

## State Capture Assessment Diagnostics on Economic Sector Level

# Diagnosing and treating state capture: Applications to public procurement in Europe

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First specialised regional training for R2G4P member, 8 July 2021

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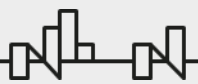
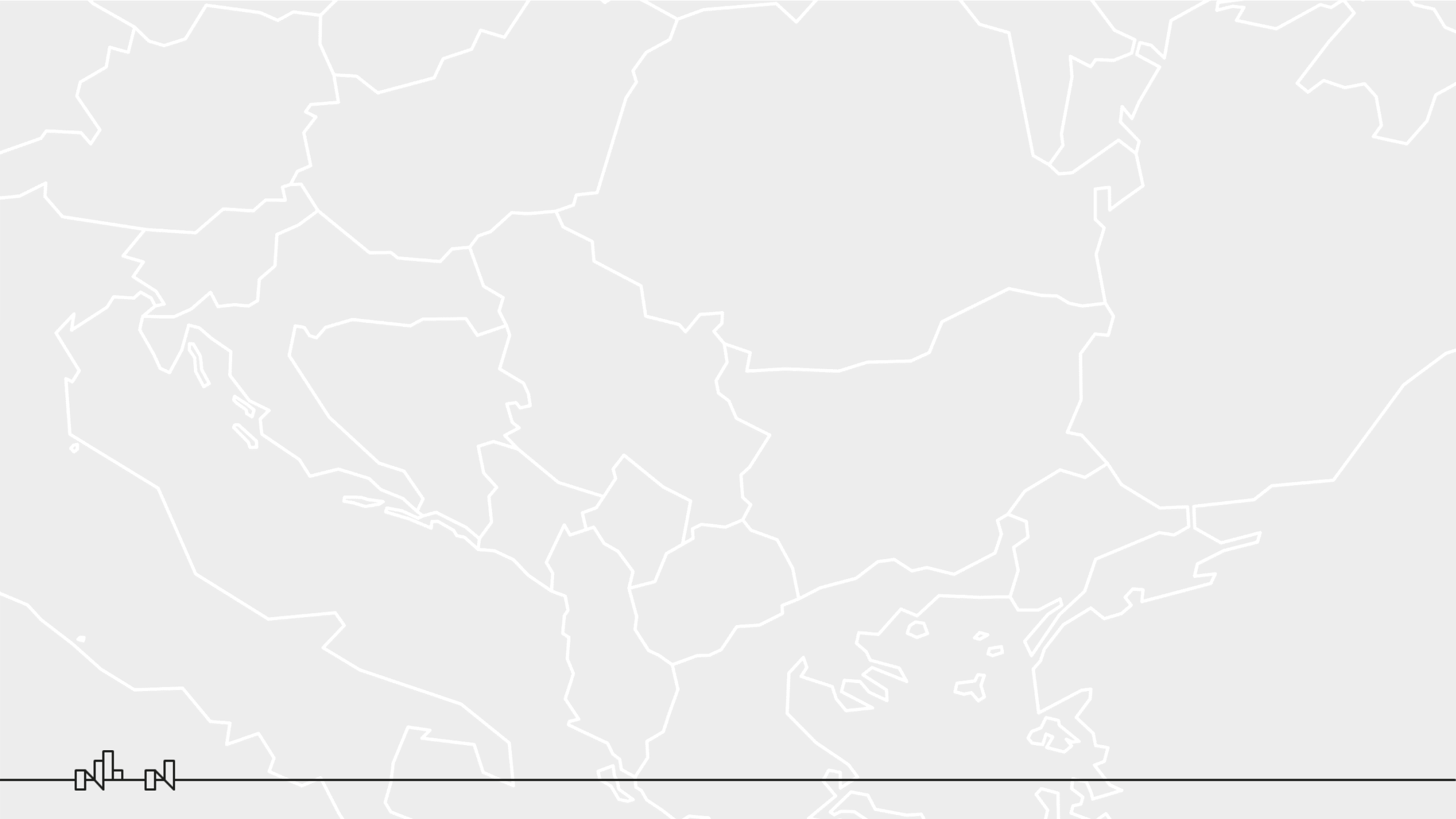


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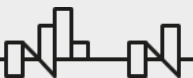
**GTI**

The R2G4P project, coordinated by the Center for the Study of Democracy, Bulgaria benefits from a € 1.5 million grant from Iceland, Liechtenstein and Norway through the EEA and Norway Grants Fund for Regional Cooperation. The aim of the project is to implement shared anti-corruption and good governance solutions in Southeast Europe through innovative practices and public-private partnerships.



# 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

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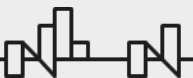
# Defining corruption

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



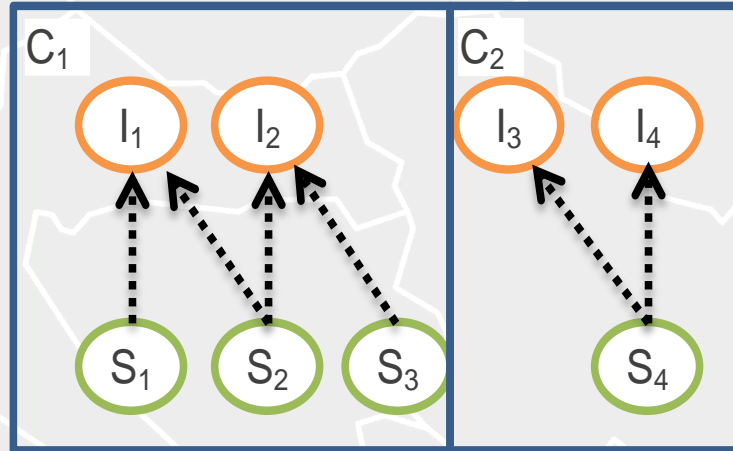
# Measuring corruption on the contract level

