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BUSINESS, CORRUPTION AND CRIME IN THE WESTERN BALKANS:

The impact of bribery and
other crime on private enterprise

2013

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PREFACE

This study offers a comprehensive assessment of corruption as experienced by businesses in the western Balkans, based on interviews with more than 12,700 companies. If not countered by strong preventive and law enforcement action, corruption and crime can act as a barrier to private and foreign investment as well as trade, and hinder economic development. By identifying areas of vulnerability, the study aims to support governments in the region to implement the United Nations Convention against Corruption and work effectively with the private sector to develop and put into action anti-corruption strategies and measures.

In order to provide guidance for public interventions and evidence-based policymaking that support the rule of law and fair markets, it is necessary to go beyond perception-based and general indicators of corruption and measure the actual experience of corruption and crime. This survey, which follows UNODC's 2011 survey of bribery and other forms of corruption as experienced by private households in the western Balkans, seeks to provide this tool.

Furthermore, building long-term capacity and promoting the sustainability of corruption monitoring instruments was an explicit goal of this undertaking. Quantitative monitoring of corruption and integrity – of the related

vulnerabilities but also the successes achieved in fighting corruption – needs to be carried out regularly and consistently so that policy makers have the necessary information to implement and evaluate anti-corruption measures.

A broad range of stakeholders in the western Balkans, ranging from anti-corruption agencies, law enforcement and criminal justice institutions to business organizations and chambers of commerce, were consulted during the preparatory phase of the survey. UNODC partnered with National Statistical Offices and other data producers, and involved national anti-corruption agencies, business organizations and others in the design of the survey as well as in the dissemination of the results, thereby helping to strengthen national capacities to produce evidence-based assessments of corruption and crime.

The study demonstrates that measuring corruption affecting the business sector is both possible and useful. It is also an excellent example of the work carried out by UNODC to support Member States in areas related to our mandate and expertise. UNODC's Regional Programme for South Eastern Europe (2012-2015) was recently launched at the request of, and in close partnership with, the countries of the region, to provide concrete assistance in addressing the challenges

identified and analysed through studies like this one.

I am confident that the findings will be of use to governments in the region, both to support their efforts to put in place effective preventive measures against corruption, and to facilitate preparations for their participation in the second review cycle of the Mechanism for the Review of Implementation of the Convention, which starts in 2015 and also focuses on preventing corruption.

I would like to commend all the participating countries for their active role in supporting the conduct of this study. Understanding the

patterns and mechanisms of corruption is a crucial step in countering this phenomenon, in line with the provisions of the United Nations Convention against Corruption, and our cooperation provides an excellent model for the future.

Yury Fedotov



Executive Director
United Nations Office on Drugs and Crime



EXECUTIVE SUMMARY

This survey of private businesses in the western Balkans reveals that corruption and other forms of crime are a great hindrance to private enterprise and have a negative effect on private investment in the region. 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 Wholesale trade and Retail trade sector. Meanwhile, the largest shares of bribes are paid to public officials at the local level (municipal or provincial officers) and to officials in the tax and customs administration, which indicates that bribery may be an important factor in tax evasion and thus exerts a negative impact on public finances.

Such experiences of bribery are reflected in the perception of corruption by the region's entrepreneurs and business representatives, who consider it the third biggest obstacle to doing business, after high taxes and complex tax laws. Yet while perceptions are undoubtedly useful for raising awareness about corruption, this survey measures the actual experience of corruption and crime through representative sample surveys of businesses in the western Balkans 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 some three quarters of all businesses in the region) in their frequent interactions with the public administration. It also examines business-to-business bribery within the private sector and looks at the impact of other crimes, some of which include the use of violence, on the business sector.

Roughly one in ten businesses (10.2 per cent) that had contact with a public official in the 12 months prior to the survey paid a bribe to a public official. This means that, although significant variations exist between countries across the region, the average prevalence of business bribery in the western Balkans is very close to the share of ordinary western Balkan citizens (12.5 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 7.1 bribes per year, or about one bribe every seven weeks. Both the prevalence and the frequency of brib-

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

ery are substantially higher among small (10 to 49 employees) businesses than among businesses of other sizes, while companies with foreign capital participation have a significantly higher bribery prevalence rate (16.6 per cent), as well as a higher frequency of bribery (8.1), than those with no foreign capital.

Over a third (35.7 per cent) of all the bribes paid to public officials by businesses in the western Balkans are paid in cash, at an average of 880 EUR-PPP per bribe. Food and drink (33.6 per cent) is the next most popular form of payment, followed by the provision of other goods in exchange for an illicit “favour” by the public official, which is responsible for more than a fifth (21 per cent) of all bribery cases in the region. The payment of money is particularly important in the Building and Construction (43.3 per cent) and Transportation and Storage (45.5 per cent) sectors, where it accounts for almost half of all bribe payments.

As for which party actually broaches the subject of kickbacks, in around 43 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 some 38 per cent of cases payment is either explicitly (13.8 per cent) or implicitly (23.8 per cent) requested by the public official. In a further 15 per cent of cases, bribes are paid after a third-party request.

The most common purpose for paying bribes cited by businesses is to “speed up business-related procedures” (40.3 per cent of all bribes). Other stated purposes are “receiving better treatment” (14.1 per cent) and “making the finalization of a procedure possible” (12.7 per cent). At the same time, as much as 18.1 per cent of 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.

The public officials who receive most kickbacks from business in the western Balkans are municipal or provincial officers, tax or revenue officers and customs officers. Some 28 per cent of businesses with recent corruption experience paid bribes to local government officials during the period surveyed, 27 per cent paid bribes to tax or revenue officers and 24 per cent to customs officers. Even if only a

portion of these bribes result in the evasion of taxes or customs fees, subsequent losses in public revenues caused by bribery will be substantial.

As little as 1.8 per cent of bribes paid by businesses are reported to official authorities, mostly to the police, which reiterates the “normality” of bribery by businesses in the region. This is reflected in the three main reasons cited for not reporting bribery: “it would be pointless to report it as nobody would care”; “giving gifts to public officials is common practice”; and “payment or gifts are made as a sign of gratitude to a public official”.

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 4 per cent the average prevalence of business-to-business bribery also constitutes a substantial problem across the region. 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. Indeed, bribery in the private sector 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. This is reflected in the fact that by far the most common purpose of business-to-business bribes is to gain an economic advantage over competing companies.

At less than 1 per cent, the share of business-to-business bribery incidents reported to relevant authorities is even lower than the share of reported bribery involving public officials. The main reason given by bribe-paying businesses for not reporting bribery is that by bribing a representative of another company, businesses receive a benefit (26.4 per cent, compared to 8.2 per cent who do not report the bribery of public officials).

Some 5.9 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, almost one in five businesses (18.8 per cent) in the region fall victim to fraud in various different guises over the course of a year and such businesses are victimized an average of eight times in that time period.

Annual prevalence rates for burglary (8.9 per cent) and vandalism (5.9 per cent) in the private sector are also significant, as are the average number of times businesses affected fall victim to those crimes (2.9 and 3.1, respectively).

Moreover, over the past 12 months some 0.7 per cent of all businesses in the western Balkans fell victim to extortion, a crime that can be linked to organized criminal groups. In roughly one in seven extortion cases (13.8 per cent), the perpetrators were suspected of being members of organized criminal groups, whereas in a little over a third of cases (34.5 per cent) the perpetrators were thought to be acting individually, and in another third (33 per cent) it was assumed that a rival business was involved.

In marked contrast to corruption, a larger share of conventional crimes (on average, 48 per cent for five crime types) is reported to the police by businesses in the region. A large majority of business representatives (70.5 per cent) consider that the crime risk for their company has remained stable in comparison to the previous 12 months, while one in six (16.3 per cent) think it is on the increase and 9.2 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 significant variations at the national level, an average of almost one in ten (9.1 per cent) entrepreneurs in the western Balkans state that they did not make a major investment in the previous 12 months due to the fear of crime.

Yet while eight out of ten (81 per cent) businesses in the western Balkans use at least one protective security system against crime, only

about a third of businesses 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 the western Balkan region. 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.

Business corruption can become a barrier to trade, investment and economic development



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 the western Balkans: bribery as experienced by the population*,² petty corruption remains a pervasive reality across the western Balkan region and has a significant impact on the interaction of private citizens with public officials in the seven countries/areas that make up the region.

In addition to their negative impact on private households, certain types of corruption can also have grave consequences for the business sector in general and the economic performance of affected economies in particular, 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.

The business climate of the western Balkan economies (the context of which is discussed

in detail in Annex I of this report) is often perceived by both domestic and foreign investors as seriously suffering from the impact of corruption and crime. Indeed, according to the 2012 Enlargement Strategy of the European Commission: "Corruption remains prevalent in most enlargement countries. Corruption undermines the rule of law, impacts negatively on the business environment and national budgets and affects citizens' everyday life in areas such as healthcare and education. The pervasiveness of corruption enables infiltration of organized crime groups into the public and private sector".³

Anti-corruption infrastructure and the fight against corruption

As the main international legal instrument on the issue, the United Nations Convention against Corruption (UNCAC) stipulates a comprehensive set of laws, institutions and actions to fight corruption. Taking their lead from the Convention, the western Balkan countries/areas have proceeded to adopt relevant legislation and implementing measures to fight corruption. For example, all countries/areas in the region have now established specialized law enforcement units or depart-

³ Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2012-2013, COM (2012) 600 final, p.5.

² UNODC, 2011.

ments for the fight against corruption and most have installed an independent Anti-Corruption Agency as encouraged by 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 a Review Mechanism to enable all parties to review their implementation of the Convention's 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.⁴ Furthermore, in a parallel process, each year the European Commission takes stock of the progress made over the previous 12 months by candidate and potential candidate countries for EU membership. Its 2012 Progress Reports paint a picture in which, despite important steps having been taken to strengthen the legal framework and adequate progress being made in some countries/areas, in the region as a whole there is considerable room for improvement in the implementation of anti-corruption policies.⁵

According to those Progress Reports, delays in the delivery and the implementation of strategies and sanctions are common in some of the countries/areas and political will to tackle the issue and improve institutional capacity requires further consolidation. As a result corruption remains widespread in their public

4 Countries of the western Balkans take part in the first cycle of the Implementation Review Mechanism according to the following schedule: Croatia (2010-2011), Montenegro and Serbia (2011-2012), the former Yugoslav Republic of Macedonia (2012-2013), Albania and Bosnia and Herzegovina (2013-2014).

5 Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2012-2013, COM (2012) 600 final, p.30-64.

sectors and in the interface between their public and private sectors. This has an adverse effect on the business environment and poses serious challenges to economic development.

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 in the western Balkans 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 in the region.

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 seven 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.⁶

Following the conclusion of the household surveys on bribery and corruption in the western Balkans and the publication of the survey 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

6 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>.

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 2011.⁷

In each country/area, UNODC worked with a national project partner to design and implement the business survey. In five countries/areas, UNODC partnered the respective National Statistical Office (NSO), which has the recognized technical capacity and expertise to conduct large-scale surveys of the business sector. In two, project partners were well-known research institutes with proven capabilities to conduct large-scale surveys on corruption and crime.

In order to obtain regionally comparable data on corruption and crime affecting the business sector, uniform survey instruments were developed. UNODC worked with project partners and other relevant stakeholders (including anti-corruption agencies, national chambers of commerce, business organizations and relevant ministries) to elaborate the most relevant questionnaire, guidelines for interviewers and other survey tools. The instruments and survey methodology were reviewed, tested and refined in a series of national stakeholder meetings, a regional technical workshop, small-scale pilot surveys in each project country and further consultations with national counterparts. A Technical Advisory Group supervised the process and provided expert inputs and advice.

From September to November 2012, seven national surveys dedicated to collecting data on corruption and crime affecting businesses were carried out in the project countries/areas. The sample size (between 1,500 and 2,000 businesses in each target country/area) makes the data representative of businesses in five main economic sectors⁸ and four sizes of com-

pany (micro, small, medium and large). In all countries, strict statistical standards, including measures for protecting data confidentiality, were followed so as to ensure the highest possible quality of data.

The main objective of the surveys 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 the western Balkan economies. 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.⁹

This regional report for the whole western Balkan region consolidates the results of those seven individual surveys (which will be published in seven individual reports). The objective is not to rank or grade countries/areas but to provide analytical insights into a hidden phenomenon, both at the regional and national level. It is hoped that the factual information provided in this report will constitute a useful tool for further strengthening anti-corruption policies and strategies across the western Balkan region and beyond.

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trade, Repair of motor vehicles and motor cycles; 4. Transportation and Storage; 5. Accommodation and Food service activities (hotels and restaurants)

7 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.

8 1. Manufacturing, Electricity, Gas, and Water supply; 2. Building and Construction; 3. Wholesale trade and Retail

9 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.

There are marked differences in the prevalence and frequency of business bribery in the region



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 the western Balkan region is much like anywhere else: more than seven out of ten (71.3 per cent) businesses across the region as a whole 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 all seven countries/areas and in all five business sectors surveyed. The rate of direct interaction varied from 66.8 per cent in the Manufacturing, Electricity, Gas, and Water supply sector to 76.4 per cent in the Transportation and Storage sector.

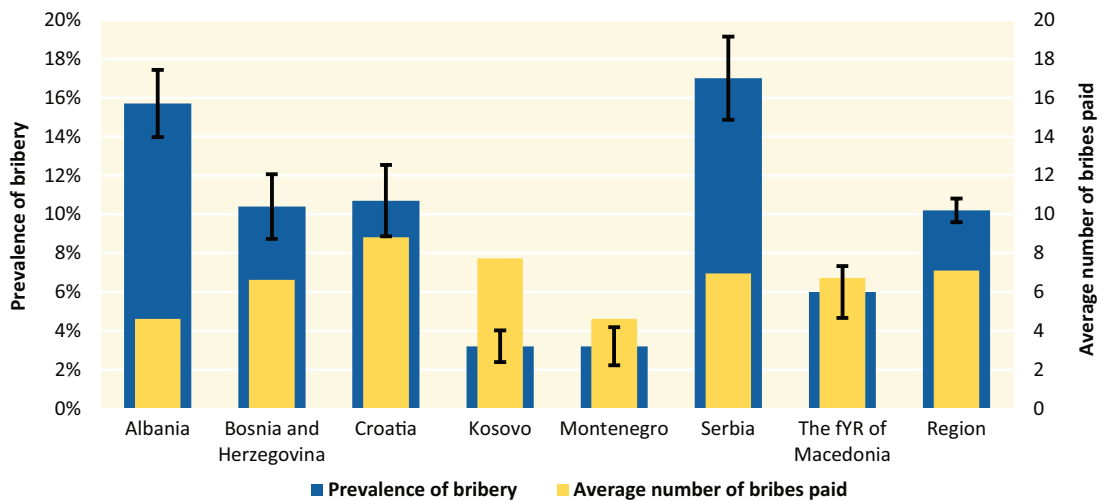
The overwhelming majority of interactions with public officials follow the rules and regulations applicable to the administrative proce-

dures 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 significant role in the interactions of private companies with the public sector in the western Balkan region.

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 the western Balkan region is 10.2 per cent, which means that roughly one in ten businesses in the region's 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.

As shown in Figure 1, however, significant

Figure 1: Prevalence of bribery and average number of bribes paid, by country/area (2012)

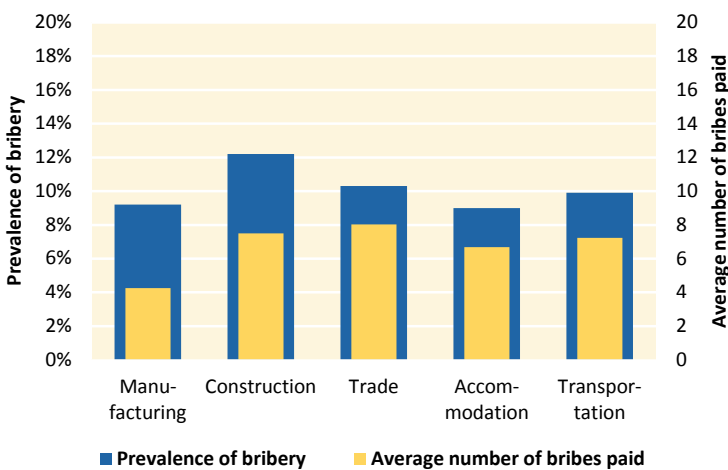


Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official. The average 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 for the prevalence of bribery at 95 per cent confidence level.

variations in the prevalence of business bribery do exist between countries/areas across the western Balkans. For example, at one extreme the figure reaches 17 per cent in Serbia and 15.7 per cent in Albania, and 3.2 per cent in Kosovo and Montenegro at the other extreme, while it is 10.4 per cent in Bosnia and Herzegovina, 10.7 per cent in Croatia and 6 per cent in the former Yugoslav Republic of Macedonia.

But prevalence of bribery alone does not provide the complete picture of the extent and severity of bribery in any given country/area or region. 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. At the regional level, bribe-paying businesses in the western Balkans paid an average of 7.1 bribes to public officials in that period.

Figure 2: Prevalence of bribery and average number of bribes paid in the western Balkan region, by economic sector (2012)

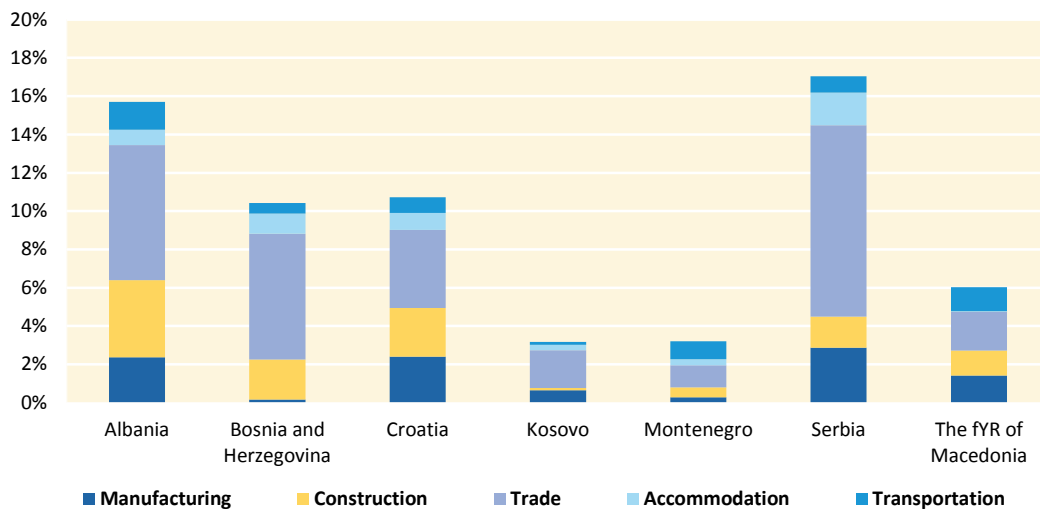


Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official. The average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

As illustrated in Figure 1, this indicator also shows great disparities between countries/areas, with some of those with a lower prevalence of bribery displaying a higher frequency of bribes, ranging from an average 4.6 bribes per year in Albania and Montenegro to almost 9 in Croatia.

The prevalence and frequency of bribery also vary across business sectors. Among the five sectors studied, Building and Construction has the highest bribery prevalence rate (12.2 per cent), followed by Wholesale trade and Retail trade (10.3 per cent) and Transportation and Storage (9.9 per cent). Manufacturing, Electricity, Gas, and Water supply (9.2 per cent) as well as Accommodation and Food service activities (9.0 per cent) have a somewhat lower bribery prevalence rate (Figure 2).

When looking at the frequency of bribery in each of these sectors, it appears that those with

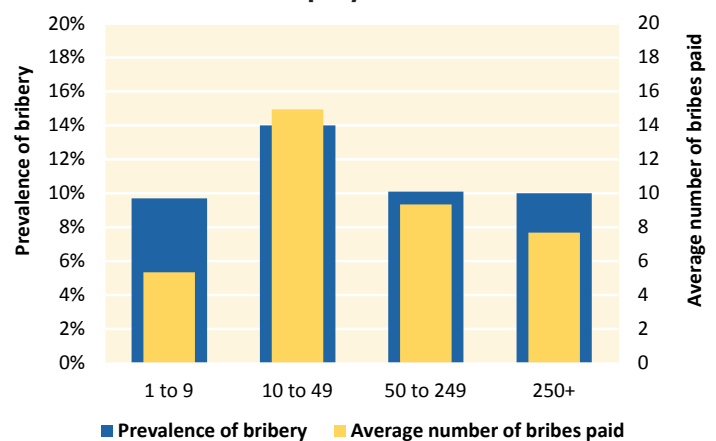
Figure 3: Distribution of bribery prevalence, by economic sector and by country/area (2012)

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.

higher bribery prevalence rates also display somewhat higher average frequencies of bribes paid (Figure 2). The average frequency of bribery varies between 4.3 per year in Manufacturing, Electricity, Gas, and Water supply and 6.7 in Accommodation and Food service activities and over 7 in Transportation and Storage (7.2), Building and Construction (7.5) and Wholesale trade and Retail trade (8.0).¹⁰

The variation in prevalence and frequency of bribery by economic sector has a direct influence on the overall prevalence and frequency of bribery at the national level. Figure 3 shows the underlying composition of the prevalence of bribery in the five economic sectors for each of the seven countries/areas of the region. Wholesale trade and Retail trade account for the largest share of national prevalence rates, due to the fact that they account for the largest share of businesses in western Balkan economies.¹¹

Another interesting pattern emerges when looking at prevalence and frequency of bribery by business size (number of employees). Both the prevalence and frequency of bribery are substantially higher for small (10 to 49 employees) businesses than for other business sizes (Figure 4). The frequency of bribery is also substantially higher for middle-sized (50-249 employees) businesses than for micro-businesses (up to 9 employees) and very large businesses (over 250 employees).

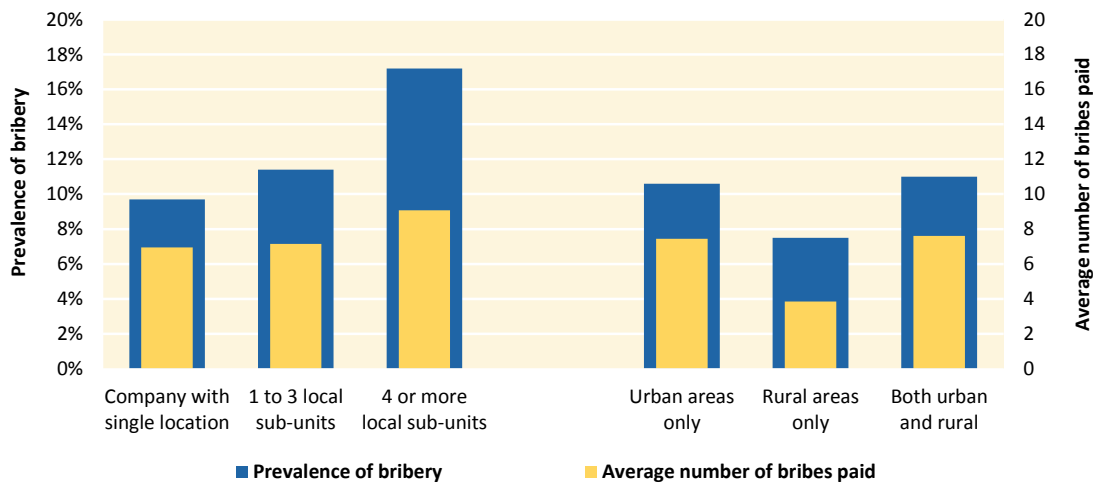
Figure 4: Prevalence of bribery and average number of bribes paid in the western Balkan region, by number of employees (2012)

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.

¹⁰ The variation in prevalence and frequency of bribery by economic sector has a direct influence on the overall prevalence and frequency of bribery at the national level. For example, if two countries have the same (above average) bribery prevalence rate in Building and Construction, the country with the relatively larger construction sector will have a higher overall prevalence rate. The same is true for the calculation of the overall frequency of bribery.

¹¹ See Annex I on the structure of the economies of the region.

Figure 5: Prevalence of bribery and average number of bribes paid in the western Balkan region, by number of local business units and urban/rural area (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 same phenomenon can be observed in almost all countries where these data are available and across most industries.¹² One possible explanation may be that very small businesses simply cannot afford to pay bribes in the first place. On the other hand, middle-sized 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.

Business location and premises

While most businesses in the western Balkans are rather small and operate out of just one single location, some companies have more than one set of premises.¹³ Some businesses have multiple production and distribution facilities, others have a number of retail outlets or may belong to a chain of companies under common ownership. As may be expected, the data show higher a bribery prevalence rate and a higher frequency rate for companies with four or more premises than for smaller companies (Figure 5). This pattern is more pro-

nounced in the Building and Construction and the Transportation and Storage sectors and may be related to the larger size, financial capacity to afford bribes, or simply the greater amount of interaction with public officials by companies with multiple business premises, which results in the increased likelihood of bribery occurring.

As shown in Figure 5, actual physical location and, more particularly, whether a company has premises located exclusively in urban areas, exclusively in rural areas, or in both urban and rural areas, has a significant influence on both the prevalence and frequency of bribery, with urban areas characterized by both higher prevalence and frequency rates. However, business with premises in both urban and rural areas have slightly higher prevalence and frequency rates, which is related to the fact that such geographically diverse businesses have a larger number of premises.

