



Government Favouritism in Europe

The Anticorruption Report

Volume 3

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Abbreviations

ACR	Anticorruption Report
AKP	Adalet ve Kalkınma Partisi
ALB	Abnormally Low Bids
ANRMAP	National Authority for Regulating and Monitoring Public Procurement
ANTAC	Anti-corruption Action Centre
ANTICORRP	Anticorruption Policies Revisited: Global Trends and European Responses to the Challenge of Corruption
BCE	Corvinus University of Budapest
BDP	Bariş ve Demokrasi Partisi (Peace and Democracy Party)
BGN	Bulgarian Lev
BOT	Build, Operate, and Transfer
CAE	Identification Data for Contracting Authority
CCI	Commission for Conflict of Interest
CHP	Cumhuriyet Halk Partisi (People's Republican Party)
CPO	Central Procurement Officer
CPV	Common Procurement Vocabulary
CSD	Center for the Study of Democracy
CVM	Cooperation and Verification Mechanism
DNA	Romanian National Anticorruption Agency
DPPS	Directorate for the Public Procurement System
EC	European Commission
EFSI	European Fund for Strategic Investments
EPPP	Electronic Public Procurement Platform
EU	European Union
EUI	European University Institute
FOI	Freedom of Information
GDP	Gross Domestic Product
GVA	Gross Value Added
HDZ	Croatian Democratic Union
HRK	The Croatian Kuna
IKS	Kosovar Stability Initiative
IMF	International Monetary Fund
LPP	Law on Public Procurement
MHP	Milliyetçi Hareket Partisi (National Movement Party)
MP	Member of Parliament
MSZP	The Hungarian Socialist Party
NABU	National Anticorruption Bureau
NAO	National Audit Office
NGO	Non-Governmental Organisation
NSI	National Statistical Institute
NSRF	National Strategic Reference Framework
NUTS	The Nomenclature of Territorial Units for Statistics
OC	Organised Crime
OCC	Organised Crime and Corruption
OP	Operational Programs
PFIA	Public Financial Inspection Agency

PPA	Public Procurement Agency
PPB	Public Procurement Board
PPP	Public-Private Partnership
PPL	Public Procurement Law
PPR	Public Procurement Registry
PSD	Partnership for Social Development
QOG	Quality of Government Institute
RPR	Reanimation Package of Reforms
SAO	State Audit Office
SAR	Romanian Academic Society
SCSPPP	State Commission for Supervision of Public Procurement Procedure
SEAP	Electronic Public Procurement System
SEEs	State Economic Enterprises
SICAP	Romanian Electronic System for Public Procurement
SME	Small and Medium-sized Enterprises
TCA	Turkish Court of Accounts
TED	Tenders Electronic Daily
TPC	Turkish Penal Code
TGNA	Turkish Grand National Assembly
TMAC	Minister of Transport, Maritime Affairs, and Communications
UNCAC	The United Nations Convention against Corruption
UNODC	United Nations Office on Drugs and Crime
USKOK	Croatia's Office for the Prevention of Corruption and Organised Crime
VAT	Value Added Tax

1. Government Favouritism in Europe¹

ALINA MUNGIU-PIPPIDI AND
ROBERTO MARTÍNEZ B. KUKUTSCHKA

This volume reunites the fieldwork of 2014-2015 in the ANTICORRP project. It is entirely based on objective indicators and offers both quantitative and qualitative assessments of the linkage between political corruption and organised crime using statistics on spending, procurement contract data and judicial data. The methodology used in the analysis of particularism of public resource distribution is applicable to any other country where procurement data can be made available and opens the door to a better understanding and reform of both systemic corruption and political finance.

