

REVIEW

**GOVERNMENT FAVOURITISM IN EUROPE:
ANTICORRUPTION REPORT 3
(THE ANTICORRUPTION REPORT) EDITED BY
ALINA MUNGIU-PIPPIDI (OPLADEN, BARBARA
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This volume contains papers that discuss the relationship between political corruption and organized crime using both quantitative and qualitative approaches. The related studies were carried out within the framework of the European-Commission-funded ANTICORRP project, a large-scale research project being conducted with the participation of research groups from fifteen European countries. However, the editor of this volume concentrated only on five Eastern European countries in addition to Germany and Turkey in the selection of the articles. What makes the book unique and unusual is that these papers present cross-national evaluations concerning corruption based on new objective indicators instead of the well-known subjective perception indices that are usually used for this purpose.

The analyses take into consideration the period between 2007 and 2013 and assess corruption risks in the construction sector based on two indicators. One of them deals with the practice of single bidding during calls for tenders, while the other is connected to the awarding of contracts to companies that have political connections. The existence (or co-existence) of such conditions may imply the presence of corruption; however, some more characteristics of public procurement can also be taken into consideration, such as the transparency of procurement procedures and the time that elapses between the announcement of tenders and the deadlines for application. The volume is edited by Alina Mungiu-Pippidi, a Romanian political scientist and professor of the Hertie School of Governance in Berlin.

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The volume's introductory paper is co-written by the book's editor and Roberto Martínez B. Kukutschka, a PhD candidate at the Hertie School of Governance, and draws attention to the anomalies among public procurements. The authors begin by citing the significant positive relationship between the amount of money in public procurement and corruption, as illustrated by scientific and anecdotal evidence. They pose the question how to continue making extensive public investment in developing countries without financing the rents for political clientele. What may highlight the importance of such a question is the fact that the official impact assessments of such investment projects undertaken by the authorities of the European Union often lack estimates of the effects of new money on corruption risk.

Mungiu-Pippidi and Kukutschka also raise the problem of defining corruption. Several terms related to corruption are discussed, such as particularism and state capture, which are exclusively associated with the corruption that accompanies public procurement. The authors describe a continuum from ethical universalism to particularism, with competitive particularism somewhere between; the main goal of their study is to locate the majority of government transactions of the analyzed countries on this scale.

The researchers have surveyed public procurement in the infrastructure sector in one highly developed old EU Member State (Germany), four new EU Member States (Hungary, Croatia, Romania and Bulgaria), one candidate country (Turkey), and a country neighboring (but outside) the EU (Ukraine). The authors are concerned about the transparency of public procurement even in the benchmark country, but in the case of the new member states they find spectacular evidence for particularism. They end their introductory article with several recommendations for reducing the resources for corruption and for increasing the constraints on corrupt behavior that might help purge public procurement procedures of corruption.

The article by Madalina Doroftei and Valentina Dimulescu – economic and political researchers at the Romanian Academic Society – presents a detailed picture of corruption risks in Romania. The authors offer statistical evidence for the existence of particularistic corruption: i.e., how tenders for public procurement have been won by companies that are favored by government. The authors examine a total of 6064 contracts, coming to the conclusion that both features that indicate particularism exist in the Romanian public procurement market, as about 40 percent of all agreements were thus affected. A conservative estimate presented in the article is that the yearly average value of kickbacks is 200 million euros. An interesting fact is that EU-funded contracts have much less risk of corruption than agreements involving only national funding. In addition, Doroftei and Dimulescu state their concern about the accessibility of

public-procurement-related data, often due to an absence of political will, not for financial reasons – some of their final recommendations also address this problem.