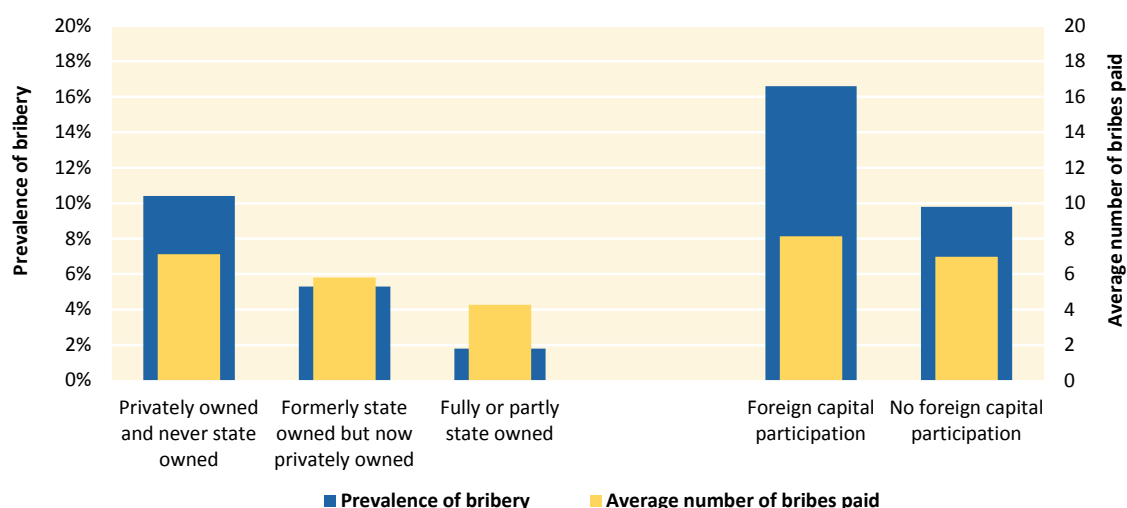
Public ownership versus private ownership

The data show that both the prevalence and the frequency of bribery are substantially higher among private companies (10.4 per cent) than fully or partly state-owned companies (1.8 per cent), while privately-owned companies that were formerly state-owned (5.3 per cent) are in an intermediate position

12 The small number of exceptions from this pattern actually observed may be due to a smaller number of observations of businesses of a certain size in a particular sector and country, which makes these exceptions statistically non-significant.

13 In the five sectors surveyed, 82.3 per cent of businesses had just one business premise, 16.7 per cent had more than one business premises and 0.8 per cent were the headquarter of a franchising company.

Figure 6: Prevalence of bribery and average number of bribes paid in the western Balkan region, by ownership structure and foreign capital participation (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.

in this comparison (Figure 6). It is also noteworthy that companies with foreign capital participation have a significantly higher bribery prevalence rate (16.6 per cent versus 9.8 per cent) as well as a higher frequency of bribery (8.1 versus 7.0) than those without foreign capital. Around 8 per cent of businesses in the five sectors surveyed have foreign capital participation, a share that is significantly lower in Building and Construction (4.6 per cent) and higher in Manufacturing, Electricity, Gas, and Water supply (11.6 per cent).

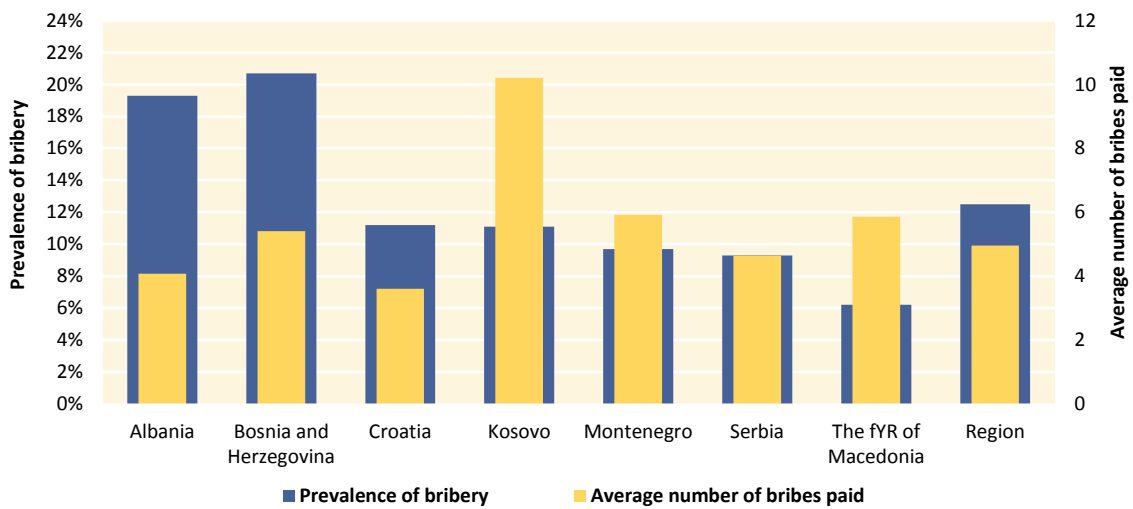
Comparison of bribe-paying businesses to bribe-paying private citizens

While direct comparisons between businesses and private individuals can raise difficult methodological issues, especially in relation to the size of businesses, a regional comparison of the prevalence and frequency of bribery provides a first indication that bribery is not uniform within countries and affects businesses and private households to different degrees. Figure 7 replicates prevalence and frequency rates by country/area that were found in UNODC's 2011 general population survey on corruption and bribery.¹⁴

When comparing the bribery prevalence and frequency rates of businesses with those of private individuals at the national level, two observations are worth noting. Firstly, while the average prevalence of bribery is higher for private individuals (12.5 per cent) than for businesses (10.2 per cent), the average frequency of bribery is higher for businesses (7.1) than for private individuals (5.0). This indicates that bribery by businesses is more concentrated among businesses (which more often pay bribes in relation to regular business transactions) than among private citizens. In this way, bribery becomes deeply embedded in the daily routine of bribe-paying companies in relation to certain business procedures (e.g. clearing goods through customs or obtaining permits from local authorities). Secondly, in some countries/areas, above-average bribery prevalence or frequency rates of businesses go hand in hand with above-average bribery prevalence or frequency rates of private individuals, while in others they do not correlate at all. This shows that businesses can be affected by bribery to different degrees than households, even within the same national context.

Companies with foreign capital participation have a higher risk of bribery than those without

¹⁴ UNODC, *Corruption in the western Balkans: bribery as experienced by the population* (2011).

Figure 7: Prevalence of bribery and average number of bribes paid by private citizens, by country/area (2010)

Note: Prevalence of bribery is calculated as the number of adult citizens (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 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.

Bribes paid by businesses are often paid in cash



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.

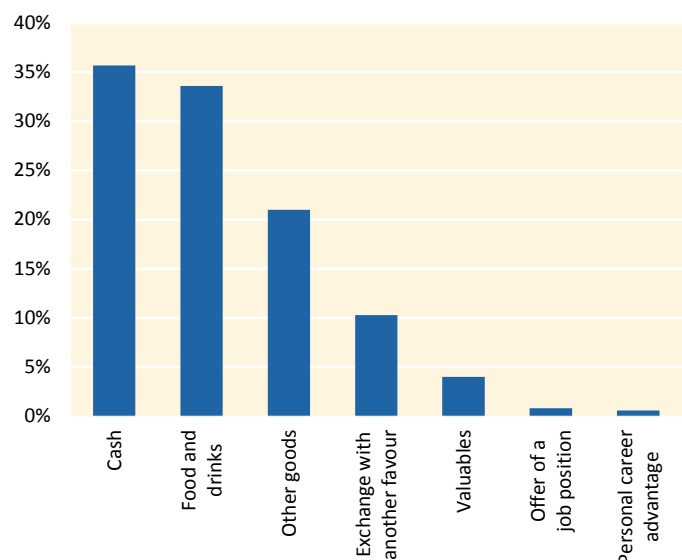
As shown in Figure 8, of all the bribes paid to public officials by businesses at the regional level, over a third (35.7 per cent) are paid in cash, followed by food and drink (33.6 per cent). Almost as important is the provision of other goods in exchange for an illicit “favour” by the public official, which is responsible for more than a fifth (21 per cent) of all bribery cases in the western Balkan region.

While all these forms of bribery involve an illicit material “transaction” between the public official and the bribe-paying business, about a tenth (10.3 per cent) of bribery cases takes place in the form of an exchange of one favour for another.

At the national level, there are clear differences in the importance of the various forms of bribe payment in the region. For example, some countries/areas have a bribe-paying pattern characterized by a high share of cash bribes, while in others goods are a more common form of payment to public officials

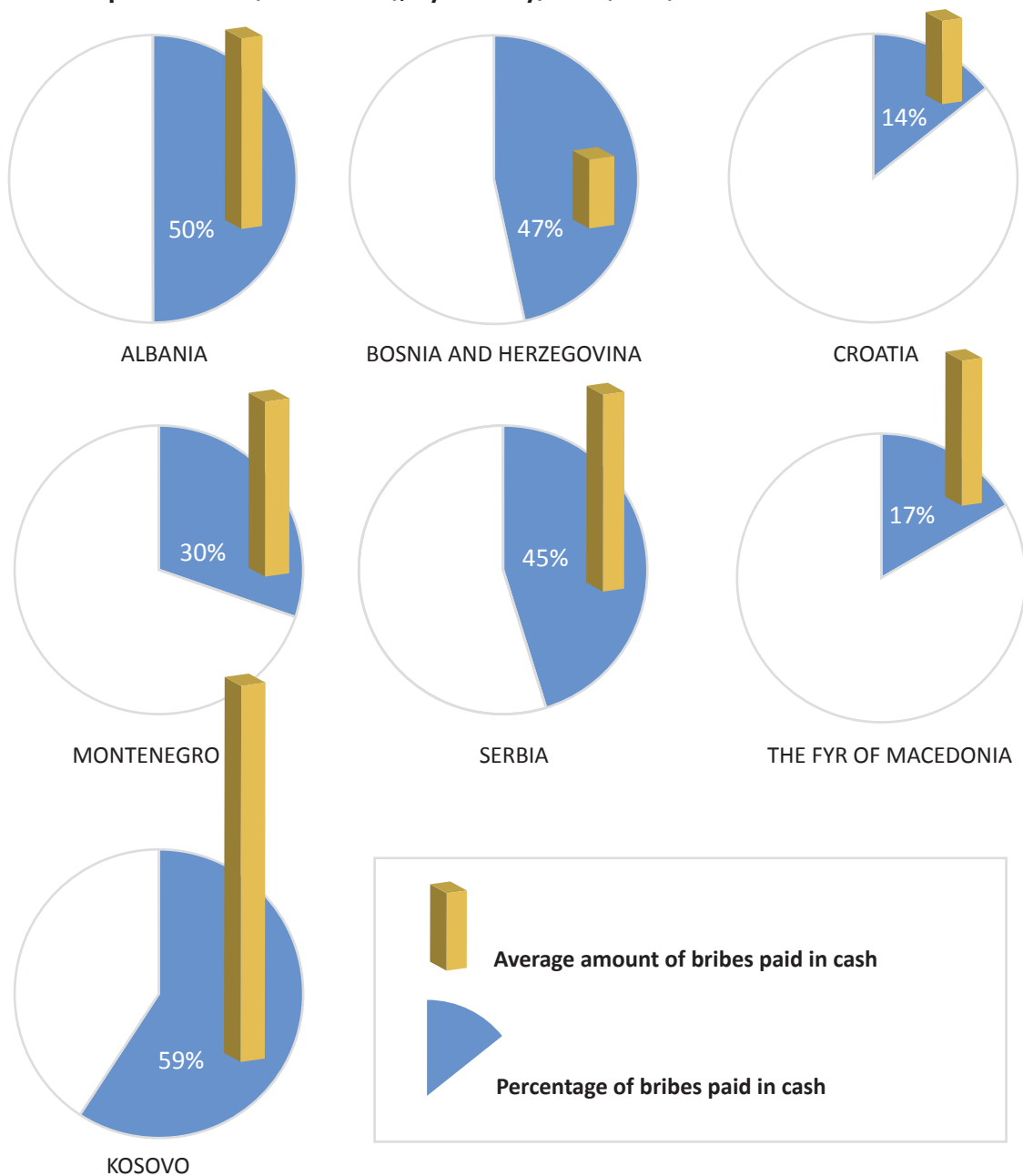
and, though some bribery cases involve both goods and money, in most cases only one form of payment is involved (Figure 9). This pattern may be related to the overall importance of cash payments, as opposed to wire transfers and other forms of money transactions, in the economies under study.

Figure 8: Percentage distribution of bribes paid by businesses to public officials, by type of payment, western Balkan region (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).

Figure 9: Percentage of cash bribes paid by businesses to public officials and average amount of bribes paid in cash (in EUR-PPP), by country/area (2012)



Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey. Sources for additional indicators: EUR-PPP conversion rates from Eurostat, EUR-PPP for Kosovo estimated on the basis of the Vienna Institute for International Economic Studies (WIIW) estimates for GDP/capita in EUR-PPP.

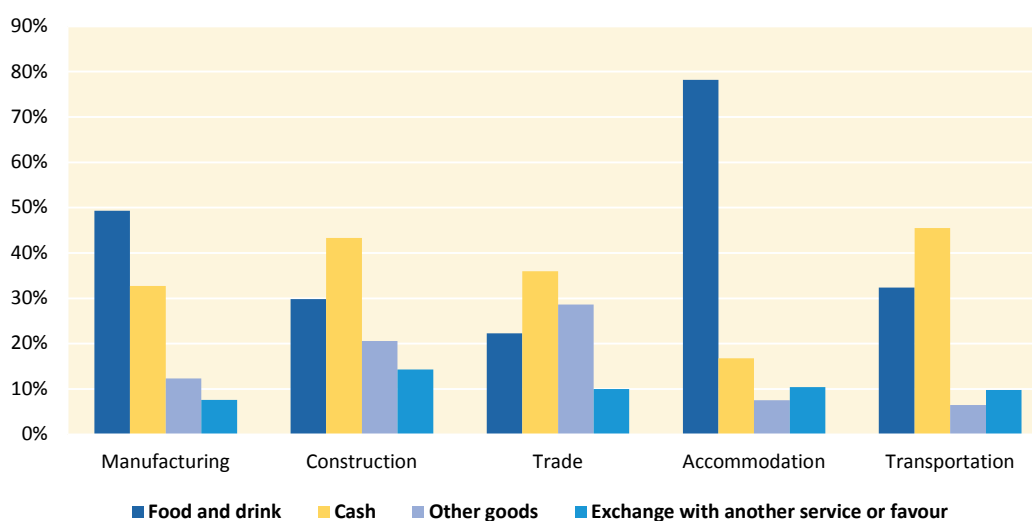
In the case of the business sectors under study, the payment of money is particularly important in Building and Construction as well as in Transportation and Storage, where it accounts for 43.3 and 45.5 per cent of all bribe payments, respectively, while in the Manufacturing, Electricity, Gas, and Water supply and the Accommodation and Food service activities sectors, the giving of food and drink accounts for 49.3 and 78.2 per cent

of all transactions. Providing other goods is particularly important in Wholesale trade and Retail trade, as well as in Building and Construction (Figure 10).

Bribes paid in cash

Differences not only exist in the relative importance of cash payments between countries/areas, but also in the size of bribes paid

Figure 10: Percentage distribution of bribes paid by businesses to public officials, by type of payment and economic sector (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).

by bribe payers. The mean amount paid per bribe in the region as a whole is 881 EUR-PPP,¹⁵ which is very close to the mean amounts paid in Albania (904 EUR-PPP), Montenegro (830 EUR-PPP), Serbia (935 EUR-PPP) and the former Yugoslav Republic of Macedonia (689 EUR-PPP). Mean amounts in Croatia (395 EUR-PPP) and Bosnia and Herzegovina (327 EUR-PPP) are significantly lower than in the other countries/areas, while the mean bribe paid in Kosovo (1,787 EUR-PPP) is almost double the regional average (Table 1). The median bribe paid in the region (317 EUR-PPP) is substantially lower than the mean, indicating the arithmetic influence of some very large bribes.¹⁶

At more than twice the average net monthly salary, the mean bribe paid in Kosovo is not only larger in absolute numbers than those paid in the other countries/areas of the region, but also in comparison to GDP per capita

(30.8 per cent of GDP/capita).¹⁷ Considering that most bribe-paying businesses in Kosovo prefer using cash payments (60 per cent) and the average number of bribes paid per year and per business is above the regional average (7.7), the total amount paid in bribes is also above average, even though Kosovo has the lowest prevalence rate in the region. This striking contrast between bribe size and Kosovo's relatively low bribery prevalence rate suggests that bribes are less a part of day-to-day life in Kosovo than elsewhere but are paid in larger amounts when the stakes are high for both bribe-payers and bribe-takers.

When looking at the average size of cash bribes paid by economic sectors it is noteworthy that Building and Construction has both an above-average share of cash payments and an above-average size of bribe payment (1,216 EUR-PPP), whereas the Transportation and Storage sector, which also has an elevated share of cash payments, has a relatively low average bribe size of 103 EUR-PPP (Figure 11). In the Wholesale trade and Retail trade sector, in which cash payments are as important as the giving of other goods, the average bribe amounts to 1,066 EUR-PPP and is significantly higher than the regional average. Even

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

16 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.

17 It is notable that the largest cash bribes in Kosovo are exclusively paid in the manufacturing and trade sectors.

Table 1: Average size of bribes paid in cash (in EUR and in EUR-PPP), as a percentage of GDP per capita and as a percentage of average monthly net salary, by country/area (2012)

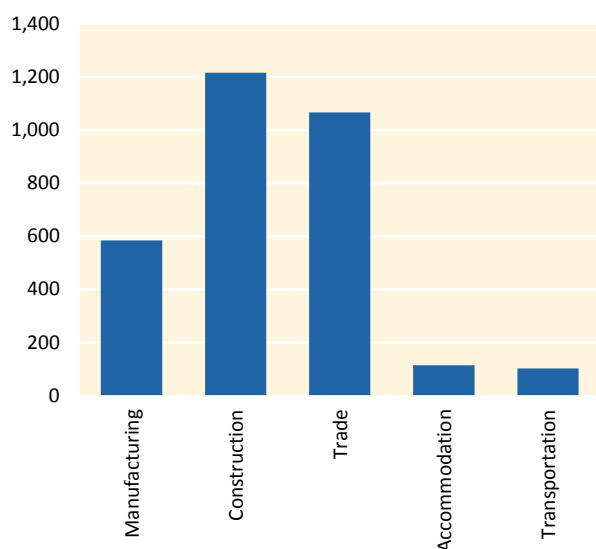
Countries/Areas							
Indicators	Albania	Bosnia and Herzegovina	Croatia	Kosovo	Montenegro	Serbia	The FYR of Macedonia
Mean bribe (EUR)	383	163	269	844	411	465	282
Median bribe (EUR)	143	102	36	500	200	177	130
Mean bribe (EUR-PPP)	904	327	395	1,787	830	935	689
Median bribe (EUR-PPP)	338	206	52	1,059	404	356	317
Mean bribe as % of GDP/capita	11.1%	4.3%	2.6%	30.8%	7.3%	10.6%	7.2%
Mean bribe as % of average net monthly salary (latest year)	152%	39%	37%	229%	86%	113%	82%

Sources for additional indicators: local currency exchange rates, EUR-PPP conversion rates, GDP per capita from Eurostat, WIIW and National Statistical Offices. EUR-PPP for Kosovo estimated on the basis of WIIW estimates for GDP/capita in EUR-PPP. Average monthly net salary taken from National Statistical offices.

though the Accommodation and Food service activities sector displays a completely different pattern in the distribution of bribe types than the Transportation and Storage sector, the average amounts paid are somewhat similar (114 EUR-PPP and 103 EUR-PPP, respectively).

Comparison of average bribes paid by businesses and private citizens

A comparison of the average size of bribes paid by businesses with the corresponding average size of bribes paid by private citizens, as found in UNODC's 2011 survey of administrative corruption and bribery in the western Balkans,¹⁸ shows that the regional average size of bribes paid by companies is more than three times that of private individuals (880 EUR-PPP versus 257 EUR-PPP). This is hardly surprising, given that businesses typically have a much higher financial capacity than households and often have more to gain through bribery related to their business transactions. This is a pattern that can be found in all countries/areas in the region with the exception of Croatia and the former Yugoslav Republic of Macedonia, where average bribes paid by private citizens are larger than those paid by businesses (Figure 12).

Figure 11: Average size of bribes paid by businesses to public officials (in EUR-PPP), by economic sector (2012)

18 UNODC, *Corruption in the western Balkans: bribery as experienced by the population* (2011).

Bribe-seeking modality and timing

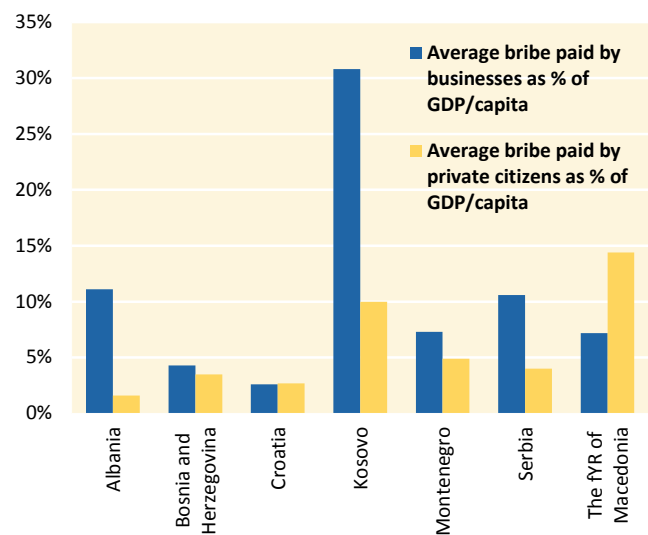
Data on the modality of bribery can provide an important insight into how the bribery of public officials by businesses actually works. The mechanisms of bribe-paying are often characterized by certain implicit patterns well known to both bribe-payers and bribe-takers that are based on the understanding 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 the western Balkans, the data show that businesses are often pro-active in influencing public officials through bribery. In about 43 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 about 38 per cent of cases payment is either explicitly (13.8 per cent) or implicitly (23.8 per cent) requested by the public official. In a further 15 per cent of cases, bribes are paid after a third party requests extra payment (Figure 13).

When comparing the modality of bribery by businesses to the findings on the modality of bribery by private citizens in the household survey, a striking similarity appears: when private citizens pay bribes to public officials, in 43 per cent of cases the citizen makes the offer, while in 14 per cent of cases the request is made explicitly by the official. In 31 per cent of cases the bribe is requested implicitly from the citizen and in 7 per cent through a third party.

It is also noteworthy that the widespread pat-

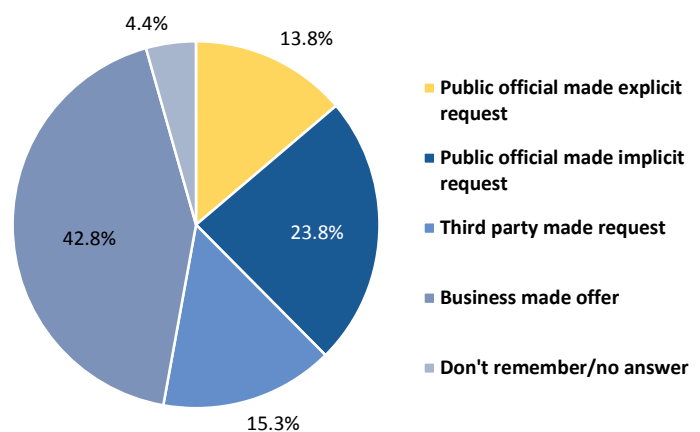
Figure 12: Average size of bribes paid by businesses and private citizens to public officials as a percentage of GDP per capita, by country/area (2010 - 2012)



Sources for additional indicators: local currency exchange rates, EUR-PPP conversion rates, GDP per capita from Eurostat, WIIW and National Statistical Offices. EUR-PPP for Kosovo estimated on the basis of WIIW estimates for GDP/capita in EUR-PPP.

tern of businesses pro-actively offering a bribe without a prior request being made is almost universal in the western Balkans, with two exceptions. Businesses offering bribes account for the majority of bribery cases in the former Yugoslav Republic of Macedonia (57.6 per cent), Croatia (55.6 per cent) and Montenegro (48.7 per cent) and for a significant share in Serbia (43.5 per cent) and Kosovo (38 per

Figure 13: Percentage distribution of bribes paid by businesses, by modality of bribe requests and offers, western Balkan region (2012)



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

cent), whereas they account for a minority in Albania (22.7 per cent) and Bosnia and Herzegovina (15.8 per cent). In the latter two countries, direct and indirect requests by public officials account for roughly two thirds of all bribery cases (Albania 63.6 per cent, Bosnia and Herzegovina 70.2 per cent). A very similar pattern of aggressive bribe taking was detected in the household survey in both Albania and Bosnia and Herzegovina, where direct and indirect requests by public officials accounted for 60 to 70 per cent of all bribes paid by private citizens.

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 endemic 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

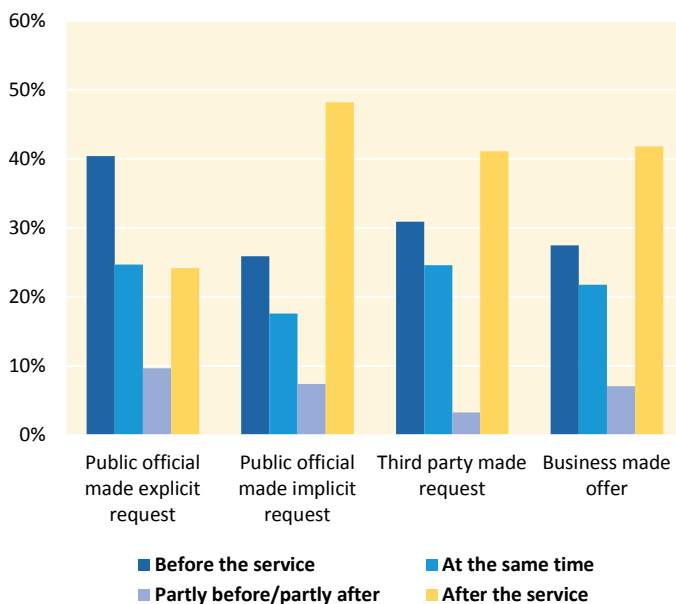
forward and report bribery, which should be encouraged through the opening of further channels for reporting bribery cases (such as anti-corruption hotlines). Conversely, if bribe payers proactively offer bribes to public officials to influence the provision of public services in their favour, legal reforms that outlaw the “grooming” of civil servants through regular “gifts” may be called for.

