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Southeast European Leadership for Development and Integrity

Improving Democratic Governance to Unlock Growth in Southeast Europe: Dialogue on Current Policies and Future Perspectives

19 June 2017
Belgrade

RegionalCooperationCouncil

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- Bulgaria: a history of anticorruption pain
- State capture: defining the risks
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Key SELDI recommendations

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

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

Adopt an independent corruption and anti-corruption monitoring mechanism

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

Anti-corruption efforts should be focused on critical sectors

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

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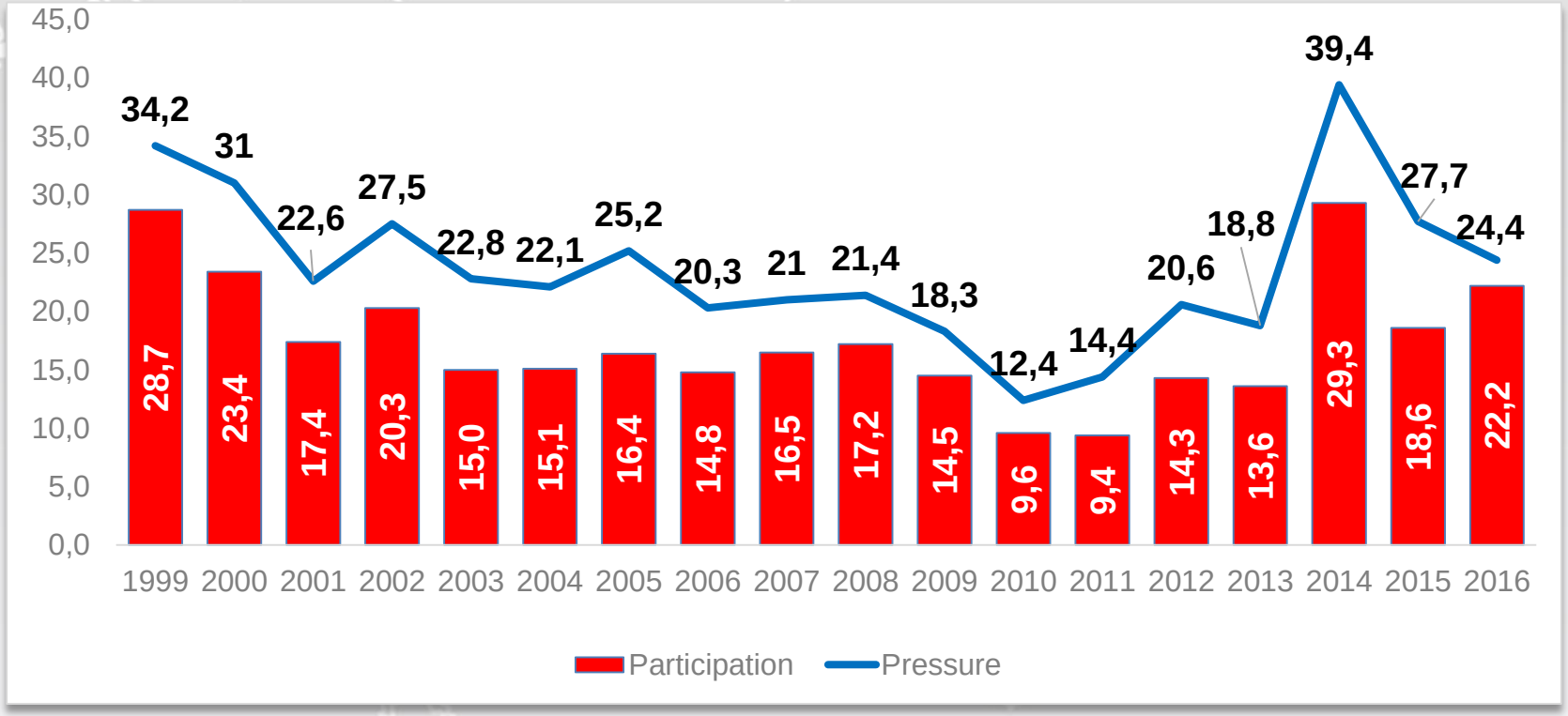
Administrative corruption in Bulgaria 1999 - 2016



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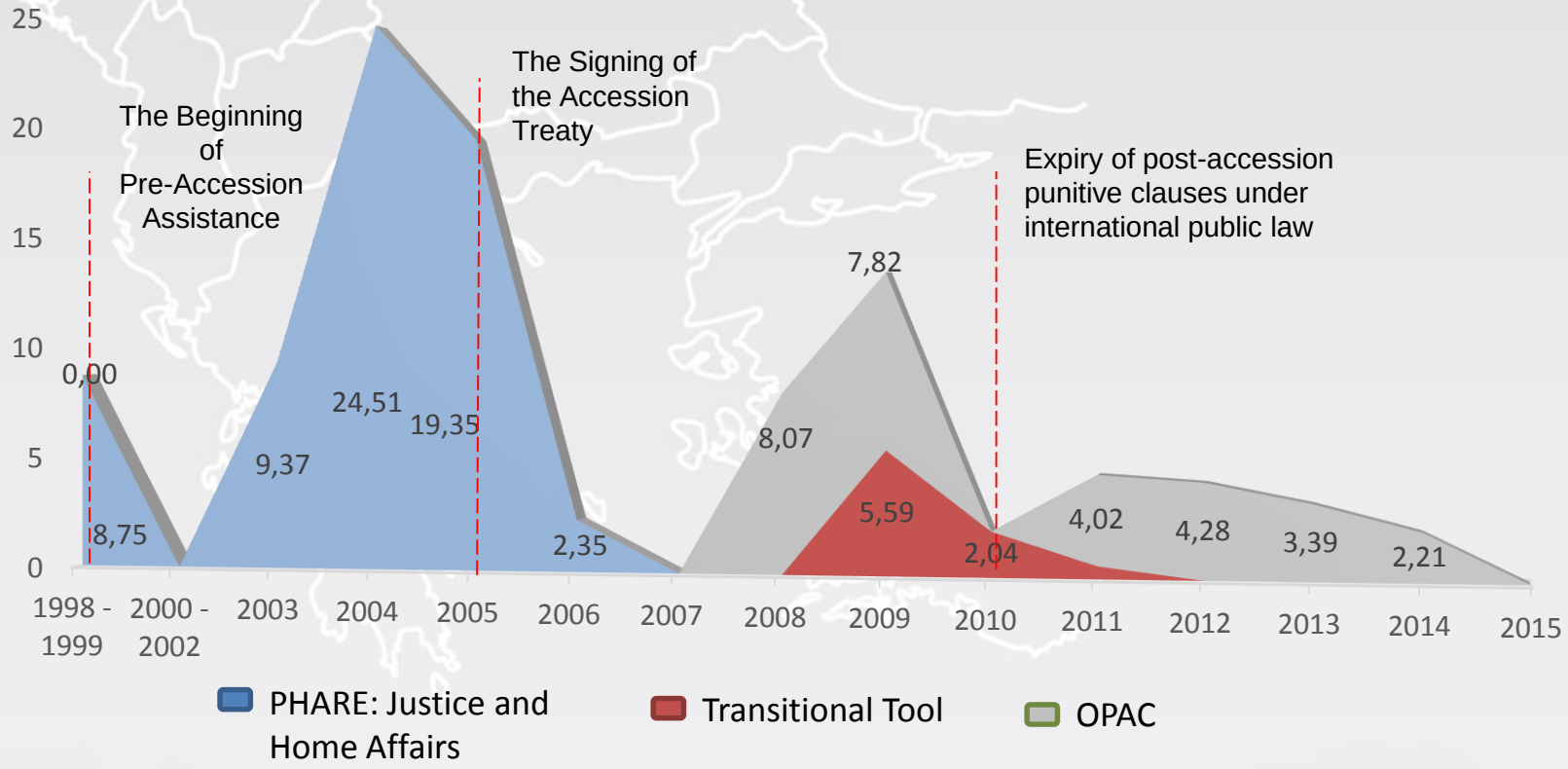
Financial support for anti-corruption activities in Bulgaria



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Anecdotal evidence of state capture

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

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Common sense definitions of state capture

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

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The hidden economy and corruption in SEE

