, did not help overcome the gap between those countries and the more developed Western European states. The investment decisions were not based exclusively on their economic advantages, but were also politically motivated in the context of the rivalry between the two blocks. When eventually the economies of those countries had to face the competition of the world markets, most of their fixed assets turned out to be non-viable. Given the new market conditions, their value was significantly decreased. For those countries, the last decade of the 20<sup>th</sup> century was a period of economic degradation. With the exception of Slovenia, the former socialist countries in the region could not get out of the transition depression and embark on the road of stable economic growth.

The production decrease varied but for at the end of the 90s the GDP of those countries was approximately 70% of its value in 1989. The macroeconomic stabilization turned out to be a great challenge for those countries. The decline in production led to a higher rate of unemployment. The latter one leads to increased social tension due to lowered living standard. The migration of the population towards regions with better economic prospects has been increasing.

Although there has been some improvement in 2000, it is more in terms of stopping the economic degradation than of an actual economic growth. The macroeconomic indicators are not very promising. Lowering the inflation is undoubtedly a success, but the deficit in the trade balance and the current accounts dooms the countries to an increasing foreign debt. The reforms are being hindered by restricted domestic investments, weak presence of foreign capitals in the region, higher rate of unemployment (17% on the average for the 7 countries in transition), and continued political instability in some countries.

The recommendation for fast liberalization and restrictive monetary and credit policy based on the "Washington Consensus"<sup>1</sup> were expected to provide macroeconomic stabilization

---

<sup>1</sup> A set of measures that were recommended to policymakers for achieving stabilization, liberalization and opening of the economy in the first stage of policy reform. Originally in 1990 it was designed for countries in

and thus provide high rates of economic growth. That model relied on automatic and inherent success of the functioning of the market mechanism. However, it was not very successful in Southeast Europe, where economic processes are strongly influenced by non-economic factors. With some delay the countries from Southeast Europe followed the recommendation for liberalization of trade, but the fact is that the goods, services, and labor offered by those countries could hardly reach the markets of the developed world. The transition started in times of political instability, under-developed civil society, and weak or non-existent market economy institutions.

As mentioned, the efforts for economic reconstruction and overcoming the underdevelopment of the region are strongly influenced by non-economic factors. The process of disintegration of former Yugoslavia, ridden with conflicts and violence, maintains the instability and unpredictability of the region. The establishment and consolidation of new states, the issues of national security and minority problems are distracting the attention of governments and social structures from the economic aspects of the reforms. Many of the countries from the region are too engaged in building new political systems, solving constitutional, ethnic, legal and many other problems. Thus, there are little political, legal and institutional conditions for launching a market-oriented economic activity, particularly as the predominant stereotypes of economic development in South-Eastern Europe are ones of a state-dominated economy.

All these conditions appear to be a very fertile ground for corruption and it became one of the striking features of the transformation in the Southeast European countries. The widespread corruption was enhanced by the state collapse, the rotation of elites and the widespread failure to introduce and enforce appropriate legal and cultural norms.<sup>2</sup>

Corruption and theft of public wealth has tremendous consequences for efficiency, distribution and incentives in the economy and also in the political system. It also distorts economic and social policy. The poor results in curbing that phenomenon are putting at risk all the efforts in promoting economic stability and lawful business activities. Therefore fighting corruption in the economies of Southeast European countries became indispensable and crucial element of the reform policy. They differ between themselves

---

Latin America and later recommended to the countries in transition. The list of recommendations treats fiscal discipline, public expenditure priorities, tax reform, financial liberalization, exchange rates, trade liberalization, foreign direct investments, privatization, deregulation, property rights.

and therefore the need of rendering concrete measures is obvious. By now the national-level anti-corruption measures have given varying results. At the same time these countries are facing similar problems, prompting the need of bilateral and regional cooperation and assistance of international structures as well.

The wider the state intervention in the economy and the larger the resources allocated and controlled by bureaucrats on all administrative levels, the wider the possibilities for corruption. The efforts to limit the corruption potential in the economy could be assessed by answering the following questions:

- how has the role of the state as a direct economic agent changed?
- how transparent and clean of corrupt practices are the mechanisms of ownership transformation?
- what happens in the area of post-privatization control?
- what mechanisms have been put in place to manage state-owned property, including holdings of residual shares after divestiture?

\* \* \*

Albania remains the poorest country in Europe. After a long period of isolation it opened up in 1990s and with substantial external assistance a quick transformation into an open economic system took place. However, public institutions and oversight mechanisms could not keep pace. Civil society, including the private sector and the press, were extremely underdeveloped and authority remained highly concentrated. Simultaneously, progress in putting in place institutional restraints in the political system and ensuring judicial independence has been moving ahead, but very slowly.

The geographical position, the level of the education, lack of employment and low economic development favored the illegal and criminal economic activities (trafficking, marihuana cultivation, fuel export during the period of embargo on Yugoslavia, etc.). Political clans and the lack of respect for internal democracy were some of the main features that made possible the spread of corruption in the country. On the other hand, the difference between state structures and political parties was completely wiped out, and

---

<sup>2</sup> Economic Survey of Europe, 2000 No.2/3, Economic Commission for Europe, UN, Geneva, 2000, p. 134.

favoritism, through using the power to ensure profits for the political class or group, representing the government, became dominating.

The transformation of state-owned enterprises into private property gave opportunities for flourishing corruption in Albania. The country made a very rapid early progress in private sector share of GDP to over 50% by the end of 1994 and more than 75%-80% in 2000. During 1999-2000 serious steps were made towards strategic industries privatization. Albanian Mobile Communications Company (one of the most successful state owned enterprises) was sold and now being operated by private hands. The National Commercial Bank was also privatized and has already started its operation under private management.

Businesses are the supply side of the corruption transaction. In this regard businesses are being aware that corruption is a challenge that they must face and that private sector has a role to play in eliminating this disease but business associations in Albania are not at the needed level of development. One can hardly admit that they are real representatives of business interests. The mentality of Albanian businessman has not yet reached the level of understanding that associations may accomplish a lot in improvement business environment in Albania and also counteract corruption.

Customs is one of the institutions most cited for corruption in Albania. Since the Albanian Government started the implementation of an Anti-Corruption Plan in 1998 customs were at the center of the efforts for reducing corruption. Since that time some results are achieved but however there are still gaps to improve the work of customs, particularly as regards regional trade. Cross border corruption is an issue that should be more emphasized nowadays when the environment in the region is for a regional integration in European structures. A practical thing to do in this regard is to start the method of mirror statistics, which matches the statistics of the customs by country, and find the holes in order to point the direction, which should be improved in these institutions.

Corruption became one of the main political issues in Bosnia and Herzegovina approximately at the time of the appearance of the article under the title "Leaders in Bosnia Are Said to Have Stolen Up to 1\$ Billion" in the New York Times in August 1999. Before that, corruption was shaking the economy of Bosnia and Herzegovina, but only after the international community was struck by it, it became a major political issue.



Since then, the speculations started regarding the amount of damage originating from organized crime and corruption. According to the New York Times, from 5.1\$ billion in international aid that arrived to Bosnia and Herzegovina since the end of the war, as much as 1\$ billion has disappeared from public funds or have been stolen from international aid projects through fraud led by national leaders. Besides, it was said that international organizations and embassies have lost up to 20\$ million deposited in a Bosnian bank that bankrupted.

Approximately one year later, the Dutch Ambassador to the UN, Peter Van Walsum, has said that BiH loses 500\$ million dollars a year because of corruption involving high governmental officials. Without these losses, there would be no budget deficit, he stated, while the representatives of the International Monetary Fund cited that around 230\$ million are lost annually, due merely to the black-marketing of cigarettes and that the BiH governments show little interest in regulating the market<sup>3</sup>.

After considerable international pressure made on domestic as well as international officials to fight corruption and organized crime, there were first signs of anti-corruption strategy in Bosnia and Herzegovina.

The Payment Bureaus in Bosnia and Herzegovina were direct descendants of the former socialist Yugoslavian payment system. The Payment Bureaus in the Federation (Zavod za Platni Promet - ZPP) and in the Republic Srpska (the Sluzba za Platni Promet - SPP) exercised monopoly powers over the payments sector and had considerable additional authority. Further, although there was legally only one payment system in the Federation, the Payment Bureaus in the Croat majority areas (ZAP-Zavod za Platni Promet) continued to operate independently as a parallel institution. In addition to their payment system responsibilities, the Payment Bureaus were involved in the collection of financial data; tax collection; treasury operations; accounting services; and the management of the reserve accounts of banks along with the Central Bank of Bosnia and Herzegovina.

With these powers, the Payment Bureaus played a central role in the economy of both entities. Due to the lack of transparency, strong linkage to political parties and their unprecedented power and authority over all economic and financial activities, the Bureaus

---

<sup>3</sup> Republika Srpska annually loses 100\$ million on cigarettes smuggling and another 50\$ on smuggling of beverages and oil. The annual RS budget is approximately \$400 million.

had a serious negative impact on the business and financial sectors. As a result of these restrictive controls, an estimated 50% of the economy operated underground, thus depriving the government of significant revenues. Unquestionably, these institutions exerted a degree of control over the fiscal management decisions of private business that was inconsistent with a free market economy. The strict limits on businesses stifle business independence and flexibility. The role of banks in BiH was marginalized as a result of the Bureaus' dominance in the financial sector. To develop sustained growth in the economy, a vibrant innovative banking system was required.

The Office of the High Representative, the BiH Central Bank (with the Governor appointed by the international community), International Monetary Fund (IMF), the World Bank, USAID and the EU PHARE program made a significant effort in reform of payment systems. Upon the completion of a final study by USAID on the structure, conduct and function of the Bureaus, as well as survey results from both the banking and business sectors, comprehensive strategy for reform of bureaus was conducted in December 2000 and Payment Bureaus were reformed into commercial banks, while the whole payment system were transferred to commercial banks.

