



# Rolling Back State Capture in Southeast Europe

Implementing Effective Instruments for Asset Declaration  
and Politically Exposed Companies



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The Regional Good Governance Public-Private Partnership Platform (R2G4P), coordinated by the Center for the Study of Democracy, Bulgaria aims to strengthen the rule of law in Southeast Europe (SEE) through delivering shared anticorruption solutions between state institutions and civil society. In 2022/2023, the initiative identified the legal and procedural improvements needed to transform asset declarations into an effective corruption prevention tool for the region. R2G4P updated its anti-corruption diagnostics of the integrity of the public procurement systems in nine SEE countries (Bulgaria, Croatia, Hungary, Romania, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia). It showcased how big data and expert assessments could lead to the creation of systems for near-real-time monitoring of state capture risks. The key conclusions and policy recommendations from R2G4P's work are summarized in the current report.

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- **BiH:** Organization for Security and Co-operation in Europe (OSCE) in BiH; EU Delegation in BiH; Agency for State Service of the Federation of BiH; Agency for the Prevention of Corruption and Coordination of the Fight against Corruption;
- **Bulgaria:** Inspectorate to the Supreme Judicial Council; State Agency “National Security”; Public Prosecutor’s Office;
- **Croatia:** Commission for the Resolution of Conflicts of Interest;
- **Hungary:** Momentum political party;
- **Montenegro:** Agency for Prevention of Corruption;
- **North Macedonia:** State Commission for the Prevention of Corruption (SCPC);
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# LIST OF ABBREVIATIONS

<b>ACA</b>	Anti-Corruption Agency (Serbia)
<b>ACER</b>	Albanian Center for Economic Research
<b>ANI</b>	National Integrity Agency (Romania)
<b>BiH</b>	Bosnia and Herzegovina
<b>CACIAF</b>	Commission for Anti-Corruption and Illegal Assets Forfeiture (Bulgaria)
<b>CfT</b>	Call for tender
<b>CIC</b>	Conflict of Interest Commission (Croatia)
<b>CIIMC</b>	Committee on Immunity, Incompatibility, and Mandate Control (Hungary)
<b>CPV</b>	The Common Procurement Vocabulary
<b>CRI</b>	Corruption Risk Index
<b>CSD</b>	Center for the Study of Democracy
<b>CSOs</b>	Civil Society Organisations
<b>EEA</b>	European Economic Area
<b>EPC</b>	European Policy Center
<b>EUR</b>	Euro
<b>FBiH</b>	Federation of Bosnia and Herzegovina
<b>GDPR</b>	General Data Protection Regulation
<b>GRECO</b>	Group of States against Corruption
<b>GTI</b>	Government Transparency Institute
<b>HIDAA</b>	Republic of Albania High Inspectorate of Declaration and Audit Assets
<b>HIDAACI</b>	High Inspectorate of Declaration and Control of Assets and Conflict of Interest (Albania)
<b>HUF</b>	Hungarian forint
<b>ICU</b>	Intensive care unit
<b>IDSCS</b>	Institute for Democracy Societas Civilis-Skopje
<b>IPF</b>	Institute of Public Finance
<b>MPs</b>	Members of Parliament
<b>NGO</b>	Non-Governmental Organisation
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PEPs</b>	Politically Exposed Persons

<b>R2G4P</b>	Regional Good Governance Public-Private Partnership Platform
<b>SCPC</b>	State Commission for the Prevention of Corruption (North Macedonia)
<b>SEE</b>	Southeast Europe
<b>SEE-9</b>	Southeast Europe - 9 (Bulgaria, Croatia, Hungary, Romania, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia)
<b>SELDI</b>	Southeast Europe Leadership for Development and Integrity
<b>SICAP</b>	Electronic System for <i>Public Procurement</i> (Romania)
<b>SOE</b>	State-Owned Enterprise
<b>TMR</b>	Termo Metal Resist d.o.o (private company in Sarajevo)
<b>UNCAC</b>	United Nations Convention Against Corruption
<b>USAID</b>	United States Agency for International Development

# EXECUTIVE SUMMARY

Russia's ongoing war of aggression against Ukraine has intensified existing geopolitical tensions throughout 2022 and into 2023, exposing **persistent rule of law deficiencies** and other governance gaps in Southeast Europe (SEE-9<sup>1</sup>). This in turn has spurred efforts to renew the stalled EU integration and consolidation process, which serves as the main driver of good governance reforms in the region. The current report builds upon international and EU measures<sup>2</sup> to strengthen the rule of law, and highlights the critical areas of impact that could be achieved through public-private partnerships. This second SEE Good Governance Report focuses on the **big data tools** necessary to identify the existence of ill-gained assets hidden by politically exposed persons (PEPs)<sup>3</sup>. These tools could help **counter state and media capture practices** in the region, preventing authoritarian tendencies, including foreign malign influence, from threatening the Euro-Atlantic democratization of Southeast Europe.<sup>4</sup>

## Asset declarations as corruption prevention and risk assessment instrument

Asset declarations are a strong, yet currently **under-utilised instrument for preventing corruption and illicit finance** among civil servants, and in particular among PEPs in SEE-9. The media and civil society in the region, along with international organisations, continuously investigate and report on the many evident gaps between the living standards of politicians and their families, and what they officially declare to the public as assets and income. All SEE-9 countries have in place a legal framework regulating asset declarations as part of their anti-corruption toolboxes. However, these **regulations are rarely enforced in a consistent manner**, and instead mostly result in short-lived annual scandals or occasional repression campaigns against political opponents. In order for this tool to become an effective instrument for tackling state capture and corruption in SEE-9, the current report analyses the legal and institutional framework of asset declarations and proposes policy solutions for overcoming the tool's shortcomings.

<sup>1</sup> Bulgaria, Croatia, Hungary, Romania, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia.

<sup>2</sup> See: European Commission, *2022 Rule of Law Report*, 13 July 2022. European Commission, *European Democracy Action Plan: making EU democracies stronger*, 3 December 2020; Court of Justice of the European Union, *Press Release: Measures for the protection of the Union budget*, 16 February 2022; White House, *United States Strategy on Countering Corruption*, December 2021; U.S. Department of State, *Western Balkans Sanctions*, Office of Economic Sanctions Policy and Implementation, 3 October 2022; U.S. Department of the Treasury, *Treasury Sanctions Influential Bulgarian Individuals and Their Expansive Networks for Engaging in Corruption*, 2 June 2021; U.S. Department of State, *The Summit for Democracy*, 2022; and International Anti-Corruption Conference, *The Washington Declaration: Uprooting Corruption, Defending Democratic Values*, 12 December 2022.

<sup>3</sup> The first SEE Good Governance was released in 2022 and aimed to uncover how illicit wealth is generated. For more see: Mineva, D. et al., *Public Procurement Integrity in Southeast Europe: Mechanisms, Red Flags, and State-Owned Enterprises in the Energy Sector*, Sofia: Center for the Study of Democracy, 2022.

<sup>4</sup> Center for the Study of Democracy, *Countering the Kremlin Playbook in Europe after Russia's Invasion of Ukraine*, Policy Brief No. 115, October 2022.

## Verification and checking of asset declarations

Some PEPs, as well as other categories of civil servants in SEE-9, are **not obliged to declare their assets**, and as a result, their wealth remains hidden from state institutions and the general public. This problem is most pronounced with regard to **senior managers, directors, and board members of state-owned companies**. These individuals are not obliged to declare their assets to any extent in Serbia (unless they are appointed by the government) and in Bosnia and Herzegovina (BiH). In addition, despite the continuing legal efforts, the information that individuals are obliged to declare is rarely all-encompassing, which hinders proper prevention and enforcement. **Legal loopholes** allowing disclosure avoidance are prevalent across the region. For example, loans from private individuals do not always have to be declared in Hungary, and presents to close family members are not made public at all.<sup>5</sup> In Bulgaria and Croatia spouses and cohabitants are not legally obliged to inform their partners of the assets they own, providing an escape route for non-declaration. In both Hungary and North Macedonia, PEPs are required to declare ownership of shares in companies but not the assets held by these companies. Thus, personal assets can be written off as corporate property.

Common forms of **hiding assets from disclosure** include PEPs transferring them to family members or close relatives, and/or facilitating the “generation” of illicit wealth by ensuring preferential treatment or another form of competitive advantage for the extended family. However, only assets owned by spouses, cohabitants, and sometimes children need to be declared and are consequently checked by the responsible bodies in a majority of the analysed countries. In Romania, children of PEPs are not included in asset declarations after reaching adulthood, making it harder to identify conflicts of interest or potential hidden asset ownership. Parents of PEPs are only checked in about half of the countries.

Most SEE-9 states have procedures for timely submission of asset declarations and for performing an initial basic check for discrepancies between income and declared assets (e.g., the “arithmetic-logical” initial check in Albania). However, **none of the nine analysed countries have a system of comprehensive lifestyle audits**. This is largely due to the lack of sufficient human resources able to perform in-depth checks, including cross-checks in multiple registers at the national level and abroad, where illicit wealth is often parked. This issue is exacerbated by the large number of persons obliged to submit declarations in some of the SEE-9 countries- e.g., about 300 000 in Romania<sup>6</sup> as of 2022. Ideally, checks should also be triggered by anonymous tips regarding illicit enrichment from third parties (whistle-blowers, civil society

<sup>5</sup> Cseke, B., “Szijjártó megépítette a műfüves focipályát a balatoni nyaralóhoz, de alig látják mostanság a faluban” [Szijjártó has built an artificial grass football field for the holiday home at Lake Balaton, but it is hardly seen in the village right now], *telex.hu*, 12 August 2021; Oroszi, B. and Gergely, M., “Saját lábön forgó palota – feltártuk a hatvanpusztai Orbán-uradalom titkait” [Palace on its own – we have uncovered the secrets of the Orbán estate in Hatvanpuszta], *hvg.hu*, 24 June 2021.

<sup>6</sup> National Integrity Agency (ANI), *Annual Activity Report, 2021*; In electoral years, all candidates in Romania also have to submit declarations, further increasing this number.

organizations – CSOs, media articles, etc.). However, according to national laws, **anonymous tips are not accepted** in Bulgaria, North Macedonia, and Romania. In BiH, such checks are expected by law, but not always performed in practice. In Hungary, only tips backed by strong evidence are inspected.

A common type of violation concerns the **discrepancy between assets' real market value and their acquisition price**, as recorded on the official purchase/ownership documents. In some cases, two-story villas were declared as “wine cellars” in Hungary.<sup>7</sup> In Bulgaria, what became widely known as the “Apartment-Gate” scandal brought down a number of senior political and government figures who had declared the acquisition of assets at strongly deflated values.<sup>8</sup> Checking, comparing, and proving a discrepancy between market and book values of assets is a complicated procedure, for which the authorities rarely possess adequate knowledge and capacity. Investigative journalists and civil society thus remain crucial for uncovering and warning against such irregularities.

Another issue of concern is how long asset declarations remain public. In Croatia and Hungary, **asset declarations are removed from public registers** one year after the end of the relevant PEP's term in office, and in Serbia – after three years. In North Macedonia, asset declarations are removed immediately after a PEP leaves office.<sup>9</sup> This further restricts public memory and could hamper the investigative work of media and civil society.

Performing cross-checks in multiple public registers and exchanging information with other public institutions both at the national level and abroad is vital for enhancing the beneficial and **preventative effects of asset declarations**. These mechanisms exist at various stages of development across the SEE-9. Still, despite multiple attempts to interconnect national public registers across the analysed countries, **ad hoc cross-checks continue to be performed manually** in most cases. In Croatia, the Conflict of Interest Commission (CIC) performs checks in other registers for assets that are missing from the declaration. The Agency for Prevention of Corruption of Montenegro has the technical ability to compare data in official databases through direct online access, including the databases of the Ministry of Interior, the Tax Administration, the Real Estate Administration, the Securities Commission, the Central Register of Companies, the Central Bank of Montenegro, and commercial banks (provided there is a consent for lifting bank secrecy rules). In North Macedonia, the introduction of a software solution for interconnecting multiple public bodies' registers was planned for the end of 2019, but has not yet been reported as officially functioning as of 2022.<sup>10</sup>

<sup>7</sup> Átlátszó, “Képviselői vagyonyilatkozatok: nyomokban átláthatóságot tartalmaz!” [Representatives' declarations of assets: contains traces of transparency!], 31 January 2022; and EuroPAM, Financial Disclosure – Hungary, 2020.

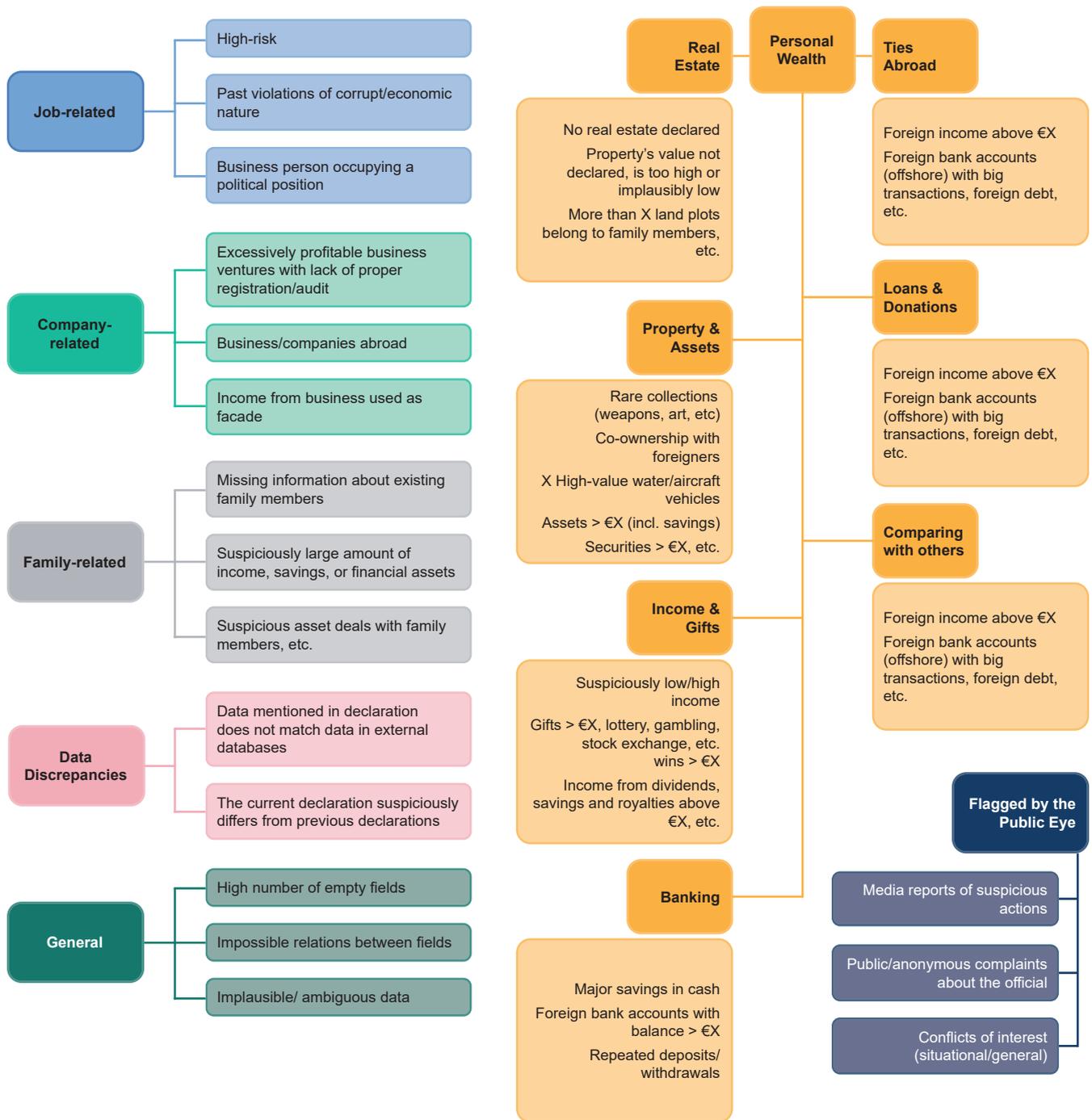
<sup>8</sup> Dimitrov, M., “Bulgaria's 'ApartmentGate' Scandal Engulfs Anti-Corruption Chief”, *Balkan Insight*, 1 April 2019.