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

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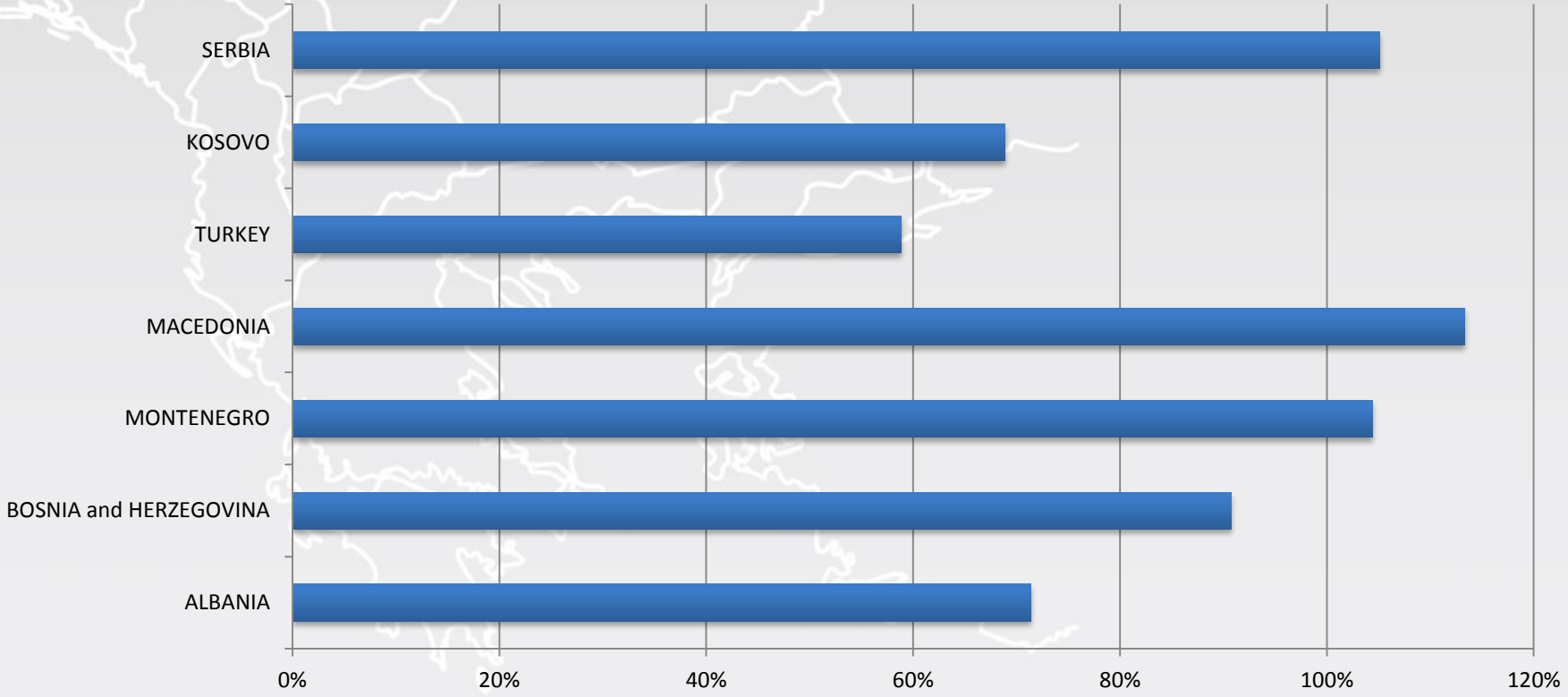
Openness of SEE countries (trade to GDP)



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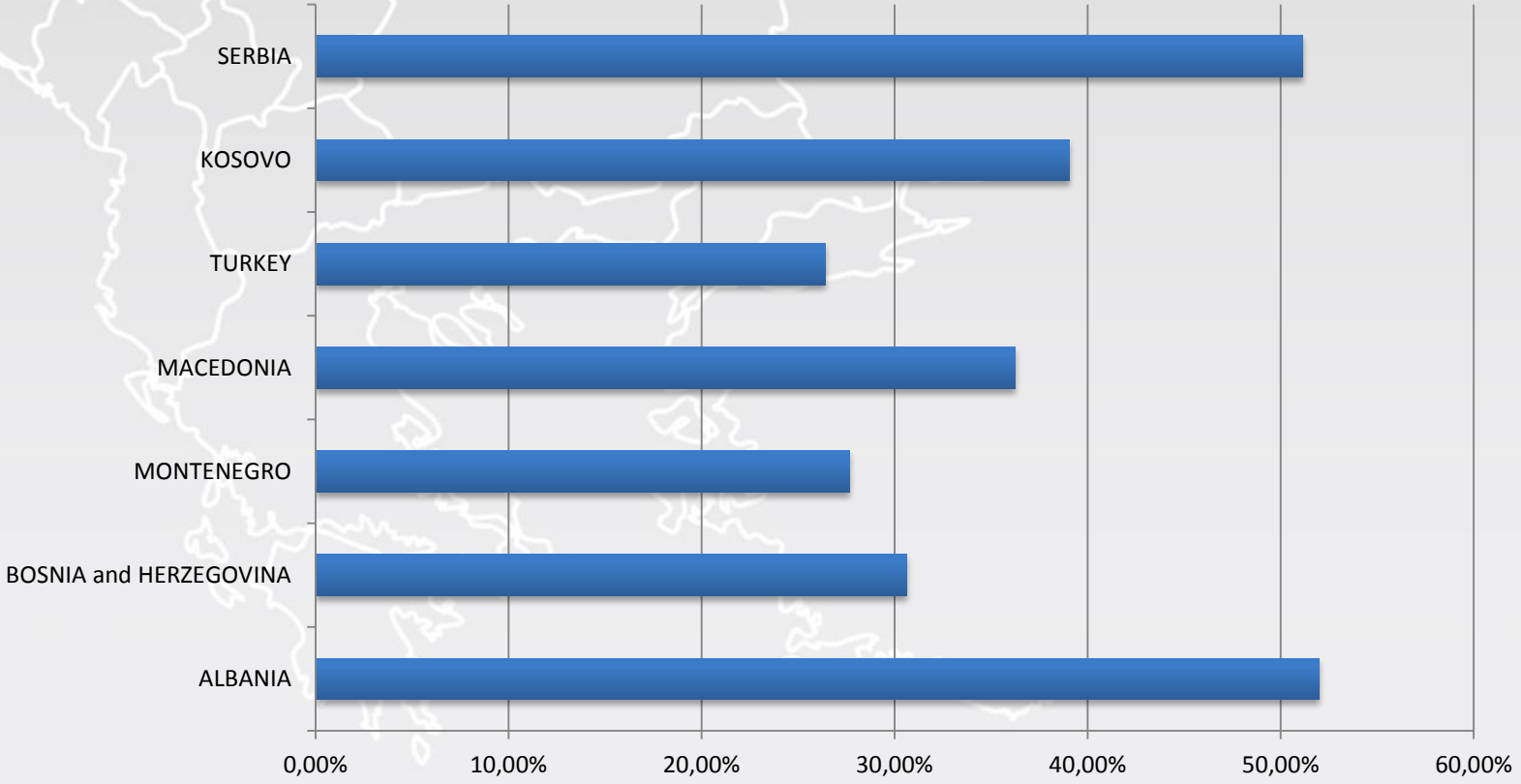
Mirror statistics

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



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Major trade partner and discrepancy

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

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Hidden employment

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

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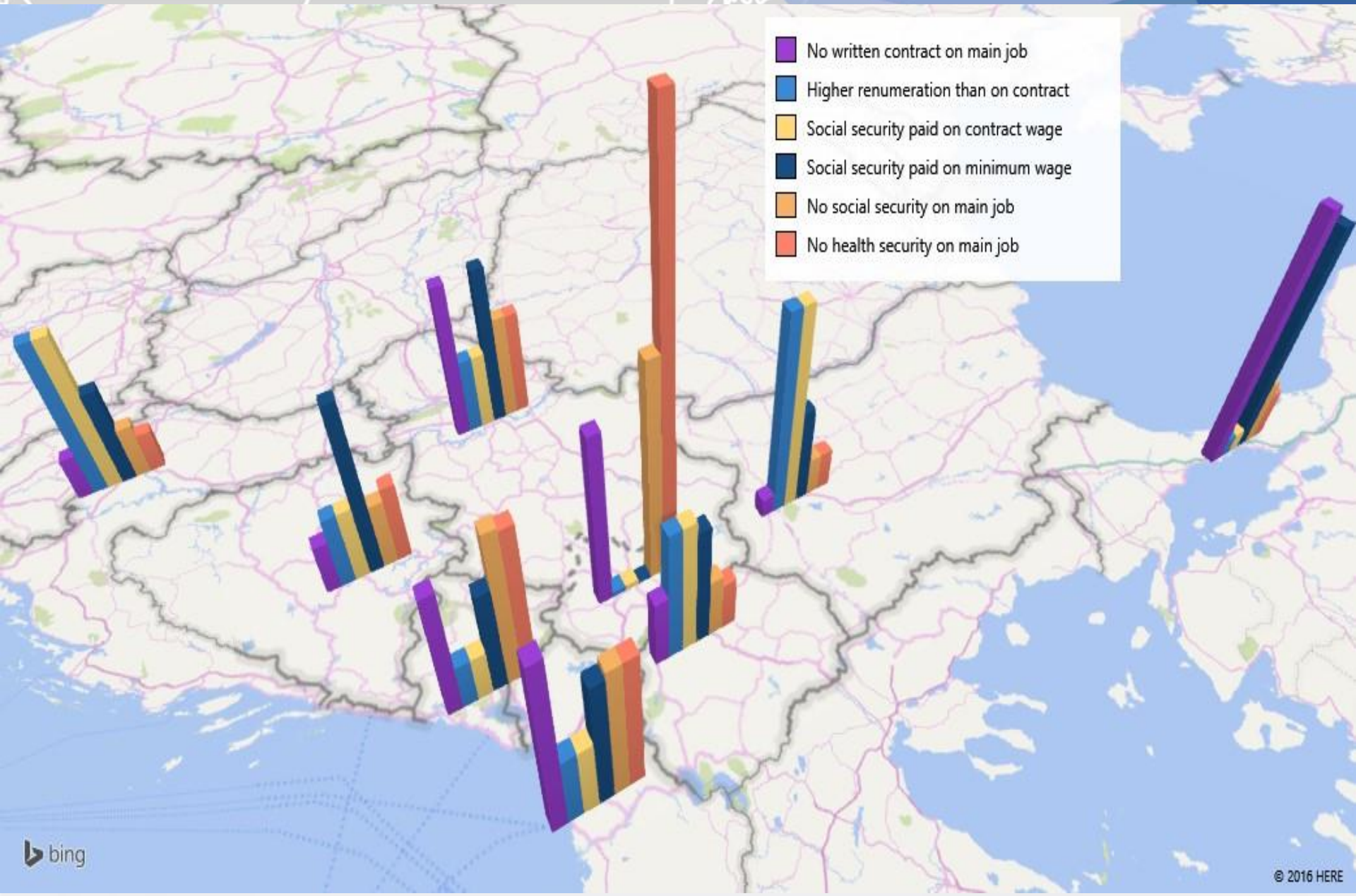