The perception of the rule of law in Bosnia and Herzegovina by potential investors is not favorable and certainly has an impact on their investment decisions. Consequently, it is not surprising that in a recent estimation presented in Bosnia and Herzegovina, the World Bank experts stated that after the war, there had been only \$5 million direct foreign investments in BiH per year.

The actual ownership of many enterprises and banks that were slated for privatization was unclear. As a result, potential investors intending to buy assets in Bosnia and Herzegovina did not know whether a former owner might appear and be given the assets that the investor wanted to acquire, which created conditions for abuse and corruption.

The Office of the High Representative believes that investors are now legally protected from such situations. The Amendment issued by the High Representative states that the privatization of enterprises and banks will not prejudice possible restitution claims that may be brought in accordance with the future Entity restitution laws – but only if these restitution laws incorporate the following two conditions: they exclude from restitution in kind those enterprises and banks as well as their land, assets and buildings, which are in the process of

being privatized; and they stipulate that competent authorities will provide fair compensation if there are legitimate restitution claims.

Voucher privatization is being conducted in both entities of Bosnia and Herzegovina. The international community and local authorities have imposed strong regulations demanding high level of transparency in the privatization process. However, major scandals follow this process, especially in very attractive enterprises, such as breweries, oil refineries, etc. The scandals range from public disputes over the real value of such enterprises before the auction to rapid impoverishment of the enterprises by the managers, so they could be cheaply bought.

The registration of private business is still accompanied with the old, pre-war, socialist and very complicated administrative procedure thus creating corruption risks.

An International Advisory Group on Taxation was established in July 2000. Its goal is to address the deficiencies of the advance tax system, move toward medium term sustainability of the public finances and create an environment conducive to private sector development. One of the most urgent objectives is to eliminate all types of double taxation. Longer-term recommendations include broadening the bases of various taxes in order to facilitate reductions of the very high rates currently in force and move towards a value added tax.

In Bulgaria, between 1998 and 2000 the share of state-owned property in the economy decreased substantially. In real terms this would mean that the basis of corruption must have shrunk as by the end of year 2000 75 per cent of the state-owned assets subject to privatization had been divested.

The decrease of the share of state-owned assets does not necessarily mean that opportunities for corruption have substantially decreased. The risk is still there as the state may withdraw from ownership but nevertheless retain certain mechanisms for control of the business. For instance, the state still owns substantial residual shares in partially privatized enterprises and the delay in the sale of residual shares is not at all free of corruption risks. In addition, some public officials are members of the governing bodies of companies with private majority shareholders, which opens the door to undesirable informal links and possibilities to trade in the existing state-owned control.

The process of privatization brings into a hub various political, economic, private and public interests, thus becoming especially vulnerable to corruption. The process itself is regulated

by the Law on Privatization and Transformation of State-Owned and Municipal Enterprises. Although it has undergone numerous modifications since its adoption in 1992, the myriad of amendments and additional regulations in this area have not uprooted the possibilities for corruption. The prevailing public opinion in Bulgaria steadily perceives privatization as an important source of illicit incomes, widely used by politicians and public officials (Table 1).

**Table 1. Perception of the spread of corrupt practices in the business sphere**

	<i>January 2000</i>		<i>October 2000</i>	
	<b>Low spread</b>	<b>High spread</b>	<b>Low spread</b>	<b>High spread</b>
Bribe-taking by public officials and politicians to influence the award of public procurements	11.2%	78.6%	7.1%	82.7%
Bribe-taking by public officials and politicians to ensure the successful outcome of privatization tenders	6.6%	88.5%	5.0%	85.2%
Bribe-taking by public officials and politicians to issue licenses or permits for lawful operations	7.2%	85.6%	10.7%	79.5%
Bribe-taking by public officials and politicians to ensure tax avoidance or evasion	19.9%	68.6%	19.6%	66.4%
Accepting money or gifts in order to perform official duties	19.6%	73.7%	15.2%	75.0%

*Source: Corruption Monitoring System, Business Elite Survey, Coalition 2000*

The first problem in the privatization process is that there are various agencies in charge of it, namely the Privatization Agency and the municipal privatization agencies. This fragments privatization management and makes the entire process more opaque which, in addition to the lack of clear rules and efficient judicial and financial controls, increases the opportunities for corruption.

The second problem is that regardless of any efforts to establish a public-private partnership in pursuit of transparency as recommended by *Coalition 2000*, negotiations with potential buyers still remain the preferred method of privatization even for small enterprises, although the newly appointed government has indicated that it will abolish it. Negotiations with potential buyers take place in the dark and directly invite bribery - they allow for large-scale covert arrangements modifying the official parameters of the privatization deal in question.

The second privatization technique most prone to corruption is the management-employee buyout MEBOs. One third of all privatization deals in 2000 were effected through this technique. The current trend of decreasing the relative share of MEBOs could only be partially regarded as a positive one as this kind of deals is frequently substituted by direct negotiations with potential buyers.

The recommendations of local experts and the international financial institutions for a wider use of tenders, auctions and stock exchange techniques still remain just good wishes. In the best-case scenario, these are just declarations of intentions in official government documents which are not implemented in practice.

The existing system of post-privatization control offers no impediment to corruption. The owners of already privatized enterprises often receive inexplicable discounts from the administration, such as alleviating the investment commitments, reconsidering the clauses for keeping jobs and preserving the business profile, remitting liabilities, abolishing environmental requirements, etc.

The National Audit Office (NAO) is the authority that could exercise external post-privatization control. The existing legislation, however, does not endow the Office with such powers. Moreover, the role of NAO in post-privatization control is mostly confined to crosschecking of the privatization proceeds flowing into the Ministry of Finance. What is actually needed is control of specific privatization deals.

The same approach should apply to the related issue of compliance with *concession contracts* taking into consideration the longer time frame of these deals as well as the lack of experience in this respect. It is logical to expect that with the end of the process of privatization *per se* certain officials may try to use these particular contracts for illegal gains as the other opportunities will have significantly diminished.

At the same time, one should not forget that private businesses are also frequently a source of corruption or at least sometimes they participate in the misuse of public power to the benefit of private parties. There is still strong corruption pressure on the part of the private sector - the persistence of bribery in order to obtain authorizations, import and export

licenses, etc., comes to show that the withdrawal of the state from the economy and the efforts to reduce the bureaucratic procedures, to provide transparency and accountability still fail to yield the expected results. Corruption pressure culminates in the growing number of licensing regimes and in the tax policy currently pursued. Further to these efforts and in the context of a wide public debate involving the business associations as collective intermediaries between businesses and the government, in 2000 a government policy was launched to abolish and alleviate restrictive regimes, in particular, the permit and licensing regimes (according to various sources, nearly 130 such regimes, out of a total of more than 400, have already been abolished). This trend, however, is not steady and irreversible, as parallel to the abolition of some regimes new ones have been introduced.

With regard to taxation policies, efforts were made to establish a partnership in order to initiate a reduction of the tax burden so as to prevent tax evasion and increase tax compliance and make "compromising arrangements" between economic operators and tax inspectors less probable. Nevertheless, no substantial progress has been made so far.

The high level of corruption is not just one of the major factors for the low level of competitiveness of the Bulgarian economy - it also reinforces the perception that the business climate in Bulgaria is not very favorable. A KPMG study on the barriers to foreign investment in Bulgaria in 2000 identified it as the fourth largest obstacle, coming right after the cumbersome bureaucracy, the incoherent and unstable legal system and the limited purchasing power of the population.

In Bulgaria there is little strategic vision or accomplishments in the field of interaction between private business and state institutions. This relationship lacks regulation and transparency, which naturally spurs suspicion of corruption in the interaction between private and public entities. State institutions have not come up yet with clear rules of communication with the public and work with the business community.

There have been some initial efforts to formulate rules and norms of ethical behavior in business and to seek better understanding of the potential of self-regulation as a means of fighting corruption within the private sector itself. The Forum of Bulgarian Business Leaders adopted a Handbook for the Preparation of a Code of Fair Business Practices - a document which should be given wide publicity; all professional and business associations, individual

businesses and other interested parties should be involved in its discussion and follow-up activities.

The assessment of the business environment should also cover the issue of the scope and the strength of the gray economy as a source of corrupt practices. According to experts of *Coalition 2000* its share in the GDP of Bulgaria has been between 32 and 35 per cent over the last few years, which creates a large potential for corruption. In this respect anti-corruption measures should include further work on the implementation of the institutional reform with the goal of moving these activities out of the shade and bringing them to legality.

Corruption is intricately linked with the different forms of illegal import and export activities, which represent a large portion of the gray economy. Moreover, the more corrupt law enforcement bodies are, the greater the scope and size of smuggling. According to experts of *Coalition 2000* over the last few years a constant criminal interaction between smugglers and state officials practically at all levels has been forged in Bulgaria. Elaborate schemes for serving the combined interests of both smugglers and corrupt officials have come into being.

The efforts of the government to contain illegal trafficking and bring the import of certain goods to a legal status in year 2000 (alcohol drinks, detergents, etc.) have had some effect - the illegal import of liquor to Bulgaria is considered to be limited to 25-30 per cent of the total as compared to almost 90 per cent in the year 1998.

The ethnic conflict that burst in early 2001 makes the fight of corruption in Macedonia very problematic. Nevertheless, a number of common issues with the rest of the SEE countries emerge.

According to SELDI surveys, only unemployment and low income are ranking higher than corruption in terms of social significance. Other surveys indicate that only red tape ranked higher than corruption as an obstacle for foreign investments in Macedonia. The wide scope of corruption as a social phenomenon has an extremely negative impact on the whole of social life, development, and the market economy. The assessment of corruption indicates these practices, as an accepted manner for doing business, obtaining some benefits, or to protect some personal interests and property.