<sup>9</sup> It is expected that in 2023, a term of two years will be introduced in regards to the obligation to keep the asset declaration published online.

<sup>10</sup> See also: Mia, “На ДКСК ѝ е неопходен софтвер за полесно да се бори против корупцијата” [SCPC needs software to facilitate the fight against corruption], 31 January 2020.

It is highly recommended that a unified checking procedure is introduced across all public bodies, based on a predetermined set of red flags. The current report provides an example of a **comprehensive list of risk indicators for checking asset declarations**, which could help national authorities to focus their scrutiny on a smaller number of persons and related companies, aiding the work of national anti-corruption bodies and internal integrity units.

**Example of a comprehensive list of risk indicators for checking asset declarations**



Sources: CSD, based on The World Bank, *Automated Risk Analysis of Asset and Interest Declarations of Public Officials: A Technical Guide*, 2021; Council of Europe, *Practitioner Manual on Processing and Analysing Income and Asset Declarations of Public Officials*, 2014; Poltoratskaia, V., *Use of Asset Declarations and Procurement Data to Identify Risk*, Presentation at the workshop “Developing Risk Indicators for Assets Declaration and Public Procurement Data”, Government Transparency Institute / Central European University, Armenia, Yerevan, 15-16 June 2022; OECD, *Verifying Asset Declarations in Greece: Guidelines for Standard Procedures and Oversight Bodies*, 2017.

Several **longstanding loopholes** are present in the legislation and procedures for checking asset declarations. Some of these gaps seem to be recurrent across the region over many years.

### Long-standing loopholes in the verification and checking procedures of asset declarations

The checking verifies only the reported information but not whether there are any undeclared assets

Limited scope of assets that should be declared (e.g. PEPs must disclose their majority shares in companies, but not the assets held by those businesses)

No comprehensive legal specifications regarding the receipt of gifts

Some types of public officials are excluded from declaring assets and interest

Lack of quality requirements for submitted asset declarations (allowed submission of non-machine readable, non-searchable or hand-written photocopies)

Asset declarations include "personal assessment" of the value for immovable and movable assets or incorrect classification / description of assets

Only the immediate family (spouses or cohabitants) are checked without assessments of the individual risk for hiding assets in wider circles of related individuals and businesses

Some oversight authorities do not have a fixed annual target on the number or share of audited declarations, and a detailed checking process is launched only in case a suspicion is raised

The relevant authorities do not compare the data from the asset declarations with other public registers (property, company, tax, stocks and securities, customs, cadastre, etc.)

The authorities typically do not investigate how someone obtained property before taking office

Asset declarations are removed from public registers shortly after the end of the public servant's term in office, which hinders further investigations, including by the media and the civil society

Lack of machine-readable and downloadable in bulk public databases of asset declarations

Source: CSD.

### Limited capacity of the checking authorities

The **lack of comparable data** hinders analysis among all SEE-9 countries with regard to the workload of the checking institutions, in addition to other relevant indicators, which could explain the low detection and sanctioning rates. Still, some basic **conclusions for the region** could be drawn based on the available data:

- The total number of employees at the checking institution varies between 20 and 300 people.
- The officials directly responsible for checking asset declarations vary between 4 and 45.
- The number of persons obliged to submit declarations is the greatest in Romania and the smallest in North Macedonia and Croatia<sup>11</sup>.
- On average, around 12% of the legally obliged persons submitted their asset declarations with a delay or failed to submit at all.
- The share of persons who have been checked by the relevant authority through a secondary/detailed check varies between 8% and 20%, except in Montenegro (0.32%), Romania (0.44%)<sup>12</sup> and Croatia (1.19%).
- Between 6 and 30 persons are checked in detail by one inspector.

### Imposing sanctions through cooperation with other authorities

The SEE-9 countries' authorities directly responsible for collecting asset declarations submit information regarding any identified irregularities to other relevant authorities (e.g. tax and revenue), and to the prosecution. However, **the size and severity of sanctions**, especially the ones imposed by the checking institution, **are low in all SEE-9 countries and do not deter PEPs from violating the rules**. The fine for late or no-submission of asset declarations usually ranges between EUR 200 and EUR 1,000. Some PEPs prefer to pay the fine and still not submit a declaration. Another issue of concern is the **arbitrary approach for determining who to investigate** and punish. The more potent sanctions are imposed by the courts (e.g., imprisonment), and in some cases – by tax authorities, when they uncover tax violations in the process of checking asset declaration. Information about imposed sanctions is published in most of the countries, except in Albania and Hungary<sup>13</sup>. In BiH,

<sup>11</sup> In Croatia, the number of persons obliged to submit declarations increased by around 1,250 as a result of the new Law on Prevention of Conflict of Interest. The total number of people obliged to submit asset and interest declarations was 3,350 in 2022.

<sup>12</sup> Romania is an outlier, as the country has the largest number of persons obliged to declare their assets.

<sup>13</sup> In Hungary, there is legal obligation for publishing of sanctioning decisions, however it is not implemented in practice, as no PEP has been sanctioned since 2015.

the information about imposed sanctions is stated within the Central Election Commission's report, yet only as a number of sanctioned officials without disclosure of their identity.

There are **four methods**, most often observed in the SEE-9 countries, **for avoiding punishment** or at least reducing its severity. These include:

- Omitting to declare assets, or under-valuating the declared assets;
- Influencing the public authorities through political pressure to drop the investigation/prosecution and/or to replace a more severe penalty (e.g. imprisonment) with a looser sanction (e.g. a fine);
- Retroactively changing asset declaration texts, to remove irregularities;
- Changing the legislation so that certain types of public officials (or their relatives) are left out of the circle of officials obliged to declare assets, company or family relations.

#### Long-standing loopholes in the sanctioning of irregularities in asset declarations

The relatively small fines do not encourage strict submission of asset declarations

In many cases criminal charges against public officials are dismissed or are replaced with looser (administrative) penalties

Lack of escalation in sanctions / stricter sanctions for consecutive violations

The names of the sanctioned high-level public officials are not published openly

Source: CSD.

#### Data availability

None of the SEE-9 countries provide a **machine-readable and downloadable-in-bulk open database**, containing all asset declarations received. The analysed countries could be split into the following categories:

- **No database.** The outlier in this respect is Albania, as the High Inspectorate of Declaration and Control of Assets and Conflict of Interest (HIDAACI) does not provide any access to a public database. There is only a [register of Requests and Answers of the High Inspectorate](#) where answers to official requests are published.
- **Hand-written photocopies.** In Hungary, the asset declarations are included in a searchable database; however, the documents are hand-

filled photo-copies, and hence – not machine-readable. In Romania many declarations had been submitted in hand-written format up to 2021, before the obligation to submit machine-readable PDFs entered into force in 2022. From 2023 onwards, only declarations with digital signatures will be accepted, except for candidates during the elections.

- **XML format (available only on case-by-case basis).** This format is used by the majority of the countries – Bulgaria, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia. However, despite being machine-readable, the information cannot be downloaded in bulk as a full database. Thus, any big data analysis will require the information to be scraped or copied directly from the webpage. Croatia provides a hybrid case, as the declarations are available in both XML, JSON, and PDF formats.

On the positive side, it should be noted that the State Commission for Prevention of Corruption (SCPC) of North Macedonia plans to introduce a tool for electronic submission of machine-readable assets and interest declarations in 2023. HIDAACI in Albania also plans to improve the system and create full and free access to the declarations for the general public in 2023.<sup>14</sup> In Romania, the e-DAI electronic submission platform was introduced on 1 January 2022.<sup>15</sup> From this date on, the National Integrity Agency no longer accepts declarations of assets and interests in paper format.<sup>16</sup>

### Good practice examples for efficient checks of asset declarations

There are some good practices in SEE-9, that could serve as an inspiration and example to the rest of the countries from the region and beyond. These include: the use of electronic platforms which provide automatic integrity warnings in Romania; the gathering of information on the ultimate beneficial owners in Albania; the cross-checks in multiple registers, increasing the scope of the people obliged to declare assets, and awareness raising practices in Croatia; and expanding the authority and the role of other public bodies in checking suspicious circumstances and filing criminal charges as well as setting procedures for lifting immunities in Serbia.

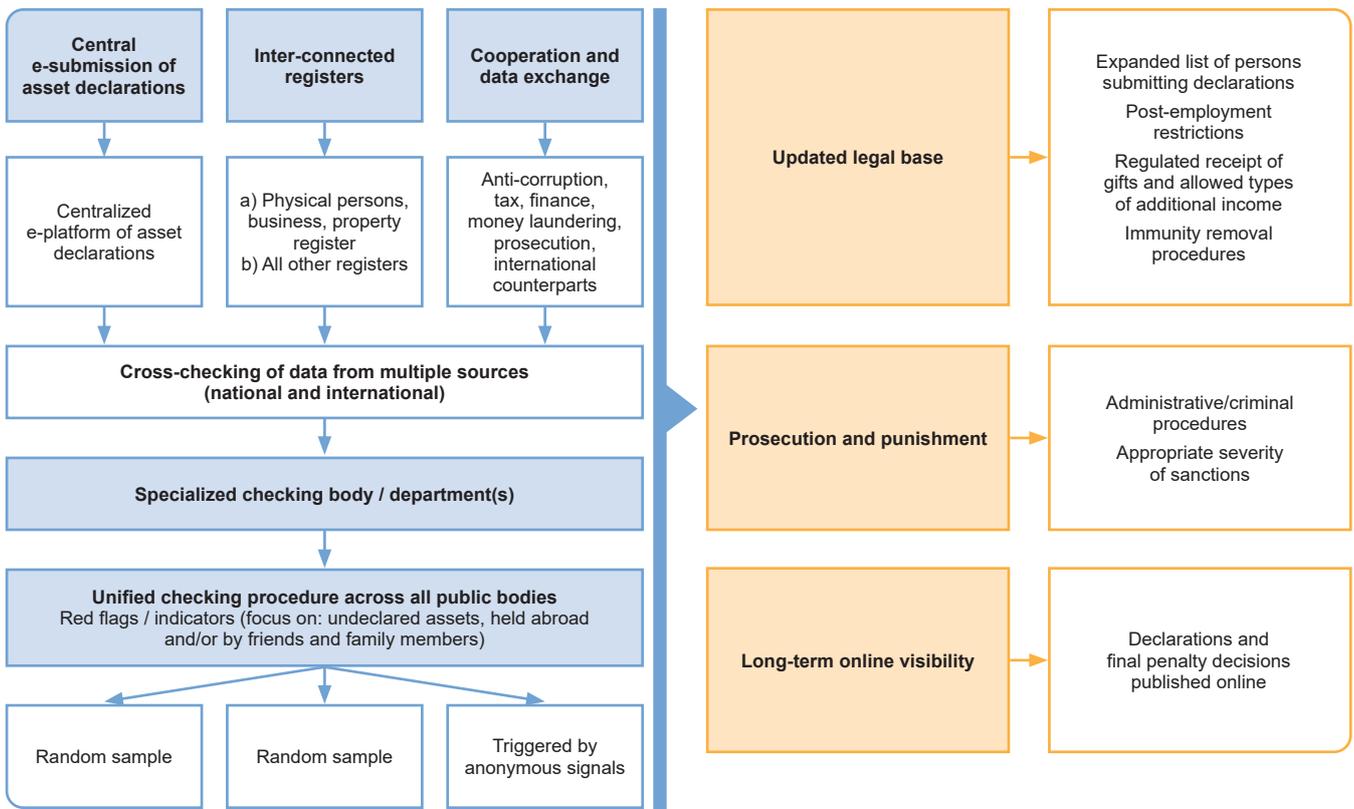
While the procedural and legal gaps differ across the countries, several **key prerequisites for efficient checks** of asset declarations stand out.

<sup>14</sup> Information provided by R2G4P members based on official requests for information and meetings held with the respective institutions.

<sup>15</sup> National Integrity Agency, [Communicate – regarding the electronic transmission of asset and interest declarations exclusively through the e-dai system and the deadline for submitting annual declarations](#) [Communique: regarding the electronic transmission of asset and interest declarations exclusively through the e-DAI system and the deadline for submitting annual declarations], 8 April 2022.

<sup>16</sup> Juridice.RO: [Declarațiile de avere și de interese vor fi transmise ANI exclusiv prin sistemul electronic e-DAI. UPDATE: 340.000 deponenți înregistrați](#) [Declarations of assets and interests will be sent to ANI exclusively through the e-DAI electronic system], 2022.

**Prerequisites for efficient checks of asset declarations**



Source: CSD.

**Public procurement irregularities among politically exposed companies**

Public procurement has always been considered one of the **key corruption and fraud avenues** for public position holders. More worryingly, it has been closely associated with state and media capture practices in the region, which have continuously undermined democratic and market economy transition, holding off EU enlargement and preventing international aid from achieving its aims.<sup>17</sup> The current report brings together big data on public procurement and politically-exposed persons to analyse **the effect of political connections on corruption risks in public procurement**. The study covers SEE regional trends and presents examples from Bulgaria, Croatia, Hungary, Romania, North Macedonia, and Serbia. The applied methodology is based on individual red flags that can further be aggregated into a cumulative integrity score.

Most of the countries in the region show a higher contract value share than contract volume share of politically connected firms. At the same time, there is an observable difference between the average value share of connected firms within their own market division and the aggregated annual share of the same connected firms on all markets (not calculated by CPV<sup>18</sup> divisions):

<sup>17</sup> Shentov, O., Stefanov, R., and Todorov, B. (eds.), *Geopolitics, State Capture and Peak Corruption. What is Next for Anticorruption in the Western Balkans?*, SELDI, 2022.

<sup>18</sup> Common Procurement Vocabulary (CPV).

in the majority of cases, the average within market share is higher. This indirectly proves that **politically connected firms are quite frequently concentrated within certain markets** rather than scattered across different sectors.

In regards to buyer type (of public procurement authority), the regional trend is diverse and not straightforward. Yet, in the majority of cases there is an observable difference between buyer type of politically connected companies' contracts versus other companies' contracts. For example, in Romania there are significantly more national authorities among politically connected companies' contracts than the others (40% versus 20% among non-connected companies). At the same time, in Hungary the prevailing category is regional authority (40% versus around 30% among non-connected firms).

As for procedure type, in the majority of the countries, the share of open procedures among connected firms' contracts is either not significantly different or is opposite to the expectations (i.e., there are slightly more open procedures among connected firms). The relatively high share of open procedures among politically connected firms might mean that **in most of the cases other practices are used for corruption** (e.g. tailored tender specifications, short advertisement period, etc.). This finding suggests that with time, it is likely that systemically corrupt environments tend to **evolve into state capture** practices, in which formal rules are more of a box-ticking exercise. Such developments call for the development of dynamic systems for risk red-flagging, which should take into account constantly evolving corruption behaviour.