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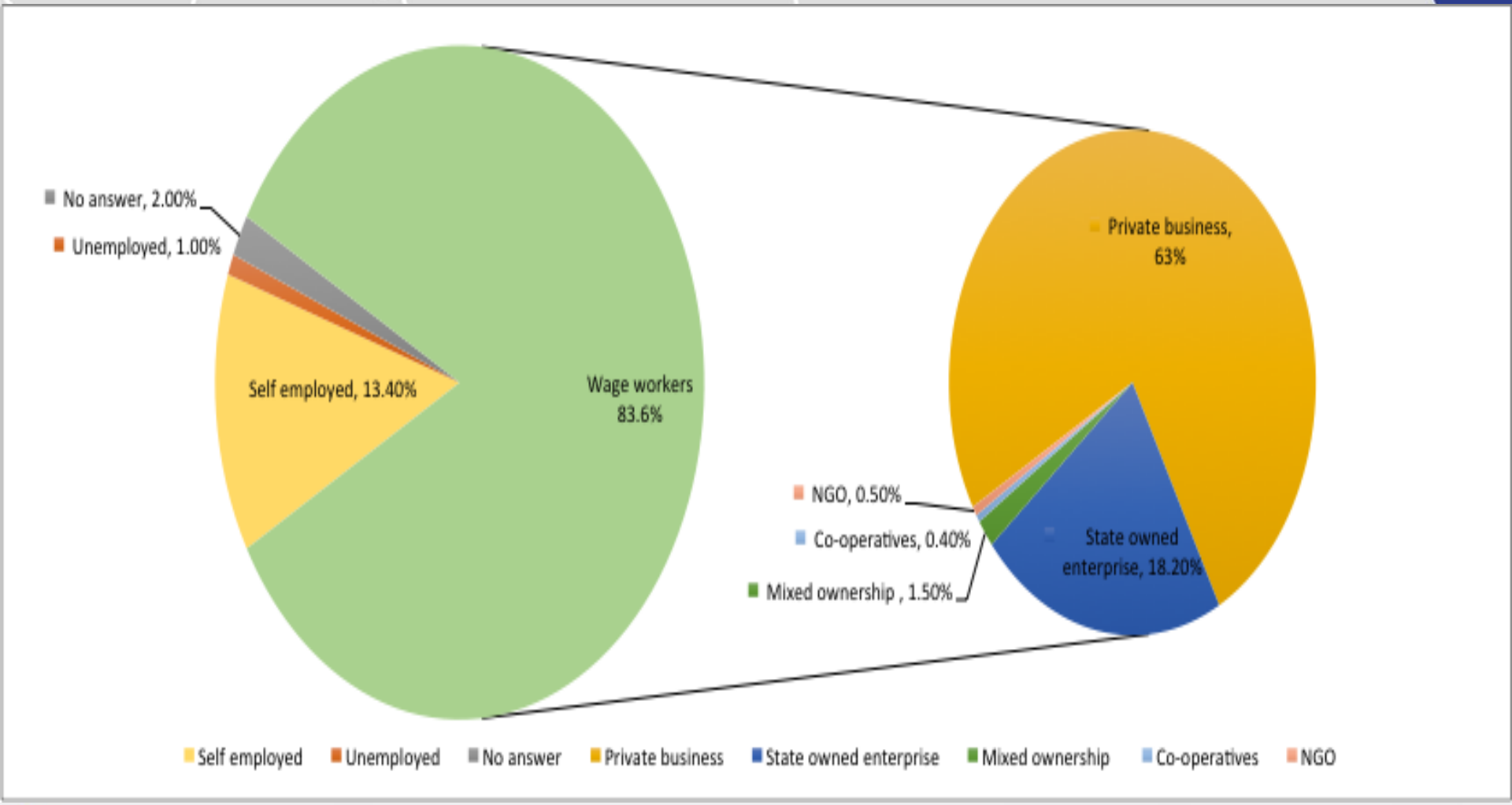
Where Does Hidden Economy Occur?



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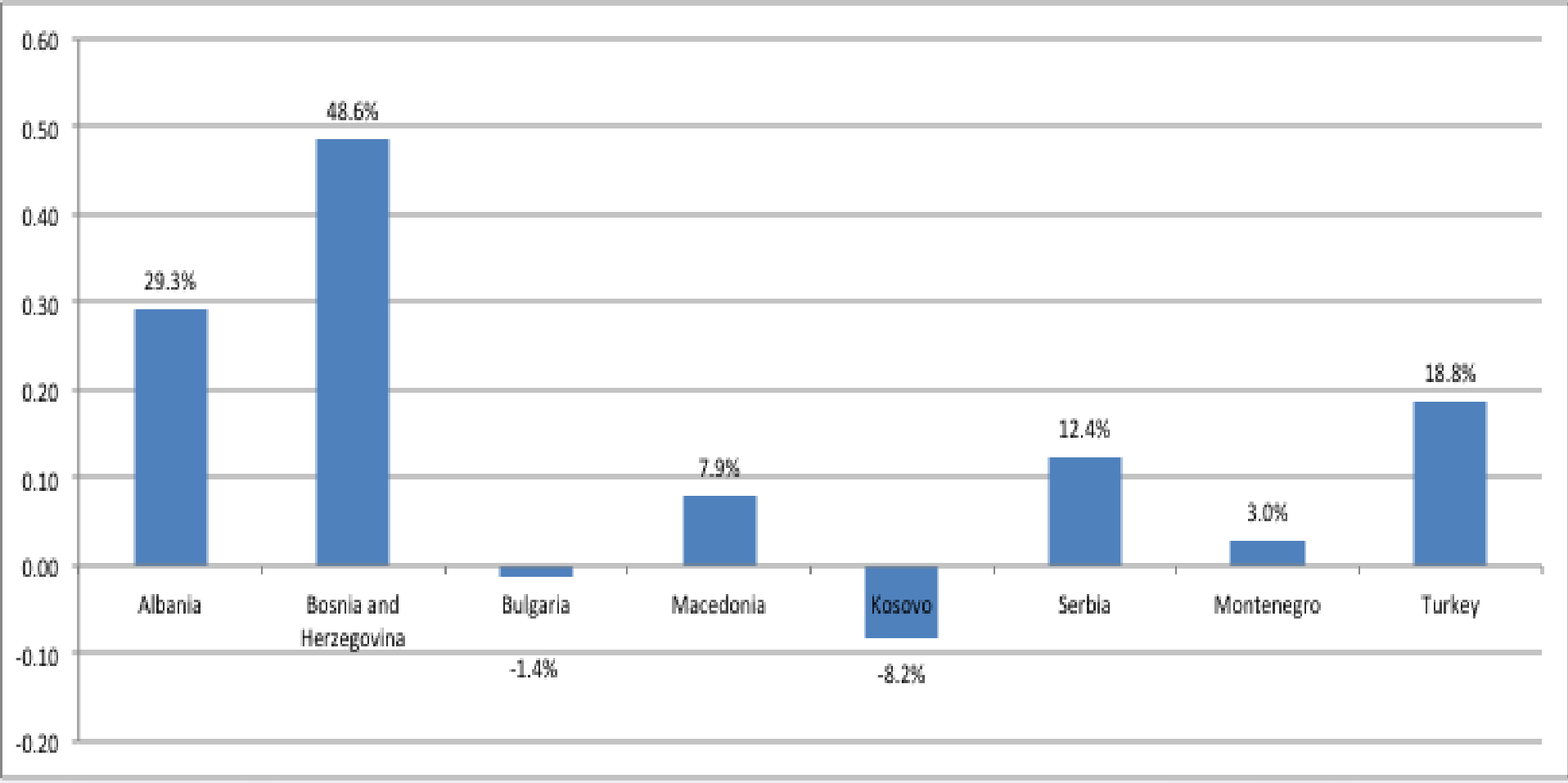
Wage premium of formal vs. hidden economy



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Demographics of hidden employment