Corruption is also identified as strongly linked to smuggling and other kinds of organized crime. The smuggling of weapons, narcotic drugs and other kind of illegal goods by organized crime has increased in the last years. The events in Kosovo, and political instability in Albania few years ago, together with the current insurgency in the country, created an excellent opportunity for smugglers to operate in Macedonia. These events have exposed the country to an increase in trafficking of weapons, narcotic drugs, aliens, cigarettes, coffee and alcohol. The performance of all these illegal activities has large level of criminal interaction between smugglers and civil servants, especially customs officers, police and senior officials. The means obtained from illegal activities later on will be laundered in the country, or more often abroad. The recent events with Albanian rebels in some parts of the country, discovered that enormous amounts of weapons have been smuggled from Kosovo and Albania, in the last few years, as well as their connection with some ethnic Albanian being on high positions.

The expectations are that the privatization of the economy and a large number of private companies (in Macedonia at the moment there are about 120,000 private companies) will create mechanisms to protect private ownership from all kinds of organized crime and corruption. The transition period of the economy from a centralized economy into market, lack of transparency of the privatization process, and lack of legal instruments for prevention, have created various illegal activities, such as smuggling, tax evasion, gray economy organized crime, financial fraud which resulted with obtaining enormous funds by individuals in a short period of time. In spite of expectations, the transition period took longer than it was expected, and during this period the government institutions did not succeed in creating effective rules for the market, and especially in the privatization process by introducing mechanisms to prevent corruption.

The corruption risk is highest in the privatization process, especially in the case of large profitable state owned companies. The process of privatization in Macedonia went faster than in the other countries. The first privatization actually began by the end of 80's and beginning of the 90's, when Macedonia was part of the former Yugoslavia. In that period, a number of the companies went through transformation of ownership, according to so called " Markovic Law". The management and employees have obtained the ownership of enterprises becoming shareholders. Macedonia adopted a new Law on Privatization and Restructuring of the Enterprises with Public Capital in 1993. Since then, the Law was amended and supplemented several times. A special Law for privatization of the state



companies in the agricultural sector was adopted. According to the government program, the largest 25 loss-making enterprises were put in the bankruptcy procedure, or split into smaller enterprises and later privatized. The share of the state ownership was limited in other public enterprises- railways, energy sector, telecommunications, water supply, urban planning, and health system. Although the Privatization Agency is supposed to be an independent institution, the government has direct influence over its work by appointment of the Director and other senior officials in the Agency and its Managing Board. The government has delegated its officials in all managing boards in public enterprises and in joint-stock companies with private majority ownership where the government has partial ownership.

The influence of the state on economy is still strong especially in the post-privatization period. The sale of the largest profitable state companies, such as refineries in no transparent tender procedure has indicated an involvement of the highest government officials, but not one was investigated. The defined criteria and procedure and estimation of the value of company's assets being in privatization process do not apply very often. Number of disputable privatization procedures confirms this abuse.

The completion of the post-privatization process, and changing the structure of the ownership of economic assets should limit the obstacles for abuse of power and reduce opportunities for corruption practices. The private owners will be more interested to protect their ownership from criminal activities, including corruption. However, the rapid post-privatization indicates non-transparency; for example; in the first four months of 2001, 37 joint stock companies with government shares were privatized in procedure seen by the public as non-transparent. The sale of the monopolistic public enterprises, which the government influences through various ways, should remove the barriers for functioning of market mechanisms, fair competition, and give a chance to the government to get rid of the corruption practices.

The power and discretion right of the Ministry of the Economy to bring down a number of licenses and other import-export statements, has been associated with lack of transparency, violence of the procedures and abuse of power. In spite of the reduction of bureaucratic barriers for obtaining various licenses from government institutions, and some progress in removing the obstacles for business, the private sector is still faced with difficulties and non-transparent procedure for obtaining such licenses. The Ministry of Economy has full

competence and discretion to issue a number of regimes/licenses. Several cases of non-transparency in issuing licenses for import of certain goods indicate suspicion for abuse of power of the top officials in the Ministry of Economy. Still, Macedonia has an obligation to further reduce, or abolish number of regimes, under the Stabilization and Association Agreement signed with the EU. This should limit the opportunities for corruption practices and improve the climate for business.

In the framework of tax reform, the new Law on proceeding and collecting of taxes was enacted in March 2001. The objectives of the law are to improve the organization and functioning of the tax administration and to strengthen the authorization of tax inspection in respect to tax control and tax collection. The competent implementation of the Law should decrease the tax evasion, improve the responsibility of tax officials and narrow the opportunities for corruption. Nevertheless, tax evasion in the last years has also increased sharply, especially in the western part of the country - according to some data, the tax collection in this part of the country is extremely low.

At the beginning of 2001, the Personal Income Tax Law, Corporate Profit Tax Law, and Excises Law were amended, as a part of further tax reform. Taxes and excises were reduced for several products, in order to decrease the gray economy. Certain tax and customs allowances were reduced in order to limit the opportunities for abuse of power, during tax and customs deduction procedure.

The main objective of anti-monopoly legislation is to prohibit the coordination activity by competitors, to control the abusive practices by market dominating enterprises. Pursuant to the Competition Law, an Anti-Monopoly Office has been established within the Ministry of Economy, in charge to implement the competition policy. The first results of these practices are positive. However, the further improvement of market conditions should reduce the opportunities for discrimination and abuse of power by the competent authorities.

In Romania, with 1999 economic growth at -3.2%, GDP per capita less than \$1600, average monthly wages of \$95, and the inflation rate projected in the budget for 2001 is 22-24%, the country is in the grip of an economic decline. At the same time, available information on the gray economy, estimated at 50% of official GDP, suggests there are dynamic economic forces operating outside of the rule of law. This leaves considerable potential

revenue untapped by the government and perpetuates the public's low view of the quality of governing institutions.

Analysis of Romanian experts draws the conclusion that it is not the reinvention of business which prompted corruption in post-communist Europe: it is the survival of communist times organization and culture of administration."<sup>4</sup>

The situation in Serbia is marked by the disintegration of the former Yugoslavia which hailed a period marked by a series of wars, long-lasting sanctions imposed by the UN Security Council, EU and the USA, the so-called "outer wall" of sanctions and the NATO bombing. Within the country, things deteriorated with a fall in the real GDP, periods of high inflation which culminated in the hyperinflation crisis of 1993, frequent devaluation of the dinar, an increase in unemployment, a decline in overall living standards with the population's material status being more and more equalized so that it became "equality in poverty", and a widening of the gap between the few who were well-off and the great majority of the ever-poorer citizens. The state institutions became progressively criminalized under the regime of sanctions.

Revitalization of Serbian and Yugoslav economy is tied to the necessary changes in several major fields. Among the most important is privatization as well as the problem of the gray economy and the black market.

In early February 2001 the new Serbian Government agreed on proposals regarding the Law changes and amendments to the Law on ownership transformation. The Serbian Privatization Minister said recently that it was important for the privatization process to be transparent, especially that involving large infrastructure systems such as national oil industries and National Power Grid.

However, transparent is not exactly how the process of privatization could be described, which has been going on for the past decade during the Milosevic regime. The Serbian example represents the case of slow, reversible and discontinuous privatization. It is hard to say that much was done during the 1990s. State property was only partially transformed and

---

<sup>4</sup> See further Alina Mungiu-Pippidi, *For an Institutional Approach to Post Communist Corruption, Analysis and Policy proposal Based on a Survey of Three Central European States*, 2001.

that was done in a completely non-transparent way. A good illustration is the fact that in 1998 only 5% of all private enterprises recorded 47% of the profit. This means not only that private sector worked more efficiently, but also that it was a direct consequence of the invisible process of "privatization" of the state and so-called "social" property. Cases of ministers simultaneously acting as managers of the biggest state firms are to be investigated in the months to come.

The informal/gray sector is thought to have been small in Yugoslavia during the 1980s when social guarantees were high and unemployment was relatively low. During the 1990s, the combined effect of low salaries among those employed, high unemployment, and impediments to normal trade during sanctions created both a need and opportunity for informal sector activity. It is estimated that 20-30% of the population became involved in petty trades and services or small-scale agriculture (around 10%).

Assessments of the gray economy in FRY indicate that GDP was considerably higher than that recorded by official statistics - in 1991 31.6% higher, in 1993 54.4%, in 1995 40.8%, and in 1997 34.5%. In other words, the contribution of the gray economy in those economic activities which play a part in creating GDP (registered and unregistered) - in 1991, it amounted to 24%, in 1993 35.2%, in 1995 29%, and in 1997 25.7%. The greatest relative importance of the gray economy was at the time of hyperinflation in 1993 when it was greater than half the registered social product (54.4%) and more than one third of the total income activity (35.2%). There are estimations that gray economy makes up to 70% of total economic activity, but given its partial illegality cannot be registered.

On the other hand, large-scale trade, particularly in scarce goods subject to sanctions, created a nepotistic class of the newly affluent. The number of firms permitted to trade grew smaller and were ever more closely associated with the government and the ruling parties through the 1990s. This reached its apex with the EU's white list. It prohibited almost all firms to engage in trade; almost all goods entering or leaving the country then became gray or black market goods. The monopolistic nature of trade under crony arrangements raised the price of goods, reduced the access of a wide array of basic goods, and left imported luxury predominantly accessible through private markets for affluent clients. Having this in mind, it was expected that the present government would be interested in extending the tax base and lowering the tax rates in an attempt to legalize present economic activities that are not criminal.