**Table 3.** Summary of Corruption Inputs (Higher Score Indicates Greater Likelihood of Corruption).

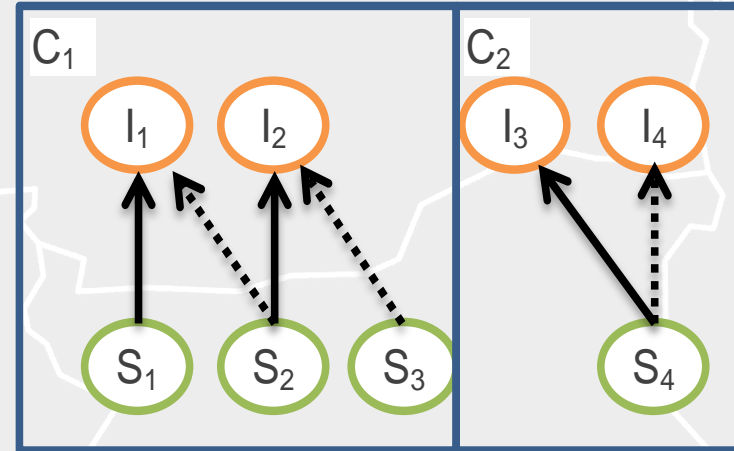
Phase	Indicator name	Indicator definition
Submission	Single bidder contract <sup>a</sup>	0 = more than one bid received 1 = one bid received
	Call for tender not published in official journal	0 = call for tender published in official journal 1 = no call for tenders published in official journal
	Procedure type	0 = open procedure 1 = invitation procedure 2 = negotiation procedure 3 = other procedures (e.g., competitive dialogue) 4 = missing/erroneous procedure type
	Relative length of eligibility criteria	Number of characters of the eligibility criteria minus average number of characters of the given market's eligibility criteria
	Length of submission period	Number of days between publication of call for tenders and submission deadline
	Relative price of tender documentation	Price of tender documentation divided by contract value
	Call for tenders modification	0 = call for tenders not modified 1 = call for tenders modified
Assessment	Exclusion of all but one bid	0 = at least two bids not excluded 1 = all but one bid excluded
	Weight of nonprice evaluation criteria	Proportion of nonprice-related evaluation criteria within all criteria
	Annulled procedure relaunched subsequently <sup>b</sup>	0 = contract awarded in a nonannulled procedure 1 = contract awarded in procedure annulled but relaunched
	Length of decision period	Number of working days between submission deadline and announcing contract award
Delivery	Contract modification	0 = contract not modified during delivery 1 = contract modified during delivery
	Contract lengthening	Relative contract extension (days of extension/days of contract length)
	Contract value increase	Relative contract price increase (change in contract value/ original contracted contract value)

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

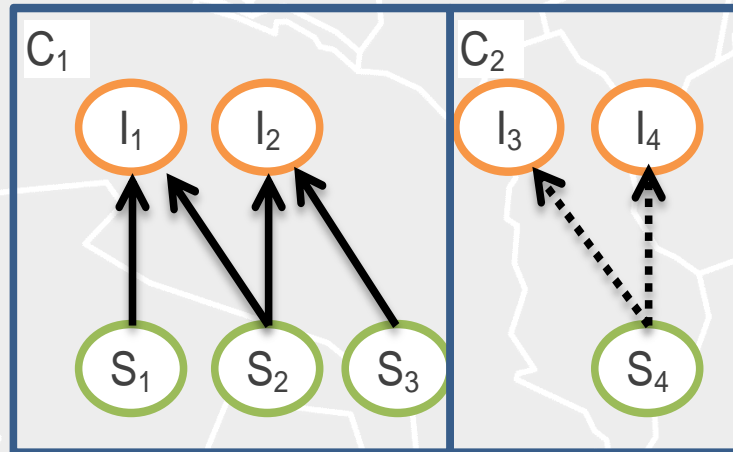
(i) corruption free state



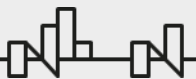
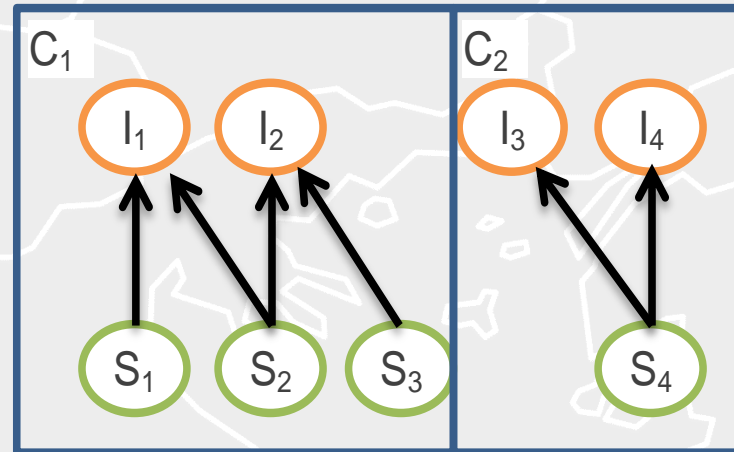
(ii) corruption without state capture



