

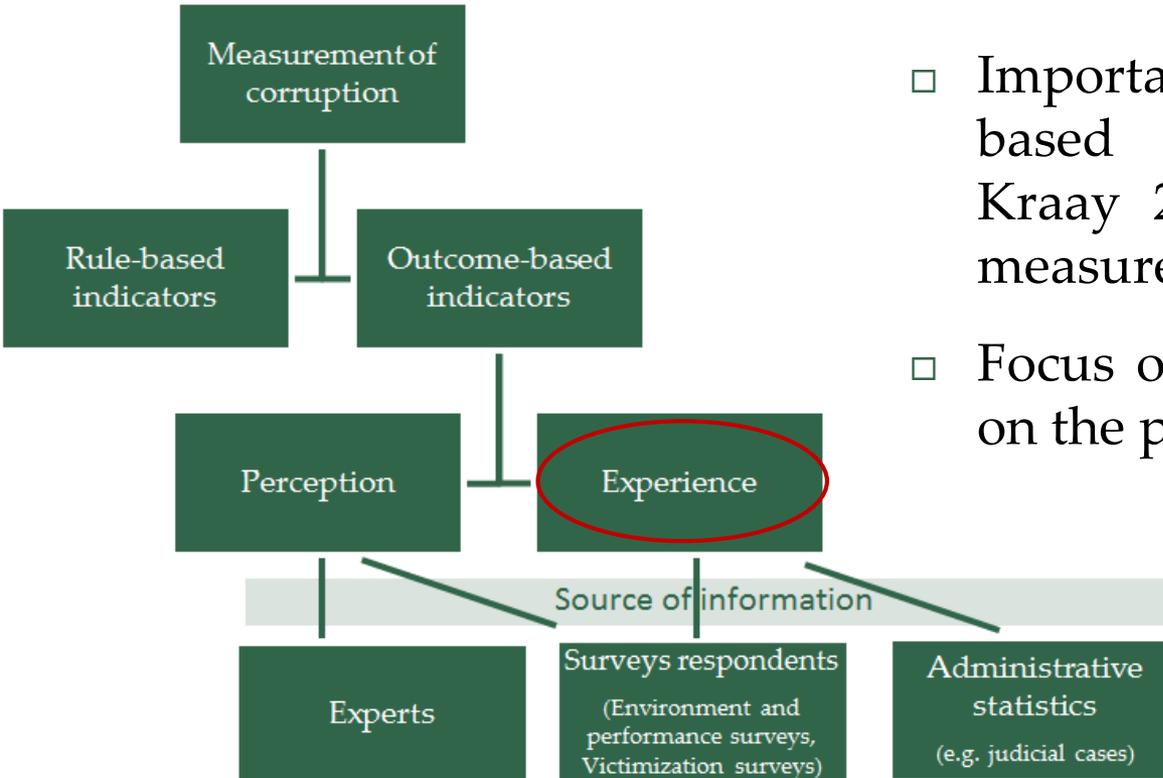


# Corruption in the Private Sector: a comparative overview of trends and patterns

*2<sup>nd</sup> International Conference on Governance, Crime and Justice Statistics*

*Mexico City, June 18<sup>th</sup>-21<sup>st</sup> 2014*

# Measuring corruption



- Importance of going beyond rule-based indicators (Kaufmann & Kraay 2008) and perception based measurements.
- Focus on the experience rather than on the perception.

- Micro-level data from different stakeholders: households, **enterprises**, public officials. Composite indicators.
- Comparability and monitoring over time and across countries.

# Existing surveys on corruption in the private sector at international level

## Business Crime surveys

### Specifically focused on corruption

- ✓ UNODC, *Business Corruption and Crime in the Western Balkans*, 2012-2013.
- ✓ UNODC, *Crime and Corruption Business Survey*, 2005/2006, 2007.

### Including corruption together with other crimes

- ✓ Gallup and Transcrime, *Pilot EU Business Victimization Survey (EU BCS)*, 2012.
- ✓ UNODC, *International Crime against Business Survey (ICBS)*, 2000.
- ✓ UNODC, *International Commercial Crime Survey (ICCS)*, 1994.

Other surveys on crime and corruption in the private sector at national level: Bulgaria, China, Finland, Italy, Mexico, Switzerland.