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 a 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, at the regional average, almost 40 per cent of all bribes are paid after the service is delivered, while roughly 29 per cent are paid before the service and 21 per cent at the same time. Some 7 per cent of bribes are paid partly before and partly after the service, while 4 per cent of respondents do not remember when the bribe was paid. There are, however, large disparities in the timing of bribe payments across the region. While more than half (53.3 per cent) of bribes in Bosnia and Herzegovina and over two fifths of bribes in Albania (40.8 per cent) and Montenegro (40.5 per cent) are paid in advance, this is the case in about a fifth (19.2 per cent) of all cases in Croatia and a quarter (25.7 per cent) in Serbia. In three countries, more than 40 per cent of all bribes by businesses are paid after completion of the procedure (Serbia: 46.1 per cent; Macedonia: 41.3 per cent; Croatia: 42.5 per cent), suggesting different national patterns of bribery.

The timing of bribery is also related to the type of bribery to which it relates. For example, food and drink are given more often after the service (46 per cent of cases) than money (38.5 per cent) or other goods (29.7 per cent). Likewise, there is also a relationship between

Figure 14: Percentage distribution of bribes paid, by timing of payment in relation to service delivery and by modality of bribe requests and offers, western Balkan region (2012)



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

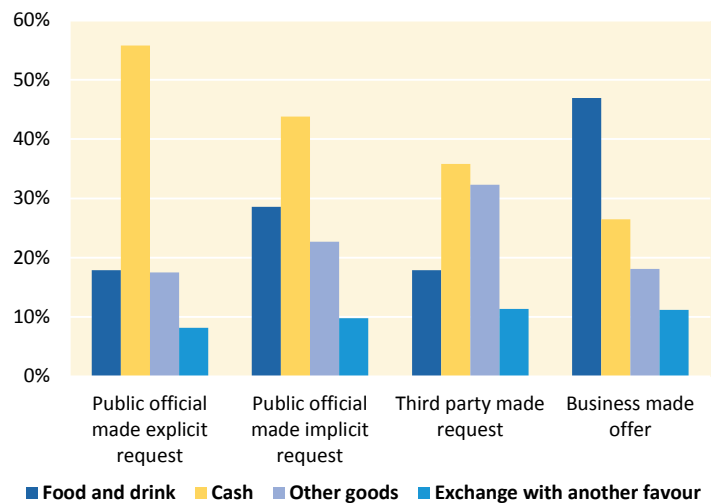
the modality of bribe payments and their timing. In the case of bribes explicitly requested by the public official, the majority of bribes are paid either before the service is delivered (40.4 per cent) or at the same time (24.7 per cent) rather than after the service (24.2 per cent). On the other hand, when bribes are offered to a public official by businesses, they are more likely to be paid after the service (41.8 per cent) than before (27.5 per cent) or at the same time (21.8 per cent) as the service. Interestingly, when bribes for which a public official made an implicit request are paid, roughly half of them (48.2 per cent) are paid after the service (Figure 14).

When it comes to forms of bribery, this is likely to depend both on the means available to the bribe-payer as well as on the expectations of the bribe-taker. 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 business) or other types of goods and services (especially in the retail and wholesale trade). The data show that in over half (55.8 per cent) of all bribery cases when officials explicitly request a bribe, the payment is made in cash, while this is the case for only around a quarter (26.5 per cent) of bribery cases in which the business offers the bribe in the first place. In more than a third (35.8 per cent) of bribery episodes in which a third party relates the request for a bribe, the payment is cash, while in around a third (32.3 per cent) of such cases payment is in the form of goods (Figure 15).

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

Figure 15: Percentage distribution of bribes paid, by type of payment and by modality of bribe requests and offers, western Balkan region (2012)



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

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.

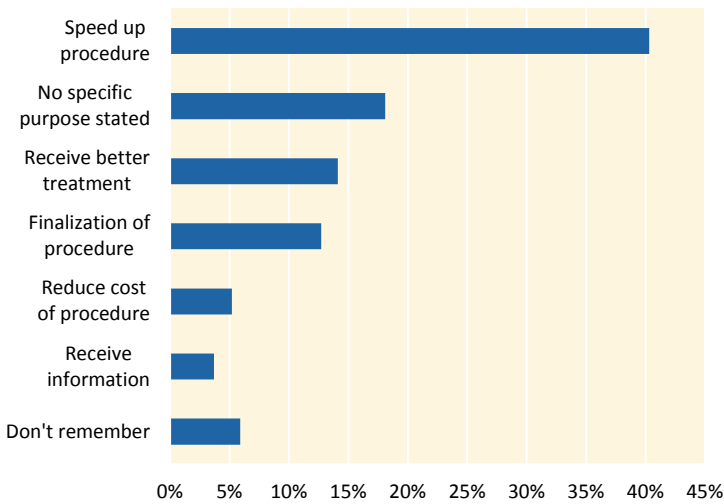
In the economic world, bribes may also be important for speeding up a variety of typically time-consuming and drawn-out procedures, such as obtaining utility connections (electricity or water), customs clearance of goods, obtaining certain types of authorization for production processes or speeding up 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.

From the perspective of businesses, by far the most important purpose of paying bribes is to

Bribes offered by businesses may aim to “groom” public officials for future favours

Figure 16: Percentage distribution of bribes paid, by purpose of payment, western Balkan region (2012)



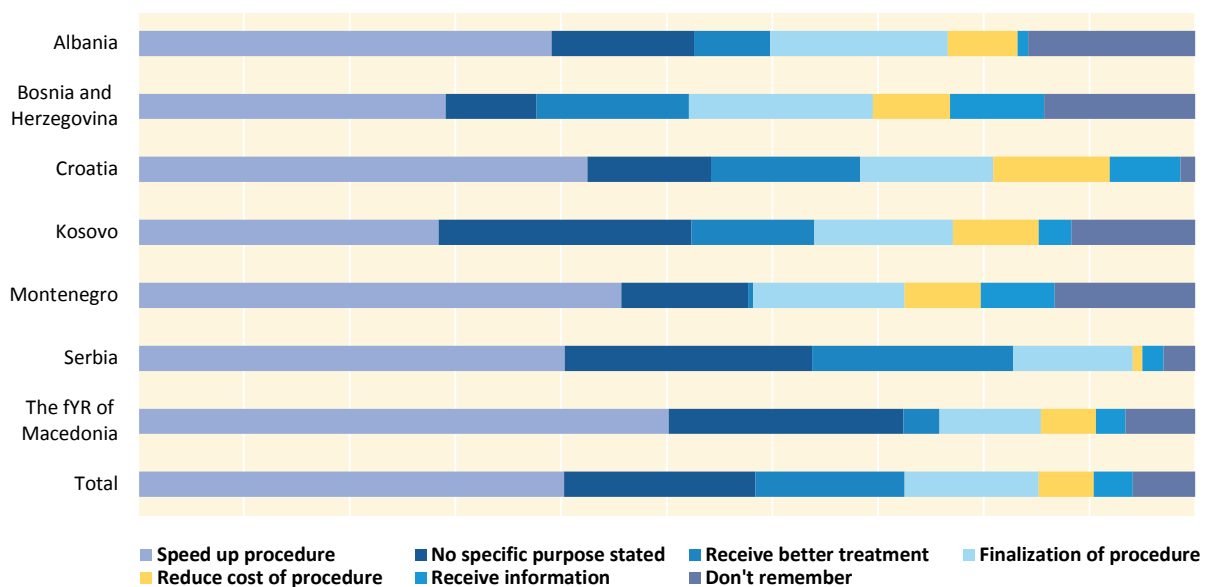
Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

“speed up business-related procedures” (40.3 per cent) that would otherwise be delayed. Other stated purposes of bribes paid are “receiving better treatment” (14.1 per cent) and making the finalization of a procedure possible (12.7 per cent). At the same time, as much as 18.1 per cent of 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 16).

Although speeding up administrative procedures is the most important purpose of bribery for businesses in all western Balkan countries/areas, accounting for between 30 and 50 per cent of all responses in each of them, the relative importance of this and other purposes of bribery vary considerably. For example, enabling the finalization of a procedure is the second most important motive in Albania (16.8 per cent), Bosnia and Herzegovina (17.4 per cent) and Montenegro (14.3 per cent), which suggests that bribes in those countries are often used to influence outcomes of administrative procedures, such as by overcoming negative administrative decisions. On the other hand, receiving better treatment is the second most important purpose in Croatia (14.1 per cent), after speeding up procedures, while Kosovo (23.9 per cent), Serbia (23.4 per cent) and the former Yugoslav Republic of Macedonia (22.2 per cent) have large shares of bribes paid that serve no specific purpose (Figure 17).

Figure 17: Percentage of bribes paid by main purposes of payment, by country/area, western Balkan region (2012)



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

The risk of bribery is highest in interactions with customs, police, municipal or provincial officers

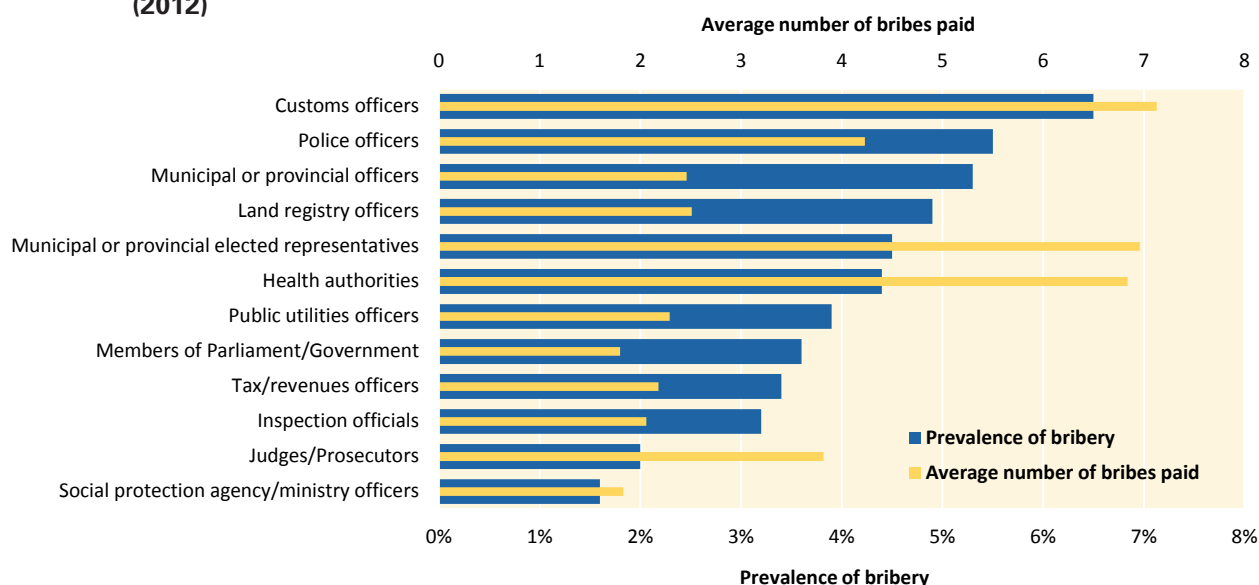


3. PUBLIC OFFICIALS AND BRIBERY

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 frequently 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 fre-

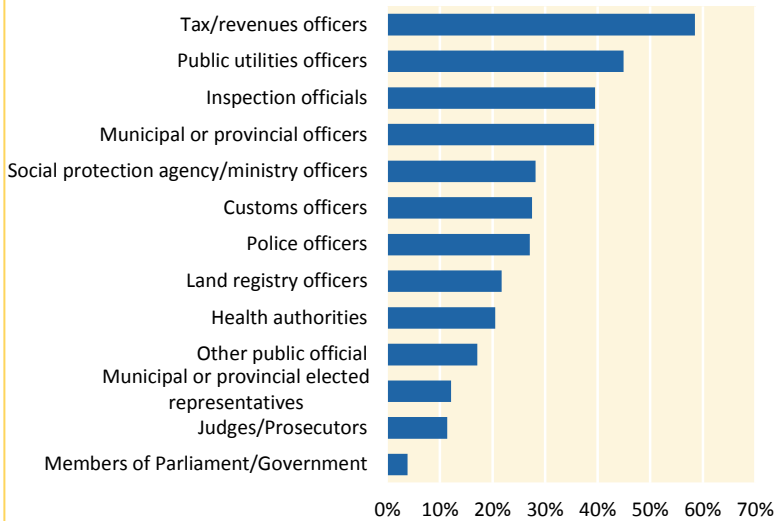
quency of interaction. To measure this, the number of businesses who paid a bribe to a selected type of public official is compared with the number of businesses who had contacts with that type of official in the 12 months prior to the survey: in other words, the prevalence of bribery to selected public officials by businesses (Figure 18).

Figure 18: Annual prevalence of bribery to selected public officials by businesses, and average number of bribes paid by bribe-paying businesses to those public officials, western Balkan region (2012)



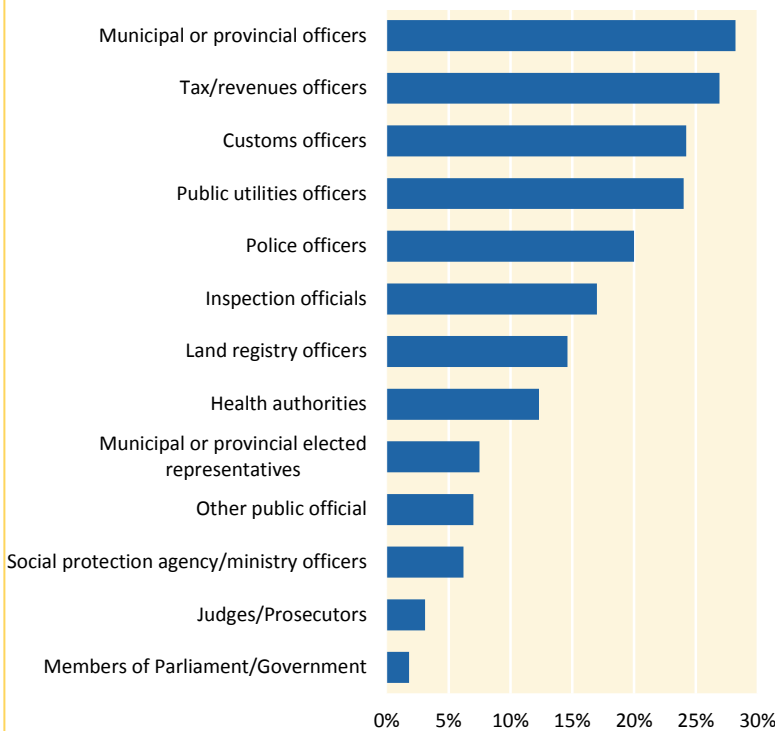
Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of all businesses who in the same period had at least one contact with a public official. In this chart prevalence of bribery is computed separately for each type of public official. The average number of bribes refers to average number of bribes given by all bribe-paying businesses, i.e. those who paid at least one bribe in the 12 months prior to the survey.

Figure 19: Percentage of businesses with contacts to selected types of public official during the course of a year, western Balkan region (2012)



Another important indicator of the extent of bribery in relation to selected public officials is the average number of bribes paid to them by bribe-paying businesses. In addition to prevalence rates, Figure 18 shows the average

Figure 20: Percentage distribution of bribe-paying businesses that pay bribes to selected types of public official, western Balkan region (2012)



Note: The sum is higher than 100 per cent since bribe-payers could have made payments to more than one public official in the 12 months prior to the survey.

number of bribes paid by businesses to selected public officials across the region.

The prevalence rate of bribes paid to public officials by businesses ranges from 6.5 per cent for custom officers to 1.6 per cent for social protection officers. Accordingly, not only is the likelihood of customs officers receiving a bribe from businesses greater than that of social protection officers, the average number of times that the former receive a bribe is also larger. While the latter receive an average of 1.8 bribes a year from each bribe-paying business, customs officers receive an average of more than 7.

However, as the pattern in Figure 18 shows, there is no direct link between the prevalence of bribery to any given public official by businesses and the average number of bribes the same official receives. On the one hand, this is due to the number of contacts an official has with businesses, while on the other it is due to the nature of the administrative procedures for which the official is responsible.

The most common procedure for which most officials receive a bribe depends on their function in the administration. The vast majority of businesses (88 per cent) that pay bribes to customs officers do so to clear goods through customs. For most businesses this is a procedure repeated several times in the year, thus it results in more interactions with customs officers and consequently more opportunities to pay a bribe. In contrast, 92 per cent of businesses that bribe public utilities officers do so in order to facilitate a utility connection, which due to its definitive nature is generally a one-off interaction between businesses and public officials, so the average number of bribes paid to public utilities officers is relatively small (an average of 2.3 bribes).

As mentioned earlier, the prevalence of bribery depends on two factors: the number of businesses who give money, a gift or counter favour to a public official in one year and the number of all businesses who in the same period have at least one contact with a public official. Figure 19 shows the disparity in contact rates with businesses between selected types of public official.

As shown in Figure 20, those officials with whom a large share of businesses have contact,

or who interact with the same business on several occasions, receive most bribes. According to the experience of businesses that paid at least one bribe in the 12 months prior to the survey, the public officials who receive most kickbacks in the western Balkans are municipal or provincial officers (28 per cent of business with recent corruption experience paid bribes to these local government officials), tax or revenue officers (27 per cent), customs officers (24 per cent) and public utilities officers (24 per cent).

In the case of customs officers, police and municipal or provincial officers, three of the five types of public official with the most frequent interaction with businesses also account for the highest bribery prevalence rates and consequently receive the greatest number of bribes. Customs officers, for example, have regular contact with businesses, have the highest prevalence of bribery and therefore account for a large number of bribes paid by businesses.

However, there are some positions in the public administration for which the frequency of interaction with businesses is certainly more limited but bribery experiences are still a recurrent problem. Officials in the upper echelons of the administration have fewer contacts to businesses but when they do they are not immune to corruption. This includes members of the government or parliament (prevalence of bribery: 3.6 per cent), other elected representatives (prevalence of bribery: 4.5 per cent) and officials in the judiciary (prevalence of bribery: 2 per cent).

Procedures and modality of bribes paid to particular types of public official

Mechanisms and modalities of bribe-paying vary considerably between different public officials and show distinct patterns with different policy implications. For example, in those public agencies where bribes regularly take the form of gifts, a strict regulation on gifts receivable by civil servants may be a deterrent to the acceptance of bribes, while curbing corruption in a public institution where bribes are typically paid in cash requires other anti-corruption measures.

There are often clear links between the type of procedures for which bribes are paid, and the type of public official involved. For example, for 48 per cent of businesses that bribe land registry officers, the procedure concerned is the issuing of building permits, while this is also the procedure concerned for 22 per cent of businesses that bribe municipal officers. For 46 per cent of businesses that bribe inspection officials, the main procedure relates to labour regulations.

As shown in Figure 21, for each type of public official a distinct pattern of bribery emerges with a specific combination of the form and timing of bribery, the purpose of bribery, its modality and purpose. For example, bribes paid to inspection officials are most often offered by businesses (62 per cent) and are mostly paid before an inspection (59 per cent) takes place. They are also mostly paid in kind (food: 58 per cent; other goods: 25 per cent) rather than in cash (11 per cent) and they are mostly paid to receive better treatment (52 per cent), whereas they are rarely paid to speed up the inspection (9 per cent).

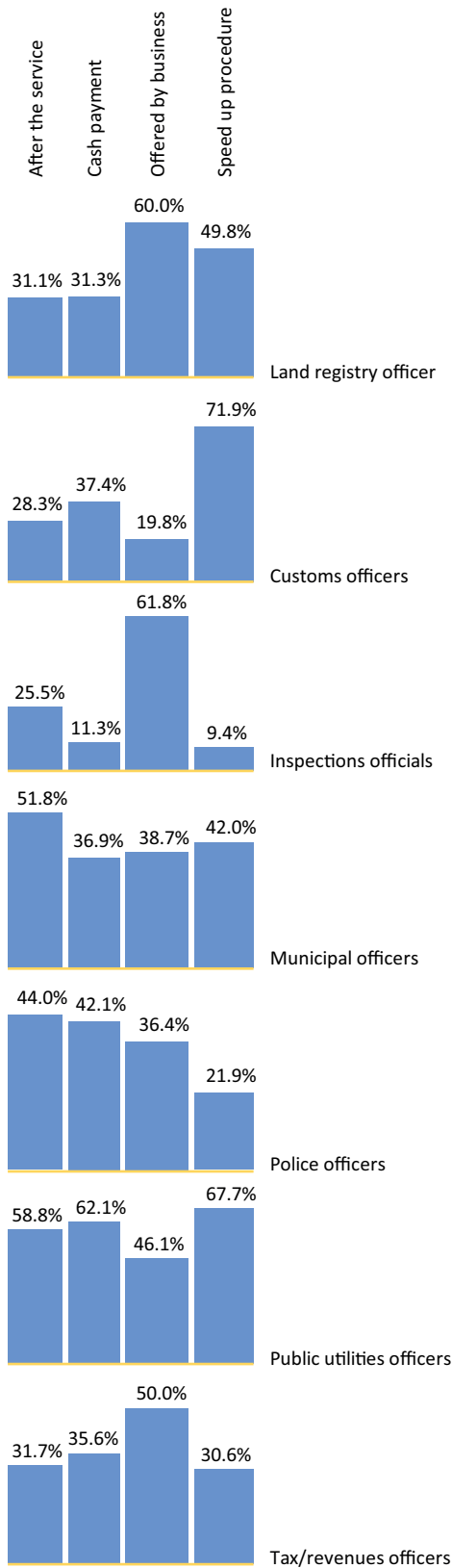
Distinct patterns of bribery can reveal differences in underlying motives and point to underlying administrative problems. While the pattern of bribery relating to inspection officials is typical for a situation in which businesses want to avoid sanctions for breaking official rules or regulations (such as labour regulations, health or environmental standards), other findings point to administrative bottlenecks. For example, the high share of businesses paying bribes to customs officers (72 per cent) and public utilities officers (68 per cent) with the purpose to speed up procedures may indicate problems with lengthy bureaucratic procedures (such as clearing goods through customs or getting a utility connection) that businesses want to overcome through the payment of bribes.

Bribes paid in cash

There are large disparities in the average size of cash bribes paid to different types of public official. Police officers receive an average cash payment of almost 1,600 EUR-PPP, mostly from businesses in the trade sector, and tax or revenue officers receive about 1,100 EUR-PPP, both clearly above the regional average of 880 EUR-PPP. Both types of official receive a

Municipal/provincial officers and tax/revenues officers receive the highest shares of bribes

Figure 21: Percentage of bribes paid to speed up a procedure, bribes offered by businesses, bribes paid in cash and bribes paid after service delivery, by selected types of public official, western Balkan region (2012)



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

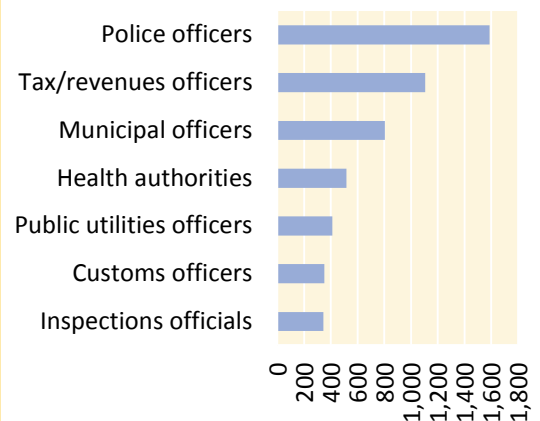
large share of their bribes in cash (police officers: 42 per cent; tax/revenue officers: 36 per cent), yet while 11 per cent of bribes paid to inspection officials are paid in cash, as are more than 60 per cent of bribes paid to public utilities officers, the average amount paid to inspection officials (343 EUR-PPP) and public utilities officers (412 EUR-PPP) are similar in size, and relatively low in comparison, to the average amounts paid to other public officials (Figure 22).

Comparison of bribe-paying businesses to bribe-paying households

Both private businesses and ordinary citizens are affected by bribery in their own interactions with public officials. At the same time, 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, health and police services are typically the sectors that ordinary citizens of the western Balkans report as being the most affected by bribery, while municipal, tax/revenue, customs and public utilities officers are those to whom business, but not private citizens, most often pay bribes (Figure 23).

Even though customs officers have far more interaction with businesses, the prevalence of bribery in relation to customs officers is basically the same for both businesses and citizens

Figure 22: Average size of bribes paid by businesses to public officials (in EUR-PPP), by selected types of public official, western Balkan region (2012)



(6.5 per cent versus 6.4 per cent). This is the highest prevalence rate for bribery by business, whereas bribery by ordinary citizens reaches 11.1 per cent in relation to police officers, 9.6 per cent to doctors and 6.2 per cent to nurses. Prevalence rates for other types of public official (municipal, land registry, tax and social protection officers) are similar, whereas prevalence rates in relation to public utilities officers and municipal elected representatives are higher than for citizens (Figure 24).

Apart from prevalence rates, the experience of businesses and the general population is quite different in regard to the average number of

bribes paid to public officials. For example, while bribe-paying citizens pay 3.6 bribes per year to customs officers, 2.6 bribes to municipal elected representatives, 2.8 to doctors and 3.3 to nurses, bribe-paying businesses pay bribes twice as often in the same reference period to the same type of public officials: 7.1 times to customs, 7.0 times to municipal elected representatives and 6.8 times to health authorities (Figure 25).