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

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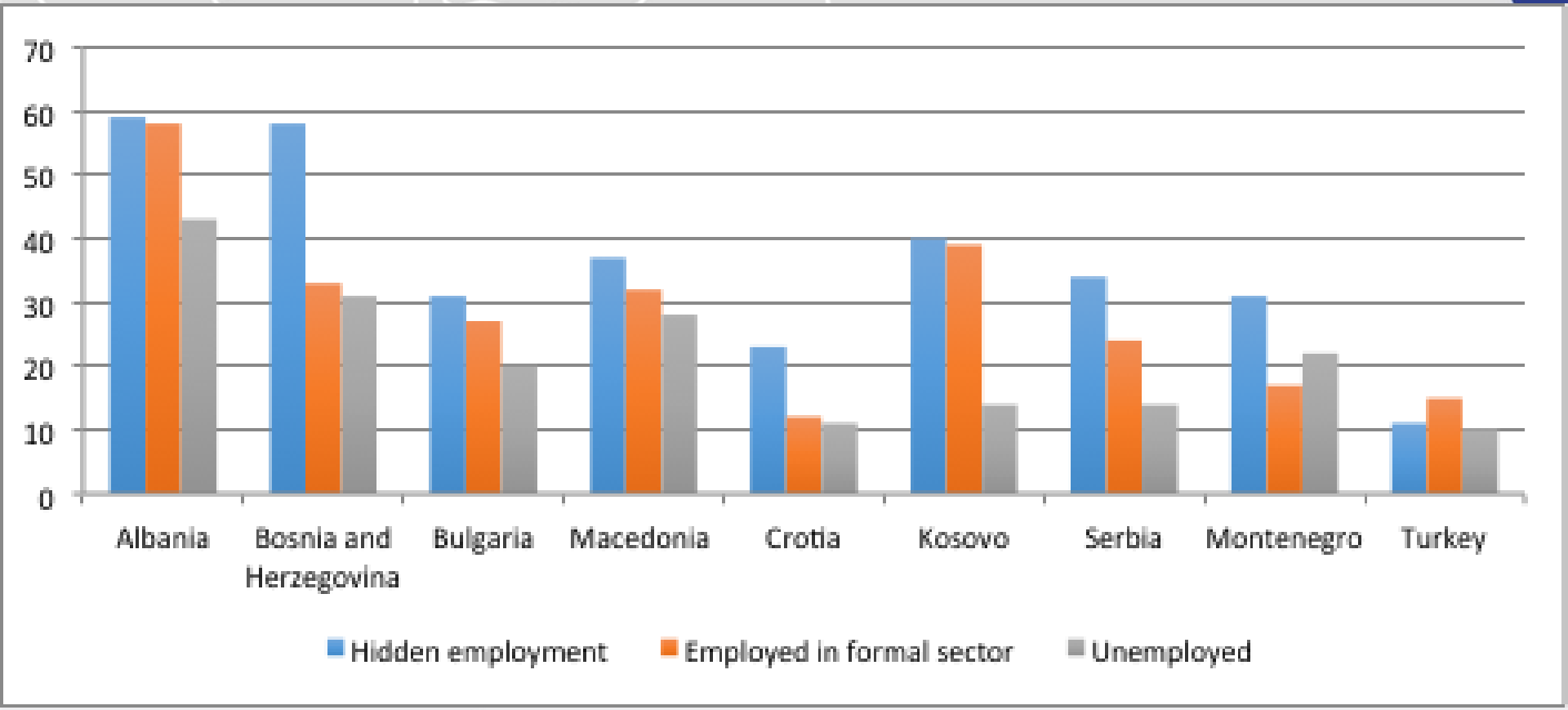
People in hidden employment are subject to higher corruption pressure



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Hidden economy and corruption: some recommendations

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

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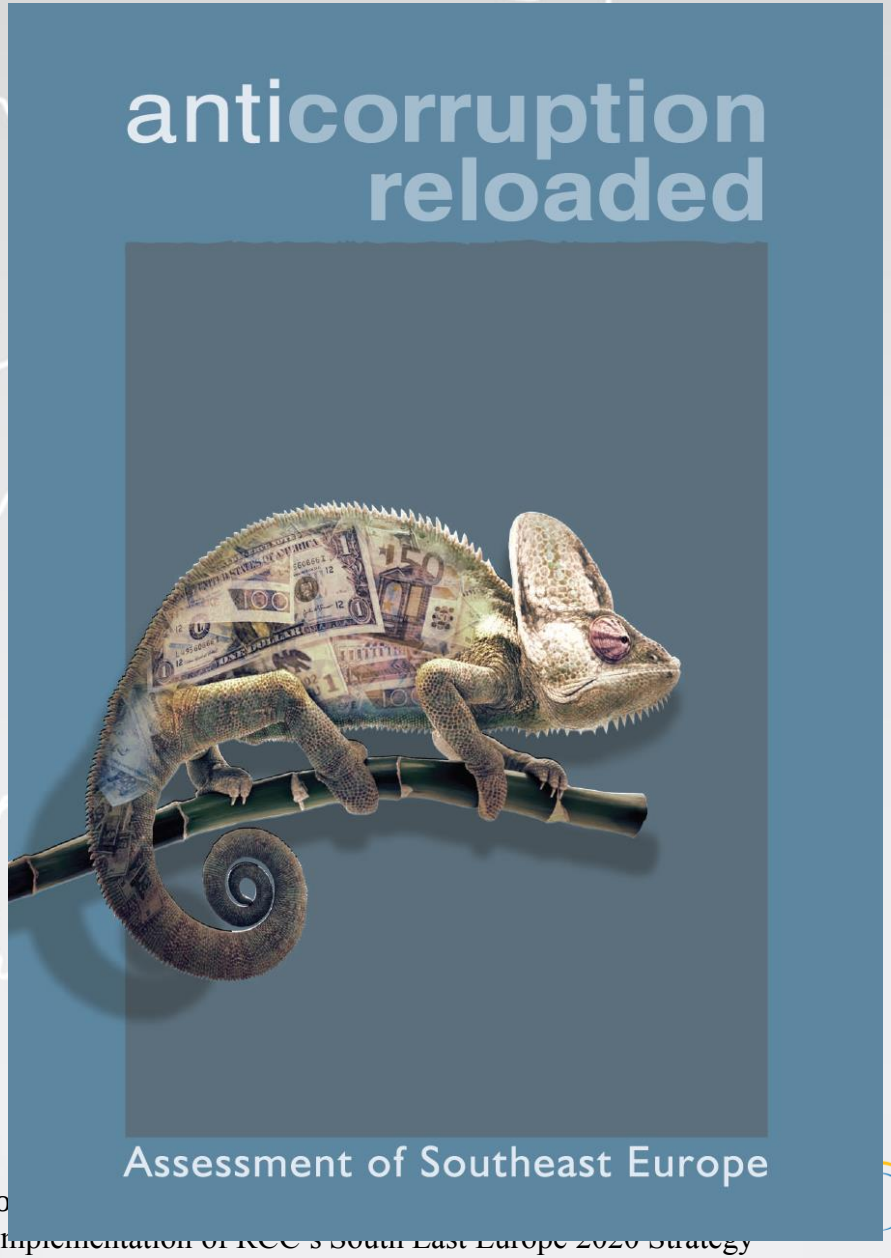
SELDI: Regional Anti-corruption Reports



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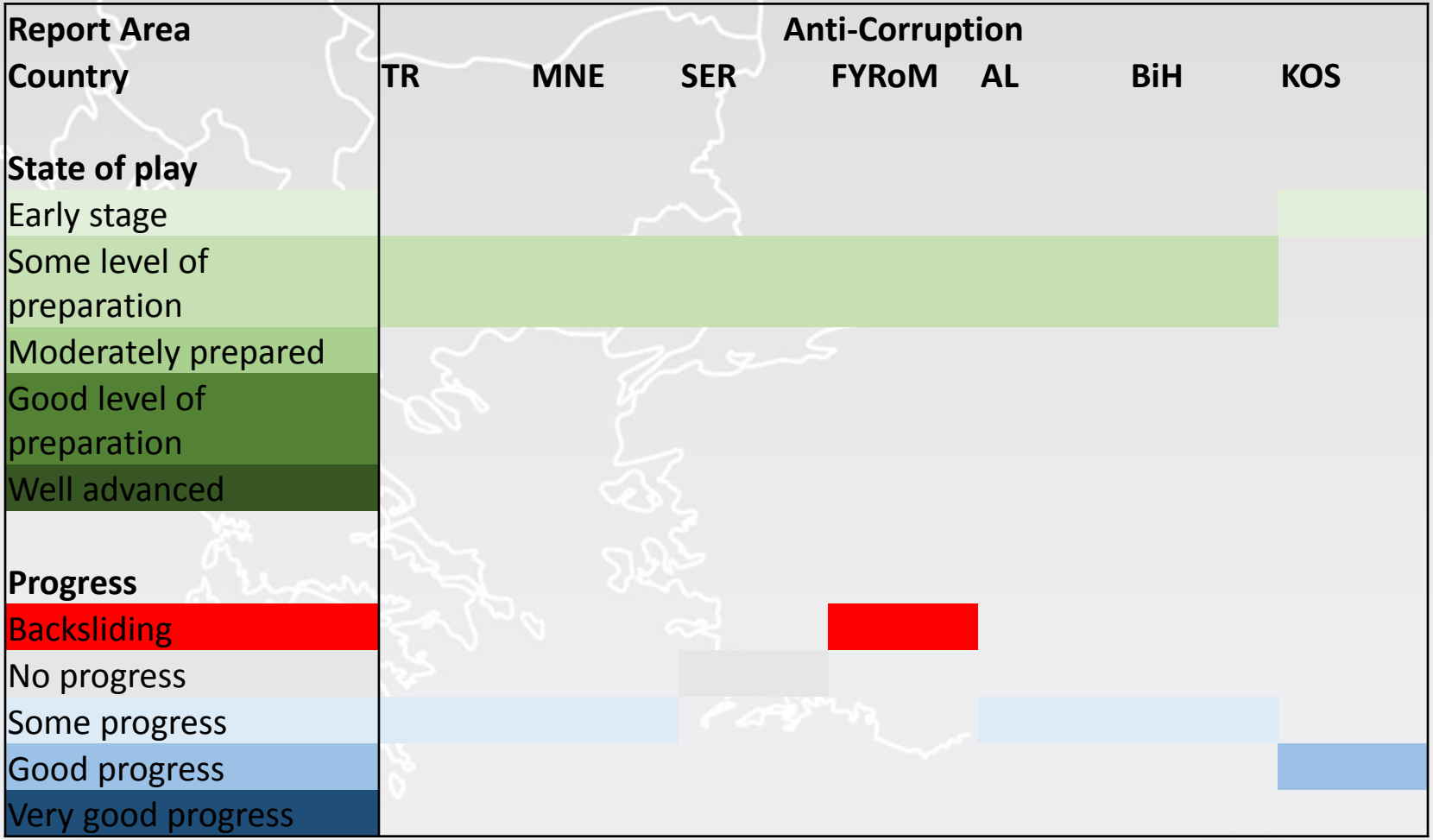
Methodological approaches on monitoring