It has been estimated that government measures on internal trade and transactions would return about two billion DEM annually to the budget by eliminating the gray economy and illicit trading in oil derivatives and cigarettes. Taking that into account, the Serbian government has recently announced temporary monopoly on oil imports. The Serbian Prime Minister stated that the decree introducing monopoly was necessary to stem organized crime.

However, without a regional approach in dealing with cross-border smuggling and trafficking it will not be possible to resolve all the problems emerged mainly from the imposition of economic sanctions against Serbia and FRY, which affected both Serbia/FRY and all the neighboring countries.

\* \* \*

The countries of Southeast Europe differ as much between themselves as the region differs from the other Europe. What emerges from the above overview, however, is that they all share some combination of the same set of problems in their economic development: high levels of foreign debt, privatization procedures that breed corruption, difficulties in attracting foreign investments, high unemployment, black markets and the gray economy, and organized crime.

*International efforts to assist the economies of these countries in the last decade were extensive, but now it is clear that they were suffering from lack of conceptual framework as well as a regional approach to some of these issues. As far as fighting corruption is kept high in the international agenda, it is important to harmonize national and regional efforts.*

The regional steps need to get rid of self-seeking motives and demonstrations of unilateral achievements. A positive move in that direction is the Memorandum of Understanding on Liberalization and Facilitation of Trade signed in July 2001 by Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, FYR Macedonia and Yugoslavia. It aims creation of a network of bilateral free trade agreements by the end of 2002, thereby allowing for at least 90 % of goods to be exchanged free of tariffs.<sup>5</sup> Moldova has expressed strong interest

---

<sup>5</sup> [www.stabilitypact.org](http://www.stabilitypact.org) 05.07.2001

to join this process. This process could ease the corruption pressure related to cross-border commercial fraud.

Being aware that corruption is an important obstacle to business development and considering the obvious fact that the small firms suffer more from bureaucratic procedures and corruption relative to large businesses and so letting them work in the gray economy, the governments of SEE countries demonstrate good intentions for providing transparent opportunities for local and foreign investors. All these efforts need the support of the international community. The Investment Compact, worked out within the Stability Pact, is a good example to follow. Strong commitment by the governments of the SEE countries for improving the business environment, on one hand, and technical support and assistance from the international community, on the other, will be crucial.<sup>6</sup>

---

<sup>6</sup> See "The road to Stability and Prosperity in South Eastern Europe". A Regional Strategy Paper of the World Bank, 2000, Chapter 4.

## 4. CIVIL SOCIETY AND THE FIGHT AGAINST CORRUPTION

The role of civil society in the anti-corruption efforts in the post-communist Balkan countries can at best be described as incipient, with the exception of Bulgaria. Both the impact of NGOs and the media are to be taken into consideration when the involvement of civil society is considered.

### 4.1. NGO Participation in Anti-Corruption Activities

At the country level, a notable trend is the boom and development of NGOs in all the countries of the region. However, NGO involvement in anti-corruption efforts has generally been minor and the sector's role has been limited, as in the case of Albania, Bosnia Herzegovina, Macedonia, Romania, and Serbia. The exception to this trend is Bulgaria. The Bulgarian civic sector, and NGOs in particular, has taken the leading role in the anti-corruption campaign. It has targeted a number of anti-corruption initiatives of which anti-corruption education, the establishment of a national anti-corruption system, participation in draft-law development and local Ombudsman institutions are unparalleled in the other post-communist countries. Bulgarian NGOs launched an anticorruption initiative called *Coalition 2000*. It aims at curbing corruption through a partnership between the NGOs themselves, state institutions and citizens. *Coalition 2000* has designed and has started the implementation of an Anti-Corruption Action Plan, Corruption Monitoring System and anti-corruption public awareness campaign.<sup>7</sup>

Generally, the involvement of NGOs in the anti-corruption activities is relatively recent, only in the past few years. The extensive *Coalition 2000* awareness campaign in Bulgaria was established in 1998 and the Serbian Center for Policy Studies has started an anti-corruption project only in the past two years. In Romania a local NGO against crime and corruption study was established only in August 2000.

The NGO sector often lacks skills and experience in the anti-corruption area. It has been involved mainly in corruption analysis rather than systematic efforts to limit corruption. While in some countries, such as Bosnia Herzegovina, the NGO sector as a whole has not taken the initiative of raising the public awareness of corruption and spurring a debate

---

<sup>7</sup> See further [www.online.bg/coalition2000](http://www.online.bg/coalition2000)

about the issue, in others, such as Bulgaria, it has actively affirmed its efforts to prevent corruption practices and to further the public discourse on corruption. In some cases the anti-corruption initiative has not involved NGOs precisely because it has been a top-down initiative started by the government or because the country still lacks modern legislative rules for the formal status of NGO's as interlocutors and actors of the public participation in the process of policy making, which is the case in Albania.

An important development in the anti-corruption front has been the establishment of NGOs specifically focusing on this issue, as in the case of Transparency International chapters in Bosnia Herzegovina, Bulgaria and Serbia. Transparency International has been involved in drafting proposals for the fight against corruption aimed at the government authorities, such as in the case of Serbia.

Another trend in anti-corruption measures is the involvement of NGOs engaged mostly in training for local authorities or development of legal framework for fight against corruption, as in Bosnia Herzegovina, Bulgaria and Serbia. However, in Bosnia Herzegovina these efforts have been sporadic and not linked to any serious pressure for passing specific laws or procedures.

Furthermore, the NGO sector has also been involved in the judicial reform aimed at limiting corruption practices prevalent in the system. In Macedonia the judicial reform, which started in 1995, has been supported by some NGOs, which provide technical and financial support for it. In Serbia a Belgrade NGO has worked on a project involving the establishment of the Institute for Additional Education of the Employed in the Judiciary System as a national institution, which aims to predict, plan and organize permanent institutional education of jurists working in the judiciary system.

It is important to note that part of the civil society sector has even been uncommitted to any anti-corruption measures, for it is believed to follow the practices supplied by the ones it is expected to monitor. Such is the case of Bosnia Herzegovina where the concept of Mangos (Mafia-NGOs) and Quangos (Quasi-NGOs) exists.



## ***4.2. Media and Anti-Corruption***

There is a general trend towards greater media involvement in anti-corruption efforts. Still an important obstacle to the greater role of the media is the lack of experience and professionalism in spite of the trends towards greater professionalism and influence in recent years.

In some countries, such as Bulgaria, Macedonia, Bosnia Herzegovina, and Albania to a much lesser extent, the independent media has brought to the fore numerous corruption cases, exposing high officials. It has also been a major force behind mobilizing public opinion against corruption, as in the case of Bulgaria. At the same time it has exerted indirect pressure on the respective governments to take steps to limit corruption practices. The Bulgarian independent media, which has been marked by intensified anti-corruption reporting, stands out with its permanent engagement in the public debate about corruption and the efforts to curb it. It is characterized by improved quality coverage of corruption issues, expansion of the public dialogue in the media through inclusion of opinions of other civil society sectors and individuals and increased follow-up of reported cases, all of which speaks for a trend towards greater professionalism in its anti-corruption efforts.

However, the limited role of the independent media in some countries should also be noted. In some, such as Bosnia Herzegovina, this has been due to the fact the media is mostly state controlled. In others, such as Albania, corrupted individuals have instigated distrust in the media, which lacks the professionalism necessary for investigative journalism and has fabricated and then denied its facts in corruption cases.

A serious impediment to the greater role of the independent media is the fact that it is rarely truly independent. There is a problem of media ownership, symbiosis between business and media, the relations between the authorities and the owners of the media. On the Balkans the media is often financed by international organizations and thus has to rely on foreign help because of the small market size, in the case of Bosnia Herzegovina, or by certain business lobbies in the case of Albania. There are also cases of media close to current or former governments, in Bosnia Herzegovina, for instance, which can impede investigative journalism and its favorable impact on the efforts to combat corruption. Since it is also often regarded as a political tool by the owner, either the state or a private entity,

the pressure exerted on journalists can often lead to biased coverage and impede impartial corruption investigation, which is illustrated by the Romanian press.

A further hurdle to a greater role of the media is the fact it often lacks access to essential government information. For instance, in Romania, because of few laws giving access to public information or lack of their enforcement, the independent media has to rely on unofficial channels in corruption cases. Because of this unofficial information, which may be incorrect, the official authorities are even more unwilling to cooperate with the media on corruption scandals.

The analysis of the media possibilities to investigate and report corruption represented the objectives of the Freedom House Assessment Report on media responses to corruption in some countries in the region summarizes the main difficulties:

- Lack of independence
- Lack of access to basic government information
- Punitive libel law and prosecutorial abuse
- Weak advocacy groups
- Disincentives to investigative journalism
- Lack of experience and training opportunities
- Public cynicism regarding corruption

## 5. INTERNATIONAL COOPERATION

A succession of regional conflicts in the past eleven years have brought the countries in the Southeast Europe to the pressing necessity to rethink not only their strategies for development but also their relations with neighboring countries in a region-wide context. The latest conflict in Macedonia has placed the situation again high on the agenda of the international community. The commitment of the international community to a radical and comprehensive long-term program for stability and development in the Balkans provides a unique historic opportunity for the local communities. The regional crises of the past few years obviated the importance for comprehensive regional measures in two major ways:

- By emphasizing the need for going beyond country-specific efforts towards region-wide cooperation networks, particularly as regards issues of democratic governance. The importance of the NGOs in such networks in addressing cross-country problems in a comprehensive manner has further expanded the role of civil society;
- By emphasizing the need for a regional mechanism for assessing the effectiveness of international stabilization and recovery assistance. The success of reconstruction efforts depends to a large extent on the ability of national governments and their public administration to implement stability and reform policies. A high level of inefficiency and corruption of public administration may jeopardize the provision of large-scale financial assistance to the region by distorting its impact.

