



Risk assessment methods, risk areas and policy lessons

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Two main arguments

1. Corruption can be proxied objectively:
Which data & indicators we use?
2. Novel insights and policy lessons:
Where are the gaps and risks?

Part I.

Measuring corruption

DIGIWHIST comprehensive measurement framework

- Legislation (EuroPAM)
- Indicators of administrative processes + outcomes
 - Transparency
 - Administrative capacity
 - Corruption/integrity

Corruption definition

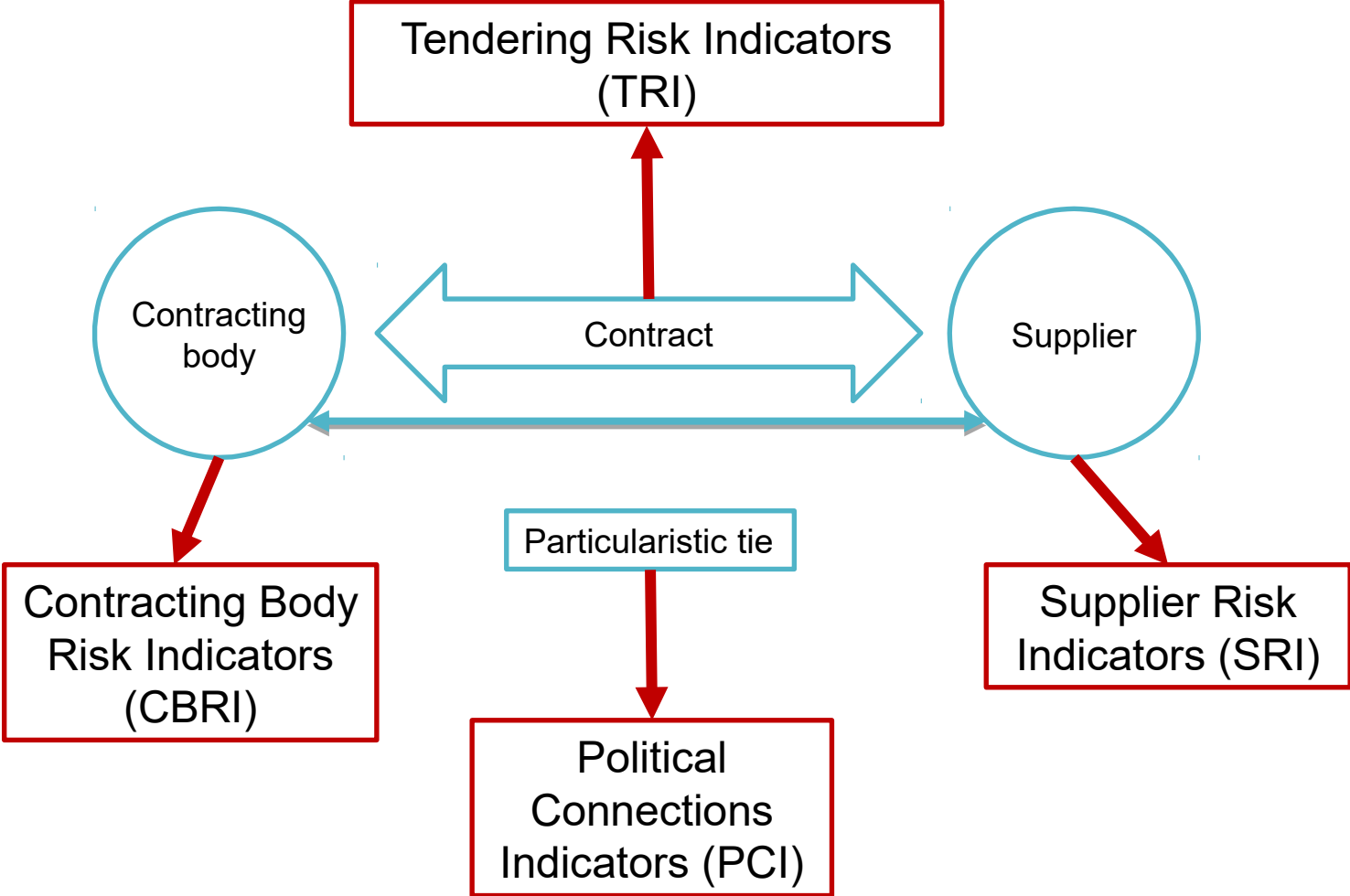
In public procurement, the aim of corruption is to steer the contract to the favored bidder without detection. This is done in a number of ways, including:

- ***Avoiding competition*** through, e.g., unjustified sole sourcing or direct contract 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.

→ Note the difference from legal definitions

Conceptualizing public procurement corruption indicators



Selected examples

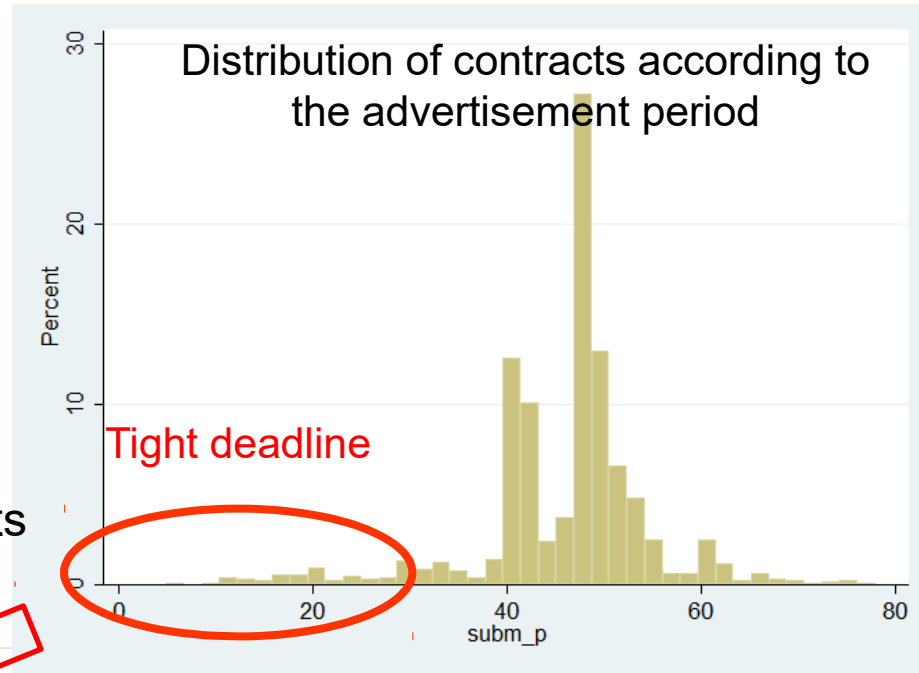
1. Tendering Risk Indicators:

