



# State capture and defence procurement in the EU

*Overview and high-level insights*

State Capture Diagnostics and  
Monitoring for Improving the Rule of  
Law in the EU, 26/3/2020

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# Two main goals

1. **Measuring state capture in procurement:**  
theory, data, methods
2. **Selected results on defence procurement:**
  - Assessing the **extent and types of state capture** in EU defence procurement
  - Tracking the impact of the **2009 EC Directive** on defence procurement in the EU

# I. Measuring state capture in public procurement



# Defining corruption

**In public procurement, the aim of corruption is to steer the contract to the favored bidder without detection.** This is done in a number of ways, including:

- ***Avoiding competition*** through, e.g., unjustified sole sourcing or direct contracting awards.
- ***Favoring a certain bidder*** by tailoring specifications, sharing inside information, etc.

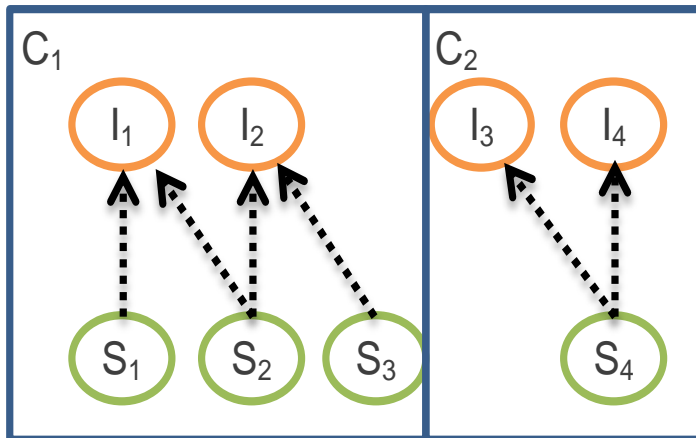
*See: World Bank Integrity Presidency (2009) Fraud and Corruption. Awareness Handbook, World Bank, Washington DC. pp. 7.*