The aggregated integrity score in the region is always slightly lower for connected firms with some variation across countries. Depending on the quality of the data, for some countries the regression models showed more robust and expected results than for others with the majority having **integrity level associated with lower scores in case of politically connected suppliers**.

### **Post COVID corruption risks in public procurement**

In most of the cases the non-healthcare market is not associated with any significant changes due to the introduction of the state of emergency, or the change in legislation allowing the use of negotiated procedures for buying COVID-related products. At the same time, it can be observed that the level of integrity either goes down for COVID market only (Romania, Hungary, Croatia), or results in a downward trend for the whole healthcare market with rapid fluctuations in the COVID market (Bulgaria and North Macedonia), in line with the European trend.

## The way forward

Enhancing the risk assessment methodologies, policy procedures and measures aimed at preventing corruption, state capture<sup>19</sup>, illicit enrichment and illicit finance<sup>20</sup> could be achieved only through sustained cooperation between the public bodies, the civil society, the media, the private sector, and international partners. The use of big data in particular could facilitate the identification and sanctioning of the integrity breaches in the distribution of public procurement, state aid, concessions, strategic investments and EU funds. Ensuring better levels of governance in this domain in SEE-9 has become particularly imperative in view of the **increased risks of economic security breaches** in relation to Russia's invasion of Ukraine and the related **imposition and enforcement of sanctions**. In this respect, the countries in the region have already undertaken different legislation, policies and measures. However, they need to upgrade their defences and **strengthen implementation** to guarantee they do not turn into the weakest links in the common EU / EEA market.

The following **key policy recommendations** could provide the backbone for the immediate next steps, which can close existing governance loopholes and roll back state capture practices in SEE-9:

- **Coherent checking procedure of asset declarations.**
  - The relevant authority should check if the asset declarations are submitted on time.
  - The anti-corruption authorities should **set up a dedicated body or department** fully focused on performing detailed checks ("lifestyle audits") of asset declarations. It should verify not only the reported information but whether there are hidden or undeclared assets, including abroad and/or held by friends and (extended) family members. Ideally, the procedure should ascertain the origin of assets.
  - This body should utilize a risk assessment and checking procedure, based on **big data and a set of red flags**. In the countries where more than one body performs the checks, this procedure should be unified across the whole of government.
  - The body should perform three types of checks: a random sample undergoing detailed check / audit, checks of priority/risk groups, as well as such triggered by anonymous signals from third parties. This would increase the risk of detecting irregularities and decrease the sense of impunity.
  - Strong cooperation among all relevant bodies (anti-corruption, tax, finance, money laundering, prosecution, etc.) should be established. The data declared in the asset declarations should be **cross-checked with the data from other public registers** (national and international)

<sup>19</sup> Stoyanov, A., Gerganov, A., and Yalamov, T., *State Capture Assessment Diagnostics*, Sofia: Center for the Study of Democracy, 2019; Galev, T., Gerganov, A., and Todorov, B., *State Capture Deconstructed. Risk Measurement in Vulnerable Economic Sectors in Europe*, Sofia: Center for the Study of Democracy, 2021.

<sup>20</sup> R2G4P, *Second specialised regional training for R2G4P members: Innovative tools and methodologies for tracking illicit financial flows, state capture and corruption*, 18-20 May 2022, Budapest; Presentation by Dr. Vanya Petrova, Senior Analyst, Economic Program, Center for the Study of Democracy, 18-20 May 2022, Budapest.

according to national and EU data privacy rules, and if relevant – with private sources (professional bodies, social media, etc.).

- o Multiple bodies or stakeholders should have the possibility to submit the issue to the prosecution or to other relevant judicial authorities, and to initiate administrative, criminal (and if relevant-civil) procedures. The investigations should not omit the issue of how someone has obtained property before taking office.
- **Improving the legal base in terms of asset disclosure.** The legal base should oblige police, customs, senior managers, directors and board members of state-owned enterprises, military personnel, members of political parties (e.g., the ones outside of parliament but receiving state subsidies), and where relevant – members of religious groups – to also submit asset declarations. The legal specifications regarding the **post-employment restrictions for PEPs**, the receipt of gifts, as well as the allowed types of additional income for public servants, should be clarified in detail. The legal base could be improved by obliging PEPs to disclose not only their majority shares in a company, but also the assets held in that business.
- **Transparency and digitalization of asset declarations and related registers.** The countries from SEE-9 should only allow asset declarations to be submitted in electronic, machine-readable formats. All asset declarations should be collected in **one single database and/or accessible through a single, unified website**. The relevant bodies should not be allowed to retroactively change asset declarations, so that a detected irregularity no longer exists. In case of changes, both the original and the corrected declaration should be available for review. There is also a need to establish **machine-readable** public procurement and corporate databases, as well as databases of sanctioned legal and physical persons, which can be downloaded in bulk. The databases should include information on ultimate beneficial ownership and financial data at company level. It is also recommended that all countries establish procedures for **tracing transactions with crypto currencies** and harmonize their approaches towards the taxation of crypto assets, as suggested by the European Parliament.<sup>21</sup>
- **Inter-connecting public registers.** A core prerequisite for the efficient use of big data is for all SEE-9 countries to inter-connect all public registers. This is a two-step process – *first*, the primary (basic) registers should be connected with each other: physical persons register (including civil status and family members), business (legal entities) register, and the property register. *Second*, all remaining registers should be joined one by one.<sup>22</sup>
- **Introducing data-driven analysis of public procurement and asset declarations.** Use of big data for early warning and risk analysis should be

<sup>21</sup> European Parliament, [Cryptocurrency dangers and the benefits of EU legislation](#), 11 October 2022.

<sup>22</sup> Tax, social security, land register, motor vehicles register, stocks and securities, patents and licenses registry, customs, court registries, party finance database, etc.

developed and regularly used and updated by the relevant public bodies, jointly with the civil society, international bodies and investigative media.

In regards to **asset declarations** – big data could allow a set of red-flags to warn if illicit wealth has potentially been acquired and/or transferred to (distant) relatives or friends (against low or no compensation), and if it has been hidden in a complex chain of subsidiaries and mother companies (including the use of shell companies and straw persons). In regards to company behaviour – big data could reveal if the companies linked to politically exposed persons have higher turnover, market position (possible monopolization), profit per employee, etc. – compared to the companies without political ties in the same sector. In regards to **public procurement** integrity, red-flags could warn against large shares of single bidding, buyer dependence on supplier, company tax haven registration, too short submission or decision period, missing call for tender, use of restrictive procedure types, etc.

Based on data from all public registers, the governments from the SEE-9 countries, supported by the civil society, are recommended to elaborate electronic platforms with interactive dashboards for detecting corruption risks and patterns of abuses. Such platforms could benefit from the red-flags and indicators, tested in the framework of the R2G4P initiative and presented in the current and future reports. The next and final step would be to enforce the International Treaty on Exchange of Data for the Verification of Asset Declarations.<sup>23</sup>

- **Improving competition in public procurement and reducing the use of non-competitive procedures.** In parallel to the use of red-flags, the public procurement legal base should also fully revert to its pre-COVID state, **abolishing all “temporary” emergency procedures** (with special focus on reducing the share of single bidder contracts and the number of direct awards). Objective bid evaluation criteria and matching tender sizes to the market capacity could potentially boost the level of competitiveness in public procurement. Increasing the number of people working on procurement documents could improve the overall speed of decision period, as well as quality of the evaluation and award decisions.
- **Efficient punishment.** One of the most worrying issues, frequently stated by the civil society, EU-level and international bodies, is that most criminal charges against public officials get dismissed or are replaced with looser (administrative) sanctions, especially when higher political levels are concerned. At the same time the relatively small fines do not encourage the full compliance with the law. Thus, it is important for policy-makers to ensure that the size and severity of penalties is high enough (dismissal, seizure of assets, imprisonment), **prosecution is more efficient**, and the final penalty decisions are published online. The SEE-9 countries should further set up a mechanism for lifting immunities, especially for criminal proceedings.

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<sup>23</sup> Regional Anti-Corruption Initiative, [Regional Data Exchange on Asset Declarations and Conflict of Interest](#), RAI, 2021.



# INTRODUCTION

The ongoing geopolitical tensions in 2022-2023 have starkly exposed **rule of law deficiencies and other governance gaps across Southeast Europe** (SEE-9<sup>24</sup>). This in turn stalled the EU integration and consolidation process, the main driver of good governance reforms. SEE-EU member states Hungary,<sup>25</sup> Romania,<sup>26</sup> Bulgaria,<sup>27</sup> and Croatia<sup>28</sup> have been among the countries with the most recommendations for action, stated in past EC reports. The criticism included but was not limited to the existence of anti-competitive practices in public procurement, the lack of ability and human resources to investigate and prosecute corruption offences, and the opaque recruitment to public-sector jobs leading to political dependence of the regulatory bodies.

The current report builds upon international and EU actions<sup>29</sup> for strengthening the rule of law, and highlights the **critical areas for impact** that could be achieved through a public-private partnership. While the first SEE Good Governance report<sup>30</sup> aimed to uncover how illicit wealth is generated (e.g., through manipulating procurement procedures and mismanagement of state-owned-enterprises), the current report focuses on the necessary big data tools for identifying the existence of ill-gained assets, hidden by politically exposed persons (PEPs).

The current report **aims** to:

- **Reveal and compare the governance gaps** that allow politicians, senior officials, and those entrusted with prominent public functions and politically exposed (politically connected) companies to accumulate and hide illicit wealth, through corruption, state capture, and unfair competitive advantages.
- Showcase how **big data analysis** (combining company, procurement, and asset declarations' data), as well as expert assessments, could lead to

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<sup>24</sup> Bulgaria, Croatia, Hungary, Romania, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia.

<sup>25</sup> European Commission, [2022 Country Report – Hungary](#), 23 May 2022.

<sup>26</sup> European Commission, [2022 Country Report – Romania](#), 8 June 2022, and European Commission, [Report on Progress in Romania under the Cooperation and Verification Mechanism](#), 22 November 2022.

<sup>27</sup> European Commission, [2022 Country Report – Bulgaria](#), 23 May 2022.

<sup>28</sup> European Commission, [2022 Country Report – Croatia](#), 23 May 2022.

<sup>29</sup> See, for example: European Commission, [2022 Rule of law report](#), 13 July 2022; European Commission, [European Democracy Action Plan: making EU democracies stronger](#), 3 December 2020; Court of Justice of the European Union, [Press Release: Measures for the protection of the Union budget](#), 16 February 2022; United States Strategy on Countering Corruption, 2021; and U.S. Department of the Treasury, [Treasury Sanctions Influential Bulgarian Individuals and Their Expansive Networks for Engaging in Corruption](#), 2 June 2021.

<sup>30</sup> Mineva, D. et al., [Public Procurement Integrity in Southeast Europe: Mechanisms, Red Flags, and State-Owned Enterprises in the Energy Sector](#), Sofia: Center for the Study of Democracy, 2022.

the creation of systems for real-time monitoring of risks and vulnerabilities in politically connected companies.

- **Provide recommendations** to the relevant bodies on how the process of checking, investigating, and sanctioning inconsistencies in the asset declarations, as well as the public procurement process, could be made more efficient and transparent in SEE-9.

**Box 1. Who are “politically exposed persons (PEPs)” and “persons with high political power”?**

The term “politically exposed persons (PEPs)” usually refers to individuals who are or have been entrusted with public functions, as well as their family members and close associates. PEPs are potentially in a position to misuse their influence for personal gain.<sup>31</sup> While there is no internationally recognized list of the types of officials defined as PEPs, guidance in this respect can be found in the glossary of the Financial Action Task Force (FATF)<sup>32</sup> and in European Union Commission Directive 2006/70/EC<sup>33,34</sup>. Still, researchers and international organizations such as the World Bank<sup>35</sup> consider that the definitions used by Directive 2006/70/EC and FATF should be expanded to include other categories (e.g. mayors, judges and prosecutors).

Thus, for the purposes of the current report, the term “politically exposed persons” includes not only the types of officials listed in Article 2 of Commission Directive 2006/70/EC, but also all “persons with high political power” (prime ministers, ministers, mayors, municipal counsellors, district governors, rectors – including all their deputies – as well as Members of Parliament, members of governing boards of state-owned enterprises, commissioners, and the chief architects).

The **use of big data for uncovering ill-gained wealth** is not simply a technical matter, limited to the creation of IT systems, electronic platforms and red-flag methodologies. It also necessitates political will and debate, as well as update of the national and EU-level legislation. For example, the 5th EU

<sup>31</sup> Greenberg, T. S. et al., *Politically Exposed Persons: Preventive Measures for the Banking Sector*, World Bank, 2010, p. 3; Rossi, I.M. et al., *Using Asset Disclosure for Identifying Politically Exposed Persons*, World Bank, 2012, p. 7.

<sup>32</sup> According to the online Glossary of the *Financial Action Task Force*, PEPs are: heads of state, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

<sup>33</sup> *Commission Directive 2006/70/EC* of 1 August 2006 laying down implementing measures for Directive 2005/60/EC of the European Parliament and of the Council as regards the definition of politically exposed person and the technical criteria for simplified customer due diligence procedures and for exemption on grounds of a financial activity conducted on an occasional or very limited basis.

<sup>34</sup> According to Commission Directive 2006/70/EC, Article 2, PEPs are: (a) heads of state, heads of government, ministers and deputy or assistant ministers; (b) members of parliaments; (c) members of supreme courts, of constitutional courts or of other high-level judicial bodies whose decisions are not subject to further appeal, except in exceptional circumstances; (d) members of courts of auditors or of the boards of central banks; (e) ambassadors, *chargés d'affaires* and high-ranking officers in the armed forces; (f) members of the administrative, management or supervisory bodies of state-owned enterprises.

<sup>35</sup> Rossi, I.M. et al., *Using Asset Disclosure for Identifying Politically Exposed Persons*, World Bank, 2012, pp. 36-37.

Anti-Money Laundering Directive<sup>36</sup> from 2018 requires that EU member states establish **publicly accessible registers of beneficial ownership**. However, this provision was declared invalid on 22 November 2022 by the Court of Justice of the European Union,<sup>37</sup> indicating that further clarifications are needed to justify the interference with the rights to privacy and personal data protection of the beneficial owners. Similar concerns are associated with the Open Data Directive<sup>38</sup> from 2019, and its transposition involves anonymization of any personal information. The public company registers usually provide the address, activities, and tax number of a company, however access to any financial data at firm level could be obtained only from paid sources. The **data transparency** in the region could benefit from the set-up of open and searchable databases of sanctioned legal and physical persons. The risks of **crypto assets** being used for illicit flows, financial crime and market manipulation have also been acknowledged by the European Parliament, which suggested the adoption of a regulation requiring their tracing, as well as a better national-level coordination on taxing crypto assets.<sup>39</sup>

The current analysis was supported by the work of national contributors from the SELDI network and by inputs and feedback from the representatives of the public and civil society sector taking part in the R2G4P Platform.