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

EC Annual Report - Anticorruption



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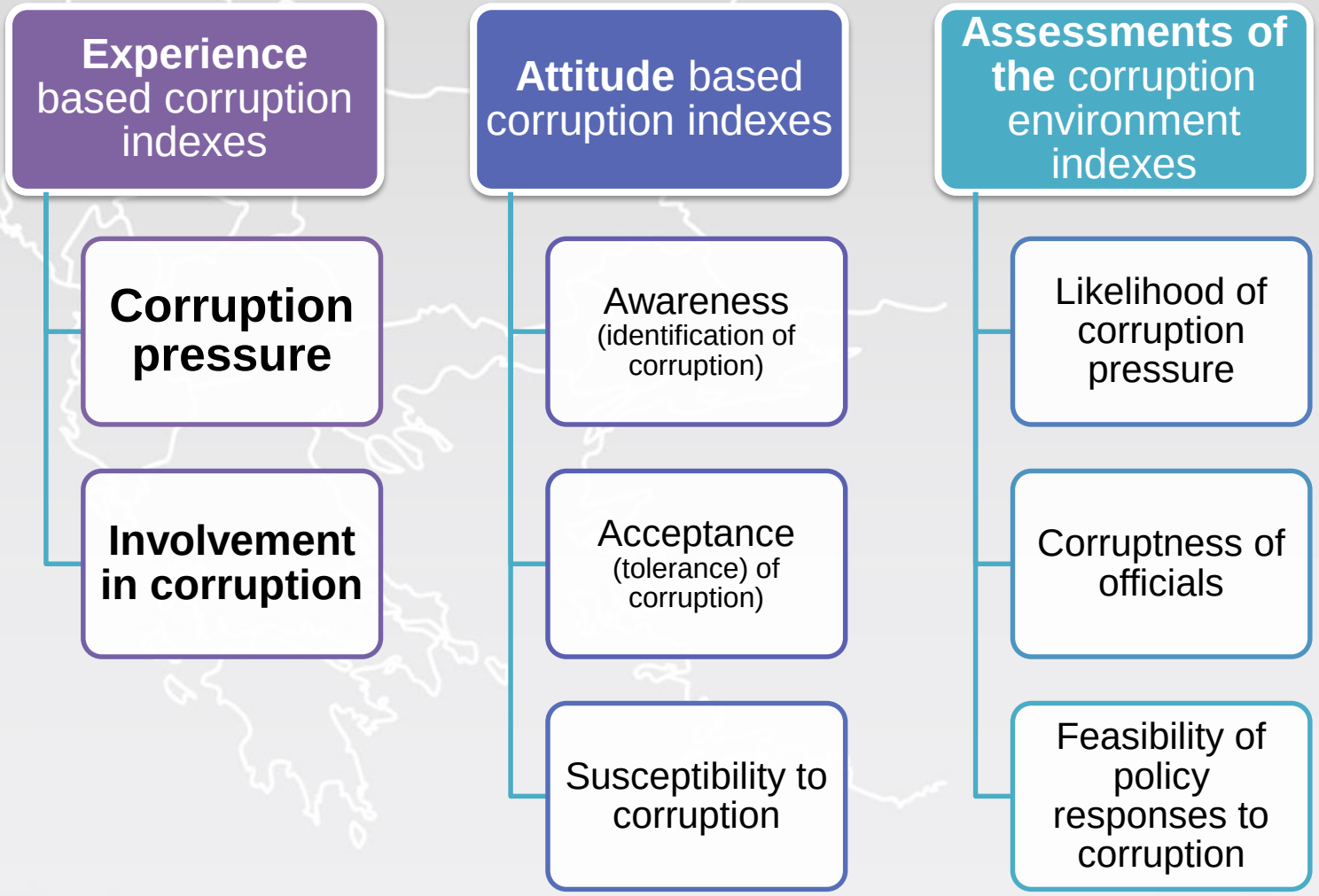
Structure of the Corruption Monitoring System



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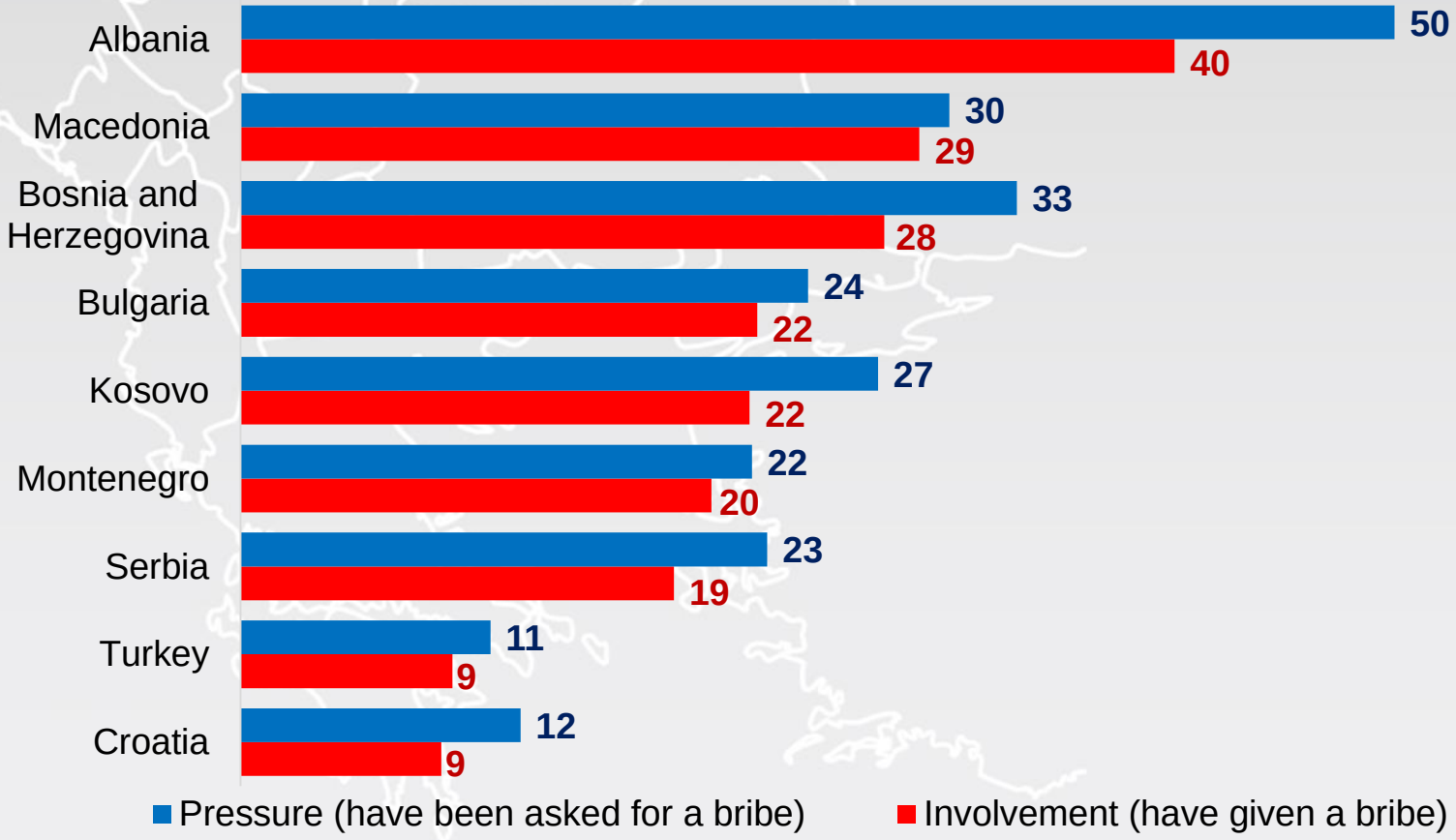
Corruption pressure and involvement in corruption (2016)