A mystery still persists in the European Union, the land of most accurate statistics: public procurement in the member states. For instance, we do not know how many public contracts are distributed competitively versus not competitively in EU Member States (MS); and we cannot find out. In the words of the European Commission's Annual Public Procurement Implementation Review, published in 2014: "Some figures are very high while others appear abnormally low. For instance, the total value of procurement below the threshold in Poland purportedly amounted to over EUR 40 billion, while the average value of such contracts is over EUR 200 000. The total number of contracts in Austria was reported to be as high as 1 237 968, which would mean that the average value of a contract below the threshold awarded in this MS would be as low as EUR 1550. In Hungary, the total value of procurement below threshold only reached EUR 1 270 425, bringing the average value of such contracts to an improbable EUR 145 per contract. Although some of these phenomena could be explained by the specific nature of national procurement markets, such anomalies could also result from reporting errors and misunderstandings." (European Commission 2013). Although the EU has its own electronic database, the Tender Electronic Daily, only a minority of awards are published there. Few countries publish sufficient procurement data online to allow comparison across EU-28.

The question on how competitive public procurement is in common market Europe is important, because of previous reports on a significant association between government investment and corruption (Tanzi and Davoodi 1999). The significant association that seems to exist therefore between big money in procurement and corruption is supported also by anecdotic evidence in the plenty, especially on public infrastructure. The ephemeral Greek finance minister Yanis Varoufakis made himself the spokesperson of a very fluent story on how EU funding bankrolled traditional clientelist politics in Athens for nearly two generations, thus paving the way to the

¹ Full country reports were published at <http://anticorrrp.eu/publications/integrated-report/> and at <http://anticorrrp.eu/publications/country-policy-reports-on-institutions-in-public-procurement-for-the-infrastructure-sector/>. This publication is the policy version of field research in 2014-2015 in ANTICORRP's Work Packages 8 and 9. For full methodological details and data please refer to http://anticorrrp.eu/publication_type/deliverable/.

country's final bankruptcy. Many in Greece and Europe believe this story, although they may dislike the story-teller. A significant pattern of public spending also exists in EU Member States: this is responsible for the fact that countries with the highest perception of corruption invest more in public works, while countries perceived as high on public integrity, though not spending less on the whole – they actually spend more – are more modest with spending on projects (Mungiu-Pippidi 2013). The catch, of course, is that developing countries do need more investment, and they also tend to be the most corrupt. So what to do to continue to invest in development without de facto financing rents for political clientele?

The new European Fund for Strategic Investments (EFSI) bets on a multiplier effect to boost Europe's performance over the period 2015-2017. The Fund will bring many new billions into spending, including EUR 2.7 billion from Europe's research program Horizon 2020. Forecasts of this presumed positive effect fail to estimate to what extent this new money will increase corruption risks: indeed, all corruption literature would plead for it to be spent on education, health, research and development, usually under-budgeted in corrupt countries since money goes into projects bringing more profit to favourite companies connected to the political establishment (Mauro 1998). Sectors like research and innovation are credited to bring real multiplication, while project investments in countries where corruption is widespread tend to reproduce the already existing poor institutions, as it happened in Greece over many years of EU funds' investments (Mungiu-Pippidi 2015a). The stakes of non-corrupt procurement, therefore, are high.

RESEARCH QUESTIONS

Work package 8 of the ANTICORRP project, led by the Hertie School of Governance, and to some extent Work Package 9, led by the European University Institute, investigated specifically these questions:

1. How competitive is public procurement market in EU MS?
2. Is the allocation of public contracts universalistic or particularistic as a rule?
3. If particularism seems to be the rule of the game, what kind of connection(s) explains favouritism in public contracts allocation?
4. If political connections seem to be the prevalent tool for favouritism, is this a politically and economically marginal phenomenon, or does it shape the political economy of party finance and power reproduction?
5. Are EU funds an exception or a confirmation to such national rules of the game in social allocation? Should we look upon them as a blessing or rather a curse?

At the operational level these questions were addressed by seeking irregularities of procedures (single bidding, requests for clarification) and especially non-random distribution outcomes (favourite companies).