#### Box 2. Other definitions used

In addition to “politically exposed persons” and “persons with high political power”, the current report uses the following terms:

- **“Politically exposed company”** is a private company or state-owned enterprise (SOE), whose decisions could be influenced by politically exposed persons (PEPs). For the purposes of the current research, the main indicator used to define politically exposed companies is the participation of a PEP or their immediate relatives in the company or state-owned enterprise.
- **“Immediate relatives”** are spouses, parents, siblings and children (excluding cousins, aunts, etc.).
- **“Company participation”** is participation in the management board/board of directors of a private company or SOE and/or ownership of over 50% of its shares or assets. Minority shareholders are not included in the current analysis.
- **“Illicit finance”** is defined as “dirty money”, illegally earned, moved, or used. Illicit finance harms the economy either directly (e.g., via lost tax revenue) or indirectly (e.g., by eroding institutions).<sup>40</sup>

<sup>36</sup> Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

<sup>37</sup> Access Info, [Open Beneficial Ownership Register Rules Declared Invalid by EU’s Highest Court, 23 November 2022](#).

<sup>38</sup> Directive (EU) 2019/1024 of the European Parliament and of the Council of 20 June 2019 on open data and the re-use of public sector information.

<sup>39</sup> European Parliament, [Cryptocurrency dangers and the benefits of EU legislation](#), 11 October 2022.

<sup>40</sup> Baker, Raymond. W., *Capitalism’s Achilles Heel: Dirty Money and How to Renew the Free-Market System*, Hoboken: John Wiley & Sons, 2005; Blankenburg, S., and M. Khan, “Governance and Illicit Flows”, – In: *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, edited by P., Reuter, pp. 21-68. Washington, DC: World Bank, 2012.



# ASSET DECLARATIONS AS A CORRUPTION PREVENTION AND RISK ASSESSMENT INSTRUMENT

## Longstanding loopholes and areas in need of improvement

### *State of play*

Asset declarations are strong, but currently under-used instrument<sup>41</sup> for corruption and illicit finance prevention among civil servants and in particular – the politically exposed persons (PEPs). There are multiple reports by media and civil society on the gap between the living standard of politicians and their families, and what is officially declared.<sup>42</sup> PEPs hide wealth by giving it to family members, receiving advantageous loans from friends, or transferring money abroad. As part of their anti-corruption toolbox, all SEE-9 countries have put in place a legal framework regulating asset declarations. It aims to bring transparency to the political processes and to provide opportunities for society and investigative media to hold decision-makers accountable. However, in order for this tool to become effective, it is necessary to analyze the legal and institutional framework and overcome its current shortcomings.

### **Box 3. Need to investigate the lifestyle of PEPs, beyond the officially declared assets**

According to data provided by MANS, the officially reported revenues of the former minister of Economic Development, former minister of Spatial Planning and former Deputy Prime Minister of Montenegro – Branimir Gvozdenović, are far lower than the costs of schooling of his children. MANS has uncovered, that he has spent at least EUR 370,000 from 2007 to 2016. This includes tuition fees at the University of Bocconi, St Claire School in Oxford and City of London University Cass, as well as minimal living costs in Milan and London. The official investigation was limited to questioning Gvozdenović on the origin of the money, and the case concluded with the response that he had help from wider relatives.<sup>43</sup>

<sup>41</sup> For example, the [International Treaty on Exchange of Data for the Verification of Asset Declaration](#) has been developed for SEE countries under the Southeast Europe Regional Programme on Strengthening the Capacity of Anti-corruption Authorities and Civil Society to Combat Corruption and Contribute to the UNCAC Review Process on the basis of the United Nations Convention against Corruption (UNCAC) and States Parties Resolution 6/4, which encourages Member States to consider the possibility of concluding multilateral agreements on civil and administrative matters relating to corruption, including international cooperation.

<sup>42</sup> Népšava, “A képviselői vagyonnyilatkozat jelenleg nem más, mint üveggyöngyszórás a gyarmatlakók közé” [The MP’s Asset declaration is currently nothing more than the scattering of glass beads between the colony residents], 31 January 2022.

<sup>43</sup> MANS, “Na školovanje dvoje djece Branimir Gvozdenović potrošio najmanje 370 hiljada eura” [The schooling of two children of Branimir Gvozdenović costs at least 370 thousand euros], 24 December 2018; Vijesti, “Otkud Gvozdenoviću 370.000 eura za školovanje djece?” [How come Gvozdenovic has 370.000 euro for school of his children?], 24 December 2018.

### *PEPs and civil servants who do not declare assets*

A reason for concern presents the fact that some PEPs, as well as other categories of civil servants, are **not obliged to declare assets**, and hence – their wealth remains hidden from the state institutions and the general public. This problem is most pronounced in regards to the senior managers, directors and board members of state-owned companies, who are not obliged to declare assets in Serbia (unless they are appointed by the government) and in BiH. Customs officers do not declare assets in Serbia, unless they have a managerial position and are appointed by the government. The number of persons obliged to declare assets in Serbia shrunk even further in February 2021.<sup>44,45</sup> While the political parties are usually associations of citizens, it could be argued that it would be beneficial for members of political parties outside the parliament to also declare assets (especially if they receive government subsidies).<sup>46</sup>

### *Type of declared data*

Despite the legal efforts made till 2022, **the information that is obligatory to be declared is rarely all-encompassing**. The loans from private individuals do not always have to be declared (e.g. in Hungary) while presents to close family members are not made public due to asset declarations rules.<sup>47</sup> Similar legal inconsistencies are observed in Bulgaria and Croatia, where spouses and cohabitants are not obliged to inform their respective partners of the assets they own, providing an escape clause for non-declaration. Another issue concerns the declaration of assets related to legal entities (i.e. legal persons instead of physical ones). In both Hungary and North Macedonia, PEPs are required to declare ownership of shares in companies but not the assets held by these companies. Thus, personal assets could be written off as a firm's property, and declaration could be avoided. This transfers the responsibility for uncovering the illicit assets towards the tax and money laundering authorities.

<sup>44</sup> National Assembly of the Republic of Serbia, [Autentično tumačenje odredbe člana 2 .stav 1. tačke 3\) Zakona o sprečavanju korupcije](#) [Authentic interpretation of the provisions of Article 2, Paragraph 1, Point 3) of the Law on Prevention of Corruption], Official Gazette of RS, No. 35/19, No. 88/19, 18 February 2021.

<sup>45</sup> The following categories of persons, among others, were excluded: directors and members of executive bodies of educational institutions, directors and members of steering and managing boards of healthcare institutions, and directors and members of the steering boards in companies in which the state, autonomous province(s) or local self-government(s) have stakes or shares. See also: European Commission, [Serbia 2021 Report](#), SWD (2021), p. 28.

<sup>46</sup> Bulgaria presents a good practice in that respect – according to the law, members of political parties outside the parliament should declare assets, if their party receives government subsidies.

<sup>47</sup> Cseke, B., “[Szijszjártó megépítette a műfüves focipályát a balatoni nyaralóhoz, de alig látják mostanság a faluban](#)” [Szijszjártó has built an artificial grass football field for the holiday home at Lake Balaton, but it is hardly seen in the village right now], [telex.hu](#), 12 August 2021; Oroszi, B. and Gergely, M., “[Saját lábön forgó palota – feltártuk a hatvanpusztai Orbán-uradalom titkait](#)” [Palace on its own – we have uncovered the secrets of the Orbán estate in Hatvanpuszta], [hvg.hu](#), 24 June 2021.

Gifts received by the immediate family are not declared as a rule, although countries like Croatia, Romania, and Hungary require the declaration of gifts of value over a certain amount (e.g. over EUR 67 in Croatia, EUR 500 in Romania, 1/12<sup>th</sup> of the official's salary in Hungary). North Macedonia has a Gift Catalogue, established by law. This register however is rarely used, as people are either not aware of the legal obligations to do so, or they are afraid that any declaration of gifts would result in further scrutiny by the authorities, as well as by the media. Movable assets such as jewelry are not declared in Bulgaria. Thus, wealth kept or co-owned by the family members would remain undeclared and unaccounted by taxing mechanisms. These contradictory regulations lead to legal difficulties down the road, facilitate illicit wealth accumulation and tax fraud, and hinder the sanctioning.

There are multiple cases of undeclared assets and illegal wealth, uncovered by national authorities, investigative journalists, and the civil society. The current analysis does not have as an objective to reveal any additional evidence or circumstances related to these cases, nor focus on specific individuals. However, the methods of operation of the typical schemes of non-compliance could still be exemplified by reviewing some of the most prominent cases, presented in Box 4. Thus, these cases could help identify the crucial areas in need of improvement in the authorities' review mechanisms.

#### Box 4. Failure to declare own commercial activities and/or assets

Viktor Orbán, the prime minister of Hungary has declared only a flat in Budapest and a house in Felcsút in his asset declarations (without any savings). Győző Orbán (Viktor Orbán's father) however has bought the 13 acres estate in Hatvanpuszta in 2011, shortly after his son Viktor won the parliamentary elections.<sup>48</sup> The Orbán family obtains its wealth mainly from mining companies belonging to Győző Orbán and his two sons, Áron and Győző Orbán Jr. These firms generated around EUR 9 billion income solely in 2020.<sup>49</sup> NGO Direkt36 gained access to documents showing that allegedly the companies worked for several government projects as subcontractors, however their contribution was not listed in any public registers. The companies of Lőrinc Mészáros, Viktor Orbán's childhood friend, have won several lucrative public procurements and state subsidy programs. These companies are also a source of income for Orbán family's mining business.<sup>50</sup>

<sup>48</sup> Oroszi, B. and Gergely M., "Saját lábön forgó palota – feltártuk a hatvanpusztai Orbán-uradalom titkait" [Palace on its own – we have uncovered the secrets of the Orbán estate in Hatvanpuszta], *hvg.hu*, 24 June 2021; Horn, G., "Műemlék épületeket is átalakítanak az Orbán-család hatvanpusztai építkezésén – drónfelvételek" [Monumental buildings will also be remodeled on the construction site of the Orbán family in Hatvanpuszta – drone recordings], *Átlátszó*, 2 October 2019; Partizán, "Orbán: It is our custom for children not to talk into their parents' affairs", [youtube.com](https://www.youtube.com/watch?v=...), 2022.

<sup>49</sup> Előd, F., "Orbán Győző cégeinek nem volt igazán jó éve tavaly" [The companies of Orbán Győző did not have a really good last year], *telex.hu*, 31 May 2021.

<sup>50</sup> Zöldi B., and Pethő A., "Hogyan tártuk fel az Orbán-bánya titkai?" [How were the secrets of the Orbán mine revealed?], *Direk36*, 5 May 2021.

The Constitutional Court of Albania revoked the mandate of a Socialist MP in 2011. This was due to the fact that in 2009 the company where he was a co-owner won a tender from the Municipality of Durres, related to the delivery of computers. The contract worth over EUR 170,000.<sup>51</sup>

Other examples of PEPs who failed to declare their own assets and commercial activities include:

- The President of the Constitutional Court in Albania (2012-2017) (non-declaration of an apartment seized by Special Courts against Corruption and Organized Crime).<sup>52</sup>
- A Bulgarian MP, connected to three offshore companies (sanctioned by Global Magnitsky, not in Bulgaria).<sup>53</sup>
- The former North Macedonian Prime Minister (sentenced to prison and a monetary fine for using party donations to acquire land plots through a shell company registered in Belize – a tax haven – under the name Syrah, run by his best man. It is unclear if he will do any jail time after fleeing to Hungary in 2018).<sup>54</sup>
- Romanian civil servants and counselors to public officials who did not declare expensive property in Dubai.<sup>55</sup>
- Ex-mayor of Belgrade (in office between 2018 and June 2022), who allegedly has not declared his apartment in Belgrade, land on Zlatibor mountain, and a holiday cottage (not sanctioned).<sup>56</sup>
- The director of the Serbian Primary Health Centre in Gračanica, a state-owned, public health institution who allegedly has not declared six apartments on the Kopaonik mountain (criminal charges filed by the Serbian Anti-Corruption Agency).<sup>57</sup>

<sup>51</sup> Dosja.al, “Kushtetuesja i hoqi mandatin për konflikt interesi, Strasburgu rrëzon Ilir Beqjan” [The Constitutional Court removed the mandate for conflict of interest, Strasbourg overthrows Ilir Beqjan], 3 November 2021; Panorama, “Gjykata i heq mandatin deputetit të PS, Ilir Beqja” [The court removes the mandate of the SP deputy, Ilir Beqja], 17 June 2011.

<sup>52</sup> Gazeta Si, “Ish-kryetari i Gjykatës Kushtetuese, Bashkim Dedja merret i pandehur” [The former president of the Constitutional Court, Bashkim Dedja, is charged], 10 May 2022; Presidenti i Republikës së Shqipërisë, Presidenti Nishani dekreton emërimin e zotit Bashkim Dedja, Kryetar të Gjykatës Kushtetuese [President Nishani decrees the appointment of Mr. Bashkim Dedja, President of the Constitutional Court], 9 October 2013.; Lulo, F., “SPAK kërkon konfiskim të apartamentit të Bashkim Dedjas, ish kryetar i Gjykatës Kushtetuese! U shkarkua nga vettingu për deklarim të rremë dhe fshehje pasurie” [SPAK demands confiscation of the apartment of Bashkim Dedja, former president of the Constitutional Court! He was dismissed from the vetting for false declaration and concealment of assets], *Shqiptarja.Com*, 10 June 2022.

<sup>53</sup> Chobanov, A., „Досиетата Пандора: Делян Пеевски не е декларирал три офшорки“ [Pandora’s files: Delyan Peevski has not declared three offshore companies], BIRD, 5 October 2021.

<sup>54</sup> Deutsche Welle, “Плацови на Водно: Седум години затвор за Груевски” [Platsovi na Vodno: Seven years of jail for Gruevski], 21 April 2022; Investigative Reporting Laboratory, “Документи: Како кумот на Груевски со Камчев и Мијалков и партиски пари си пазареа приватен плац на Водно” [Documents: How the best man of Gruevski with Kamchev and Mijalkov and party funds bought private plots on Vodno], 21 October 2020.

<sup>55</sup> RISE Project, “Destinația Dubai” [Destination Dubai], 3 May 2022.

<sup>56</sup> KRIK, “Predizborno “čišćenje” imovinskog kartona prvog na listi SNS-a” [Pre-election “cleaning” of the property card of the first on the SNS list], 12 February 2018.

