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BUSINESS, CORRUPTION AND CRIME IN BOSNIA AND HERZEGOVINA:

The impact of bribery and
other crime on private enterprise

2013

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Executive summary

This survey of private businesses in Bosnia and Herzegovina reveals that corruption and other forms of crime are a great hindrance to private enterprise and have a negative effect on private investment. A significant percentage of businesses pay bribes to public officials repeatedly over the course of the year. Businesses in the Building and Construction sector are those most affected by bribery, followed by businesses in the Transportation and Storage sector. The public officials with the highest risk of bribery in interactions with businesses are health authorities, police officers, customs officers and judges/prosecutors.

While indicators of corruption perceptions are undoubtedly useful for raising awareness, this survey measures the actual experience of corruption and crime through representative sample surveys of businesses in order to provide a more realistic, evidence-based assessment of corruption and crime affecting the business sector. In so doing it focuses on the extent and pattern of bribery by businesses from five different sectors (accounting for 66.8 per cent of all businesses in Bosnia and Herzegovina) in their frequent interactions with the public administration.

According to the survey, of all the businesses that had contact with a public official in the 12 months prior to the survey 10.4 per cent paid a bribe to a public official. The average prevalence of business bribery in Bosnia and Herzegovina is lower than the share of ordinary citizens (20.7 per cent) who experienced the same in UNODC's 2011 general population survey.¹

The examination of the experience of businesses that pay bribes to public officials underlines the fact that corruption plays a role in the daily business of many companies. Bribe-paying businesses pay an average of 6.6 bribes per year, or about one bribe every eight weeks. The prevalence of bribery is substantially higher among small (10 to 49 employees) businesses than among businesses of other sizes.

¹ Data referring to bribery by individuals and households are taken from the recent UNODC study, *Corruption in Bosnia and Herzegovina: bribery as experienced by the population* (2011).

A substantial share of all the bribes paid to public officials by businesses in Bosnia and Herzegovina are paid in cash (46.6 per cent), followed by the provision of food and drink (29 per cent) and the exchange of one “favour” for another (11.4 per cent). When bribes are paid in cash, the mean amount paid per bribe is 318 BAM, or the equivalent of 327 EUR-PPP.

As for which party actually broaches the subject of kickbacks, in about 15.8 per cent of all bribery cases the payment of a bribe is offered by a representative of the business without a prior request being made, whereas in around over two thirds (70.2 per cent) of cases payment is either explicitly (26.8 per cent) or implicitly (20.4 per cent) requested by the public official. In a further 23 per cent of cases, bribes are paid after a third-party request.

The most common purposes for paying bribes cited by businesses is to “speed up business-related procedures” (29.1 per cent of all bribes), “making the finalization of a procedure possible” (17.4 per cent) and “receiving better treatment” (14.4 per cent). At the same time, 8.6 per cent of bribes paid serve for no specific immediate purpose for the businesses paying them, suggesting that these are “sweeteners” given to public officials to “groom” them for future interactions in the interest of the company.

As little as 6.6 per cent of bribes paid by businesses are reported to official authorities, mostly to the police, which suggests that businesses in Bosnia and Herzegovina often feel obliged to participate in bribery. This is also reflected in the main reasons cited for not reporting bribery: “pointless to report it as nobody would care” (44.1 per cent), “giving gifts to public officials is common practice” (17.3 per cent) and “lack of knowledge of where to report” (15.5 per cent).

Bribery in the private sector not only comprises bribes paid by businesses to public officials, it also takes place between businesses themselves in order to secure business transactions. Though lower than the prevalence of bribery between the private and public sector, at 1.7 per cent the prevalence of business-to-business bribery indicates that the practice does exist in Bosnia and Herzegovina. This type of corruption is not to be confused with normal marketing or public relations activities, in that it specifically aims, through illegal means, to breach the integrity of the bribe-taker in exchange for a bribe.

Some 5.5 per cent of business representatives decided not to make a major investment in the 12 months prior to the survey due to the fear of having to pay bribes to obtain requisite services or permits, thus the impact of bribery on business activity can be substantial.

The consequences of other more conventional crimes on a business’s property and economic activities can also be considerable, both in terms of direct costs stemming from physical damage and indirect costs in the form of insurance premiums, security expenditure and lost investment opportunities. For instance, around 7.1 per cent of businesses in Bosnia and Herzegovina fell victim to fraud by outsiders and such businesses were victimized an average of 3 times in that time period.

Annual prevalence rates for burglary (5.8 per cent) and vandalism (2.5 per cent) in the private sector are also significant, as are the average number of times businesses affected fall victim to those crimes (1.8 and 1.4, respectively). Moreover, over the past 12 months some 0.7 per cent of all businesses in Bosnia and Herzegovina fell victim to extortion, a crime that can be linked to organized criminal groups.

In marked contrast to corruption, a larger share of conventional crimes (on average, 65.1 per cent for five crime types) is reported to the police by businesses in Bosnia and Herzegovina. While the majority of business representatives (64.7 per cent) consider that

the crime risk for their company has remained stable in comparison to the previous 12 months, more than one in ten (11.5 per cent) think it is on the increase and 15.7 per cent on the decrease. The fear of crime plays a very important role in the decision-making process of business leaders when it comes to making major investments. Although there are some differences by economic sector, on average 8.5 per cent of entrepreneurs in Bosnia and Herzegovina state that they did not make a major investment in the previous 12 months due to the fear of crime.

Yet while seven out of ten (70.1 per cent) businesses in Bosnia and Herzegovina use at least one protective security system against crime, only slightly more than a quarter (28.2 per cent) have any kind of insurance against the economic cost of crime. Together corruption and other forms of crime place a considerable burden on economic development in Bosnia and Herzegovina. Putting in place more and better targeted measures for protecting businesses against crimes, as well as for preventing corruption (such as effective internal compliance measures and other policies concerning corruption) could make that burden considerably lighter.



Key Findings

- Business representatives in Bosnia and Herzegovina rank corruption as the sixth most significant obstacle to doing business, after high taxes, complicated tax laws, political instability, labour regulations and limited access to financing.
- Almost two thirds (65.2 per cent) of companies had at least one direct contact with a public official or civil servant in the 12 months prior to the survey.
- The bribery prevalence rate among those businesses that had contact with public officials in that period is 10.4 per cent.
- Bribe-paying businesses paid an average of 6.6 bribes to public officials in the 12 months prior to the survey.
- There are some variations in the prevalence of bribery across business sectors in Bosnia and Herzegovina: Building and Construction (15 per cent), Transportation and Storage (11.1 per cent), Wholesale trade and Retail trade (9.9 per cent), Accommodation and Food service activities (8.8 per cent) and Manufacturing, Electricity, Gas and Water (6.2 per cent).
- In Bosnia and Herzegovina, 46.6 per cent of bribes are paid in cash. The mean amount paid per bribe is 318 BAM which corresponds to 327 EUR-PPP.
- In over two thirds of all bribery cases (70.2 per cent), the payment of the bribe is either explicitly (26.8 per cent) or implicitly (20.4 per cent) requested by the public official or requested through a third party (23 per cent) on behalf of the official. In 15.8 per cent of cases it is offered by a business representative without prior request.
- Over half (53.3 per cent) of all bribes paid by businesses in Bosnia and Herzegovina are paid before the service, while 17.1 per cent are paid after the service is delivered.

- The main purposes of paying bribes are to speed up a procedure (29.1 per cent) and to make the finalization of a procedure possible (17.4 per cent). In addition, 8.6 per cent of bribes paid serve no specific immediate purpose.
- The prevalence rate of bribes paid to public officials is highest for health authorities (8.5 per cent) and police officers (6.1 per cent).
- Around one in sixteen (6.6 per cent) bribes paid by businesses in Bosnia and Herzegovina are reported to official authorities. The largest share (44.1 per cent) of business representatives did not report bribery because they consider that it would be pointless to report it as nobody would care about it and 17.3 per cent consider that giving gifts to public officials is common practice. In addition, 15.5 per cent of respondents state they did not report bribery due to lack of knowledge of where to report.
- The prevalence of business-to-business bribery in Bosnia and Herzegovina amounts to 1.7 per cent. Although lower than the prevalence of bribes paid by businesses to public officials, this finding indicates that the practice does exist in Bosnia and Herzegovina.
- Businesses in Bosnia and Herzegovina are affected by different forms of crime to varying degrees: the 12 month prevalence rate of business victimization is 7.1 per cent for fraud by outsiders, 5.8 per cent for burglary, 2.5 per cent for vandalism, 0.8 per cent for motor vehicle theft (MVT) and 0.7 per cent for extortion.
- The share of each type of crime reported to the police ranges from 91.9 per cent for burglary, 89.7 per cent for MVT, 72.9 per cent for vandalism, 21.7 per cent for extortion cases and 17.4 per cent for cases of fraud by outsiders.
- Seven out of ten (70.1 per cent) of all businesses in Bosnia and Herzegovina use at least one protective security measure against crime.
- The majority of business representatives (64.7 per cent) state that they consider the crime risk for their business entity to have remained stable in comparison to 12 months previously, while 15.7 per cent think it is on the increase and 11.5 per cent on the decrease.
- On average 8.5 per cent of entrepreneurs in Bosnia and Herzegovina state that they did not make a major investment in the previous 12 months due to the fear of crime.



Introduction

In different guises and to varying degrees, corruption exerts a negative influence on all societies. As shown in UNODC's 2011 report *Corruption in Bosnia and Herzegovina: bribery as experienced by the population*,² petty corruption also remains a pervasive reality in Bosnia and Herzegovina and has a significant impact on the interaction of private citizens with public officials in the country.

In addition to their negative impact on private households, certain types of corruption can also have grave consequences for the business sector and economic performance and can become a barrier to private and foreign investment, trade and economic development. Private companies may also be affected further by the impact of crime on their operations. This can range from extortion by organized criminal groups, to serious fraud and embezzlement of funds by managers to vandalism and assaults from criminal competitors, each of which has the potential to cause serious damage to the business environment in which companies operate and to increase the cost of doing business.

Anti-corruption infrastructure and the fight against corruption

Parallel to the progressive European integration, awareness of corruption has increased in Bosnia and Herzegovina and successive governments have committed themselves to fighting corruption. Important instruments in the upgrading of the legislative framework for the fight against corruption are represented by the ratification of the Criminal Law Convention against Corruption (2002) and the Civil Law Convention against Corruption (2002). Bosnia and Herzegovina introduced important anti-corruption legislation by adopting the Law on Conflict of Interest, the Public Procurement Law, the Law on the Prevention of Money Laundering, the Law on Witness Protection and the Law on Financing Political Parties and the Freedom of Information Law. Furthermore, bribery, extortion and misuse of public ownership for private gain are criminalized in the Criminal Code of Bosnia and Herzegovina.

² UNODC, 2011.

Regarding the institutional framework, Bosnia and Herzegovina has strengthened its institutional and administrative capacity for preventing, investigating and prosecuting corruption. In 2009, the government of Bosnia and Herzegovina adopted the Anticorruption Strategy (2009-2014) and its corresponding Action Plan. In 2003, the Special Department for Organized Crime, Economic Crime and Corruption was established. The Department has jurisdiction over the prosecution of perpetrators of organized crime, economic crime and corruption. In addition, the State Investigation and Protection Agency (SIPA) and the Public Procurement Agency (PPA) were established in 2004. Three separate Ombudsman institutions that existed in both entities and at state level were merged in 2006 into a single institution, whose aim is to cover the entire public sector and to issue enforceable recommendations.

In 2006, Bosnia and Herzegovina became party to the United Nations Convention against Corruption (UNCAC). The Convention does not define corruption per se, but lists a number of different behaviours that States party to UNCAC have to criminalize or consider criminalizing (such as active and passive bribery of national public officials, active and passive bribery of foreign public officials, embezzlement, trading in influence, abuse of functions and illicit enrichment). Furthermore, the Convention explicitly requires or encourages the criminalization of corruption in the private sector (such as active and passive bribery in the private sector, embezzlement of property in the private sector and laundering the proceeds of crime), which is specifically directed at fighting corruption in the business sector.

States parties to UNCAC agreed to have a Review Mechanism to enable all parties to review their implementation of UNCAC provisions through a peer review process. One of the objectives of this mechanism is to encourage a participatory and nationally driven process towards anti-corruption reform and it is noteworthy that Bosnia and Herzegovina will be reviewed in the fourth wave (2013-2014).

The scope and methodology of this study

While perception-based indicators can be useful for raising awareness about corruption and mobilizing support for anti-corruption policies, they fail to provide specific indications on the extent of corruption and on particularly vulnerable areas. To gain a more realistic, evidence-based assessment of corruption and crime affecting the business sector it is necessary to go beyond perception-based indicators and to measure the actual experience of corruption and crime through representative sample surveys of businesses.

Over the past decade, the understanding of corruption and crime has been much improved through the results of large-scale sample surveys in different contexts around the world. UNODC has been at the forefront of promoting household corruption surveys and victimization surveys in different contexts and has contributed to the further development and refinement of existing methodologies for measuring corruption and crime. Recent corruption surveys supervised by UNODC in countries as diverse as Iraq, Afghanistan and Nigeria, in addition to the countries/areas of the western Balkans, provide insights on the extent and nature of corrupt practices as well as a host of other issues relevant for the design of effective policies, such as the concrete modalities of bribery and the sectors, positions and administrative procedures most at risk.³

Following the conclusion of the household surveys on bribery and corruption in Bosnia and Herzegovina and other western Balkan countries and the publication of the survey

³ Reports of corruption surveys undertaken by UNODC in partnership with national governments can be found at <http://www.unodc.org/unodc/en/data-and-analysis/statistics/corruption.html>.

results in regional and national reports in 2011, UNODC was approached with a request to complement the findings from the household surveys with an assessment of corruption and crime affecting the business sector in the region and entered into consultations with national counterparts and potential donors. The resulting project proposal to conduct large-scale sample surveys of businesses focusing on corruption and crime was endorsed by the project countries and received funding from the European Union in the context of the Instrument for Pre-Accession Assistance 2011.⁴

To implement the research in Bosnia and Herzegovina, UNODC partnered with PRISM Research, a reputable agency for social, media and marketing research, which has the recognized technical capacity and expertise to conduct large-scale surveys of the business sector. PRISM Research worked with UNODC and other relevant stakeholders in Bosnia and Herzegovina (including the the Chamber of Commerce and various business organizations) to elaborate the most relevant questionnaire, guidelines for interviewers and other survey tools. The instruments and survey methodology were reviewed, tested and refined in meetings with stakeholders, a regional technical workshop organized by UNODC in June 2012 and a small-scale pilot survey.⁵ At the regional level, a Technical Advisory Group supervised the process and provided expert inputs and advice.

The main objective of the survey was to produce evidence-based factual assessments of the patterns and nature of corruption and crime affecting the business sector, which feed into a process for strengthening integrity and transparency between public offices and the business sector, and for promoting an enabling environment for business development in Bosnia and Herzegovina. The research focused on the extent and patterns as well as the prevailing types and modalities of corruption affecting businesses, with a particular focus on bribery.⁶

This national report complements the analysis provided in the regional report for the whole western Balkan region.⁷ The objective, both at the national and regional level, is not to rank or grade countries/areas but to provide analytical insights into a hidden phenomenon. It is hoped that the factual information contained in this report will supply the public authorities as well as the business organizations of Bosnia and Herzegovina with a useful tool for further strengthening their anti-corruption policies and strategies.

⁴ All countries/areas of the western Balkans have adopted the Multi-beneficiary Programme 2011 under the IPA-Transition Assistance and Institution-Building Component of the European Union.

⁵ The pilot survey was conducted in August 2012 on 100 businesses in Sarajevo, Mostar and Banja Luka.

⁶ Bribery is defined as (a) the promise, offering or giving to a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties and (b) as the solicitation or acceptance by a public official, directly or indirectly of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties.

⁷ *Business, Corruption and Crime in the western Balkans: The impact of bribery and other crime on private enterprise*, UNODC (2013).



1. Prevalence of bribery

The extent and frequency of bribery

Running a business is essentially a private sector activity oriented towards clients and customers, but commercial activities are also enmeshed in a network of public services, administrative obligations and prerequisites (such as tax inspections or customs clearing) that require frequent interactions with the public administration. Some of these (such as filing tax declarations) are indirect while others take the form of direct interactions with public officials (such as health, labour or tax inspections, legal proceedings or the request of building permits). In this regard companies in Bosnia and Herzegovina are similar to companies elsewhere: almost two thirds (65.2 per cent) of businesses surveyed had at least one direct contact with a public official or civil servant in the 12 months prior to the survey, with some variation in the five business sectors surveyed. The rate of direct interaction varied from 61.7 per cent in the Manufacturing, Electricity, Gas and Water supply sector to 72.1 per cent in the Transportation and Storage sector.

The overwhelming majority of interactions with public officials follow the rules and regulations applicable to the administrative procedures in question, yet in every direct interaction those rules are vulnerable to manipulation in exchange for private benefit resulting from an illicit transaction between the private sector service user and a civil servant. The receipt of money, a gift or other counter favour, in addition to (or instead of) the requisite official fee, for the personal gain of a civil servant represents an act of administrative bribery. As the data show, such episodes still play a role in the interactions of private companies with the public sector in Bosnia and Herzegovina.

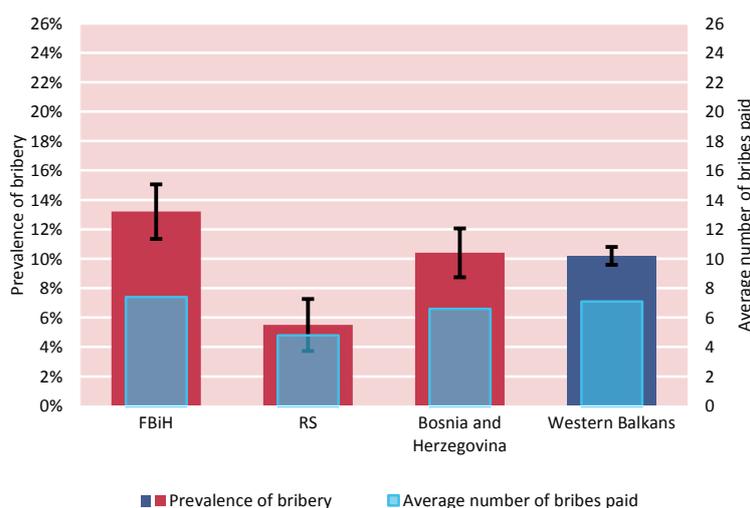
Direct interaction between a representative of a business and a public official is required for an act of bribery to take place (including through an intermediary), thus the prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses that had at least one contact with a public official in the same period. As such, the average prevalence of business bribery in Bosnia and Herzegovina is 10.4 per cent, which means that around one in ten businesses in the five economic sectors

surveyed, who had contact with a public official in the 12 months prior to the survey, paid a bribe to a public official.

But prevalence of bribery alone does not provide the complete picture of the extent and severity of bribery. Another important indicator is the frequency of bribe-paying, which in this case means the average number of times that bribe-payers actually paid bribes during the 12 months prior to the survey. In Bosnia and Herzegovina, bribe-paying businesses paid an average of 6.6 bribes to public officials in that period.