Figure 23: Percentage distribution of bribe-paying businesses and bribe-paying citizens who pay bribes to selected types of public official, western Balkan region (2010-2012)

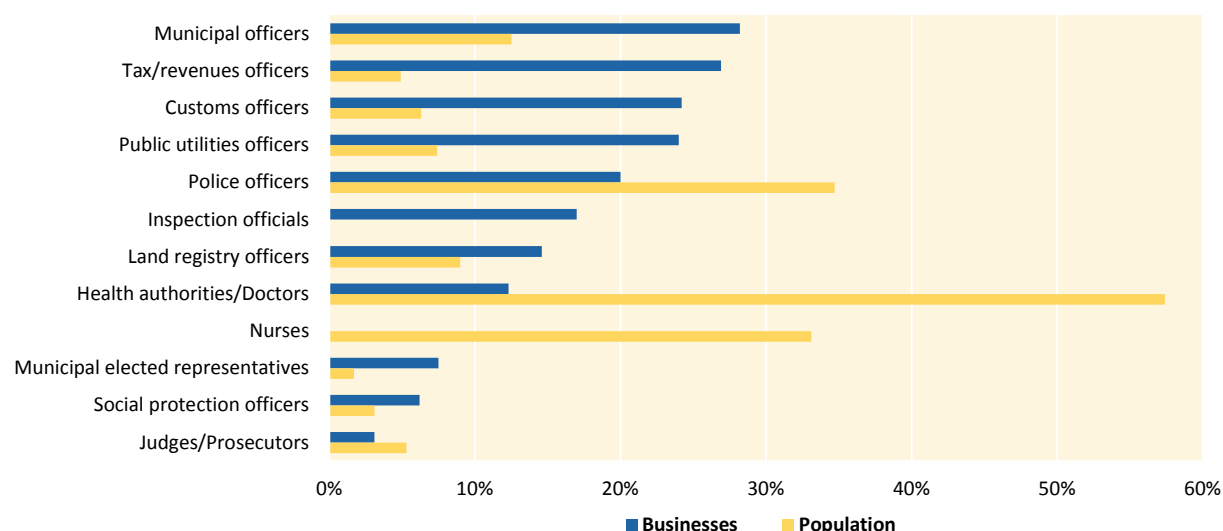


Figure 24: Prevalence of bribery to selected types of public official who receive the bribe, by businesses and the population, western Balkan region (2010-2012)

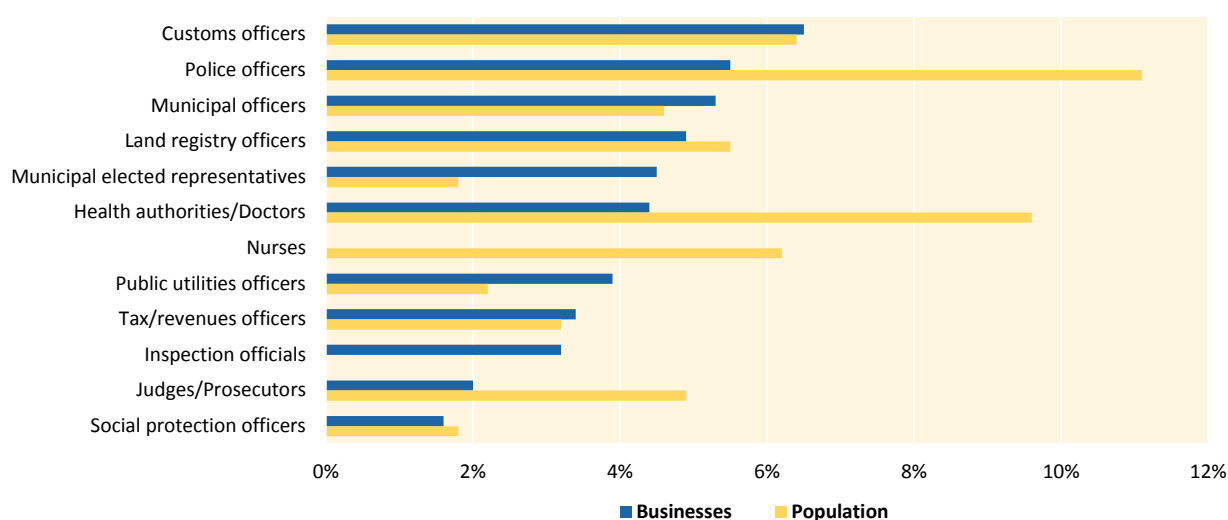
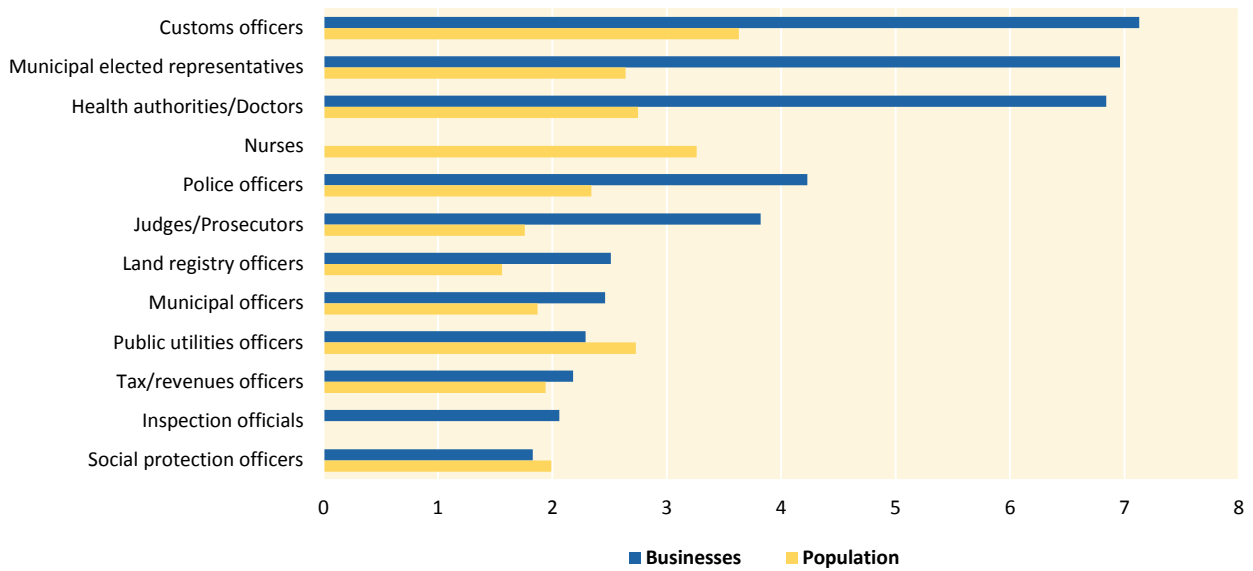


Figure 25: Average number of bribes paid to selected public officials by bribe-paying businesses and bribe-paying citizens, western Balkan region (2010 - 2012)



Less than two per cent of bribes paid are reported to public authorities



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 business also pay bribes.

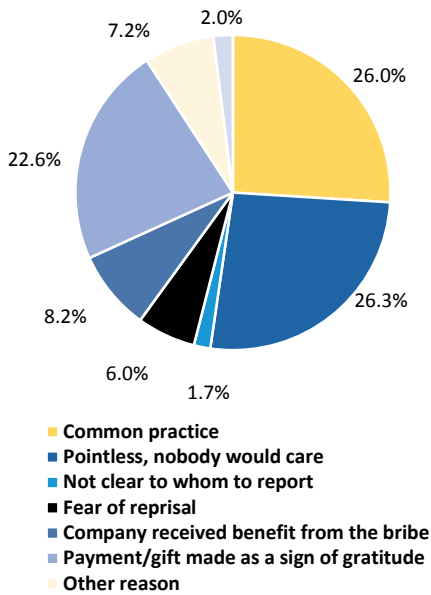
In the real world, however, such obvious incentives to report bribery to the authorities rarely translate into action. According to the results of this survey, only 1.8 per cent of bribes paid by businesses in the western Balkans are reported to official authorities. Most of them are reported to the police but some are also reported to other official institutions,

such as the prosecutor’s office or official anti-corruption agency, though official anti-corruption hotlines do not appear to be used frequently. A further 0.3 per cent of bribes paid are reported to other non-official institutions, such as non-governmental organizations or the media.

Survey data on subsequent action once bribes are reported to an official authority or non-official institution are inconclusive. It appears that a formal procedure is started in only a minority of cases, while in many others there is no follow-up by competent authorities, or respondents indicate that the problem is solved informally. Such mixed results on the outcome of reporting corruption cases may be part of the reason why the overwhelming majority of bribery cases are not reported in the first place.

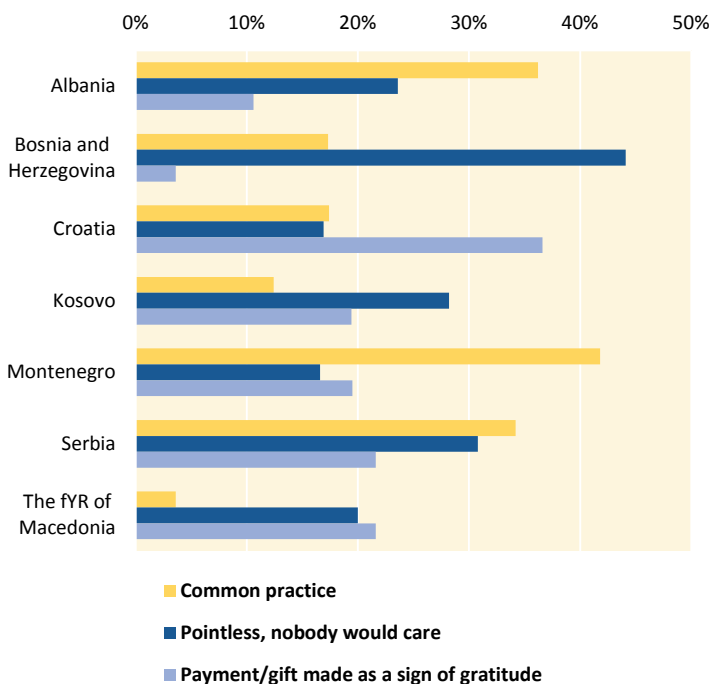
Given that only a small percentage of businesses turn to official authorities in order to file a complaint about corrupt officials accepting bribes, when, in theory, businesses have good reasons for denouncing bribery, the question of why they do not report bribery becomes paramount. The data show that in the western Balkan region the three most important reasons for not reporting bribery are the perception that it would be pointless to report it as nobody would care about it (26.3 per cent); that there is no need to report

Figure 26: Percentage distribution of bribe-paying businesses not reporting their experience to authorities/institutions, according to the most important reasons for not reporting, 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.

Figure 27: Percentage of bribe-payers not reporting their personal corruption experience to authorities/institutions, according to their most important reasons for not reporting, by country/area (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.

bribery as it is common practice to pay or give gifts to public officials (26.0 per cent); and that payment or gifts are made as a sign of gratitude to the public servant (22.6 per cent). Other reasons, such as the fact that the company may have received a benefit from the bribe (8.2 per cent), fear of reprisals (6 per cent) or lack of knowledge about where to report corruption (1.7 per cent) are far less important (Figure 26).

Although the regional average provides a good summary of the most pertinent reasons why most businesses do not report bribery experiences in the western Balkans, national level data reveal a significant variation in the relative importance of each of these factors. For example, in some countries/areas the most important reason for not reporting bribery is that it is perceived to be “common practice” (Montenegro: 41.8 per cent; Albania: 36.2 per cent; Serbia: 34.2 per cent), while in others the most important factor is the belief that nobody would care (Bosnia and Herzegovina: 44.1 per cent; Kosovo: 28.3 per cent; the former Yugoslav Republic of Macedonia: 20.0 per cent). In Croatia, over a third (36.6 per cent) of business representatives consider the payment or gift merely a sign of gratitude to a civil servant, which in the eyes of the bribe payer does not need reporting (Figure 27).

The fact that so many business representatives question the point of reporting corruption incidents to public authorities reveals a lack of faith in the accountability of public institutions in general. This is confirmed by the majority (53.5 per cent) of respondents, who 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.¹⁹ This share rises to around 60 per cent for Bosnia and Herzegovina, Croatia and Serbia (Figure 28).

Internal compliance mechanisms

Despite the fact that very few businesses representatives consider the lodging of a formal complaint to the authorities worthwhile and

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

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 businesses 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 the western Balkans, such internal compliance mechanisms are increasingly widespread, while being far from universal. According to the survey, roughly four in ten (41.4 per cent) companies in the region have adopted an internal code of ethics, and nearly a quarter (23.1 per cent) have adopted policies and guidelines concerning bribery and corruption or have organized dedicated meetings to inform employees of their existing anti-corruption guidelines and policies (22.3 per cent).

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 29, the adoption of a code of ethics, dedicated anti-corruption 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 the western Balkans, 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 28: Percentage distribution of business representatives according to whether they consider complaints about public administration worthwhile, by country/area (2012)

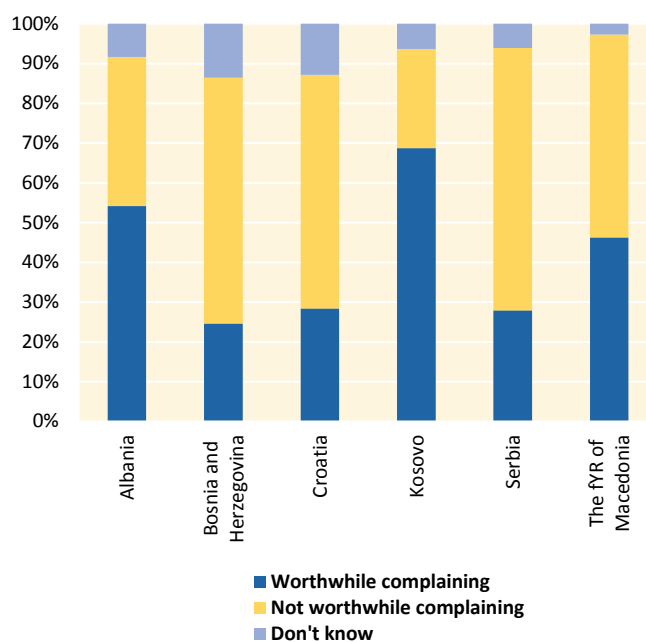
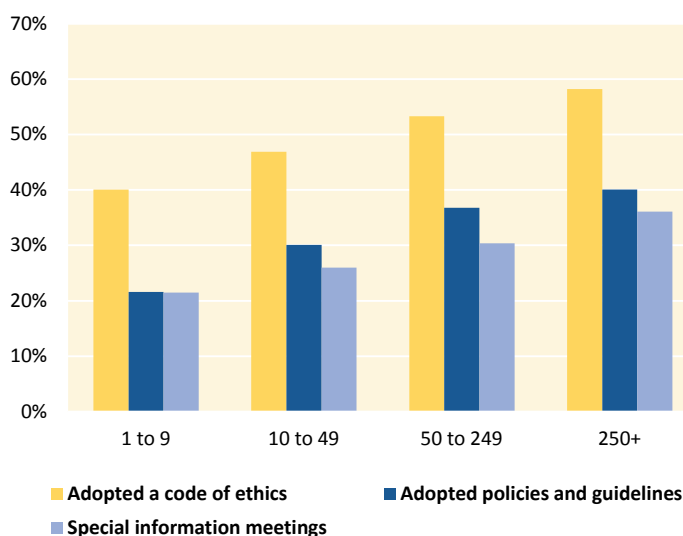


Figure 29: Percentage of businesses that have adopted an internal code of ethics, by number of employees, western Balkan region (2012)



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

Bribery within the private sector is often aimed at gaining an unfair advantage over competitors



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.²⁰

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

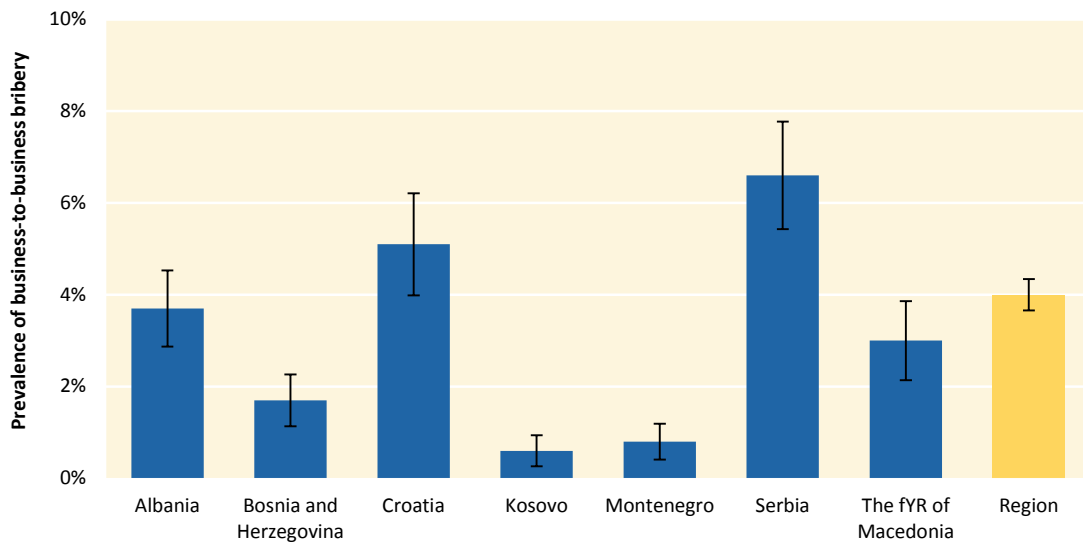
of the bribe-taker in exchange for a bribe. This is a form of bribery that obstructs the beneficial mechanisms of the free market and is not only detrimental to businesses whose representatives accept bribes, but also to society as a whole. The prevalence of business-to-business bribery is calculated 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.²¹ As shown in Figure 30, according to this definition the average regional prevalence of business-to-business bribery in the western Balkans amounts to 4 per cent. Although less than the average prevalence of bribes paid by businesses to public officials in the western Balkans, this finding indicates that private sector bribery constitutes a substantial problem across the region.

Opportunities for individuals in private sector entities to engage in illicit dealings with other private sector businesses vary across economic sectors. For example, individual business rep-

21 Since all businesses can be assumed to have regular contact with other businesses, or at least one contact over the past 12 months with another business either as supplier or client, the prevalence is calculated as the share of bribe-paying businesses out of all businesses. The bars in Figure 30 indicate the confidence interval at 95 per cent confidence level.

20 Article 21 UNCAC.

Figure 30: Prevalence of bribery among private sector business entities, by country/area (2012)



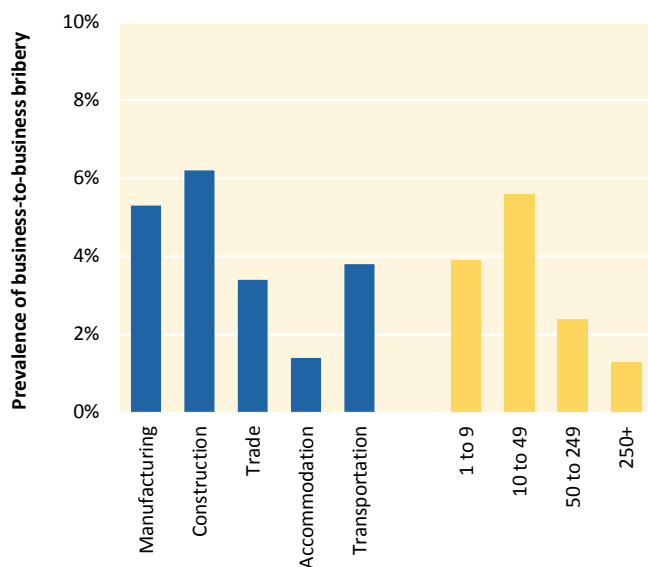
representatives may accept offers of contracts whose costs exceed current market prices in return for a personal kickback, or individual employees with access to confidential information may reveal this information to other businesses in return for a personal benefit. The data indicate that such private sector bribery episodes are more common and have higher prevalence rates in Building and Construction (6.2 per cent) and Manufacturing, Electricity, Gas, and Water supply (5.3 per cent) than in Transportation and Storage

(3.8 per cent) and Wholesale trade and Retail trade (3.4 per cent) and have the lowest prevalence in Accommodation and Food service activities (1.4 per cent). As in the case of public sector bribery, prevalence rates are highest in small (10 to 49 employees) companies (5.6 per cent) and lowest in large companies (over 250 employees; 1.3 per cent), as shown in Figure 31.

While larger companies with more employees do not have higher private sector bribery prevalence rates, it is notable that companies with more than one business location have a prevalence rate that is more than double the rate of companies with only a single business location (7.0 per cent versus 3.4 per cent; Figure 32), which may be due to the greater number of interactions with other businesses required by companies that cover a broader cross section of the production chain (e.g. from production to manufacturing and retailing).

As in the case of the bribery of public officials, companies with foreign capital participation in the western Balkans have prevalence rates that far exceed those of companies with no foreign capital participation (8.3 per cent versus 3.2 per cent). It can be speculated that companies with foreign capital try to make up for a lack of a local economic network with illicit personal incentives for representatives of other businesses or, conversely, that they are perceived as more vulnerable by potential bribe-takers and therefore more often targeted for bribes.

Figure 31: Prevalence of bribery among private sector business entities, by economic sector and number of employees, western Balkan region (2012)



Forms of payment

As in public sector bribery, bribes may be paid 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 the western Balkans, food and drink as well as money are important forms of bribe payment among private sector entities, as they are between businesses and public officials. At the same time, the exchange of one favour for another favour plays a much more important role when it comes to illicit dealings among business representatives (Figure 33).

When bribes between representatives of two different businesses are paid in cash, the amounts involved are typically larger than in public sector bribery. The mean amount paid in business-to-business bribery in the region as a whole is 1,702 EUR-PPP or almost twice the mean amount of bribes paid to public officials (881 EUR-PPP).²²

The economic sector to which the business paying the bribe belongs also has an important impact on forms of bribery between private businesses. As expected, food and drink plays an important role in the Accommodation and Food service activities sector, as well as in the Transportation and Storage sector, though, surprisingly, money plays an even larger role in the Accommodation and Food service activities sector and a significant role in Transportation and Storage. The exchange of one favour for another is the most important form of private sector bribery in Building and Construction, as well as in the Manufacturing, Electricity, Gas, and Water supply sector, and also plays a certain role in the Wholesale trade and Retail trade sector (Figure 34).

Bribe-seeking modality and timing

According to the survey, over half (50.4 per cent) of bribes in business-to-business bribery are paid without a request from the business counterpart and are offered instead by the bribe-payer in order to obtain a certain illicit advantage (e.g. to facilitate or accelerate a pro-

²² The median business-to-business bribe paid in the region is 1,422 EUR-PPP, which is close to the mean bribe size. This indicates that, while 50 per cent of all bribes are higher than the median value, very few bribes are either well above or well below the mean.

Figure 32: Prevalence of bribery among private sector business entities, by ownership structure and number of business locations, western Balkan region (2012)

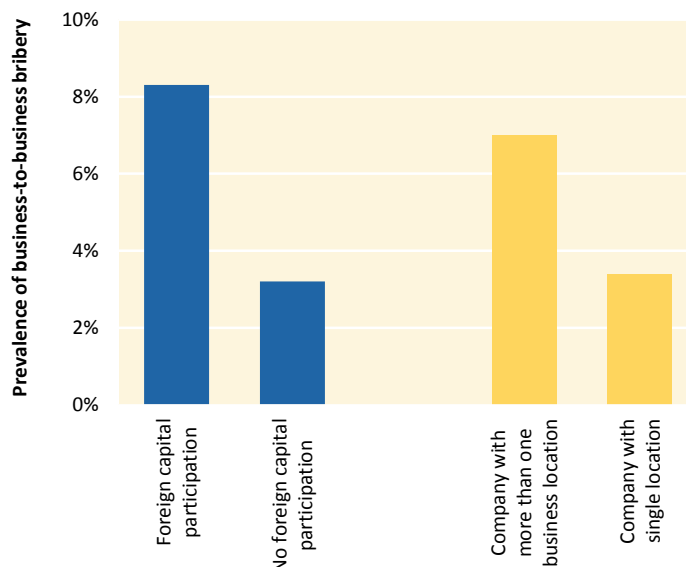
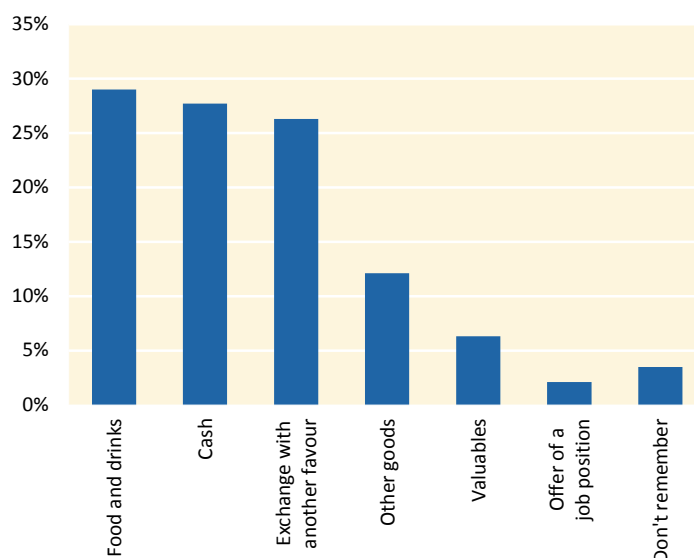


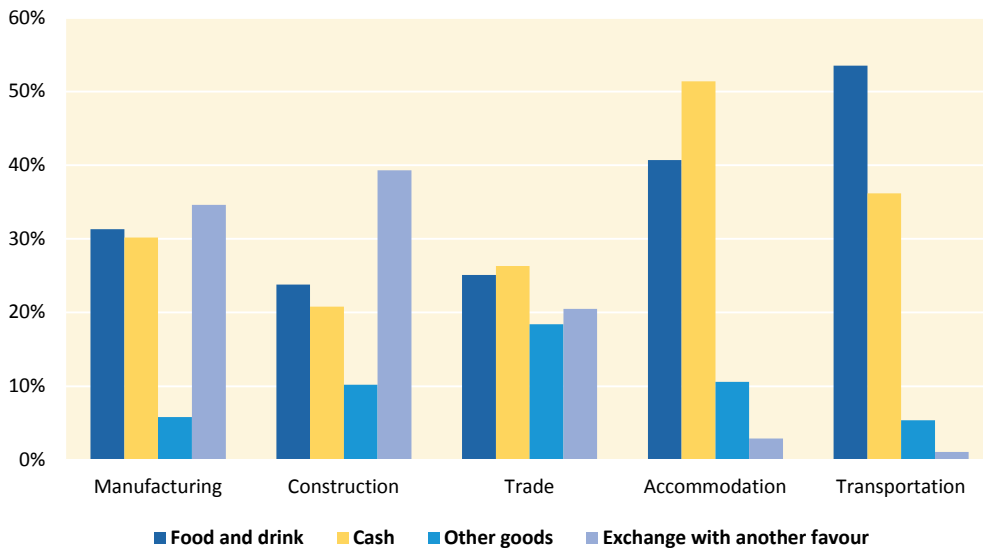
Figure 33: Percentage distribution of bribes paid by businesses to private sector business entities by type of payment, western Balkan region (2012)



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).