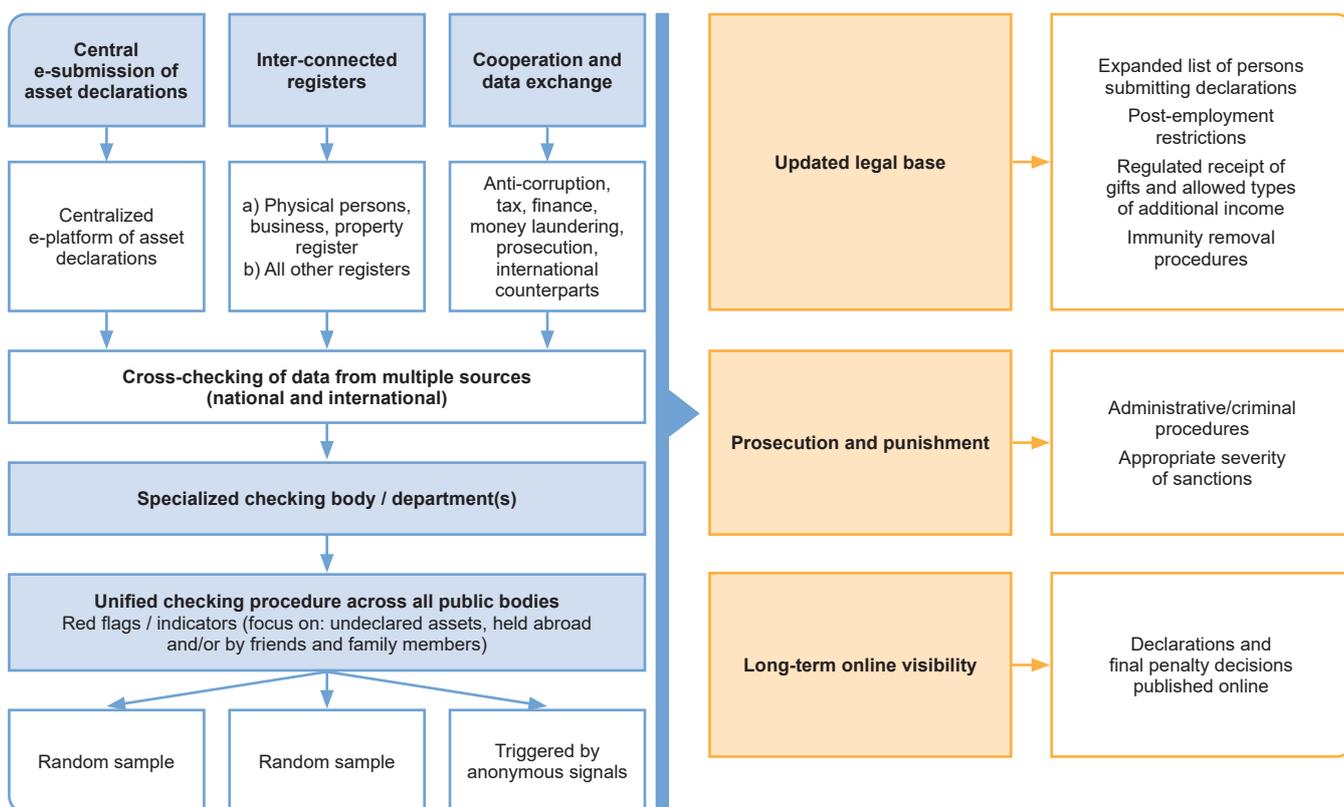
<sup>57</sup> Agencija za sprečavanje korupcije, “Mera javnog objavljivanja preporuke za razrešenje sa javne funkcije V. D. direktora doma zdravlja Gračanica” [The measure of public publication of the recommendation for the dismissal from public office of the Acting Director of the Gračanica Health Center], br. 014-07-00-0412/20-11, 2021; Pistaljka.rs, “Direktorka Doma zdravlja u Gračanici pod istragom tužilaštva” [The director of the Health Center in Gračanica is under investigation by the prosecution], 13 April 2022.

- A former MP, Minister of Telecommunications and Minister of Infrastructure of Serbia failed to declare ownership of the company Habit Invest in his asset declaration although official data from the Central Business Registry prove contrary. The company is registered in Montenegro, and was given to the former MP without any compensation.<sup>58</sup>

*Main prerequisites for efficient checks of asset declarations*

The regional and country-level specifics related to asset disclosure, data availability, the process of performing checks and imposing sanctions, presented in the current report, reveal several **critical areas in need of improvement**. While the procedural and legal gaps differ across the countries, the analysis highlights the need of a coherent policy, focused on uncovering non-declared assets, and other related law violations. A short overview of the key prerequisites for efficient checks of asset declarations is presented in Figure 1, while detailed policy recommendations are listed at the end of the report.

**Figure 1. Prerequisites for efficient checks of asset declarations**



Source: CSD.

<sup>58</sup> Marković S., “Milutin Mrkonjić negira vlasništvo nad crnogorskom firmom, podaci ga demantuju” [Milutin Mrkonjić denies ownership of the Montenegrin company, contrary to the data], CINS, 12 March 2020.

## Verification and checking

### *Frequency and depth of the checks*

Most SEE-9 states have procedures for timely asset declaration submission and for performing the initial basic check of the discrepancies between income and declared assets (e.g. “arithmetic-logical” initial check in Albania). In case there is such a discrepancy,<sup>59</sup> the law prescribes that a second detailed check takes place until the nature of the irregularity is established and the case is transferred to other authorities.

However, **none of the nine analyzed countries has a system of comprehensive lifestyle audits**. For example, in Bosnia and Herzegovina (BiH) the procedure is limited to checking that the declaration is not submitted empty. The reasons for this lie, among others, within the lack of human resources able to perform in-depth checks, including cross-checks in multiple registers at the national level and abroad where illicit wealth could potentially be kept. The issue is exasperated by the large number of persons obliged to submit declarations in some of the SEE-9 countries – about 300 000 in Romania<sup>60,61</sup> (as of 2021). Due to the lack of inter-connected registers and electronic risk assessment systems based on big data, the countries have resorted to selecting a random sample and/or priority risk groups (e.g. the ones with high-level position and/or past infringements) for undergoing detailed checks.

This approach needs to be further enhanced. It is recommended that the anti-corruption authorities **set up a body or department** dedicated fully to the detailed check (“lifestyle audit”) of asset declarations. It should verify not only the reported information but whether there are hidden or undeclared assets. Ideally, the procedure should ascertain the origin of assets. The **checking procedure** should be based on:

- a random sample undergoing detailed check / audit (e.g. 5% or 10% of the civil servants in a public body);
- checks of priority/risk groups;
- checks triggered by anonymous signals from third parties (whistle-blowers, CSOs, media articles, etc.).

By law, declarations’ submissions and the initial checks should follow an annual cycle, although the R2G4P members from Albania, BiH, and Hungary report that, in fact, the checks are performed once every few years or if there is a signal for irregularity. In countries such as Albania, detailed checks are performed every two to five years, which aim to uncover the reason for the inconsistencies between declarations accumulated over longer periods of time,

<sup>59</sup> Usually over certain amount (e.g. over EUR 2 558 in Bulgaria).

<sup>60</sup> National Integrity Agency (ANI), [Annual Activity Report](#), 2021.

<sup>61</sup> In electoral years, all candidates in Romania also have to submit declarations, further increasing this number.

thus missing some red flags that could be observed on annual basis. In North Macedonia asset declarations are not submitted annually, but only upon taking and leaving office, as well as ad hoc if change in circumstances occurs.

**Table 1. When are PEPs and public servants required to submit asset declarations?**

When to declare?	AL	BiH	BG	HR	HU	MNT	MKD	RO	RS
Filing required upon taking office	V	V	V	V	V	V	V	V	V
Filing required upon leaving office	V	V	V	V	V	V	V	V	V
Filing required annually	V	V	V	V	V	V	X	V	V
Ad hoc filing required upon change in assets or conflicts of interest	V	V	V	X	X	V	V	X	V

Source: CSD, based on review of the national legislation.

### Checks based on whistleblowing / anonymous signals

Ideally, **checks should also be triggered by anonymous signals** about illicit enrichment from third parties (whistle-blowers, civil society organizations – CSOs, media articles, etc.). However, according to national laws, anonymous signals are not accepted in Bulgaria, North Macedonia and Romania. In BiH such checks are foreseen in the law, but not always performed. In Hungary, only cases with provided strong evidence are inspected. Thus, it is necessary further procedures to be developed within the whistleblowers' protection legislative framework.<sup>62,63</sup>

**Table 2. Checking institutions and possibility for submitting signals about irregularities**

Country	Checking institution(s)	Signals/referrals submission link	Signal is anonymous
AL	High Inspectorate of Declaration and Control of Assets and Conflict of Interest (HIDAACI)	<a href="https://www.ildkpkj.al/formulare/">https://www.ildkpkj.al/formulare/</a>	Could be anonymous according to the law
BG	Commission for Anti-Corruption and Illegal Assets Forfeiture (CACIAF)	<a href="https://caciaf.bg/bg/izprati-signal">https://caciaf.bg/bg/izprati-signal</a>	Not anonymous
BiH	Central Election Commission of Bosnia and Herzegovina	<a href="https://www.izbori.ba/Default.aspx?CategoryID=522&amp;Lang=3&amp;Id=1592">https://www.izbori.ba/Default.aspx?CategoryID=522&amp;Lang=3&amp;Id=1592</a>	Could be anonymous if sent via mail
HR	Conflict of Interest Commission	<a href="https://www.sukobinteresa.hr/hr/obrazac-za-prijavu-sukoba-interesa">https://www.sukobinteresa.hr/hr/obrazac-za-prijavu-sukoba-interesa</a>	Could be anonymous (initials needed)

<sup>62</sup> Whistleblowers' protection legislation has been adopted in all SEE-9 countries with the exclusion of Bulgaria and Hungary, in the first the draft law has been proposed in the National Assemblies but it is still in the stage of deliberation and in the latter, it has not been put in the agenda. In BiH there is such legal framework adopted on cantonal level, but not on federal. All of the existing legislation aims to transpose the principals of the [Directive \(EU\) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law](#).

<sup>63</sup> Yordanova, M., and Tsabala, K., "Bulgaria could restart its anticorruption drive by ensuring better whistleblower protection", *CSD Blog Post*, 9 December 2021.

**Table 2. Checking institutions and possibility for submitting signals about irregularities (Continued)**

Country	Checking institution(s)	Signals/referrals submission link	Signal is anonymous
HU	Committee on Immunity, Incompatibility and Mandate Control (CIIMC)	There is no official template. Private individuals can submit a signal to the Committee, or can submit an anonym form to the Ombudsman. ( <a href="https://www.ajbh.hu/web/guest/forduljon-a-biztoshoz">https://www.ajbh.hu/web/guest/forduljon-a-biztoshoz</a> )	Anonymous form can be submitted only to the Ombudsman
MNT	Agency for Prevention of Corruption	<a href="https://www.antikorupcija.me/me/korisnicki-servisi/prijava-korupcije/">https://www.antikorupcija.me/me/korisnicki-servisi/prijava-korupcije/</a> (submission is also possible by e-mail and telephone)	Could be anonymous
MKD	State Commission for Prevention of Corruption	<a href="https://dksk.mk/апликација-за-укажувачи/">https://dksk.mk/апликација-за-укажувачи/</a>	Not anonymous
RO	National Integrity Agency	<a href="https://www.integritate.eu/A.N.I.-interactiv/Sesiz%C4%83ri.aspx">https://www.integritate.eu/A.N.I.-interactiv/Sesiz%C4%83ri.aspx</a>	Not anonymous, however the Agency can trigger ex-officio investigations
RS	Anti-Corruption Agency	<a href="https://www.acas.rs/lat/report_corruption">https://www.acas.rs/lat/report_corruption</a>	Could be anonymous

Source: CSD, based on the websites of the checking institutions.

### Personal assessment of the assets' value

A common type of violation concerns the discrepancy between the real market value and the lower price, noted on the official purchase documents. For example, there have been cases such as declaring two-story villas as “wine cellars” in Hungary<sup>64</sup>. Checking and comparing this information is a complicated procedure, for which the authorities rarely have the knowledge and capacity. Investigative journalists and the civil society thus remain crucial for the uncovering and warning against such irregularities.

#### Box 5. Asset declarations inconsistent with market values

The scandal known as Apartmentgate erupted in Bulgaria in the spring of 2019 and involved the purchase of property (apartments) by the then Minister of Justice, the chairman of the leading party GERB, the Deputy Minister of Youth and Sports, and the Deputy Minister of Energy, Environment and Water, among others. The value of the property that those officials purchased (listed in their asset declarations) was much lower than the real market price. The case was suspended due to lack of evidence but the ministers resigned their posts.<sup>65</sup>

On 28 January 2020, the PM of Croatia sacked the Health Minister after a series of media reports alleging he misrepresented the value of his property in

<sup>64</sup> Átlátszó, “Képviseői vagyonynyilatkozatok: nyomokban átláthatóságot tartalmaz!” [Representatives' declarations of assets: contains traces of transparency!], 31 January 2022; EuroPAM, Financial Disclosure – Hungary, 2020.

<sup>65</sup> Bivol, „Цветанов поискал проверка на „Артекс“ четири дни преди да си напазарува евтиния имот” [Tsvetanov asked for a check of Artex four days before he bought his cheap property], 21 March 2019; Capital, „КПКОНПИ оневини всички герои в „Апартаментгейт”” [CACIAF acquitted all characters from Apartmentgate], 24 June 2019.

the asset declaration<sup>66</sup>, although the officially stated reason for the dismissal were the insufficient efforts in preventing COVID-19 spread.

A 2021 investigation by the North Macedonian State Commission for the Prevention of Corruption (SCPC) revealed that part of the vehicles declared in asset declarations were undervalued. The checks were prompted by a case, related to the former Secretary General, and a publication by the investigative outlet 360 Stepeni which exposed that he is driving the latest Volvo XC90, missing in his asset declaration.<sup>67</sup>

### *Removal of asset declarations from the public registers*

Another issue of concern is **how long the asset declarations remain public**. In North Macedonia, asset declarations are removed immediately after a PEP leaves office<sup>68</sup>. In Croatia and Hungary, the asset declarations are removed from the public registers one year after the end of the PEPs' term in office, and after three years in Serbia. This further restricts the work the investigative journalists and the civil society.

### *Need of inter-connection of multiple registers and performing cross-checks*

Performing **cross-checks in multiple public registers and exchanging information with other public institutions** at national level and abroad is vital. Such mechanisms exist at various stages of development across the SEE-9. For example, in Croatia, the Conflict of Interest Commission (CIC) performs checks in other registers for assets that are missing from the declaration. The CIC also frequently requests data from other public bodies (including the tax authorities). The Agency for Prevention of Corruption of Montenegro has the technical ability to compare data in official databases through direct online access, including the databases of Ministry of Interior, Tax Administration, Real Estate Administration, Securities Commission, the Central Register of Companies, the Central Bank of Montenegro, as well as commercial banks (in case of the consent for access to bank accounts by public officials). The procedure for checking the discrepancies between the lifestyle of public officials and their declared income and assets, initiated in December 2020, did not show any significant results in practice.

<sup>66</sup> Dimitrijević, A., "Ekskluziv: Obitelj Kujundžić kupila je kuću u Zagrebu. Iz ministrove imovinske kartice nije jasno odakle novac" [Exclusive: The Kujundžić family bought a house in Zagreb. It is not clear from the minister's property card where the money came from], *telegram.hr*, 21 January 2020; Matijanić, V., "Kujundžić na Pagu ima dva apartmana koja nije prijavio, imamo dokaze" [Kujundžić has two apartments on Pag that he did not report, we have evidence], *Index.hr*, 24 January 2020.

<sup>67</sup> 360 Stepeni, "Рашковски вози луксузен џип кој не фигурира во неговиот анкетен лист" [Rashovski drives a luxurious SUV not presented in his asset declaration], 12 April 2021; Fokus, "Џипот што го вози Рашковски е регистриран на фирма на владин хонорарец" [Dzipot shto go vozi Rashkovski is registered to a company owned by a government's part time worker], 19 April 2021.

<sup>68</sup> It is expected that in 2023, a term of two years will be introduced in regards to the obligation to keep the asset declaration published online.

Such cross-checking mechanisms are only partially implemented in BiH, Bulgaria and North Macedonia – limited to ad hoc requests and exchange of information from/to other public bodies. Despite multiple attempts to inter-connect national public registers in the analysed countries,<sup>69</sup> these ad hoc cross-checks continue to be performed mostly manually. An additional obstruction presents the irregular update of the national registers, as well as the depth and quality of the data within them (e.g. lack of information on ownership structures of companies, including the ultimate beneficial owners, and the history of real estate transactions and securities).

Ideally, the process of **inter-connecting all national registers should be implemented in two stages:**

- First, the primary (basic) registers should be connected with each other: physical persons register (including civil status and family members), business (legal entities) register, and the property register.
- Second, all remaining registers should be joined one by one – tax, social security, land register, motor vehicles register, stocks and securities, patents and licenses registry, customs, court registries, party finance database, etc. If possible, databases of professional bodies and bank accounts should also be included or a procedure for information requests should be established.