CONCEPTS – A BROAD DEFINITION OF CORRUPTION

A few definitions need reminding in order to follow our investigation better. By particularism in the context of the ANTICORRP project we understand the deviation from the ethical universalism norm of public resource allocation (as defined in law, rules, and the modern principles of administrative impersonality, impartiality and equality) resulting in undue benefit for individuals or groups. Particularism limits access to resources (some applicants are favoured and some are discriminated) resulting in unfair treatment. We know from the 88 000 respondents survey organised by the QOG team at Gothenburg University within the ANTICORRP project that many Europeans perceive unfairness of treatment from public services: only in

Northern Europe we find around one third of those asked complaining about particularism, while in Mediterranean Europe the figure is nearly half and in Eastern Europe the majority perceives favouritism and complain about discrimination when dealing with public services.

Particularism is a broader concept than corruption, as it includes both criminalised forms of corruption (favour in exchange for undue profit) and what Kaufmann & Vicente (2011) labelled ‘legal corruption’. In its extreme form (most government transactions are particularistic), particularism can result in an entirely patrimonial or ‘captured’ state. The current scholarship and policy literature on corruption uses a variety of overlapping and insufficiently theorised concepts, such as state capture, grand corruption, regulatory capture, government favouritism, administrative capture which operate with different presumptions – never actually tested – on what is the benchmark and what is the deviation, on one hand, and who is the principal, and who the agent on the other. The concept of state capture is used even by the World Bank for situations as diverse as capture *by the firms* (firms are the perpetrators, a situation encountered in developed countries), costs inflicted *to firms* (firms are victims of extortion) or firms actually belonging to politicians directly or indirectly. While these seem to be very different situations, they can actually be quite easily understood if governance is defined primarily, as we do, by social allocation (who gets what). Is the distribution of public resources, by default, catered towards specific interest groups (party in government, business elite, cronies of ruler, etc.) with limited access for the rest? Or is it rather universal, with only occasional deviations from this norm of individuals seeking personal gain? For policy reasons it is quite important to understand which is the governance context of allocation, because norm building is very different from norm preserving policies.

Table 1. How universalism-particularism continuum schematised in three ideal types

	Ethical universalism	Competitive particularism	Patrimonialism
State autonomy towards private interest	Complete	Partial, with groups competing for capture	The state is privately ‘owned’
Administrative behaviour	Impersonal and impartial	Varies	Personalised
Individual access to public service	Open	Limited	Closed
Type of exchanges (transactions)	Universal (everyone treated equally)	Mixed	Particular (from favouritism to discrimination)
Main norm	Ethical universalism	The two norms compete	Particularism
Outcome of allocation	Fair	Mix of favour and fair	Unfair
Rule of law	Yes; corruption is deviation from norm	Corruption frequent as both favour and access buying	Mix of privilege and occasional corruption to buy access

Source: Mungiu-Pippidi 2015b.

Our main investigation method is to place the majority of government transactions (or exchanges) on the continuum in one country. Are they of a universal or particular nature? What are the rules of the game in the allocation of public resources? This approach has important theoretical and practical advantages, as it allows:

1. More consideration towards the development of governance, as it no longer sees ethical universalism as the default rule and corruption as a deviation, but acknowledges that state autonomy towards private interest is a result of long time evolution and not the default state of nature. *We expect, therefore, to find less autonomy of state towards private interest in less developed societies. Since the European Union has come to accommodate such different levels of development, a difference in governance is also to be expected.*
2. An objective way of measuring state autonomy towards private interest by the nature of transactions in the distribution of public resources as either particular or universal. A particular distribution results in a measurable particular outcome, so without witnessing the hidden aspects of behaviour which put so many problems to corruption measurement (like bribing) we can identify what the norm really is in public distribution by monitoring its results through data mining.
3. An outcome based definition of ‘state capture’ as the situation when significant numbers of government transactions (the threshold is debatable – we suggest 50 per cent in this volume) are particular and a definition of ‘government favouritism’ as the administrative behaviour by which such a non-random distributional outcome is reached. This is very far from the ‘zero tolerance’ approach encountered in the assistance industry, but we believe it is more realistic, seeing the present reality of most low and middle income countries.