As shown in Figure 1, while the prevalence of business bribery in Bosnia and Herzegovina is almost equal to the regional average, the frequency of bribe-paying in Bosnia and Herzegovina is slightly lower than in the western Balkans as a whole (average prevalence of 10.2 per cent and average frequency of 7.1 at the regional level). In contrast, there is considerable variation in the prevalence rate between the two entities of Bosnia and Herzegovina. Both the prevalence and frequency of bribery by businesses is higher in the Federation of Bosnia and Herzegovina (FBiH, 13.2 per cent and 7.4), whereas it is considerably lower in the Republika Srpska (RS, 5.5 per cent and 4.8).

Figure 1 Prevalence of bribery and average number of bribes paid, Bosnia and Herzegovina and western Balkan region (2012)



Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official. The average number of bribes refers to average number of bribes given by all bribe-payers, i.e. those who paid at least one bribe in the 12 months prior to the survey. The bars indicate the confidence interval at 95 per cent confidence level.

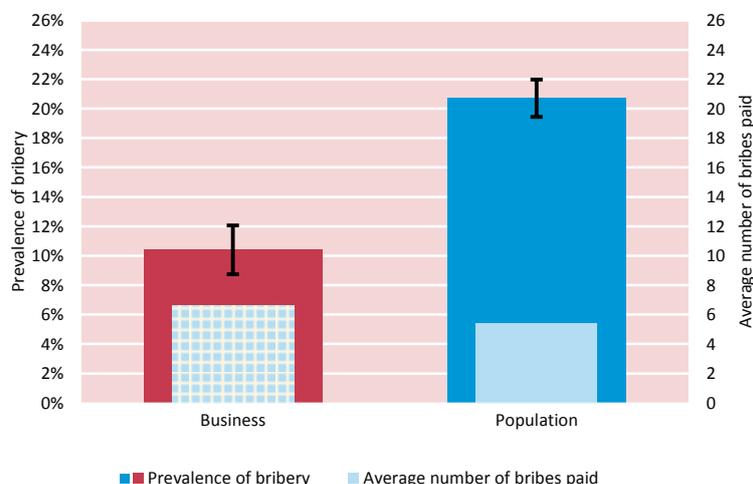
While direct comparisons between businesses and private individuals can raise difficult methodological issues, especially in relation to the size of companies, a comparison of businesses and private households regarding the prevalence and frequency of bribery reveals important differences in the pattern of bribery.

Figure 2 shows the bribery prevalence and frequency rates of businesses in Bosnia and Herzegovina together with those of private individuals from UNODC’s 2011 general population survey on corruption and bribery.⁸ The average prevalence of bribery is much higher for private individuals (20.7 per cent) than for businesses (10.4 per cent), while the average frequency of bribery for businesses (6.6) is actually higher than the frequency of

⁸ *Corruption in Bosnia and Herzegovina: bribery as experienced by the population*, UNODC (2011).

private individuals (5.4). This indicates that bribery is more widespread among private citizens (which more often pay bribes in relation to daily activities) than among businesses.

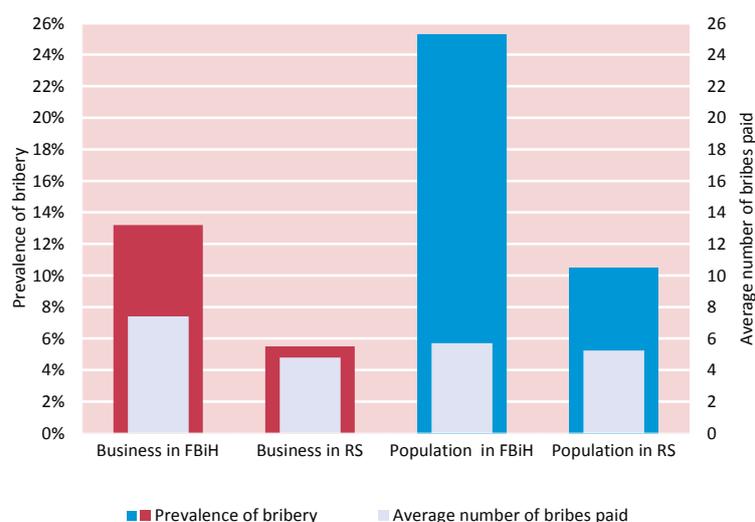
Figure 2 Prevalence of bribery and average number of bribes paid, by businesses and by private citizens, Bosnia and Herzegovina (2010-2012)



Note: Prevalence of bribery is calculated as the number of businesses/adult citizen (aged 18-64) who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses/adult citizens who in the same period had at least one contact with a public official. The average number of bribes refers to average number of bribes given by all bribe-payers, i.e. those who paid at least one bribe in the 12 months prior to the survey. The bars indicate the confidence interval at 95 per cent confidence level.

When comparing businesses and private individuals by entity (Figure 3), the bribery prevalence rates are higher in the Federation of BiH (13.2 per cent for business and 25.3 per cent for the population) than in the Republika Srpska (5.5 per cent for business and 10.5 per cent for the population). In contrast, the average number of bribes paid by businesses is slightly higher in the Federation of BiH than in the Republika Srpska (7.4 versus 4.8), while a similar frequency can be found among the population (5.7 versus 5.2).

Figure 3 Prevalence of bribery and average number of bribes paid, by businesses and by private citizens, by entity, Bosnia and Herzegovina (2010-2012)



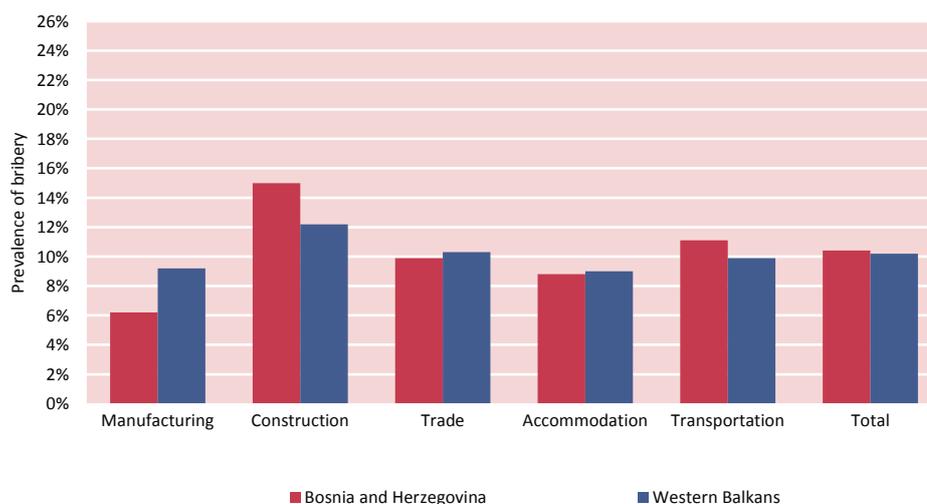
Note: Prevalence of bribery is calculated as the number of businesses/adult citizen (aged 18-64) who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses/adult citizens who in the same period had at least one contact with a public official. The average number of bribes refers to average number of bribes given by all bribe-payers, i.e. those who paid at least one bribe in the 12 months prior to the survey.

Economic sectors

The prevalence of bribery shows substantial variations across business sectors in Bosnia and Herzegovina. Among the five sectors studied, Building and Construction has the highest bribery prevalence rate (15 per cent), followed by Transportation and Storage (11.1 per cent) and Wholesale trade and Retail trade (9.9 per cent). The Accommodation and Food service activities sector (8.8 per cent) and the Manufacturing, Electricity and Water supply sector (6.2 per cent) have a lower bribery prevalence rate.

In comparison to the regional averages by economic sector (Figure 4), two sectors in Bosnia and Herzegovina have higher bribery prevalence rates. Building and Construction (15 versus 12.2 per cent) and Transportation and Storage (11.1 versus 9.9 per cent) have substantially higher bribery prevalence rates, while Accommodation and Food service activities (8.8 versus 9.0 per cent) and Wholesale trade and Retail trade (9.9 versus 10.3 per cent) have a rate closer to the regional average. Manufacturing, Electricity, Gas, and Water supply (6.2 versus 9.2 per cent) has a rate below the regional average.

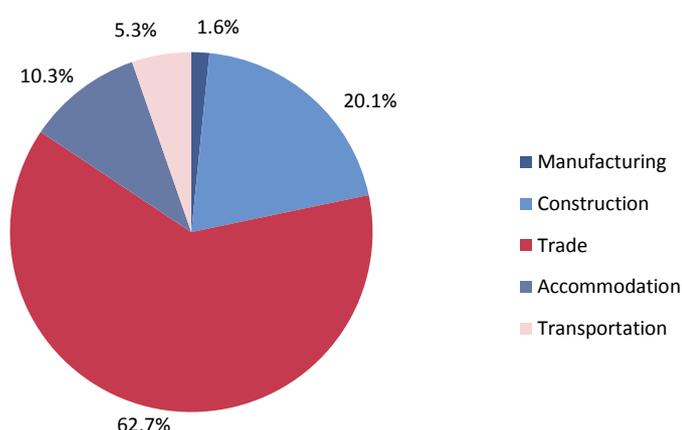
Figure 4 Prevalence of bribery, by economic sector, Bosnia and Herzegovina and western Balkan region (2012)



Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official.

The variation in the prevalence of bribery by economic sector has a direct influence on the calculation of the bribery prevalence rate at the national level. Figure 5 shows the underlying composition of the bribes paid in the five economic sectors in Bosnia and Herzegovina. The Wholesale trade and Retail trade sector accounts for the largest share (62.7 per cent) of the total national prevalence rate, due to the fact that this sector accounts for the largest share (34.5 per cent) of businesses in Bosnia and Herzegovina.⁹

Figure 5 Distribution of all bribes paid, by economic sector, Bosnia and Herzegovina (2012)

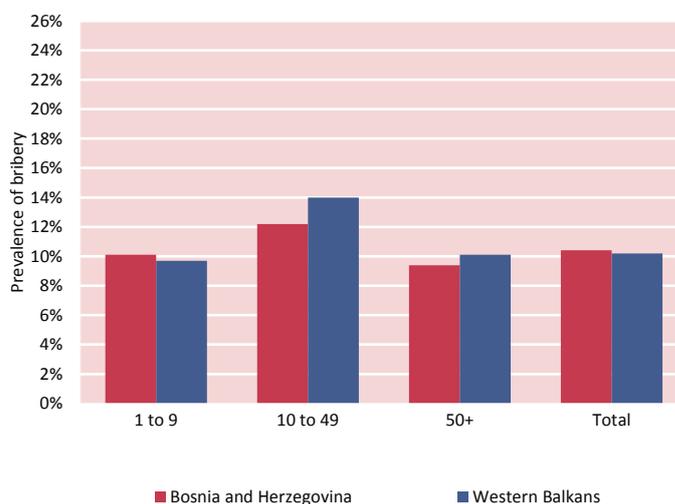


Another interesting pattern emerges when looking at bribery by business size (number of employees). The prevalence of bribery is higher for small (10 to 49 employees) businesses than for other business sizes. As shown in Figure 6, this is a pattern also found at the regional level. In Bosnia and Herzegovina, the prevalence of bribery is also somewhat higher for micro businesses (up to 9 employees) than for medium and large

⁹ See Figure 49 on the structure of the economy.

(over 50 employees) businesses. One possible explanation may be that in Bosnia and Herzegovina very small businesses simply cannot afford to pay bribes in the first place. On the other hand, medium and large businesses may have more to lose in terms of their reputation and legal sanctions if detected, and may be more reluctant to disclose their experience of bribery.

Figure 6 Prevalence of bribery, by number of employees, Bosnia and Herzegovina and western Balkan region (2012)



Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official.



2. Nature of bribes

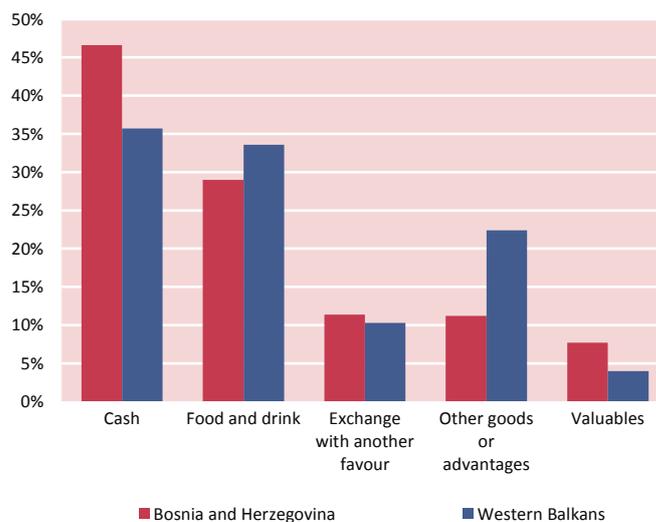
Forms of payment

“Greasing the palm” of an official with cash is a common form of bribery but businesses may also exert influence through the offer of free goods or services that they normally sell, or by negotiating a direct or indirect exchange with a counter favour.

As shown in Figure 7, of all the bribes paid to public officials by businesses in Bosnia and Herzegovina, 46.6 per cent are paid in cash, followed by food and drink (29 per cent). The provision of other goods or advantages in exchange for an illicit “favour” by the public official is responsible for around one tenth (11.2 per cent) of all bribery cases in Bosnia and Herzegovina, while 11.4 per cent of all bribes take place in the form of an exchange of one favour for another and 7.7 per cent are given in the form of valuables.

In comparison to the forms of payment employed at the regional level, it is noteworthy that in Bosnia and Herzegovina a much larger percentage of bribes are given in the shape of cash payments and in the form of valuables. At the regional level, over a third (35.7 per cent) of all the bribes paid to public officials by businesses are paid in cash, followed by the provision of food and drink (33.6 per cent) and in the form of other goods or advantages (22.4 per cent).

Figure 7 Percentage distribution of bribes paid by businesses to public officials, by type of payment, Bosnia and Herzegovina (2012)



Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey. The sum is higher than 100 per cent since, in some cases, bribes are paid in more than one form (for example, money and goods).

In the case of the business sectors under study, cash payments generally appear to be the predominant form of bribery in all sectors except in Manufacturing and Construction where the giving of food and drink is equally important.

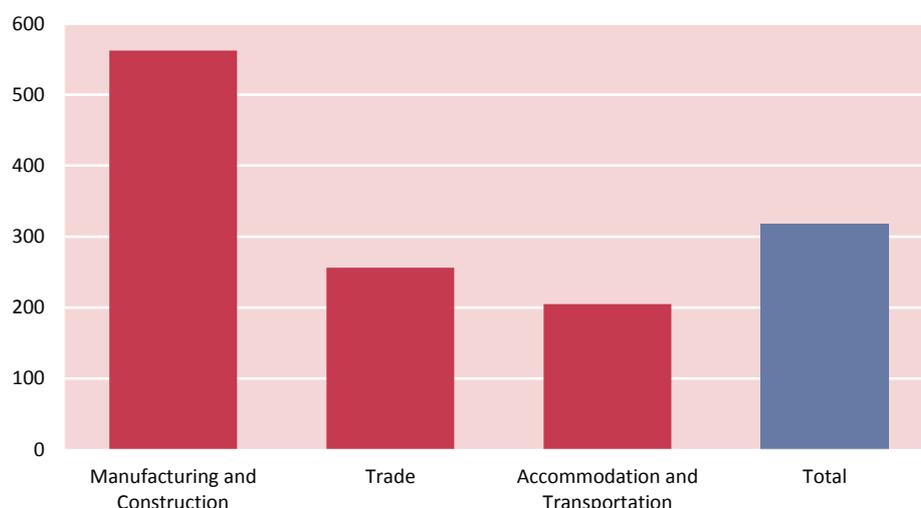
Bribes paid in cash

Given that a large part of bribes by businesses in Bosnia and Herzegovina are paid in cash, the size of cash bribes paid by bribe-payers gives an important indication of the value of bribe payments. The mean amount paid per bribe across all economic sectors is 318 BAM or 163 Euro at market exchange rates (EUR), a figure that amounts to almost two fifths (39 per cent) of the average net monthly salary in Bosnia and Herzegovina. At the same time, the median bribe paid by bribe-payers in Bosnia and Herzegovina (200 BAM) is substantially lower than the mean, indicating the arithmetic influence of some very large bribes (Table 1).¹⁰ Taking into account differences in price levels in Europe, in Bosnia and Herzegovina the mean bribe amount corresponds to 327 EUR-PPP¹¹ while, at 881 EUR-PPP, the mean amount paid per bribe in the western Balkan region as a whole is substantially higher.

When looking at the average size of cash bribes paid in each economic sector it is noteworthy that the mean bribe size for the Manufacturing and Construction sectors combined (562 BAM) is substantially higher than the mean size of all bribe payments (Figure 8). On the other hand, the mean bribe size paid in the Wholesale trade and Retail trade sector (256 BAM) and the Accommodation and Transportation sectors combined (205 BAM) are smaller than the national average.

¹⁰ The mean bribe size is calculated as the arithmetic average of bribes paid in cash. In most distributions, the mean is influenced by a relatively small number of very high values. As an additional indicator of the distribution of bribes by size, the median bribe size can be considered. The median bribe size is exactly the middle value of all the bribes sorted by size in ascending order, which implies that about 50 per cent of all bribes are higher and 50 per cent are lower than the median value.

¹¹ EU-27 Euro Purchasing Power Parities (EUR-PPP) are used to make amounts surveyed in national currencies comparable on an international level.

Figure 8 Mean bribe size paid by businesses to public officials (in BAM), by economic sector, Bosnia and Herzegovina (2012)

A comparison of the mean bribe size paid by businesses (318 BAM) with the corresponding mean amount paid by private citizens (220 BAM), as found in UNODC's 2011 general population survey on administrative corruption and bribery,¹² indicates that the average size of bribes paid by companies is almost fifty per cent higher than that of private individuals (Table 1). Given that businesses typically have a much greater financial capacity than households and often have more to gain through bribery related to their business transactions, this is not surprising.

Table 1 Average size of bribes paid in cash by businesses and by private citizens (in BAM, EUR and in EUR-PPP), as a percentage of GDP per capita and as a percentage of average monthly net salary, Bosnia and Herzegovina (2010-2012)

Indicators	Reference group	
	Population in Bosnia and Herzegovina (2010)	Business in Bosnia and Herzegovina (2012)
Mean bribe (BAM)	220	318
Median bribe (BAM)	50	200
Mean bribe (EUR)	112	163
Mean bribe (EUR-PPP)	222	327
Mean bribe as % of GDP/capita (2012)	2.9%	4.3%
Mean bribe as % of average monthly net salary (2012)	27%	39%

Sources for additional indicators: Bosnia and Herzegovina's national currency is Bosnia and Herzegovina Convertible Mark (BAM), Euro/BAM average exchange rate in 2012: 1 Euro = 1.95 BAM: European Central Bank; EUR-PPP conversion rates and GDP per capita: Eurostat; average monthly net salary: Bosnia and Herzegovina Agency for Statistics.

