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DEMOCRACY



# **State capture and corruption vulnerabilities in high-risk sectors in Europe**

**Todor Galev**

**29 April 2021**



# State Capture Estimation and Monitoring of Anti-Corruption Policies at the Sectoral Level

## Project Members:

- ✓ Center for the Study of Democracy
- ✓ eCrime Research Group at the University of Trento
- ✓ Expert Forum
- ✓ The Civio Foundation

## Geographical coverage:

- ✓ Bulgaria
- ✓ Italy
- ✓ Romania
- ✓ Spain

## Focus on three critical sectors:

- ✓ Wholesale of solid, liquid and gaseous fuels
- ✓ Wholesale of pharmaceutical goods
- ✓ Construction



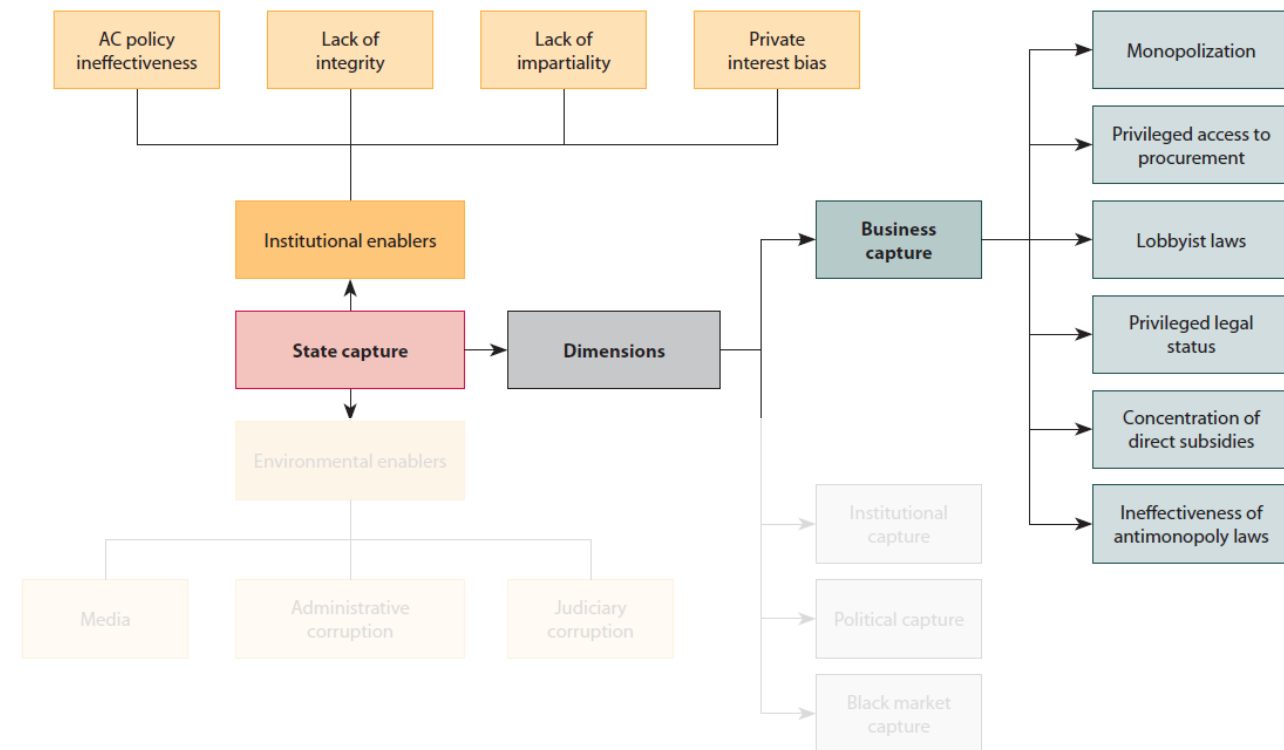
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# State Capture Concept

State capture is a combination of different forms of corruption, which have a single objective: to secure large-scale and long-term privileges to captors by exploiting the power of government for private benefit.