DATA COLLECTION

The data needed to answer our research questions was collected by surveying public procurement in the infrastructure sector. Anecdotal evidence and country investigations allege that the costs of public infrastructure projects are systematically higher in countries with high degrees of corruption, such as Italy, Greece or new EU member states. The fact that infrastructure is a public service with great social importance, significant externalities, and “public good” characteristics, lies at the heart of governance problems in this sector. WP8 assesses the extent of corruption problems in the public infrastructure sector, analyses the likely causes of those problems, including the incentive structures and political economy that sustains them and suggests solutions on how to increase probity in the sector.

For data, we thus sought to collect all public contracts in the field of infrastructure (both EU-funded and national ones) of at least one million euro for the same time interval selected to cover at least two electoral cycles (2007-2013). The country selection was influenced by the composition of our research consortium, but we organised it using the relation with the European Union as chief variable, as a proxy of both economic development and rule of law. Our designed panel thus included one highly developed and old EU Member State (Germany), four new EU Member States (Hungary, Croatia, Romania, and Bulgaria), one candidate country (Turkey) and one neighbourhood country (Ukraine). However, the very uneven access to data obliged us to qualify these plans. Data from Ukraine was not accessible; in Turkey

and Bulgaria access was only partial. Collecting the data from Romania meant assembling it from scratch, as the national electronic portal does not publish awards in data format, needing considerable investment in database building and IT. In short, only Croatia and Hungary had sufficient digitalization to allow easier collection of data, although cleaning the data proved to be a highly demanding job even in these countries. Nevertheless, only the Ukrainian paper that we present in this volume – given the fluidity of the Ukrainian situation – is about recent developments there; the other countries managed to follow the ascribed pattern and address the above research questions.

Apart from the data on the allocation of contracts, ANTICORRP researchers collected data on the winning firms (from register of commerce, mandatory interest disclosures and other sources), on market concentration in the construction sector (both the procurement market and the general one) and on potential particularistic links. For instance, lists were compiled of firms which donate to political parties, or where politicians or award committee presidents had been shareholders some years before. The different access to data from one country to another limited our attempt to a complete standard approach and is visible in the country papers.

RESULTS IN THE BENCHMARK CASE: GERMANY

Among the developed, old member states with low corruption perception Germany has the highest public procurement expenditure in the EU, with an average of 370 billion euros a year between 2009 and 2013. Our report, published online in full, offered a general overview of the German public procurement (PP) historical development, the current trends in procurement spending and assessing potential risks for corruption. Given that Germany has two parallel procurement systems active at the time, one for contracts above the EU thresholds and one for the contracts underneath these limits, each one of them was evaluated separately. The lack of high quality tender-level data for the case of Germany made it impossible to base the risk assessment on objective indicators similar to the Eastern European country reports. Therefore, this report relied on different sources of data to determine the size of the procurement spending in the country, the manner in which it is allocated and the potential risks of corruption.

The fact that almost 90% of all infrastructure contracts were awarded through an open tender would suggest that the risks of government favouritism in this particular sector are fairly low. These risks seem to be higher among the purchase of goods and the hiring of professional services, where 20 and 14% of contracts, respectively, are awarded through restricted or non-competitive procedures. Surprisingly, the results derived from the Tenders Electronic Daily (TED) database suggest that the infrastructure sector has consistently had the lowest levels of non-competitive procedures since the data is available (less than 5%). The data also reveals a large number of companies winning government contracts. In the construction sector, for example, the top construction firms only score 5% of the total value of contracts awarded. Even when expanding the list to include the contracts obtained by the top 15 companies, their market share only amounts to a maximum of 11% of the spending. This evidence therefore suggests that there is a healthy, competitive market for construction contracts above the EU thresholds in Germany. Evidence regarding competition for the national level tenders, however, is not available.

While contracts above the EU-established thresholds are awarded in a competitive manner according to the data available from TED and analysed by us, the German business community, interviewed for the Flash Eurobarometer 374, is critical of the manner in which contracts are awarded in the country (such data is not available either in digital, or in many instances,

paper format, as it is archived (or not) according to different rules from one Land to another). A majority of the respondents believe that collusive bidding and the involvement of bidders in the design of contract specifications are widespread practices in Germany. 44% of respondents also believe that amendments to the contract terms often occur after the conclusion of the procurement process. This figure coincides with the EU average and places Germany in the worst performing tercile in the region. It is also worth noting that almost half of the respondents in Germany believe that tailor-made specifications and conflict of interest in the evaluation of bids are widespread practices in the country.