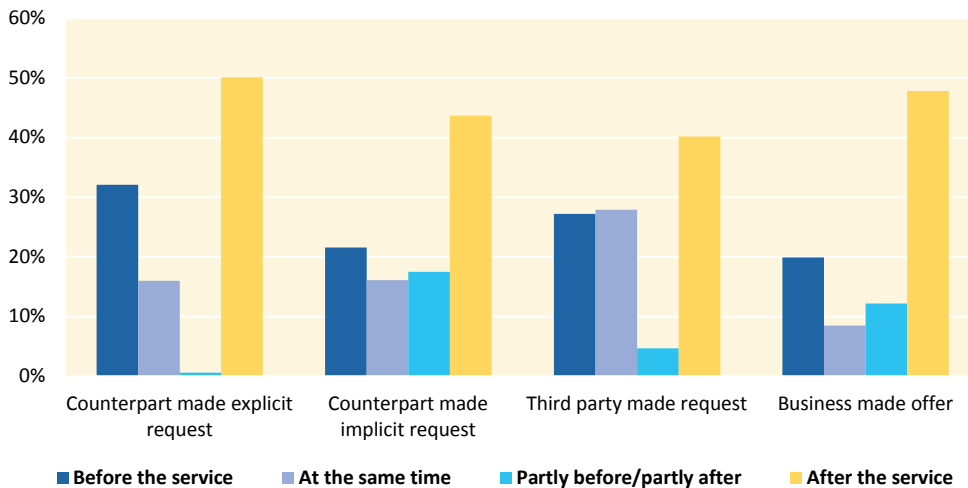
cedure or to gain advantage over a competitor). A fifth are given after they have been requested either explicitly (19.2 per cent) or implicitly (19.9 per cent) and in about a tenth of cases (9.4 per cent) a third party related the bribery request.

Figure 34: Percentage distribution of bribes paid by businesses to private sector business entities, by type of payment and economic sector, western Balkan region (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).

Figure 35: Percentage distribution of business-to-business bribes paid by timing of payment in relation to service delivery, by modality of bribe requests and offers, western Balkan region (2012)



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

It is notable that a large portion of bribes are paid after the delivery of the goods or service in question (46.2 per cent), while less than a quarter (23.2 per cent) are paid before the service, 13.2 per cent are paid at the same time and 10.3 per cent partly before and partly after service delivery. Bribes between private sector entities are paid mostly after the service, irrespective of the modality of the bribe request: i.e. whether the bribe is requested (explicitly or implicitly) or offered by the bribe payer (Figure 35).

Purposes of bribes

When bribes are paid by one business representative to another, it is normally to the detriment of the business whose representative accepts the bribe, whereas the bribe-paying business expects to benefit from the bribe. This is clearly reflected in the fact that by far the most important purpose of bribes is to gain an economic advantage over competing companies (30.2 per cent). A further fifth of all business-to-business bribes (21.9 per cent)

are paid with no immediately obvious purpose, though it can be assumed that such payments serve to entice bribe-takers into long-term “dependency”, which makes them more amenable to the granting of favours to the bribe-paying business at some point in the future. Other significant motivations for bribery between businesses are securing better prices (15.9 per cent) and winning contracts (10.8 per cent) or dividing up the spoils from public tenders (8.3 per cent). On the other hand, obtaining insurance or a bank loan are not important reasons for business-to-business payments (Figure 36).

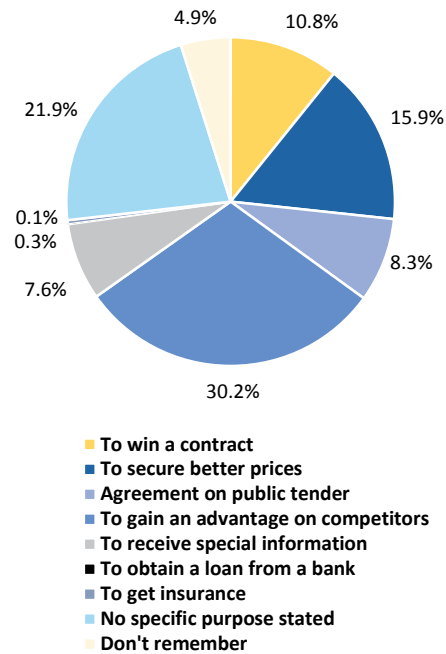
Motivations for business-to-business bribery differ significantly between economic sectors. While gaining an advantage over a competitor is the most important purpose of bribery in both the Manufacturing, Electricity, Gas, and Water supply sector and Wholesale trade and Retail trade sector, winning a bid for a private sector contract and securing better prices for goods or services are the two most important motivations in the Building and Construction sector. Conversely, in the Accommodation and Food service activities sector and Transport and Storage sectors, a large portion of business-to-business bribes serve no immediate purpose.

Reporting business-to-business bribery

A mere 0.8 per cent of all bribes paid between business representatives are reported to authorities, such as the police, anti-corruption agency or to supervisors in the affected businesses. At only 0.1 per cent, almost no bribes are reported to other unofficial institutions such as NGOs. This reporting rate is even lower than the reporting rate of public sector officials and is indicative of the fact that both parties to a business-to-business bribery episode feel equally implicated in the crime and are reluctant to come forward and “blow the whistle”.

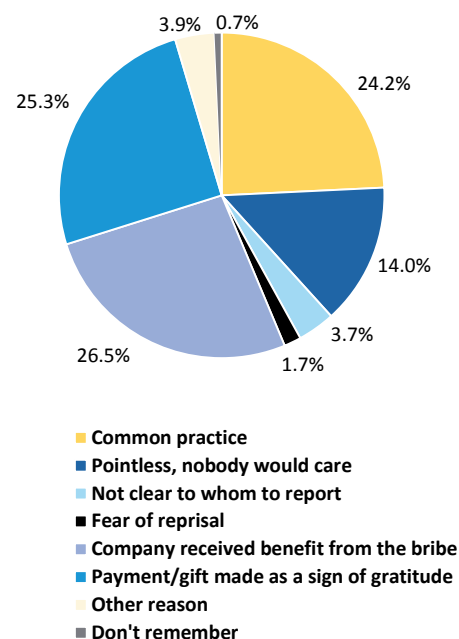
The above conjecture is confirmed by the survey, in which the most important reasons given by bribe-paying businesses for not reporting bribery are that the business received a benefit from bribing a representative of another business (26.4 per cent, compared to 8.2 per cent of those not reporting the bribery

Figure 36: Percentage distribution of business-to-business bribes paid, by purpose of payment, western Balkan region (2012)



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

Figure 37: Percentage distribution of businesses that pay bribes to other businesses not reporting their experience to authorities/institutions, according to the most important reasons for not reporting, 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.

of public officials), followed by the payment/gift being given as a sign of gratitude (25.2 per cent) and the perception that bribery is such a common practice that there is no need to report it (24.2 per cent). Other bribe-payers refrain from informing the authorities as they consider reporting it pointless (14 per cent), while only a small minority cites a lack of knowledge about where to report (3.7 per cent) or even fear of reprisals (1.7 per cent) for reporting the crime (Figure 37).

A significant share of business leaders consider corruption a serious obstacle to doing business



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.

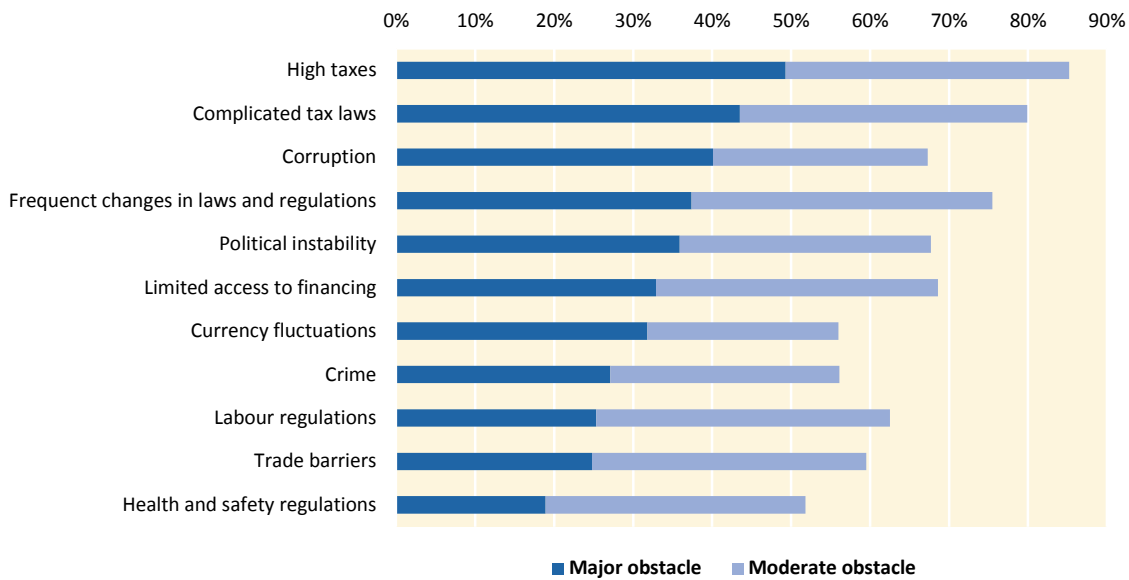
In order to carry out their economic activities effectively and to attain their business goals, private companies require a business environment with the right conditions to enable them to be both productive and profitable. These conditions include the rule of law to enforce contracts and provide security, 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 about if certain issues represent an obstacle to doing business in their country, business owners and representatives from the western Balkans rank corruption as the third most important issue after high taxes and

complicated tax laws. In fact, corruption is considered a major obstacle by two fifths (40.1 per cent) of business representatives, not far behind high taxes (49.3 per cent) and complicated tax laws (43.5 per cent). Another 27.2 per cent of respondents consider corruption a moderate obstacle to doing business, while 30.1 per cent consider it no obstacle (Figure 38).

When focusing purely on corruption, business representatives from different countries in the western Balkans have widely varying perceptions as to how much of an obstacle to doing business corruption represents in their own country. As shown in Figure 39, business representatives in some countries/areas consider corruption to be a much greater obstacle than their colleagues in others. In fact, almost half of respondents in Croatia consider corruption to be either a major obstacle (49.5 per cent) or a moderate obstacle (31.2 per cent) and slightly more consider corruption to be a major obstacle in Serbia (52.5 per cent) and a little more than a quarter (26.6 per cent) a moderate obstacle. Almost three quarters consider corruption an obstacle (36.5 per cent major and 37.2 per cent moderate) in Bosnia and Herzegovina and two thirds in Albania (28.9 per cent major and 37 per cent moderate). Such negative perceptions are less pronounced in Kosovo (40.5 per cent major and

Figure 38: Percentage distribution of business representatives who consider selected issues a major or moderate obstacle to doing business in their country, western Balkan region (2012)



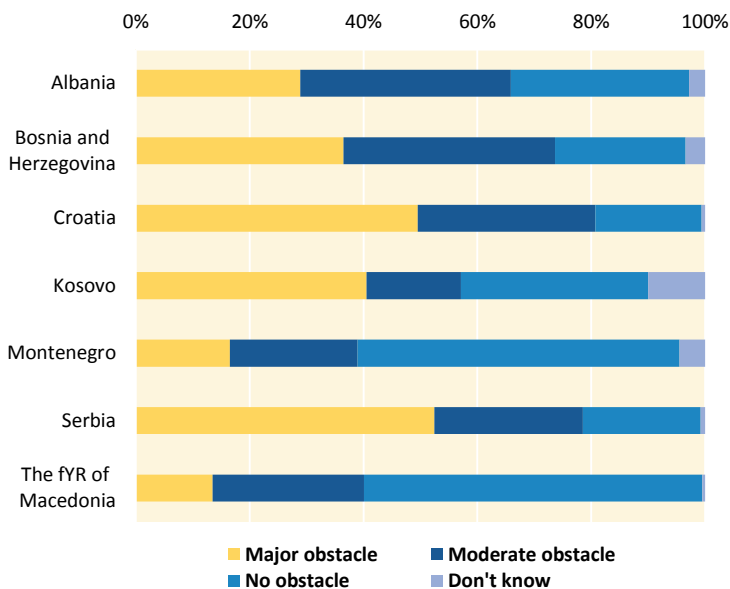
16.6 per cent moderate), the former Yugoslav Republic of Macedonia (13.5 per cent major and 26.6 per cent moderate) and Montenegro (16.5 per cent major and 22.4 per cent moderate).

A comparison of these perception values with businesses' actual experience of bribery, as reported in this survey, reveals a high correla-

tion between the perception of bribery and its actual occurrence in the business world, with the prevalence of bribery explaining 55 per cent of the variation in the perception indicator by country (Figure 40).

The connection between business leaders' perceptions and experience of corruption is also visible by economic sectors. As shown in Figure 41, the prevalence of bribery accounts for 85 per cent of the variation in the perception indicator by sector.

Figure 39: Percentage distribution of business representatives considering corruption a major/moderate/no obstacle to doing business in their country/area, western Balkan region (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 others. These are often public officials at the local level with whom businesses have frequent interaction (Figure 42). Over 16 per cent of business representatives think that the payment of bribes to municipal or provincial officers occurs very or fairly frequently in companies such as their own, and almost as many think the same about customs officers (15.8 per cent), tax/revenue officers (14.1 per cent) and police officers (13.8 per cent).

Figure 40: Prevalence of bribery versus percentage of business representatives considering corruption a major or moderate obstacle to doing business, by country/area (2012)

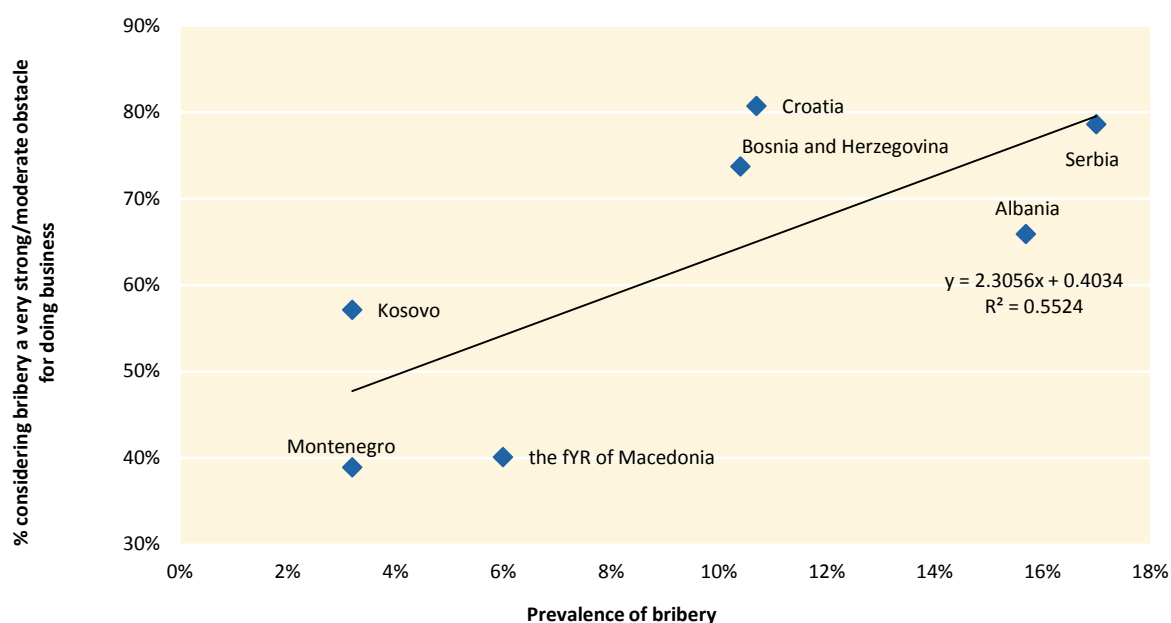
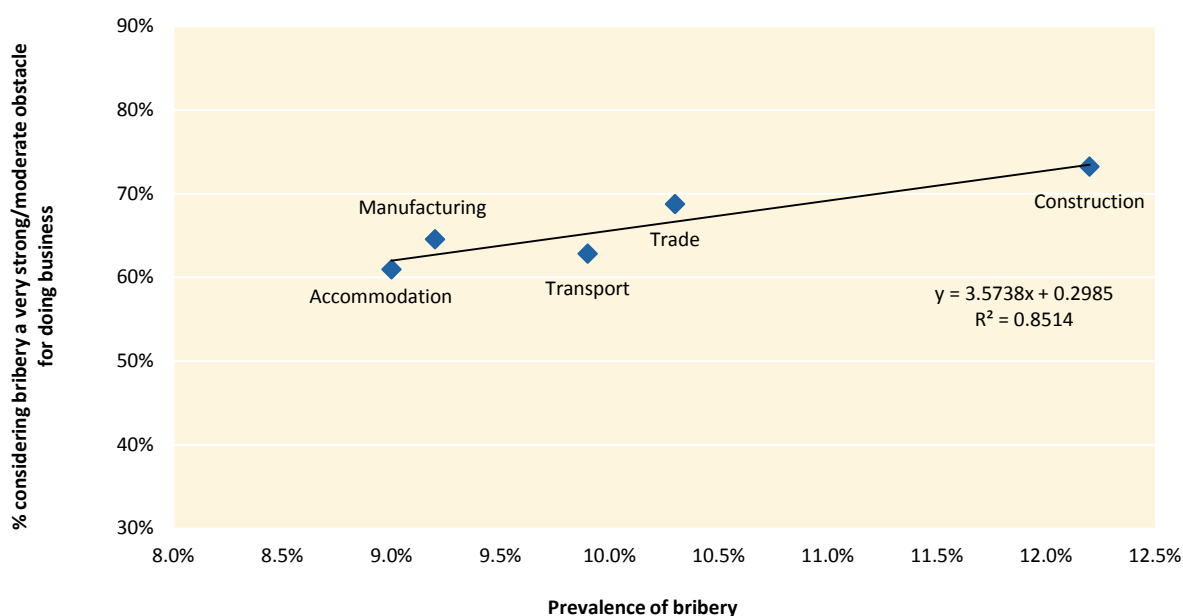


Figure 41: Prevalence of bribery versus percentage of business representatives considering corruption a major or moderate obstacle to doing business, by sector, western Balkan region (2012)



Such perceptions of the frequency of bribepaying 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 is most meaningful in relation to similar businesses in their own sectors. As shown in Figure 41, such perceptions are generally above average in

Building and Construction and below average in Accommodation and Food services. This is also true for selected public officials by economic sector. For example, over a quarter (25.4 per cent) of business representatives in Building and Construction consider the bribery of municipal or provincial officers to be very or fairly frequent, while barely one in ten (9.4 per cent) respondents in the Accommodation and Food services and Wholesale trade

and Retail trade sectors think the same. Police officers are seen to be the most susceptible to bribery in the construction and manufacturing sectors, customs officers in the construction and transportation sectors and tax/

revenue officers in the construction and trade sectors (Figure 43).

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 from the western Balkans 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 business leaders who qualify some illicit acts as acceptable behaviour, particularly when the severity of the violation is not immediately obvious. As an example, the majority of business representatives in the western Balkans (55.8 per cent) consider the use of relationships and personal contacts in public institutions for speeding up business-related procedure to be acceptable (Figure 44). Also in cases that are clearly violating ethical standards there is a sizable minority of roughly 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, performing multiple public functions at the same time and performing public functions while having an interest in private companies) to be acceptable.

Different attitudes towards corruption translate into distinct patterns of bribery. The data show that the less aware that 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

Figure 42: Percentage of business representatives who consider that the payment of bribes to selected public officials occurs very or fairly frequently in businesses like theirs, western Balkan region (2012)

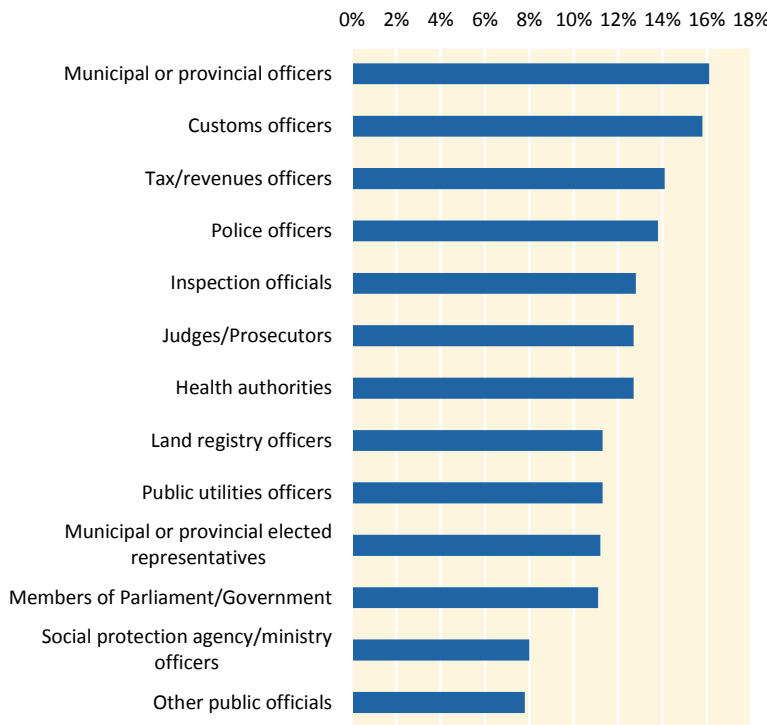


Figure 43: Percentage of business representatives who consider that the payment of bribes to selected public officials occurs very or fairly frequently in businesses like theirs, by economic sector, western Balkan region (2012)

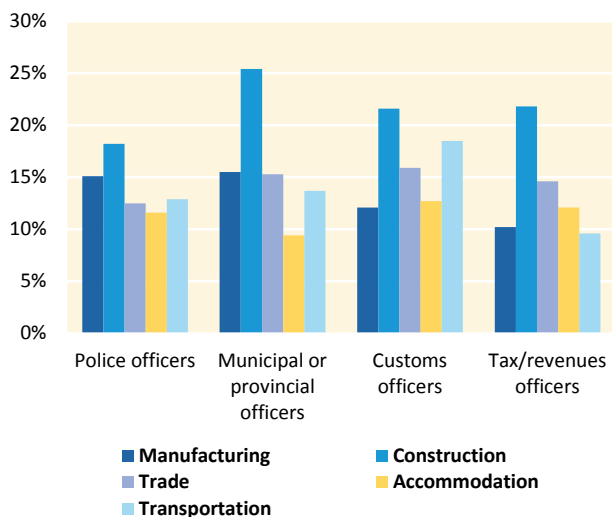
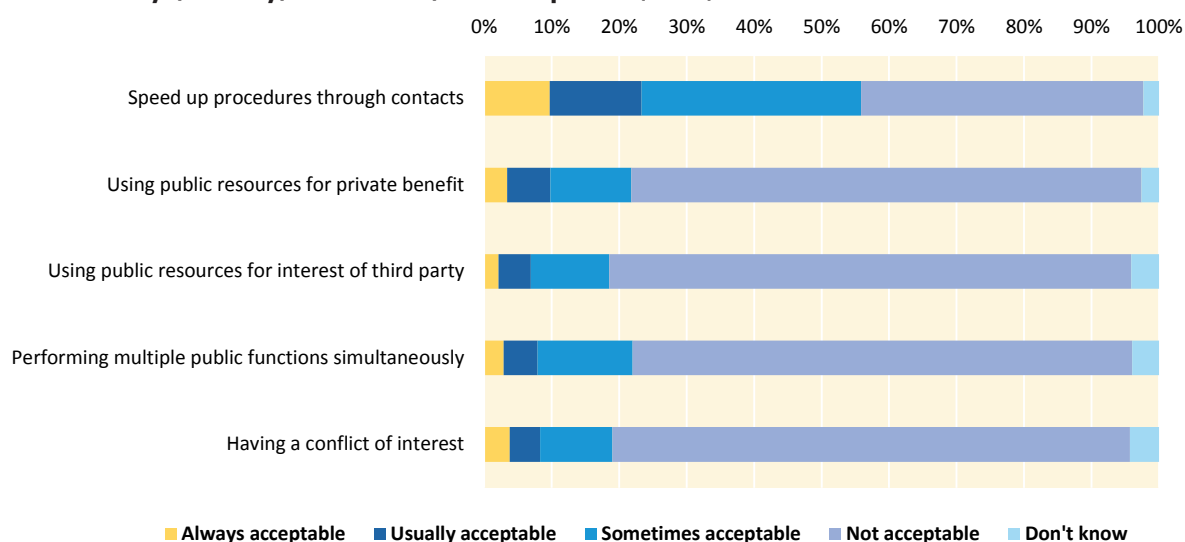


Figure 44: Percentage of business representatives who consider various forms of corruptive behaviour always/usually/sometimes/not acceptable (2012)



Note: Data do not include Montenegro, since the topic was not covered in the Montenegrin survey.