## Environment and Performance Surveys

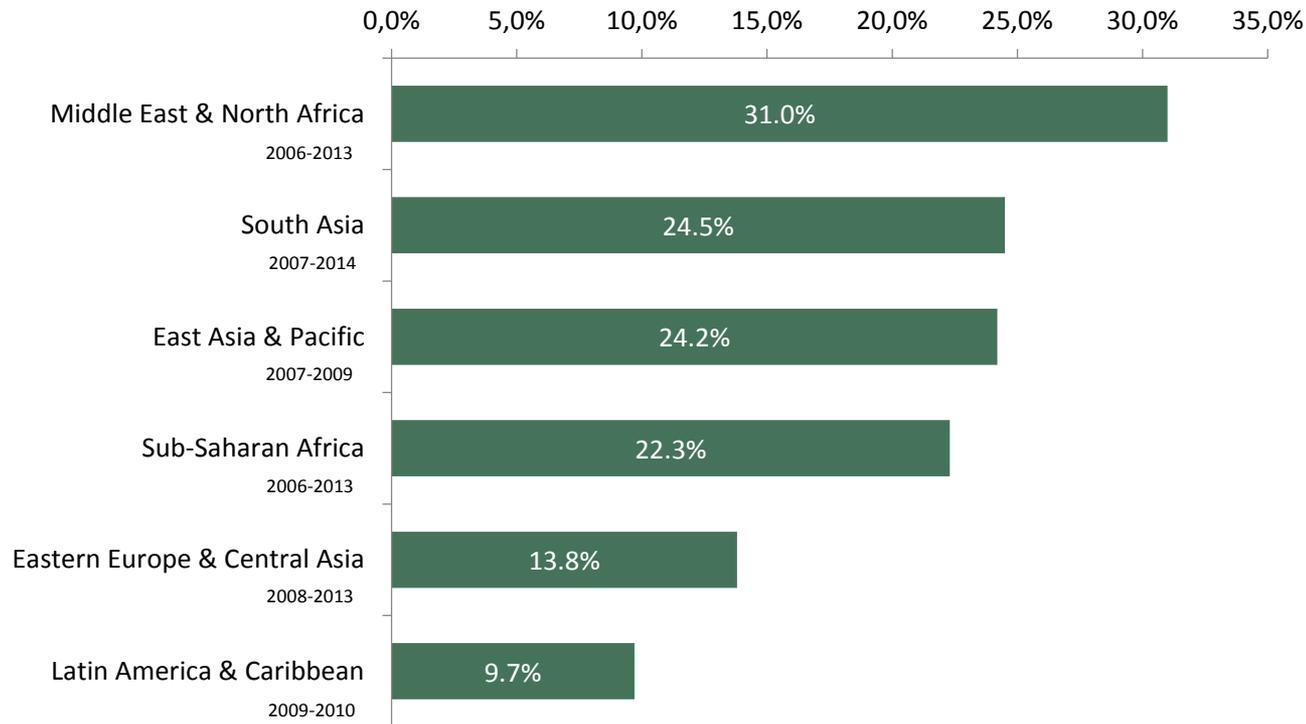
- ✓ World Bank, *Enterprise Survey*, 2002-2014.
- ✓ European Bank for Reconstruction and Development (EBRD), *Business Environment and Enterprise Performance Survey (BBEPS)*, 1999, 2000, 2005, 2008 .
- ✓ World Economic Forum, *Global Competitiveness Survey*, annual since 1996.
- ✓ Transparency International, *Corruption Perception Index*, annual since 1995.
- ✓ Transparency International, *Corruption Bribe Payers Index* (1999, 2002, 2006, 2008, 2011).

Other surveys carried out, on smaller samples, by accounting/audit and insurance multi-nationals, such as *PricewaterhouseCoopers, Ernst and Young, KPMG, Control Risk*.

# Bribe payment requests across different world regions

*Caveat: The existing business corruption surveys considered in this presentation have been developed according to different methodological procedures which influenced their findings. Direct comparison of their results has to be careful.*

*Fig. 1 - % of firms experiencing at least one bribe payment request. Different years*