The lack of transparency and knowledge of the applicable procurement rules underneath the EU thresholds should be a concern for Germany. Audits from the Courts of Auditors from Berlin, Thuringia and Saxony show that the procurement regulation is often breached: 56% of municipalities in Saxony failed to publish the results of contracts awarded through restricted procedures and to inform about direct awards; in Berlin the Court of Auditors found that contracting authorities often ignore the thresholds that call for open tenders and award contracts through restricted procedures and that in some cases contracts with values that would make it mandatory to be awarded competitively are divided into smaller ones to be awarded directly or through restricted procedures (Rechnungshof von Berlin 2014: 116).

However, we found no evidence that political connections seem to be the prevalent tool for favouritism in Germany. None of the 100 richest Germans obtained their fortunes by competing in the construction sector: Families Goldbeck and Bauer – owners of the companies of the same names – are among Germany's wealthiest, but not even close to the top positions. The top positions in the list of the wealthiest people in the country are occupied by people who amassed their fortunes in a variety of different sectors such as the pharmaceutical, automotive, insurance, software, transportation, retail and fashion industries, but there is no mention of construction moguls or fortunes made on behalf of public contracts.

As concerns EU funds, at least among those contracts above the EU procurement thresholds, follow the same pattern as the contracts awarded with only national funds. The sample, however, was very small in the case of Germany.

RESULTS IN NEW MEMBER STATES: HUNGARY, ROMANIA, BULGARIA AND CROATIA

As all these countries offer access to significant procurement data, the results are richer. Researchers found that the construction sector is quite competitive on the face of it – in all cases –, but the procurement market less so. In Croatia public companies win far too many contracts, although they are by no means more efficient. In Bulgaria top companies win too large a share of contracts. In Romania the situation evolved greatly during the study interval. In 2011 there were signs of PP market concentration, with a few domestic companies (small as number of employees, but with fabulous turnover and profit rates on over 30% even during the crisis) winning all the great contracts. In 2013 and 2014 these companies came under investigation and the report between domestic and foreign companies improved significantly. In Hungary, the construction sector is somewhat more competitive than the rest of the public procurement market when judged by bidder numbers (25% and 34% single bidder contracts respectively). However, market concentration is considerably higher in construction than outside of it and proven cartel cases in, for example, highway construction suggest that open competition is rare.

The evidence collected by us indicates in all cases that competitive particularism seems to be the main governance context, with all the features deriving from this: high numbers of particular transactions (in Bulgaria over 50% of contracting agencies grant contracts to favourite firms; in Romania non-competitive allocation involves about 40% of all publicly advertised contracts; in Hungary single bidder or captor firms won 48% of awarded contract value in 2009-2012 with their market share climbing to 70% after 2011; Croatia alone is particular in the regard that favourite firms are public and not private.

Political connections seem to be the main link indicating favouritism in post-communist new Member States. **The results that ANTICORRP found are spectacular, from complete reversal of fortunes of top winning companies after elections (in Hungary, see ACRI) to statistically significant chances of winning both national and EU funds for politically connected companies in Romania, Hungary and Bulgaria.** Even in Croatia evidence was found of complete reshuffle of management, boards and top personnel at public companies after elections. **Politicization is the main tool of controlling allocation of public resources, with politicians and civil servants sitting in the award committees of contracts colluding or public body heads biasing the tendering process using top-down bureaucratic chains command.** Since only Romania has published judicial data by now, a model of how spoils are divided is offered by district one Bucharest, the richest of the country (and above average of EU NUTS GDP): the kickback of 10-15% of all contracts were divided into 30% for the mayor, 15% for the party broker, 30% for the two city hall advisers dealing directly with the companies, 10% to the party local branch, and 15% to the civil servants involved (Romania Insider 2015).