- Single bidding on competitive markets

2. Supplier Risk Indicators:

- Supplier age/year of registration

Modelling corrupt contracting: single bidding



Probability of single bid submitted for contracts compared with the market norm of 48+ days

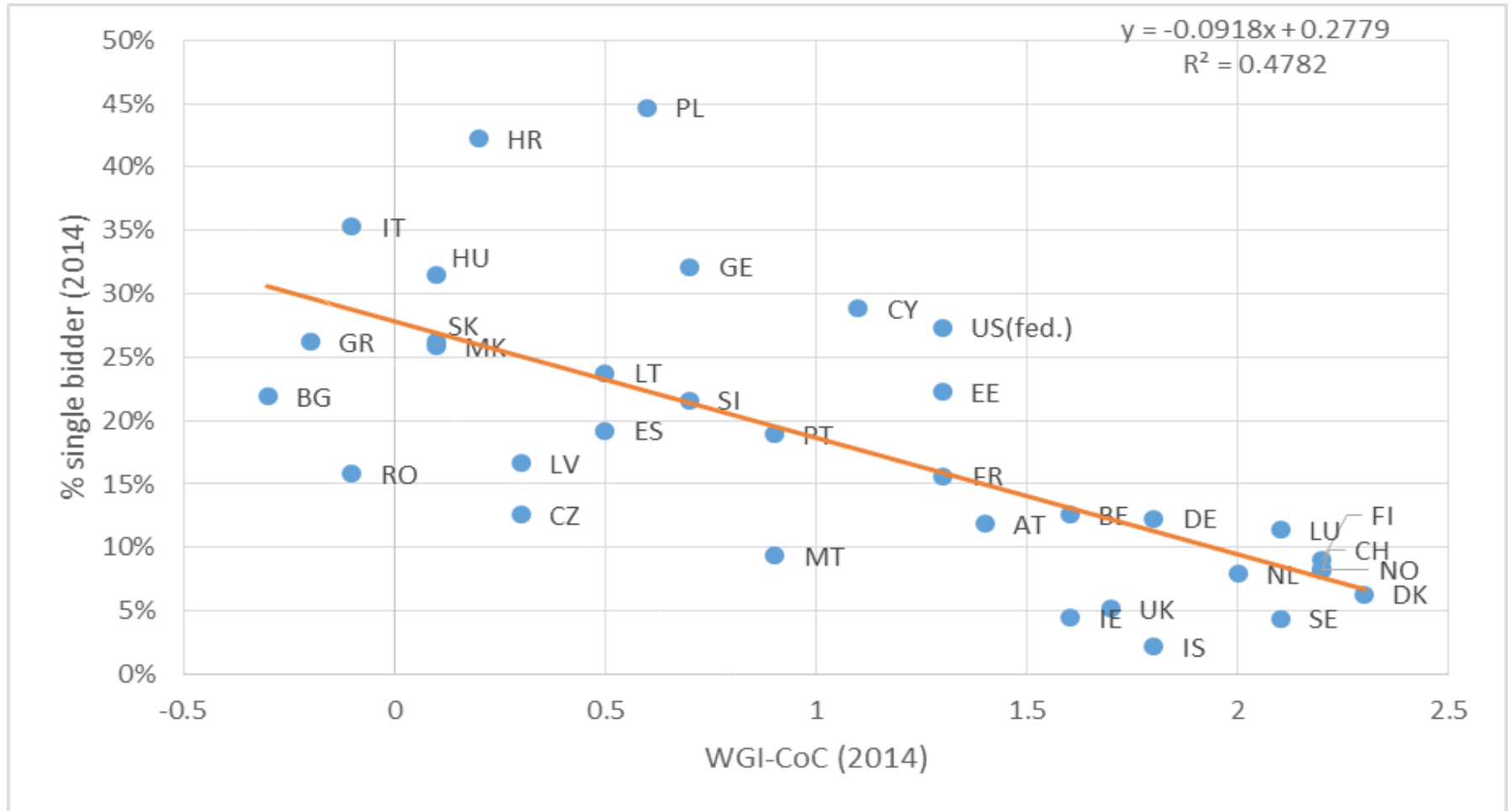
Single bidding

Source: EU's Tenders Electronic Daily (TED), Portugal, 2009-2014

Indicator validity:

Corruption perceptions & single bidding

Single bidding correlates with subjective indicators of corruption



Source: Fazekas, M., & Kocsis, G. (2015). *Uncovering High-Level Corruption: Cross-National Corruption Proxies Using Government Contracting Data*. GTI-WP/2015:02, Government Transparency Institute, Budapest.

Indicator validity:

Level of development & corruption risks

GDP per capita - CRI, NUTS2 regions:

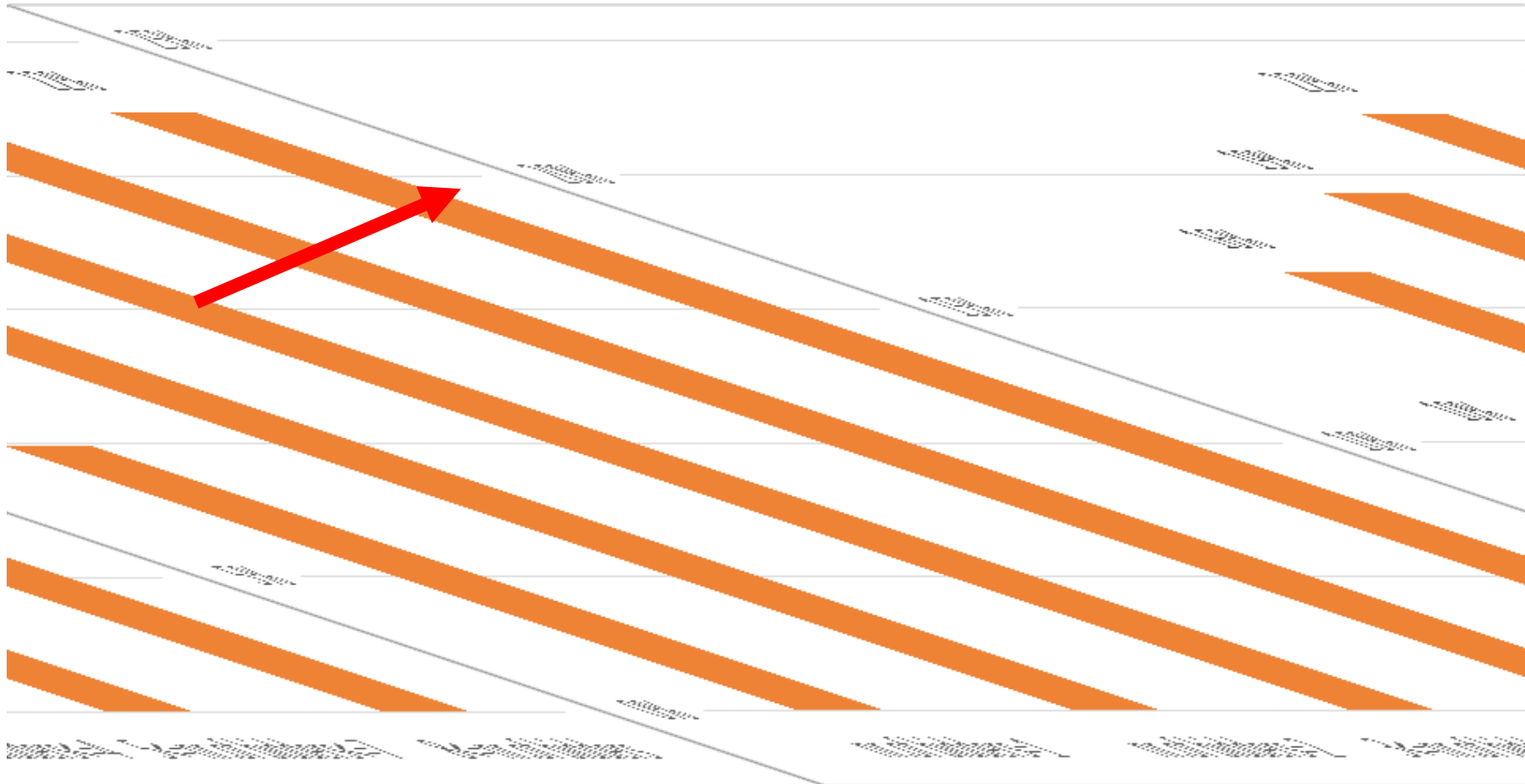
Higher corruption is associated with lower development



Micro validity:

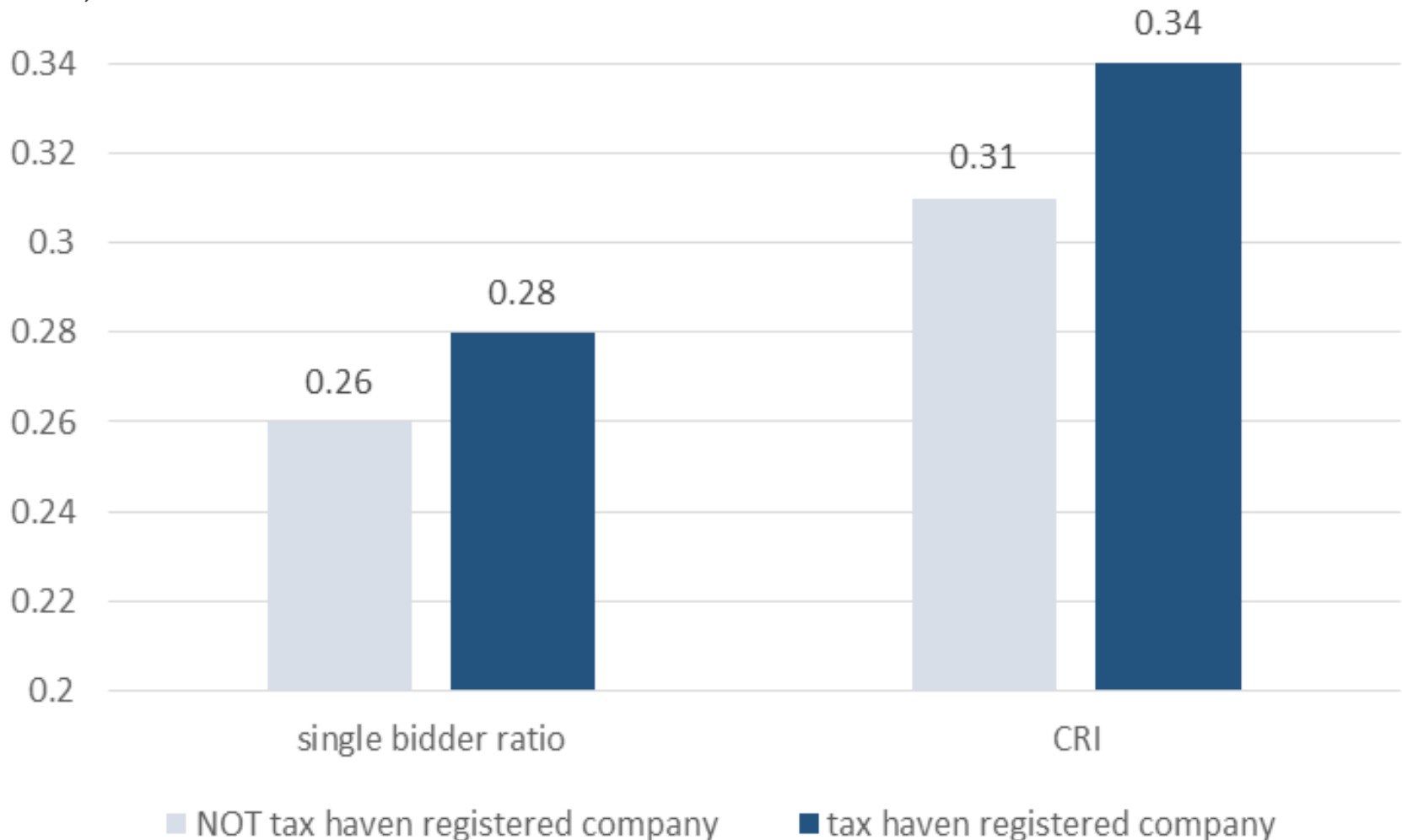
Number of bidders & prices

- Price savings by the number of bidders
- 543,705 contracts, EU27, 2009-2014



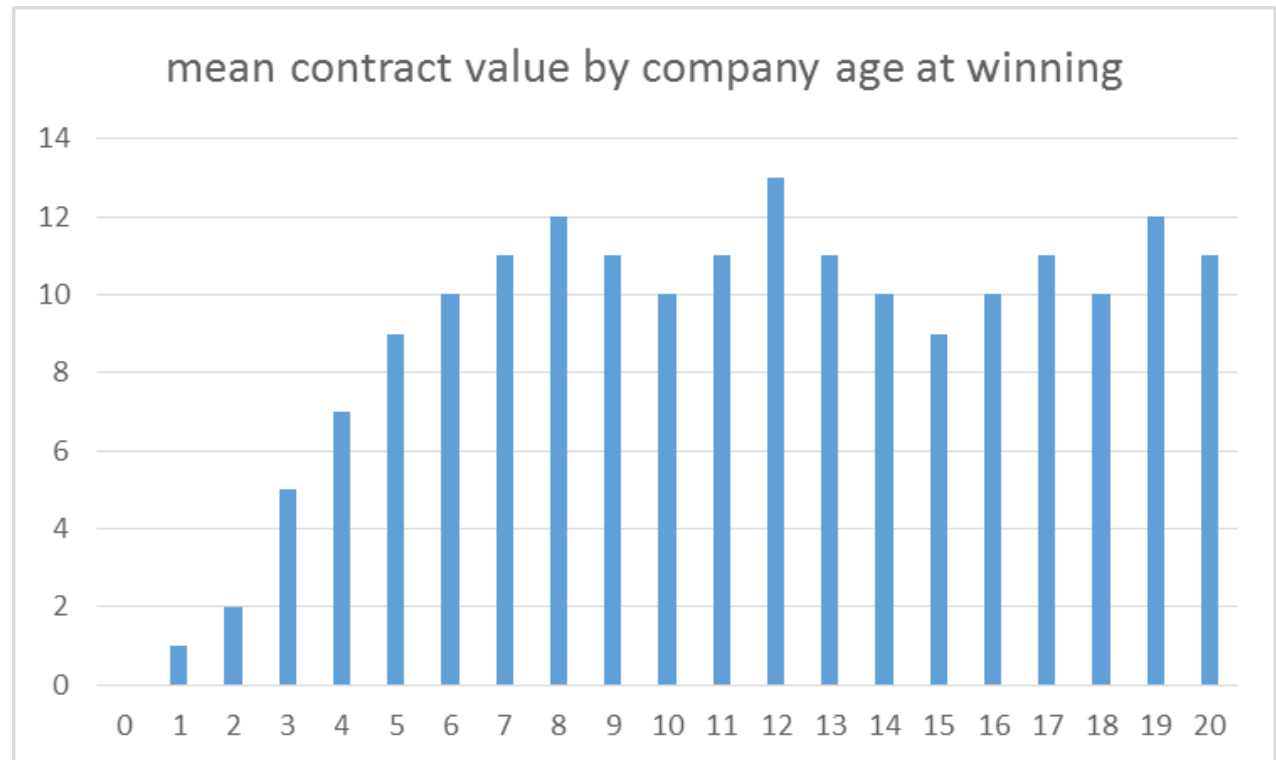
Tax havens & procurement corruption (TRI)

- Tax havens (Financial Secrecy Index)
 - higher corruption risks (single bidding, Corruption Risk Index)
- EU28, 2009-2014



SRI: *Expected* success of companies by age

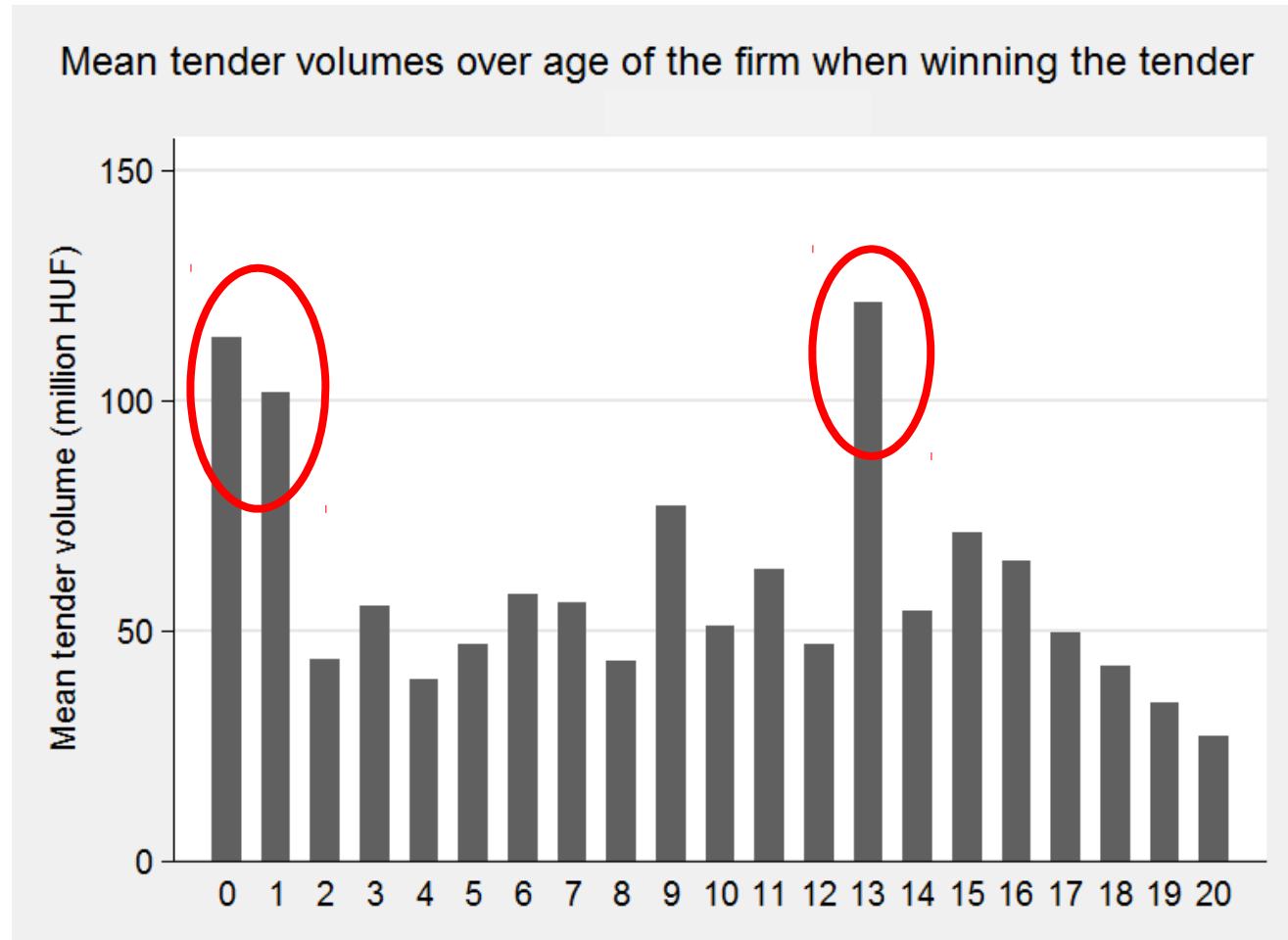
1. Gradual build-up of contracts
2. Natural fluctuation over time