The key characteristic of state capture is the public traces it leaves behind. Because it needs to affect public policy, it is bound to leave visible effects which can be discovered by suitable pattern-finding methods



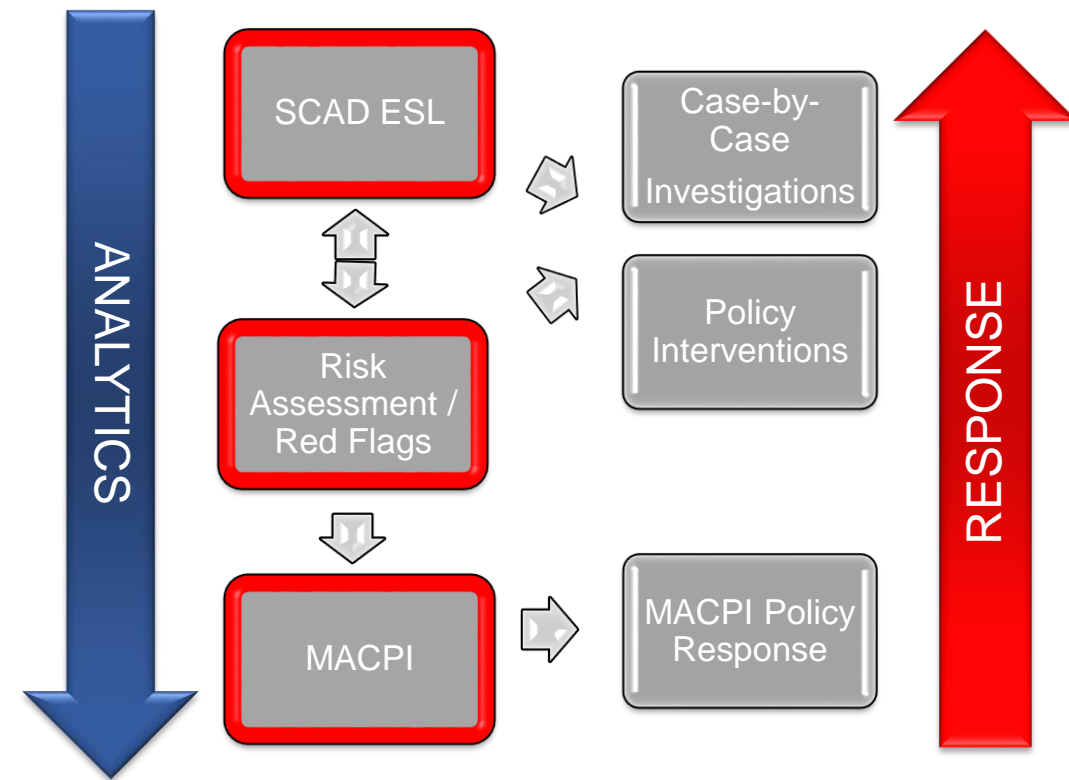
Source: Stoyanov, A, A. Gerganov & T. Yalamov (2019) State Capture Assessment Diagnostics, Center for the Study of Democracy, Sofia.



# State Capture Assessment Diagnostics at Sectoral Level

Integrated approach, combining three mutually-complementary methodologies and their respective instruments:

- ✓ State Capture Assessment Diagnostics on Economic Sectors Level (SCAD-ESL) assesses state capture symptoms and vulnerabilities at sectoral level.
- ✓ Monitoring Anticorruption Policy Implementation (MACPI) evaluates the implementation and coverage of anti-corruption measures and policies on the level of individual public institution
- ✓ Risk assessment of corruption-related behaviour in public procurement through "red flags", based on the analysis of linked data, integrating public procurement data, company financial and ownership information and media alert system.