The volume continues with a discussion about the Bulgarian public procurement market by Ruslan Stefanov, Todor Yalamov and Stefan Karaboev, researchers at the Center for the Study of Democracy in Sofia, based on data from Tenders Electronic Daily. The authors find that both the number and the value of public procurement contracts dynamically increased during the time period under analysis; however, the proportion of procurements with single bidders decreased from 27 percent to 17 percent between 2009 and 2014. However, regarding the perspective of the winning companies, the authors come to the conclusion that the share of the top forty construction firms significantly increased after the economic crisis of 2008. Also, there are contradictory findings regarding the impact of EU funds. In terms of the number of bidders, it is argued that EU funding fosters competition. But, as the financial crisis begun and EU support replaced national funds, companies became more used to the circumstances of EU-funded contracts and devised ways to capture these funds. However, the authors conclude that EU-funded contracts still perform better regarding corruption risks than national ones.

Stefanov, Yalamov and Karaboev conclude that even if they cannot produce exact empirical evidence for favoritism, their results suggest that there are some companies that are successful with tendering because of their links to government, instead of their performance. The increase in EU funding has resulted in better control of public procurement, although this effect recedes as the size of tenders decreases. Some recommendations are formulated, mainly regarding changes in the administrative and legal framework that could lead to a more transparent system and effective action against the financing of the crony companies of the government via public procurement.

The Hungarian situation is assessed by Mihály Fazekas, Péter András Lukács and István János Tóth, participants of the ANTICORRP project on behalf of Corvinus University of Budapest. The authors rely on the data extracted from the Public Procurement Bulletin between 2005 and 2012 and their own data processing methods, while they gathered data about companies from the Amadeus database. Following the common framework for all the studies in the volume, the authors inquired into the prevalence of single bidding and found that the overall share of contracts awarded in such circumstances was 25 percent during the period under analysis, and reached a maximum of 35 percent in late 2010. Considering the fact that the construction sector is highly competitive, the authors find these results alarming. However, after new public procurement rules were introduced in

2011, the phenomenon of single bidding became much less common (15–20 percent), but the authors are still suspicious about how the market is concentrated in the hands of a group of companies.

On the other hand, the existence of companies with political connections was taken into consideration. The political relations of the winning firms were identified using very sophisticated methodology (the authors place great emphasis on this, but still indicate some doubt about whether they were able to identify all the linkages). In any case, results suggest that government connections have a strong influence on the likelihood of winning bids in construction markets, but in other areas of the public procurement market, such effects are not obvious. The authors conclude that these results are not surprising as they are in line with the findings of other experts. Also, they express recommendations regarding the need to limit and tailor public funding for the purpose of better controlling spending and improving the opportunities to reveal the political embeddedness of companies.

Munir Podumljak, President of Partnership for Social Development and Elizabeth Dávid-Barrett, a senior lecturer at the University of Sussex, write their paper about political favoritism in the Croatian public procurement. They begin by raising some concerns about the vulnerability of the Croatian contracting authorities to political influence, despite strong procurement-related regulations; the authors refer to the ideas of Mungiu-Pippidi that the existence of considerable opportunities and inadequate constraints create an environment suitable for particularism. Political influence over public procurement is approached from the perspective of the different kinds of contracting authorities that function according to diverse regulatory conditions. As the public procurements on the construction market are mainly connected to authorities that are subject to political control, and not with tightly regulated mechanisms of oversight, numerous opportunities arise for corruption, because: 1) the top managers of these authorities are appointed by political leaders, 2) the former organizations have only weakly controlled balance sheets, 3) formal controls are weaker for these institutions than for other types of authorities, and 4) regulatory authorities lack capacity. A case study about FIMI Media is included to illustrate how politics can influence public procurement, but exact statistics about crony winners are not available. Only the achievements of the most successful state-owned and private enterprises were analyzed.

Concerning the phenomenon of sole bidding, the authors present some statistical evidence, but the origin of the data is not clearly explained. Calculations based on data about 230 contracts from the Integrity Observers database indicate that 40 percent of all agreements concluded between 2012 and 2013 were finalized after a single bid was received – however, the table presented by the authors

suggests that this proportion is about 25 percent. Podumljak and Dávid-Barrett do not really explain the origin of their data, nor the conditions under which they obtained it.