(iii) partially appropriated state



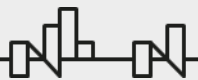
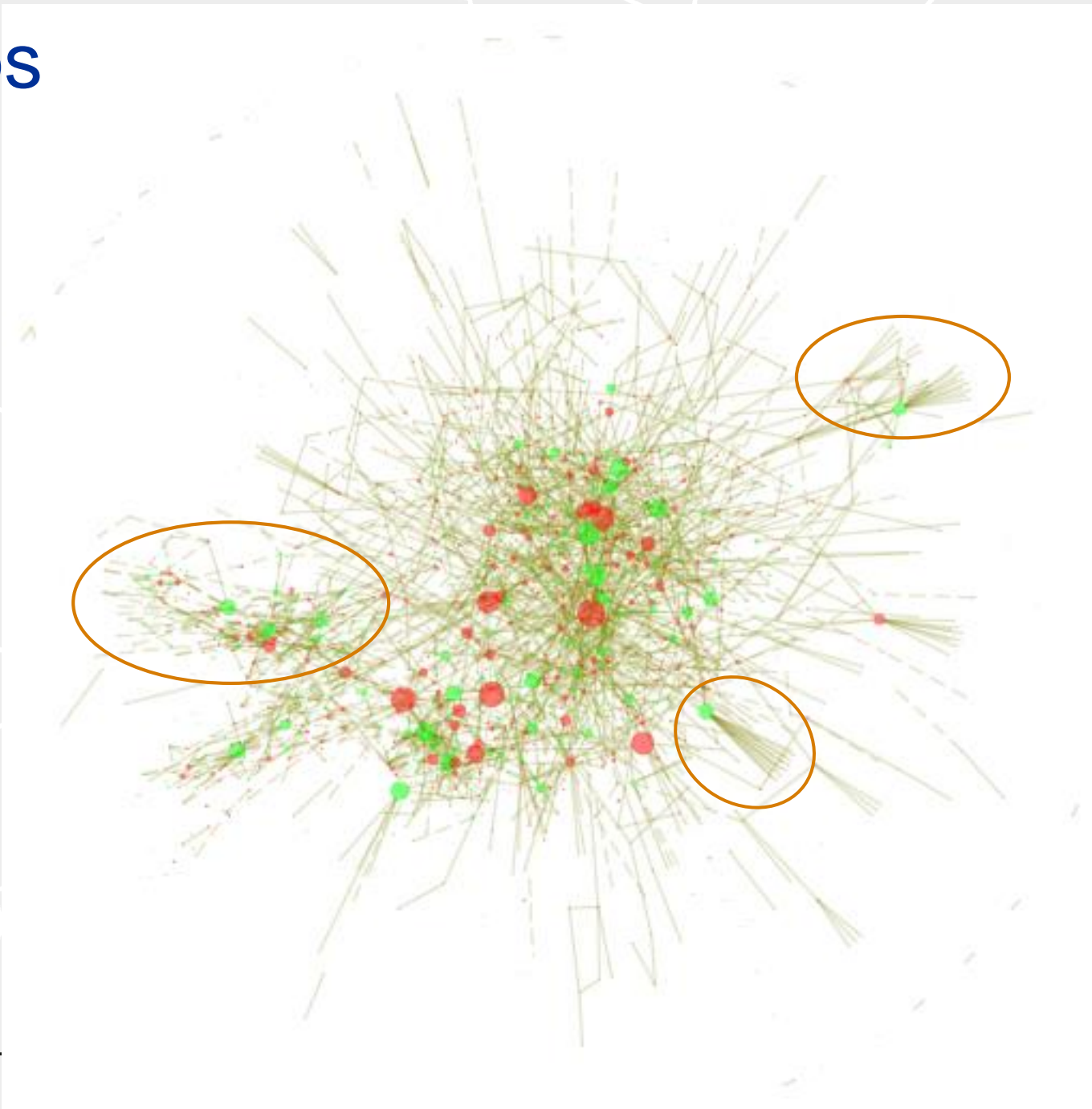
(iv) fully captured state





# Hypothesized relationships in a real-life network

Total contractual  
network, Hungary,  
2009M1-2010M4





# Measuring state capture categories precisely

**Table 5.** Clusters' Mean Value of the Clustering Variables, Hungary, 2009–2012.

Cluster/Stat	2009M1–2010M4b		2011M1–2012M7	
	CRI (standard)	Relative SD of CRI	CRI (standard)	Relative SD of CRI
Clean	0.268	0.103	0.226	0.117
Occasional corruption	0.242	0.517	0.240	0.481
Partial capture	0.304	0.304	0.314	0.282
Full capture	0.549	0.140	0.459	0.119
Total	0.332	0.260	0.312	0.244

Source. Public Procurement Data from Hungary, 2009–2012.

