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

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Contents

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

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

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

**Adopt an independent corruption and anti-corruption monitoring mechanism**

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

**Anti-corruption efforts should be focused on critical sectors**

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

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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
Common sense definitions of state capture

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

• Institutional asymmetry and non-alignment between formal and informal institutions vs traditional rational cost-benefit optimization models
• Monitoring institutional asymmetry
Openness of SEE countries (trade to GDP)

- **Serbia**: 100%
- **Kosovo**: 60%
- **Turkey**: 40%
- **Montenegro**: 80%
- **Macedonia**: 120%
- **Bosnia and Herzegovina**: 90%
- **Albania**: 70%

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

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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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Where Does Hidden Economy Occur?

- Self employed, 13.40%
- Wage workers, 83.6%
- Unemployed, 1.00%
- No answer, 2.00%

Private business, 63%
State owned enterprise, 18.20%
NGO, 0.50%
Co-operatives, 0.40%
Mixed ownership, 1.50%

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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.
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.
SELDI: Regional Anti-corruption Reports

Anticorruption reloaded

Assessment of Southeast Europe

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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

<table>
<thead>
<tr>
<th>Report Area</th>
<th>Country</th>
<th>TR</th>
<th>MNE</th>
<th>SER</th>
<th>FYRoM</th>
<th>AL</th>
<th>BiH</th>
<th>KOS</th>
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<td>Early stage</td>
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<td>Progress</td>
<td>Backsliding</td>
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<td>Very good progress</td>
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</tbody>
</table>

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Structure of the Corruption Monitoring System

- **Experience based corruption indexes**
  - Corruption pressure
  - Involvement in corruption

- **Attitude based corruption indexes**
  - Awareness (identification of corruption)
  - Acceptance (tolerance) of corruption
  - Susceptibility to corruption

- **Assessments of the corruption environment indexes**
  - Likelihood of corruption pressure
  - Corruptness of officials
  - Feasibility of policy responses to corruption

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### Corruption Pressure and Involvement in Corruption (2016)

<table>
<thead>
<tr>
<th>Country</th>
<th>Pressure (have been asked for a bribe)</th>
<th>Involvement (have given a bribe)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>Macedonia</td>
<td>30</td>
<td>29</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>Kosovo</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>Montenegro</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Serbia</td>
<td>23</td>
<td>19</td>
</tr>
<tr>
<td>Turkey</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Croatia</td>
<td>9</td>
<td>9</td>
</tr>
</tbody>
</table>

*Source: SELDI/CSD Corruption Monitoring System, 2016*
Corruption Dynamics: Difference 2016 - 2014, %

Source: SELDI Corruption Monitoring System, 2016

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Feasibility of policy responses to corruption (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Corruption can not be substantially reduced</th>
<th>Corruption can be substantially reduced or eradicated</th>
<th>Don't know/No answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>37%</td>
<td>54%</td>
<td>8%</td>
</tr>
<tr>
<td>Montenegro</td>
<td>42%</td>
<td>52%</td>
<td>6%</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>50%</td>
<td>45%</td>
<td>4%</td>
</tr>
<tr>
<td>Croatia</td>
<td>55%</td>
<td>44%</td>
<td>1%</td>
</tr>
<tr>
<td>Serbia</td>
<td>62%</td>
<td>38%</td>
<td>0%</td>
</tr>
<tr>
<td>Kosovo</td>
<td>63%</td>
<td>35%</td>
<td>2%</td>
</tr>
<tr>
<td>Macedonia</td>
<td>63%</td>
<td>35%</td>
<td>2%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>67%</td>
<td>30%</td>
<td>3%</td>
</tr>
<tr>
<td>Albania</td>
<td>76%</td>
<td>22%</td>
<td>2%</td>
</tr>
</tbody>
</table>

(% of the population 18+)

Source: SELDI Corruption Monitoring System, 2016
Corruption trends 2001 - 2016

• Some improvement for the SEE region as a whole between 2001/2002 and 2014/2016
• Individual countries seldom show stable improvement over time.
• Decline in corruption pressure is typically followed by another increase with average levels of pressure remaining very high over a period of several years.
• What are the reasons for this pattern?
Rethinking corruption measurement and understanding why anticorruption policies don’t work

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

Bridging Policy Evaluation and Corruption Measurement
Anticorruption policies and legislation

Macro level policies
- Principles of governance

National policies
- Standards (protocols) for the operation of the administration

Policies/measures at public organization level
- General and specific rules for operation in concrete situations

AC Policies
- Correlation with CMS
- Correlation with MACPI officials
- Correlation with MACPI Clients
- Correlation with Clients
## MACPI indicators and methods

<table>
<thead>
<tr>
<th>Indicators / Methods</th>
<th>MACPI Desk research</th>
<th>MACPI In-depth interview</th>
<th>MACPI officials / experts</th>
<th>MACPI Clients / CMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption interest</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
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<tr>
<td>Corruption pressure</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
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<tr>
<td>Involvement in corruption</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
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<tr>
<td>Corruption attitudes</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Corruption reputation of sectors/officials</td>
<td></td>
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<td>X</td>
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<tr>
<td>Implementability of AC policies</td>
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<td>X</td>
<td></td>
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<tr>
<td>Implementation of AC policies</td>
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<td>X</td>
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<tr>
<td>Estimated effectiveness of AC policies</td>
<td></td>
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<td>X</td>
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</table>
### MACPI implementation so far

<table>
<thead>
<tr>
<th>Public organization</th>
<th>MACPI v1</th>
<th>MACPI v2</th>
<th>MACPI v3</th>
<th>MACPI Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slatina Municipality, Bulgaria</td>
<td>X</td>
<td></td>
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<tr>
<td>Border Police, Bulgaria</td>
<td>X</td>
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<tr>
<td>Health Service of Trento, Italy</td>
<td>X</td>
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<tr>
<td>Municipality of Riva del Garda, Italy</td>
<td>X</td>
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<tr>
<td>Traffic police, Bulgaria</td>
<td>X</td>
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<td>X</td>
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<tr>
<td>Burgas Municipality, Bulgaria</td>
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<tr>
<td>Bulgarian Ministry of Defense</td>
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<tr>
<td>General Labour Inspectorate, Bulgaria</td>
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</table>

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

- **Traffic police, Bulgaria**: 34%
- **Slatina Municipality, Sofia, Bulgaria**: 32%
- **Burgas Municipality, Bulgaria**: 25%
- **General Labour Inspectorate, Bulgaria**: 24%
- **Border Police, Bulgaria**: 17%
- **Health Service of Trento, Italy**: 14%
- **Bulgarian Ministry of Defence**: 14%
- **Municipality of Riva del Garda, Italy**: 6%
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

MACPI benchmarking scan

Anticorruption policy analysis

MACPI diagnostic scan

Design and implementation of new/adjusted policies
Thank you!

ruslan.stefanov@online.bg