→ **Different from but overlapping with criminal law definitions**

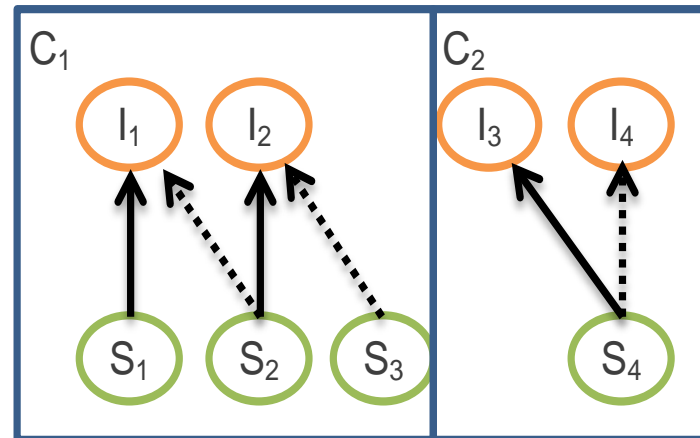


# Defining state capture: From „independent” to captured state

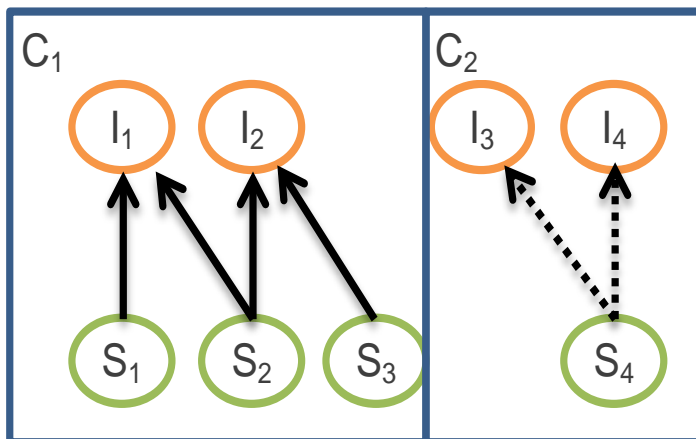
(i) corruption free state



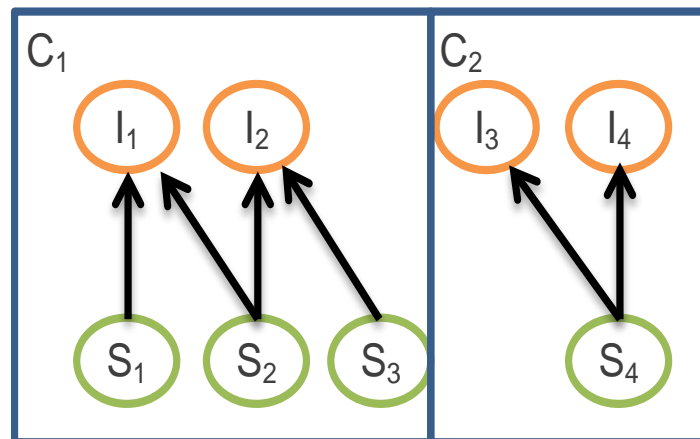
(ii) corruption without state capture



(iii) partially appropriated state

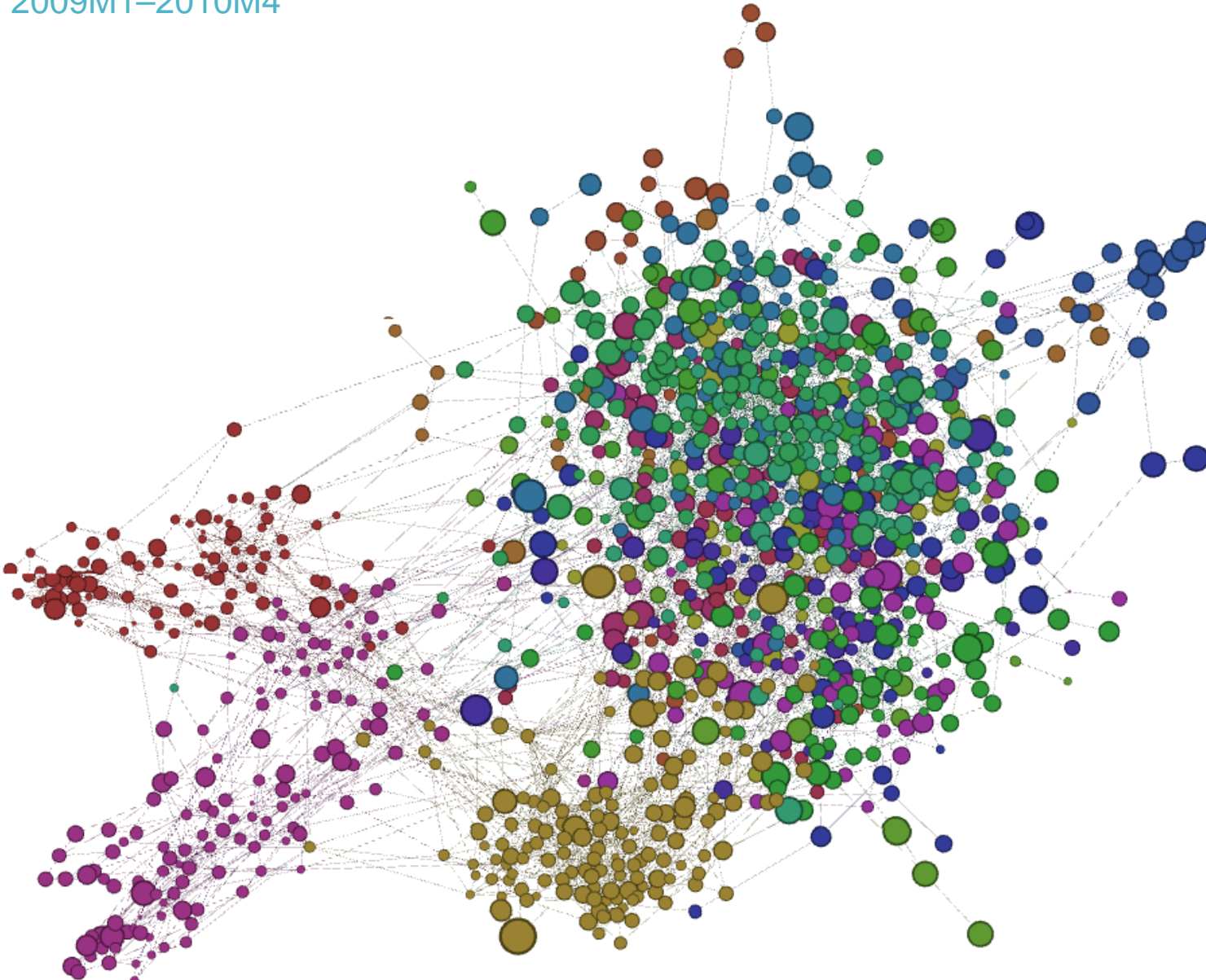


(iv) fully captured state



# Contractual network of organizations highlighting cohesive subgroups with highest modularity,

Hungary, 2009M1–2010M4



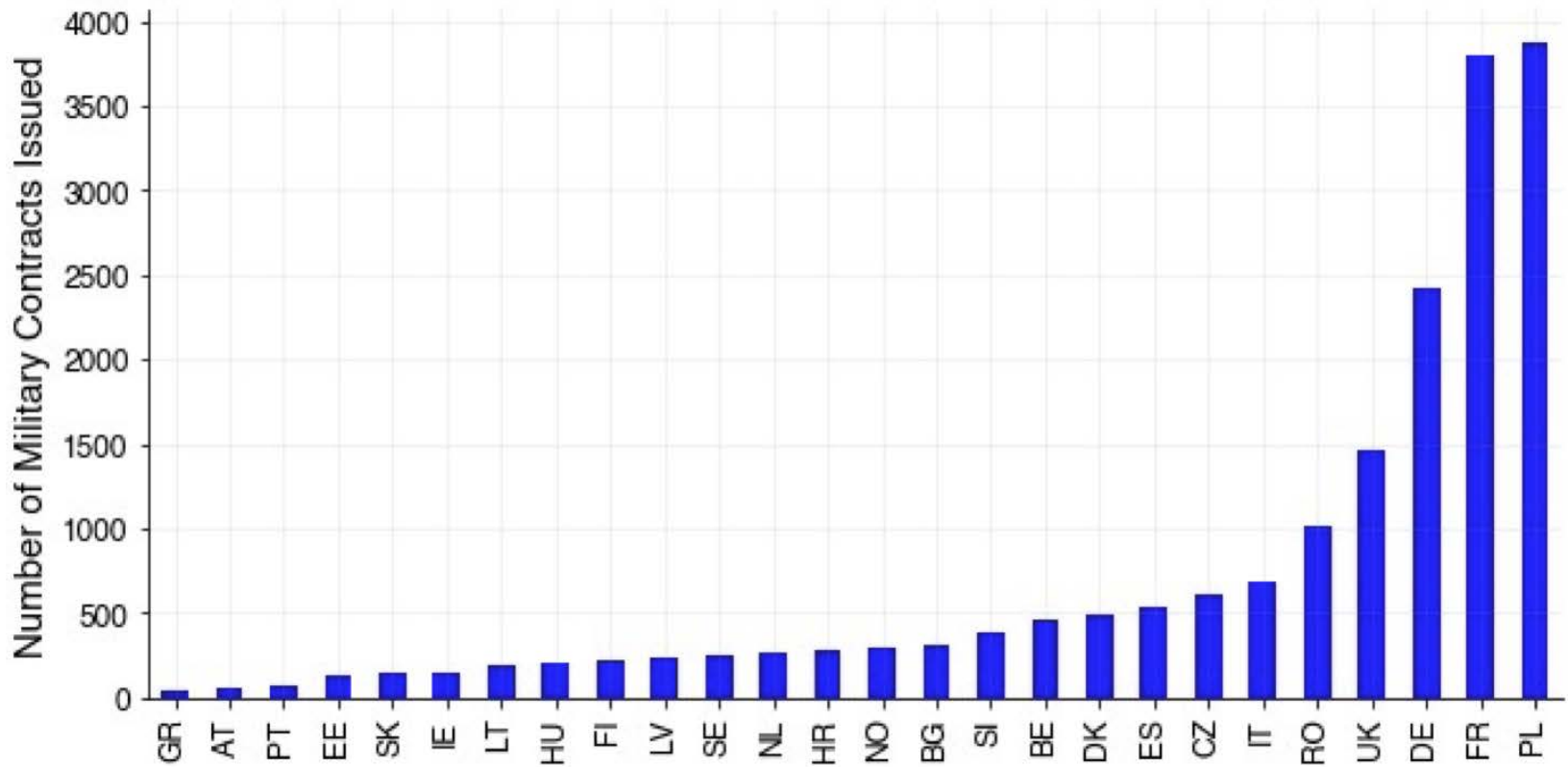
## II. Tracking state capture in defence procurement





# Data: structured admin records

Table 3: Number of military contracts, TED, 2006-2016





# Data scope: admin & manual

**Table 6: Total value of defence procurement expenditure per country based on Eurostat, TED, and manual data collection, million EUR, 2007-2016**

	Total defence procurement expenditure (Eurostat)	TED**	manual	TED %	manual %