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



Source: SELDI/CSD Corruption Monitoring System, 2016

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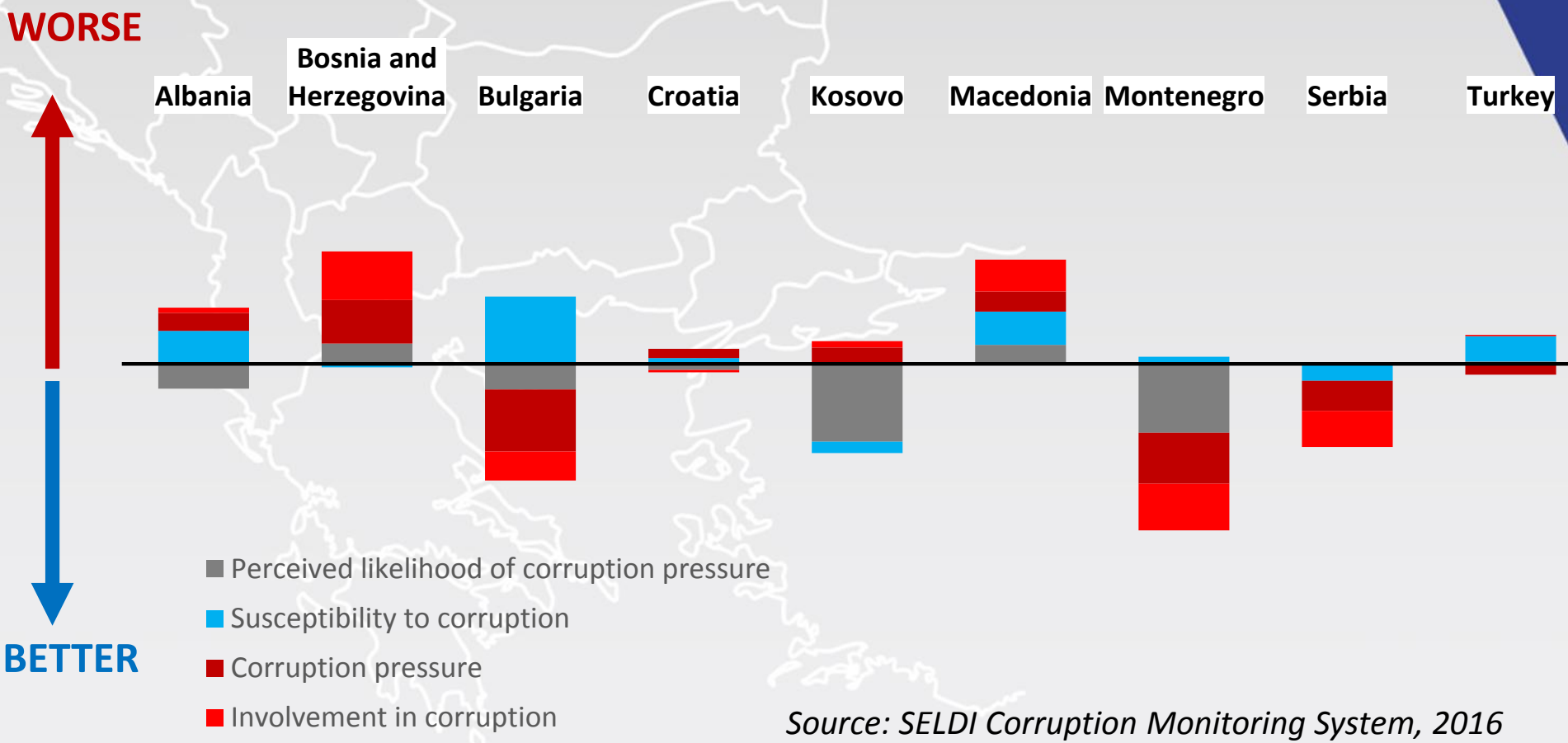
Corruption Dynamics: Difference 2016 - 2014, %



Source: SELDI Corruption Monitoring System, 2016

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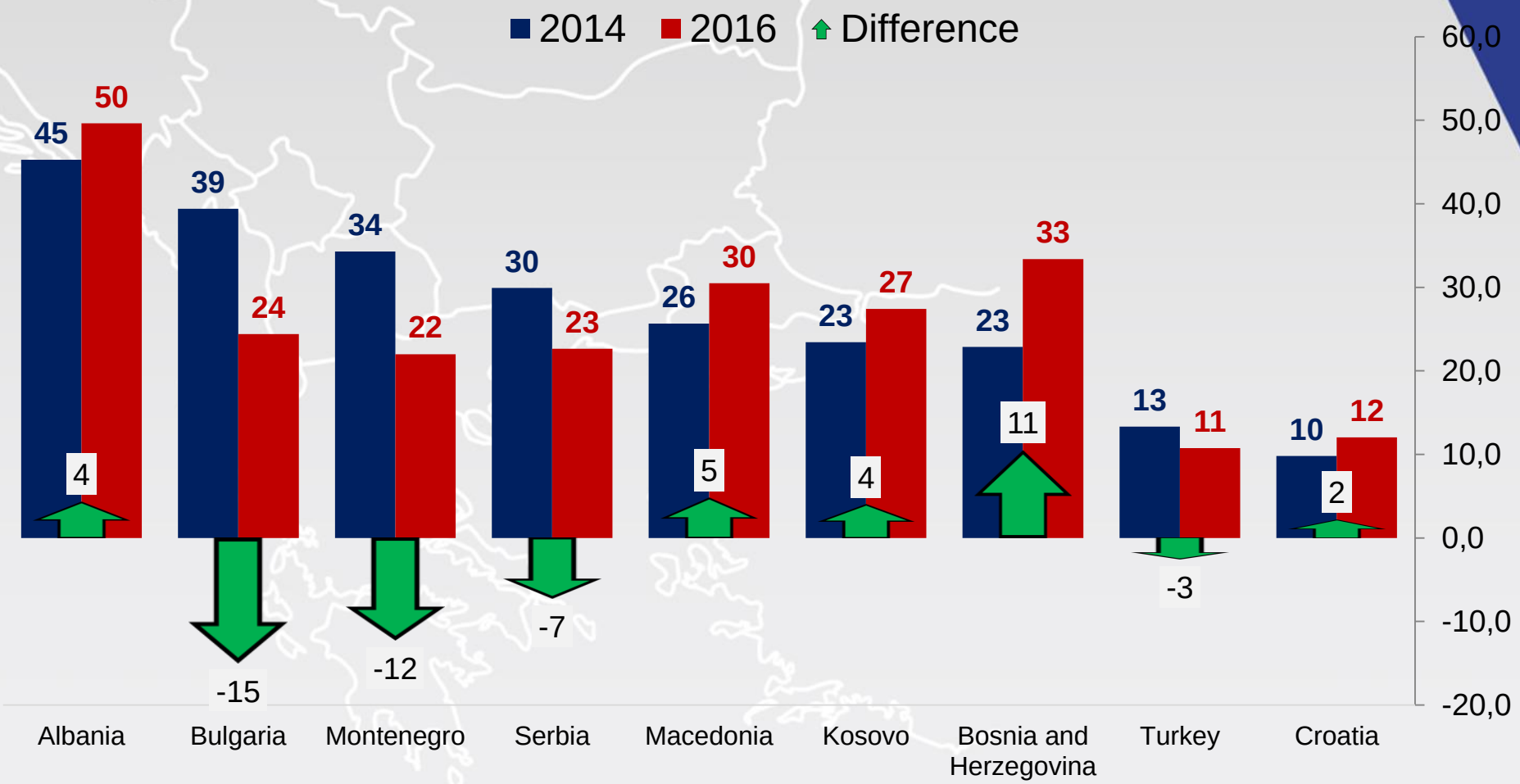
Corruption pressure, % (2014 and 2016)



Source: SELDI Corruption Monitoring System, 2016

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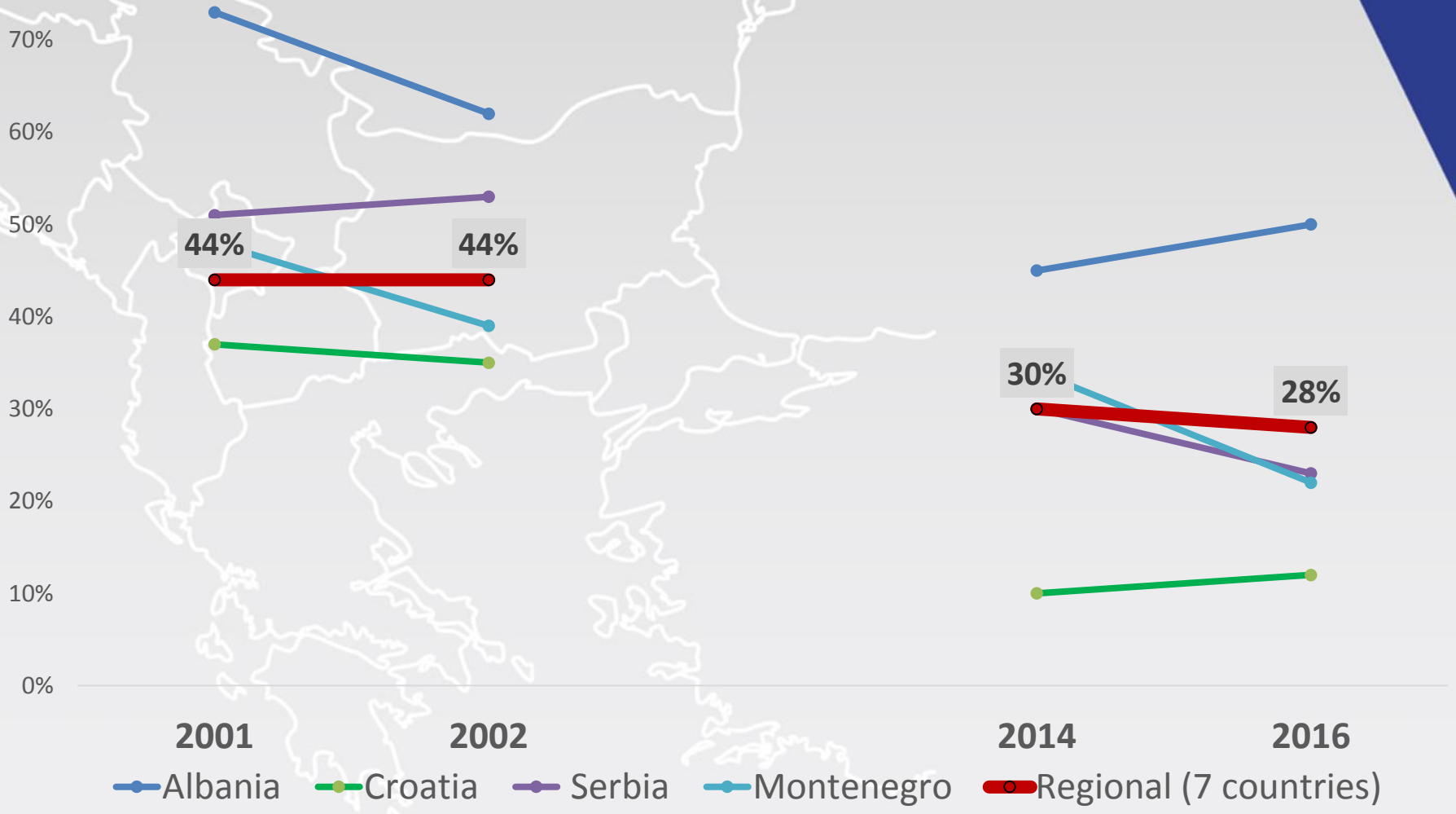
Corruption Pressure 2001, 2002, 2014, 2016