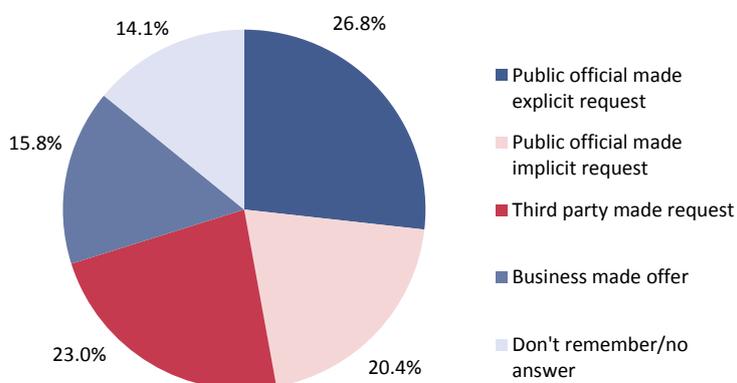
¹² *Corruption in Bosnia and Herzegovina: bribery as experienced by the population*, UNODC (2011).

Bribe-seeking modality and timing

Data on the modality of bribery can provide an important insight into how the bribery of public officials by businesses actually works. The mechanisms of bribe-paying are often characterized by certain implicit patterns well known to both bribe-payers and bribe-takers that are based on the understanding of when a kickback may lead to an illicit advantage for both parties. This is even truer for businesses, for which speeding up administrative procedures or “cutting red tape” by circumventing laws and regulations with the help of bribery can create huge benefits. In the economic realm, where each comparative advantage can lead to greater profits and a larger market share for a business, this can result in a type of escalation in which bribes are not only expected but are actually offered “voluntarily” by businesses in order to get ahead of competitors. When bribery becomes a routine exercise for certain companies to gain privileged services or illicit benefits from public officials, payments may be both expected more often and paid more often.

When it comes to the modality of bribery in Bosnia and Herzegovina, the data show that businesses are rarely pro-active in influencing public officials through bribery. In only 15.8 per cent of all bribery cases, the payment of a bribe is offered by a representative of the business without a prior request being made, whereas in over two thirds (70.2 per cent) of cases payment is either explicitly (26.8 per cent) or implicitly (20.4 per cent) requested by the public official or requested through a third party (23 per cent) on behalf of the official (Figure 9).

Figure 9 Percentage distribution of bribes paid by businesses, by modality of bribe requests and offers, Bosnia and Herzegovina (2012)



Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

When comparing the modality of bribery by businesses to the modality of bribery by private citizens in the household survey, some similarities appear: when private citizens pay bribes to public officials, in 37.2 per cent of cases the citizen makes the offer. In 18.9 per cent of cases the request is made explicitly by the official. In 32.5 per cent of cases the bribe is requested implicitly and in 6.9 per cent the bribe is requested through a third party.

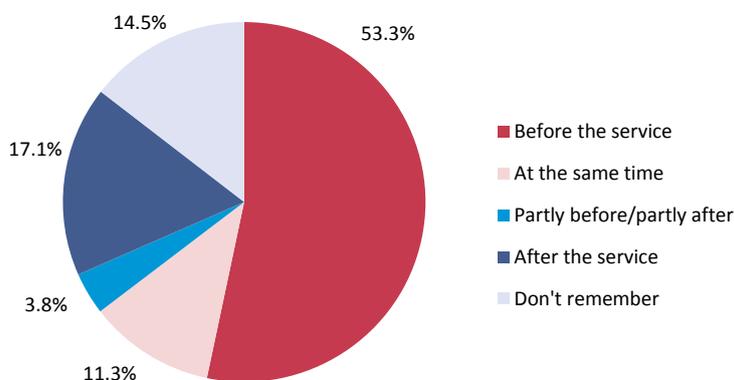
These findings have a number of policy implications. A high share of bribes requested by bribe-takers suggests that public officials are quite unafraid to request a bribe, either from businesses or households. If bribe-takers do not expect that bribery requests will be reported and do not anticipate any sanctions for extracting bribes, bribery may be met by

a culture of acceptability and become a common practice in certain public offices. In such cases, public officials taking bribes should be directly targeted by ending impunity through the dissemination and enforcement of strict anti-bribery rules. If bribe-payers feel coerced to pay bribes, they are also more likely to come forward and report bribery, which should be encouraged through the opening of further channels for reporting bribery cases (such as anti-corruption hotlines).

In addition to identifying the initiating party in a case of bribery, it is also relevant to know about the timing of bribe payments as this can provide further insight into the motivation and purpose of bribery. Payments made in advance are often seen as a requirement for getting things done, while payments made after the public service has been delivered may be seen either as a sign of gratitude or as another form of “grooming” in which the payment serves as a “sweetener” for luring public officials into a dependent relationship, and the acceptance of a “gift” at an earlier point in time obliges the official to return the favour to the business at a later point in time.

The data show that 17.1 per cent of all bribes by businesses in Bosnia and Herzegovina are paid after the service is delivered, while 53.3 per cent are paid before the service and 11.3 per cent at the same time. Some 3.8 per cent of bribes are paid partly before and partly after the service, while about 14.5 per cent of respondents do not remember when the bribe was paid (Figure 10). This shows public officials’ powerful position when requesting bribes, since payments are mostly given before the service is delivered.

Figure 10 Percentage distribution of bribes paid by businesses, by timing of payment in relation to service delivery, Bosnia and Herzegovina (2012)

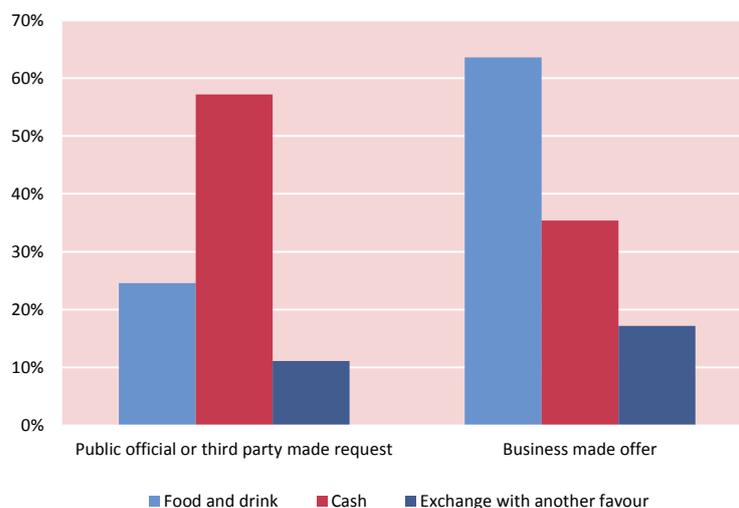


Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

When the form of bribe payment is analysed in relation to the modality of bribe requests or offers, the data reveal different preferences of bribe-payers and bribe-takers. Public officials who explicitly ask for bribes will often request them in the form of cash payments, while businesses that offer bribes to public officials may want to look for less costly alternatives related to their regular business activities, such as the provision of food and drink (when in the Accommodation and Food sector) or other types of goods and services (especially in Retail and Wholesale trade). The data show that in almost six out of ten (57.2 per cent) bribery cases in which a bribe is requested (either explicitly, implicitly or through a third party), the payment is made in cash, while this is the case for only about 35.4 per cent of bribery cases in which a business offers a bribe in the first place. In almost two thirds (63.6 per cent) of cases when a business offers a bribe, as

opposed to 24.6 per cent of the cases in which the bribe is requested, payment is in the form of food and drink (Figure 11).

Figure 11 Percentage distribution of bribes paid by businesses, by type of payment and by modality of bribe requests and offers, Bosnia and Herzegovina (2012)



Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

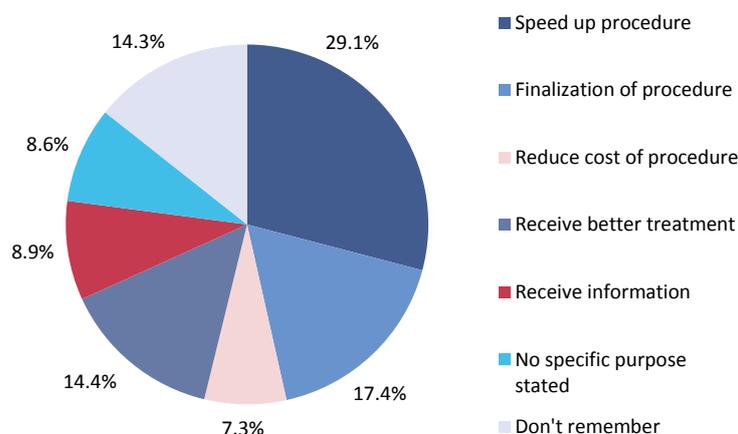
Purposes of bribes

The bribery of public officials can have a variety of purposes. Public officials may be able to extract bribes for a legitimate public service that they could otherwise deny to the client or delay for an indefinite period. On the other hand, kickbacks may also be paid on the initiative of the business with a view to influencing regulatory decisions, tax assessments, public procurement processes or the provision of public services, among other things. For each of these business-related procedures, the purpose of bribery may differ according to the nature of the process or decision that is subject to manipulation. For example, bribes may aim to change a negative decision for a building permit and thereby allow the finalization of an administrative process in the interest of the company.

In the economic world, bribes may also be important for speeding up a variety of typically time-consuming and drawn-out procedures, such as obtaining utility connections (electricity or water), customs clearance of goods, obtaining certain types of authorization for production processes or speeding up health and safety inspections at business premises by providing advance notice of upcoming inspections. While speeding up administrative procedures may not seem a bad idea overall, speeding up procedures exclusively for bribe-paying businesses by prioritizing them over honest businesses creates unfair competition, thus damaging the economy.

On the other hand, some bribes may serve a purpose whose benefit to the official who accepts the “gift” is not immediately apparent, such as when a business representative uses “gifts” as a way of “grooming” the public official for future interactions by creating a dependent relationship between that official and the bribe-payer.

Figure 12 Percentage distribution of bribes paid by businesses, by purpose of payment, Bosnia and Herzegovina (2012)



Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

From the perspective of businesses in Bosnia and Herzegovina, the most important purpose of paying bribes is to “speed up business-related procedures” (29.1 per cent) that would otherwise be delayed. Other stated purposes of bribes paid are “making the finalization of a procedure possible” (17.4 per cent) and “receiving better treatment” (14.4 per cent). At the same time, almost one out of ten (8.6 per cent) bribes paid serve no specific immediate purpose for the businesses paying them, suggesting that these are “sweeteners” given to public officials to “groom” them for future interactions in the interest of the company (Figure 12).

These findings shed light on some of the problems affecting public institutions in Bosnia and Herzegovina. Bribes that aim to speed up business-related procedures, for example, are an indication that administrative procedures in the public sector often work too slowly. On the other hand, bribes that aim at facilitating the finalization of administrative procedures, receiving better treatment or obtaining information signal that public officials may be working outside the law and reveal a lack of professionalism among public officials and a lack of transparency within public institutions.



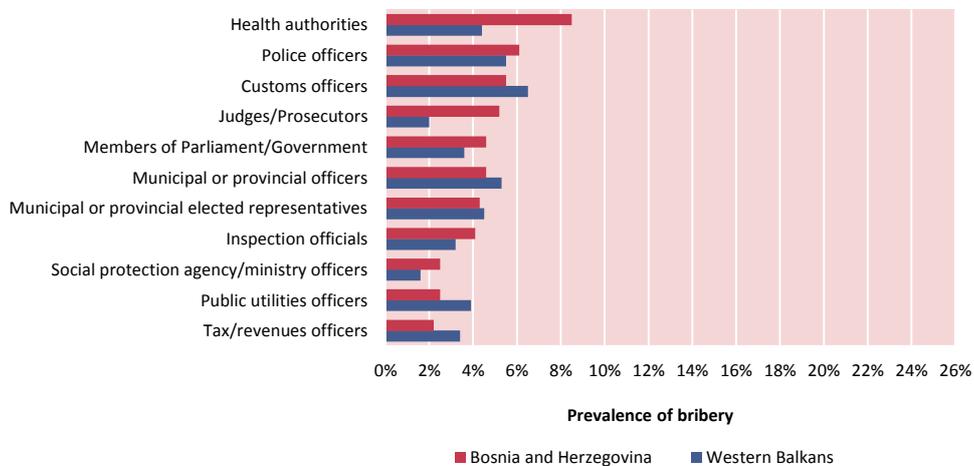
3. Public officials and bribery

Just as there are certain purposes and procedures for which businesses are more prone to making offers to public officials, certain types of public official are involved in bribery more often than others. For this reason, it is useful to analyse the probability of a particular type of official receiving a bribe when he or she is contacted, independently of the frequency of interaction. To measure this, the number of businesses who paid a bribe to a selected type of public official is compared with the number of businesses who had contacts with that type of official in the 12 months prior to the survey: in other words, the prevalence of bribery to selected public officials by businesses (Figure 13).

The prevalence rate of bribes paid to public officials by businesses in Bosnia and Herzegovina ranges from 8.5 per cent for health authorities to 2.2 per cent for tax/revenues officers, which means that the likelihood of health authorities receiving a bribe from businesses each time they are in direct contact with a business is almost four times that of tax/revenues officers. Judges/prosecutors, customs officers and police officers also have prevalence rates over 5 per cent, while those of other officials listed in Figure 13 are between 2.2 per cent and 4.6 per cent.

Prevalence rates of bribes paid to most types of public official by businesses in Bosnia and Herzegovina are similar to those of bribes paid to the same type of official in the western Balkan region as a whole with some exceptions. In Bosnia and Herzegovina prevalence rates are substantially higher for bribes paid to health authorities (8.5 versus 4.4 per cent) and judges/prosecutors (5.2 versus 2 per cent), while they are lower for tax/revenues officers (2.2 versus 3.4 per cent) and public utilities officers (2.5 versus 3.9 per cent).

Figure 13 Prevalence of bribery to selected public officials by businesses, Bosnia and Herzegovina and western Balkan region (2012)



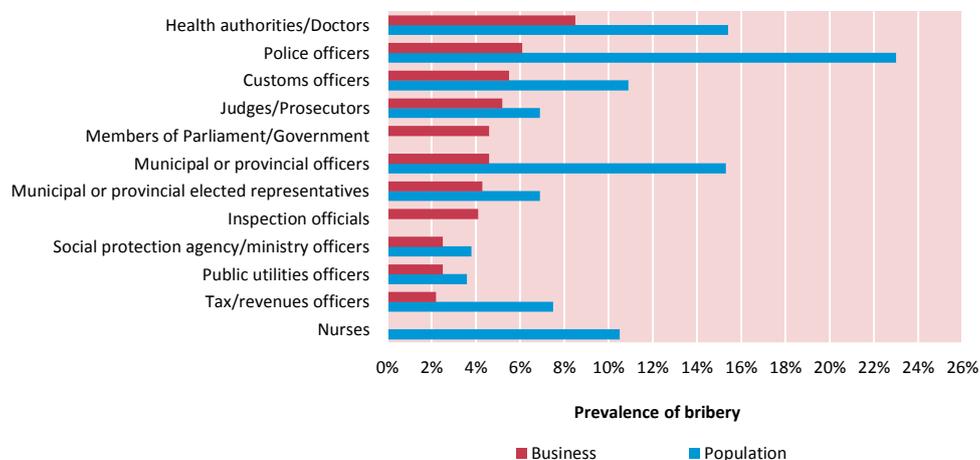
Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of all businesses who in the same period had at least one contact with a public official. In this chart prevalence of bribery is computed separately for each type of public official.

It is also useful to compare the prevalence of bribery by businesses to selected public officials to the prevalence of bribery to the same type of public official by private citizens. Both private businesses and ordinary citizens are affected by bribery in their own interactions with public officials, but businesses and citizens often deal with different sectors of the administration and can thus provide complementary perspectives on the vulnerability of public officials to bribery. For example, for ordinary citizens in Bosnia and Herzegovina the risk of bribery is higher in their interactions with police officers than when dealing with customs officers. On the other hand, bribery risks for businesses are relatively high in interactions with health authorities and customs officers, which may indicate problems with lengthy bureaucratic procedures (such as clearing goods through customs) that businesses want to overcome through the payment of bribes.

These different patterns of bribery risk are shown in Figure 14, which compares the prevalence of bribery to selected types of public official who receive the bribe from businesses with the equivalent rates in UNODC’s 2011 general population survey on corruption and bribery in Bosnia and Herzegovina.¹³

¹³ *Corruption in Bosnia and Herzegovina: bribery as experienced by the population*, UNODC (2011).

Figure 14 Prevalence of bribery to selected types of public official who receive the bribe, by businesses and the population, Bosnia and Herzegovina (2010-2012)



Note: Prevalence of bribery is calculated as the number of businesses/adult citizens who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of all businesses/adult citizens who in the same period had at least one contact with a public official. In this chart prevalence of bribery is computed separately for each type of public official.



4. Reporting bribery

There are a number of reasons for businesses to “blow the whistle” on bribery by reporting corrupt public officials to the police or other authorities. Businesses often feel forced to pay bribes to obtain services that should normally be provided by the state without additional costs, in a timely manner and of an acceptable quality. Bribes thus constitute an expense that cuts directly into their profits and – as businesses are confronted with routine tasks, such as paying taxes, health and safety inspections or clearing goods through customs, on a regular basis – acquiescing to a bribery demand may increase expectations of regular future payments on the part of public officials, which may become a significant cost factor over time. At the same time, the long-term market benefits that a business can glean from the payment of bribes are uncertain: the very fact that a public official regularly accepts bribes is an indication that any advantage over competitors gained through bribery will be quickly eroded if other businesses also pay bribes.

In the real world, however, such obvious incentives to report bribery to the authorities rarely translate into action. At the regional level, on average only 1.8 per cent of bribes paid by businesses in the western Balkans are reported to official authorities.¹⁴ With some 6.6 per cent of all bribes paid by businesses reported to official authorities, the situation in Bosnia and Herzegovina is slightly better.¹⁵ Survey findings at the regional level indicate that most reports are made directly to the police but some are also made to other official institutions, such as prosecutor’s offices, official anti-corruption agencies or official anti-corruption hotlines. A small number of bribes paid (0.3 per cent at the regional level) are reported to other non-official institutions, such as non-governmental organizations or the media.

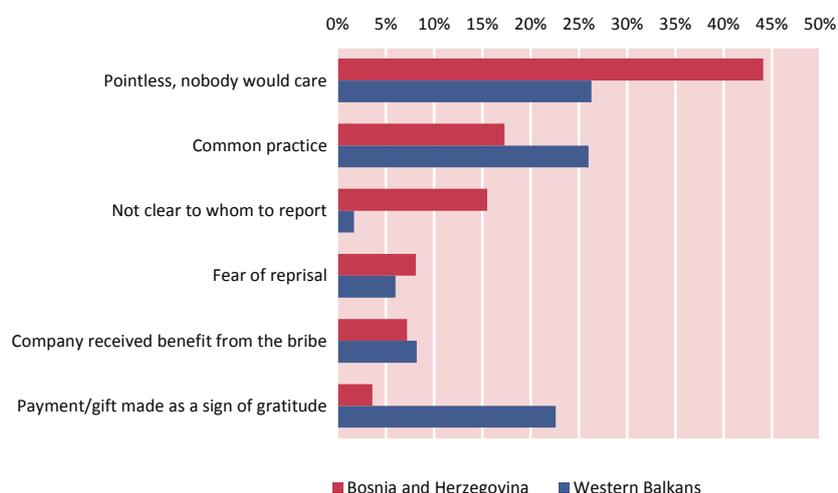
Given that only a small percentage of businesses turn to official authorities in order to file a complaint about corrupt officials accepting bribes, when, in theory, businesses have good reasons for denouncing bribery, the important question becomes why businesses do

¹⁴ *Business, Corruption and Crime in the western Balkans: The impact of bribery and other crime on private enterprise*, UNODC (2013).