AT	7 015	128	179	1,8	2,5
BG	1 593	301	1 991	18,9	125,0*
DE	133 497	3 527	20 865	2,6	15,6
DK	17 027	2 330	3 343	13,7	19,6
EE	2 009	238	67	11,8	3,3
ES	31 615	475	507	1,5	1,6
FI	16 006	338	1 235	2,1	7,7
FR	148 400	10 143	775	6,8	0,5
GR	20 721	15	1 753	0,1	8,5
HU	3 950	337	48	8,5	1,2
IE	1 317	50	274	3,8	20,8
IT	57 749	3 003	6 941	5,2	12,0
NL	27 635	105	601	0,4	2,2
NO	27 637	2 449	1 440	8,9	5,2
PL	25 098	2 684	2 332	10,7	9,3
PT	6 544	142	0	2,2	0,0
RO	3 895	834	665	21,4	17,1
SE	29 160	77	8 478	0,3	29,1
UK	261 745	26 337	45 569	10,1	17,4
<b>Total</b>	<b>822 615</b>	<b>53 513</b>	<b>97 063</b>	<b>6,5</b>	<b>11,8</b>

Notes: \*The 'manual %' value is higher than 100% in Bulgaria because a large-value multi-year programme was taken into account in the first year of the contract, while payments will take place only later in practice, so they could not appear in Eurostat values yet.