A number of reasons have kept corruption low on the priorities of international organizations prior to the mid-90s. Among these, and relevant to our analysis, is the consideration of corruption as an issue closely linked to domestic politics and thus not appropriate for development assistance targeting. This is important to note, as similar considerations could still compromise the effectiveness of growing momentum of international anti-corruption cooperation.

Once there is universal international consensus that a particular issues belongs to the core of development concerns, diplomatic considerations of non-interfering in domestic politics seem to diminish. In the field of corruption this process has been spearheaded through the adoption of a number of international conventions - notably those of OECD and the

Council of Europe. Good governance has emerged since as a preoccupation for both developed nations, concerned with maximizing economic growth, and thus sensitive to corruption in international trade, and for developing countries tackling poverty and weak institutional capacity. Nevertheless, there is still little – with the notable exception of US assistance in Yugoslavia - anti-corruption conditionality in international donor help to the countries in the region.

Common programs between international organizations and encouragement of public-private partnership - both locally and between international institutions and local NGOs - are a way of circumventing the traditional diplomatic considerations facing international agencies when addressing politically sensitive issues of corruption in the national administrations. Even the best government assistance program by international donors is no substitute for developing the country's institutional infrastructure, enhancing the public's trust in institutions and empowering civil society.

It is notable that there are no regional efforts initiated *by* and prioritizing cooperation *among* the countries in SEE on development of joint measures to address cross-border corruption. The applicable international initiatives - Stability Pact Anti-Corruption Initiative (SPAI), the Southeast European Cooperative Initiative (SECI) Center for Combating Organized Crime in Bucharest, etc - were all initiated by and coordinated by international organizations or foreign governments. Little effort is also made at the governmental level to encourage linkages between national anti-corruption programs.

The understanding that the adoption and implementation by the SEE countries of international legal instruments and their inclusion in the work of international fora in this area is largely sufficient at this stage of development is shared by both international agencies and regional governments. These efforts are, however, sometimes compromised by “variable international institutional geometry” in the region - countries belonging to different international organizations and processes which determine varying levels of engagement and interests (see Table 2.).

Bulgaria's participation in SPAI is a case in point. Having started negotiations for membership in the European Union the Bulgarian government became very sensitive about its participation in international efforts that could perceivably put in a group of countries that it considers less advanced in the reforms. Thus, it ceased its active participation in SPAI

claiming that - as a EU candidate country - it should have the status of a resource country (same as Hungary and Slovenia) rather than a beneficiary country (such as Albania or Macedonia). For similar reasons, Bulgaria failed to join the consultative process of all Central and East Europe countries on fighting corruption in preparation of the Second Global Forum on Fighting Corruption and Safeguarding Integrity in May 2001 in the Hague.

This illustrates that, on the one hand - governments should rightly be concerned about the international image of the country which lately easily translates into decreased investor confidence and reduced credit ratings (to be sure, it is possible that what is domestically an awareness campaign aiming to sensitize policy makers and increase public intolerance by emphasizing corruption issues in the public debate, internationally could be construed as deteriorated governance, thus mistaking the symptom for the disease). On the other, mainstreaming corruption both into public debate and government policies is an important condition for building trust among the international community towards the country. These conflicting objectives - to maintain an image of successful reforms so as to join the Euro-Atlantic institutions and to highlight anti-corruption both in their national policies and in international cooperation - often undermines the initiation of locally originating inter-governmental anti-corruption programs in SEE.

**Table 2. Southeast European Countries' Membership in Major International Organizations**

<b>Organization</b>	<b>Council of Europe (CoE)</b>	<b>World Trade Organization (WTO)</b>	<b>European Union (EU)</b>	<b>Organization for Security and Cooperation in Europe (OSCE)</b>	<b>European Bank for Reconstruction and Development (EBRD)</b>	<b>Euro-Atlantic Partnership Council (EAPC)</b>	<b>World Bank (WB)</b>
<b>Country</b>							
<b>Albania</b>	Member	Applicant	Negotiations for Stabilization & Association Agreement (SAA)	Member	Member	Member	Member
<b>Bosnia and Herzegovina</b>	Guest	No	Negotiations for SAA	Member	Member	No	Member
<b>Bulgaria</b>	Member	Member	EAA	Member	Member	Member	Member
<b>Croatia</b>	Member	Applicant	No	Member	Member	Member	Member
<b>Macedonia</b>	Member	Applicant	SAA	Member	Member	Member	Member
<b>Romania</b>	Member	Member	EAA	Member	Member	Member	Member
<b>Serbia</b>	No	Observer	No	Member	Started negotiations	No	Started negotiations

<b>Organization</b>	<b>Central European Free Trade Agreement (CEFTA)</b>	<b>Central European Initiative (CEI)</b>	<b>Black See Economic Cooperation (BSEC)</b>	<b>Stability Pact for Southeast Europe (SPSEE)</b>	<b>Anti-corruption Initiative for South Eastern Europe (SPAI)</b>	<b>South East European Cooperation Process (SEECp)</b>	<b>Southeast European Cooperative Initiative (SECI)</b>
<b>Country</b>							
<b>Albania</b>	No	Member	Member	Member	Member	Member	Member
<b>Bosnia and Herzegovina</b>	No	Member	No	Member	Member	Observer	Member
<b>Bulgaria</b>	Member	Member	Member	Member	Has not participated since 2000	Member	Member
<b>Croatia</b>	No	Member	No	Member	Member	Observer	Member
<b>Macedonia</b>	No	Member	No	Member	Member	Member	Member
<b>Romania</b>	Member	Member	Member	Member	Member	Member	Member
<b>Serbia</b>	No	No	No	Member	Member	Member	No

**Table 3. Southeast European countries' accession to major international anti-corruption legal instruments**

Legal Instrument	Country	Date of signature	Date of ratification	Date of entry into force
Civil Law Convention on Corruption, Council of Europe	Albania	04-04-00	21-09-00	
	Bosnia and Herzegovina	01-03-00		
	Bulgaria	04-11-99	08-06-00	
	Croatia			
	Macedonia	08-06-00		
	Romania	04-11-99		
	Serbia and Montenegro			
Criminal Law Convention on Corruption, Council of Europe	Albania	27-01-99	19-07-01	
	Bosnia and Herzegovina	01-03-00		
	Bulgaria	27-01-99	12-04-2001	
	Croatia	05-09-99	08-11-00	
	Macedonia	28-07-99	28-07-99	
	Romania	27-01-99		
	Serbia and Montenegro			
Convention on Combating Bribery of Foreign Public Officials in International Business Transactions - OECD	Albania			
	Bosnia and Herzegovina			
	Bulgaria		22-12-98	20-02-99
	Croatia			
	Macedonia			
	Romania			
	Serbia and Montenegro			



## **6. REGIONAL CORRUPTION MONITORING**

This section presents the key findings of the Regional Corruption Monitoring carried out in seven countries of South Eastern Europe - Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, the Federal Republic of Yugoslavia (Serbia and Montenegro), and Croatia. The surveys conducted in these countries were based on the methodology of the Corruption Monitoring System of Coalition 2000 and marked the beginning of the implementation of a Regional Corruption Monitoring System of SELDI. The main goal of this comparative analysis of the seven countries from the Balkan region is to show the public significance of the problem of corruption and the extent to which corruption has penetrated into the various elements of society.

### ***6.1. Corruption Indexes***

- Corruption indexes numbers assume values from 0-10.
- The closer the value of the indexes is to 10, the more negative are the assessments of the respective aspect of corruption. Index numbers closer to 0 indicate approximation to the ideal of a "corruption-free" society.
- Corruption indexes have been grouped into several categories:
  - Attitudes towards corruption;
  - Corrupt practices;
  - Assessment of the spread of corruption;
  - Corruption-related expectations.

### ***6.2. Main Problems Faced by the Balkan Countries***

The most important problems of the Balkan countries at present are social and economic - unemployment, poverty, low incomes. The issues related to government, the political system, and ethnic tensions increasingly tend to be considered of secondary importance among public priorities. By its scope and depth, the problem of corruption is serious importance to the countries in the region. Its importance is accounted for by the fact that corruption tends to infiltrate economic life, governments, political systems, and institutional structures in these societies.

**Table 4. Main problems in the countries of SEE**

	<i>Albania</i>	<i>Bosnia and Herzegovina</i>	<i>Bulgaria</i>	<i>Macedonia</i>	<i>Romania</i>	<i>Croatia</i>	<i>Serbia</i>	<i>Montenegro</i>
Unemployment	44,40%	60,90%	67,80%	75,30%	39,50%	66,00%	30,30%	53,10%
Low incomes	39,30%	39,60%	49,00%	62,00%	41,30%	39,10%	39,20%	35,60%
Poverty	24,40%	29,80%	41,50%	1,10%	50,60%	31,60%	39,70%	34,80%
<b>Corruption</b>	60,80%	47,60%	37,50%	35,10%	59,90%	41,70%	37,20%	30,80%
Crime	36,00%	32,90%	25,70%	27,60%	10,20%	33,50%	44,10%	31,50%
High prices	24,00%	10,90%	22,40%	25,40%	35,60%	27,30%	24,70%	21,20%
Political instability	49,60%	37,00%	17,00%	33,20%	29,90%	20,10%	47,80%	59,30%
Health Care	3,70%	9,90%	14,00%	7,20%	17,40%	7,10%	8,70%	4,00%
Environment pollution	5,20%	3,80%	2,70%	6,00%	1,60%	2,80%	2,50%	4,80%
Education	3,90%	4,60%	2,10%	3,70%	7,90%	4,40%	6,30%	4,50%
Ethnic problems	3,00%	15,60%	1,70%	14,90%	2,40%	7,00%	10,20%	8,60%

\* The total of percentages exceeds 100 as respondents could give up to three answers