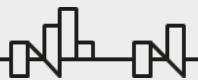
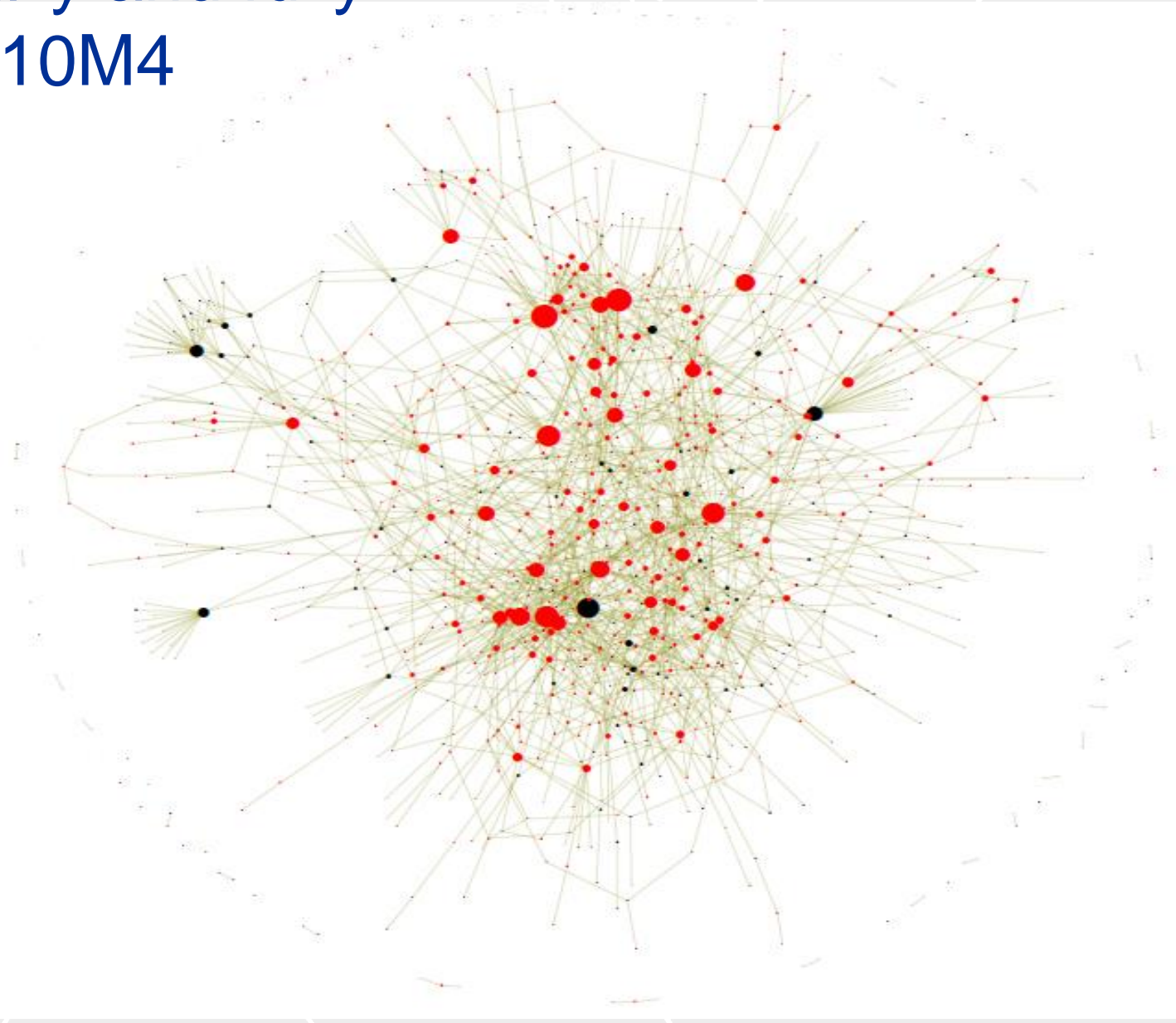
CRI = Corruption Risk Index.

b M1, M4, etc denote 1st, 4th, etc, month of the year.



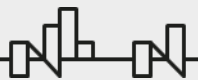
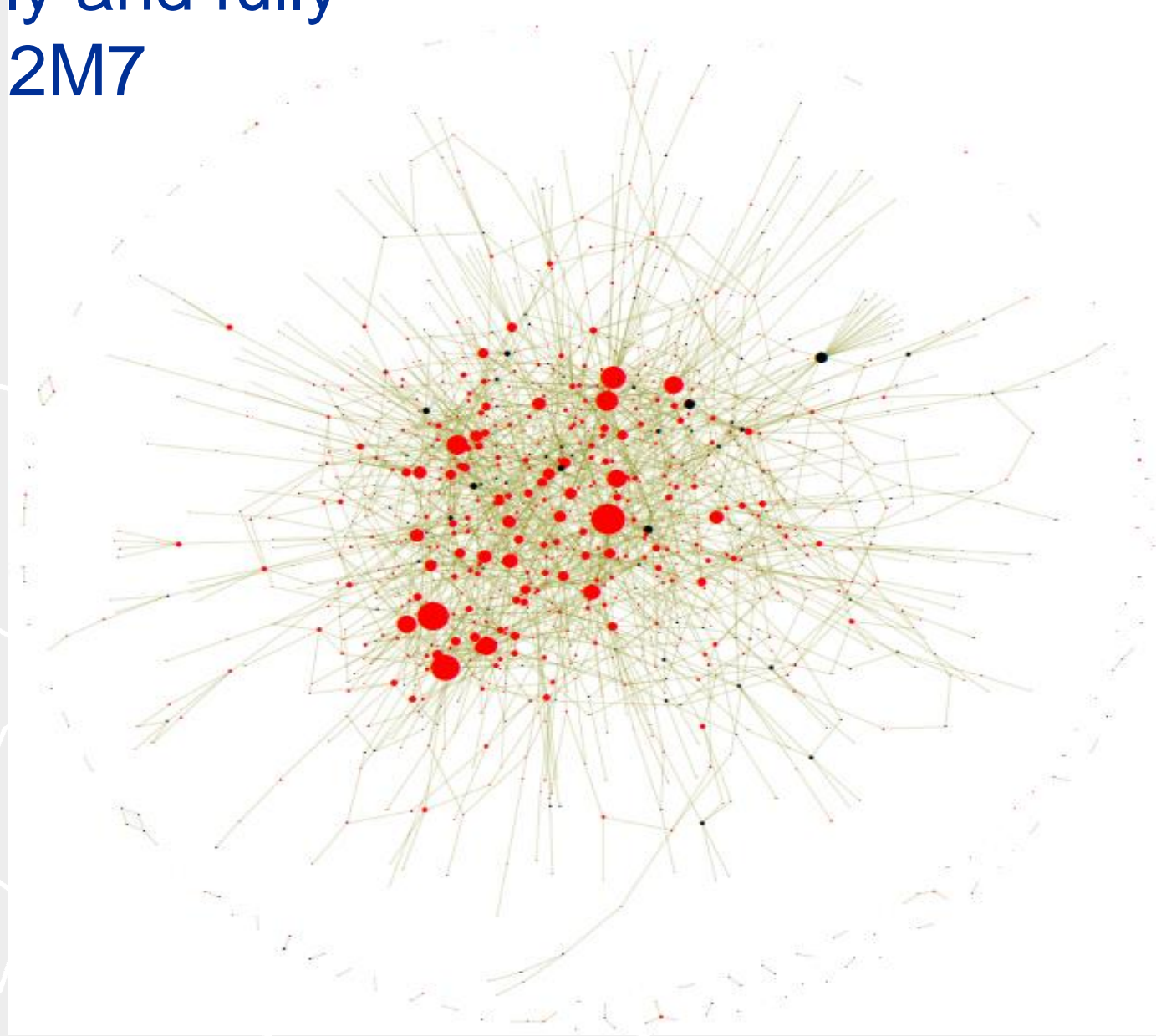
# Contractual network of partially and fully captured actors, 2009M1-2010M4