\*\* The TED and the manually collected dataset probably contain overlapping contracts too, so the aggregation of the two datasets would require removing these duplications first in order to avoid taking into account the same contract twice.

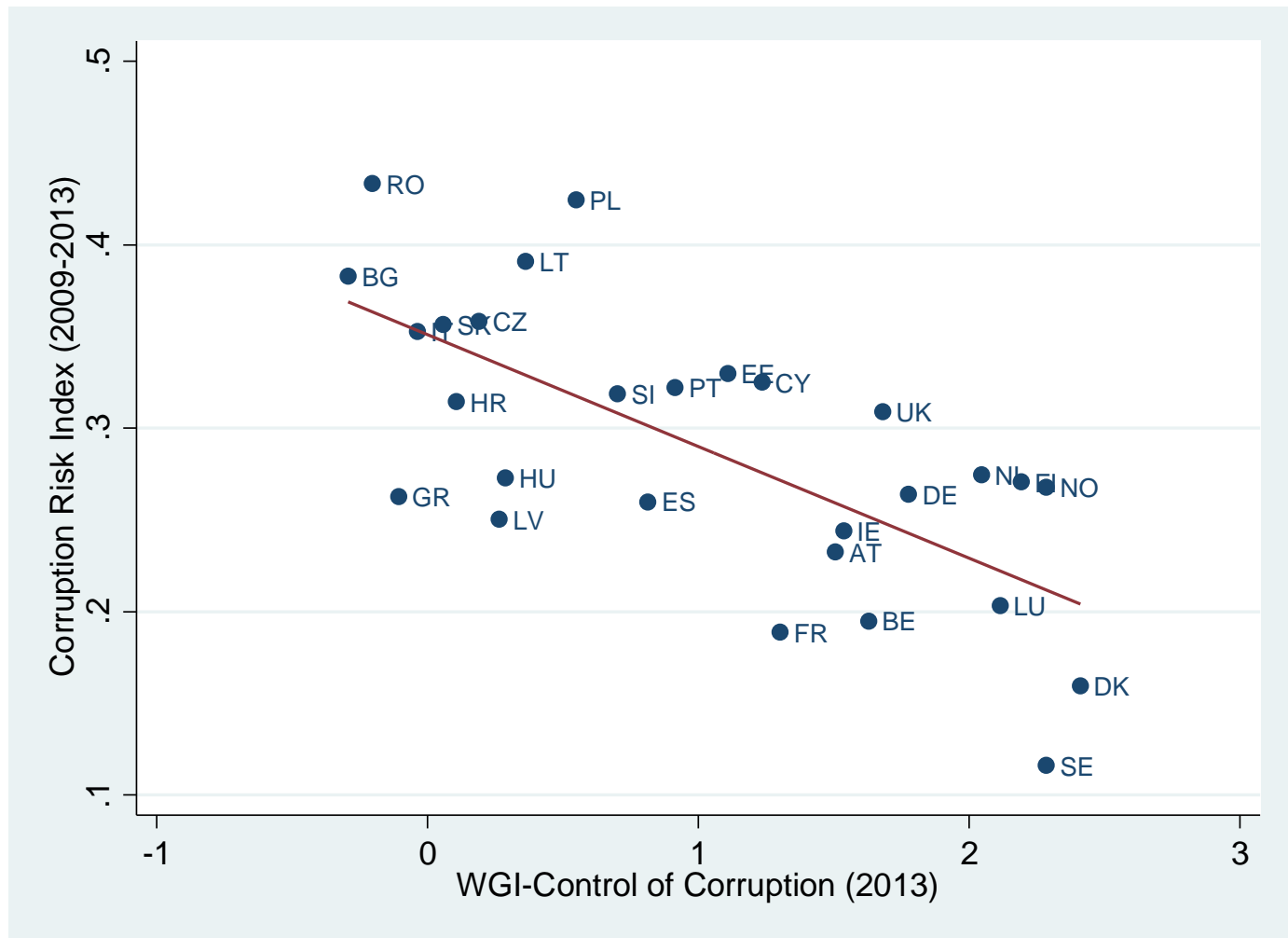
# Indicators: Corruption Risk Index

1. Single bidder contract
2. Call for tenders not published in official journal
3. Procedure type
4. Length advertisement period
5. Weight of non-price evaluation criteria
6. Length of decision period