Based on data from all (inter-connected) public registers, the governments from the SEE-9 countries, supported by the civil society, are **recommended to elaborate electronic platforms for detecting corruption risks and patterns of abuses**. Such platforms could benefit from the red-flags and indicators, tested in the framework of the R2G4P initiative and presented in the current and future reports. The next and final step would be to enforce the International Treaty on Exchange of Data for the Verification of Asset Declarations.<sup>70</sup>

#### **Box 6. International Treaty on Exchange of Data for the Verification of Asset Declaration**

An International Treaty on Exchange of Data for the Verification of Asset Declaration was signed during a ceremony in Belgrade, on 19 March 2021, under a jointly implemented initiative by the Regional Anti-Corruption Initiative (RAI) and UNODC. Republic of Serbia, Republic of North Macedonia and Montenegro were the first signatories of the document. The treaty is intended to enable anti-corruption bodies to communicate formally with each other regarding data on foreign assets and interests, and thus significantly enhance verification of declarations.<sup>71</sup>

<sup>69</sup> In North Macedonia, the introduction of a software solution for interconnecting multiple public bodies' registers was planned for the end of 2019. See also: Mia, "На ДКСК ѝ е неопходен софтвер за полесно да се бори против корупцијата" [SCPC needs software to facilitate the fight against corruption], 31 January 2020.

<sup>70</sup> Regional Anti-Corruption Initiative, [Regional Data Exchange on Asset Disclosure and Conflict of Interest](#), RAI, 2021.

<sup>71</sup> Ibid.

### *Loopholes during the checking process*

Several long-standing loopholes could be identified in the legislation and procedures for checking the asset declarations, based on the current analysis and the national-level information provided by the R2G4P members. Some of these gaps seem to be recurring in multiple countries, thus presenting a challenge for the whole region. Part of them necessitate amendments in the national legislation, while others are a matter of procedural enhancement and law-enforcement capacity.

**Figure 2. Long-standing loopholes in the verification and checking procedures**



Source: CSD.

These **loopholes facilitate hiding and non-disclosure of assets** in a variety of ways, including, but not limited to:

- Transfer to extended family or friends (usually against no or low-value compensation)
- Moving the assets abroad (including in offshore companies/tax heavens)
- Converting them into company assets, which should not be declared according to national law (relevant to the countries where only the shares in companies should be declared)
- Hiding the assets in a complex chain of subsidiaries and mother companies (including the use of shell companies and straw persons)

### *Restrictions placed on civil servants and PEPs*

In addition, gaps in the legal restrictions related to holding of an office, continue to undermine the rule of law and directly curb the division of powers (see Box 7). These gaps hinder even further the checking and sanctioning procedures, as some of the prerequisites for gaining of illicit wealth or conflicts of interest, are not required to be reported.

#### **Box 7. Gaps in the legal restrictions to holding an office**

Members of all three branches of governments are not prohibited to:

- Receive sponsored travel in Bulgaria, North Macedonia, and Serbia.
- Simultaneously hold policy-making and a policy-executing positions in Romania.
- Exercise private activities that generate revenue, including:
  - Owning shares or parts of capital of a commercial company and/or a state-owned company in North Macedonia, Montenegro, Romania and Serbia.
  - Holding government contracts in Bulgaria, Hungary, Romania and Serbia.
  - Family members having a concurrent employment in the public sector in all SEE-9 countries.
- Post-employment regulation in Hungary only prohibits (for two years) majority ownership in companies in the financial sector and only restricts employment in organizations that allocate public or EU funds. Thus, PEPs can work for state-owned enterprises (SOEs) and other large companies right after the end of their term in office.<sup>72</sup> Post-employment restrictions in BiH remain unclear due to the large number of laws regulating this area. PEPs in Serbia can be involved in the control of commercial, public or private companies after leaving office (as well as have additional income while in office), provided that they obtain approval from the Agency for Prevention of Corruption.

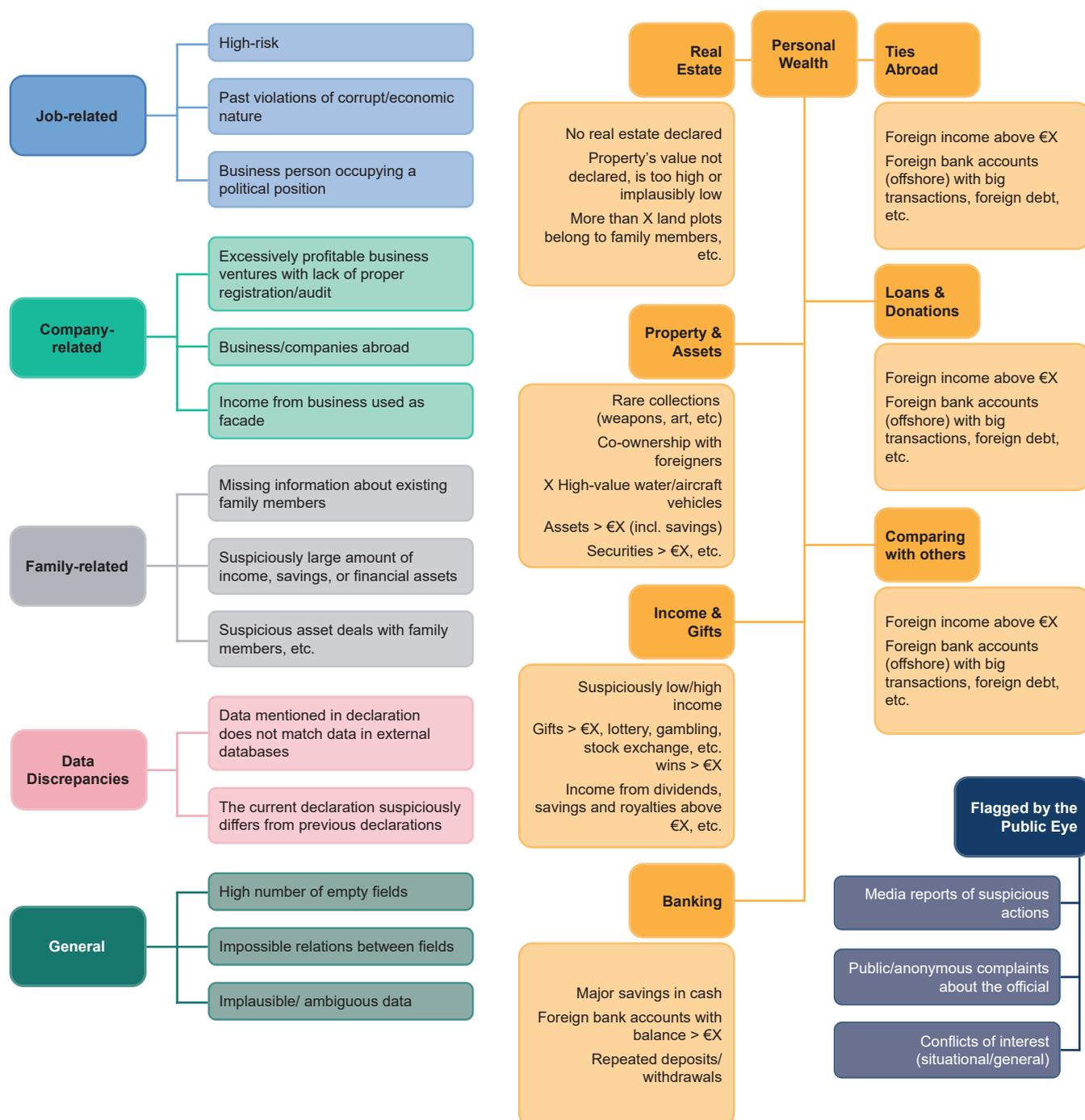
*Source: CSD.*

<sup>72</sup> NetJogtár, 2012. évi XXXVI. törvény az Országgyűlésről [XXXVI of 2012 law about the National Assembly], 2020.

*Recommended risk indicators for checking asset declarations*

The use of big data, inter-connected public registers and enhanced cooperation among authorities at national and cross-border level is crucial for identifying those PEPs, who exhibit suspicious behaviour in regard to their wealth,

**Figure 3. Example of a comprehensive list of risk indicators for checking asset declarations**



Sources: CSD, based on The World Bank, *Automated Risk Analysis of Asset and Interest Declarations of Public Officials: A Technical Guide*, 2021; Council of Europe, *Practitioner Manual on Processing and Analysing Income and Asset Declarations of Public Officials*, 2014; Poltoratskaia, V., *Use of Asset Declarations and Procurement Data to Identify Risk*, Presentation at the workshop “Developing Risk Indicators for Assets Declaration and Public Procurement Data”, Government Transparency Institute / Central European University, Armenia, Yerevan, 15-16 June 2022; OECD, *Verifying Asset Declarations in Greece: Guidelines for Standard Procedures and Oversight Bodies*, 2017.

professional and family relations. Focusing the scrutiny into a smaller number of persons and related to them companies could greatly alleviate the work of the relevant anti-corruption units. Thus, it is highly recommended that a **unified checking procedure** is introduced across all public bodies, based on a set of red flags and indicators. Such comprehensive list of risk indicators for checking asset declarations is presented in Figure 3. The list is compiled based on analyses published by the World Bank, Council of Europe, and OECD.

### Imposing sanctions through cooperation with other authorities

As a next step, the SEE-9 countries submit information about the uncovered irregularities to other relevant (e.g. tax and revenue) authorities, and to the prosecution. The follow up investigations could trigger criminal and administrative, and in some countries also civil procedures and sanctions. The sanctions in the region are usually financial (an administrative fine) and/or disciplinary,<sup>73</sup> unless the inconsistency in the asset reporting is related to another criminal activity which triggers a separate investigation.<sup>74</sup>

#### *Limited size and range of sanctions*

The **size and severity of sanctions**, especially the ones imposed by the checking institution, are **extremely low in all SEE-9 countries and do not deter PEPs from violating the rules**. The fine for late or non-submission of asset declarations usually ranges between EUR 200 and EUR 1,000 which leads to the practice of the PEP to pay the fine and still not submit a declaration. For example, in BiH, the smallest sanction of EUR 150 was imposed in all recorded cases, despite the legal possibility for increasing the fine up to EUR 1,500. In North Macedonia, the fines applied in practice range between EUR 300 and EUR 500, although the maximum legal amount is EUR 1,000. In Romania, the fines for late submission or not declaring assets are between EUR 10 and EUR 400, which has no practical efficiency as law infringement deterrent. The same range of small and inefficient fines applies to institutions or civil servants in Romania who do not fulfil their legal obligations regarding collecting and publishing asset declarations or for not applying issued disciplinary sanctions.

<sup>73</sup> E.g. reprimand; censure; reduction of the basic salary, demotion, etc.

<sup>74</sup> E.g. in Bulgaria, offences stipulated in the National Penal Code such as accepting passive and active bribery and other instances of corruption lead to a sentence of up to ten years of imprisonment and a pecuniary fine.

Table 3. Legal limitations on the size and range of sanctions imposed by the checking institution

	AL	BiH	BG	HR	HU	MNT	MKD	RO	RS
Type of sanctions	criminal, civil and administrative	criminal, civil and administrative	criminal, civil and administrative	administrative and criminal	administrative	administrative and criminal	administrative and criminal	administrative and criminal	administrative and criminal
Sanctions imposed by the checking institution (for late, incorrect and/or non-submission of asset declarations)	EUR 1600 – EUR 4000 for each violation	EUR 150 – EUR 1,500	EUR 512 – EUR 1,535 for first violation EUR 1,791 – EUR 3,070 for consecutive violations Initiating a process of civil confiscation if there is a disparity of over EUR 10,235 between the declared and real assets	Initiating administrative or criminal investigation and informing the State Prosecutorial Council. Suspension of EUR 1,062 from the net salary.	Suspension of salary (until submission) Publication of the sanctioning decision Dismissal (until submission)	EUR 500 – EUR 2,000	EUR 200 – EUR 1,000 Publication of the sanctioning decision	Warning for late filing EUR 10 – EUR 400 Publication of the sanctioning decision	Public warning Publication of the sanctioning decision Recommendation for dismissal from public function

Sources: CSD based on information from Albania: *Law No. 9049/10.04.2003, Criminal Code of Albania (1995, amended up to 2021)*; BiH: *Central Election Commission of BiH, Report on the implementation of laws within the competence of the Central Election Commission of BiH in 2020*; Bulgaria: *Anti-corruption and Illegal Assets Forfeiture Act, 2018*; Croatia: *The Act on the Prevention of Conflicts of Interest, 2011*; Hungary: *EuroPAM, Financial Disclosure – Hungary, 2020*; *NetJogtár: 40/2016. (XII. 30.) MvM instruction on certain rules concerning the obligation to declare assets, 2020*; *NetJogtár (2020): 2007 CLII. law, NetJogtár (2020): XXXVI of 2012 law about the National Assembly*; North Macedonia: *State Commission for Prevention of Corruption*; Romania: *Europam's "financial disclosure" Romania*; Serbia: *Website of the Anti-corruption Agency (ACA)*; Montenegro: *Website of the Agency for the Prevention of Corruption*.

Sanctions are also imposed by disciplinary panels or committees, but the positive result from these measures could also be brought into question.<sup>75</sup> In Croatia, a non-submission or incorrectly filled declaration results in only EUR 1,062 being retained from the salary, which is executed in eight equal consecutive monthly instalments of EUR 133 – a negligible amount. In Hungary, the sanctions are only administrative.<sup>76</sup> Moreover, PEPs in all countries except Croatia, Serbia, and Hungary **do not face dismissal if they do not submit the declarations**. Bulgaria is the only country which foresees additional increased fines for consecutive non-compliance to asset declarations.<sup>77</sup> This good practice is recommended to be replicated by the rest of the SEE-9 countries.

<sup>75</sup> For example, in Bulgaria, the Disciplinary Panel of the Supreme Judicial Council imposes reprimand, censure, reduction of the basic salary from 10 % to 20 % and/or demotion for a period ranging from six months to one year, relief from office as court deputy/president, and dismissal. Similarly, in Romania, the disciplinary sanctions include pay cut from 5 % to 20% for a period of one to six months, termination of contract, suspension of career advancement, etc.

<sup>76</sup> Sanctions could be imposed by: Committee on Immunity, Incompatibility and Mandate Control (CIIMC); Constitutional Affairs Committee (checking declarations of the President); and the Tax authority. The PEP's full salary is retained and the person is dismissed, until the asset declaration is submitted or the information within it is corrected.

<sup>77</sup> In Bulgaria, sanctions stipulated for late filing include a fine ranging between EUR 512 and EUR 1 535 for a first-time violation and between EUR 1 791 and EUR 3 070 for a consecutive non-compliance.

Table 4. Sanctions imposed

	AL	BiH	BG	MNT	MKD
Year	2021	2020	2021	2021	2021
<b>Size and range of the imposed sanctions</b>	130 officials received administrative fine in 2021 (1,889 officials in 2014 – 2021)	A fine of EUR 150 imposed on 8 persons	No data by CACIAF. The Inspectorate of the Supreme Judicial Council has issued 11 penal decrees with the total imposed sanctions worth EUR 1,791.	562 proceedings imposed EUR 83,886 in fines; one case was submitted to the Special Prosecutor's Office for further jurisdiction.	EUR 8,441 in imposed fines

**Sources:** CSD based on information from Albania: HIDAACI *Annual Report 2021* and [website](#); BiH: Central Election Commission of BiH, *Report on the implementation of laws within the competence of the Central Election Commission of BiH in 2020*; Bulgaria: *Annual Reports on the activities of CACIAF 2018-2021*; *Website of the Inspectorate to the Supreme Judicial Council*; Montenegro: Data provided by the Agency for the Prevention of Corruption; North Macedonia: State Commission for Prevention of Corruption *Annual Report 2021*.