¹⁵ Due to the low number of bribes reported to national authorities in Bosnia and Herzegovina and a corresponding high margin of sampling error, survey results on the share of bribes reported to authorities in Bosnia and Herzegovina should be interpreted with caution.

not report bribery? Similarly to other countries in the western Balkans, the most important reason for not reporting bribery cited by responding business representatives in Bosnia and Herzegovina is the perception that it would be pointless to report it as nobody would care about it (Figure 15). More than two fifths (44.1 per cent) of respondents gave this reason for not reporting bribery in Bosnia and Herzegovina, compared to 26.3 per cent in the western Balkans on average. Although the awareness of corruption in Bosnia and Herzegovina is high, business representatives are rarely confronted with successful examples of corruption being reported and punished. In addition, 15.5 per cent of respondents stated that they did not report bribery due to lack of knowledge about where to report corruption, a share that is over nine times the regional average (1.7 per cent at the regional level). In contrast, the share of respondents who stated that they did not turn to authorities because it is common practice to pay or give gifts to public officials (17.3 versus 26 per cent at the regional level) or because the payment or gift was given as a sign of gratitude to the public servant for delivering the service requested (3.6 versus 22.6 per cent regionally) was below the regional average. Not reporting bribery out fear of reprisal (8.1 versus 6 per cent regionally) is another reason for concern.

Figure 15 Percentage distribution of bribe-paying businesses not reporting their experience to authorities/institutions, according to the most important reasons for not reporting, Bosnia and Herzegovina and western Balkan region (2012)



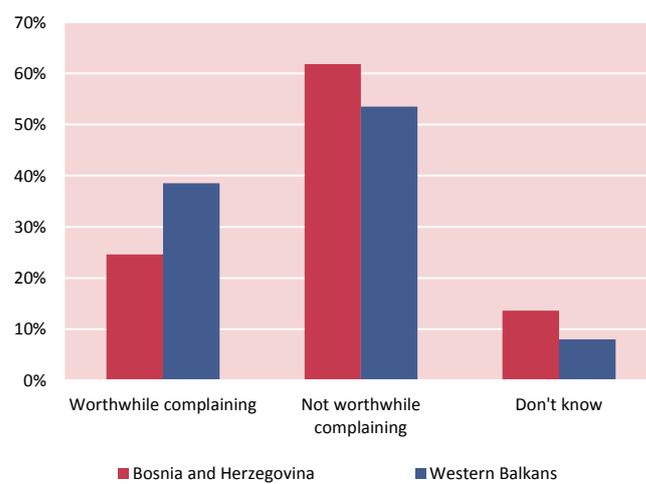
Note: Data refer to bribe-payers who did not report their last bribe paid in the 12 months prior to the survey to authorities/institutions.

The findings as to why bribery is not reported to public authorities in Bosnia and Herzegovina fit into the general patterns of timing, modalities and purposes of bribery outlined in Chapter 2. Large shares of bribes in Bosnia and Herzegovina are paid on the request of public servants, are paid before the service is delivered and are paid in cash. This indicates that many businesses feel obliged to pay bribes to public officials and do not report bribery due to a lack of trust in the authorities or even out of lack of knowledge about where to report.

At the same time, the resulting conclusions should be qualified by data relating to the perception of business representatives about public authorities in general. In a wider context more than six out of ten business representatives in Bosnia and Herzegovina (61.8 per cent) reported that they do not consider it worthwhile to complain to public authorities (whether through a public agency or an institution such as an ombudsman) when feeling treated unfairly (Figure 16). This lack of faith in the accountability of public institutions

in general is even more pronounced in Bosnia and Herzegovina than at the regional average (53.5 per cent).¹⁶ For anti-corruption policy makers, the figures thus signal the challenges of encouraging more businesses to report bribery and thereby facilitate the fight against corruption. Reporting behaviour will be encouraged if business representatives perceive that reporting has positive consequences. In fact, creating better and more secure reporting channels for denouncing acts of corruption will only result in increased reporting when there is a general feeling that turning to the authorities for help is worthwhile and is followed up by appropriate action.

Figure 16 Percentage distribution of business representatives according to whether they consider complaints about public administration worthwhile, Bosnia and Herzegovina and western Balkan region (2012)



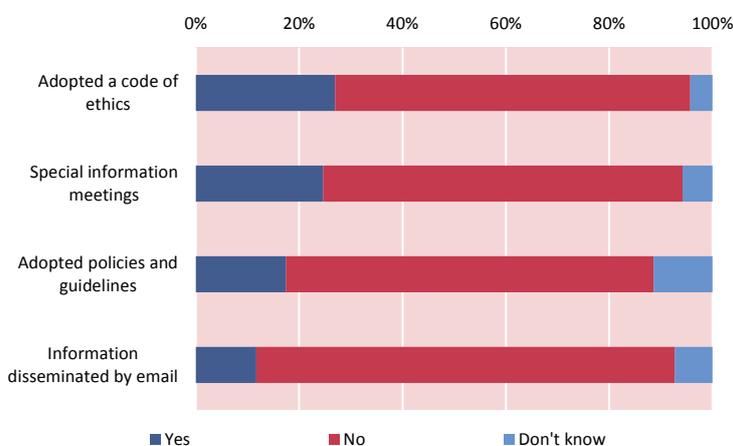
Internal compliance mechanisms

Despite the fact that very few business representatives consider the lodging of a formal complaint to the authorities worthwhile and even fewer report their experiences of bribery to the authorities, many businesses have recognized that illicit behaviour such as bribery and fraud can seriously harm their reputation and business interests. To prevent common malpractices in the workplace and to increase integrity and transparency in their own businesses, companies around the world are increasingly implementing comprehensive internal compliance policies that specify certain unacceptable practices and sanction violations of established standards.

In Bosnia and Herzegovina, while being far from universal, such internal compliance mechanisms are increasingly widespread. According to the survey, over a quarter (27 per cent) companies have adopted an internal code of ethics and around almost as many (24.6 per cent) have organized dedicated meetings to inform employees of their existing anti-corruption guidelines and policies (Figure 17). In addition, 17.4 per cent have adopted policies and guidelines concerning bribery and corruption and around a tenth have disseminated this information by email (11.7 per cent).

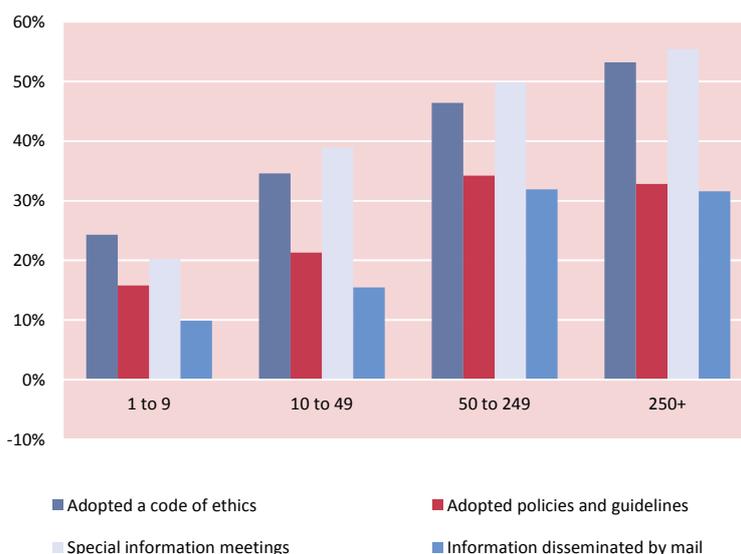
¹⁶ The regional average does not include data from Montenegro, where this question was not included in the survey.

Figure 17 Percentages of businesses that have adopted selected internal compliance measures, by number of employees, Bosnia and Herzegovina (2012)



While internal efforts to increase transparency and integrity by the private sector are more or less equally common across the five economic sectors covered by the survey, the data also show that such compliance policies are less common among small companies than among large ones. As shown in Figure 18, the adoption of a code of ethics, policies and guidelines, as well as their dissemination through meetings, is more widespread among larger companies than among those with fewer employees. But given that micro and small companies make up the largest share of all businesses in Bosnia and Herzegovina, the widespread adoption of specific integrity standards and compliance policies by businesses in the region requires their promotion not only among large companies but also among small and very small companies.

Figure 18 Percentage of businesses that have adopted an internal code of ethics, by number of employees, Bosnia and Herzegovina (2012)





5. Business-to-business bribery

Bribery is most often associated with corrupt public officials who accept money, gifts or other illicit favours related to public service delivery, yet significant forms of bribery also take place within the private sector itself, that is to say, between representatives of private sector business entities. Such bribery in the course of economic, financial or commercial activities is defined in the United Nations Convention against Corruption (UNCAC) as the “promise, offering or giving (active bribery) as well as the solicitation or acceptance (passive bribery), directly or indirectly, of an undue advantage to/by any person who directs or works, in any capacity, for a private sector entity ... in order that he or she, in breach of his or her duties, act or refrain from acting”. The Convention requires that its signatories consider establishing such acts as criminal offences.¹⁷

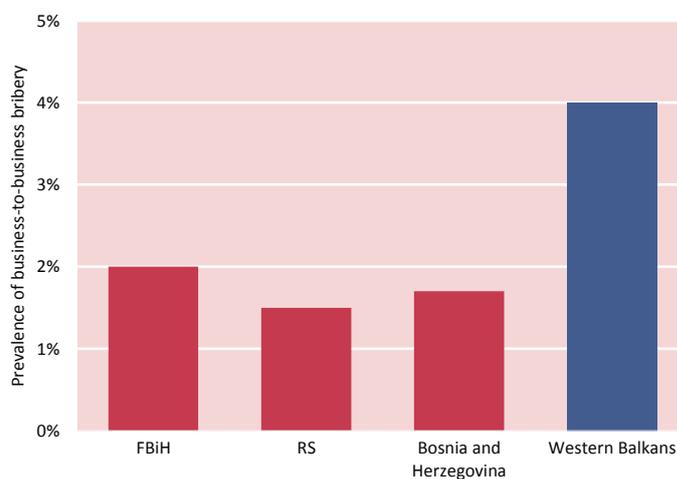
Business-to-business bribery thus takes place between representatives of businesses who give a gift, counter-favour or pay extra money (excluding the normal payment) to secure a business transaction. Such illicit transactions are different from normal business transactions, for example marketing or public relations activities, in that they specifically aim, through illegal means, to breach the integrity of the bribe-taker in exchange for a bribe. This is a form of bribery that obstructs the beneficial mechanisms of the free market and is not only detrimental to businesses whose representatives accept bribes, but also to society as a whole. The prevalence of business-to-business bribery is calculated as the number of businesses who gave money, a gift or counter favour, in addition to any normal transaction fee, on at least one occasion in the 12 months prior to the survey to any person who works, in any capacity, for a private sector business entity, including through an intermediary.¹⁸ As shown in Figure 19, according to this definition the average prevalence of business-to-business bribery in Bosnia and Herzegovina amounts to 1.7 per cent (against 4 per cent at the regional level). Although far below the average prevalence of bribes paid by businesses to public officials, this finding indicates that the practice does exist in Bosnia and Herzegovina.

¹⁷ Article 21 UNCAC.

¹⁸ Since all businesses can be assumed to have regular contact with other businesses, or at least one contact with another business, either as supplier or client, in the previous 12 months, the prevalence is calculated as the share of bribe-paying businesses out of all businesses.

Opportunities for individuals in private sector entities to engage in illicit dealings with other private sector businesses vary across the two entities of Bosnia and Herzegovina. The data indicate that such private sector bribery episodes in Bosnia and Herzegovina are more common and have higher prevalence rates in the Federation of BiH (2 per cent), whereas it is somewhat lower in the Republika Srpska (1.5 per cent, Figure 19).

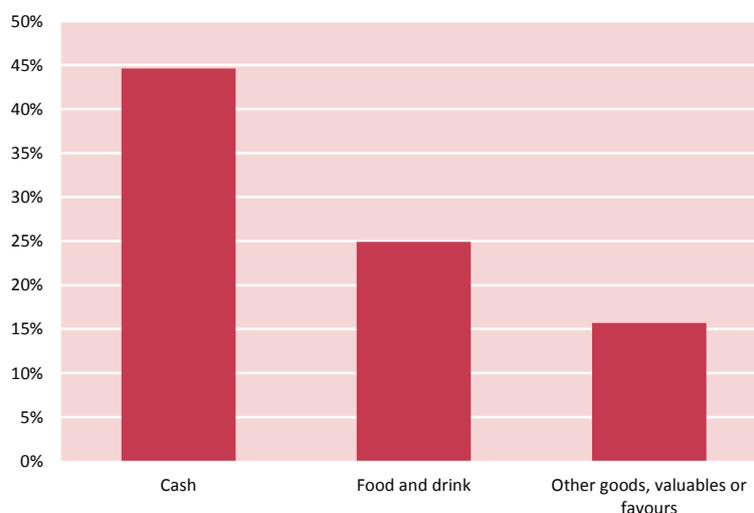
Figure 19 Prevalence of bribery among private sector business entities, by entity, Bosnia and Herzegovina and western Balkan region (2012)



Forms of payment

As in public sector bribery, in business-to-business bribery payment can be made in a variety of forms: money, goods, food and drink, valuables or in the form of an explicit exchange for another favour. In the business world of Bosnia and Herzegovina, cash is the most important form of bribe payment among private sector entities, as it is between businesses and public officials. However, the provision of food and drink also plays an important role when it comes to illicit dealings among business representatives (Figure 20).

Figure 20 Percentage distribution of bribes paid by businesses to private sector business entities, by type of payment, Bosnia and Herzegovina (2012)



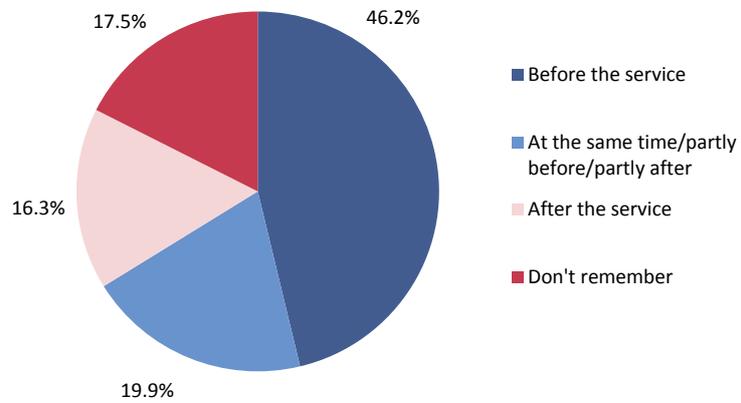
Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey. The sum is higher than 100 per cent since, in some cases, bribes are paid in more than one form (for example, money and goods).

Bribe-seeking modality and timing

According to the survey, one fifth (20.3 per cent) of business-to-business bribes are paid without being requested by one of the business representatives involved and are offered instead by the bribe-payer in order to obtain a certain illicit advantage (for example, to facilitate or accelerate a procedure or to gain advantage over a competitor). In contrast, more than three quarters (75.9 per cent) of cases involve some form of request. Bribes are given after they have been requested either explicitly (30 per cent) or implicitly (29.8 per cent), while in 16.1 per cent of cases a third party related the bribery request.

It is notable that a large portion of bribes are paid before the delivery of the goods or service in question (46.2 per cent), while around one in six (16.3 per cent) are paid after the service. While one fifth (19.9 per cent) is paid either at the same time or partly before and partly after service delivery, 17.5 per cent of business representatives did not remember when the bribe was delivered (Figure 21).

Figure 21 Percentage distribution of business-to-business bribes paid, by timing of payment in relation to service delivery, Bosnia and Herzegovina (2012)



Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.



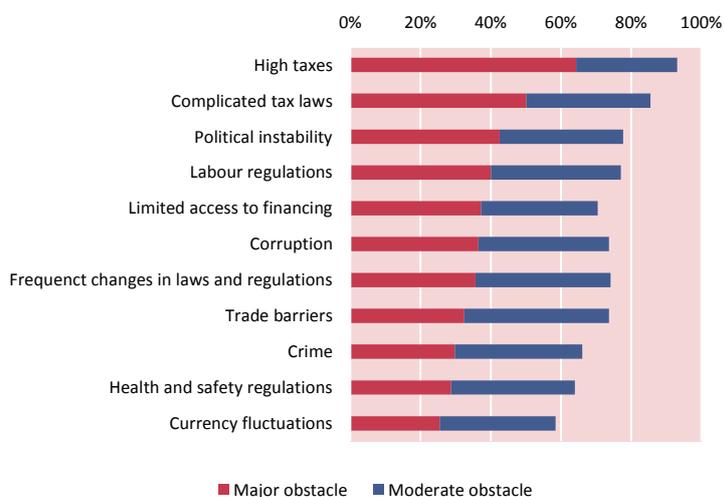
6. Perceptions and opinions about corruption

In the business world, perceptions are fundamental factors for shaping decisions, economic behaviour and outcomes. The perception of a favourable business environment, for example, creates the expectation of a positive return on an investment, making businesses more inclined to invest than when they perceive a negative business environment. Greater investment creates more demand, more jobs, higher growth and a more dynamic and prosperous economy. In economics, therefore, perceptions often translate directly into outcomes.

In order to carry out their economic activities effectively and to attain their business goals, private companies require a business environment with the right conditions to enable them to be both productive and profitable. These conditions include the rule of law to enforce contracts and provide security, the requisite regulatory environment and a functioning infrastructure, to name but a few. Conversely, the absence of these conditions, or the presence of factors detrimental to the business climate represent an obstacle to doing business and prevent the private sector from prospering and developing its full potential.

When asked whether certain issues represent an obstacle to doing business in their country, business owners and representatives in Bosnia and Herzegovina rank corruption as the sixth most important issue. In fact, corruption is considered a major obstacle by more than a third (36.5 per cent) of business representatives, after high taxes (64.3 per cent), complicated tax laws (50.1 per cent), political instability (42.5 per cent), labour regulations (40 per cent) and limited access to financing (37.2 per cent). However, an additional 37.2 per cent of respondents consider corruption a moderate obstacle to doing business, while 26.3 per cent consider it no obstacle (Figure 22).