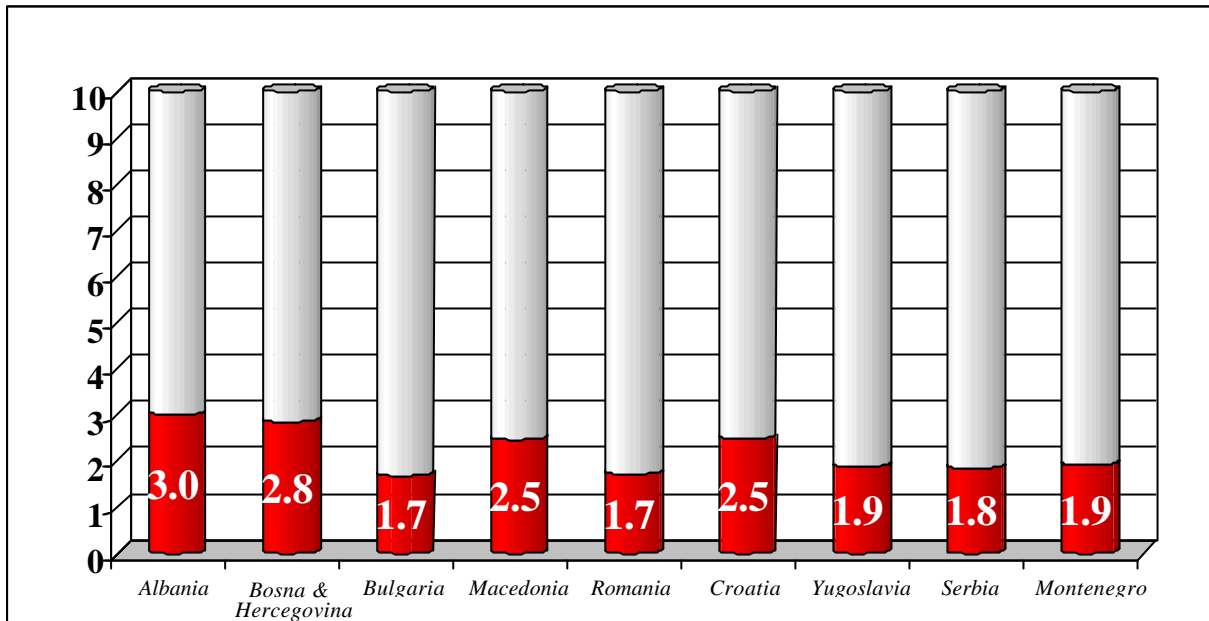
### **6.3. Attitudes towards Corruption**

#### Acceptability in Principle

This index reflects the extent to which various corrupt practices are tolerated within the value system.

Its value is highest in Albania, Bosnia and Herzegovina, Macedonia, and Croatia, and lowest, in Bulgaria and Romania. This substantial difference indicates that, in terms of their value system, the citizens of the first four countries are more inclined to accept the existence of corrupt practices in their societies than those in the remaining states. The generally low values of the index in the countries of the region (with the exception of Albania and Bosnia and Herzegovina) show that corruption is widely perceived as morally inadmissible. As a whole, the level of tolerance in principle of the various corrupt practices is relatively low.

**Figure 1. Acceptability in principle**

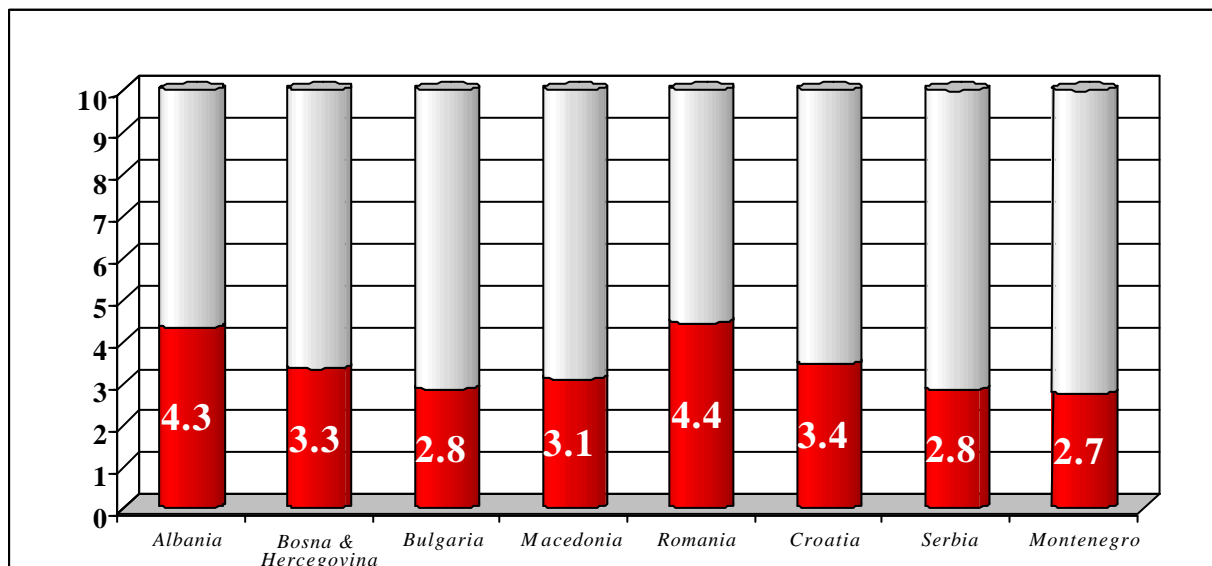


Susceptibility to corruption

This index measures citizens' inclination to compromise on their values under the pressure of practical circumstances.

In all countries the value of this index is higher than the preceding one. This means that the moral denunciation of corruption as a negative phenomenon does not exclude the existence and efficiency of corrupt practices in everyday practice. In cases of conflict between practical interests and value system, many citizens tend to compromise on their principles to achieve their ends. The low tolerance of corrupt behavior and the high susceptibility to such acts are the key preconditions for the following, commonplace philosophy of life: corruption is a "necessary evil" that successfully solves practical problems.

**Figure 2. Susceptibility to corruption**



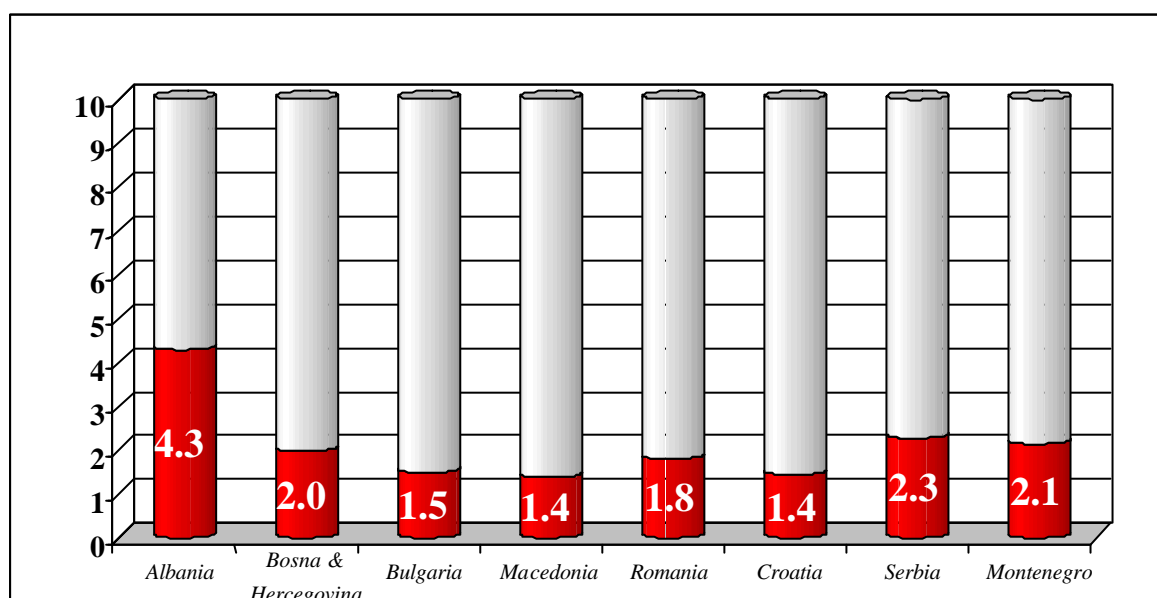
## 6.4. Involvement in Corrupt Practices

### Corruption pressure

The index measures the spread of attempts by public sector employees to directly or indirectly pressure citizens in order to solicit money, gifts, or favors.

The values of the index suggest that in the countries of the region involvement in corrupt practices not always a direct outcome of open individual, collective, or institutional coercion. As a whole, corruption pressure in these societies is not particularly intense (with the sole exception of Albania). In the regional context corrupt practices are sustained not so much by social pressure but by the mechanisms of private interests, practical necessity, and personal choice of the citizens and the public sector employees.

**Figure 3. Corruption pressure**



### Corruption Pressure by Professional Groups

Table 2 shows the considerable differences when determining the degree of direct coercion on the part of public sector employees over the citizens of the seven Balkan countries. Despite the notable presence of specific national characteristics, there is at least one important similarity. It consists in the empirically registered fact that, doctors and public officials (police and customs officers, tax, municipal, and court officials) exert the strongest corruption pressure.

