

State Capture Assessment Diagnostics on Economic Sector Level: Theoretical Approach

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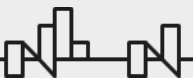
The R2G4P project, coordinated by the Center for the Study of Democracy, Bulgaria benefits from a € 1.5 million grant from Iceland, Liechtenstein and Norway through the EEA and Norway Grants Fund for Regional Cooperation. The aim of the project is to implement shared anti-corruption and good governance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

State Capture Concept

- ▶ Initially state capture is used to denote an evolution in the understanding of corruption, which is experienced by companies when they face problems as a result of policies, legislation, law enforcement or court decisions. (Helman, Jones & Kaufman, 2000)

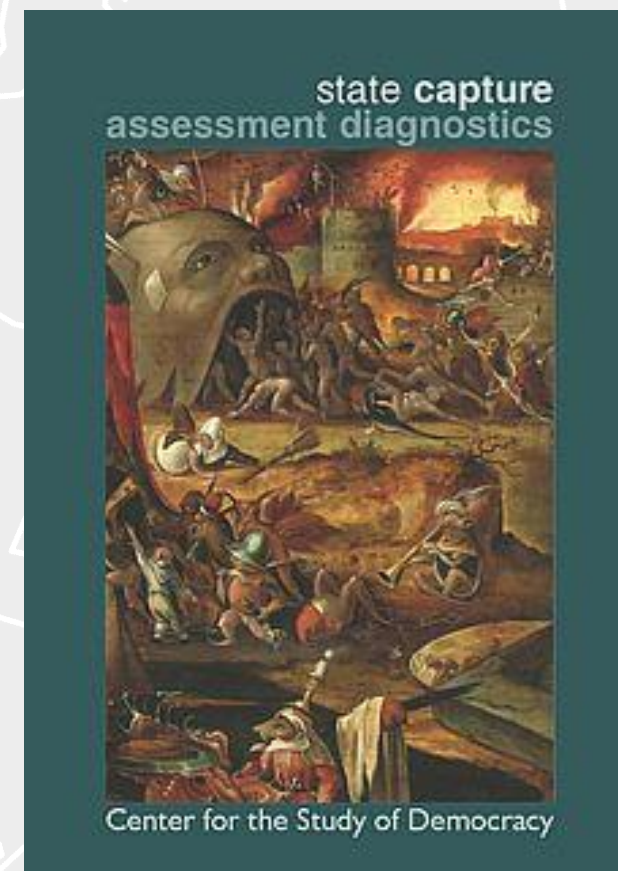
Hellman J., Jones G., Kaufmann D., *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition Economies*, World Bank Policy Research Working Paper No. 2444, World Bank, Washington D.C., 2000

- ▶ Gradually the concept of SC evolved to the understanding that it is an **illegitimate monopolization of the governance** and the economy.
- ▶ SC as a deviant form of relations between several types of collective actors (state, business, political class)



SCAD Approach

- ▶ The State Capture Assessment Diagnostics (SCAD) defines “state capture” as an exploitation of the power of government for private benefit in **systematic and permanent manner**, involving various forms of corruption and illegitimate activities;
- ▶ **Captors**: actors with privileged status, which enjoy undue advantages in economic and/or political terms;
- ▶ State capture is a **hidden** phenomenon;
- ▶ State capture affects public policies and thus, it leaves **observable public traces** or effects, which can be discovered by suitable pattern-finding methods;
- ▶ SCAD is designed to:
 - ▶ identify and measure state capture results and effects
 - ▶ recommend policy adjustments for improving the resilience of institutions to state capture pressure



Stoyanov, A., Gerganov, A., and Yalamov, T., *State Capture Assessment Diagnostics*, Sofia: Center for the Study of Democracy, 2019.