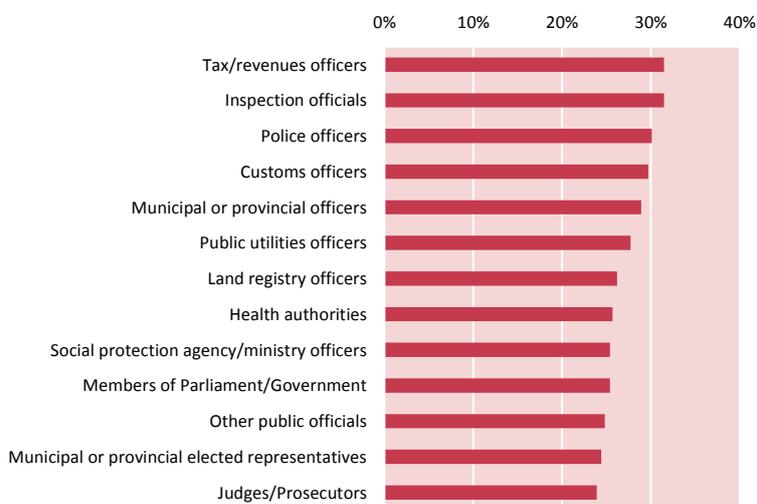
Figure 22 Percentage distribution of business representatives who consider selected issues a major or moderate obstacle to doing business, Bosnia and Herzegovina (2012)



Perception of corruption of public officials

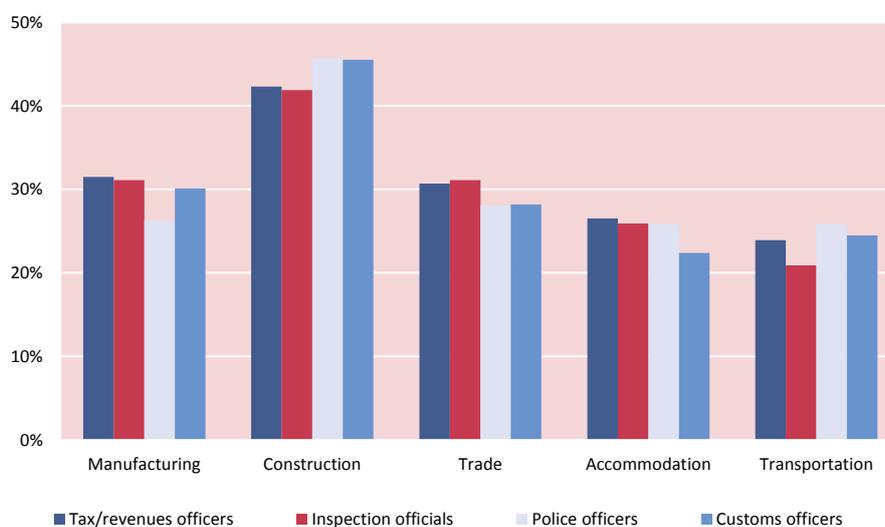
When business representatives consider corruption to be an obstacle to doing business they often have in mind particular types of public official (or specific administrative procedure) among whom corruption may be encountered more frequently than among others. These are often public officials at the local level with whom businesses are in frequent interaction or officials who are frequently mentioned in the media in connection with corruption. In Bosnia and Herzegovina, almost a third (31.5 per cent) of business representatives think that the payment of bribes to tax/revenues officers occurs very or fairly frequently in companies such as their own, and about as many think the same about inspection officials (31.5 per cent), police officers (30.1 per cent) and customs officers (29.7 per cent, Figure 23).

Figure 23 Percentage of business representatives who consider that the payment of bribes to selected public officials occurs very or fairly frequently in businesses like theirs, Bosnia and Herzegovina (2012)



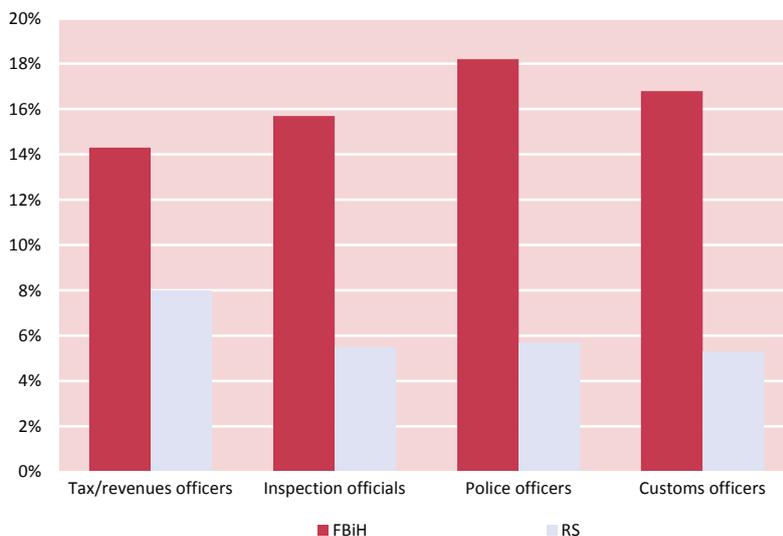
Such perceptions of the frequency of bribe-paying to certain types of public official need further differentiation by economic sector. Since business representatives were asked if they consider that the payment of bribes to certain officials by “businesses like theirs” occurs frequently, the comparison by type of official is most meaningful in relation to similar businesses in their own sectors. As shown in Figure 24, as many as 45.7 per cent of business representatives in Building and Construction consider the bribery of police officers to be very or fairly frequent, while around a quarter (25.9 per cent) of respondents in the Transportation and Storage sector think the same. Police officers are seen to be the most susceptible to bribery in the Building and Construction and Transportation and Storage sectors, inspections officials in the Wholesale Trade and Retail Trade sector and tax/revenues officers in the Manufacturing and the Accommodation sectors.

Figure 24 Percentage of business representatives who consider that the payment of bribes to selected public officials occurs very or fairly frequently in businesses like theirs, by economic sector, Bosnia and Herzegovina (2012)



When comparing the two entities of the country (Figure 25), police officers are perceived by the largest share of business representatives (18.2 per cent) in the Federation of BiH as the public officials to whom the payment of bribes occurs very or fairly frequently. In the Republika Srpska, tax/revenues officers are considered by around one in twelve business representatives (8 per cent) as the public officials to whom the payment of bribes occurs very or fairly frequently.

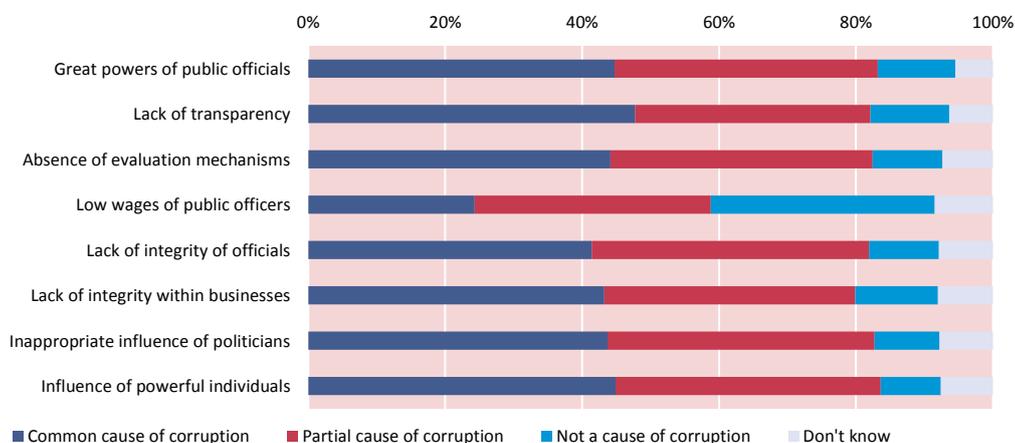
Figure 25 Percentage of business representatives who consider that the payment of bribes to selected public officials occurs very or fairly frequently in businesses like theirs, by entity, Bosnia and Herzegovina (2012)



Perception of causes of corruption

Surveying business representatives as to their perception of the causes of corruption can shed light on some causes of corruption that an effective anti-corruption strategy could usefully target. The data show that almost half (47.8 per cent) of business representatives consider lack of transparency a common cause of corruption. In addition, between 40 and 45 per cent of business representatives in Bosnia and Herzegovina consider great powers of public officials, absence of evaluation mechanisms, lack of integrity of officials, lack of integrity within businesses, inappropriate influence of politicians and influence of powerful individuals to be a common cause of corruption (Figure 26). In contrast low wages of public officials are perceived by less than a quarter of business representatives (24.3 per cent) to be a common cause of corruption.

Figure 26 Percentage of business representatives who consider various issues to be a common cause of corruption/partial cause of corruption/not a cause of corruption, Bosnia and Herzegovina (2012)

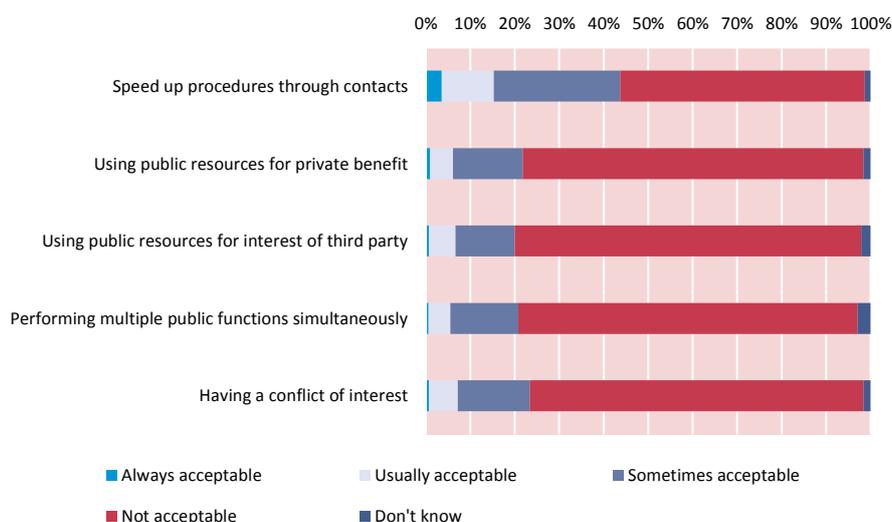


Attitudes towards corrupt behaviour

As in the case of perceptions of corruption, attitudes towards what constitutes corruption and what is acceptable behaviour often differ among individuals, societies and different economic sectors. Surveying business representatives as to their attitudes towards certain forms of corrupt behaviour can also shed light on their willingness to become involved in bribery and corruption, as well as their expectations about it.

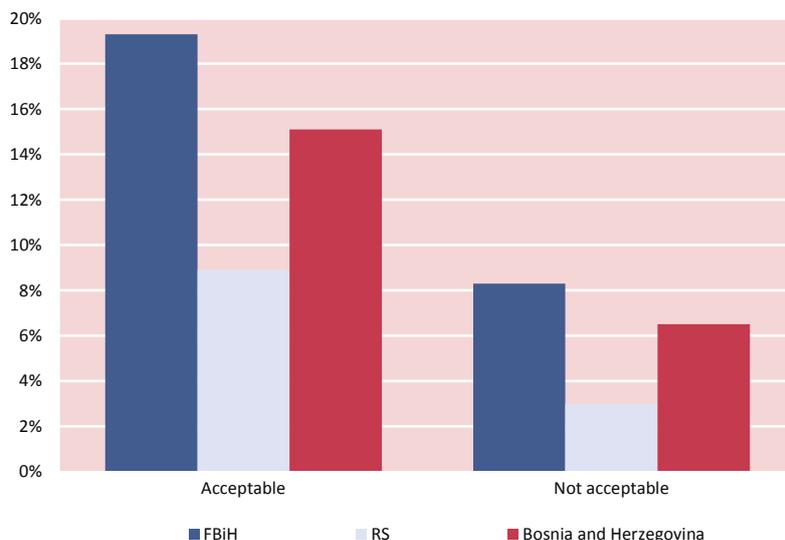
The data show that most business representatives are well aware of the limits of ethical behaviour in business transactions and classify acts outside those limits as “not acceptable”. However, there are also significant numbers of them who qualify some illicit acts as acceptable behaviour, particularly when the severity of the violation is not immediately obvious. For example, more than two fifths of business representatives in Bosnia and Herzegovina (43.7 per cent) consider the use of relationships and personal contacts in public institutions for speeding up business-related procedures to be acceptable (Figure 27). Also, in cases that clearly violate ethical standards there is a sizable share of around 20 per cent of business representatives who consider seriously corrupt acts (including using public resources for private benefit or for the interest of a third party and performing public functions while having an interest in private companies) to be acceptable. A similar share business representatives (20.8 per cent) considers the performing of multiple public functions at the same time to be acceptable.

Figure 27 Percentage of business representatives who consider various forms of corruptive behaviours always/usually/sometimes/not acceptable, Bosnia and Herzegovina (2012)



Different attitudes towards corruption translate into distinct patterns of bribery. The data show that the less aware business leaders are that certain economic transactions – particularly in interactions with public officials – are unacceptable, the more likely those business representatives are to engage in such behaviour. Even for a relatively “soft” form of illicit intervention with public officials (the use of relationships and personal contacts in public institutions for speeding up business-related procedures) it can be shown that the more business representatives consider such illicit acts acceptable, the higher the prevalence of bribery in the country and by entity (Figure 28).

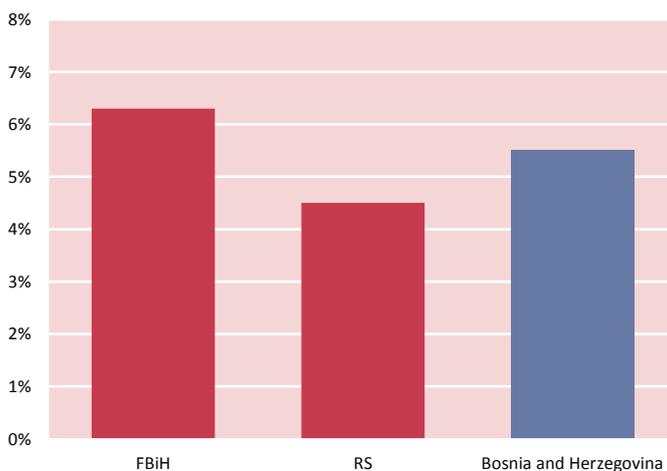
Figure 28 Prevalence of bribery, by groups of business representatives who consider the use of relationships in public institutions acceptable/not acceptable, by entity, Bosnia and Herzegovina (2012)



The impact of bribery on business investment

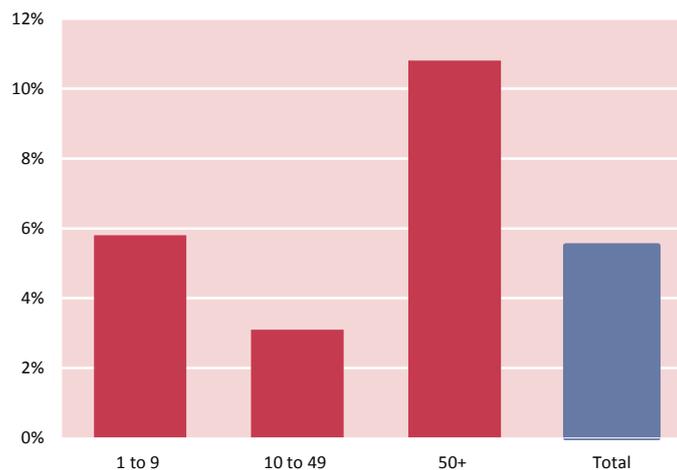
Besides having a direct effect on the disposition of businesses to pay bribes, the perception of bribery has an indirect effect on the willingness of businesses to make major investments, which has potentially disastrous consequences for economic growth and development. In all, 5.5 per cent of businesses in Bosnia and Herzegovina decided not to make a major investment in the 12 months prior to the survey due to the fear of having to pay bribes to obtain requisite services or permits. When comparing by entity, the impact is slightly higher in the Federation of BiH (6.3 per cent) than in the Republika Srpska (4.5 per cent, Figure 29).

Figure 29 Percentage of business representatives who decided not to make a major investment in the 12 months prior to the survey due to fear of bribery, by entity, Bosnia and Herzegovina (2012)



Considering that only a certain portion of businesses are in a position to make major investments in the first place, the fact that corruption has such a negative impact is significant. It is also notable that the economic impact of bribery on the business climate and investment decisions is more pronounced for medium and large than for small businesses (Figure 30). Micro (5.8 per cent) and small companies (3.1 per cent) are much less affected than medium and large companies (10.8 per cent), which means that the fear of bribery has a bigger impact on businesses with a greater investment capacity.

Figure 30 Percentage of business representatives who decided not to make a major investment in the 12 months prior to the survey due to fear of bribery, by number of employees, Bosnia and Herzegovina (2012)





7. Prevalence and patterns of other forms of crime

In addition to corruption, businesses in the western Balkans, like businesses everywhere, are affected by various other forms of crime against their property or business activities. The impact of such crimes can be considerable, both in terms of direct costs and damages and of indirect costs, in the form of insurance premiums, security expenditure and lost investment opportunities. While crime is not ranked among the most important obstacles to doing business in Bosnia and Herzegovina (Figure 22), it is still a substantial share of businesses who consider crime to be either a major (29.8 per cent) or a moderate obstacle (36.3 per cent) to doing business.

Measuring the direct impact of crime is challenging for a number of reasons, irrespectively of whether the victims are individuals or businesses. Police-reported crimes are widely understood to undercount the true extent of criminal activity. Before a crime is recorded in administrative crime statistics, it must be detected, reported to the police, recognized as a criminal act and recorded as a crime in police statistics. A large number of crimes are not reported to the police and some of those reported are not recorded in police statistics. Such limitations in official crime statistics can be overcome with the help of crime victimization surveys, which provides data to assess the so-called “dark figure” of crime not reported to the police. Such data supply valuable additional insights into the nature and modalities of the criminal act as well as the characteristics of the victims – information that is not usually available from official police data.

Businesses in Bosnia and Herzegovina are affected by different forms of crime to varying degrees depending on their size, type of economic activity, location and other factors. Among five important types of crime,¹⁹ the 12-month prevalence rate of business victimization in Bosnia and Herzegovina is highest for fraud by outsiders (this includes fraud by customers, distributors or suppliers, but excludes fraud by employees and managers). Around one in fourteen businesses has been defrauded over the past 12 months (7.1 per cent) through various means, such as by customers deceiving the company about their willingness to pay, through deception of suppliers in relation to the quality or quantity of goods or services delivered, or through computer fraud (Figure 31).

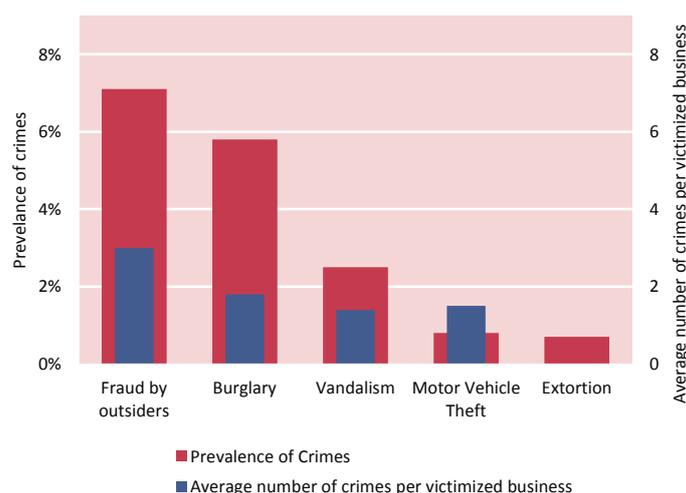
¹⁹ See the Methodological Annex for detailed descriptions of these crimes.