*Source: author's elaboration of World Bank Enterprise Survey Data*

# Bribery and corruption across European countries

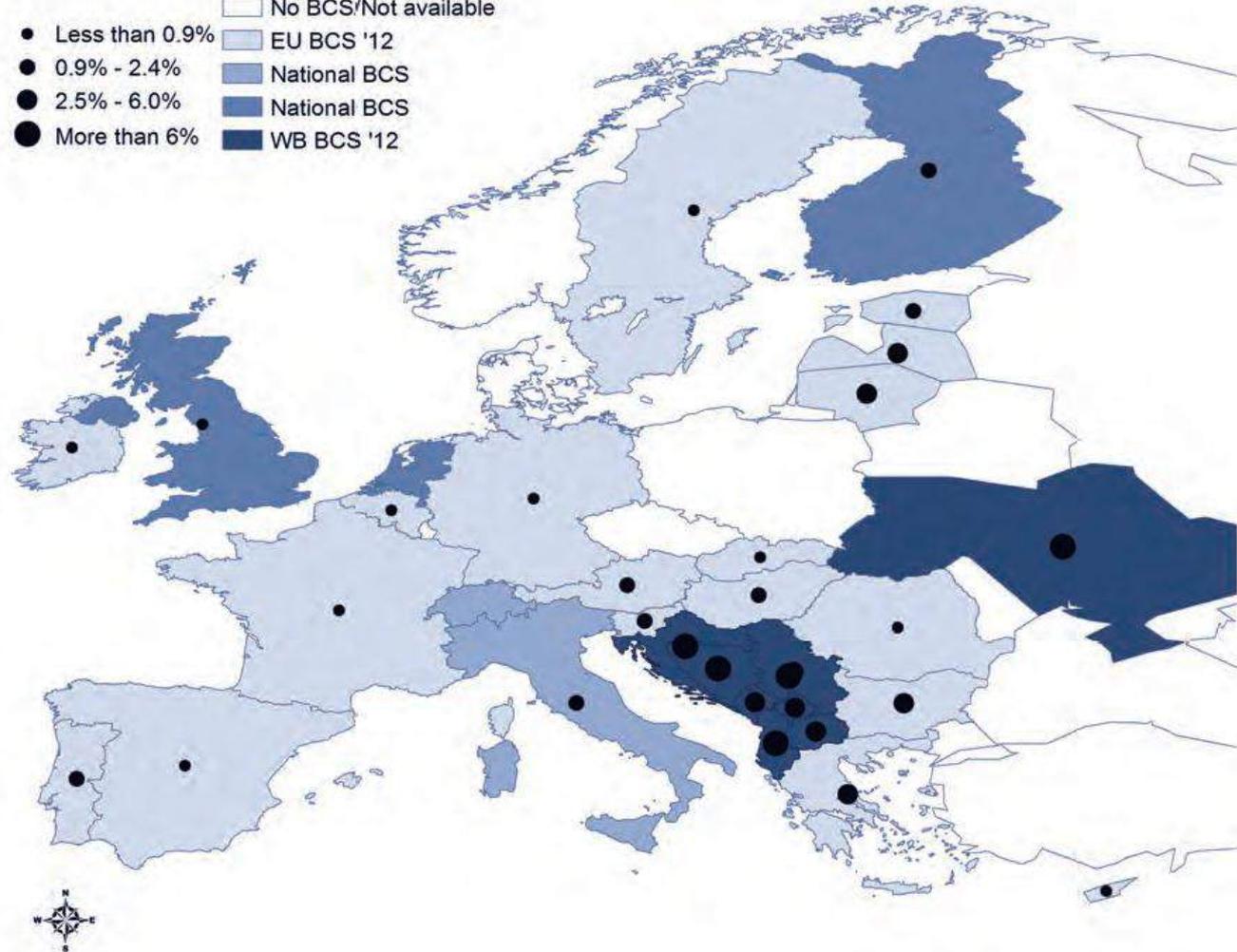
Fig. 2 - Bribery and corruption prevalence rate across European businesses. Different years.

Source: author's elaboration of business crime surveys' results (Mugellini 2014).

✓ At EU level (20 EU MS), the prevalence rate for bribery and corruption is 1% (Dugato et al. 2013).

✓ Across the **Western Balkans** this rate is **10.2%** (Bisogno et al. 2013).

Bribery and corruption rates and types of survey



*Tab. 1 – Highest and lowest bribery and corruption prevalence rates across different regions.*

<b>EU countries (2012)</b> <b>Average 1%</b>	Lithuania (3.6%)
	Ireland, Belgium (0%)
<b>Western Balkans (2012)</b> <b>Average 10.2%</b>	Serbia (17%)
	Montenegro (3.2%)
<b>Latin America &amp; Caribbean (2009-2010)</b> <b>Average 9.7%</b>	Paraguay (32%)
	Barbados (1%)

*Source: author's elaboration of Gallup & Transcrime 2013, UNODC 2014 and World Bank 2014*

*Tab. 2 – Differences in bribery and corruption prevalence rates across Italian macro-areas.*