<https://csd.bg/publications/publication/state-capture-assessment-diagnostics/>



SC vs Corruption

- ▶ SC often considered as an extreme form of corruption
- ▶ SC and corruption are differentiated by:
 - ▶ Number of transactions / systematic and long-term
 - ▶ Mechanisms of SC (forms of corruption)
 - ▶ Corruption occurs the interactions (exchanges) between public organisations (Principal-Agent) and collective actors / individuals / businesses.
 - ▶ Corruption is defined as violation of rules (abuse of power) of the public organisations, which results in private benefit for the official
 - ▶ Systematic and long-term corruption transactions cover multi-level governance structures (Principal-Agent interactions)
 - ▶ Corruption transaction is exchange of resources (discretionary power vs benefits / gains)
 - ▶ Corruption transactions' main driver: interest (officials: possible benefit/gain vs client: deliberate noncompliance with the rules by the official/organization)

Stoyanov, A., Gerganov, A. and Stefanov, R., *Working Paper: State Capture Diagnostics Roadmap*, Center for the Study of Democracy, Sofia, 2016

<https://csd.bg/publications/publication/working-paper-state-capture-diagnostics-roadmap/>



Corruption Components

Abuse of power (noncompliance with the rules)

Simple forms

Abuse of discretionary power	Implementation (or non-implementation) of laws or rules in favour of a client. Providing illegal access to information. Extortion or threat of selective/targeted implementation of laws or rules. Deliberate red tape in order to extract bribes.
Abuse of property	Theft, fraud, business hostile takeover, etc.
Conflict of interest	Kin or other personal relationship between officials who are responsible for certain decisions and the actors who these decisions apply to.

Complex forms

Nepotism	Appointing relatives or other kin in public service jobs and or deciding in favour of relatives or other kin.
Clientelism	Systematic or one-time decisions in favour of friends/relatives connected to the decision making official.
Favouritism	Systematic or one-time decisions in favour of actors connected to the decision making official through political affiliation or other non-personal relationship.

Societal-level forms

Paternalism	Systematic decisions at central level in favour of actors connected to the decision making official through political affiliation or other non-personal relationship.
State capture	Systematic and long-term/permanent corruption transactions which ensure a privileged status of an actor/network in a given sector or area of activity.

Gain (for official/organisation)