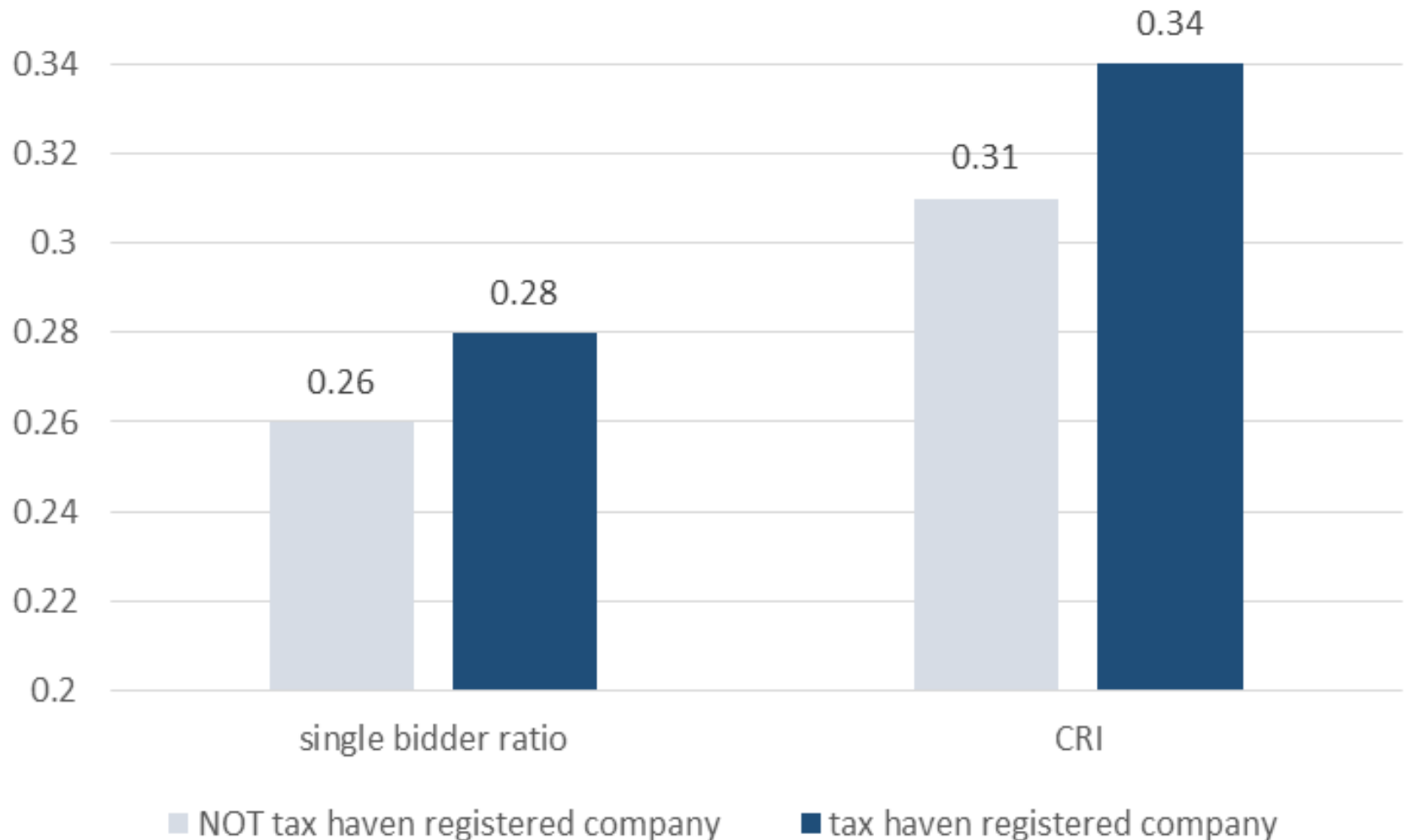
# CRI: Macro validity

- CRI correlates with subjective indicators of corruption
- WGI-CoC (2013) vs CRI (2009-2013, TED)