Italian Business Crime Survey 2008	North-West	North-East	Center	South	Sicily-Sardinia	Italian average
% of companies asked to pay a bribe in the last 12 months	1.1%	1.4%	2.4%	5.2%	3.0%	2.3%

*Source: author's elaboration of Mugellini & Caneppele (Transcrime) 2012*

# Economic sector and size of the business

*Tab. 3 – Economic sector and size of the businesses presenting the highest prevalence rate for bribery and corruption.*

	Economic sector	Size
<b>EU countries (2012)</b>	Transportation and warehousing (2.3%)	n.a.
<b>Western Balkans (2012)</b>	Construction (12.2%)	Small firms (10-49 employees)
<b>Latin America &amp; Caribbean (2009-2010)</b>	n.a.	Medium firms

*Source: author's elaboration of Gallup & Transcrime 2013, UNODC 2013, World Bank 2014*

# Corruption and employees

The *Swiss Business Crime Survey* (UZH and UNISG) included questions on the **incidents of corruption among commercial and financial companies** between 2008 and 2010, and on the characteristics of the employees involved in these cases (Isenring et al. 2012).

- ✓ **2.5%** (36 cases) of Swiss companies have **experienced corruption**.
- ✓ In the commercial sector, the most serious incidents happened when **employees accepted a bribe from a competitor or from a supplier**.
- ✓ In the financial sector when **employees bribed clients to commit unfair competition**.
- ✓ In both sectors, corruption incidents concentrate on **large businesses with more than 250 employees and with a high turnover**.
- ✓ The majority of the offenders are **males, between 50 and 60 years old**, holding a **university degree** or a professional degree/apprenticeship, working for the business between three and five years with a **permanent contract** and **not Swiss**.
- ✓ All of them were managers with **full access to the operational activities of the business** (information on clients, transactions, accounts, etc.).

# Corruption while doing business overseas

The **Hochschule für Technik und Wirtschaft in Chur** (Switzerland) carried out a study on the risk of corruption for Swiss firms while doing businesses abroad (Becker et al. 2012).

- ✓ **43%** of the Swiss companies interviewed were urged to commit an **informal payment abroad**.
- ✓ **56%** of them accepted to give a bribe to do business abroad.
- ✓ **50%** of these firms paid in order to **get licenses or authorizations from public authorities**.
- ✓ On average **5%** of these companies' annual revenue in the foreign country is used for such **informal payments** .
- ✓ Companies relying on **intermediaries** to do business abroad are those paying more frequently.
- ✓ **A quarter of Swiss firms lost a contract either in the public or in the private market during the last two years because their competitors had given bribes to obtain it.**
- ✓ **10%** have decided **not to do business in a specific country because of the risk of corruption**.
- ✓ **4%** of them have decided to **withdraw from a specific market for the same reason**.

# Corruption in international business transactions

- ✓ Across the **Western Balkans**, the highest bribery prevalence rate is registered for customs officers to **clear goods through customs** (UNODC 2013).
- ✓ Across **Latin American** countries, the highest corruption rates are registered when **applying for construction permits** (World Bank 2014).
- ✓ According to the *World Bank Enterprise Survey* data (2000), businesses where **direct export is 10% or more of sales** are generally **more** constrained by **corruption**.
- ✓ A study of *Control risk* and the *Economist Intelligence Unit* (2013) demonstrates that among businesses the most significant challenge is the demand for **operational bribes**. Especially when **import–export activities** or **foreign direct investments** (FDI) are involved (e.g. Panalpina case, USD 81m to settle US FCPA charges relating to bribes to customs officials in west Africa and central Asia).
- ✓ High risk of corruption is also associated with the involvement of **intermediaries** when doing business in a foreign country (e.g. French Total SA).

# Conclusions and research directions

- ✓ Huge variations in the level of bribery and corruption across businesses in different countries and economic sectors. **Need to focus on local-level and individual-level data to orient and monitor interventions.** To be complemented with the **need for internationally comparable data.**
- ✓ Existing studies show that **doing business abroad may be a vulnerable area for corruption** in the private sector, especially for countries with a highly intertwined economy.
- ✓ Studying this specific aspect of corruption may help identifying **peculiar patterns and ad-hoc interventions.** As well as monitoring **the effects of policies and legislations.** (e.g. the *OECD Convention on Combating Bribery of Foreign Public Officials* or the *United Nations Convention against Corruption*, the *FCPA* , the *UK Bribery Act*).
- ✓ On-going research in this direction by the University of St. Gallen on *“Assessing areas of vulnerability to corruption for the Swiss firms in international business activities”*.

**Thank you for your attention**

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