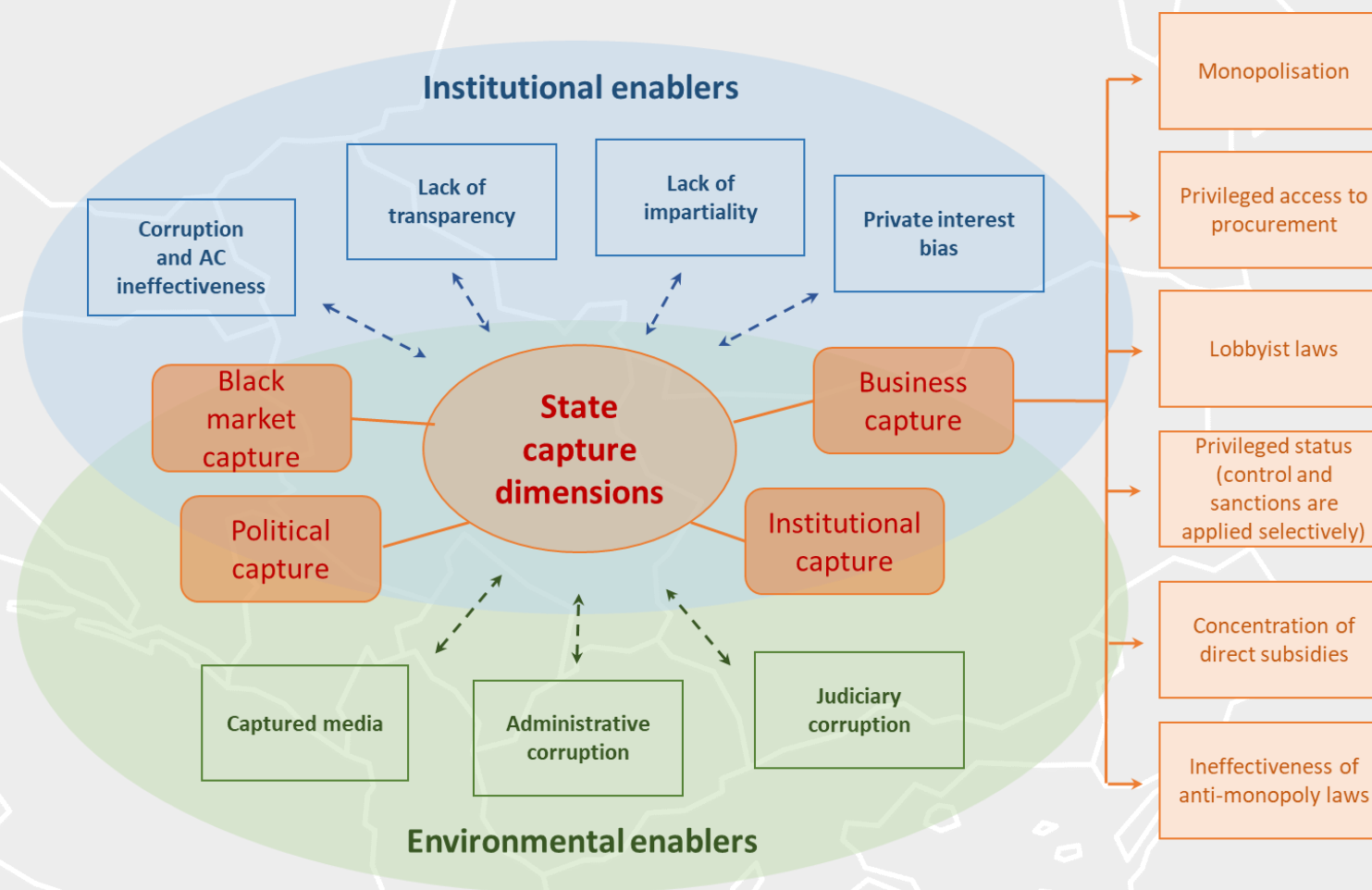
Simple forms

Money	
Gifts	
Services	

Complex forms

Control over one's own actions	Promise to act or refrain from action (on behalf of the captor) in favour of the official who has violated rules.
Control over outcome of events	Promise to use office position or control over institutional decisions in favour of the official who has violated rules.
Revolving door	Appointment at high salary job of an official who has systematically violated rules in favour of the captor