**Table 5. "If in the course of the past year if you have been asked for something in order to have a problem of yours solved, you were asked by:"**

	<i>Albania</i>	<i>Bosnia and Herzegovina</i>	<i>Bulgaria</i>	<i>Macedonia</i>	<i>Romania</i>	<i>Croatia</i>	<i>Serbia</i>	<i>Montenegro</i>
Police officer	52,00%	25,70%	24,00%	14,40%	34,00%	24,80%	42,40%	38,40%
Doctor	62,60%	19,90%	22,10%	20,20%	35,10%	16,60%	33,60%	19,50%
Customs officer	55,60%	15,90%	15,80%	21,80%	20,50%	10,50%	42,80%	21,60%
University professor or official	29,00%	9,80%	13,90%	16,30%	15,00%	8,40%	17,20%	8,70%
Administrative official in the judicial system	47,00%	9,90%	11,50%	10,60%	22,30%	6,70%	19,40%	9,40%
Municipal official	52,50%	19,10%	10,30%	11,90%	26,90%	11,30%	27,20%	19,30%
Businessman	30,50%	8,50%	9,70%	13,20%	17,80%	16,10%	31,60%	15,80%
Judge	53,10%	8,30%	9,10%	13,70%	16,60%	5,80%	19,30%	7,00%
Tax official	56,80%	8,80%	8,30%	8,90%	10,60%	6,60%	22,00%	13,30%
Public prosecutor	39,60%	3,80%	7,80%	8,10%	10,30%	2,30%	12,00%	4,30%
Official at a ministry	39,40%	13,90%	7,00%	13,20%	10,30%	8,40%	15,40%	7,20%
Member of parliament	31,20%	2,50%	6,40%	7,80%	4,50%	0,60%	7,10%	0,90%
Investigating officer	32,70%	10,10%	6,00%	6,60%	10,60%	10,90%	15,30%	8,20%
Teacher	15,40%	5,70%	5,50%	6,70%	12,70%	4,50%	11,70%	5,90%
Municipal councilor	38,90%	6,90%	3,20%	7,80%	12,40%	6,50%	10,20%	2,50%
Banker	19,60%	3,60%	2,90%	5,40%	7,80%	5,10%	13,40%	3,30%

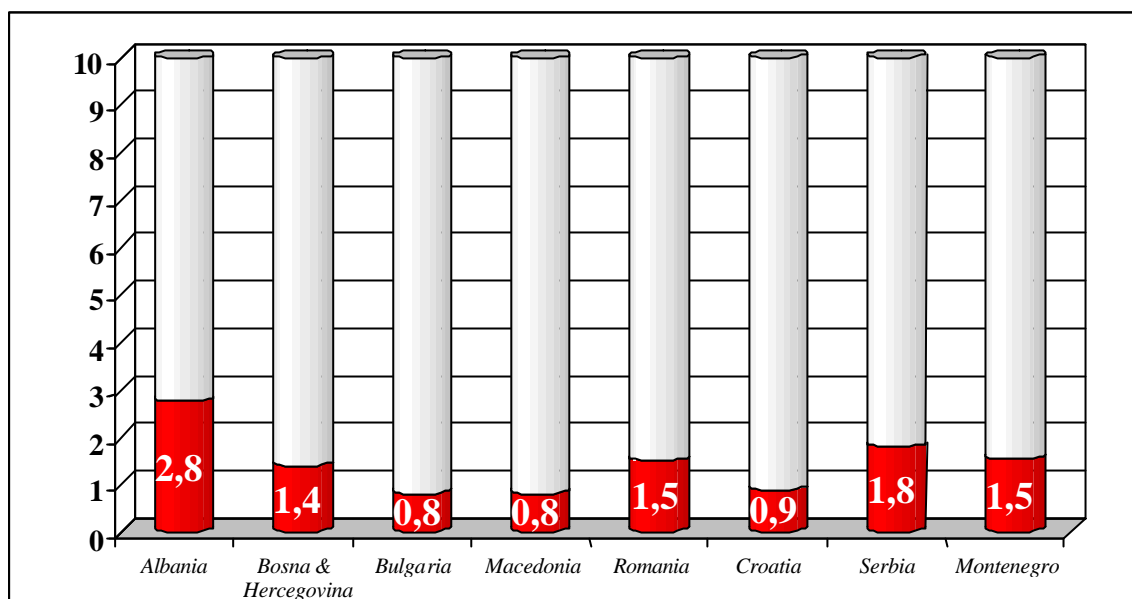
\* *Relative share of those who have had such contacts and have been asked for money, gifts, or services.*

### Involvement in Corrupt Practices

This index reflects citizens' reports of their personal involvement in various forms of corrupt behavior.

In terms of actual occurrence, the social reality of corruption in the seven Balkan countries is sustained by a not too large, but stable, segment of the general public and the public sector employees. Notwithstanding a number of specific national features, the younger, the wealthier, the residents of the bigger cities and of the capitals of the Balkan countries, and the better educated are more inclined to adhere to a corruption-based model of behavior than the elderly, those with lower education and living standard, the village and small town residents.

**Figure 4. Involvement in corrupt practices**



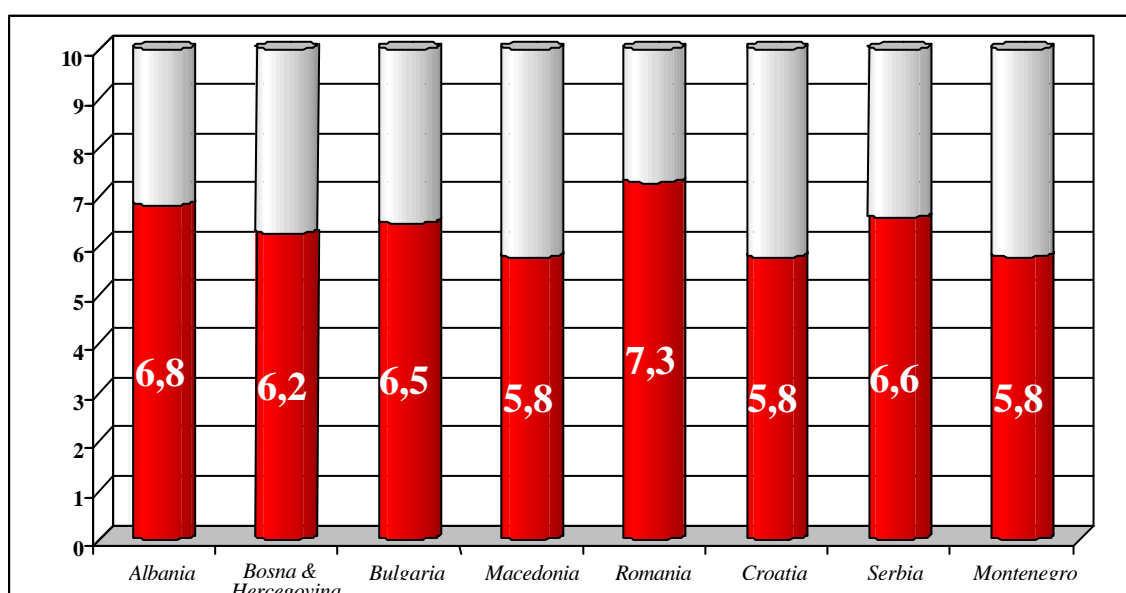
### 6.5. Assessments of the Spread of Corruption

#### Spread of Corruption

This index measures citizens' assessments of the spread of corrupt practices among public sector employees.

Although certain differences between countries exist, overall the values of the index are fairly high for all countries. In the highest degree this applies to Romania, but likewise to Albania, Serbia, Bulgaria, Bosnia and Herzegovina. Though lower, the values registered in Macedonia, Croatia, and Montenegro also confirm the above observation. These empirical facts suggest at least two main conclusions. First, according to the public, corruption is widespread in all seven Balkan countries. Second, the findings give reasons to expect that radical changes in these popular assessments are very likely in the foreseeable future.

**Figure 5. Spread of corruption**



## Factors Influencing the Spread of Corruption

At the level of popular perceptions, the origin of corruption is associated with the social and economic problems of the countries of the region. The most important factor is the manner of functioning of government and its interaction with the public. In Bulgaria, Macedonia and Croatia "the aspiration for fast enrichment of those in power" is cited as the chief factor for the spread of corruption. According to public opinion in the other countries, the main reason for the existence of this social phenomenon is the cheap labor, as well as the ineffectiveness of different elements of social control - legislative, judicial, and administrative.

**Table 6. Factors influencing the spread of corruption**

	<i>Albania</i>	<i>Bosnia and Herzegovina</i>	<i>Bulgaria</i>	<i>Macedonia</i>	<i>Romania</i>	<i>Croatia</i>	<i>Serbia</i>	<i>Montenegro</i>
Fast personal enrichment sought by those in power	49,00%	41,90%	57,80%	69,10%	55,60%	49,90%	46,80%	53,00%
Low salaries	67,50%	50,50%	41,60%	56,20%	58,00%	48,70%	52,60%	53,60%
Imperfect legislation	28,80%	42,20%	40,50%	14,20%	38,70%	35,50%	35,20%	22,20%
Intertwinement of official duties and personal interests	33,30%	17,50%	32,60%	23,50%	17,90%	9,70%	28,70%	23,70%
Lack of strict administrative control	40,60%	27,90%	32,30%	17,10%	30,90%	24,10%	21,50%	22,70%
Ineffectiveness of the judicial system	19,50%	32,50%	22,20%	37,90%	33,80%	33,10%	24,60%	19,20%
Moral crisis in the period of transition	24,50%	30,50%	17,00%	23,00%	26,50%	36,20%	37,20%	50,00%
Problems inherited from the communist past	20,70%	17,10%	7,80%	11,80%	18,00%	22,20%	19,20%	12,70%
Specific characteristics of Bulgarian national culture	7,60%	19,70%	4,20%	9,00%	5,20%	5,30%	15,90%	16,60%

### Spread of Corruption by Professional Groups

Public opinion in the seven Balkan countries assesses differently the level of corruption among professional groups. Nevertheless, there are certain occupations for which could be considered the "hotbeds" of corruption. These are the customs, tax, and municipal administrations, the court system and the police, the central executive and legislative powers. It should be noted that in all seven countries (perhaps with the exception of Montenegro) corruption is least widespread among the representatives of non-governmental organizations, the journalists, and the teachers.