Figures from at least Romania, Bulgaria and Hungary tend to indicate that preferential allocation is the rule of the game, despite local efforts by clean companies, civil society and the media (in Romania notably the prosecutors as well) to push for a change. Government favouritism is not a politically and economically marginal phenomenon; it shapes the political economy of party finance and the mechanism of power reproduction. Incumbent mayors get re-elected with informal funds from favourite companies (used from purchasing media advertising to direct buying of electoral gifts (Nikolova & Marinov 2015)), then arbiter the fate of national elections. It is by no accident that in the fall of 2014 in Romania the law preventing mayors from migrating across parties was suspended by 45 days through an emergency ordinance, so that the government party could recruit tenths of mayors from the opposition. Corrupt mayors (known as 'barons') are seldom replaced by their own party, as a complete rebuilding of such funding schemes in full security with a newcomer is understandably difficult. Only prosecutors can eventually manage to touch them, as such organised extraction schemes provide a personal capital that they can use to their political advantage to bargain with all great parties. And prosecutors have started arresting mayors in recent years, in Ljubljana (List 2012), Zagreb (*Reuters* 2014), Bucharest, and even in Bulgaria (*The Sophia Globe* 2014). In Budapest, the public disclosure of city corruption had lasting effects both for the liberal party which had held that office for most of the transition and had never managed re-election, and for the success of the Orbán government, largely gained due to the complete self-destruction of his predecessors (Hodgson 2010). Prosecution alone is unlikely to succeed changing the rules of the game, however, unless some radical political change occurs which brings parties to government that are less tied up with this kind of organised crime scheme.

Finally, how safe are EU funds? The evidence is mixed, but there are no grounds to claim that they make the situation worse or help the 'barons' hold on to their fiefdoms. EU funds

are not sheltered: **evidence from Romania shows that politically connected companies win such funds more frequently, as well as national funds.** But also less procedural irregularities can be found in relation to such funds, and EU-wide bidders put a lot of pressure on domestic allocation mechanisms. EU funds are more competitive. The risk of corrupting EU companies as well is high, though. Figures from 2013 in Romania show that compared to 2011 as many favourite companies exist, but the distribution is now more geographically fair, with EU companies learning the local game as well as domestic ones. Some of great winners are already investigated by prosecutors. As to Bulgaria and Hungary, funds do seem to indicate somewhat more risk there: In Hungary (Fazekas et al. 2014), procurement tenders funded from EU Funds are considerably less competitive and display more red flags such as contract modification during implementation (e.g. for increasing total contract value). The absence of increased risk in Romania may be due to the very low absorption rate.

The overall landscape of public resource allocation in post-communist member states, dominated by politicization and particularism is reminiscent of the early democratic history of some advanced Western democracies. This is not to imply that some natural evolution exists out of particularism. If American or French political parties have evolved, even imperfectly, from a period when spoiling public resources and politicizing public administration were regular practices, countries such as Greece, Italy or Spain in Europe, or Argentina in Latin America (more developed than any of the post-communist countries discussed here after the First World War) have not sufficiently evolved or plainly stagnated. **Particularism is a suboptimal equilibrium and time alone is no guarantee of evolution: societies do not naturally grow out of it and into public integrity.**

RESULTS IN ACCESSION COUNTRIES: TURKEY

Turkey seems an exceptional case in this context, as it is also in the QOG survey, reporting far less corruption than new EU MS (Charron 2013). However, recent developments (Wordsworth 2014) as well as our report raise signals of alarm. Our requests for contract-level procurement data remained unanswered by the Turkish Public Procurement Agency. Therefore, aggregate data on public procurement have been used to trace developments in law and implementation. They indicate that post-2002 incumbent AKP government has to a large extent considered construction investments as an engine of economic growth which resulted in a substantial expansion of this sector. The Turkish Public Procurement Law (PPL) came into force in 2003 to bring Turkey into compliance with EU procurement standards. Although certain improvements have been achieved, frequently introduced exemptions distorted the rules and procedures for transparency, competition and non-discrimination. A considerable number of amendments have aimed at removing major public contracts from the scope of PPL. Recently, Public-Private Partnerships (PPPs) have been used principally to build up large-scale infrastructure projects. Due to the large capital requirements and the fact that the legal structure of PPPs is largely incompatible with the PPL and the EU regulations, only a smaller group of companies which have allegedly close connections with top level AKP politicians win PPP projects worth billions of Euros. Thus, under the current framework, PPPs in the Turkish construction sector are significantly prone to corruption risks and seem to be used to consolidate the power of incumbents over media.