**Before the Orban government**



# Contractual network of partially and fully captured actors, 2010M1-2012M7

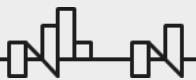
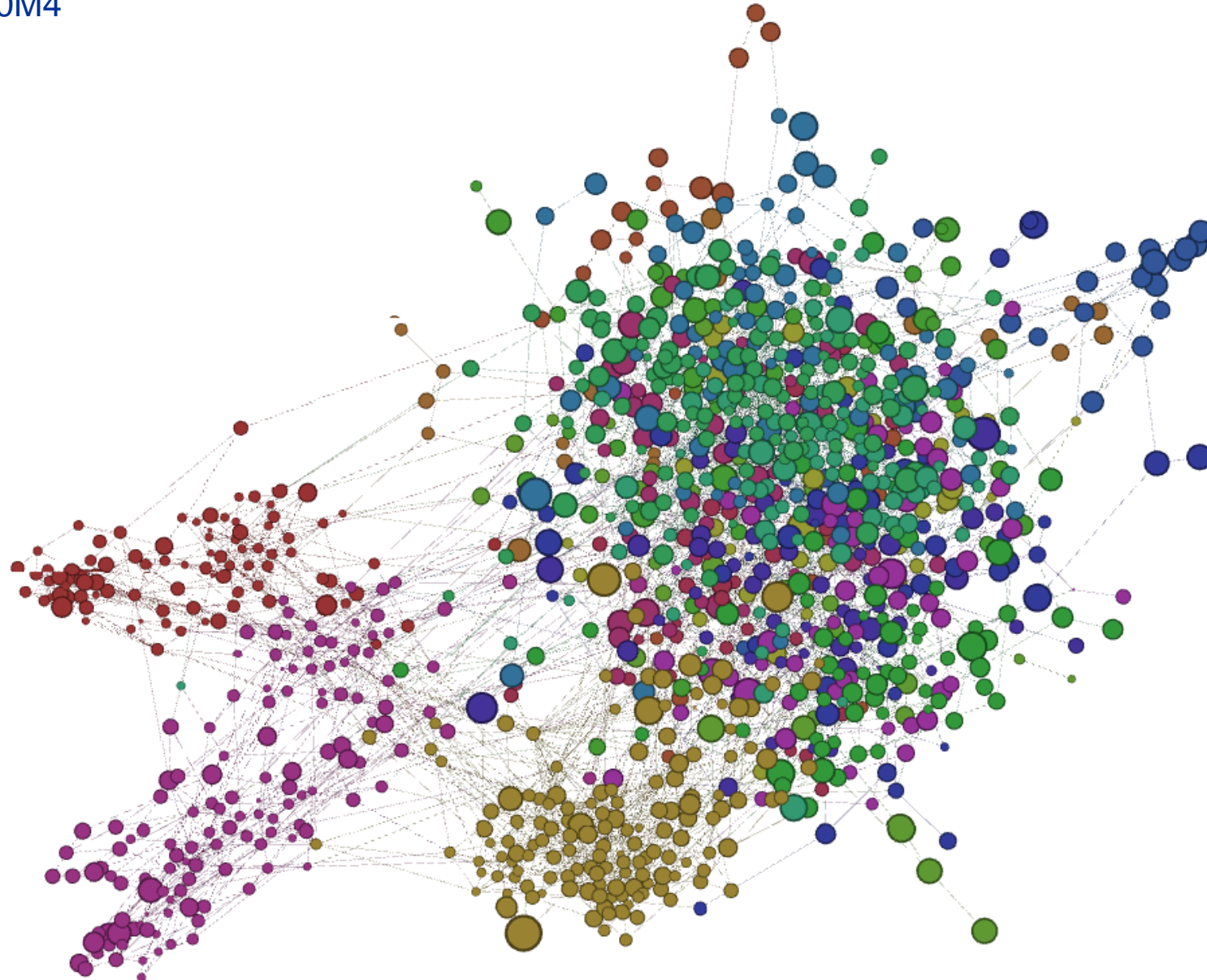
**Beginning of the  
Orbán government  
[System of  
National  
Cooperation]**





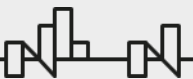
# Contractual network of organizations highlighting cohesive subgroups with highest modularity