Moreover, many companies that experience fraud by outsiders are victimized more than once – on average such businesses fall victim to fraud 3 times in a year. The prevalence rate for burglary is also considerable (5.8 per cent), on average victimized businesses fall victim to burglary 1.8 times a year.

In the case of acts of vandalism against businesses, where buildings, equipment or other property on business premises have been deliberately damaged by acts of force, arson, graffiti or other means, 2.5 per cent of all businesses were victimized an average of 1.4 times in the previous 12 months. The prevalence rate of motor vehicle theft (MVT) is less than 1 per cent (0.8 per cent) of all car owning businesses, with victims suffering an average of 1.5 incidents (many businesses affected have more than one company vehicle in use at a time, including cars, vans, trucks, buses and other motor vehicles).

The data also show that 0.7 per cent of all businesses fell victim to extortion in the 12 months prior to the survey (since extortion is often an on going activity, no average frequency is calculated).

Figure 31 Annual prevalence rates for different types of crime against businesses and average number of crimes per victimized business, Bosnia and Herzegovina (2012)

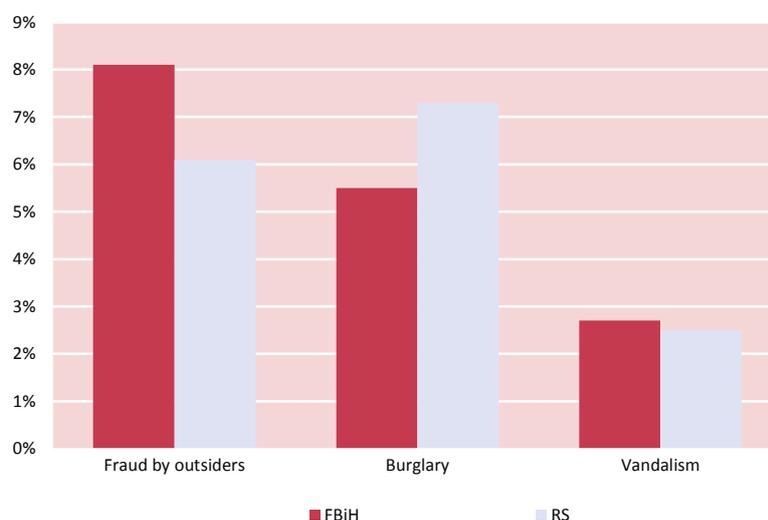


Note: Annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies; the annual prevalence rate for motor vehicle theft is calculated as the number of companies that experienced at least one theft of a car, van, truck, bus or other motor vehicle in the 12 months prior to the survey, as a percentage of companies owning a car, van, truck, bus or other motor vehicle. The average number of crimes is calculated as the average number of times businesses victimized by a crime experienced that type of crime.

When comparing victimization rates by entity (Figure 32), the 12-month prevalence rate of business victimization in the Federation of BiH is higher for fraud by outsiders (8.1 per cent) than for burglary (5.5 per cent). Whereas in the Republika Srpska, the prevalence rate is higher for burglary (7.3 per cent) than for the fraud by outsiders (6.1 per cent). While taking into account the fact that the comparability of the survey results with those in other countries may be influenced by divergences in survey procedures, such as differences in sample selection, survey mode, response rates and weighting procedures, an international comparison with survey findings in other countries will add further perspective on the results obtained. Comparability is greatest with recent survey results in the western Balkan region, where the same survey design and methodology was

employed.²⁰ In addition, the results of an EU-wide pilot survey on business victimization are expected to be published in late 2013.²¹

Figure 32 Annual prevalence rates for different types of crime against businesses, by entity, Bosnia and Herzegovina (2012)



Note: Annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies.

The cost of crime

The survey data indicate that the average cost of criminal damage caused by the five crime types covered is substantial in Bosnia and Herzegovina. However, such costs are highly unevenly distributed, with a limited number of crime incidents that cause extremely costly damage and a larger number of incidents that result in below-average damage costs. This skewed distribution can be described by using two separate indicators, namely the average (mean) cost of criminal damage and the median cost of criminal damage.²² As shown in Table 2, the mean cost of criminal damage is around 1.5 to 7 times higher than the median cost of all crime types, except for fraud by outsiders, for which the mean cost is very high and the ratio between mean and median is around 12.

²⁰ *Business, Corruption and Crime in the western Balkans: The impact of bribery and other crime on private enterprise*, UNODC (2013).

²¹ Gallup/Transcrime (forthcoming), EU Survey to assess the level and impact of crimes against business, Stage2: Piloting the survey module. Final Report.

²² The median cost of criminal damage is exactly the middle value of all the damages sorted in ascending order, which implies that about 50 per cent of all the damages incurred are higher and 50 per cent are lower than the median value.

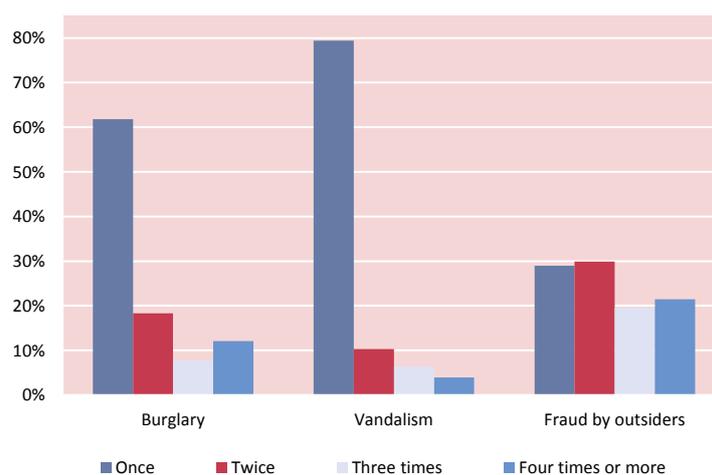
Table 2 Cost of economic damage caused by the last crime incident experienced by businesses in Bosnia and Herzegovina (in BAM, EUR and EUR-PPP), by crime type, Bosnia and Herzegovina (2012)

Cost of criminal damage	Burglary	Vandalism	Motor Vehicle Theft	Fraud by outsiders
Mean damage (BAM)	5,371	3,442	30,517	24,683
Median damage (BAM)	1,000	500	20,000	2,000
Mean damage (EUR)	2,746	1,760	15,603	12,620
Mean damage (EUR-PPP)	5,522	3,539	31,376	25,3678

Multiple crime victimization

Understanding characteristics of businesses that experienced a certain crime type multiple times over a short period is very important for determining the concentration of crime risk for certain types of businesses or of businesses in certain locations.²³ To examine high risk accumulation by certain businesses it is useful to divide victimized businesses into groups by the number of times a certain crime type was experienced in the preceding 12 months. As shown in Figure 33, fraud by outsiders is a crime that tends to target the same business multiple times, with almost one in three (29 per cent) of victimized businesses having been victimized once, 29.9 per cent twice, 19.6 per cent three times and 21.5 per cent four or more times. On the other hand, about 61.8 per cent of victimized businesses experienced exactly one burglary, 18.3 per cent experienced two burglaries, 7.7 per cent three burglaries and 12.1 per cent four or more such incidents. A similar pattern applies to vandalism: 79.4 per cent of victimized businesses experienced one such incident, 10.3 per cent two, 6.4 per cent three and 3.9 per cent four or more such incidents.

Figure 33 Percentage distribution of victimized businesses that experienced a certain crime type on one or several occasions in the preceding 12 months, Bosnia and Herzegovina (2012)



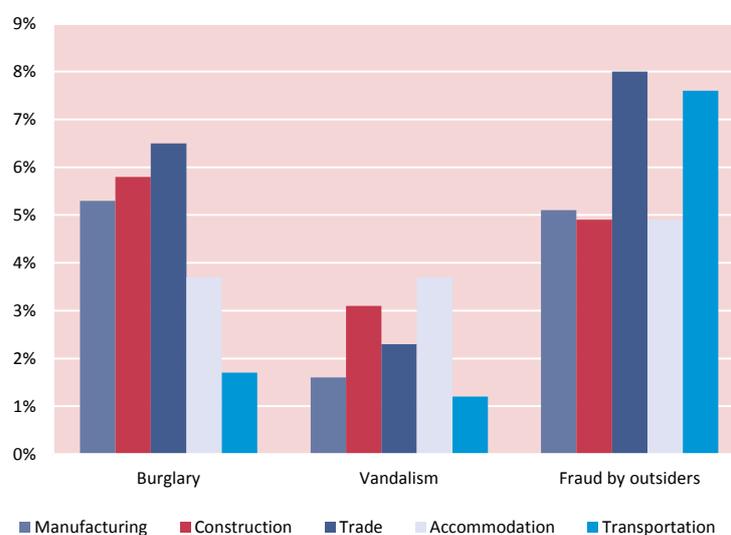
Note: The distribution by number of crimes is calculated as the percentage distribution of the number of times businesses victimized by a certain type of crime experienced this type of crime.

²³ This is sometimes also called “multi-victimization rate of crime” and denotes the percentage of victimized businesses that have experienced a certain crime type more than once over the past year out of all businesses who experienced that crime over the past year.

Victimization by economic sector

An analysis of the prevalence of business victimization in the five economic sectors covered by the survey indicates some pronounced differences between sector-specific crime victimization rates in Bosnia and Herzegovina. As shown in Figure 34, sector-specific prevalence rates for vandalism are below 3.7 per cent in all sectors. Prevalence rates for burglary are at or below 5.8 per cent in all sectors except Wholesale trade and Retail trade service, where they reach 6.5 per cent. At the same time, businesses in the Accommodation and Food service activities (4.9 per cent) sector are victims of fraud by outsiders less often than businesses in the Manufacturing, Electricity, Gas, and Water supply (5.1 per cent), the Transportation and Storage (7.6 per cent) and the Wholesale trade and Retail trade (8 per cent) sectors.²⁴

Figure 34 Annual prevalence rates for burglary, vandalism and fraud by outsiders experienced by businesses, Bosnia and Herzegovina (2012)



Note: Annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies.

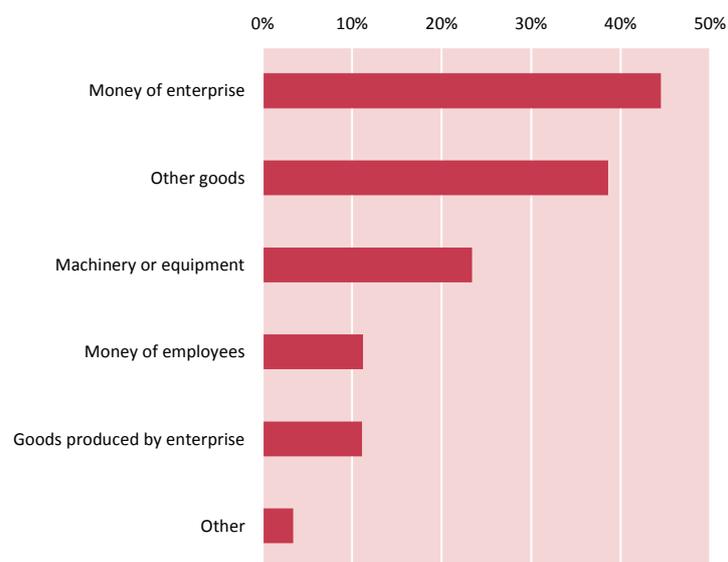
Burglary

Burglary is the act of unlawfully breaking and entering into (business) premises in order to steal something without coming into contact with anyone in those premises. As such, not all burglary attempts are successful in the sense that the perpetrators manage to steal something valuable. Out of all burglary incidents reported by businesses in Bosnia and Herzegovina in the survey, 5.8 per cent can be classified as mere burglary attempts as nothing was actually stolen.

In cases when something is actually stolen from a business's premises there is usually a wide variety of valuables for the taking. As shown in Figure 35, in 44.5 per cent money belonging to the business is taken, while other goods (not produced by the company itself) are taken in around a third of cases (38.6 per cent). Other common items stolen are machinery or equipment (23.4 per cent), money of employees (11.2 per cent) and goods actually produced by the company (11.1 per cent).

²⁴ Sector-specific data on extortion and motor vehicle theft are not available as the number of victimized businesses in the sample that experienced those crimes in each sector is too small to allow statistically significant comparisons.

Figure 35 Percentage distribution of valuables stolen from businesses in burglary cases, Bosnia and Herzegovina (2012)



Note: Data refer to the last burglary that resulted in any type of valuables stolen in the three years prior to the survey. The sum is higher than 100 per cent since, in some cases, more than one type of valuable is stolen (for example, machinery and money).

The aim of burglary also depends on the type of business broken into and the type of machinery, equipment and other valuable items in use. For example, machinery and equipment are the most typical types of valuable stolen from businesses in Building and Construction (63.5 per cent), whereas money belonging to the company is the type of valuable most often stolen in the Wholesale trade and Retail trade sector (47.4 per cent), and other goods held but not produced by the company in question are the items most commonly stolen from businesses in the Accommodation and Food service activities sector (53.1 per cent).

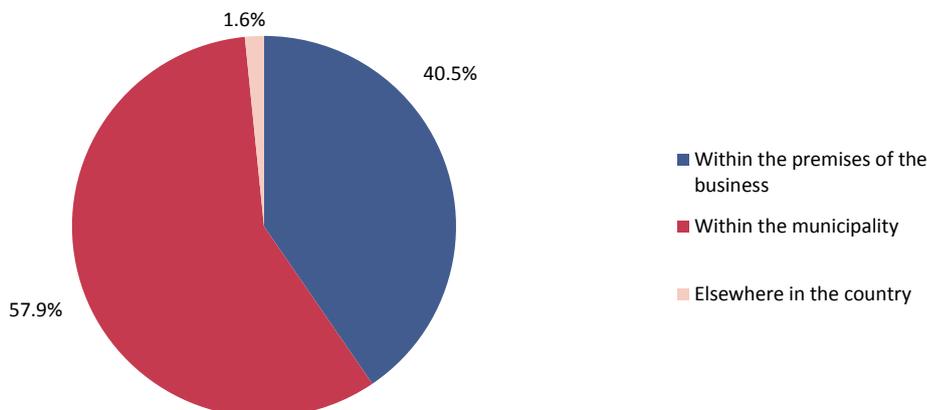
Vandalism

Acts of vandalism against businesses can be very damaging in terms of direct damage and repair costs, loss of production output as well as deterioration in the image of business premises and reduced attractiveness to clients. On average, acts of vandalism in Bosnia and Herzegovina most often target buildings (47.9 per cent), vehicles belonging to the targeted business (35.5 per cent) and machinery and equipment (13.7 per cent).

Motor Vehicle Theft (MVT)

Theft of motor vehicles is different from the other crime types against businesses reported here in that the physical location of the offence can be either at the business premises or elsewhere. In fact, data on the location of MVT from businesses in Bosnia and Herzegovina indicate that the majority of it takes place away from business premises. While two fifths (40.5 per cent) of such incidents take place directly from business premises (such as a parking lot or garage), more than a half (57.9 per cent) of MVT occurs outside business premises but within the same municipality as where those premises are located. About 1.6 per cent of MVT takes place elsewhere in the country (Figure 36).

Figure 36 Distribution of the location of motor vehicle thefts from businesses, Bosnia and Herzegovina (2012)



Note: Data refer to the last motor vehicle theft in the three years prior to the survey. Motor vehicles include cars, vans, trucks, buses or other motor vehicles.

A certain share of stolen vehicles can later be recovered. In many cases, offenders use the stolen vehicle for a limited time only (for example, for so-called “joy-riding” or for transportation while committing another crime) and abandon the vehicle after some time at a place where it can be found and returned to the owner. According to the data, almost every fourth motor vehicle (22.9 per cent) stolen from a business in Bosnia and Herzegovina is eventually recovered after having been stolen.

Extortion

While the prevalence of extortion for businesses in Bosnia and Herzegovina is under 1 per cent (0.7 per cent), it is nevertheless cause for concern. Extortion is a very serious crime in which the perpetrators try to obtain money or other benefits from a company by threatening or intimidating managers or employees. In some cases, extortion is also presented as the offer of “protection” from damages to property or persons and the money paid is presented as a type of “protection money”. In some cases extortion can be linked to organized crime groups, who have the power and the means to make a credible threat towards a business with potentially dire consequences if their demands are not met.

The data indicate that extortion threats take on a variety of menacing forms. According to victimized businesses in Bosnia and Herzegovina, more than half (52 per cent) of extortion threats involve specific personal threats to harm the owner, manager, employees or their relatives, while a third (33.5 per cent) spell out specific damage to the business or its property. Other cases involve unspecified negative consequences and other threats, such as harming clients, contaminating products or kidnapping employees, managers or their relatives.

It is notable that the methods used to convey extortion threats to businesses in Bosnia and Herzegovina are fairly conventional and seem designed to have the greatest possible impact on the person threatened. In around half (50.7 per cent) of extortion threats one or several offenders walk into the premises of the business victimized to convey the threat, while in almost two fifths (39.3 per cent) the threat is made by telephone. In about a third (30.7 per cent) of cases extortion threats happen in a personal encounter elsewhere. While

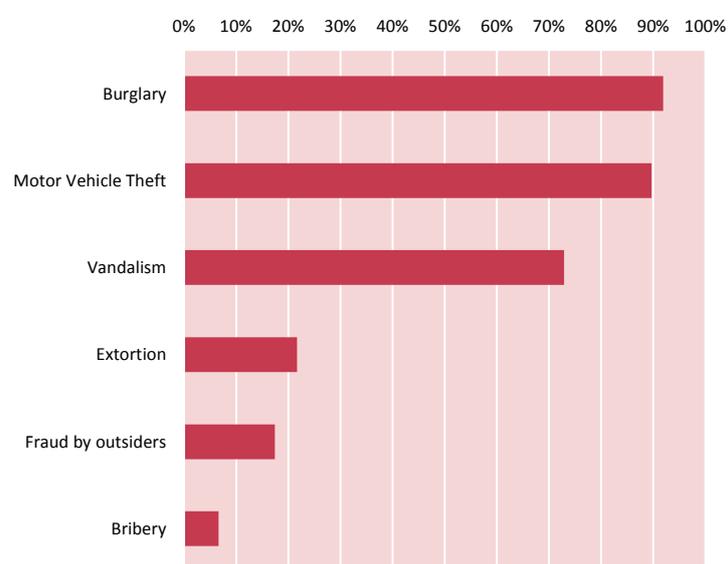
in 61 per cent of extortion threats no weapon is used. When a weapon is involved, the threat is made mostly with a gun (12.8 per cent) or other object (10.2 per cent) used as a weapon.

Reporting crime to the police

Businesses that have been victims of crime have a number of reasons to report the incident to the police and provide detailed information to the authorities about its circumstances and the damage incurred, among them the hope of recovering stolen property and preventing similar occurrences in the future. The willingness to report crimes to the police varies with the general level of trust in the police but is also dependent on the type of crime and the expectation of what the police can and will do about the reported offence.