**Table 7. "In your opinion, how widespread is corruption among the following groups:"**

	<i>"Nearly all" and "most" are involved in corruption"</i>							
	<i>Albania</i>	<i>Bosnia and Herzegovina</i>	<i>Bulgaria</i>	<i>Macedonia</i>	<i>Romania</i>	<i>Croatia</i>	<i>Serbia</i>	<i>Montenegro</i>
Customs officers	86,6%	58,8%	75,2%	72,2%	63,4%	51,3%	80,9%	27,3%
Ministers	67,8%	54,2%	55,0%	61,0%	58,0%	37,3%	55,3%	16,2%
Police officers	56,4%	46,5%	54,3%	46,3%	64,4%	47,3%	73,2%	18,7%
Tax officials	79,0%	54,4%	53,7%	52,3%	49,0%	40,6%	63,5%	16,2%
Lawyers	70,6%	41,0%	52,9%	42,2%	55,2%	45,3%	55,7%	13,4%
Members of parliament	61,8%	47,5%	51,7%	60,8%	65,9%	33,1%	45,9%	6,6%
Public prosecutors	70,9%	37,8%	51,3%	39,4%	49,3%	29,6%	56,8%	32,5%
Judges	80,1%	42,6%	50,1%	49,2%	55,7%	38,4%	63,7%	37,7%
Officials at ministries	66,2%	52,5%	49,7%	47,5%	54,5%	47,0%	56,1%	42,5%



Investigating officers	52,7%	44,5%	43,8%	29,8%	45,3%	28,0%	57,0%	33,0%
Political party and coalition leaders	54,7%	56,0%	43,8%	44,6%	53,7%	39,4%	58,1%	13,6%
Doctors	71,6%	48,9%	43,6%	45,4%	54,4%	53,2%	62,9%	11,6%
Business people	42,6%	41,1%	42,3%	34,1%	45,4%	41,3%	63,9%	21,7%
Municipal officials	69,1%	51,4%	41,6%	36,8%	47,9%	48,1%	60,1%	47,0%
Administration officials in the judicial system	63,0%	41,6%	40,2%	31,0%	51,6%	32,8%	50,3%	33,3%
Local political leaders	49,6%	54,7%	36,8%	39,1%	48,0%	41,9%	56,9%	15,2%
Bankers	24,4%	31,9%	33,5%	19,7%	44,8%	34,0%	49,2%	11,4%
Municipal councilors	55,2%	46,2%	32,1%	33,4%	43,1%	27,7%	45,0%	8,4%
University professors and officials	46,0%	35,7%	28,1%	42,9%	24,7%	40,4%	39,1%	25,7%
Representatives of NGO's	23,1%	26,3%	23,9%	16,5%	17,8%	14,2%	25,8%	12,1%
Journalists	18,8%	24,3%	13,9%	17,1%	22,1%	22,8%	34,0%	36,3%
Teachers	11,6%	20,9%	10,9%	18,7%	20,4%	19,3%	28,5%	18,0%

### Spread of Corruption among Institutions

The institutional spread of corruption in the seven Balkan countries largely reproduces the level of corrupt practices registered for the different professional groups. Customs, tax administrations and the judicial system stand out among the state institutions cited as centers of "big" corruption by the citizens of Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, Croatia, and Yugoslavia (Serbia and Montenegro). In all seven countries, the rate of corruption is lowest in the national armies, the presidential institutions (with the exception of Romania, Bosnia and Herzegovina, Serbia, and Montenegro). The national statistical institutes and the national banks (once again, with the slight exception of Serbia and Montenegro and, to some extent, of Croatia) are the social "locations" with least corruption.

**Table 8. "In your opinion, how widespread is corruption in the following institutions:"**

	<i>Albania</i>	<i>Bosnia and Herzegovina</i>	<i>Bulgaria</i>	<i>Macedonia</i>	<i>Romania</i>	<i>Croatia</i>	<i>Serbia**</i>	<i>Montenegro</i>
Customs	8.84	7.88	8.90	8.80	8.60	6.90	8.68	8.20
Privatization Agency	7.56	7.36	8.06	8.08	8.68	7.70	7.46	7.44
Judiciary	8.48	6.74	7.60	7.38	8.02	6.66	7.78	6.58
Tax offices	8.36	7.66	7.54	7.72	7.48	6.74	7.88	7.38
Agency for Foreign Investment	6.04	6.46	7.54	7.86	6.64	6.84	-	-
Industry line ministries	7.60	7.14	7.50	7.82	7.98	6.94	7.76	6.96
Government	8.10	7.78	7.44	8.06	7.96	6.28	7.32	6.86
Parliament	7.38	7.32	7.42	7.84	8.18	5.92	7.04	6.08
Police	7.24	6.96	7.14	7.12	7.78	6.98	8.08	7.24

Committee on Energy	7.18	6.30	7.00	-	6.64	6.86	6.80	5.62
Municipal government	7.54	7.56	6.94	6.94	7.40	7.10	7.38	7.18
National Telecommunications Company	6.90	6.28	6.60	6.28	6.74	6.72	6.26	5.50
Municipal administration	7.50	7.32	6.54	6.50	7.38	6.80	7.24	7.12
Commission for the Protection of Competition	-	6.84	6.54	-	6.38	6.42	-	-
Securities and Stock Exchanges Commission	6.62	6.70	6.46	-	7.28	6.46	-	-
Audit Office	7.18	7.06	5.98	-	5.96	6.26	6.26	5.82
National Bank	5.56	6.44	5.72	5.92	5.70	6.02	6.58	6.08
National Institute of Statistics	4.30	7.36	5.02	4.38	4.48	4.58	5.46	4.78
Army	5.92	6.78	4.98	4.40	4.90	5.98	5.42	5.88
Presidency	6.10	7.18	4.52	4.72	6.36	4.66	7.68	5.68

\* In this table the list of institutions is based on their names in Bulgaria. The data for each country refers to the respective institutions in these countries.

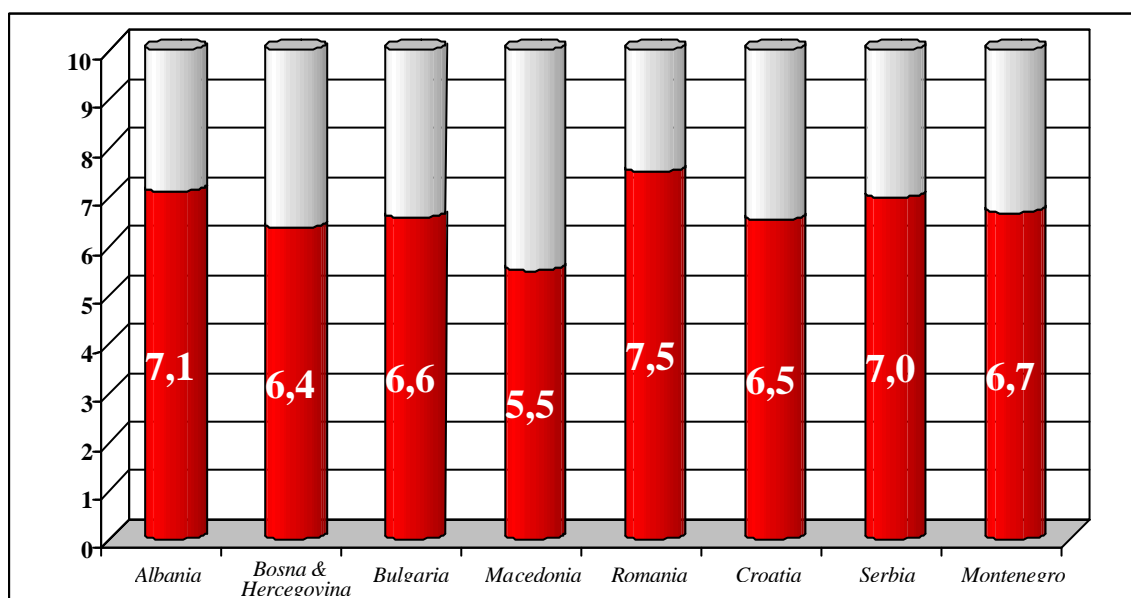
\* The respondents from Serbia and Montenegro assessed the President institution of Yugoslavia.

## Practical Efficiency of Corruption

This index measures citizens' assessment of the extent to which corruption is becoming an effective means of solving private problems.

The values of the index suggest that the practical effectiveness of corrupt practices is highest in Romania, Albania, and Serbia, and lowest, in Macedonia. The extremely high index values indicate that a large part of the citizens consider corrupt behavior to be a practically successful social practice. These two facts mean that in the Balkan context corruption has come to be firmly perceived as an efficient instrument for dealing with problematic situations. Hence the more general conclusion is that unless the social environment favoring corruption undergoes substantial transformation, there is no reason to expect any radical changes.

**Figure 6. Practical efficiency of corruption**



### **6.6. Corruption Expectations**

This index reflects citizens' assessments of the capacity (potential) of their societies to cope with the problem of corruption.

The high values of this index in all of the countries suggest that pessimism generally tends to prevail regarding the possibility of coping with corruption. According to public opinion in Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, Croatia, and FR Yugoslavia, the negative implications of this phenomenon can hardly be eliminated unless the very preconditions for its existence are removed. The citizens of the Balkan countries are not extreme fatalists regarding the potential of their societies to overcome corruption, but rather, moderate pessimists. Nevertheless, they are likely to change their basic expectations, if legitimate mechanisms in the social environment that actually prove more effective than corruption emerge.

Figure 7. Corruption expectations