Hungary, 2009M1–2010M4



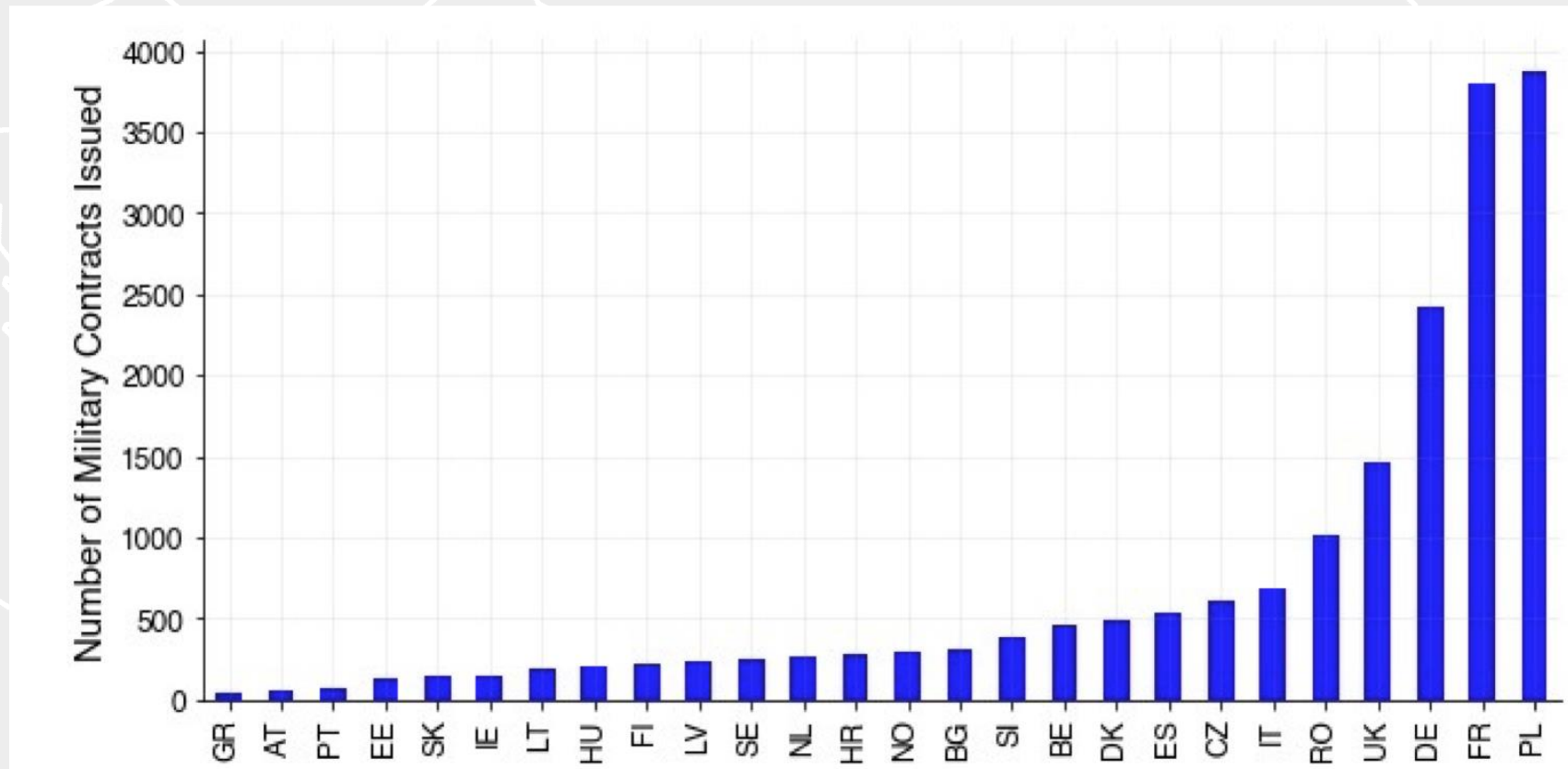


## II. Tracking state capture in defence procurement



# 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.



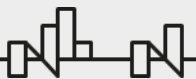
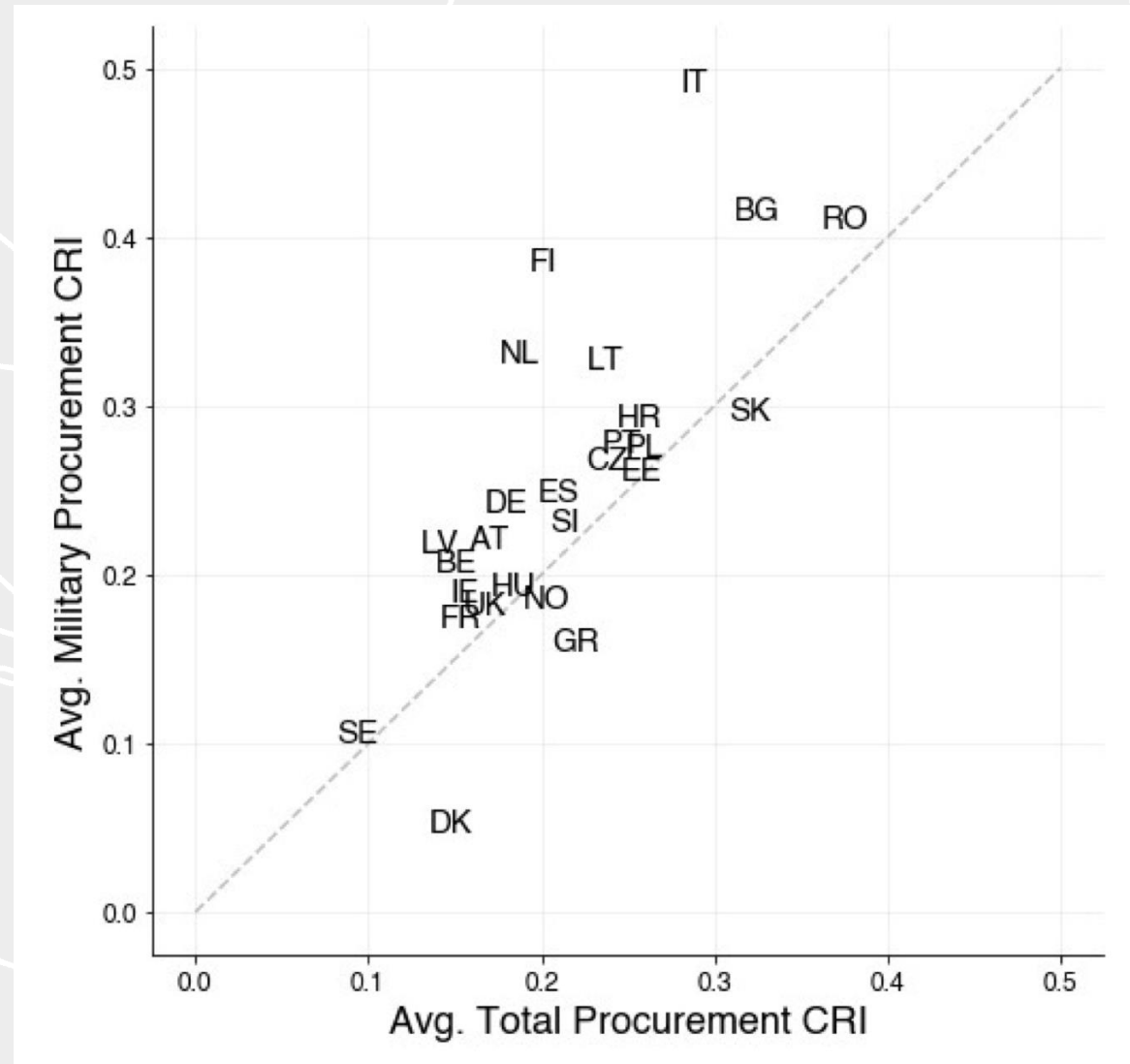