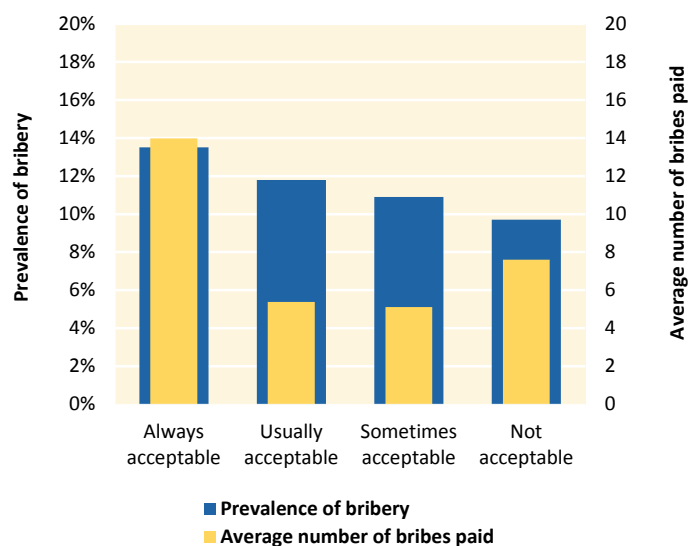
more business representatives consider such illicit acts acceptable, the higher the prevalence of bribe payment (Figure 45).

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, 5.9 per cent of businesses 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.

Considering that only a certain portion of businesses are in a position to make major investments in the first place, that corruption has such a negative impact is significant. However, the economic impact of bribery on the business climate and investment decisions is highly disparate between the economies of the western Balkans, with the two largest economies in the region (Croatia: 5.6 per cent; and Serbia: 9.2 per cent) being most affected by cancelled investment projects (Figure 46). According to this indicator, Bosnia and Herzegovina (5.5 per cent) and the former Yugoslav Republic of Macedonia (5.3 per cent) are also affected more than Albania (3.3 per cent), Kosovo (3.3 per cent) and Montenegro (2.1 per cent).

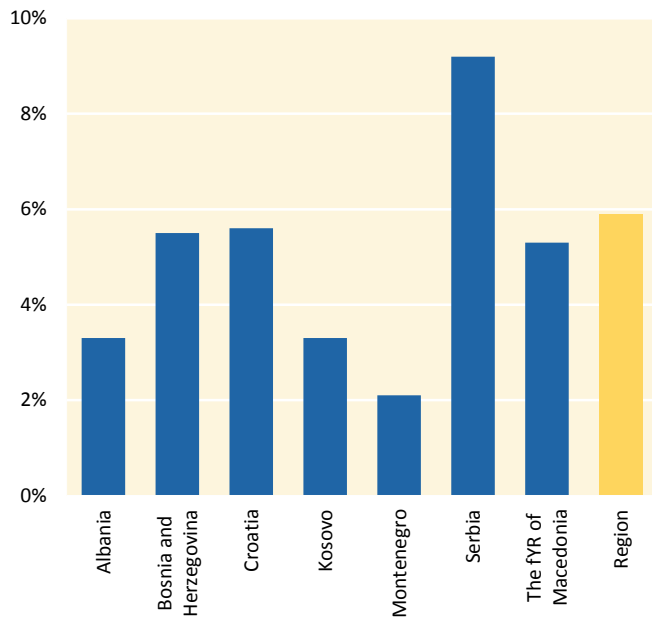
Figure 45: Prevalence of bribery and average number of bribes paid, by groups of business representatives who consider the use of relationships in public institutions always/usually/sometimes/not acceptable, western Balkans (2012)



Note: Data do not include Montenegro, since the topic was not covered in the Montenegrin survey.

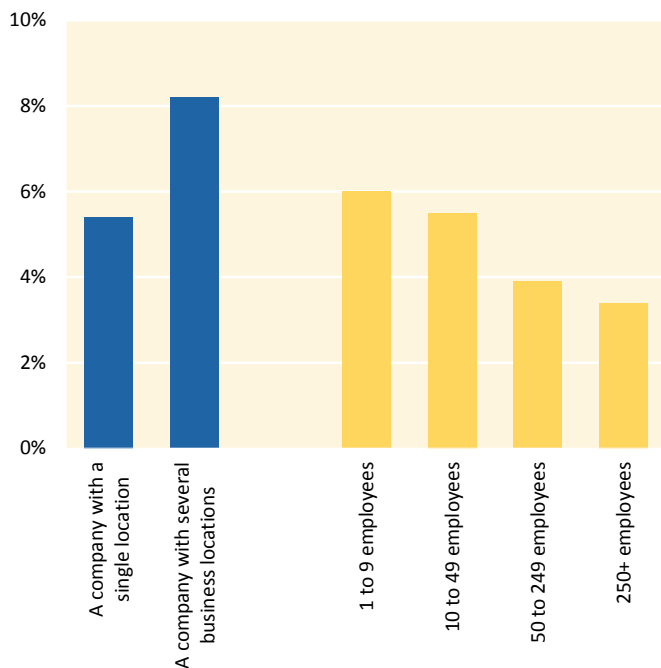
When analysing the economic impact of bribery on different types of businesses in more depth, several patterns emerge. Firstly, the percentage of businesses that decided not to make a major investment is higher in Accommodation and Food service activities (7.7 per cent), Building and Construction (7.3 per cent) and Manufacturing (6.5 per cent) than in Wholesale trade and Retail trade (5.3 per cent) and

Figure 46: 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 country/area (2012)



Transportation and Storage (3.6 per cent). The impact is also higher on businesses in urban areas (6.4 per cent) than on businesses in rural areas (2.8 per cent). Companies with more than one business location (8.2 per cent) are more affected than companies with just one single location (5.4 per cent), but the impact is similar for businesses with foreign capital participation than those without foreign capital (6.3 per cent versus 5.9 per cent decided not to make a major investment over the past 12 months). Perhaps the most damaging aspect for economic development in the region is that micro (6 per cent) and small companies (5.5 per cent) are much more affected than medium (3.9 per cent) and large companies (3.4 per cent), which means that the fear of bribery has a bigger impact on precisely those business with the greatest potential for growth (Figure 47).

Figure 47: 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 business structure and size, western Balkans (2012)



Businesses suffer from both direct and indirect costs of crime



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 as such is not ranked as one of the most important obstacles to doing business (Figure 38), it is noteworthy that a very substantial share of businesses consider crime to be either a major (27.1 per cent) or a moderate obstacle (29 per cent) to doing business in their own country.

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 the western Balkans 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,²³ at the regional level the 12-month prevalence rate of different crime types is highest for fraud committed by outsiders (this includes fraud by customers, distributors or suppliers, but excludes fraud by employees and managers). Almost one in five businesses (18.8 per cent) is defrauded through various means, for example by customers deceiving the company about their willingness to pay, by the deception of suppliers in relation to the quality or quantity of goods or services delivered, or through computer fraud (Figure 48). Moreover, many companies that experience fraud are victimized more than once – on average such businesses fall victim to fraud eight times a year.

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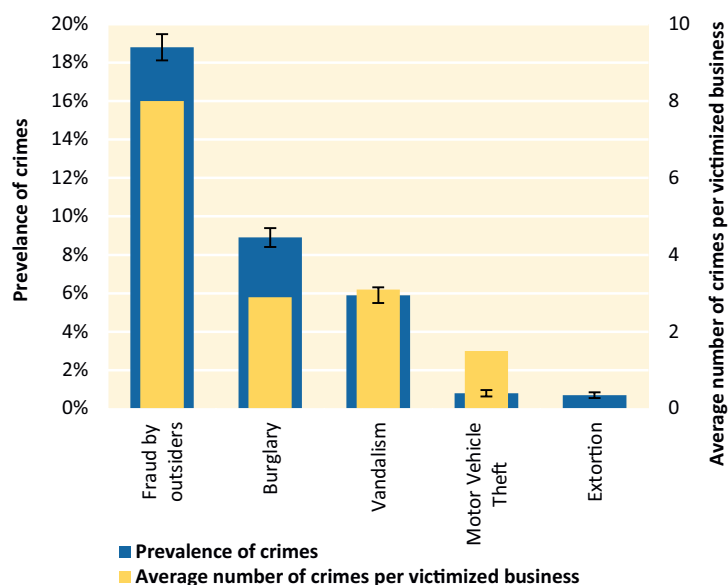
23 To ensure comparability across national jurisdictions, in victimization surveys the definitions of particular crime types do not follow legal definitions but behavioural descriptions. See the methodological annex for details of these crime descriptions.

Regional prevalence rates for burglary (8.9 per cent) and vandalism (5.9 per cent) are also considerable, as are the average number of times businesses affected fall victim to burglary (2.9) or vandalism (3.1) in a year. The prevalence rate of motor vehicle theft is 1 per cent of vehicle-owning businesses, with vic-

tims 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 some 0.7 per cent of all businesses fell victim to extortion in the 12 months prior to the survey (since extortion is often an ongoing activity, no average frequency is calculated).

Figure 48: Annual prevalence rates for different types of crime against businesses and average number of crimes per victimized business per year, western Balkan region (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 who 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. The bars indicate the confidence interval for the prevalence of crime at 95 per cent confidence level.

Beyond these regional averages, there are significant differences between countries/areas in annual prevalence rates and the average number of times businesses experience the selected types of crime. As can be seen in Table 2, annual prevalence rates for burglary were significantly higher in the former Yugoslav Republic of Macedonia (12.9 per cent), Serbia (10.2 per cent) and Kosovo (10.1 per cent) than elsewhere in the region. At the same time, victimized businesses experienced more crimes on average in Serbia (4.4) and the former Yugoslav Republic of Macedonia (2.7) than elsewhere, indicating a high concentration of burglary of certain types of businesses in the latter two.

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, above average one-year prevalence rates are found in Serbia (9.5 per cent), the former Yugoslav Republic of Mace-

Table 2: Annual prevalence rates and average annual number of crimes experienced per victimized business, by different types of crime against businesses, by country/area (2012)

	Countries/Areas							
	Albania	Bosnia & Herzegovina	Croatia	Kosovo	Montenegro	Serbia	The fYR of Macedonia	Regional average
Burglary	5.8 (1.9)	5.8 (1.8)	6.8 (1.8)	10.1 (1.9)	5.9 (1.8)	10.2 (4.4)	12.9 (2.7)	8.9 (2.9)
Vandalism	1.6 (1.6)	2.5 (1.4)	5.4 (5.0)	3.2 (1.3)	3.8 (2.9)	9.5 (2.8)	6.9 (2.9)	5.9 (3.1)
Fraud by outsiders	4.8 (2.8)	7.1 (3.0)	16.7 (5.7)	8.0 (5.3)	4.7 (5.9)	35.5 (10.1)	17.2 (5.4)	18.8 (8.0)

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 average number of crimes is calculated as the average number of times businesses victimized by a crime experienced this type of crime.

Table 3: Cost of economic damage caused by the last crime incident experienced by businesses in the western Balkans (in EUR-PPP), by crime type (2012)

Business size	Cost of criminal damage	Burglary	Vandalism	Motor Vehicle Theft	Fraud by outsiders	Extortion
Micro and Small	Mean cost (EUR-PPP)	12,874	4,209	29,445	43,038	2,267
	Median cost (EUR-PPP)	1,270	404	12,180	5,334	338
Medium and Large	Mean cost (EUR-PPP)	23,991	8,354	36,325	207,418	1,294
	Median cost (EUR-PPP)	1,304	605	17,781	9,859	261
All businesses	Mean cost (EUR-PPP)	15,200	4,333	29,900	47,700	2,183
	Median cost (EUR-PPP)	1,304	411	12,200	5,334	261

Note: EUR-PPP conversion rates are from Eurostat, except EUR-PPP for Kosovo estimated on the basis of WIIW estimates for GDP/capita in EUR-PPP.

donia (6.9 per cent) and Croatia (5.4 per cent). In the 12 months prior to the survey, victimized businesses experienced acts of vandalism an average of 5 times in Croatia, 2.9 times in Montenegro and the former Yugoslav Republic of Macedonia and 2.8 times in Serbia.

Measuring fraud against businesses is especially challenging and comparisons between countries and regions should be made with caution as even subtle differences in the connotations of “fraud” (obtaining a financial advantage or causing a loss by implicit or explicit deception) in different national languages can lead to substantial variations in the results. When focusing on fraud by outsiders only (thus excluding fraud by employees and managers), one-year prevalence rates range from 4.7 per cent in Montenegro to 35.5 per cent in Serbia. Serbia also has the highest average number of incidents of fraud experienced by victimized businesses (10.1).

While taking into account the fact that the comparability of the survey results in the western Balkans 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 at the European level will add a further perspective on the results obtained. The results of an EU-wide pilot survey on

business victimization are expected to be published in late 2013.²⁴

The cost of crime

The survey data indicate that the average cost of criminal damage caused by the five crime types covered is substantial. However, such costs are highly unevenly distributed, with a limited number of crime incidents that cause extremely costly damage and a large number of incidents that result in below-average damage costs. This skewed distribution can be described with the use of two separate indicators: the mean cost of criminal damage and the median cost of criminal damage.²⁵ As shown in Table 3, the mean cost of criminal damage is around 8 to 12 times higher than the median cost of all crime types, except MVT, for which the cost is generally very high and the ratio between mean and median is only 2 to 3. The cost of criminal damage is partly dependent on the value of the company's assets, as shown by the fact that the mean and median costs of the damage are generally higher for medium and large businesses than for micro and small businesses.

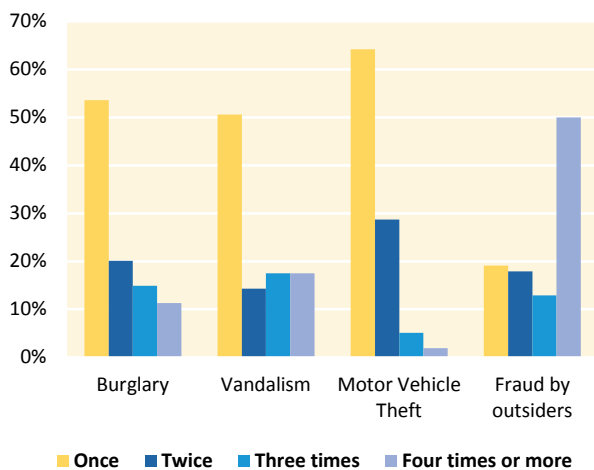
24 Gallup/Transcrime (forthcoming), EU Survey to assess the level and impact of crimes against business, Stage2: Piloting the survey module. Final Report.

25 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.

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.²⁶ 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 49, fraud by outsiders is a crime that tends to target the same business multiple times, with over 80 per cent of victimized businesses having been victimized more than once and over 50 per cent actually four or more times. On the other hand, roughly two thirds of victimized businesses experienced exactly one motor vehicle theft (MVT), 28.7 per cent experienced two MVTs, 5.1 per cent three MVTs and less than 2 per cent 4 or more such incidents.²⁷

Figure 49: Percentage distribution of victimized businesses that experienced a certain crime type on one or several occasions in the preceding 12 months, western Balkan region (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.

26 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.

27 Frequency data on motor vehicle theft are indicative only as the number of victimized businesses in the sample that experienced two or more incidents of motor vehicle theft is too small to allow statistically significant groupings.

Victimization by economic sector

An analysis of the prevalence of business victimization in the five economic sectors covered by the survey indicates only moderate differences between sector-specific crime victimization rates, with the exception of fraud by outsiders. As shown in Figure 50, sector-specific prevalence rates for burglary and vandalism range from 7.1 per cent to 9.7 per cent in the case of the former and from 4.9 per cent to 6.6 per cent in the case of the latter. At the same time, businesses in the Manufacturing (25.8 per cent) and Wholesale trade and Retail trade (20 per cent) sectors are the victims of fraud by outsiders far more often than business in the Transport and Storage (14.2 per cent), Building and Construction (13 per cent) or Accommodation and Food service activities (8.7 per cent) sectors. In addition, survey data indicate that annual prevalence rates of MVT and extortion are greater than 1 per cent only in Manufacturing.²⁸

Victimization by business location

Another important factor in determining the crime risk faced by businesses is their physical location. In the case of companies with more than one local subunits or premises (for example, for production, distribution and resale purposes) it can be expected that the overall prevalence rate for specific crime types is higher than for those with just a single place of business. As shown in Figure 51, this is indeed the case, with prevalence rates generally rising the higher the number of premises (the only exception being fraud by outsiders for businesses with four or more premises, for which the prevalence rate remains around 27 per cent).

Another common pattern found in many crime victimization surveys around the world is that victimization (whether of individuals or businesses) is usually higher in urban than in rural areas. This pattern can also be found in the western Balkans, where prevalence rates of

28 Sector-specific data on extortion and motor vehicle theft are indicative only as the number of victimized businesses in the sample that experienced those crimes in each sector is too small to allow statistically significant comparisons.

victimization by burglary (8.7 versus 6.9 per cent), vandalism (6.2 versus 1.9 per cent) and fraud by outsiders (19.4 versus 12.1 per cent) are all significantly higher in urban than in rural areas (Figure 51). The prevalence rates for MVT and extortion are also higher in urban than in rural areas.²⁹

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 western Balkan businesses in the survey, 13 per cent can be classified as mere burglary attempts when nothing was actually stolen.

In cases when something is actually stolen from a business's premises there is a wide variety of valuables for the taking. As shown in Figure 52, in more than one third of cases machinery or equipment is stolen and in slightly less than a third of cases other goods (not produced by the company itself) are taken. Other common items stolen are money belonging to the victimized business (25.5 per cent) and goods actually produced by the company (19 per cent).

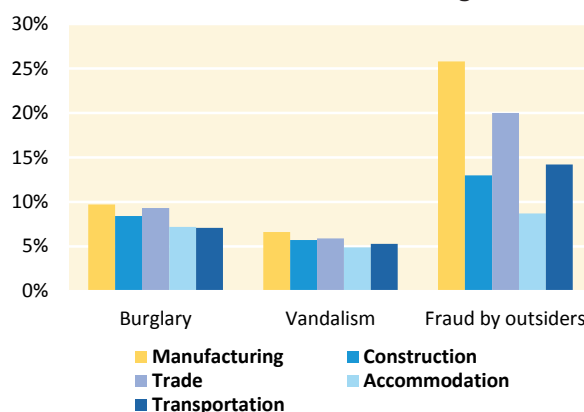
The aim of burglary also depends on the type of business broken into and the type of machinery, equipment and other valuable items in use. For example, machinery and equipment are the most typical types of valuable stolen from businesses in Construction (66 per cent), Transportation (46 per cent) and Manufacturing (40.8 per cent), whereas other goods held but not produced by the company in question are the items most commonly stolen from businesses in the Trade sector (36.8 per cent) and Accommodation and food services sector (35.4 per cent).

Vandalism

Acts of vandalism against businesses can be very damaging in terms of direct damage and

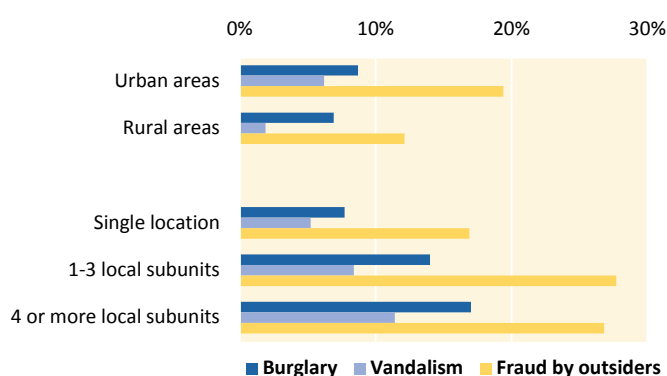
²⁹ Data on extortion and motor vehicle theft in rural areas are indicative only as the number of victimized businesses in the sample that experienced those crimes in rural areas is too small to allow statistically significant comparisons.

Figure 50: Annual prevalence rates for burglary, vandalism and fraud by outsiders experienced by businesses, western Balkan region (2012)



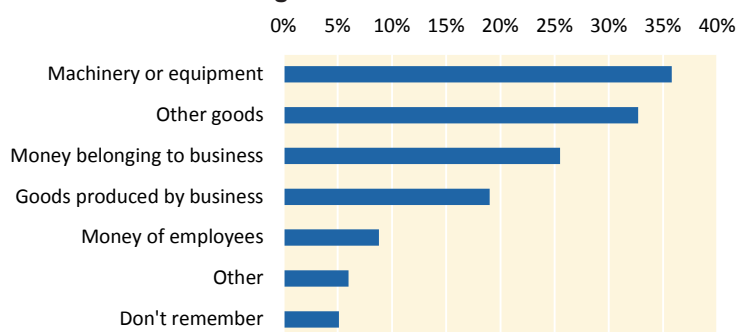
Note: Annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies.

Figure 51: Annual prevalence rates for burglary, vandalism and fraud by outsiders experienced by businesses in western Balkan countries, by location and number of premises, western Balkan region (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.

Figure 52: Percentage distribution of valuables stolen from businesses in burglary cases, western Balkan region (2012)



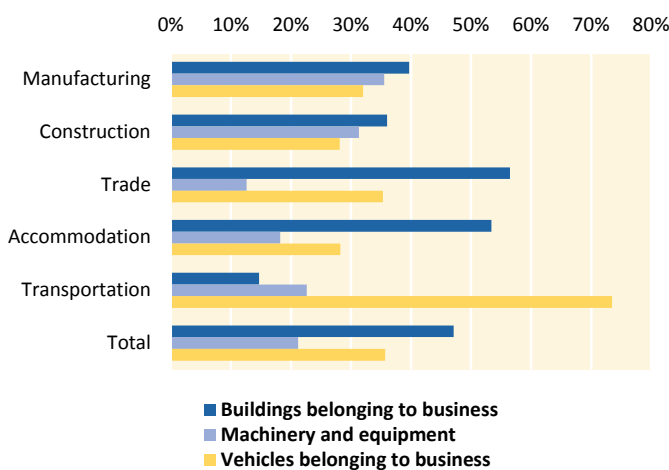
Note: Data refer to the last burglary that resulted in any type of valuables stolen in the three years prior to the survey. The sum is higher than 100 per cent since, in some cases, more than one type of valuable is stolen (for example, machinery and money).

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 the western Balkans most often target buildings (47.1 per cent), vehicles belonging to the targeted business (35.7 per cent) and machinery and equipment (21.2 per cent). However, the objects of vandalism often depend on the targets available and vary with the economic sector to which the business belongs (Figure 53). For

example, machinery and equipment is most often targeted in Manufacturing (35.5 per cent) and Construction (31.3 per cent), buildings are most often the target in the Trade sector (56.5 per cent) and Accommodation sector (53.4 per cent), while vehicles belonging to the business are most often targeted in the transportation sector (73.5 per cent).

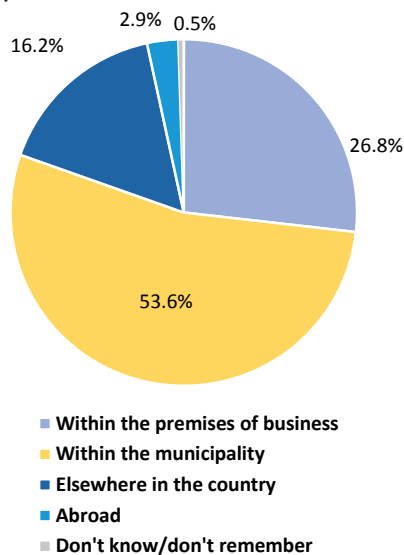
Perpetrators of acts of vandalism use a variety of methods to deliberately inflict damage on the businesses that they target. In around two thirds of such acts offenders use physical force for breaking or damaging objects, machinery, vehicles or buildings, and in about one third of cases the damage is caused through soiling, painting, graffiti or other means of spoiling targeted objects. In 4.4 per cent of cases offenders use fire (arson) to inflict heavy damage, while in 8 per cent other means are involved.

Figure 53: Percentage distribution of physical targets in acts of vandalism against business, by economic sector, western Balkan region (2012)



Note: Data refer to the last act of vandalism in the three years prior to the survey. The sum is higher than 100 per cent since, in some cases, more than one object of vandalism is targeted (for example, buildings and machinery). Data do not include damages as a consequence of other types of crime such as breaking and entering (burglary).

Figure 54: Distribution of the location of motor vehicle thefts from businesses, western Balkan region (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.

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 indicate that the great majority of it takes place away from business premises. While a little over a quarter (26.8 per cent) of such incidents take place directly from business premises (such as a parking lot or garage), over 53.6 per cent of MVT occurs outside business premises but within the same municipality as where those premises are located. Around a sixth (16.2 per cent) take place elsewhere in the country, while 2.9 per cent take place abroad, for example, during business trips (Figure 54).

Not all motor vehicle theft results in a permanent loss of the stolen vehicle. In some 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. On average, almost one in three (29.3 per cent) motor vehicles stolen from businesses in the western Balkans are recovered after having been stolen.

Since motor vehicles are valuable assets that most businesses want to protect from unau-

thorized usage and theft, a high proportion of motor vehicles in the western Balkans are equipped with some form of security device. However, the data on MVT also demonstrate that such security devices do not always provide sufficient protection. In fact, even among stolen motor vehicles, over a third (36.6 per cent) have a burglar alarm, a quarter have an immobilizer (25.6 per cent), and about a tenth a GPS tracking device (6.8 per cent) or other type of vehicle security device (2.6 per cent).