# Micro validity: Tax havens & procurement corruption

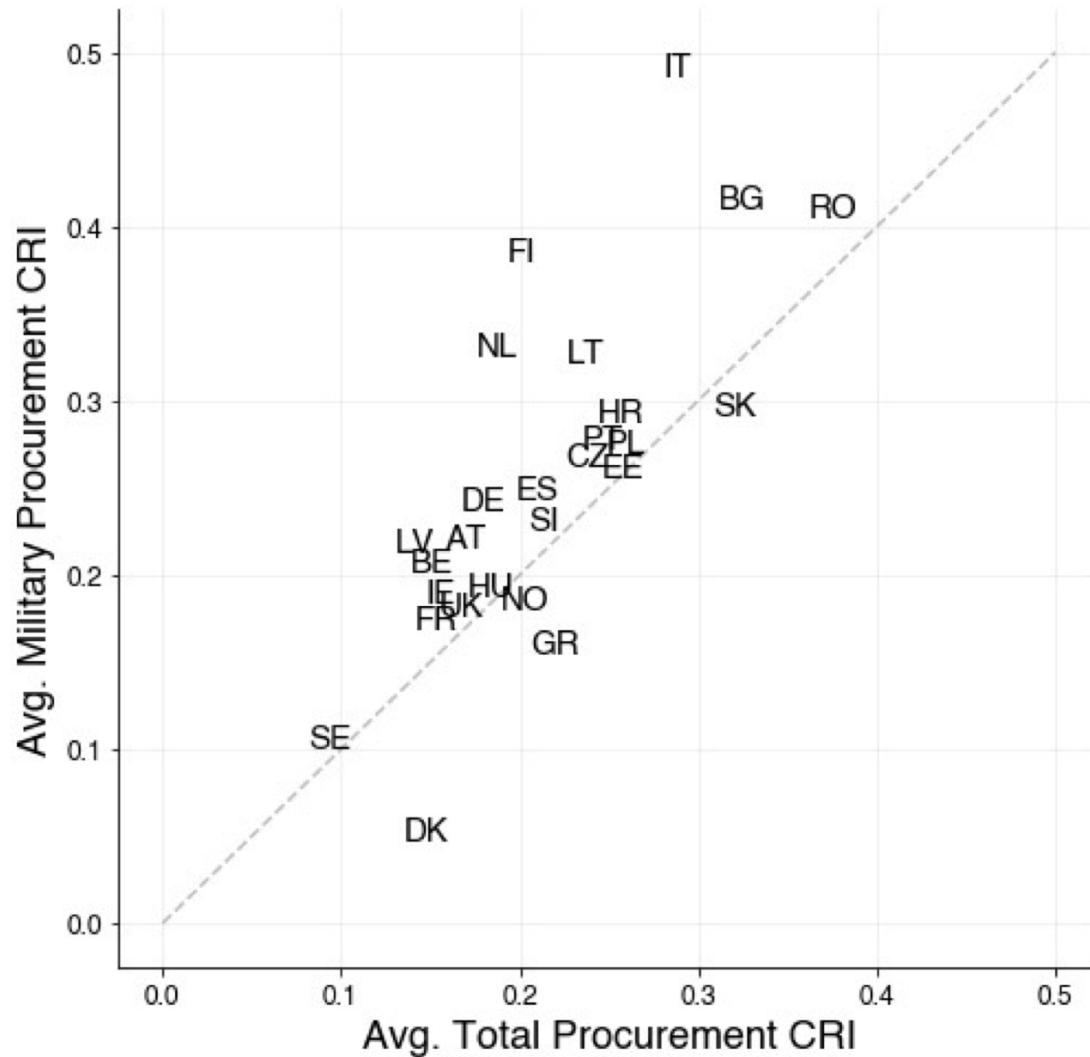
- Tax havens (Financial Secrecy Index)
  - higher corruption risks (single bidding, Corruption Risk Index)
- EU28, 2009-2014



# Applicability to defence

- **Confident YES:**
  - standardized, large volume markets
  - Uniforms, fuel, ammunition, etc
- **Tentative YES:**
  - Specialised services and unique supplies
  - Maintenance, core components (e.g. microchips)
- **Tentative NO:**
  - Unique, high value military equipment
  - Nuclear submarines, fighters, etc.