Illegitimate donations to political parties	Transfer of funds by captors in favour of institutional actors (public institutions, parties, etc.) and not in favour of the concrete official who has violated rules.

SCAD Analytical Model



Stoyanov, A., Gerganov, A., and Yalamov, T., *State Capture Assessment Diagnostics*, Sofia: Center for the Study of Democracy, 2019.
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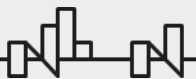
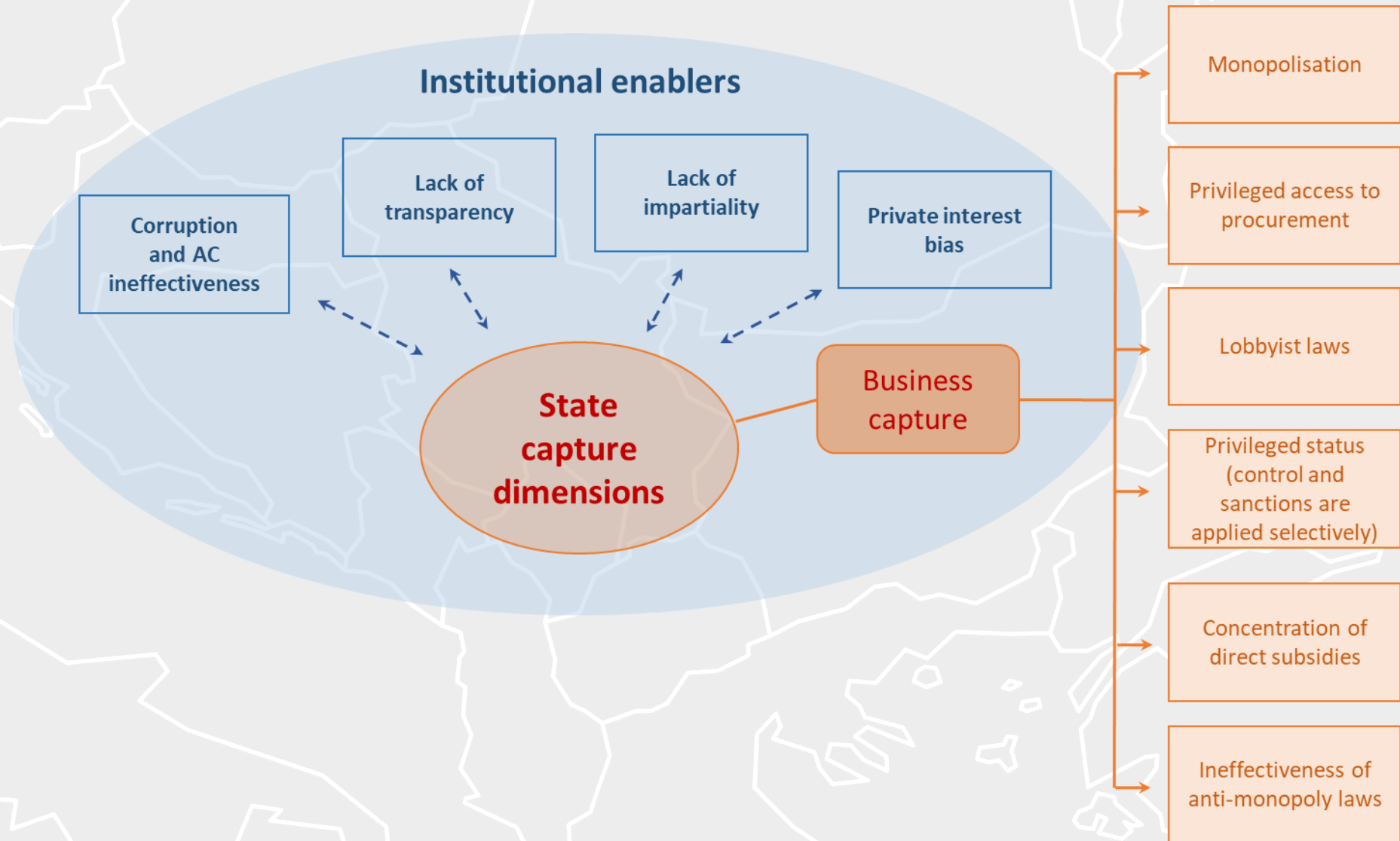