Further factors that have an influence on the reporting of crime are the seriousness of the crime and the amount of damage suffered, potential loss of reputation among clients and customers, and formal requirements for insurance payments. As shown in Figure 37, the share of each type of crime actually reported to the police ranges from 91.9 per cent for burglary and 89.7 per cent for MVT, to 72.9 per cent for incidents of vandalism, 21.7 per cent for extortion cases and 17.4 per cent for cases of fraud by outsiders. On average, for the five crime types covered, victimized businesses in Bosnia and Herzegovina reported almost two thirds of the crimes experienced in the three years prior to the survey (65.1 per cent). In comparison, the bribery of public officials is reported to the authorities in only 6.6 per cent of cases, as shown in chapter 4.

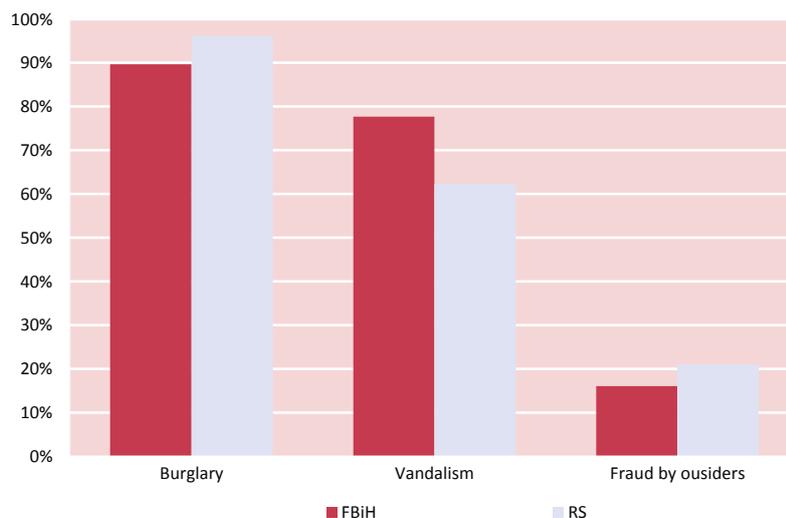
Figure 37 Police reporting rates by businesses, by type of crime, Bosnia and Herzegovina (2012)



Note: Reporting rates for bribery refer to the last bribery experience in the 12 months prior to the survey, reported to official authorities; for other forms of crime, reporting rates refer to the last crime experienced in the past three years and reported to the police.

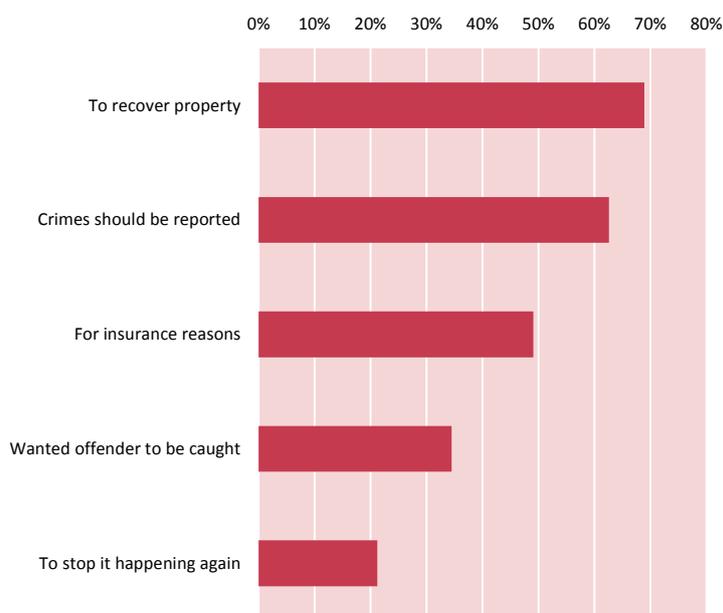
When comparing by entity (Figure 38), the police reporting rates by businesses for vandalism is higher in the Federation of BiH (77.7 per cent) than in the Republika Srpska (62 per cent), whereas the reporting rate in the latter is higher for burglary (96 per cent) and fraud by outsiders (21 per cent) than in the former (89.7 per cent and 16 per cent).

Figure 38 Police reporting rates by businesses, by type of crime, by entity, Bosnia and Herzegovina (2012)



In many cases, the main reasons that businesses report crimes to the police are to recover property and a general belief that crimes should be reported to the police: between 67.2 per cent and 68.8 per cent of businesses that reported incidents of burglary and vandalism cited these reasons as their two main motives. Other important reasons for reporting crime are a desire for the offenders to be caught (burglary: 49.7 per cent; vandalism: 76.8 per cent; MVT: 34.5 per cent) and to stop it from happening again (burglary: 42.5 per cent; vandalism: 64.4 per cent; motor vehicle theft: 21.2 per cent). Claiming insurance payments is an important motive for reporting crime in Bosnia and Herzegovina only in the case of MVT (burglary: 18.6 per cent; vandalism: 17 per cent; MVT: 49.1 per cent), as shown in Figure 39.

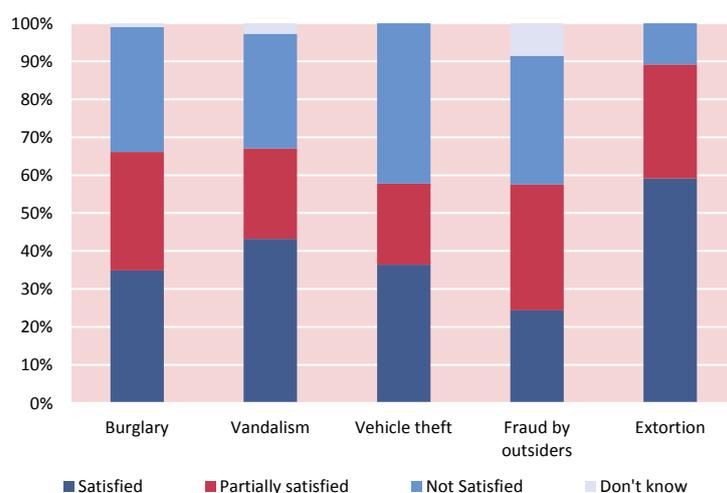
Figure 39 Reasons for reporting motor vehicle theft (MVT) from businesses to the police, Bosnia and Herzegovina (2012)



Note: Data refer to the last case of motor vehicle theft experienced in the three years prior to the survey and reported to the police. The sum is higher than 100 per cent since, in some cases, more than one motive for reporting motor vehicle theft to the police exists (for example, to recover property and for insurance reasons).

Information relating to satisfaction with law enforcement authorities by victims of crime can be useful for improving the services and procedures of the police. In the case of businesses that fall victim to crime, a large share of those that reported the incident to the police were completely or mostly satisfied with the way the police dealt with their reports. As in the case of police reporting, satisfaction with the police varies according to the crime type reported and is lowest for fraud by outsiders (24.4 per cent were satisfied) and highest for vandalism, where 43.2 per cent of reporting businesses were satisfied. On the other hand around a third of businesses were not satisfied with the action taken after reporting the crime to the police (Figure 40).

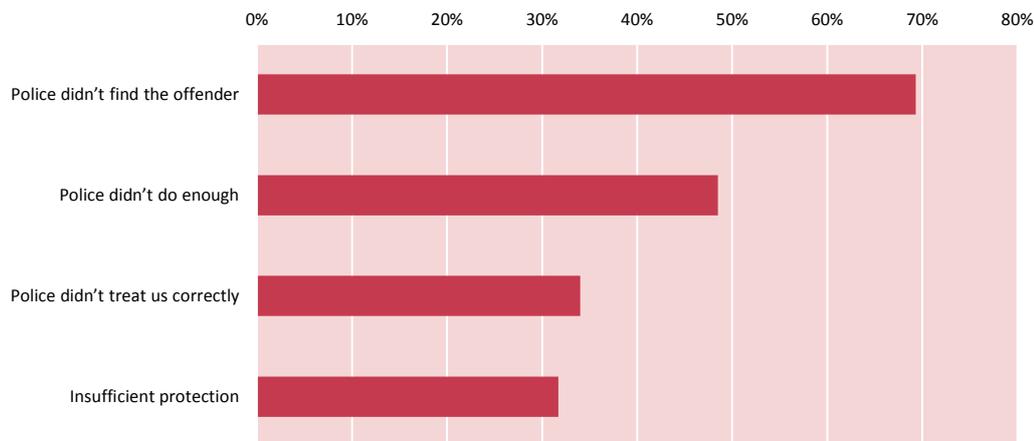
Figure 40 Satisfaction of businesses with the police, by type of crime reported to the police, Bosnia and Herzegovina (2012)



Note: Data refer to the last crime incident experienced in the three years prior to the survey and reported to the police.

The main reasons for the dissatisfaction observed in the way the police react to crime reporting are often related to the difficulties of solving the crime in question and obtaining compensation for the victimized business. In the case of vandalism, for example, dissatisfied victims were not satisfied or not completely satisfied mainly due to the fact that the police did not find the offender (69.3 per cent) or the police were perceived to not be doing enough (48.5 per cent). There was also a minority of businesses who felt they were not treated correctly (34 per cent) or did not receive sufficient protection from crime (31.7 per cent), as shown in Figure 41

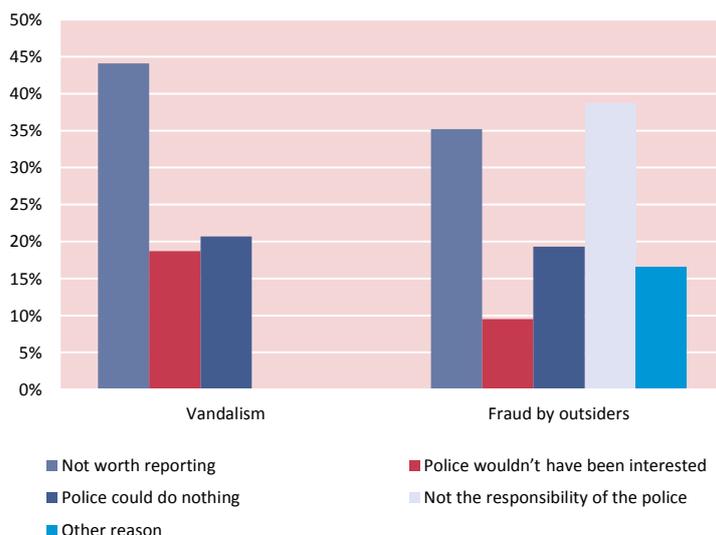
Figure 41 Reasons for dissatisfaction of businesses that reported vandalism to the police, Bosnia and Herzegovina (2012)



Note: Data refer to the last case of vandalism experienced in the three years prior to the survey and reported to the police. The sum is higher than 100 per cent since, in some cases, more than one reason for dissatisfaction with the police exists (for example, police did not find the offender and did not treat us correctly).

In the case of less frequently reported crimes against businesses, such as vandalism and fraud, there are a number of reasons why crime is not reported to the police, which depend on the crime type. For example, in cases of vandalism around two fifths (44.1 per cent) of businesses considered the crime not worth reporting to the police, while that was the case in 35.2 per cent of unreported fraud by outsiders incidents (Figure 42). In the case of fraud by outsiders, 38.7 per cent of respondents did not report it to the police because they considered it was not the responsibility of the police and one fifth (19.3 per cent) believed police could do nothing. The last two reasons for not reporting crime were only important for cases of fraud by outsiders (16.5 per cent).

Figure 42 Reasons for not reporting selected types of crime incidents to the police, Bosnia and Herzegovina (2012)

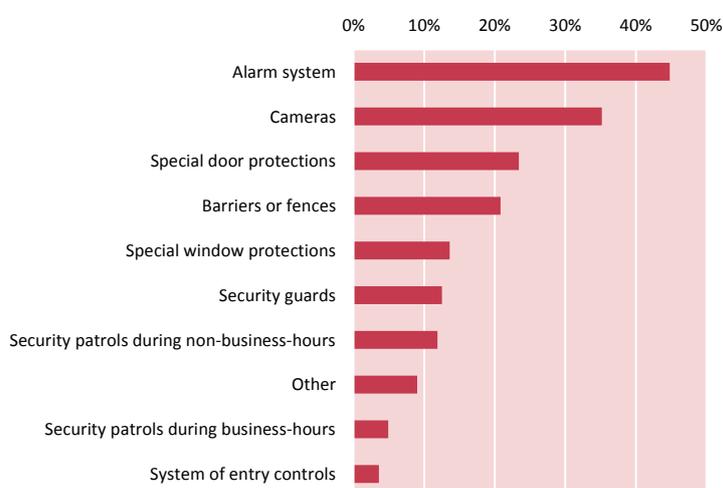


Note: Data refer to the last crime incident experienced in the three years prior to the survey that was not reported to the police. The sum is higher than 100 per cent since, in some cases, more than one reason for not reporting the incident to the police exists (for example, police could do nothing and fear of reprisals).

Crime prevention measures and costs

As the data from this survey show, businesses in Bosnia and Herzegovina face a real risk of crime and its associated damage and costs. To protect themselves against crime, businesses often install special security systems (alarm systems, cameras) or use security guards or other measures. In total, seven out of ten (70.1 per cent) businesses in Bosnia and Herzegovina use at least one protective security measure against crime. As shown in Figure 43, the most widely used security measures are alarm systems (44.8 per cent), cameras (35.2 per cent) and special door protections (23.4 per cent). Barriers or fences (20.8 per cent), special window protections (13.6 per cent), security guards (12.5 per cent), security patrols during non-business hours (11.9 per cent), security patrols during business hours (4.9 per cent) and system of entry controls are less widely used protection measures.

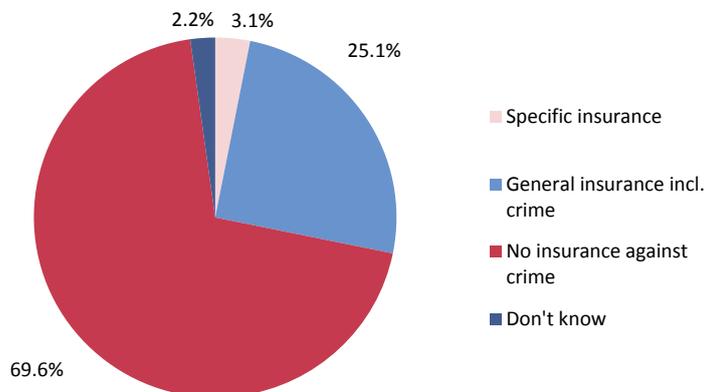
Figure 43 Percentage of businesses that use selected security measures against crime, Bosnia and Herzegovina (2012)



Note: Data refer to all businesses in Bosnia and Herzegovina. The sum is higher than 100 per cent since, in some cases, more than one security measure is used (for example, alarm system and camera).

Crime against businesses often causes considerable harm to businesses. To protect themselves against the financial implications, businesses can make use of insurance policies that pay compensation for damages. In Bosnia and Herzegovina, only a minority of businesses have any kind of insurance against the consequences of crime. On average, only 3.1 per cent of all businesses have a specific type of insurance policy that specifically protects against crime events, whereas a quarter (25.1 per cent) have a general insurance policy that also protects against criminal incidents, while 69.6 per cent have no insurance against crime (Figure 44).

Figure 44 Percentage of businesses that have an insurance policy against crime, by type of insurance, Bosnia and Herzegovina (2012)

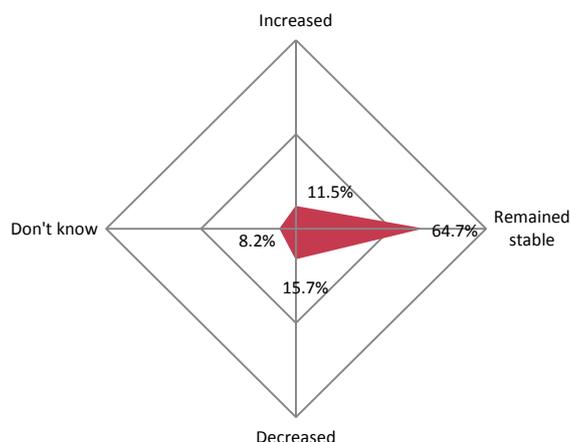


Perceptions and opinions about crime

As with perceptions about corruption, in addition to objective experience, perceptions about crime risk are influenced by a number of factors. Media reports and general feelings of insecurity and fear may contribute to an elevated perception of crime risk, as does the physical appearance of an area. Such perceptions may also influence the extent to which crime in a certain area is perceived to be on the increase or decrease.

The majority of business representatives in the survey (64.7 per cent) stated that they considered the crime risk for their business entity to have remained stable in comparison to 12 months previously, whereas 11.5 per cent of respondents saw an increase in the crime risk and 15.7 per cent saw a decrease (8.2 per cent expressed no opinion). These perceptions of business leaders indicate a declining sensitivity to crime (Figure 45).

Figure 45 Perceptions of whether the risk of crime for one’s business entity has increased, remained stable or decreased, Bosnia and Herzegovina (2012)



The impact of crime on business investment

Although perceptions of crime risk alone do not have a high correlation with real crime risk, as measured by the experience of crime by businesses, such perceptions do nevertheless matter for shaping opinions about the prevailing “business climate” and the assessment of business and investment opportunities. A negative perception of the general crime situation in a country may lead to diminished investment and impact economic development and growth.

The data show that fear of crime is indeed a very relevant factor in the decision of business leaders to make a major investment. While there are differences in the impact of this factor according to economic sector (Figure 46), on average, 8.5 per cent of all business leaders stated that during the previous 12 months they decided not to make a major investment due to fear of crime. This is a very significant share of all businesses, considering that only a limited number of businesses are in a position to make major investments in the first place. It should be recalled that, in addition to businesses deciding not to make an investment out of fear of crime, over 5 per cent of businesses cancelled an investment decision out of fear of corruption (chapter 6). Together fear of crime and corruption add up to a considerable hindrance to economic development in Bosnia and Herzegovina.

Figure 46 Percentage of business representatives who decided not to make a major investment in the 12 months prior to the survey for fear of crime, by sector, Bosnia and Herzegovina (2012)





8. Concluding remarks

While corruption may be difficult to quantify, this report shows that surveys on the direct experience of corruption can help to draw at least a partial picture as to how, why, when, where and how much corruption affects the business sector in Bosnia and Herzegovina. From this analysis the following elements could be retained for further consideration in view of developing effective anti-corruption measures at national level:

- The survey identifies some priority business sectors, such as Building and Construction and Transportation and Storage, as well as certain types of public official, including health authorities, police officers, customs officer and judges/prosecutors, on which attention should be focused in an attempt to hinder involvement in bribery.
- The prevalence rates of “white collar” crime such as bribery and fraud are somewhat higher, yet the reporting rates of bribery and fraud are far below those of other conventional crimes. This failure to report corruption implies that there is a lack of trust in authorities and that business organizations need to be more proactive in encouraging and promoting anti-corruption measures, codes of ethics and integrity.
- The issue of business-to-business bribery highlighted in this report sheds new light on illegal “marketing” practices in the form of bribery used to gain an unfair advantage over rival businesses. Further analysis of such practices should be undertaken to help guarantee a “level playing field” in the market place and guarantee that the usually beneficial mechanisms of the free market remain untarnished by corruption. A review of the legal provisions against corruption in the Criminal Code of Bosnia and Herzegovina should ensure that, in addition to provisions against bribery of public officials, effective legal instruments against bribery in the private sector are available.
- The fear of having to pay bribes to obtain requisite services or permits led a total of 5.5 per cent of all businesses leaders in Bosnia and Herzegovina to not make a major investment in the 12 months prior to the survey. This shows the “ripple effect” that corruption can have, with potentially disastrous consequences for

economic growth and development, particularly when only a certain portion of businesses are in a position to make major investments in the first place. Any efforts made to stem corruption need to be widely publicized to prevent further damage to investment and economic development.