# Selected results: Defence in national context



# Selected results: Italian high-risk suppliers

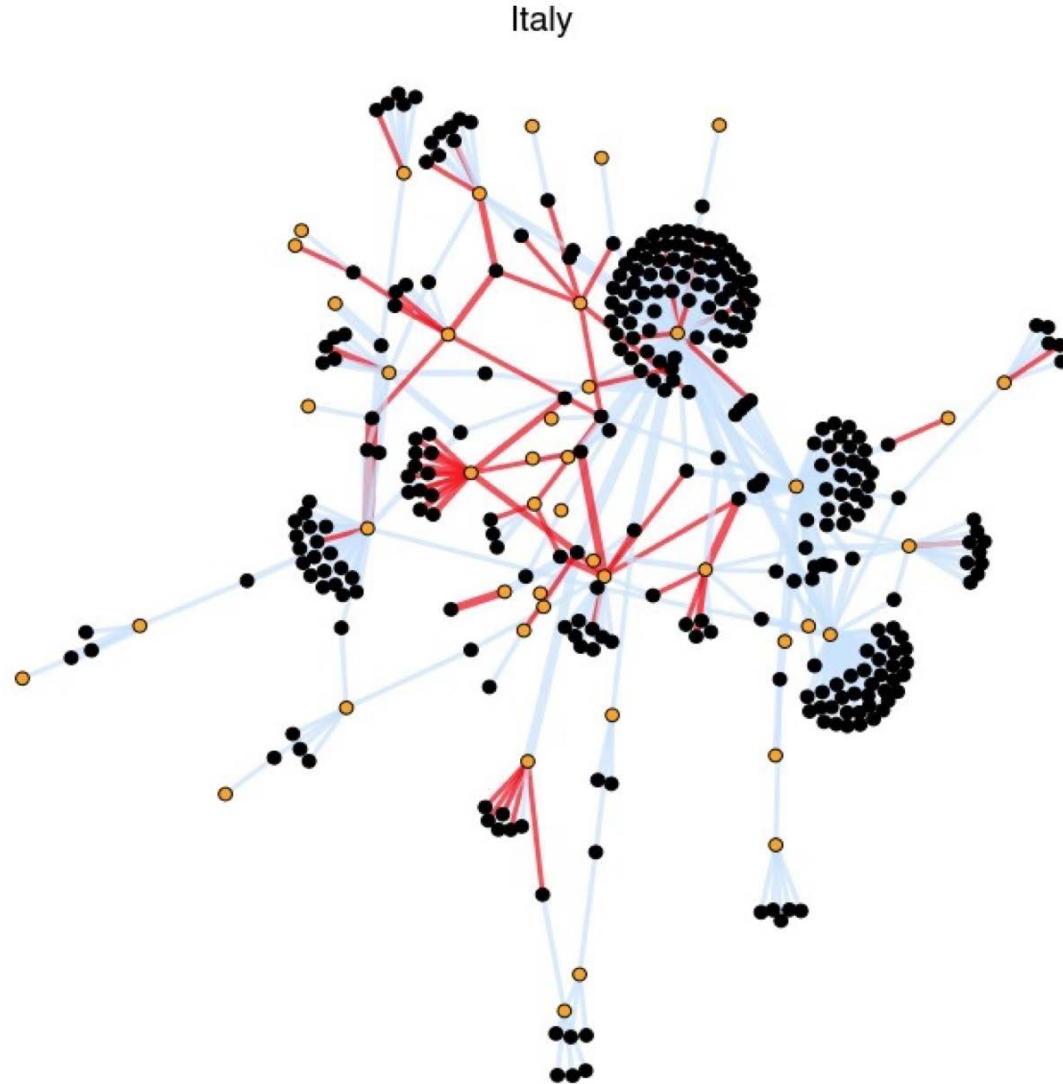
Winner Name	Number of Contracts	Average CRI	Single Bidding Rate
Agustawestland Spa	30	0.564797	0.675214
Selex Es Spa	20	0.532051	0.515385
Oto Melara Spa	17	0.487179	0.487179
Piaggio Aero Industries Spa	13	0.563363	0.765286
Alfredo Grassi Spa	12	0.387153	0.166667
Thales Italia Spa	12	0.511218	0.615385
Fabbrica Darmi Pietro Beretta Spa	11	0.703380	0.953380