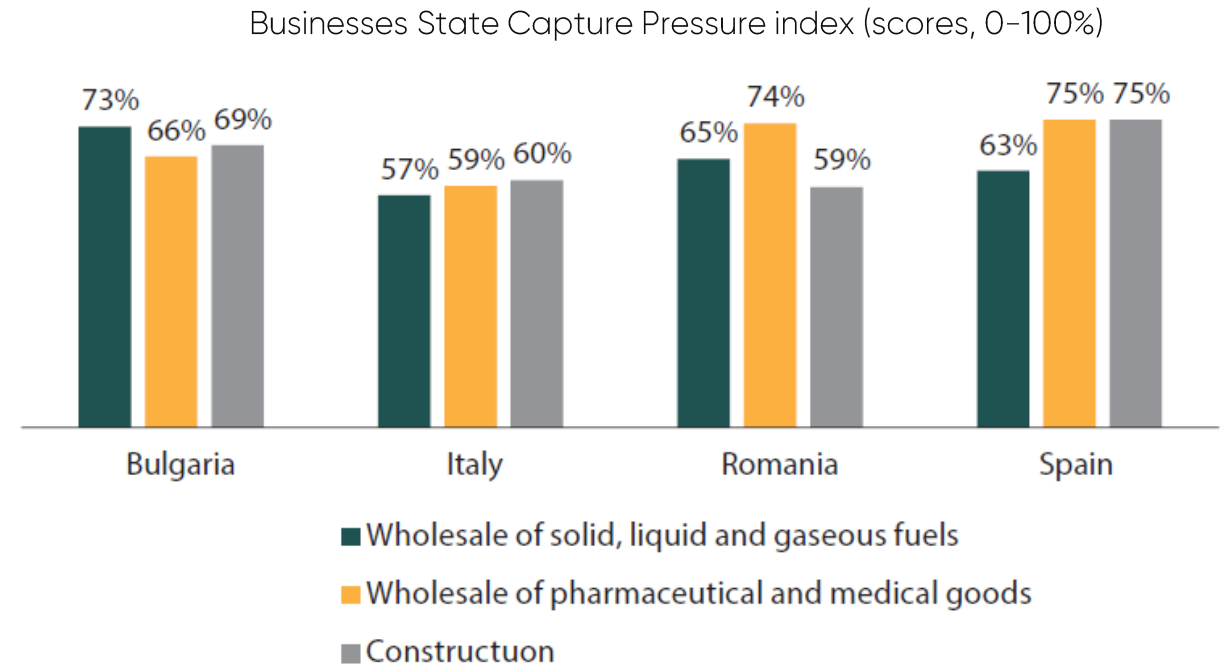


# Businesses State Capture Pressure

Businesses State Capture Pressure index:

- General monopolization pressure
- Ineffectiveness of antimonopoly laws
- Specific monopolization pressure

Systematic problems of well-established and long-term forms of state capture in all sectors and countries



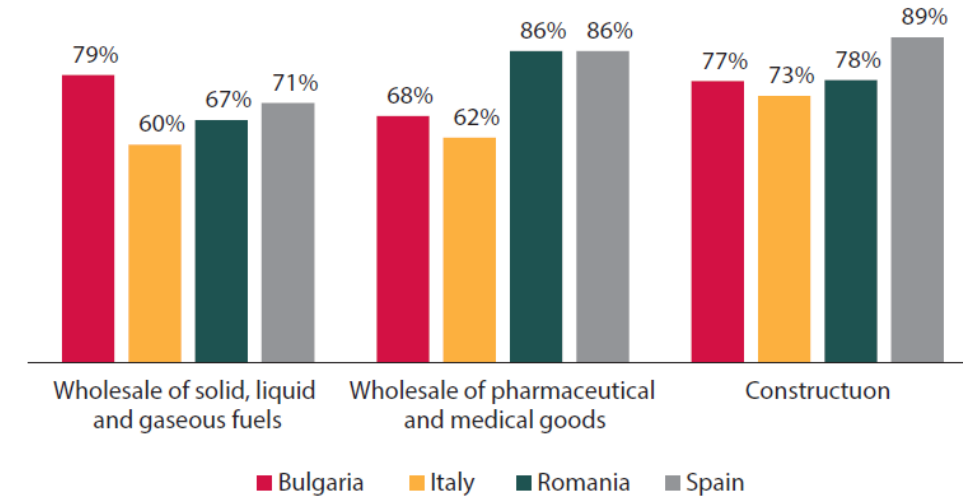
Source: Monitoring state capture: a sectoral approach, CSD, 2021