SRI: *Observed* success of companies at ,specific' ages

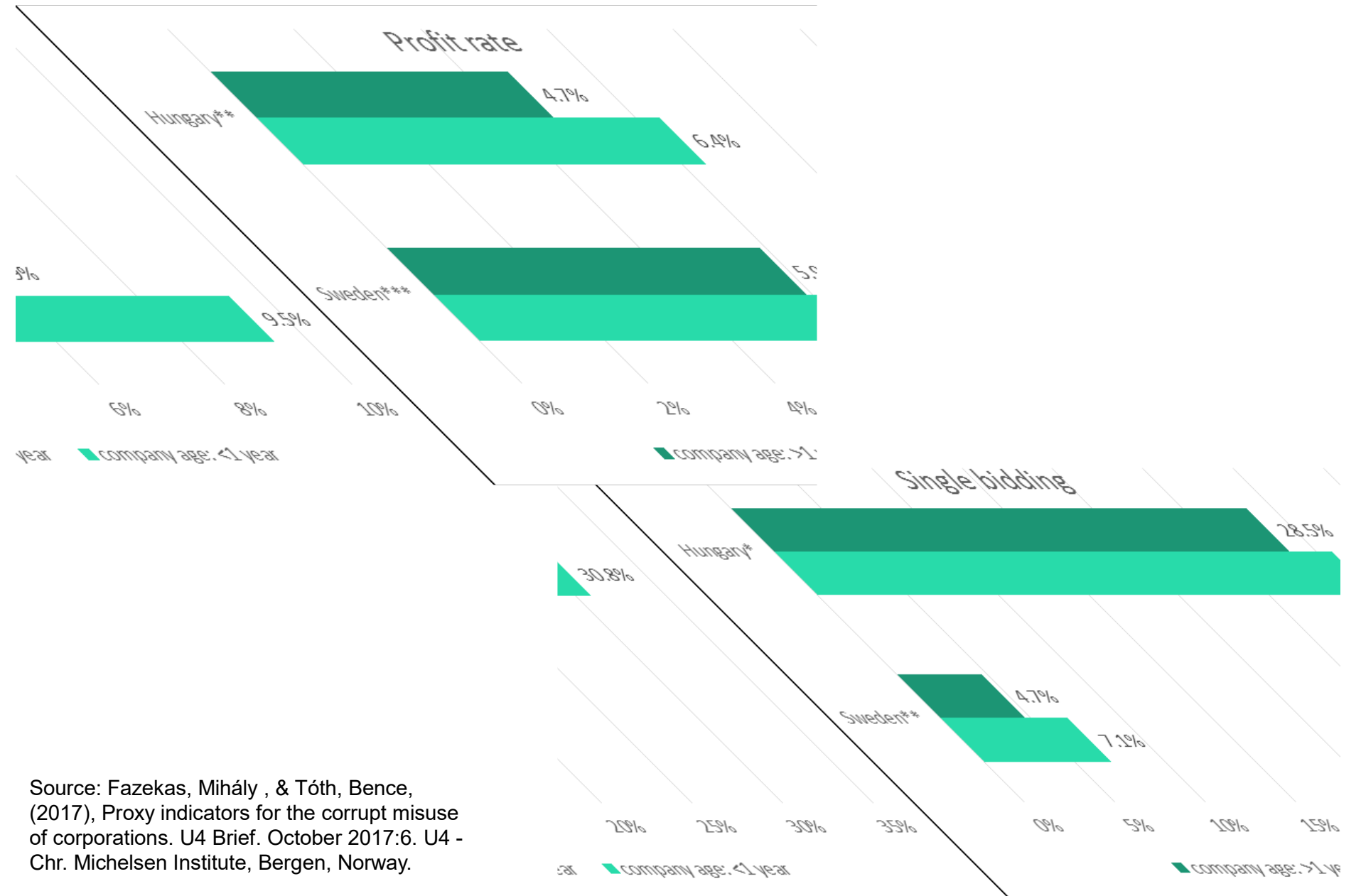
1. ,Just' founded companies
2. Companies founded under party last in power

Hungary, 2010



Source: Fazekas, M., Lukács, P. A., & Tóth, I. J. (2015). *The Political Economy of Grand Corruption in Public Procurement in the Construction Sector of Hungary*. In A. Mungiu-Pippidi (Ed.), *Government Favouritism in Europe. The Anticorruption Report 3* (pp. 53–68). Berlin: Barbara Budrich Publishers.