The most stringent sanctions are imposed by the courts, and in some cases – by tax authorities:

- In Albania, a court could impose a fine or up to six months of imprisonment for non-declaration, as well as a fine and imprisonment up to three years for hiding or false declaration of assets. HIDAACI also has the authority to impose fines.
- In Bulgaria, the courts could impose a prison sentence of up to three years or a fine between EUR 50 to EUR 150, for concealing and withholding the contents of a declaration. In proven cases of passive and active bribery, the prison sentence is extended up to ten years.
- In Croatia, the court could impose a fine of EUR 664 to EUR 6 640 for officials who enter into employment with a legal entity with which they had a business relationship with during their term in office, and prohibiting the performance of a certain activities for a period of one year. A fine of EUR 6,640 to EUR 132,802 is imposed on a legal entity, which employs a person who is a public official.
- In Hungary the tax office could impose tax-related sanctions based on its own investigations.
- In North Macedonia, the Tax authority could place a tax of 70% over any income that cannot be sourced.
- In Romania, the National Integrity Agency (ANI) can issue administrative fines for late submission of asset declarations, however other types of sanctions are issued by courts of law, the Parliament, the Prime-Minister or the President, the Constitutional Court, the Superior Council of the Magistracy, the prefects, or disciplinary committees within each institution. The reduction of the salary could range from 5% to 20% for a period of one to six months, while more severe, including criminal and administrative cases, may result in confiscation of the illegally gained wealth (about EUR 400,000 in 2021), resignation and termination of employment, and interdiction to hold office within an institution for three years.

- In Serbia, the PEP could face criminal charges once the 15-day notice period is over. For missing or wrongfully filled declaration PEPs also face the risk of imprisonment (between six months and five years imposed by the court), confiscation of illegally acquired property, or applying a special fine for gaining of illegal wealth (EUR 850 – EUR 1,275 for public officials and EUR 850,000 – EUR 1,701,152 for legal entities).

### *Limited capacity of the checking authorities*

The **lack of comparable data** hinders the comparative analysis among all SEE-9 countries regarding the workload of the checking institutions, as well as other relevant indicators. Some annual reports by the checking institutions present data on the number of persons, while other – on the number of declarations.<sup>78</sup> In North Macedonia, the State Commission for Prevention of Corruption (SCPC) is obliged to keep a register of elected and appointed officials, however in some cases the other institutions do not report their new appointments. Thus, SCPC is forced to review the national Official Gazette, as well as about 80 municipal level official gazettes, in order to update its list of officials. However, the gathered information is still not fully comprehensive and reliable. In addition, not all PEPs are obliged to submit declarations or be checked each year – SCPC had 7758 active records, but received only 2006 declarations of people who were appointed, left office, or had substantial increase in wealth in 2021. In Serbia and Hungary, there is no information available on the number of people obliged to submit asset declarations.

Still, some **basic conclusions** could be drawn based on the available data:

- The total number of employees at the checking institution varies between 20 and 300 people.
- The officials directly responsible for checking asset declarations vary between 4 and 45.
- The number of persons obliged to submit declarations is the greatest in Romania and the smallest in North Macedonia and Croatia.<sup>79</sup>
- On average, around 12% of the legally obliged persons submitted their asset declarations with a delay or failed to submit at all.
- The share of persons who have been checked by the relevant authority through a secondary/detailed check varies between 8% and 20%, except in Montenegro (0.32%), Romania (0.44%)<sup>80</sup> and Croatia (1.19%).
- Between 6 and 30 persons are checked in detail by one inspector.

<sup>78</sup> These two indicators do not coincide, as the same person could be obliged to submit a declaration more than once per year – for re-appointment, taking office, annual obligation, etc.

<sup>79</sup> In Croatia, the number of persons obliged to submit declarations increased by around 1,250 as a result of the new Law on Prevention of Conflict of Interest. The total number of people obliged to submit asset and interest declarations was 3,350 in 2022.

<sup>80</sup> Romania is an outlier, as the country has the largest number of assets and interest disclosures' deponents.

Table 5. Submitted and checked asset declarations, and persons referred for penalties

	AL	BiH	BG	HR	MNT	MKD	RO
Year	2021	2020	2021	2021	2021	2021	2021
Persons, obliged to submit asset declarations, for whom data is publicly available	All	All	All	All	All	All	All
Name of checking institution	HIDAACI	Central Election Commission	CACIAF	Conflict of Interest Commission	Agency for Prevention of Corruption	SCPC	ANI
Number of employees at the checking institution	70	No data	339	19	55	34	111
Number of employees checking asset declarations	40	No data	No data	4	5	5	45
Number of persons obliged to submit declarations	4 032	3 319	10 867	2 100	6 348	2 006	300 000
Number of persons who submitted with a delay or failed to submit	130	133	883*	260	1 002	782	927
Share of persons who submitted with a delay or failed to submit	3%	4%	8%*	12%	16%	39%	0.31%
Number of persons who have been checked by the relevant authority (basic/initial check)	4 032*	3 302	4 421	2900	974	857	No data
Number of persons who have been checked by the relevant authority (detailed check)	802	No data	858	25	20	75	1 329
Share of persons who have been checked by the relevant authority (basic/initial check) out of all persons obliged to submit declarations	100%*	99%	41%	138%	15%	43%	No data
Share of persons who have been checked by the relevant authority (detailed check) out of all persons obliged to submit declarations	20%	No data	8%	1.19%	0.32%	4%*	0.44%
Number of persons checked per inspector (detailed check)	20.05	No data	No data	6.25	4.00	15.00	29.53
Number of persons who have been referred for penalties (and/or informed about the discrepancies)	130	17	31	24	1,002	87	950
Share of persons who have been referred for penalties out of all persons obliged to submit declarations	3.22%	0.51%	0.29%	1.14%	0.02%	4.34%	0.32%
Number of persons who have been referred for criminal investigation	16	No data	No data	Not applicable	1	1	33

\* The data refers to the number of declarations, not persons

**Sources:** CSD based on information from Albania: HIDAACI Annual Report 2021 and website; BiH: Central Election Commission of BiH, Report on the implementation of laws within the competence of the Central Election Commission of BiH in 2020; Bulgaria: Annual Reports on the activities of CACIAF 2018-2021; Website of the Inspectorate to the Supreme Judicial Council; Croatia: Conflict of Interest Commission, Annual report 2020; Montenegro: Data provided by the Agency for the Prevention of Corruption, based on 2021 Verification Plan and Rulebook on Systematization and Organization of Work Positions; North Macedonia: State Commission for Prevention of Corruption Annual Report 2021; Romania: ANI, Annual Report, 2021 and request for information no. 10762/04.05.2022 sent to ANI.

**Notes:** The number of basic/initial checks could be greater than the number of persons who are obliged to submit declarations, due to different purposes of submitting – re-appointment, taking office, annual obligation, etc.

**Bulgaria:** The number of persons who are obliged to submit declarations is higher than usual due to multiple elections and institutional staff changes in 2021. No 2021 data on CACIAF's staff. There have been 339 trained employees in 2021, and 377 employees in 2019; 883 declarations submitted with delay, resulting in 679 acts for administrative violations. In addition to the 31 persons informed about discrepancies by CACIAF, there are also 14 penalty orders issued by the Supreme Judicial Council Inspectorate.

**Croatia:** 260 issued invitations to submit the declaration. In 3 cases fines were not imposed because of the impossibility of execution of a sanction on ex-officials.

**North Macedonia:** Data on number of persons obliged to submit refers to those that had such obligation in 2021. Total number of records (current PEPs) is 7758. Not all PEPs are obliged to submit declarations and to be checked each year.

**Romania:** The data on the share of persons checked through a secondary/detailed check should be interpreted with caution, as Romania has the largest number of assets and interest disclosures' deponents.

Another issue presents the **selective approach when determining who should be investigated and punished**, as well as the practice of **utilizing very mild (and thus – ineffective) sanctions**. For example, in the majority of the cases, the misdemeanor court in Montenegro determines less severe penalties than the Agency for Prevention of Corruption, in accordance with the Law of misdemeanors.<sup>81</sup> Similarly, relatively small, misdemeanour penalties are applied in North Macedonia, even when the anti-corruption bodies refer the case with a recommendation for a more severe punishment.

### *Immunities and publishing of sanctioning decisions*

The immunities generally do not prevent investigation and prosecution. Even in countries where immunity laws apply (e.g. Albania, Bulgaria, Bosnia and Herzegovina), in cases of high public interest the immunity could be withdrawn. Serbia however presents a specific case. According to the Constitution of Serbia and multiple laws, the members of parliament, the president of the republic, and the ombudsman enjoy immunity from legal prosecution. Thus, multiple civil society and international bodies, including GRECO's 2022 report, call for removing of the immunities from Government members when it comes to corruption-related crimes.<sup>82</sup>

In addition, the sanctioning decisions are not being published online in Albania, as well as in Hungary.<sup>83</sup> In BiH, the public information includes the number of sanctioned officials without their identity.<sup>84</sup> The names of disclosed sanctioned people in Bulgaria are limited to the servants in the Judicial System and the Members of Parliament. Thus, the only good practices of full sanctioning decisions' transparency remain Croatia,<sup>85</sup> Montenegro,<sup>86</sup> North Macedonia,<sup>87</sup> and Serbia.<sup>88</sup>

<sup>81</sup> European Commission, *Montenegro Report 2021*, Strasbourg, 2021.

<sup>82</sup> Council of Europe, *Serbia: Council of Europe anti-corruption body publishes report on measures to take concerning top executive functions and the police*, Strasbourg, 5 July 2022; GRECO, *Evaluation report: Serbia*, 5 July 2022.

<sup>83</sup> According to the Hungarian law, sanctioning decisions should be published by the Committee on Immunity, Incompatibility and Mandate Control (CIIMC), however as of October 2022, there are no such decisions posted on its website. The only available decisions are the ones related to waiver of immunity.

<sup>84</sup> Central Election Commission of BiH, *Report on the implementation of laws within the competence of the Central Election Commission of BiH in 2020*.

<sup>85</sup> Conflict of Interest Commission (CIC), *Akti Povjerenstva* [Commission Acts].

<sup>86</sup> In Montenegro, decisions are published on the [Anti-corruption Agency's website](#), however there is no individual section.

<sup>87</sup> In North Macedonia, the sanctioning decisions are published on the website of the [State Commission for Prevention of Corruption](#).

<sup>88</sup> In Serbia, sanctioning decisions, including recommendations for dismissing from public office and decisions on violating the anti-corruption law, are published by the Agency for the Prevention of Corruption [at its website](#).

### *Avoidance of (severe) punishment*

There are four key methods, observed in the SEE-9 countries, for **avoiding punishment** or at least reducing its severity. These include:

- Omitting to declare assets, or under-evaluating the declared assets;
- Influencing the public authorities to drop the investigation/prosecution and/or to replace a severe penalty (e.g. imprisonment) with a looser sanction (e.g. a fine);
- Retroactively changing the asset declaration's document, so that the irregularity no longer exists on paper;
- Changing the legislation so that certain types of public officials (or their relatives) are not obliged to declare assets, company or family relations.

Serbia once again presents a particular case in that regard. Despite the fact that the country has a rigid penalty system, many cases of false disclosure, concealment and undeclared assets, resulted in failed prosecution cases. This is due to the legal possibility for public officials to avoid criminal charges by paying money to charity organisations, weakening the prosecution efforts upon the Principle of Opportunity.

#### **Box 8. The Principle of opportunity: avoiding fines and prison by funding charity organizations**

Research by the Serbian investigative media showed that the Prosecutor's Office "saved" 137 public officials from serving a prison sentence by using the principle of opportunity. This principle envisages that the accused could avoid criminal charges by paying money for humanitarian purposes, compensating for damages, performing community work or any other service ordered by the prosecutor. The principle could be applied in cases of all criminal charges where the prescribed punishment by law is a financial fine or a prison sentence of up to five years.<sup>89</sup>

<sup>89</sup> Đurić, S., "Opportunitet iskoristilo 137 funkcionera samo u jednoj godini" [137 officials used the opportunity in just one year], *Portal Pištaljka*, 4 March 2022.

### *Loopholes in the sanctioning process*

The analysis above and the expert opinion provided by the R2G4P partners reveal several long-standing loopholes in the process of sanctioning irregularities in the asset declarations.

**Figure 4. Long-standing loopholes in the sanctioning of irregularities in the asset declarations**

The relatively small fines do not encourage strict submission of asset declarations

In many cases criminal charges against public officials are dismissed or are replaced with looser (administrative) penalties

Lack of escalation in sanctions / stricter sanctions for consecutive violations

The names of the sanctioned high-level public officials are not published openly

Source: CSD.

## Typical schemes of non-compliance

### *Types of assets often omitted from asset declarations*

The **most common types of violations** observed in SEE-9 concern the exhaustiveness and accuracy of the declared information. This includes: failure to declare own assets; failure to declare assets of family members; evasion of declaring conflict of interest (incompatibility between public service and private company ownership), as well as incompatibility between declared and actual value of assets. In particular, the **loopholes concern non-reporting of:**

- assets owned by companies where the PEP is a shareholder
- shares in companies where the PEP is not a majority shareholder
- different valuables such as expensive watches, jewelry and other physical possessions (for which the definition of 'assets' is non-definitive or unclear)
- used items which are not in legal possession
- loans (especially personal)
- services of high price
- assets owned prior to entering office or history of ownership
- expensive trips and holidays
- cryptocurrencies

### Need of detailed checks of family members, friends and associates

A very common form of hiding assets is for the PEP to **transfer them to family members or close relatives**, and/or for the PEP to facilitate the “generation” of the illicit wealth by **ensuring preferential treatment or other competitive advantage to the extended family**. However, as of 2022, only assets owned by spouses and cohabitants (and sometimes children) need to be declared and are consequently checked by the responsible body in a majority of the analysed countries. In Romania children of PEPs are not included in the asset declarations after the age of adulthood, making it harder to identify conflict of interest or potential hidden assets’ ownership. Parents are checked in about half of the countries. This relatively narrow scope of family members provides ample opportunities for the PEPs to transfer assets to siblings, cousins, brothers, and sisters-in-law, as well as the PEP’s friends. A clear example is the exclusion from the mandatory asset declaration of close personal ties of public officials – i.e. *kumstvo* – in North Macedonia, which represents the most common form of private-turned-to-business relationship in the country. The membership in associations, clubs and other organizations (e.g. hunting lodges, war veterans’ associations, etc.) is also a pre-condition for conflict of interest and/or illicit transfer of PEP’s assets.

**Table 6. Which family members are declared and checked?**

	Spouses	Cohabitants	Adult children	Non-adult children	Parents	Siblings	Brothers / sisters-in-law	Other extended family	Friends or associates
AL	V	V	V	X	X**	X	X	X	X
BG	V	V	X	V	X	X	X	X	X
BiH***	V	X	V	V	X	X	X	X	X
HR	V	V	X	V	X	X	X	X	X
HU	V	V	V*	V*	V	X	X	X	X
MNT	V	V	V*	V*	X	X	X	X	X
MKD	V	V	V	V	V	V	V*	V*	X
RO	V	V	X	V	V	X	X	X	X
RS****	V	V	X	V*	V	X	X	X	X

\* Only if living in the same household

\*\* In Albania parents declare assets if the subject is part of the justice system or upon request of the Inspector General.