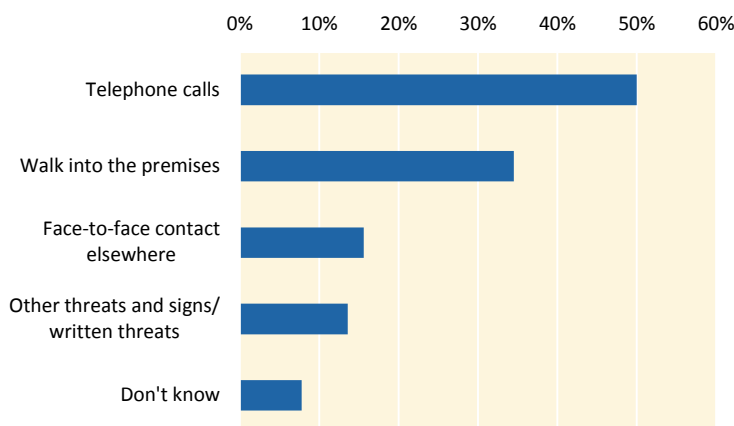
Extortion

While the prevalence of extortion at the regional level 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 in the western Balkans. According to the survey, almost a third (32.8 per cent) of extortion threats spell out specific damage that would happen to the business or its property. Roughly a fifth threaten unspecified negative consequences (22.5 per cent) and another fifth (20.8 per cent) make specific personal threats to harm the owner, manager, employees or their relatives, should those demands not be met. A smaller percentage of extortion cases also involve other specific threats, such as harming clients, contaminating products or kidnapping relatives. Some also involve the “promise” of protection against crime from other criminal groups (protection money).

It is notable that the methods used to convey extortion threats in the western Balkans are fairly conventional and seem designed to have the greatest possible impact on the person threatened. Half of all extortion threats (50 per cent) to businesses are simply communicated by telephone, while in over a third of

Figure 55: Percentage distribution of extortion threats against businesses victimized by extortion, western Balkan region (2012)



Note: Data refer to the last case of extortion experienced 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 extortion threat is made (for example, threat against property and persons).

cases (34.5 per cent) one or several offenders walk into the business premises to convey the threat. In 15.6 per cent of cases, the victims are threatened using face-to-face contact outside the business premises, and in 13.6 per cent of cases threats are made via other means, including by email or other written communication in a very small number of cases (Figure 55).

While personal contact occurs in a large share of business extortion cases in the western Balkans, either inside or outside business premises, the use of weapons in such cases appears to be rare. Only around 10 per cent of extortion threats reported by respondents in the survey involved the use of some type of weapon such as a gun, knife or other object used as a weapon.

Respondents were also asked about their knowledge or perception of potential perpetrator groups who made extortion threats against them. In a little over a third of cases (34.5 per cent) the perpetrators were thought to be acting individually and in another third of cases (33 per cent) it was assumed that a rival business was involved. In roughly one in seven cases (13.8 per cent) the perpetrators were suspected of being members of organized criminal groups, 67 per cent of which were thought to belong to a national organized criminal group and 20.1 per cent to a local organized criminal group.

The willingness to report victimization by crime to the police varies by crime type

It should be noted that respondents questioned about extortion may be reluctant to report their experience in detail due to the type and nature of the threats made. This may be particularly true in the case of the frequency and size of payments or other benefits for avoiding damage to persons or property. Whatever the case may be, slightly less than a tenth of all business that reported an extortion experience (9.8 per cent) also admitted paying money to the perpetrators and the average reported payment was 2,180 Euro (in PPP).³⁰

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 is obviously 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 insur-

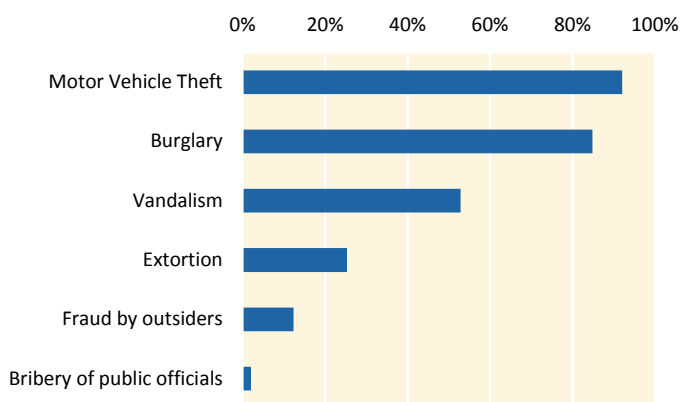
ance payments. As shown in Figure 56, the share of each type of crime actually reported to the police at the regional level ranges from 92 per cent for motor vehicle theft and 84.8 per cent for burglary, to 52.8 per cent for incidents of vandalism, 25.3 per cent for extortion cases and only 12.3 per cent for cases of fraud by outsiders. In comparison, the bribery of public officials is reported to the authorities in only around 2 per cent of cases, as shown in chapter 4.

Due to different incentives and expectations of what police can do regarding particular crime incidents, and as a result of a different combination of crime types experienced by businesses, average crime reporting rates by country/area vary across the western Balkans. For example, in countries/areas where business representatives have a greater trust in law enforcement authorities or where businesses experience a lower prevalence of fraud than elsewhere (for which reporting rates are normally lower), average reporting rates tend to be higher. Thus, all these factors should be taken into account when interpreting average reporting rates at the national level (Figure 57).

The results of the survey show that, at the aggregate level for the five crime types covered, victimized businesses in the western Balkans reported less than half of the crimes experienced in the three years prior to the survey (48 per cent), with significant national variations ranging from a low of 41.8 per cent in Serbia to a high of 65.1 per cent in Bosnia and Herzegovina.

At the regional level, the main reasons that businesses report crimes to the police are a desire for the offenders to be caught and a general belief that crimes should be reported to the police: between half and two thirds of businesses that reported incidents of burglary, vandalism and car theft cited these two motives. Other important reasons for reporting crime are to recover property (burglary: 50.1 per cent and MVT: 82.4 per cent) and to stop it from happening again (vandalism: 53.1 per cent; burglary: 41.2 per cent). Claiming insurance payments is not an important motive for reporting crime in the western Balkans, not even for MVT, as shown in Figure 58, which indicates a low level of insurance coverage by businesses against crime.

Figure 56: Police reporting rates by businesses, by type of crime, western Balkan region (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.

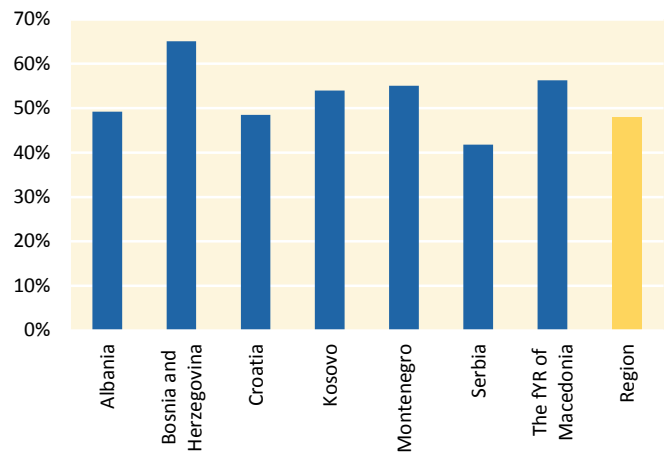
³⁰ It should be noted that most payments reported were fairly moderate, with a median value of 260 Euro (in PPP), while some payments were very high.

Information relating to the satisfaction of 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 by the crime type reported and is lowest for MVT but highest for extortion (Figure 59).

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 and obtaining compensation for the victimized business. In the case of MVT, for example, victims were not satisfied or not completely satisfied mainly because the police did not find the offender (81.4 per cent) or the police were perceived as not doing enough (72.1 per cent). There was also a minority of businesses who felt they were not treated correctly (17.7 per cent) or did not receive sufficient protection from crime (6.4 per cent, Figure 60).

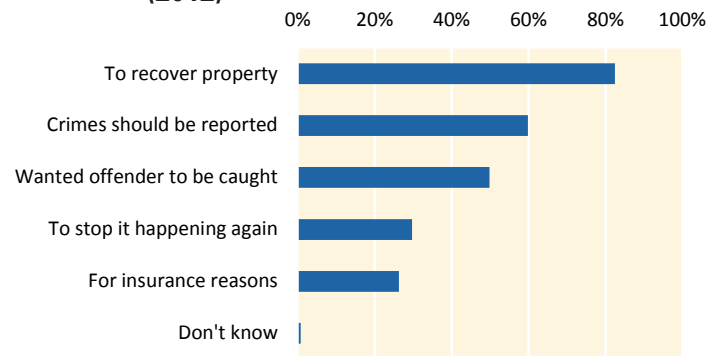
In the case of crimes against businesses that are reported less often, such as vandalism, fraud and extortion, there are a number of reasons why crime is not reported to the police, which depend on the crime type. For example, in vandalism and extortion incidents over 48 per cent of businesses considered the crime not worth reporting to the police, while that was the case in 12 per cent of unreported fraud incidents (Figure 61). In the case of fraud, over two thirds (71.6 per cent) of

Figure 57: Average police reporting rates by businesses for five crime types, by country/area (2012)



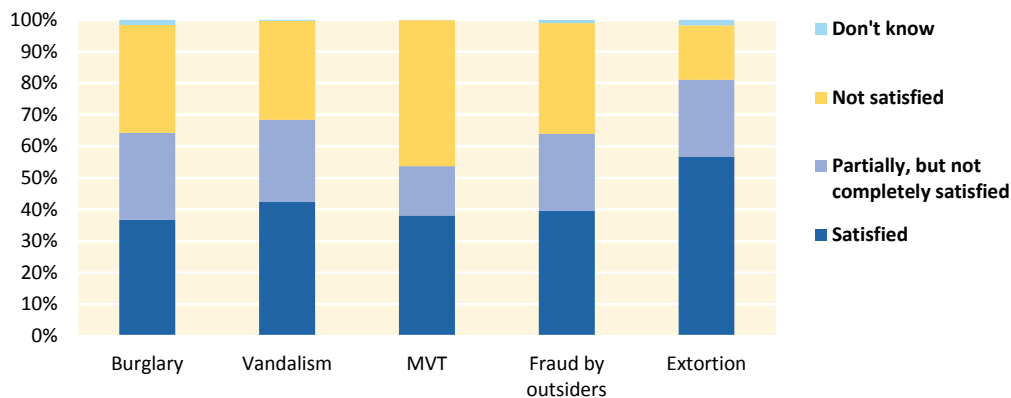
Note: Average reporting rates have been calculated as the total number of crimes reported to the police for burglary, vandalism, motor vehicle theft, fraud by outsiders and extortion, out of the total number crimes experienced by businesses in the three years prior to the survey.

Figure 58: Reasons for reporting motor vehicle theft (MVT) to the police, western Balkan region (2012)



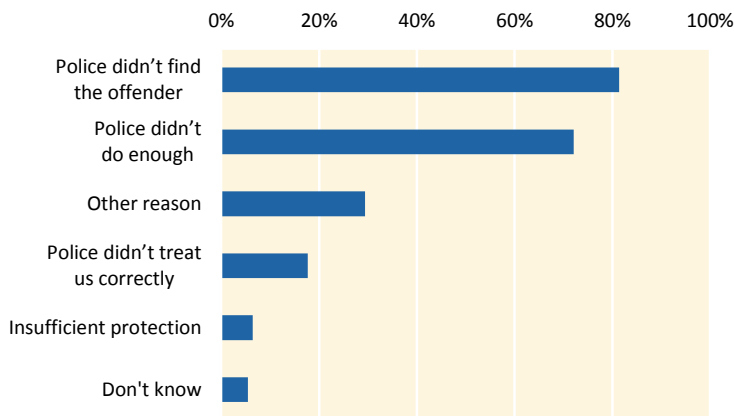
Note: Data refer to the last case of motor vehicle theft experienced in the three years prior to the survey and reported to the police. The sum is higher than 100 per cent since, in some cases, more than one motive for reporting motor vehicle theft to the police exists (for example, to recover property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

Figure 59: Satisfaction of businesses with the police, by type of crime reported to the police, western Balkan region (2012)



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

Figure 60: Reasons for dissatisfaction of businesses that reported MVT to the police, western Balkan region (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 reason for dissatisfaction with the police exists (for example, police did not find the offender and did not treat us correctly).

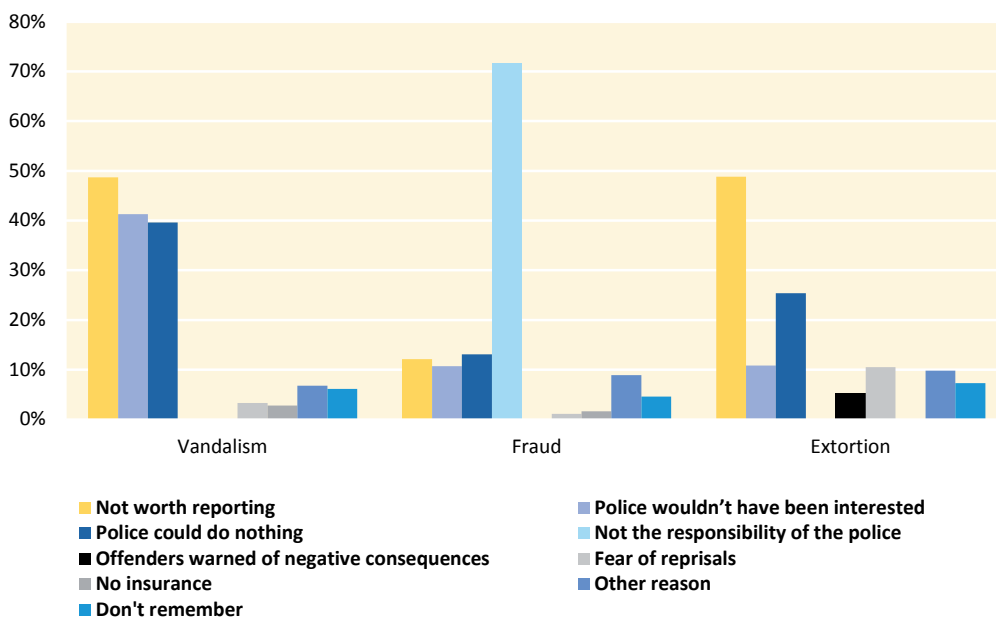
respondents did not report it to the police because they considered that fraud was not the responsibility of the police. In unreported extortion cases, over 10 per cent did not do so out of fear of reprisals (vandalism: 3.3 per cent; fraud: 1.1 per cent) and another 5 per cent because they had received warnings of negative consequences from the perpetrators.

Crime prevention measures and costs

As the data from this survey show, businesses in the western Balkans 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. As shown in Figure 62, a number of such systems are very widely used by businesses but they are not universal. Most common among the security systems in use are alarm systems (39.4 per cent), cameras (37.9 per cent) and barriers or fences (35.1 per cent). Security patrols during non-business hours (24.2 per cent) or during business hours (13.3 per cent) are less widely used and are more common in Albania and Serbia than in the other countries/areas of the region.

In total, 81 per cent of all businesses in the western Balkans use at least one protective security system against crime. This share ranges from 68.7 per cent in the FYR of Macedonia to as much as 93.2 per cent of all businesses in Serbia.

Figure 61: Reasons for not reporting selected types of crime incidents to the police, western Balkan region (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).

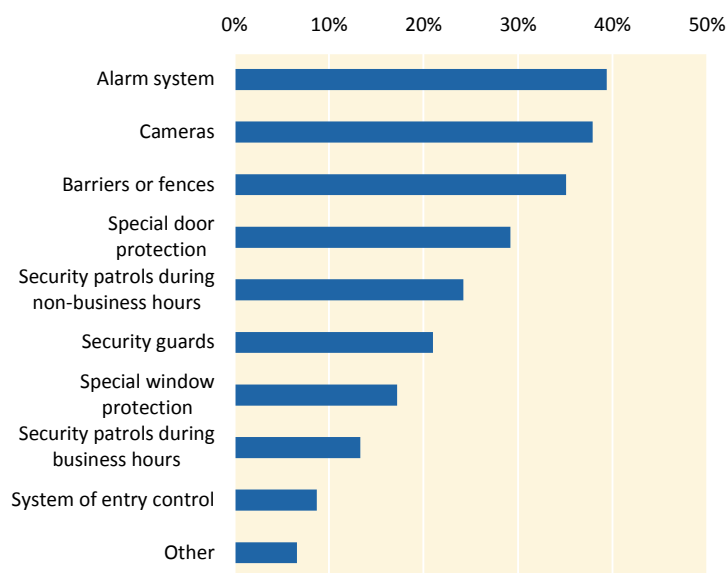
As the survey data demonstrate, crime against businesses often causes considerable harm to businesses in terms of costs. To protect themselves against the financial implications, businesses can make use of insurance policies that pay compensation for damage suffered. However, in the western Balkans only a minority of businesses has any kind of insurance against the consequences of crime. On average, only 3.7 per cent of all businesses have a specific type of insurance policy that specifically protects against criminal incidents, whereas 31.7 per cent have a general insurance policy that also protects against criminal incidents. Businesses in Albania and Montenegro have the lowest insurance coverage against crime, while businesses in Croatia and Serbia have the highest coverage (Figure 63).

Perceptions and opinions of crime

As with perceptions of corruption, perceptions of crime risk in any given society are influenced by a number of factors, in addition to objective observations and experience. 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, including its buildings and infrastructure. Such perceptions may also influence the extent to which crime in a certain area is perceived to be on the increase or decrease.

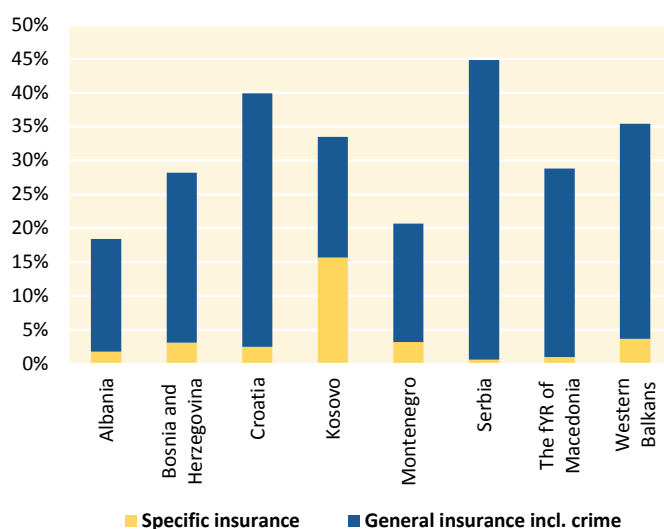
At the regional average, the majority of business representatives in the survey (70.5 per cent) stated that they considered the crime risk for their business entity to have remained stable in comparison to 12 months previously, whereas 16.3 per cent of respondents saw an increase in the crime risk and 9.2 per cent saw a decrease. Beside this overall assessment, there are notable disparities at the national level that indicate a heightened sensitivity to crime. As shown in Figure 64, notable shares of business representatives in Croatia (26.7 per cent), Montenegro (19.2 per cent) and Serbia (17.1 per cent) saw an increase in the crime risk, as opposed to those who saw a decrease (8.7 per cent, 10.4 per cent and 2.8 per cent, respectively).

Figure 62: Percentage of businesses that use selected security measures against crime, western Balkan region (2012)



Note: Data refer to all businesses in the western Balkans. 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).

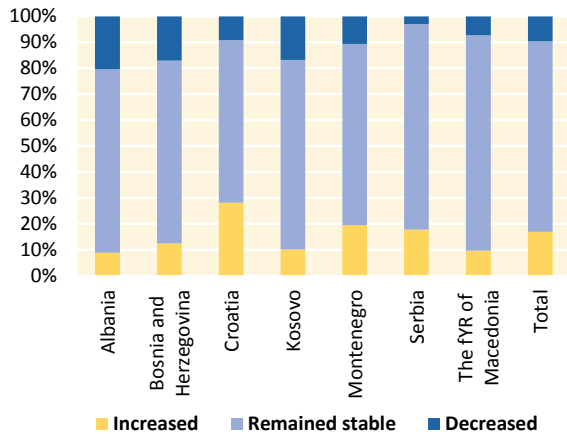
Figure 63: Percentage of businesses with an insurance policy against crime, by type of insurance, by country/area (2012)



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 in the western Balkans, such perceptions do nevertheless matter for shaping opinions about the prevailing “business cli-

Figure 64: Perceptions of whether the risk of crime for one’s business entity has increased, remained stable or decreased, by country/area (2012)



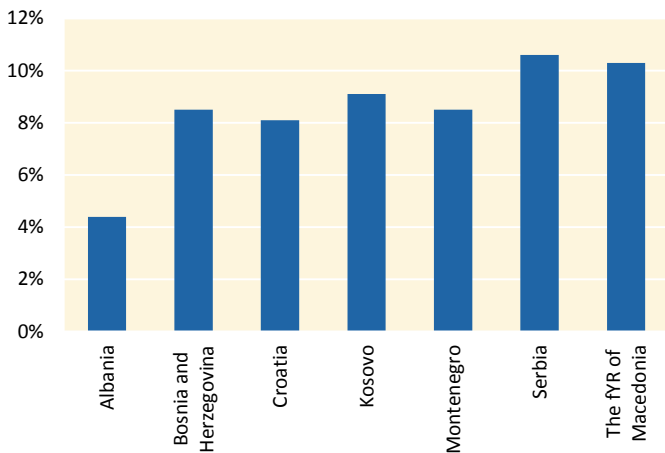
Note: Data refer to all businesses in the western Balkans.

mate” 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.

As shown in Figure 65, fear of crime is indeed a very relevant factor in the decision of business leaders to make a major investment. On average, 9.1 per cent of all business leaders stated that during the previous 12 months they decided not to make a major investment due to their fear of crime, though there are significant variations at the national level. This is a very significant share of all busi-

nesses, considering that only a limited amount of them 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). As with fear of corruption, fear of crime has a similar impact on businesses with foreign capital participation as on those without foreign ownership (8.5 per cent versus 9.2 per cent decided not to make a major investment in the previous 12 months). Together fear of crime and corruption add up to a considerable hindrance to economic development in the region.

Figure 65: Percentage of business representatives who decided not to make a major investment in the 12 months prior to the survey due to fear of crime, by country/area (2012)



Note: Data refer to all businesses in the western Balkans.



8. CONCLUDING REMARKS

Difficult though corruption may be 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 of the western Balkans.

The analysis provided in this report is not designed to rank the countries/areas or business sectors of the western Balkans, but rather to help understand a complex issue and to assist policy-making in developing appropriate measures. To this end, 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 Wholesale trade and Retail trade, as well as certain types of public official, including municipal or provincial officers and those in the tax and customs administration, on which attention should be focused in an attempt to hinder involvement in bribery.
- For over 40 per cent of bribe-paying businesses the main purpose of paying bribes is to “speed up business-related procedures”. This indicates that one set of preventive measures for fighting bribery could be the shortening of lengthy and bureau-

cratic procedures for which vulnerability to bribery is great (such as clearing goods through customs or getting a utility connection). Another set of preventive measures could be the reduction of opportunities for bribe-taking by targeted public officials, for example through better monitoring or through the sharing of responsibilities between several decision-makers.

- The prevalence rates of “white collar” crime such as bribery and fraud are significantly higher, yet the reporting of fraud is far less common than that of conventional crimes and the reporting of corruption is virtually non-existent. 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 two main reasons cited for not reporting bribes to authorities are that “it is common practice” and that it is “pointless, as nobody would care”. This shows that the reporting of corruption needs to be taken more seriously by the public administration, by publicizing the existence of reporting channels and by ensuring that reporting is adequately followed up. At the same time, the confidentiality

and protection of whistleblowers should be strengthened in order to reduce the fear of reprisals when reporting acts of corruption.

- 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.
- The fear of having to pay bribes to obtain requisite services or permits led a total of 5.9 per cent of all businesses leaders in the western Balkans 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 in the region, 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 economies, some of which are already relatively fragile.
- Although the prevalence rates of conventional crime against businesses are moderate, they engender substantial cost for the economy. However, business in the western Balkans seem to give relatively little thought to crime prevention in the shape of security measures and the mitigation of crime consequences.
- Though ostensibly small in numerical terms, the fact that 0.7 per cent of all businesses in the western Balkans 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 in the western Balkans needs to be explored thoroughly.
- Merely being investigated for corruption and fraud can have hugely negative repercussions on a company’s reputation and many businesses do recognize this. Protection against corruption may be less straightforward than against conventional crime, yet companies around the world are increasingly implementing comprehensive internal compliance policies that specify certain unacceptable practices and sanction violations of established standards. In the western Balkans, such internal compliance mechanisms are increasingly widespread, though far from universal and in further need of promotion. The data also show that such compliance policies are less common among the region’s smaller companies. Given that micro and small companies make up the largest share of all businesses in the western Balkans, this situation needs to be addressed.
- Indeed, some of this survey’s findings show that factors such as company size, business ownership structure and economic sector can be factors in the vulnerability of certain companies to corruption. Further analysis of the vulnerabilities that have emerged should thus be undertaken forthwith.
- Awareness of corruption and what is considered unacceptable behaviour is high and two thirds of business representatives in the region consider corruption an obstacle to doing business, yet bribery often appears to be tolerated as a tool for getting things done or to receiving better treatment in business. A further assessment of corruption awareness among business leaders could be considered and further initiatives might be developed to inform those who do not deem bribery to be on a par with “real” crimes in order to increase understanding about the pernicious effect that corruption has on the efficient allocation of resources in a free market economy.
- As the data pertaining to the perception of corruption reveal, public opinion about corruption in the countries/areas of the western Balkans 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 the western Balkan region: the possibility of having a comparative perspective on extent, modality and nature of bribery across countries of the region can bring added value to understanding this phenomenon and, above all, to identify those measures that are more successful in fighting it. This is particularly true if such exercises can be repeated over time so as to monitor changes at national and regional level.

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:

- Sectoral 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. Such assessments may be carried out by countries/areas in the region within the framework of the United Nations Convention against Corruption (UNCAC) Implementation Review Mechanism;
- A system for monitoring the state response to corruption, both repressive and preventive measures, in order to identify successful and unsuccessful practices.

In several of the region's countries/areas such systems are already being developed, often initiated by anti-corruption agencies at the national level. Building long-term capacity and promoting the sustainability of corruption monitoring instruments is an explicit goal of the current survey. By partnering with

National Statistical Offices (NSOs) and other national data producers and by involving national anti-corruption agencies, business organizations and other key stakeholders in the design of the survey as well as in the dissemination of survey results, national capacities to produce evidence-based assessments of corruption and crime in the business sector have been strengthened. Further involvement of both data producers and data users, with the support of international and regional organizations, will enable the region's countries/areas to produce high-quality and relevant information for fighting corruption in a more effective manner.