# Businesses State Capture Pressure: sectoral perspectives

- General monopolization pressure sub-index ranks Bulgaria on a first place in all sectors
  - Civil engineering sub-sector (93%);
  - Wholesale of fuels due to suspected cartel (90%)
- Ineffectiveness of antimonopoly laws is highest in Spain and Romania:
  - ES: Wholesale of pharmaceuticals (64%)
  - ES: Wholesale of fuels (50%)
  - RO: Wholesale of fuels (62%)
- Specific monopolization pressure index:
  - high scores (above 60%) for all sectors and countries
  - Construction sector – most vulnerable (above 70% for all four countries)

Specific Monopolisation Pressure index (scores, 0–100%)



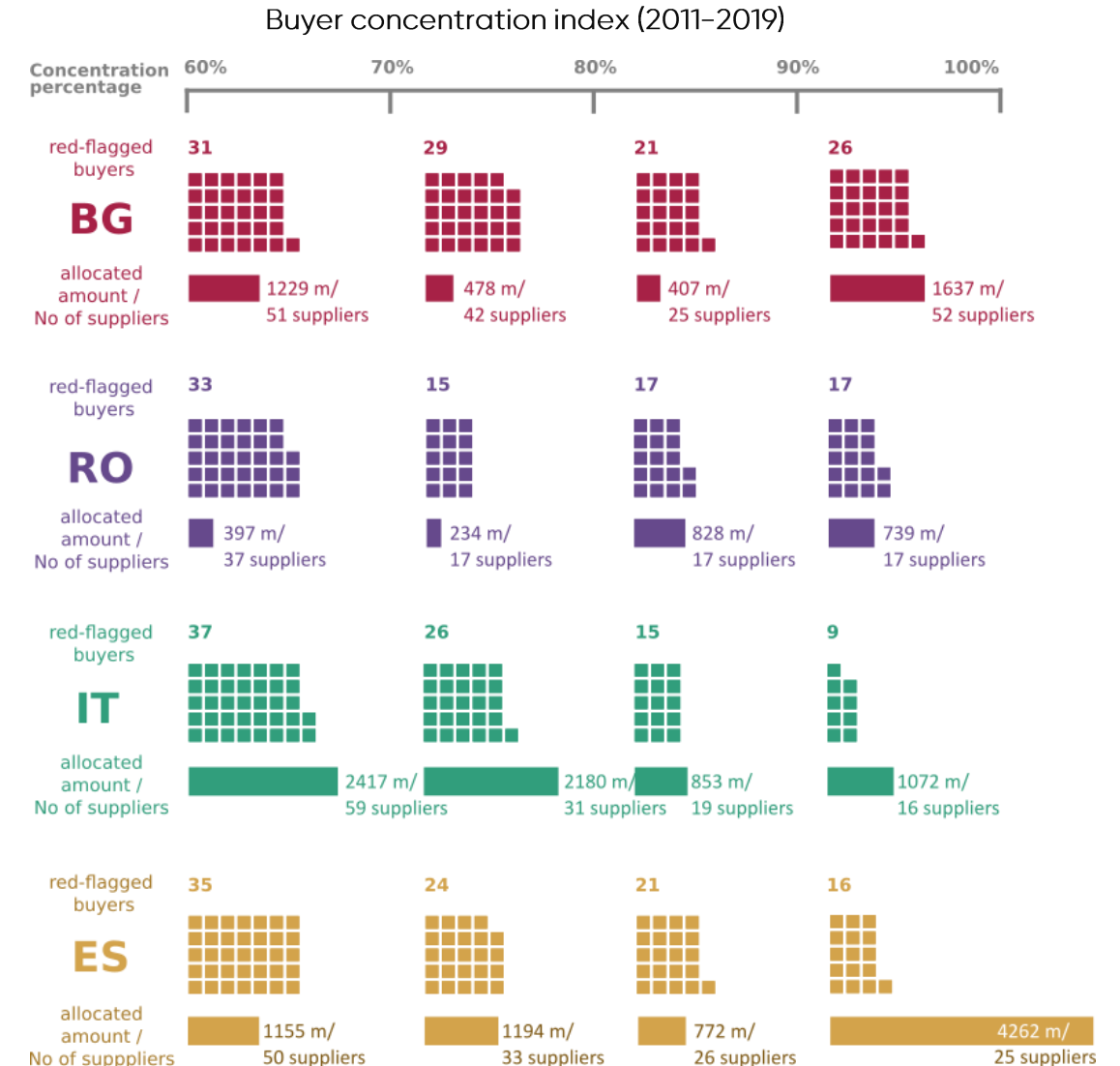
Source: Monitoring state capture: a sectoral approach, CSD, 2021