# Indicators: Corruption Risk Index

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



# Selected results: Defence in national context



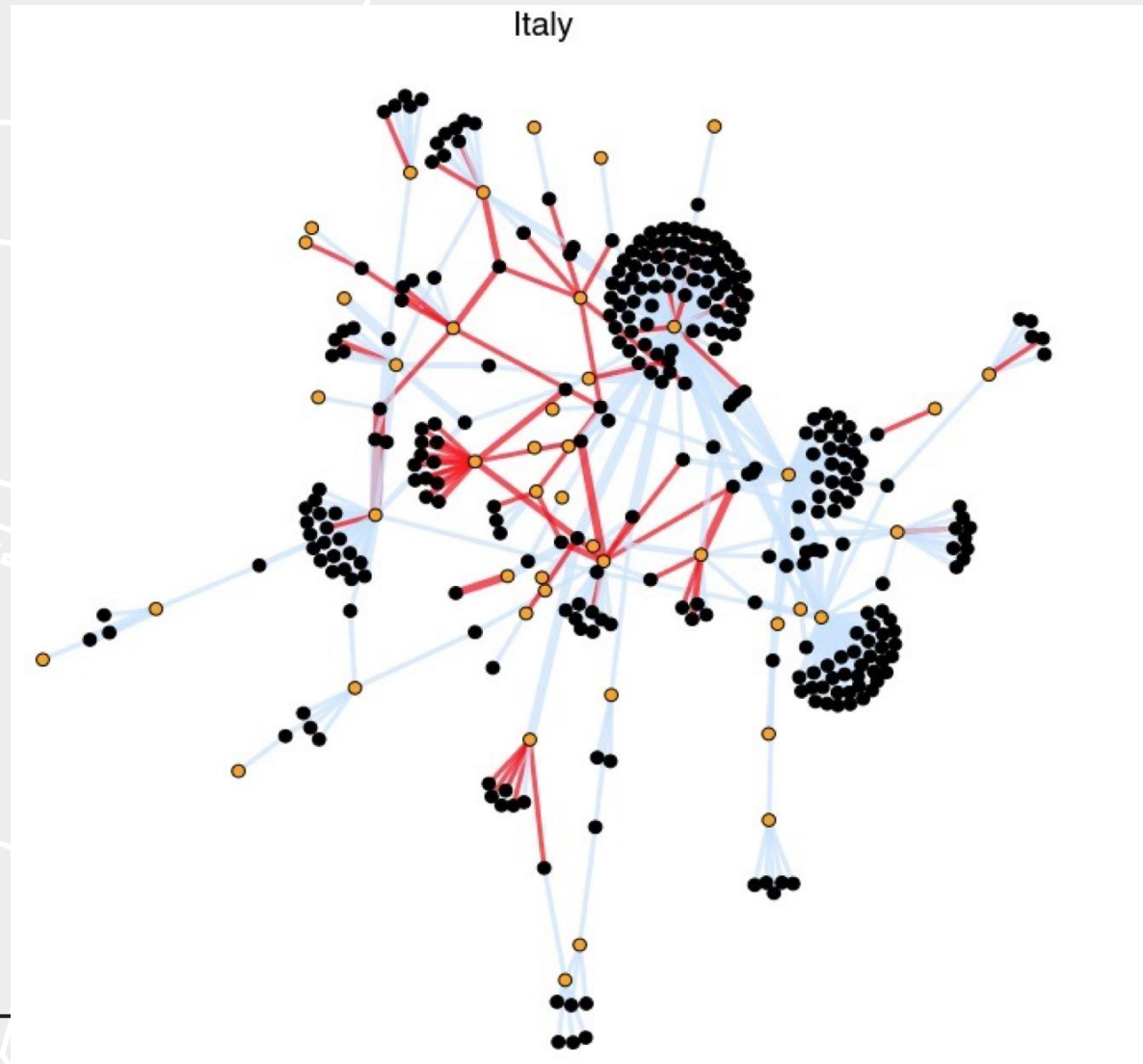
# Selected results: Italian high-risk suppliers