ANNEX I

ECONOMIC CONTEXT OF BUSINESS CORRUPTION IN THE WESTERN BALKANS

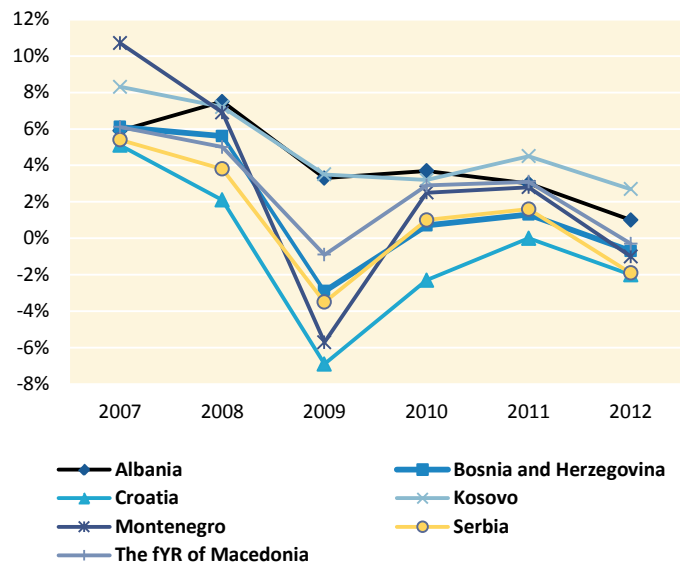
Until the early 1990s, six out of the seven countries/areas of the Western Balkans formed part of a common state (the Socialist Federal Republic of Yugoslavia, SFRY) that followed a socialist ideology and shared a common economic space. By the time Yugoslavia broke apart, serious economic problems had become entrenched and were evident in economic imbalances between the republics and autonomous provinces, a collapse in production and employment, widespread scarcities and hyperinflation. During the 1990s, the economies of the successor states of the former Yugoslavia slumped dramatically³¹ as they struggled, to varying degrees, with the wars of secession, the economic disintegration of the common state and the consequent loss of markets, as well as the transformation from a socialist-inspired system of workers' self-management to a market economy through economic reforms and privatization.

It was only in the 2000s that high economic growth returned to large parts of the region

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31 With the exception of Slovenia, which was the wealthiest Republic in the SFRY and which rapidly resumed economic growth after an initial slump. Slovenia acceded to the European Union in 2004 and is not subsumed under the western Balkans.

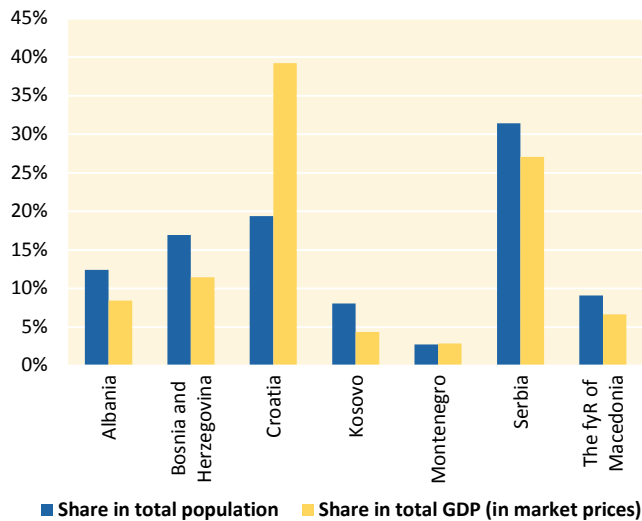
Figure 66: Percentage change of GDP in local currency units, by country/area (2007-2012)



Sources: EU Progress Reports 2012; EUROSTAT 2013; Vienna Institute for International Economic Studies (WIIW) 2013; Kosovo Agency for Statistics.

and made good on some of the economic losses previously suffered. By the end of the decade the global financial and economic crisis also affected the economic recovery of the western Balkan economies and in 2009 most of the region's economies noticeably shrank once again. With the progressive stabilization of global and European financial markets in 2010 and 2011, the economies of the

Figure 67: Relative share of total population and Gross Domestic Product (at market exchange rates) of the economies of the western Balkans (2012)

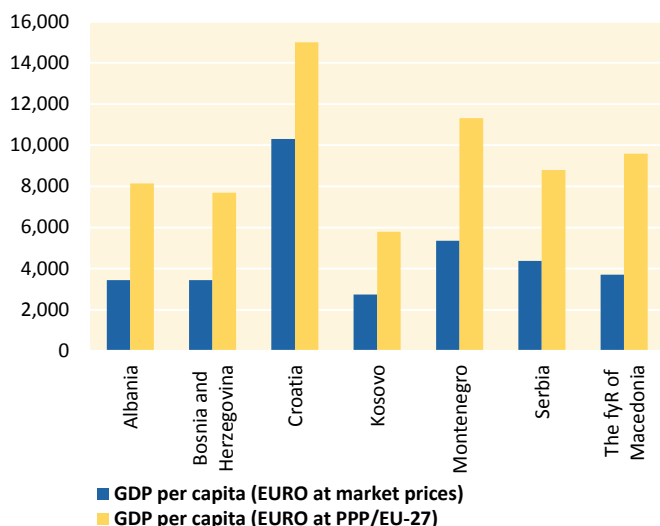


Sources: EU Progress Reports 2012; EUROSTAT 2013; Vienna Institute for International Economic Studies (WIIW) 2013; Kosovo Agency for Statistics

western Balkans slowly returned to a path of economic expansion, before sliding back into recession in 2012 due to the impact of the second wave of the ongoing financial crisis on large parts of Europe (Figure 66).

Although much of the region was part of a common market prior to its dissolution, the economies of the western Balkans have always

Figure 68: Gross Domestic Product (GDP) per capita at market exchange rates and GDP per capita at Purchasing Power Parities (PPP) of the EU-27, by country/area (2012)



Sources: EU Progress Reports 2012; EUROSTAT 2013; Vienna Institute for International Economic Studies (WIIW) 2013; Kosovo Agency for Statistics. EUR-PPP conversion rates from Eurostat, EUR-PPP for Kosovo estimated on the basis of WIIW estimates in EUR-PPP.

been characterized by deep structural differences that are still evident today. Productivity, levels of economic development and income vary widely, as does the size of national populations and markets. For example, while Serbia accounts for the largest share of the total regional population, Croatia accounts for the largest share of regional GDP (Figure 67).

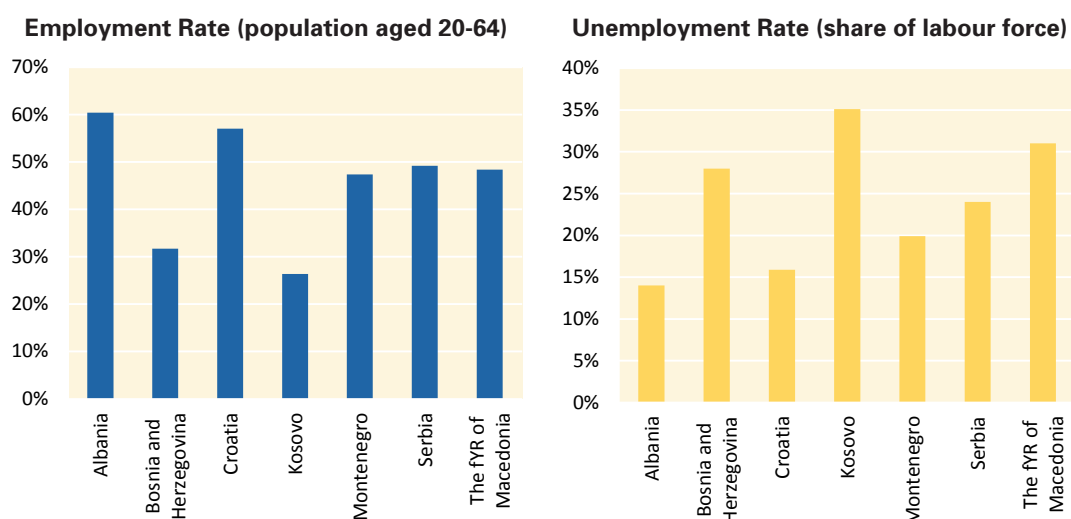
Total GDP at market prices provides an indication of the absolute and relative size of an economy, though it does not take into account different price levels and purchasing power. Relative incomes can be compared better by converting GDP per capita at market prices into GDP per capita in purchasing power parities (PPP), relative to the average price level in the 27 European member states (EU-27). By this calculation, GDP per capita (in EURO-PPP) is between 50 and 150 per cent higher in comparison to GDP per capita at market prices, but still substantially below the level of the EU-27. According to the latest estimates, it amounts to between 23 per cent of the EU-27 GDP in Kosovo and 59 per cent in Croatia (Figure 68).

A significant factor in the variation in average income across the region is the disparity in the employment and unemployment rates. Traditionally employment rates have been high in Albania and, at 60.4 per cent, remain the highest in the region, followed by Croatia with 57 per cent, while only about a quarter (26.4 per cent) of the population aged 20–64 is gainfully employed in Kosovo (Figure 69).³² On the other hand, the region suffers from high structural unemployment, which has continued to rise as an effect of the ongoing economic crisis. In 2012, the rate of unemployment (as a percentage of the labour force) was only under 20 per cent in Albania (14 per cent) and Croatia (16 per cent), while it was 20 per cent in Montenegro, 24 per cent in Serbia, 28 per cent in Bosnia and Herzegovina, 31 per cent in the former Yugoslav Republic of Macedonia and 35 per cent in Kosovo.

In terms of economic structure, the majority of companies – between two thirds and five sixths of business in the seven Western Balkan

³² No recent data on employment rates are available for Bosnia and Herzegovina and for Montenegro.

Figure 69: Rates of employment and unemployment in the economies of the western Balkans (2012 or most recent year)



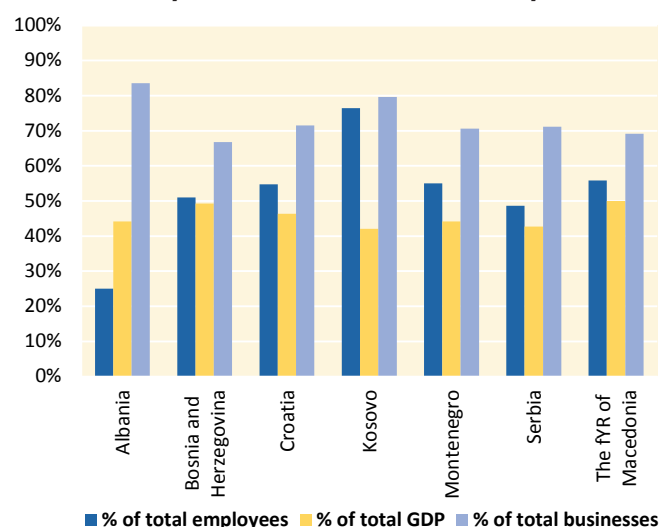
Sources: EU Progress Reports 2012; EUROSTAT 2013; Vienna Institute for International Economic Studies (WIIW) 2013; Kosovo Agency for Statistics; Statistical Office of Montenegro. Note: data for Montenegro refer to the population aged 15-64.

economies – 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 supply³³
2. Building and Construction³⁴
3. Wholesale trade and Retail trade; Repair of motor vehicles and motor cycles³⁵
4. Transportation and Storage³⁶
5. Accommodation and Food service activities (hotels and restaurants)³⁷

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 a broad coverage of the economies of the western Balkans in terms

Figure 70: Relative shares of total employees, total GDP and total number of businesses covered by the five sectors represented in the survey, by country/area (2011 or most recent year)



Sources: Institute of Statistics of Albania (INSTAT); PRISM Research, Bosnia and Herzegovina; Croatian Bureau of Statistics (CBS); Kosovo Agency for Statistics (KAS); Statistical Office of Montenegro (MONSTAT); Statistical Office of the Republic of Serbia (SORS); State Statistical Office of the FYR of Macedonia (SSO); data for GDP in Croatia refer to 2009; all data for the FYR of Macedonia refer to 2010.

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

34 Category F of NACE Rev. 2.

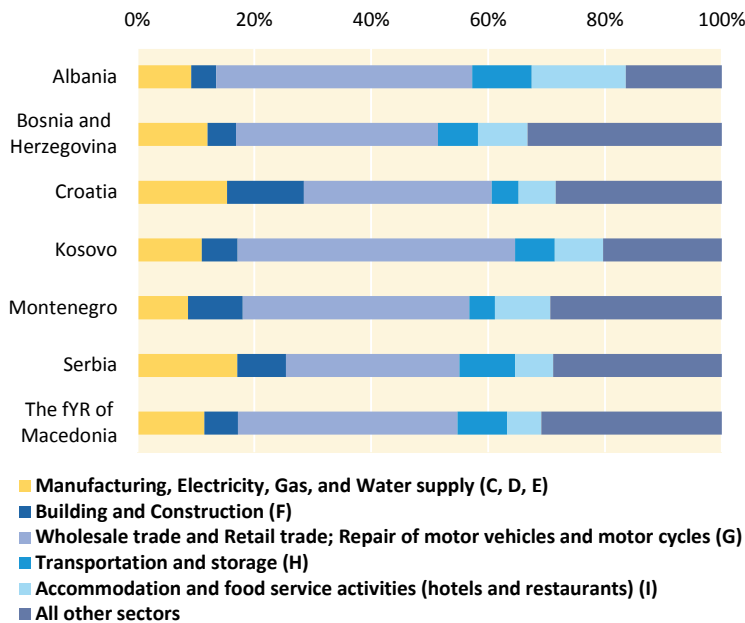
35 Category G of NACE Rev. 2.

36 Category H of NACE Rev. 2.

37 Category I of NACE Rev. 2.

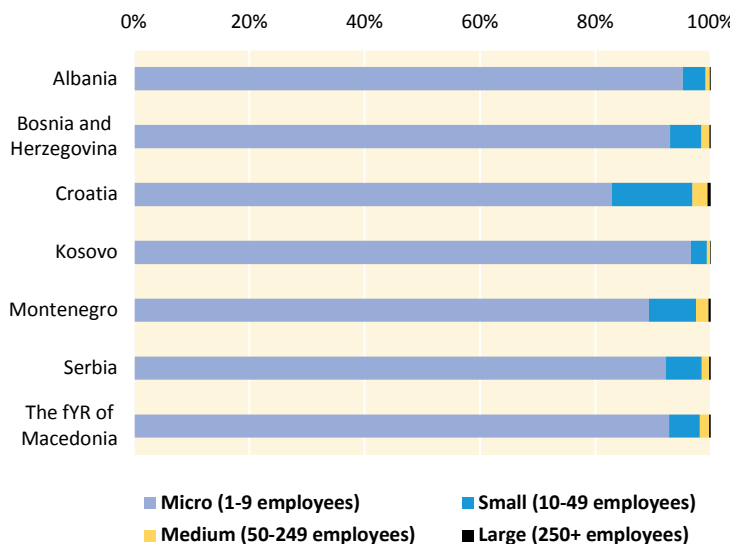
of the value added (percentage of GDP by sector) and employment (percentage of total employees in each sector), as well as the share of businesses covered. As shown in Figure 70, the five sectors listed account for between 67 and 84 per cent of businesses in each country, between half and three quarters of all employ-

Figure 71: Distribution of businesses, by sector and country/area (2012)



Sources: Institute of Statistics of Albania (INSTAT); PRISM Research, Bosnia and Herzegovina; Croatian Bureau of Statistics (CBS); Kosovo Agency for Statistics (KAS); Statistical Office of Montenegro (MONSTAT); Statistical Office of the Republic of Serbia (SORS); State Statistical Office of the FYR of Macedonia (SSO).

Figure 72: Relative shares of micro, small, medium and large businesses, by country/area (2012 or most recent year)



Sources: Institute of Statistics of Albania (INSTAT); PRISM Research, Bosnia and Herzegovina; Croatian Bureau of Statistics (CBS); Kosovo Agency for Statistics (KAS); Statistical Office of Montenegro (MONSTAT); Statistical Office of the Republic of Serbia (SORS); State Statistical Office of the former Yugoslav Republic of Macedonia (SSO).

ees³⁸ and between 43 and 50 per cent of 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, 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 the region, it appears that the economies of the region have become largely de-industrialized, with the largest shares of businesses in the Wholesale trade and Retail trade; Repair of motor vehicles and motor cycles sector (between 30 and 48 per cent of all businesses in each country/area) and only a minority of businesses in the Manufacturing, Electricity, Gas, and Water supply (between 9 and 17 per cent) and Building and Construction (4 to 13 per cent) sectors (Figure 71).

Another important structural characteristic of the economies of the western Balkans is that most businesses are comparatively small in terms of the number of employees: between 83 per cent (Croatia) and 97 per cent (Kosovo) of all registered businesses have less than 10 employees, while less than 1 per cent of all businesses have more than 250 employees. Only Croatia appears to have a significant number of small (14 per cent) and medium-sized (2.6 per cent) businesses (Figure 72). Despite the preponderance of very small business units with less than 10 employees, 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.

38 The exception here is Albania, where employees in the five sectors covered by the survey make up only 25 per cent of all employees nationwide, while agriculture accounts for 55 per cent of total employment. The discrepancy may be due as much to differences in counting rules for persons working in agriculture than to structural differences in the economy.



ANNEX II

MAIN INDICATORS

Table 4: Main indicators by country/area, western Balkan region (2012)

Indicators	Countries/Areas							
	Albania	Bosnia and Herzegovina	Croatia	Kosovo	Montenegro	Serbia	The FYR of Macedonia	Regional average
Contact rate	85.1%	65.2%	70.4%	91.2%	61.4%	59.7%	78.8%	71.3%
Prevalence of bribery	15.7%	10.4%	10.7%	3.2%	3.2%	17.0%	6.0%	10.2%
Average number of bribes paid	4.6	6.6	8.8	7.7	4.6	7.0	6.7	7.1
Percentage of bribes paid in cash	50%	47%	14%	59%	30%	45%	17%	36%
Mean bribe (EUR-PPP)	904	327	395	1,787	830	935	689	881
Median bribe (EUR-PPP)	338	206	52	1,059	404	356	317	317
Prevalence of business-to-business bribery	3.7%	1.7%	5.1%	0.6%	0.8%	6.6%	3.0%	4.0%
Percentage of business-to-business bribes paid in cash	24.1%	44.6%	10.9%	32.9%	9.7%	37.4%	25.4%	27.7%

Note: Contact rate: Percentage of businesses that had at least one direct contact with a public official or civil servant in the 12 months prior to the survey; Sources for additional indicators: local currency exchange rates and EUR-PPP conversion rates from Eurostat, WIIW and National Statistical Offices. EUR-PPP for Kosovo estimated on the basis of WIIW estimates.

Table 5: Main indicators by sector, western Balkan region (2012)

Indicators	Economic sectors					
	Manufacturing	Construction	Trade	Accommodation	Transportation	Regional average
Contact rate	66.8%	72.2%	72.0%	72.4%	76.4%	71.3%
Prevalence of bribery	9.2%	12.2%	10.3%	9.0%	9.9%	10.2%
Average number of bribes paid	4.3	7.5	8.0	6.7	7.2	7.1
Percentage of bribes paid in cash	33%	43%	36%	17%	46%	36%
Mean bribe (EUR-PPP)	584	1,216	1,066	114	103	881
Median bribe (EUR-PPP)	356	533	257	91	18	317
Prevalence of business-to-business bribery	5.3%	6.2%	3.4%	1.4%	3.8%	4.0%
Percentage of business-to-business bribes paid in cash	30.2%	20.8%	26.3%	51.4%	36.2%	27.7%

Note: Contact rate: Percentage of businesses that had at least one direct contact with a public official or civil servant in the 12 months prior to the survey; Sources for additional indicators: local currency exchange rates and EUR-PPP conversion rates from Eurostat, WIIW and National Statistical Offices. EUR-PPP for Kosovo estimated on the basis of WIIW estimates.



ANNEX III

METHODOLOGY

Data presented in this report were collected in 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. 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.

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 four business size categories (micro (1-9 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.

To adjust for imbalances in the distribution of businesses by sector and size between the sample and the target population post-stratification adjustments were made using the inverse of the probability of selection of each sampled business.

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 sup-

plier, 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 for each of the national surveys is given below.

Albania	
Responsible agency	Albania Institute of Statistics (INSTAT)
Survey period	17 October 2012 to 18 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 Register of Active Enterprises (end of December 2011). 194 companies in total were allocated following the rule that a minimum number of 40 were to be selected per business size and sector. For the other 1,806 companies, a Proportional Allocation was used. The selection probability of companies in strata was independent and was not affected by the number of selected companies in other strata. One-man businesses (including self-employed) were included in the sample.
Respondent selection	The person responsible for the management of the business. When this person was not clearly identifiable the interviewers asked the owner, director or other staff who could provide accurate answers to the questions
Data collection method	PAPI – Paper and Pencil Interview.
Quality control measures	Manual data checking was done by: interviewers, supervisors, and data entry operators. The questionnaires presenting some problems were back-checked by supervisors by phone or face-to-face. Logic checks were conducted during data entry.
Net sample size	1,999
Response rate	82.2 per cent

Bosnia and Herzegovina

Responsible agency	Prism Research, agency for social, media and marketing research.
Survey period	From 22 October 2012 to 28 November 2012.
Sample design	<p>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).</p> <p>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.</p>
Respondent selection	The person primarily responsible for the management within the companies.
Data collection method	CAPI - Computer assisted personal interview.
Quality control measures	<p>Logical control and consistency control of responses was done automatically through specific software.</p> <p>Approximately 10 per cent of questionnaires were back-checked by telephone.</p> <p>Data entry controls carried out through specific software at the time of data collection.</p>
Net sample size	1,997
Response rate	52.3 per cent

Croatia

Responsible agency	Ekonomiski institute, Zagreb (EIZ). Fieldwork carried out by Hendl.
Survey period	12 October 2012 to 4 December 2012.
Sample design	<p>Stratified simple random sampling. The stratification was made according to business sector and number of employees.</p> <p>The economic sector is the main domain. In each sector a number of businesses proportional to the number of existing businesses by size was selected.</p>
Respondent selection	The person primarily responsible for the management of the business entity.
Data collection method	CAPI - Computer assisted personal interview.
Quality control measures	Back-check control conducted by telephone on 10 per cent of the sample.
Net sample size	1,503
Response rate	60.1 per cent

Kosovo	
Responsible agency	Kosovo Agency of Statistics
Survey period	20 September 2012, to 30 October 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 Kosovo Statistical Business Register (SBR), resulting from the combination of data from both statistical sources (surveys) and administrative sources (Kosovo Business Registration Agency and Kosovo Tax Administration) treated with statistical methodologies. The economic sector is the main domain. In each sector the selected number of businesses was proportional to the number of existing businesses by size.
Respondent selection	The person primarily responsible for the management of the business entity.
Data collection method	PAPI – Paper and Pencil Interview.
Quality control measures	Controls during the survey on 15 per cent of businesses. Logical and professional controls on each questionnaire. Controls during data entry through specific software. Validity, range, duplication and consistency editing on the database.
Net sample size	2,000
Response rate	82.9 per cent

Montenegro	
Responsible agency	Statistical office of Montenegro (MONSTAT)
Survey period	16 October 2012 to 16 December 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 Statistical Business Register. SAS macro PROC SURVEYSELECT, with SRS method in each stratum, was used for selecting the sample. Proportional allocation by size categories was used for allocating companies in the sample. The strata in the last size category (businesses with 250+ employees) were a census.
Respondent selection	The person primarily responsible for the management of the business entity.
Data collection method	PAPI – Paper and Pencil Interview.
Quality control measures	Control information at the field level, i.e. the control of the individual fields. Back checks: 1. Direct during interview = 3.8 per cent; 2. Back-check in person = 5.6 per cent; 3. Back-check by telephone = 18.3 per cent.
Net sample size	2,000
Response rate	29.2 per cent

Serbia	
Responsible agency	Statistical Office of the Republic of Serbia (SORS)
Survey period	15 October to 2 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 Statistical Business Register (SBR) as of 14 August 2012, excluding the smallest units according to data on turnover from SBR by sector. The strata in the last size category (businesses with 250+ employees) were a census. Sectors were domain of estimates and Bethel algorithm was used for the sample allocation.
Respondent selection	The person primarily responsible for the management of the business entity.
Data collection method	PAPI – Paper and Pencil Interview.
Quality control measures	Data control was done in three phases: by interviewers, supervisors and data entry operators. Fieldwork coordinators back-checked by phone or face-to-face 17 per cent of interviews. Logic checks conducted during data entry.
Net sample size	1,725
Response rate	74.6 per cent

Former Yugoslav Republic of Macedonia	
Responsible agency	State Statistical Office (SSO) of the former Yugoslav Republic of Macedonia
Survey period	8 October 2012 to 2 November 2012
Sample design	Stratified simple random sampling. The stratification was made according to the business sector and number of employees. The sample frame was created from the SSO Statistical Business Register, with the exception of some data on the number of employees, which have been updated with recent available information from the Monthly Survey for Employees and Wages (May 2012). Proportional allocation by size categories was used for allocating companies in the sample. The business entities in each stratum are randomly drawn. Business entities in NACE Rev.2 section G – Wholesale and retail trade; repair of motor vehicles and motorcycles, with one or two employees were excluded from the sample frame.
Respondent selection	The person primarily responsible for the management of the business entity.
Data collection method	PAPI – Paper and Pencil Interview.
Quality control measures	The quality controls were conducted in the period from the 6-23 November 2012. First level of controls: Control of the interview was made in 8.51 per cent of the business entities (in 3.52 per cent a direct supervision during the interview; in 2.06 per cent a repeated face-to-face interview was conducted, while in 2.93 per cent a telephone verification was made by the supervisor). Second level of controls: Carried out by supervisors on the questionnaires through Blaise software. Third level of controls: Data entry controls, double entry controls and consistency checks.
Net sample size	1,504
Response rate	81.8 per cent