State Capture Dimensions

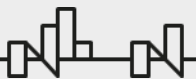
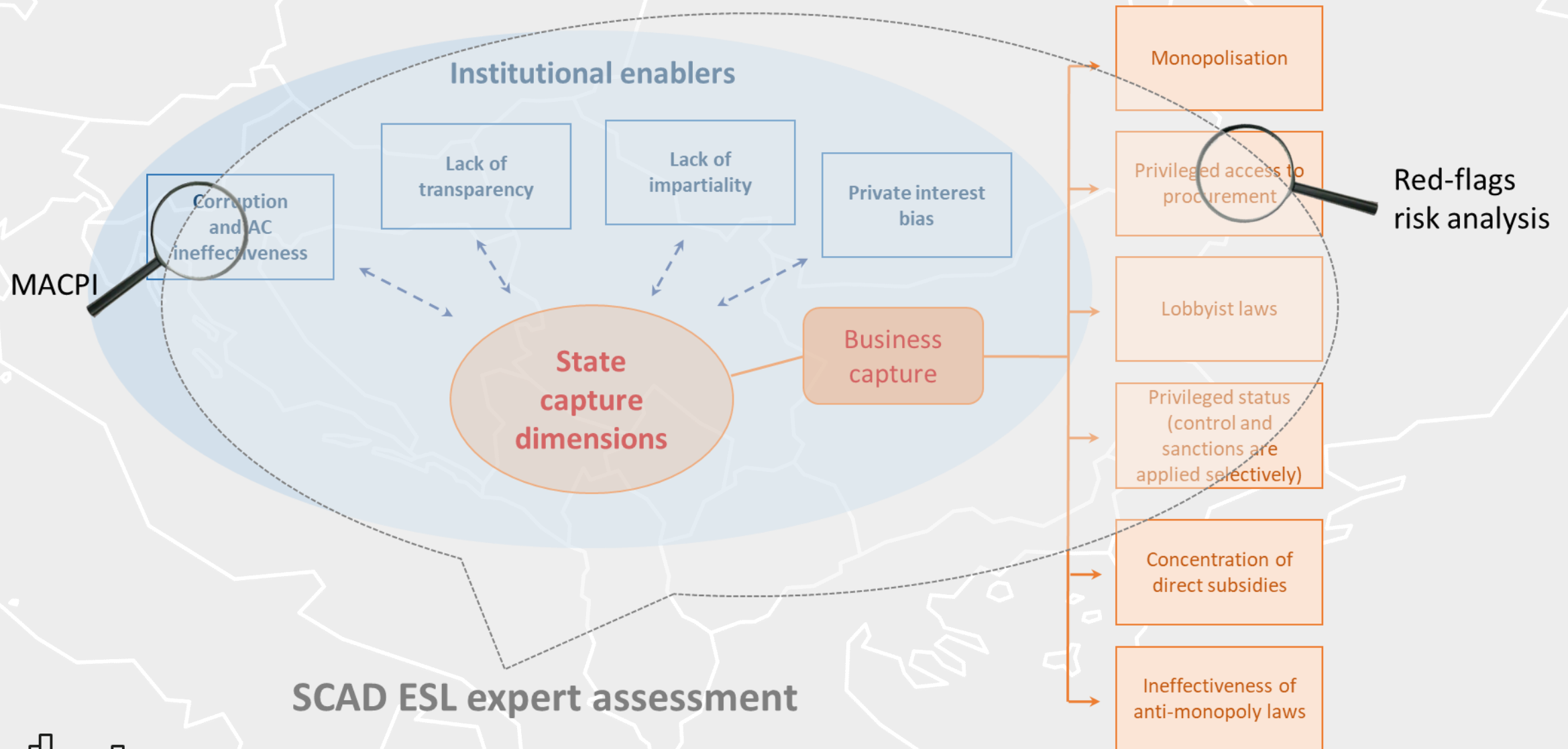
Business capture	Captors are business entities which use different forms of corruption to influence legislation affecting the business sector and other social areas and the implementation of legislation and rules in order to acquire privileged status.
Political capture	Captors are state institutions and/or political networks/parties. Typically captured are business structures which ensure kickbacks after being provided with contract assignments (procurement or other) by institutional actors. The incentive for captors is the appropriation of corruption rents. The incentive for the captured business structures is part of the corruption rent and their eventual privileged position in a given market.
Judiciary capture	Captors are networks of judiciary officials who use their discretionary power to appropriate corruption rents and sell their services to the executive, to the business sector or to organized crime. This type of capture would be possible in cases when the judiciary is relatively independent from the executive and the legislative or if it is completely connected (and all powers are captured)
Black market capture	Captors are typically organized crime groups who capture state institutions (typically the judiciary, but also the executive) in order to ensure systematic violations of the law and regulations for conducting black sector activities (on a large scale) and launder the profits.



SCAD-ESL Model

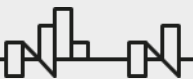


SCAD-ESL Complementing Analyses



SCAD-ESL Methodology

- ▶ Practical instrument to empower policy makers, think-tanks, watch-dog organisations, investigative journalists, and researchers to monitor state capture pressure at the sectoral level.
- ▶ Designed to be:
 - ▶ replicable and scalable across other economic sectors and countries
 - ▶ applicable for both designing preventive measures and driving investigation of particular misbehaviour
 - ▶ valuable and usable for a broad group of stakeholders – policymakers, civil society, watchdog organisations, investigative journalists, law enforcement officials, and researchers.



SCAD-ESL Methodology (1)

- ▶ ***State Capture Assessment Diagnostics on Economic Sector Level*** assesses state capture risks and vulnerabilities at sectoral level, using index-based experts' assessments technique.
- ▶ ***Monitoring Anticorruption Policy Implementation (MACPI)*** evaluates the implementability, implementation, enforcement, and coverage of anti-corruption measures and policies on the level of individual public institutions, identified as key for the regulation of the sectors through SCAD-ESL.

See also: Stoyanov A. et al, *Monitoring Anti-Corruption in Europe. Bridging Policy Evaluation and Corruption Measurement*, Center for the Study of Democracy, Sofia, 2015.

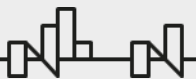
<https://csd.bg/publications/publication/monitoring-anti-corruption-in-europe-bridging-policy-evaluation-and-corruption-measurement/>

- ▶ Analysis of **risks of corruption in public procurement** through analysis of big-data.



SCAD-ESL Benefits

- ▶ Sector specific characteristics of state capture
- ▶ Use of sectoral knowledge and know-how
- ▶ Addressing policy gaps on sectoral level





Thank you!