# Red-flags based risk assessment

*Red-flags based risk assessment in public procurement:*

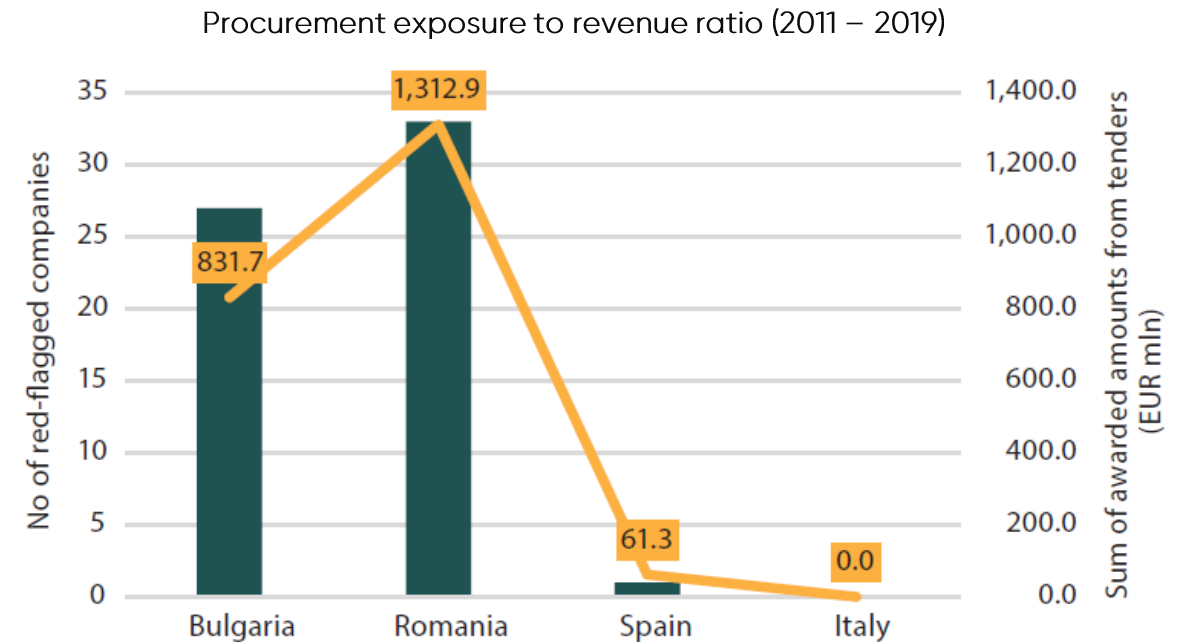
- Bulgaria and Rumania are most vulnerable on the both sides of suppliers (companies) and buyers (contracting authorities)
- Italy is less "captured"
- Buyer concentration index – Bulgaria ranks first with highest share of public authorities, concentrating over 60% of their sums awarded to a single supplier; Same – over 90%



## Red-flags based risk assessment (continue)

*Red-flags based risk assessment in public procurement:*

- Procurement exposure to revenue ratio:
  - Romania and Bulgaria have similar number of companies (respectively 33 and 27) but Romanian ones have received 63% more in terms of awarded amounts from tenders;
  - In relative terms Romanian companies, raising this flag, are smaller share of all awarded companies;



Source: Monitoring state capture: a sectoral approach, CSD, 2021





# Red-flags based risk assessment (continue)


**SCEMAPS**

RANKING ▾
PROFILING ▾
RED FLAGGING ▾
MARKET SIZING

TODOR GALEV ▾

## Flags

Procurement exposure ratio by revenue

☒ International Company Ranking  
☐ Local Company Ranking

**Countries**  
☒ Bulgaria ☒ Italy ☒ Romania ☒ Spain

Year From: 2019  
Year To: 2019

Search

Need Help?