The recommendations of the authors address the extensive political control over public procurement. Also, the transparency and the accountability of the Croatian public procurement system is the focus of several policy recommendations. The authors conclude that, despite the public procurement law and the fact that the institutional framework is adequate, a large share of public procurement occurs outside the control of these instruments.

Two professors from Hacettepe University, Ugur Emek and Muhittin Acar, summarize the situation in Turkey. The authors give a brief overview of the magnitude of public construction expenses and the legal framework of public procurement, focusing on the opportunities for the emergence of and the steps taken to eliminate corruption risks. However, their inquiry is based on a theoretical-legal approach and includes some highly aggregated statistics. No accurate figures are presented to reveal whether the phenomenon of single bidding exists in Turkey, and if so, to what extent. Regarding the potential linkages between public organizations and private enterprises, the topic of public-private partnerships is brought up, and the authors come to the conclusion that public procurement and PPPs may have become important sources for business development for some companies that have close relations with high-level representatives of the government. The policy recommendations of the authors relate to the problem of the lack of suitable, contract-level data for conducting a deeper analysis of the Turkish public procurement sector. This absence leads to deficiencies in transparency and accountability – the same issue which prevented the authors from engaging in more sophisticated and extensive statistical analyses.

Andrew Wilson, historian and political scientist at University College London, begins with a strong statement in his study about corruption risks in Ukraine: “Ukraine has always been one of the most corrupt post-Soviet states”. The paper provides a general overview of the causes and effects of corruption in Ukraine, but does not follow the common framework and scope of the earlier studies in the volume. Wilson begins by assessing the outcomes of the “Euromaidan” protests of 2014 and concludes that the presence of corruption was one of the driving forces. He suggests that some positive changes have happened, as there is no single ideology or group that now guides reforms, and journalists and civil society have more opportunities to reveal corruption. Also, he mentions that the launch of the National Anti-Corruption Bureau at the end of 2015 with the support of the European Union was an optimistic event as its designers tried to avoid the numerous pitfalls that have befallen similar initiatives. Considering

procurement, Wilson highlights the decreasing trend to corruption. However, he also raises concerns regarding some of the legal and sectoral reforms that are lacking (mainly in the energy sector), the presence of oligarchs, particularly in the media, and the accessibility of public services. Finally, Wilson cites some findings from public opinion polls that suggest that understanding the reforms and the new societal willingness to make an effort to implement them are not sufficient.

The final study in the volume is written by Salvatore Sberna and Alberto Vannucci, political scientists at Scuola Normale Superiore, about a broader research effort within the ANTICORRP project that focuses on the interaction between corruption and organized crime in Bulgaria, Croatia, Hungary, Italy and Kosovo. The authors begin with a careful conceptualization of political corruption and organized crime, and also thoroughly discuss issues regarding the research methodology (a comparative cross-national study of a sensitive topic raises interesting challenges). Based on 29 in-depth case studies, Sberna and Vannucci define a number of recurring, general “red-flags” that may indicate anomalies in decision-making processes. Also, they present some interesting findings; for instance, that in the period under analysis most instances of corruption and organized crime were connected with the public procurement sector, and that national – non-EU – spheres of decision-making are less accessible to criminal organizations because of the lack of transparency with the management of EU funds at the country level.

The studies in this volume have been written by scholars, but seem to be more like policy reports than academic papers. However, adherence to the proposed common analytical structure becomes weaker in the papers presented in the second half of the volume (the data sources are insufficient in some countries under analysis). This actually helps to maintain interest, as the first articles are written to follow a rather repetitive framework. As the statistical analyses were based on different kinds of data sources and the quality of the data that was available differs significantly between countries, making a quantitative comparison is difficult. But, as several problems and similar phenomena were raised by all the papers in connection with government favoritism, the reader may get some insight into the country-specific details. In my opinion, an important overall conclusion of the volume is that the relationship between the presence of EU funds and the level of corruption risks is ambiguous in Eastern European countries, perhaps due to improper implementation. In summary, the volume is highly recommended to those who are especially interested in reading about new methods for analyzing corruption, and also for public procurement experts.