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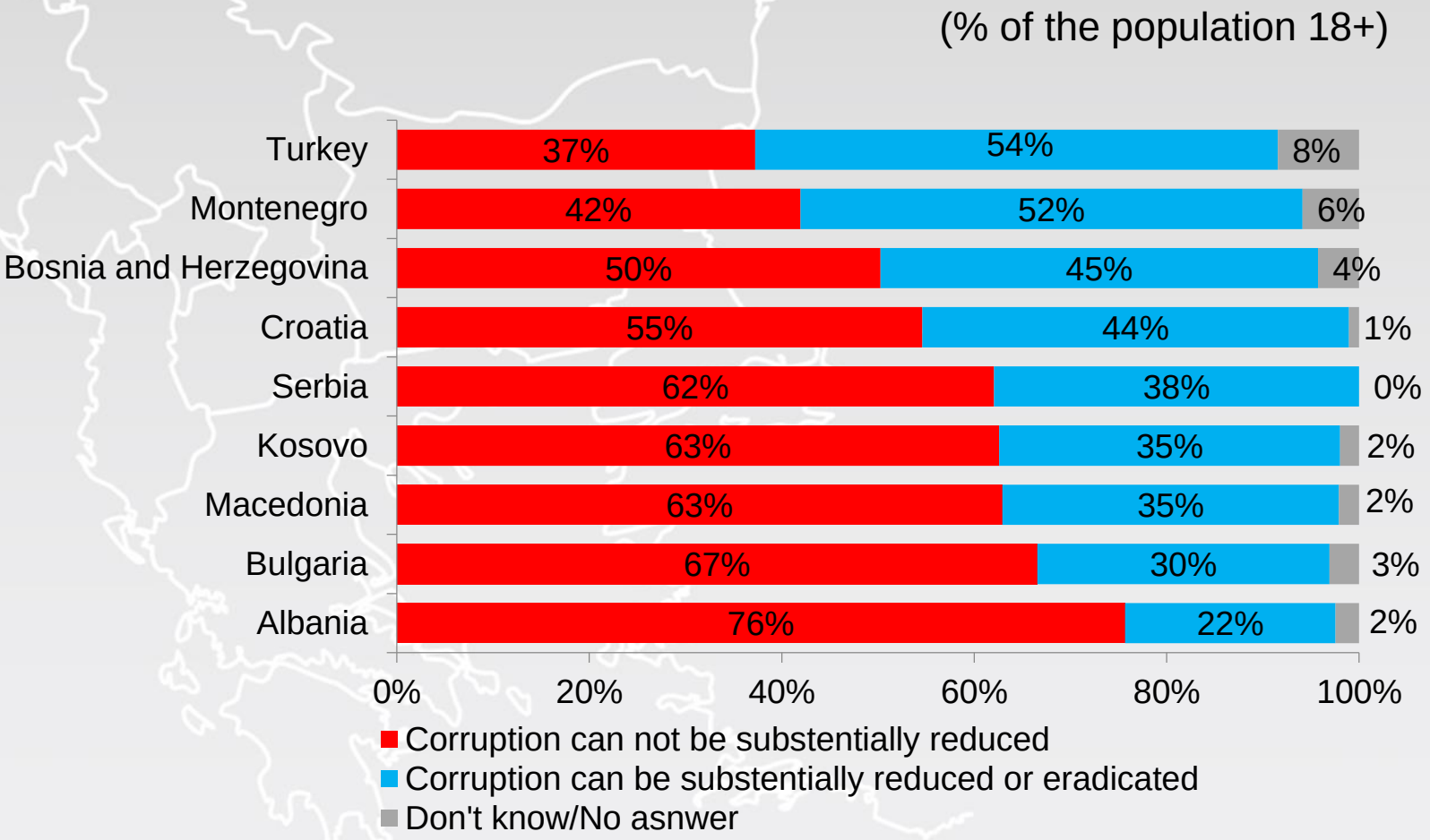
Feasibility of policy responses to corruption (%)



Source: SELDI Corruption Monitoring System, 2016

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Corruption trends 2001 - 2016

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

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

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

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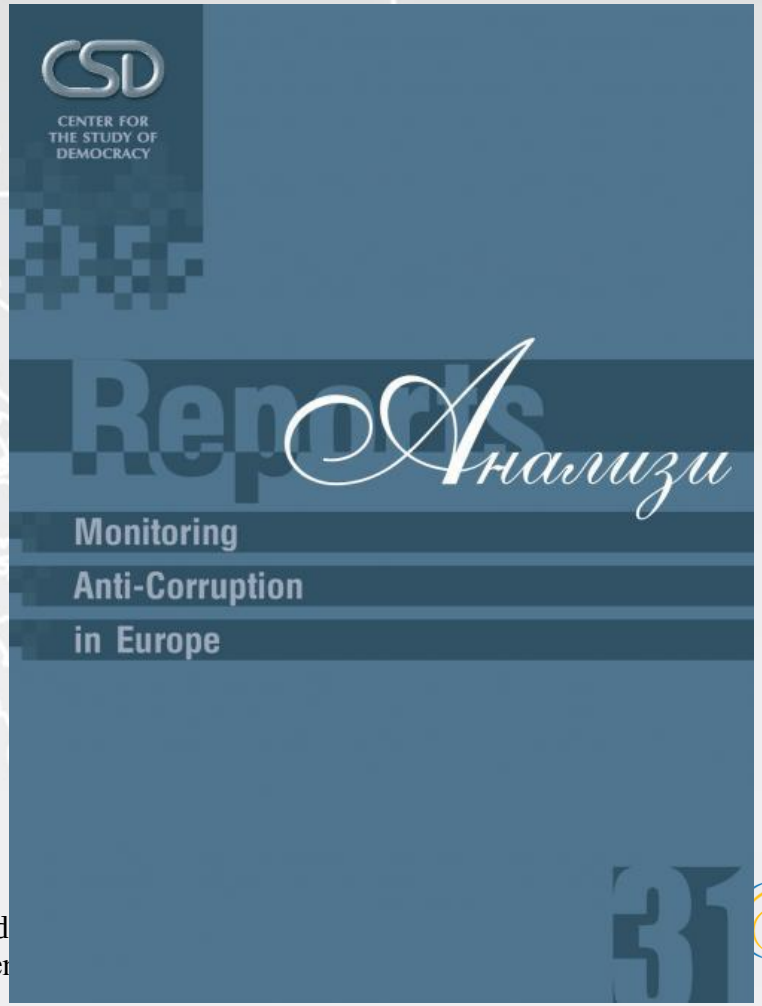
Monitoring Anti-Corruption in Europe