CONCLUSIONS AND RECOMMENDATIONS

The main conclusion of this report is that public procurement needs far more transparency and monitoring in old Member States, where it is far from perfect, as well as new ones and accession countries, where major problems can be identified, partly due to more transparency and monitoring. While the case of Turkey indicates that similar competition enforcement rules should also be applied to PPP, one main conclusion is that uniformization of legislation alone is no guarantee of a clean procurement. In some countries, kickbacks from public contracts seem a well-established industry, and we see from Italy that it can resist judicial purges and be reborn with a more civilised face (Davies 2013). Countries like Bulgaria have not even started the purge. Frequently, as in Romania or Turkey, purges come under political attack for partiality so their results are not sustainable if more in depth reforms do not accompany or follow them.

But what reforms? While every one of our reports has its own country specific recommendations, we suggest that a successful strategy should concentrate on:

1. Reducing the resources for corruption

- 1.1 Procurement in Europe needs more transparency. Data availability should be improved; awards as well as execution data should be published in data open formats. Digitalization makes archiving of such data easy, but some countries do not have mandatory rules of storing and publishing such data. Such rules are indispensable.
- 1.2 EU funds should be tied with mandatory rules of digitalization, open data and transparency more generally. An inbuilt monitoring mechanism based on full transparency of procurement (so that monitoring costs are low, the media, businesses and civil society contributing voluntarily) should apply to the new 'Juncker' fund as well as to more traditional funds. By complete transparency we understand an online system of tracking expenses, from advertising to awards, management and final payment.
- 1.3 EU funds could be better protected if designed for a more universal type of allocation than for projects ending up with favourite companies. One thousand scholarships for top IT students can hardly be used in a particular way and may be a far better investment in growth than a new airport or sports hall.
- 1.4 At least for EU funds, grassroots consultations and consumer surveys should be organised for all community stakeholders. Citizens are largely absent from the process of design, execution and evaluation of EU funds and only occasional surveys collect their opinions, which risk being very negative. Social accountability should be built in the process of awarding and evaluation of EU funds. It would be a gain both for the integrity and reputation of the EU.
- 1.5 The rules restricting the access to EU funds (like previous success in winning EU funds or large monetary guarantees) should be removed. They do not protect the funds from corruption; they only cut the work of those awarding the funds. Instead, they foster favouritism so it may be better to invest more into the screening of bidders and the award procedure than to provide rents directly through rules meant to actually protect the integrity of EU funds.

2. Increasing the constraints for corrupt behaviour

- 2.1. Controlling can be improved by developing a monitoring mechanism based on distributional outcomes rather than strictly on procedures. The existence of favourite firms,

agency capture, single bidder, partiality of co-funding by national governments should be strictly monitored. For EU funds reporting requirements could be introduced so that such self-monitoring and control is done by national controlling agencies or even management operational funds themselves. Such monitoring is currently done only by civil society or not at all. Externalizing to specialised NGOs can also be a solution.

2.2. Rather than introducing new rules, old ones should be enforced. An example is TED, where many countries complete the required fields only partially or slice contracts up to avoid the requirement to publish the tender at TED. TED should be extended and fines introduced for late or incorrect filling in.

2.3. Plans for a European prosecutor should go on and the institution activated as early as possible.

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The fundamental purpose of ANTICORRP is to investigate and explain the factors that promote or hinder the development of effective anti-corruption policies and impartial government institutions. A central issue is how policy responses can be tailored to deal effectively with various forms of corruption. Through this approach ANTICORRP seeks to advance the knowledge on how corruption can be curbed in Europe and elsewhere. Special emphasis is laid on the agency of different state and non-state actors to contribute to building good governance.

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