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



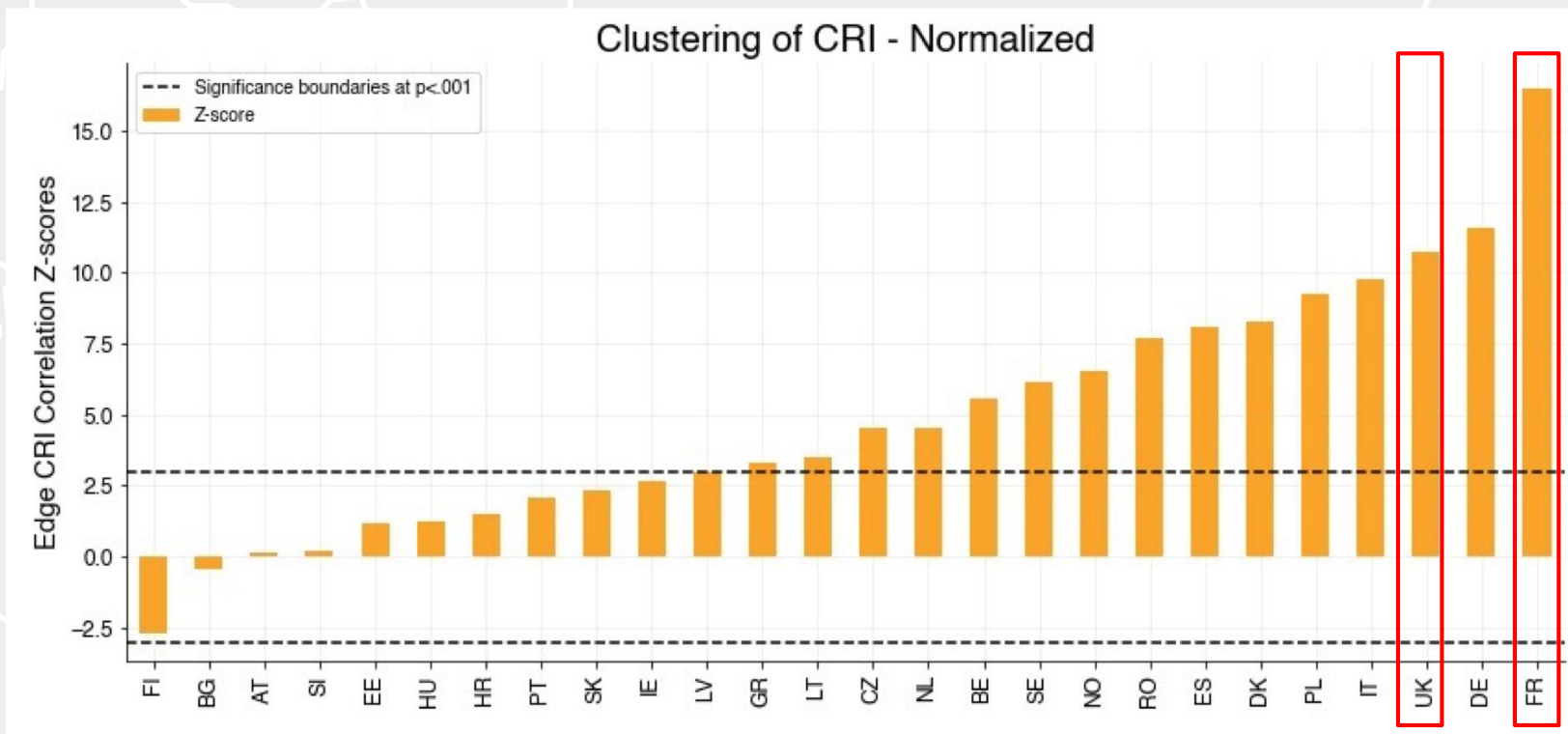
# Selected results: Risk clustering in Italy

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.

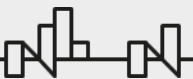


Table 15: Date of 81/2009/EC Directive coming into effect per country

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

# Adoption schedule

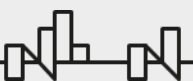




# Data scope impact: YES!

**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

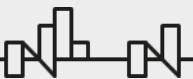
Variable	Mean Pre-Directive	Mean Post-Directive		Mann-Whitney U	p-value
Single Bidding	0.39	0.21	↓	62272	<.001
CRI	0.28	0.20	↓	60866	<.001
Same country	0.93	0.97	×	79793	.019
#No. of Bids	3.10	3.60	×	79780	.23
Non-open Procedure	0.26	0.57	↑	56829	<.001
No Call for Tenders	0.22	0.12	↓	74261	<.001





Thank you very much!

Instead of conclusions: Looking forward  
to the discussion😊



# Further readings

Czibik, Ágnes; Fazekas, Mihály; Hernandez Sanchez, Alfredo; and Wachs, Johannes. (2020): State Capture and Defence Procurement in the EU. GTI-WP/2020:05, Budapest: Government Transparency Institute.

Fazekas, Mihály & Wachs, Johannes (2020), Corruption and the network structure of public contracting markets across government change. Politics and Governance, 8(2)

Fazekas, Mihály and Tóth, István János, (2016), From corruption to state capture: A new analytical framework with empirical applications from Hungary. Political Research Quarterly, 69(2).