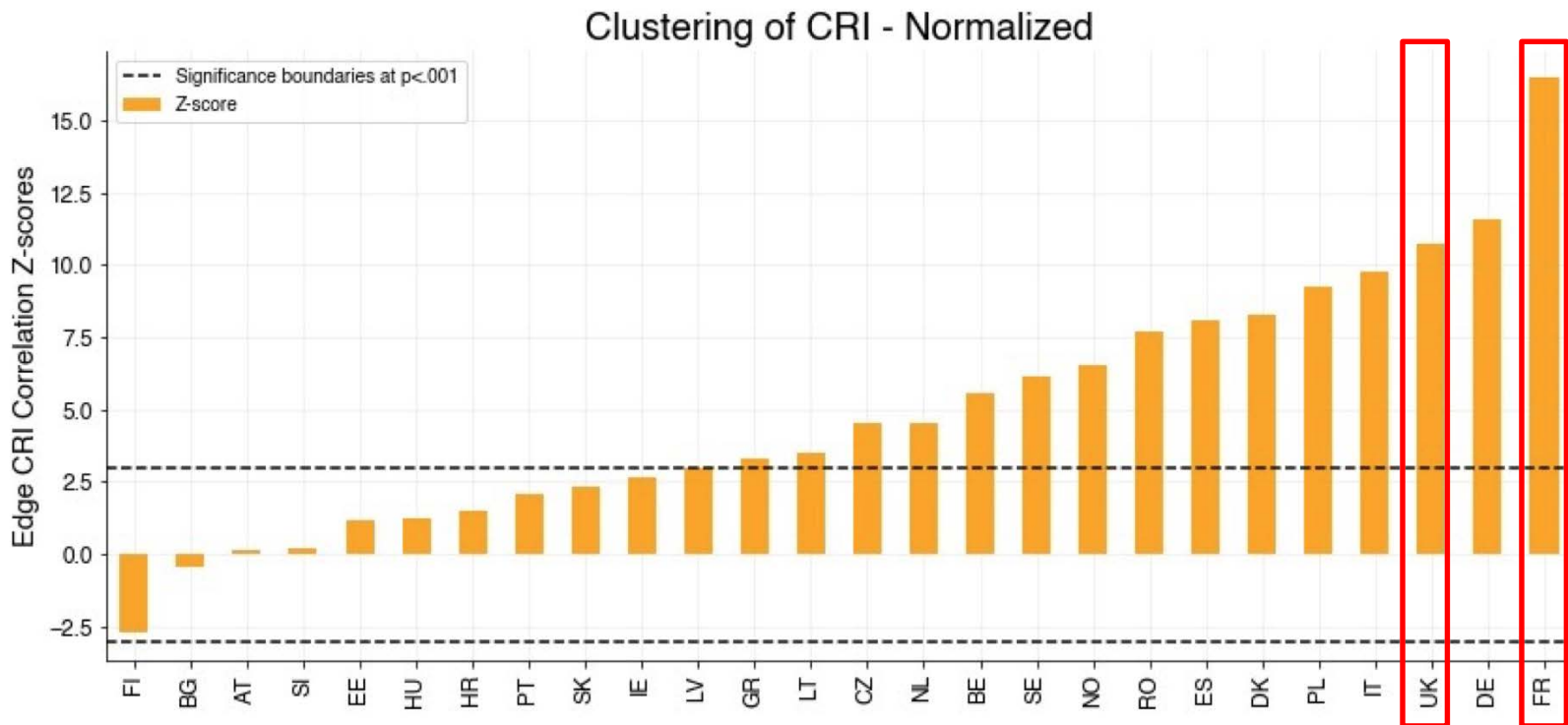
# Selected results: Risk clustering in Italy

Table 10: Network of buyers and suppliers in the defence procurement market, Italy, TED data, 2006-2016



# Selected results: corruption risk clustering ~ state capture risk

Table 13: Normalised average correlation of edges' CRI with neighbours' CRI per country. TED data, 2006-2016



# 2009 EC Defence Directive: IE

- Stated aims ~ expectations
  - Increasing competition in the European Defence Equipment Market (EDEM),
  - Limiting the use of security-related exemptions by Member States,
  - Supporting consolidation across borders,
  - Reducing duplications,
  - Enhancing industrial specialisation.

# Adoptoin schedule

**Table 15: Date of 81/2009/EC Directive coming into effect per country**

Member State	Directive Entry Into force
Austria	01/04/2012
Belgium	06/02/2012
Bulgaria	30/04/2012
Croatia	01/01/2012
Cyprus	23/12/2011
Czech	01/01/2012
Denmark	19/08/2011
Estonia	24/02/2012
Finland	01/01/2012
France	16/09/2011
Germany	14/12/2011
Greece	16/06/2011
Hungary	01/01/2012
Ireland	30/03/2012
Italy	16/01/2012
Latvia	16/11/2011
Lithuania	21/08/2011
Luxemburg	01/01/2013
Malta	21/10/2011
Netherlands	16/02/2013
Poland	13/01/2013
Portugal	01/01/2012
Romania	01/10/2012
Slovakia	09/03/2012
Slovenia	30/12/2012
Spain	03/11/2011
Sweden	01/11/2011
United Kingdom	21/08/2011

# Data scope impact: YES!







**Table 16: Share of contracts awarded under the purview of 81/2009/EC Directive compared to all defence contracts. TED data, 2006-2016**

Year	Share Contracts Under Directive
2006	0
2007	0
2008	0
2009	0
2010	0
2011	0
2012	0.03
2013	0.35
2014	0.64
2015	0.64
2016	0.65



# Impact on key state capture risks

**Table 21: Rate of procurement indicators in the sample of contracts with CPV codes which are always covered by the Directive. TED data, 2006-2016**

Variable	Mean Pre-Directive	Mean Post-Directive		Mann-Whitney U	p-value
Single Bidding	0.39	0.21		62272	<.001
CRI	0.28	0.20		60866	<.001
Same country	0.93	0.97		79793	.019
#No. of Bids	3.10	3.60		79780	.23
Non-open Procedure	0.26	0.57		56829	<.001
No Call for Tenders	0.22	0.12		74261	<.001

Thank you very much!

Instead of conclusions: Looking forward to the discussion😊