Procurement exposure ratio by net income  
Procurement exposure ratio by Number of employees  
Procurement exposure ratio by Total Assets

## Procurement exposure ratio by revenue in *Bulgaria, Italy, Romania and Spain* for 2019

Showing 417 Awarded Companies

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Source: <https://analytics.scemaps.eu>, 2021

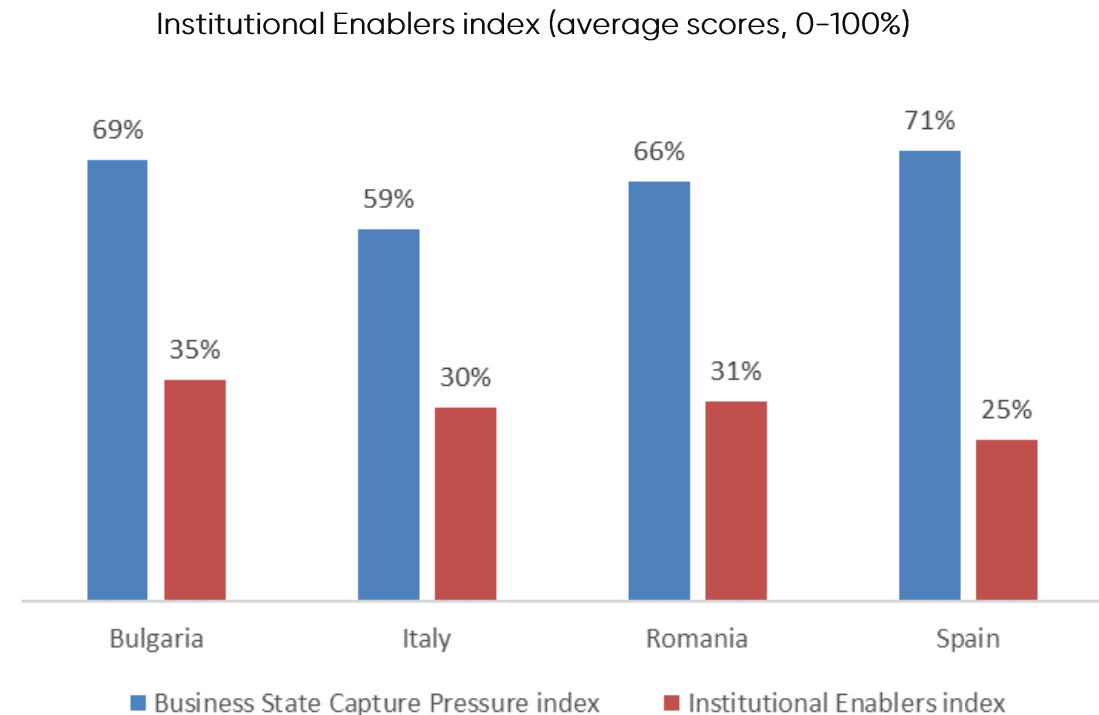


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# Institutional Enablers

Institutional Enablers index:

- Bulgaria is the country where institutional environment is most vulnerable and contributes to the risk of state capture
- Spain has more robust institutional environment as compared to the level of SC pressure
  - *Lack of integrity and Ineffectiveness of anti-corruption policies* have highest scores for all sectors and all countries



Source: Monitoring state capture: a sectoral approach, CSD, 2021



## What's next?

- ✓ Widespread signs of state capture risks and vulnerabilities in all countries, coupled with the lack of specialized policies and regulations for tackling this phenomenon in a systematic manner
- ✓ The complexity of state capture phenomenon and its characteristic of “capturing” key public institutions that are envisaged to tackle it, requires prioritisation of vulnerabilities and risks and the respective areas for intervention
- ❑ Improving both the policy and the professional and administrative capacity of key public institutions for identifying and monitoring state capture processes in their complexity
- ❑ Preventing state capture proliferation in institutional and regulatory frameworks



**Thank you**

**Todor Galev**

**29 April 2021**