Clusters of risk: young firms



Source: Fazekas, Mihály , & Tóth, Bence, (2017), Proxy indicators for the corrupt misuse of corporations. U4 Brief. October 2017:6. U4 - Chr. Michelsen Institute, Bergen, Norway.

Part II.

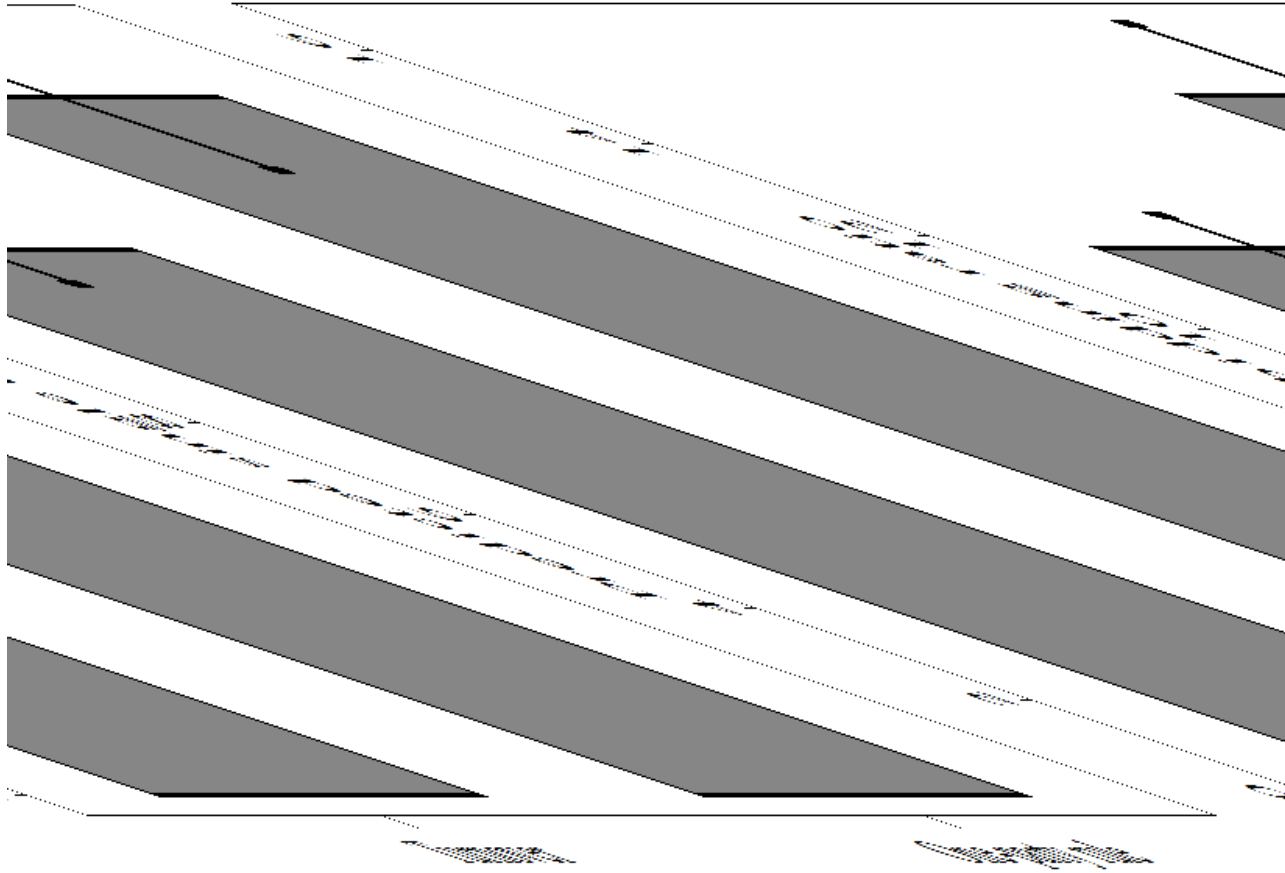
Novel insights thanks to Big Data

Selected results with direct policy relevance

1. **High resolution insights:** e.g. municipal corruption risks in high integrity countries
2. **Complex analytics:** e.g. identifying networks of high risk
3. **Evaluating spending programmes:** e.g. EU Funds controls