Bridging Policy Evaluation and Corruption Measurement



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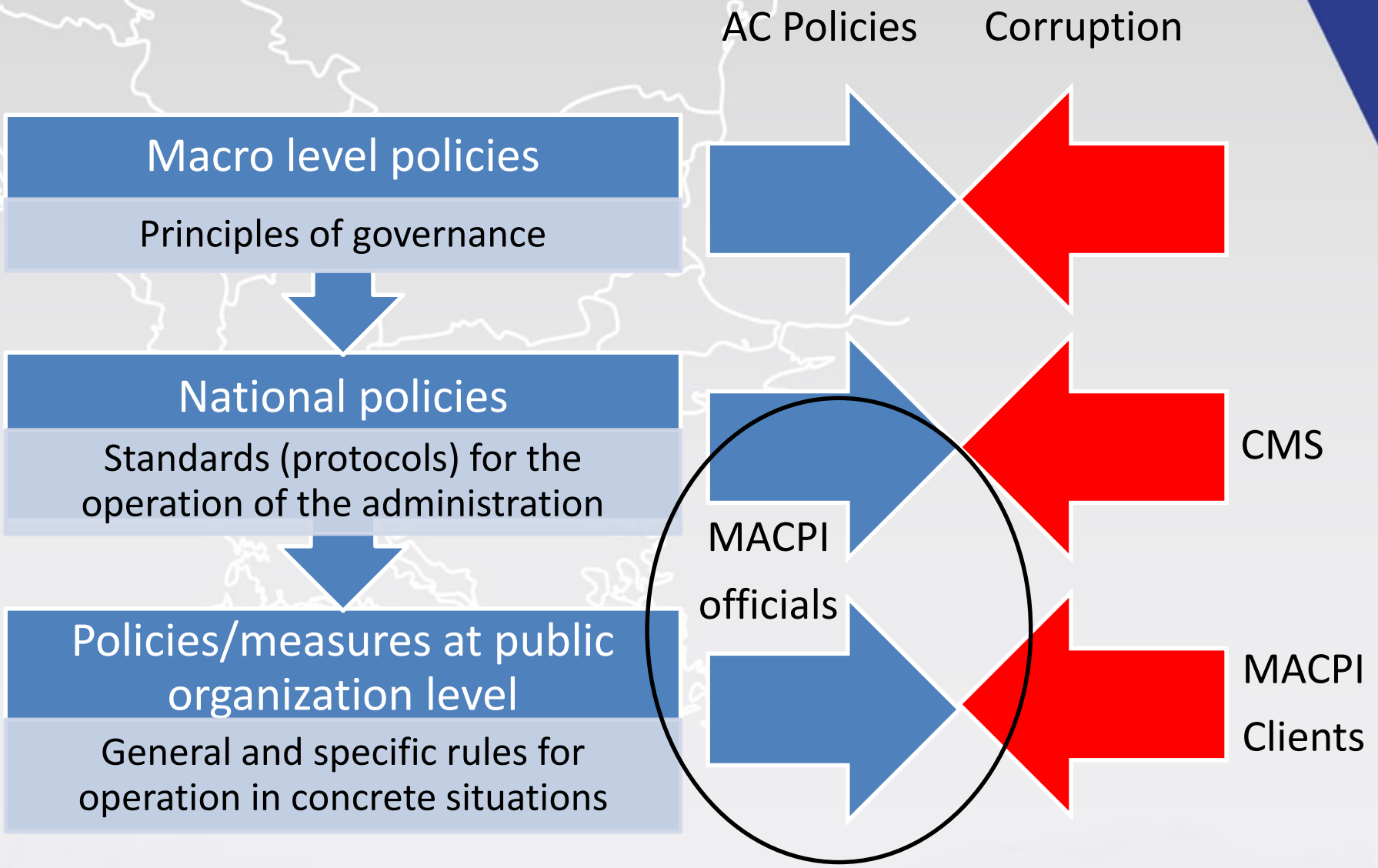
Anticorruption policies and legislation



MACPI indicators and methods

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

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MACPI implementation so far

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

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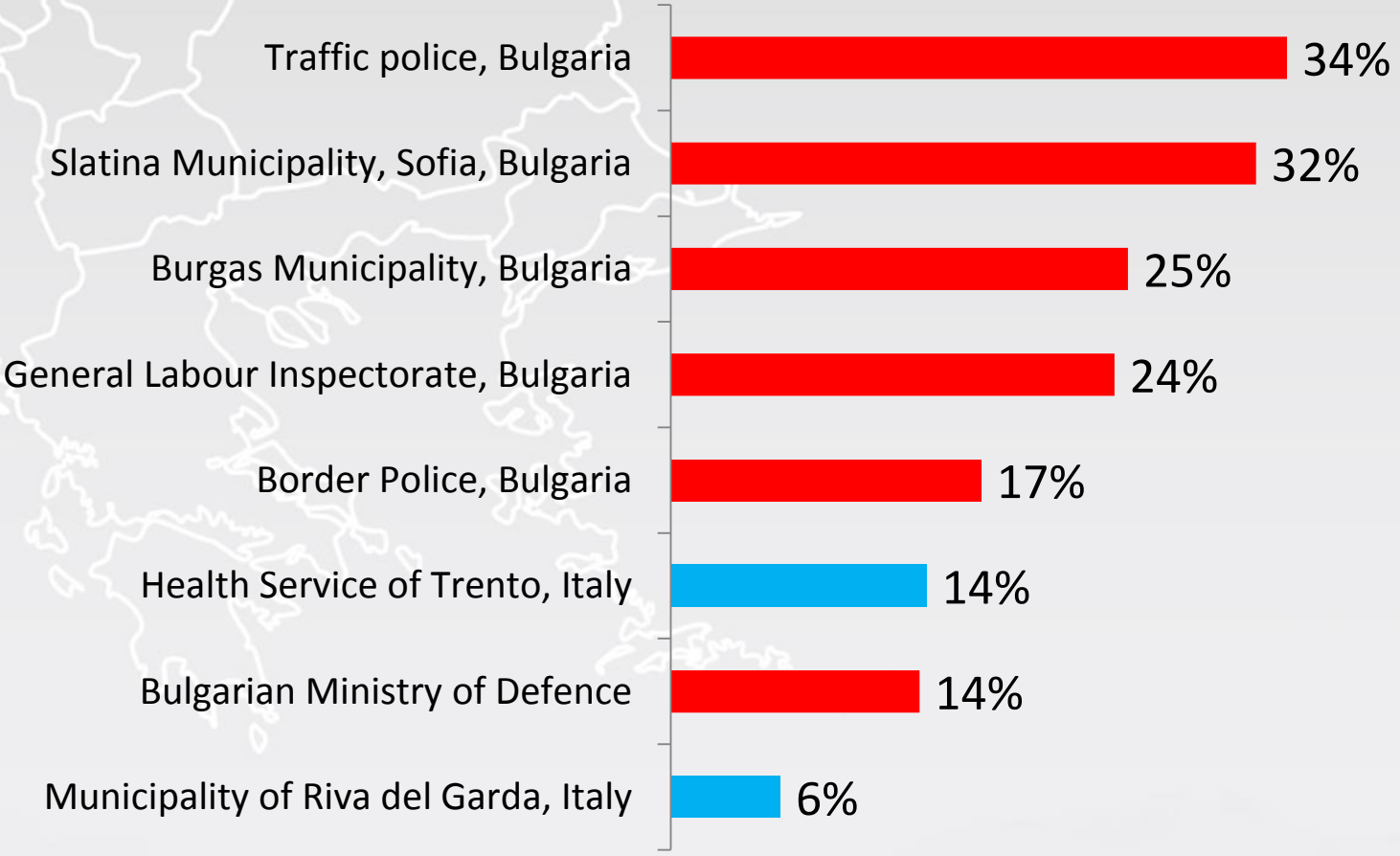
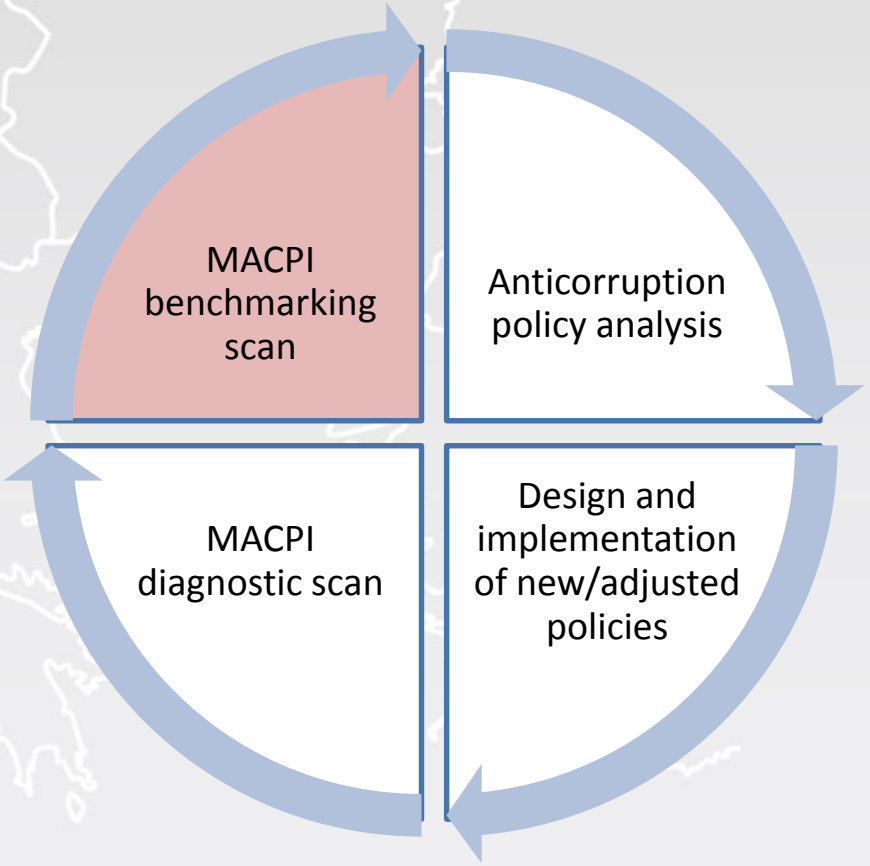
Corruption Pressure, 2015
Bulgarian and Italian Public Organizations
Incidence rates reported by officials



Assessments with MACPI

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

MACPI implementation cycle



Thank you !

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