- While conventional crimes against businesses engender substantial costs for the economy, businesses in Bosnia and Herzegovina seem to give relatively little thought to crime prevention in the shape of security measures and the mitigation of crime consequences by means of dedicated insurance policies.
- Though ostensibly small in numerical terms, the fact that 0.7 per cent of all businesses in Bosnia and Herzegovina fall victim to extortion is still significant, not least because extortion is a crime that can be linked to organized criminal groups. This reason alone means that the relationship between extortion and business needs to be explored thoroughly.
- In addition to the direct consequences of the crime, merely being investigated for corruption and fraud can have negative repercussions on a company's reputation. Many companies around the world are recognizing this and more and more are implementing comprehensive internal compliance policies that specify certain unacceptable practices and sanction violations of established standards. In Bosnia and Herzegovina, such internal compliance mechanisms are still far from universal and in further need of promotion. In particular, compliance policies are less common among smaller companies. Given that micro- and small companies make up the largest share of all businesses in Bosnia and Herzegovina, this situation needs to be addressed.
- Awareness of corruption and what is considered unacceptable behaviour is high in Bosnia and Herzegovina and around two thirds of business representatives consider corruption a (major or moderate) obstacle to doing business, yet bribery often appears to be tolerated as a tool for getting things done or receiving better treatment. A further assessment of corruption awareness among business leaders could be considered and further initiatives might be developed to increase understanding about the pernicious effects of corruption on the efficient allocation of resources in a market economy.
- As the data pertaining to the perception of corruption reveal, public opinion about corruption in Bosnia and Herzegovina shows a considerable level of concern about the issue. A window of opportunity is, therefore, open as it is likely that business organizations, as well as their constituent members, would welcome the further implementation of anti-corruption policies.

The present survey represents the first attempt to conduct a comprehensive assessment of the actual experience of business bribery in Bosnia and Herzegovina in order to help identify effective measures to fight it. Added value can be gained if the exercise is repeated over time so as to monitor changes in the experience and impact of bribery in Bosnia and Herzegovina.

Such a monitoring system on corruption at national level should include a variety of tools to collect evidence about its various manifestations and assist policy-making:

- Sectorial assessments of the working conditions and integrity of civil servants by sector (health sector, judiciary, police, customs, etc.) for the purpose of providing more in-depth and specific information and assist in identifying targeted policy measures. This should be prioritized in areas particularly vulnerable to bribery, as indicated in this and the UNODC 2011 general population survey;

- General assessments of the experience of bribery and other forms of corruption (both for the general population and the business sector), for the purpose of providing benchmarks and measuring progress
- A system for monitoring the state response to corruption, both repressive and preventive measures, in order to identify successful and unsuccessful practices.

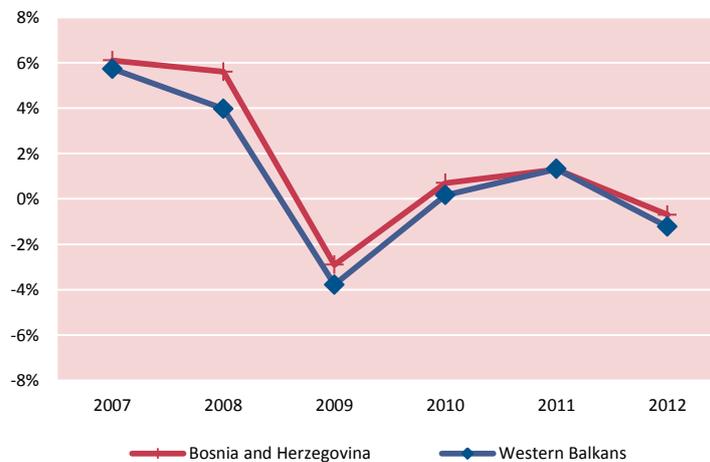
A national monitoring system on corruption could be initiated and developed by the country's main anti-corruption bodies. The system should enjoy the attention and trust of the public and relevant civil society organizations. Further involvement of relevant ministries and experienced research centres, with the support of international and regional organizations, will enable the monitoring mechanism to produce high quality and relevant information for fighting corruption in a more effective manner.



Annex I: Economic context of business corruption in Bosnia and Herzegovina

The recent economic history of Bosnia and Herzegovina is closely tied to the progressive economic decline of the former Socialist Federal Republic of Yugoslavia (SFRY). By the time Yugoslavia broke apart the early 1990s, the economies of the successor states slumped dramatically, there was a collapse in production and employment, widespread scarcities and hyperinflation. After the war 1992-1995, following the Dayton Peace Agreement, the economy of Bosnia and Herzegovina largely relied on external aid for economic stabilization, which produced a lasting dependency on external aid flows. Economic recovery returned to Bosnia and Herzegovina after 2001, followed by economic growth until the effects of the global financial and economic crisis since 2007 led the country into recession. Although Bosnia and Herzegovina's GDP growth trends are similar to the (weighted) average in the western Balkans, the economy has performed consistently slightly above the regional growth trend over the past five years (Figure 47).

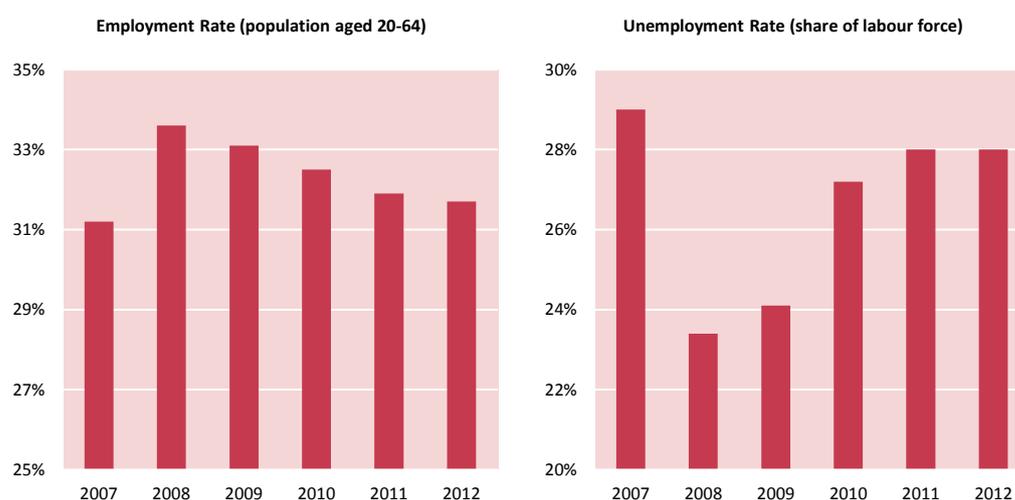
Figure 47 Percentage change in GDP, Bosnia and Herzegovina and western Balkan region (2007-2012)



Sources: Eurostat; EU Progress Reports 2012; Vienna Institute for International Economic Studies (WIIW) 2013

A low employment rate and high unemployment have been part of the fundamental economic problems in Bosnia and Herzegovina (Figure 48). There is a strong inverse relationship between employment and unemployment rates in Bosnia and Herzegovina. After 2008, the employment rate has been declining from 34 per cent in 2008 to 32 per cent in 2012, while the unemployment rate has increased around 5 percentage points in the same period.

Figure 48 Rates of employment and unemployment, Bosnia and Herzegovina (2007-2012)



Sources: Agency for Statistics of Bosnia and Herzegovina (BHAS). Labor force survey 2007-2012

In terms of economic structure, the majority of the companies in Bosnia and Herzegovina operate in only five sectors of the economy. Following the “Statistical classification of economic activities in the European Community” (NACE), these five sectors are defined as:

1. Manufacturing, Electricity, Gas, and Water supply²⁵
2. Building and Construction²⁶
3. Wholesale trade and Retail trade; Repair of motor vehicles and motor cycles²⁷
4. Transportation and Storage²⁸
5. Accommodation and Food service activities (hotels and restaurants)²⁹

The present survey of corruption and crime affecting businesses surveyed only businesses from these five sectors while excluding other economic activities (such as agriculture, education or health services). This choice of economic sectors also ensures broad coverage of the economy of Bosnia and Herzegovina in terms of the value added (percentage of GDP by sector) and employment (percentage of total employees in each sector), as well as the share of businesses covered. The five sectors listed account for 66.8 per cent of all businesses in the country, 51 per cent of total employees and 49.3 per cent of the total GDP (net of taxes). The rest is distributed among all other economic activities that are typically carried out either by private businesses (such as agriculture, mining,

²⁵ Categories, C, D, E of NACE Rev. 2.

²⁶ Category F of NACE Rev. 2.

²⁷ Category G of NACE Rev. 2.

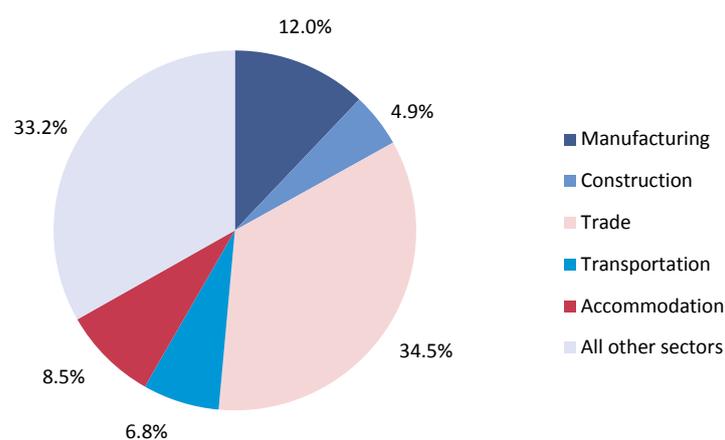
²⁸ Category H of NACE Rev. 2.

²⁹ Category I of NACE Rev. 2.

financial activities, real estate activities, professional, scientific or technical activities) or by public institutions (public administration, defence, education, health).

On taking a closer look at the structure of businesses in Bosnia and Herzegovina (Figure 49), the largest shares are in the Wholesale Trade and Retail Trade; Repair of Motor Vehicles and Motor Cycles sector (34.5 per cent), the Manufacturing, Electricity, Gas, and Water supply (12 per cent) and the Accommodation and Food Service activities (8.5 per cent) sectors. Smaller shares of businesses are in the Transportation and Storage (6.8 per cent) and Building and Construction (4.9 per cent) sectors.

Figure 49 Relative shares of businesses in the five economic sectors represented in the survey, Bosnia and Herzegovina (2012)



Source: PRISM Research, Bosnia and Herzegovina

Another important structural characteristic is that most businesses in Bosnia and Herzegovina are comparatively small in terms of the number of employees: 93 per cent of all registered businesses in the five sectors covered have less than 10 employees, 5.4 per cent have between 10 and 49 employees, 1.35 per cent of all business have between 50 and 249 employees, while only 0.3 per cent of all businesses have more than 250 employees.³⁰ Despite the preponderance of very small business units, it should be noted that the relative importance of larger companies is far greater in terms of their contribution to GDP and total employment than their share in the number of businesses indicates.

³⁰ PRISM Research, Bosnia and Herzegovina.



Annex II: Methodology

Data presented in this report were collected in a national survey carried out as part of the EU-funded project “Assessment of Corruption and Crime affecting the Business Sector in the Western Balkans”. The project involved seven independently administered surveys, which were conducted autonomously by national partners in accordance with jointly developed survey tools and common methodological standards.

A core questionnaire was jointly developed and, after testing in a pilot survey, was adopted by each national partner. All surveys used face-to-face interviews, either PAPI or CAPI, for data collection.³¹ Along with the questionnaire, a complete set of common tools was specifically developed for this survey, such as guidelines for interviewers, a codebook and other operational tools for the fieldwork. At all stages, strict statistical standards, including measures for protecting data confidentiality, were followed so as to ensure the highest possible quality of data.

The field work was carried out by PRISM Research, between 22 October 2012 and 28 November 2012. PRISM Research organized the training of interviewers and supervised the whole data collection process from first contact to data entry. The net sample size was 1,997 businesses from the five main economic sectors, which together account for 66.8 per cent of all businesses in the country. The sample was stratified by entity (Federation of Bosnia and Herzegovina, Republika Srpska and Brčko District), by economic sector and four sizes of company (micro, small, medium and large).

The target population included active businesses of all sizes. The sample design used for this survey is a simple stratified random sample. The different strata from which the units were drawn refer to the five main economic sectors according to NACE Rev. 2 (Manufacturing, Electricity, Gas, and Water supply (sectors C, D, E); Building and Construction (sector F); Wholesale trade and Retail trade and Repair of motor vehicles and motor cycles (sector G); Accommodation and food service activities (sector I) and Transportation and storage (sector H)) and from 4 business size categories (micro (1-9

³¹ In Bosnia and Herzegovina a computer assisted personal interview (CAPI) method was applied. In CAPI surveys, interviewers are using PDA (Personal Digital Assistant) devices to read questions, answer choices and to record responses. The questionnaire flow is controlled by a specially designed software.

persons employed); small (10-49 persons employed); medium (50-249 persons employed) and large (more than 250 persons employed) companies).

The first rule taken into consideration for the sampling procedure was that a minimum number of 40 business entities (net) per business size and sector were to be selected for large and medium size businesses. In those sectors, where the number of large business entities (250+ employees) is smaller than 40, all units in the frame were sampled.

In the case of business entities with multiple business local units, the interview was to be addressed to the company's head office and all the questions in the survey referred to the entity's activities at all its business premises. One-man businesses (including self-employed) were generally excluded from the sample except where otherwise indicated.

Regarding the questions on victimization from crime, the five crime types covered in the survey are defined in the survey questions as follows:

1. Burglary: "has anyone broken and entered into any of the premises of your business entity in order to steal something without coming into contact with anyone in the premises (owners, employees or customers)"
2. Vandalism: "has any part of any buildings belonging to your entity, or to equipment, vehicles or stock belonging to your entity at its premises, been deliberately damaged? INCLUDE, for example, damage through force, arson or graffiti. DO NOT INCLUDE any damage as a consequence of other types of crime (e.g. breaking into the premises)";
3. Theft of vehicles: "have any motor vehicles (cars/vans/trucks/buses, or other motor vehicles) owned or leased by your entity, been stolen, when nobody was in the vehicle?"
4. Fraud by outsiders: "has any outsider, such as a customer, distributor or supplier, defrauded the business entity obtaining a financial advantage or causing a loss by implicit or explicit deception (e.g. customers deceive about their willingness to pay the agreed price; distributors and suppliers deceive about the quality or the quantity of goods /services delivered)? (INCLUDE fraud using electronic communication network or information system)"
5. Extortion: "has anyone tried to obtain money or any other benefits from the business entity by threatening and/or intimidating managers and/or employees working for your business entity, including threats to damage property or to damage/contaminate products or by offering informal "protection" against such damages?"

A summary of the characteristics of the survey in Bosnia and Herzegovina is provided in Table 3

Table 3 Key survey characteristics, Bosnia and Herzegovina (2012)

Survey characteristics	
Responsible agency	Prism Research, agency for social, media and marketing research.
Survey period	From 22 October 2012 to 28 November 2012.
Sample design	Stratified simple random sampling. The stratification was made according to business sector and number of employees. The sample frame was created from the database of registered business entities kept by New Market Consulting Company (NMC), subsidiary of Credit Bureau LRC, year 2011 (end of December 2011). The sample size was determined by proportional allocation, with oversampling when necessary and possible. Business entities that had no employees or were without data on the number of employees were classified as micro-companies. Non-response correction was carried out on the stratum level.
Respondent selection	The person primarily responsible for the management within the companies.
Data collection method	CAPI - Computer assisted personal interview.
Quality control measures	Logical control and consistency control of responses was done automatically through specific software. Approximately 10 per cent of questionnaires were back-checked by telephone. Data entry controls carried out through specific software at the time of data collection.
Net sample size	1,997
Response rate	52.3 per cent



Annex III: Main indicators

Table 4 Main indicators by sector, Bosnia and Herzegovina and Western Balkan region (2012)

Indicator	Economic sector					
	Manu- facturing	Constru- ction	Trade	Accom- modation	Transpor- tation	Total
Contact rate (Bosnia and Herzegovina)	61.7%	66.3%	64.2%	67.5%	72.1%	65.2%
Contact rate (Western Balkans)	66.8%	72.2%	72.0%	72.4%	76.4%	71.3%
Prevalence of bribery (Bosnia and Herzegovina)	6.2%	15.0%	9.9%	8.8%	11.1%	10.4%
Prevalence of bribery (Western Balkans)	9.2%	12.2%	10.3%	9.0%	9.9%	10.2%
Mean size of bribes (Bosnia and Herzegovina, in EUR-PPP)	578		266	211		327
Mean size of bribes (Western Balkans in EUR-PPP)	910		1,066	105		881
Prevalence of burglary (Bosnia and Herzegovina)	5.3%	5.8%	6.5%	3.7%	1.7%	5.8%
Prevalence of vandalism (Bosnia and Herzegovina)	1.6%	3.1%	2.3%	3.7%	1.2%	2.5%
Prevalence of fraud (Bosnia and Herzegovina)	5.1%	4.9%	8%	4.9%	7.6%	7.1%

Indicator	Economic sector					
	Manu- facturing	Constru- ction	Trade	Accom- modation	Transpor- tation	Total
Reporting rate of burglary to police (Bosnia and Herzegovina)	95.9%	96.0%	92.4%	81.2%	85.7%	91.9%
Reporting rate of vandalism to police (Bosnia and Herzegovina)	86.5%	41.7%	79.4%	66.0%	90.2%	72.9%
Percentage of businesses that use any kind of security measures	79.5%	56.5%	75.1%	61.4%	55.2%	70.1%
Percentage of businesses that have an insurance policy against crime	37.9%	25.4%	28.0%	27.3%	35.7%	28.2%

Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official. The annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies. Reporting rates for bribery refer to the last bribery experience in the 12 months prior to the survey, reported to official authorities; for other forms of crime, reporting rates refer to the last crime experienced in the past three years and reported to the police. EUR-PPP estimated on the basis of WIIW estimates.

Table 5 Main indicators by entity, Bosnia and Herzegovina (2012)

Indicator	Entity		
	Federation of Bosnia and Herzegovina	Republika Srpska	Total
Prevalence of bribery	13.2%	4.8%	10.4%
Prevalence of business-to-business bribery	2.0%	1.5%	1.7%
Prevalence of burglary	5.5%	7.3%	5.8%
Prevalence of vandalism	2.7%	2.4%	2.5%
Prevalence of fraud	8.1%	6.1%	7.1%
Reporting rate of burglary to police	89.7%	96.0%	91.9%
Reporting rate of vandalism to police	77.7%	62.0%	72.9%
Reporting rate of fraud to police	16.0%	21.0%	17.4%

Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official. The annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies. Reporting rates for bribery refer to the last bribery experience in the 12 months prior to the survey, reported to official authorities; for other forms of crime, reporting rates refer to the last crime experienced in the past three years and reported to the police.