Sweden: single bidding

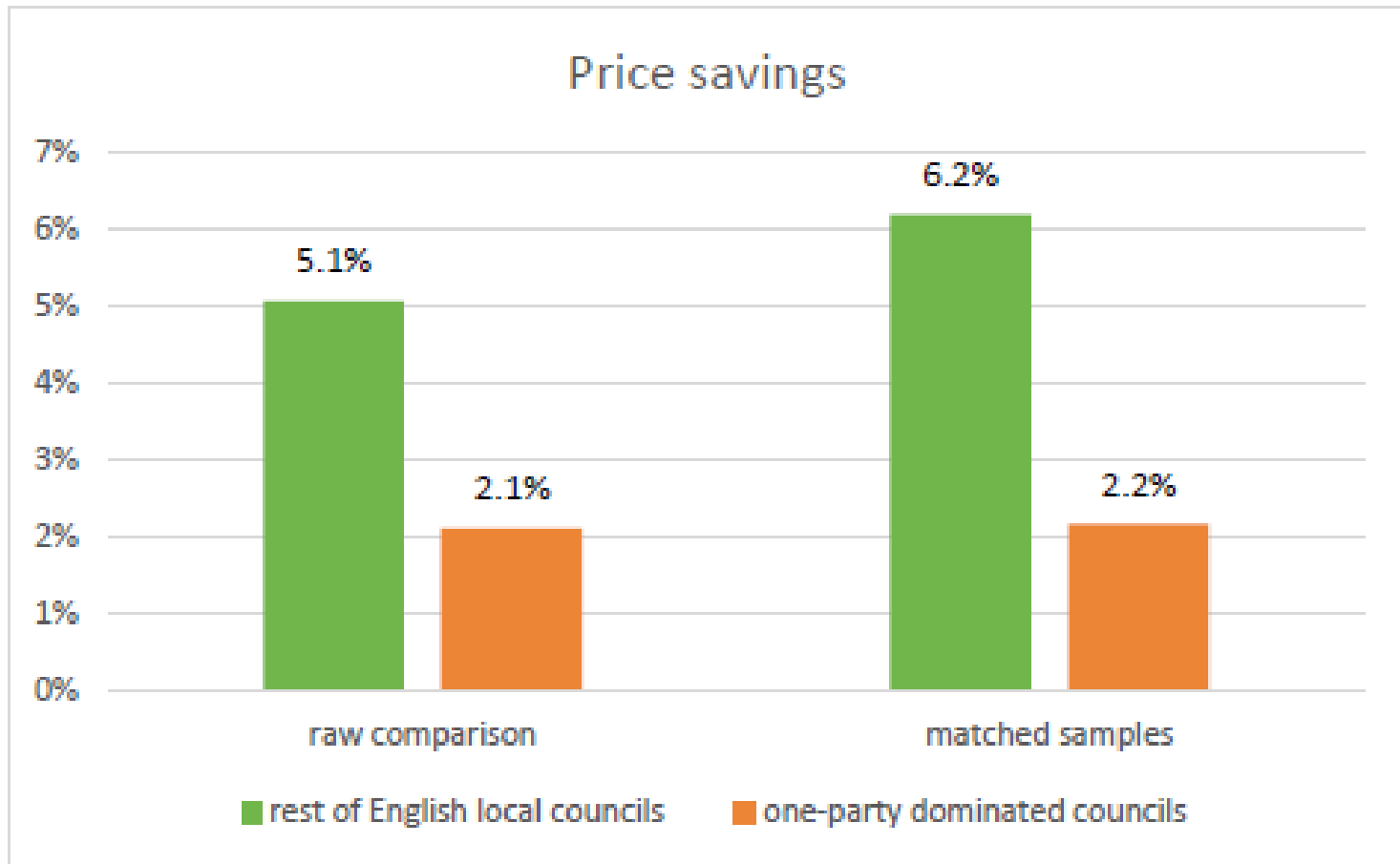
Political turnover and corruption risks



Source: Broms, Rasmus, Dahlström, Carl, & Fazekas, Mihály, (2017): Procurement and competition in Swedish municipalities. Working Papers Series 2017:5, Gothenburg, Quality of Government Institute, University of Gothenburg.

UK: higher prices

Political turnover and overpricing

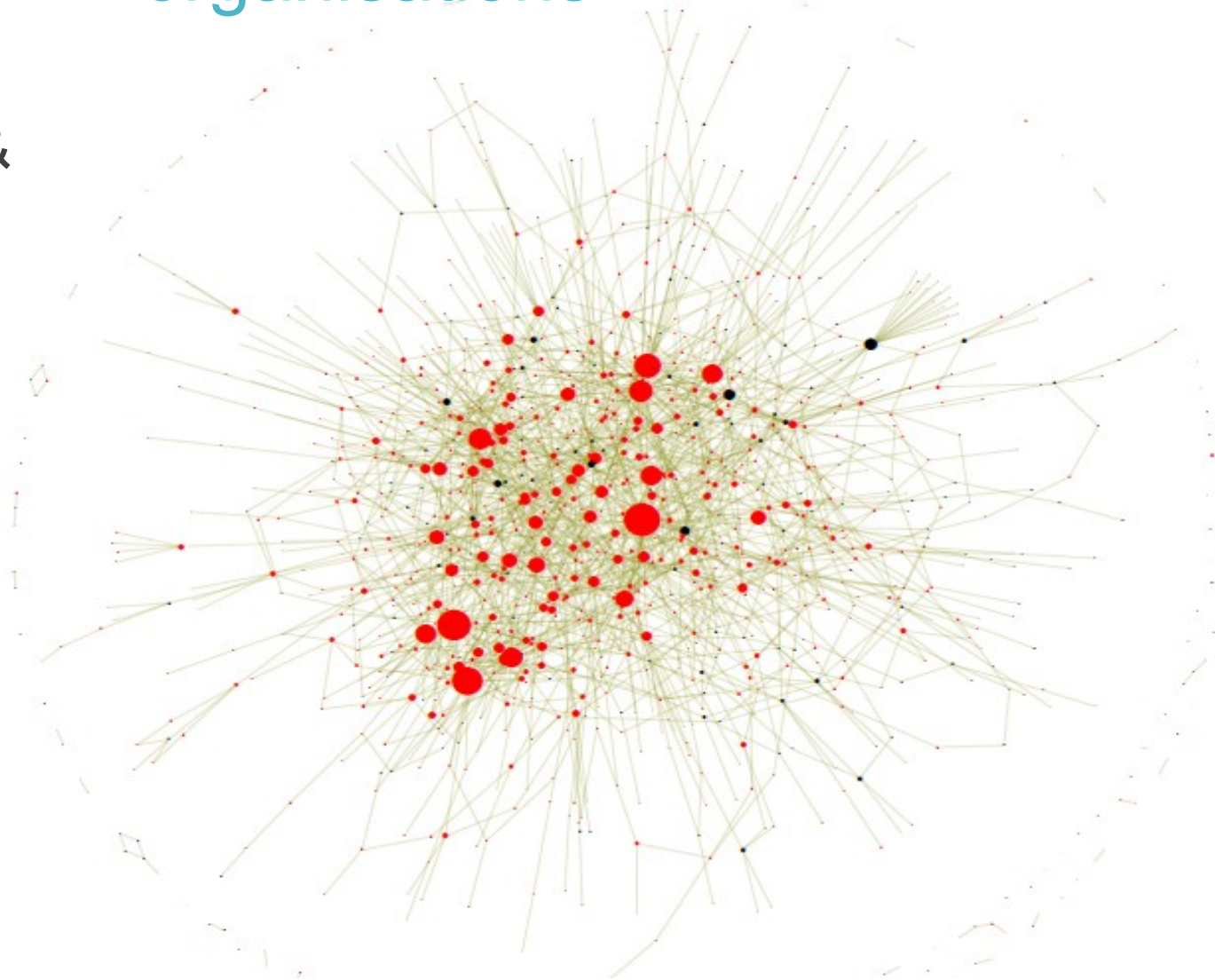


Source: Fazekas, M. (2015). The Cost of One-Party Councils: Lack of Electoral Accountability and Public Procurement Corruption. London: Electoral Reform Society.

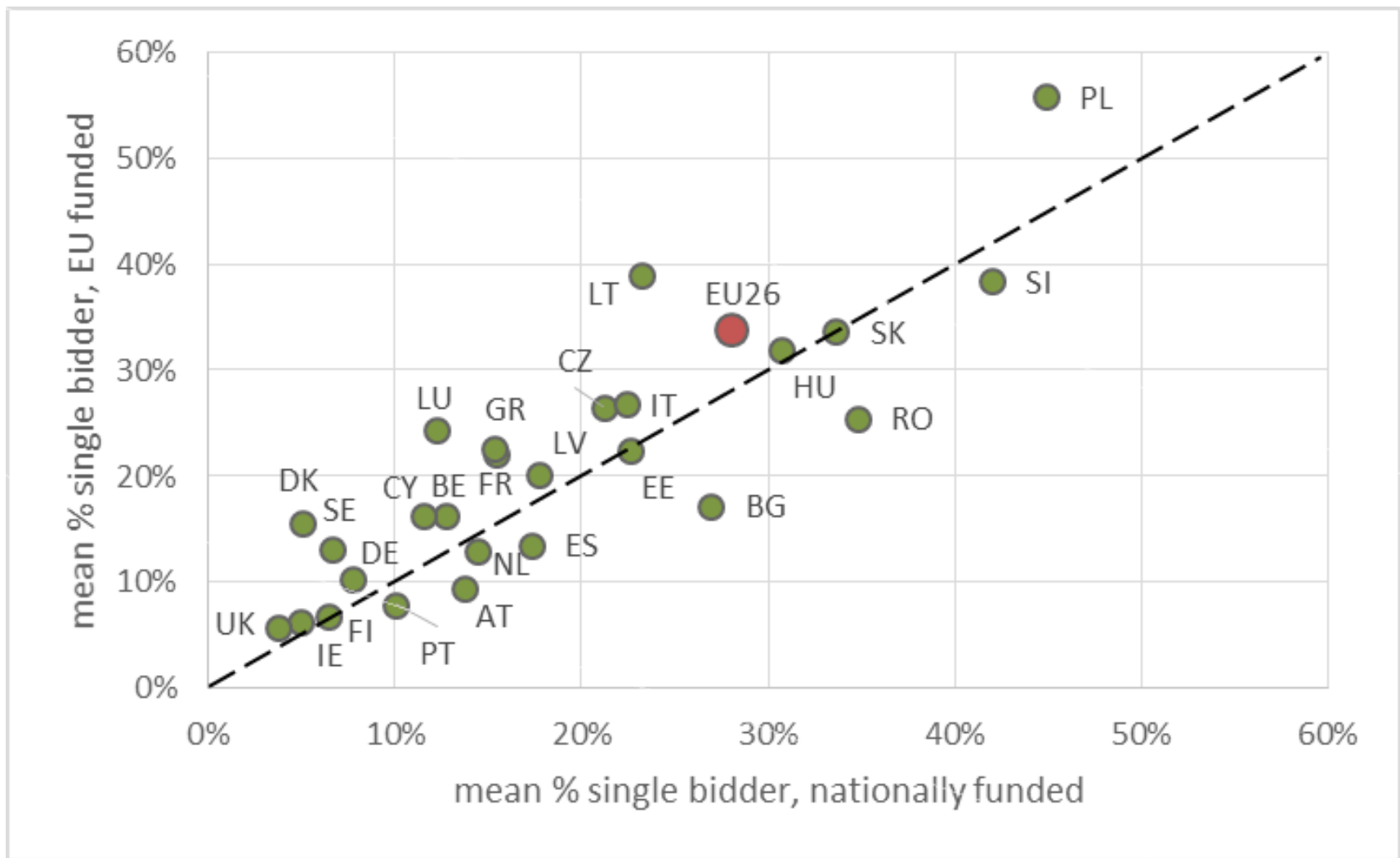
Risk-based audit: captured and high risk organisations

-Captured (red) & high risk (black) organisations' network,
-Hungary,
-2011-2012Q2

→ Highly centralised/state driven corruption



Single bidder shares of EU and nationally funded public procurement contracts per country, EU27, 2009-2013



Source: Fazekas, M., & Tóth, I. J. (2017). Corruption in EU Funds? Europe-wide evidence on the corruption effect of EU-funded public contracting. In J. Bachtler, P. Berkowitz, S. Hardy, & T. Muravska (Eds.), *EU Cohesion Policy. Reassessing performance and direction*. Chapter 13. London: Routledge. Figure 13.3

Thank you very much for your attention!

If you want to know more get in touch:

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Further readings: digiwhist.eu/resources

- Broms, Rasmus, Dahlström, Carl, & Fazekas, Mihály, (2017): Procurement and competition in Swedish municipalities. Working Papers Series 2017:5, Gothenburg, Quality of Government Institute, University of Gothenburg.
- Fazekas, Mihály , & Tóth, Bence, (2017), Proxy indicators for the corrupt misuse of corporations. U4 Brief. October 2017:6. U4 - Chr. Michelsen Institute, Bergen, Norway.
- Fazekas, M., & Kocsis, G. (2017). Uncovering High-Level Corruption: Cross-National Corruption Proxies Using Government Contracting Data. *British Journal of Political Science*, available online.
- Fazekas, M. & King, L. P. (2018). Perils of development funding? The tale of EU Funds and grand corruption in Central and Eastern Europe. *Regulation and Governance*, available online.
- Fazekas, M., & Tóth, I. J. (2017). Corruption in EU Funds? Europe-wide evidence on the corruption effect of EU-funded public contracting. In J. Bachtler, P. Berkowitz, S. Hardy, & T. Muravska (Eds.), *EU Cohesion Policy. Reassessing performance and direction*. London: Routledge, ch. 13.
- Fazekas, M., Cingolani, L., & Tóth, B. (2016). A comprehensive review of objective corruption proxies in public procurement: risky actors, transactions, and vehicles of rent extraction: GTI-WP/2016:03. Government Transparency Institute. Budapest.
- Fazekas, M. and Tóth, I. J. (2016). From corruption to state capture: A new analytical framework with empirical applications from Hungary. *Political Research Quarterly*, 69(2).