\*\*\* In BiH, the scope of people covered by asset declarations is extended to household members to whom the declarant has legal maintenance obligation. Conflict of interest restrictions and checks usually cover a wider range of related persons.

\*\*\*\* In Serbia, public officials are obliged by law to notify the Anti-corruption Agency of all “connected persons”, however in practice these are not always declared and checked.

**Sources:** CSD based on information from Albania: Law no. 9049 from 10 April 2003 on the declaration and control of assets, financial obligations of elected officials and some public servants; Bulgaria: Anti-Corruption And Asset Forfeiture Act, 2021; BiH: Election Law, 2001; Croatia: Conflict of Interest Prevention Law, 2021; Hungary: Act XXXVI of 2012 on the National Assembly; Montenegro: Law on Anticorruption from 2014, amended 2017; North Macedonia: Law on Prevention of Corruption and Conflict of Interest, 2019; Romania: Law no. 176/2010 on the integrity of exercising public positions and offices, amended 9 July 2020; Serbia: Law on preventing corruption of 21 May 2019, amended 7 February 2022.

### Box 9. Failure to declare family members' commercial activities and/or assets

In 2019, journalists of Zurnal.info discovered<sup>90</sup> that the private company Termo Metal resist d.o.o. Sarajevo (TMR) is owned by the family members of the Prime Minister of the Federation of BiH and the Minister of Energy, Mining and Industry of the FBiH. The prime minister has failed to enlist this company into his asset declarations. The company is reported to have had the long-standing business arrangements with Pretis d.d., a public company owned by the Government of the FBiH. The brother of the director of Pretis d.d. is the director of the TTU Energetik, a public company owned by Elektroprivreda BiH. Their family relationship has not been stated in any asset declaration. Nap.ba claims<sup>91</sup> that Pretis d.d. was accumulating enormous debts for years, however government cash injections secure its liquidity.<sup>92</sup>

According to the investigation conducted by BIRN, a private company represented by Branko Stefanovic, father of then Serbian Interior Minister Nebojsa Stefanovic, who served as a Minister of Defence until 2022, has been buying weapons from ammunition company Krusik at preferential prices, below the cost of production. The investigation concluded that by selling weapons at a cost less than that of production, the state both ensured that a private company, represented by the relative of a high-ranking politician, benefited and also caused an economic loss to the Serbian state.<sup>93</sup>

The company AGTCC Hotel Management received the status of "strategic investor" for the construction of a five-star hotel in Dhërmi from the Strategic Investment Committee, led by the Prime Minister of Albania. The company is owned by the longtime partner of the brother of Europe and Foreign Affairs Minister. Her company acquired the right to use the land on the coast through an agreement with the company AG.TCC Sh.pk – 100% owned by the former Socialist MP and at the same time husband of the minister.<sup>94</sup>

The legislations in Bosnia and Herzegovina, Hungary and Montenegro differ from the rest of the region, as family members are subject to submit their own assets declarations instead of being included within the public officials' document and are subject to the same contents and fines. Albania represents a middle-case, as the regulations impose family members to submit their own asset declarations only if they have their own separate property. In case of a joint property with the subject, the public official declares it.<sup>95</sup> In Hungary the

<sup>90</sup> Zurnal.info, "Fadil Novalić i Nermin Džindić izvukli više od milion maraka iz Pretisa!" [Fadil Novalić and Nermin Džindić extracted more than a million marks from Pretis!], 13 September 2019.

<sup>91</sup> Nap.ba, "Zbog Džindića šišti Pretis: Kada će sve eksplodirati?" [Pretis is foaming due to Džindić, when will everything explode?], 5 August 2021.

<sup>92</sup> Zurnal.info, "Vlada odobravalala novac Pretisu, Pretis prebacivao firmi Fadila Novalića" [Government approved money to Pretis, Pretis transferred it to the company of Fadil Novalić], 15 September 2019.

<sup>93</sup> Fruscione, G., "Much More than a Captured State: Serbian Institutions Scandals", ISPI, 15 October, 2021.

<sup>94</sup> Reporter.al, "Investimi strategjik: Plazhi në Dhërmi u përfitua nga 'kunata' e ministres Xhaçka" [Strategic investment: The beach in Dhërmi benefited from the 'sister-in-law' of Minister Xhaçka], 9 March 2022.

<sup>95</sup> GRECO, Fifth Evaluation Round. Albania Evaluation Report, 2020.

declarations of spouses, cohabiting parents, children and other individuals are not published. Thus, the Committee on Immunity, Incompatibility and Mandate Control is not able to receive signals and check the immediate family's assets. Several selected cases of a failure to declare family members' commercial activities and/or assets are presented in Box 9, as an example on the way these schemes operate, their negative consequences, and the need for counter-measures.

## Data availability

None of the SEE-9 authorities provide a machine-readable and downloadable in bulk open database, containing all assets declarations received. All countries (except Albania) provide access to public registers and portals where assets declarations are published and authorities are available for consultation. The information contained in these declarations, however, needs to be scraped or downloaded on case-by-case basis for each public official, complicating the process of checking and analysing irregularities. The analysed countries could be split into the following categories:

- **No database.** The outlier in this respect is Albania, as the High Inspectorate of Declaration and Control of Assets and Conflict of Interest (HIDAACI) does not provide any link to a public database. There is a [register of Requests and Answers of the High Inspectorate](#) where answers to official requests are published.
- **Hand-written photocopies.** The next problematic country is Hungary, where the asset declarations are included in a searchable database, however the documents are hand-filled photo-copies, and hence – not machine-readable. Romania experiences similar issues as many declarations have been submitted in hand-written format up to 2021, before the obligation to submit machine-readable PDFs entered into force in 2022. From 2023, only declarations with digital signatures will be accepted, except for candidates during the elections.
- **XML format (available only on case-by-case basis).** This format is used by the majority of the countries – Bulgaria, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia. However, despite being machine-readable, the information cannot be downloaded in bulk, as a full database. Thus, any big data analysis will require for the information to be scraped or copied directly from the webpage. Croatia provides a hybrid case, as the declarations are available in both XML, JSON and PDF formats.

The lack of digitized databases obstructs not only the checking and investigating procedures of the respective institutions dealing with them, but also representatives of civil societies and journalists who analyze and investigate independently publicly available data. Fostering integrity and holding powerful actors accountable requires civic engagement in addition to the administrative responsibility of the respective authorities. Accessible, user-friendly and transparent databases with publicly available information would allow the cooperation between civil society and institutions, where civic actors and researchers fill the gaps in the existing procedures and capacity.

**Table 7. Data availability, access and reliability**

Country	Link to asset declarations register	Download options
AL	Does not exist	Does not exist online, there is a possibility to submit an official request for information
HU	<a href="https://www.parlament.hu/web/guest/aktiv-kepviselei-nevsor">https://www.parlament.hu/web/guest/aktiv-kepviselei-nevsor</a>	Case-by case, in PDF format (hand-written photocopy)
RO	<a href="http://declaratii.integritate.eu/">http://declaratii.integritate.eu/</a>	Case-by-case, in PDF format (hand-written photocopies up to 2021, machine-readable since 2022)
HR	<a href="https://www.sukobinteresa.hr/hr/izvjesca-o-imovinskom-stanju">https://www.sukobinteresa.hr/hr/izvjesca-o-imovinskom-stanju</a> and <a href="https://www.sukobinteresa.hr/hr/napredna-pretraga-ik">https://www.sukobinteresa.hr/hr/napredna-pretraga-ik</a>	Case-by-case, in XML, JSON and PDF formats
BG	<a href="https://register.caciaf.bg/">https://register.caciaf.bg/</a>	
BiH	<a href="https://www.izbori.ba/Default.aspx?CategoryID=776&amp;Lang=3">https://www.izbori.ba/Default.aspx?CategoryID=776&amp;Lang=3</a>	
MNT	<a href="https://portal.antikorupcija.me:9343/acamPublic/imovinaFunkcioneraSearch.htm">https://portal.antikorupcija.me:9343/acamPublic/imovinaFunkcioneraSearch.htm</a>	Case-by-case, in XML format
MKD	<a href="https://www.dksk.org.mk/imoti_2/">https://www.dksk.org.mk/imoti_2/</a>	
RS	<a href="https://publicacas.acas.rs/#/acas/obrazacZaPrijavulmovinelPrijoda">https://publicacas.acas.rs/#/acas/obrazacZaPrijavulmovinelPrijoda</a>	

**Sources:** CSD based in information from websites of asset declaration registers – Albania: *Website of High Inspectorate of Declaration and Control of Assets and Conflict of Interest*; Bulgaria: *Website of the Commission for Combating Corruption and Confiscation of Illegally Acquired Property (KPKONPI)*; BiH: *Website of the Central Election Commission of Bosnia and Herzegovina*; Website of the Agency for the Prevention of Corruption and Coordination of the Fight against Corruption; Croatia: *Website of the Conflict of Interest Commission*; Montenegro: *Website of the Anticorruption Agency*; Hungary: *Website of the Committee on Immunity, Incompatibility and Mandate Control (CIIMC)*; North Macedonia: *Website of the State Commission for Prevention of Corruption SCPC*; Romania: *Website of the National Integrity Agency (ANI)*; Serbia: *Website of The Anti-Corruption Agency (ACA)*.

On the positive side, it should be noted that the State Commission for Prevention of Corruption (SCPC) of North Macedonia plans to introduce a tool for electronic submission of machine-readable assets and interest declarations in 2023. HIDAACI in Albania has received a technical assistance from USAID to improve the system and create the opportunities for a full and free access to the declarations for the general public in 2023.<sup>96</sup>

## National focus: pressing issues in the SEE-9 countries

The SEE-9 countries have a long and challenging way ahead of them on the road of developing the necessary tools for efficient identification and tracking of ill-gained wealth – inter-connecting public registers, setting red-flags and indicators, creating electronic risk assessment platforms, improving the legislation and establishing procedures for national and cross-border cooperation, increasing the size of the fines and the severity of other penalties related to administrative and criminal law violations. In order to achieve a positive impact, each country is recommended to set up its own comprehensive strategy on the steps and actions needed to implement these reforms, thus turning the asset declarations into an efficient corruption prevention and risk assessment instrument. Table 8 highlights some of the most pressing issues observed in each country, where further refinement of existing procedures is needed. While not exhaustive, the list aims to provide a starting point and support the creation of future action plans.

<sup>96</sup> Information provided by R2G4P members based on official requests for information and meetings held with the respective institutions.

Table 8. Country-specific issues observed in the SEE-9 countries

Albania	Bulgaria
<ul style="list-style-type: none"> <li>• There is no access to the declarations submitted by public officials.</li> <li>• The checking institutions do not start any proceedings on the basis of media-based suspicions.</li> <li>• Names of the sanctioned high-public officials are not published.<sup>97</sup></li> <li>• Immunities prevent investigation and prosecution.</li> </ul>	<ul style="list-style-type: none"> <li>• The asset declarations are scattered across the websites of several public bodies.</li> <li>• Public officials (apart from the higher officials in the justice system) are allowed to receive other types of income.</li> <li>• Some PEPs are obliged to declare only income from other activities different than the public position.</li> <li>• There is no gift register.</li> </ul>
Bosnia and Herzegovina	Croatia
<ul style="list-style-type: none"> <li>• Public officials often do not submit asset declarations, and the low fine (EUR 100 – EUR 1,500) does not encourage them to do so.</li> <li>• The legal obligation on data validation is limited to ensuring that declaration is not submitted empty.</li> <li>• The asset declaration includes “personal assessment” of the value for immovable and movable assets<sup>98</sup></li> </ul>	<ul style="list-style-type: none"> <li>• The period for serious assessment of asset declarations is too short.</li> <li>• Spouses and the cohabitants are not obliged to inform their partners about their own possessions.</li> <li>• The asset declaration does not show the name of the spouse or cohabitant.</li> <li>• The authorities do not have efficient procedure to check how someone obtained property before taking office.<sup>99,100</sup></li> </ul>
Hungary	Montenegro
<ul style="list-style-type: none"> <li>• Checks are performed only if a third party provides a proof of irregularities.<sup>101</sup></li> <li>• Assets of family members living in the same household must be submitted, however the information is not made public, preventing civil society and media investigations.<sup>102</sup></li> <li>• Post-employment regulation only prohibits (for two years) majority ownership in companies in the financial sector and only restricts employment in organizations that allocate public or EU funds. Thus, PEPs can work for state-owned enterprises (SOEs) and other large companies right after the end of their term in office.<sup>103</sup></li> <li>• The asset declarations are almost always hand-written photocopies that cannot be processed automatically.<sup>104</sup></li> </ul>	<ul style="list-style-type: none"> <li>• The Agency for Prevention of Corruption applies a formalistic approach towards checking asset declarations, which does not constitute a sufficient tool for control.</li> <li>• There is no procedure for checking the property of officials acquired before 2016 (as the Law on the Prevention of Corruption came in force on 1 January 2016).<sup>105</sup></li> <li>• When registering companies, the tax administration does not record whether owners / founders are public officials.</li> </ul>

<sup>97</sup> HIDAA Annual Report 2020; GRECO, Albania Report 2020.

<sup>98</sup> Code of Ethics of the Public Officials; The Law on Conflict of Interest in Governmental Institutions of Bosnia and Herzegovina; The Law on Conflict of Interest in the Government of the Federation BiH; The Law on Conflict of Interest in Institutions of the Brčko Government; The Law on Prevention of Conflict of Interest at Government Institutions of Republika Srpska; Law on the Agency for Prevention of Corruption and Coordination of the Fight against Corruption.

<sup>99</sup> European Commission, Commission Staff Working Document, 2021.

<sup>100</sup> The Group of States against Corruption of the Council of Europe – GRECO, *Evaluation Report: Croatia: Fifth Evaluation Round Preventing corruption and promoting integrity in central governments (top executive functions) and law enforcement agencies*, 2020.

<sup>101</sup> Tbg, “Több mint 800 milliót vagyona lett Rogán Antalnak” [Antal Rogán has a fortune of more than 800 million], *444.hu*, 1 February 2020.

<sup>102</sup> Ibid.

<sup>103</sup> NetJogtár, 2012. évi XXXVI. törvény az Országgyűlésről \* [XXXVI of 2012 law about the National Assembly], 2020.

<sup>104</sup> Átlátszó, “Képviselői vagyonyilatkozatok: nyomokban átláthatóságot tartalmaz!” [Representatives’ declarations of assets: contains traces of transparency!], 31 January 2022.

<sup>105</sup> MANS, “Upravni sud donio još jednu odluku u korist MANSa: Ponovo provjeriti imovinu policajca Bakovića” [Administrative Court decided in favour of MANS once again], 22 June 2022; Vijesti, “Imovinu Enisa Bakovića opet pretresti” [Re-check Bakovic’s property], 22 June 2022.

**Table 8. Country-specific issues observed in the SEE-9 countries (Continued)**

North Macedonia	Romania
<ul style="list-style-type: none"> <li>Asset declarations are not submitted annually.</li> <li>The final and up-to-date list of public officials is not available to the State Commission for Prevention of Corruption (SCPC) due to failures regarding the notifications on appointments.<sup>106</sup></li> <li>The Gift Catalogue is rarely used.</li> <li>Delayed setup of software solution which ought to interconnect multiple public bodies' registers (initially planned to be introduced at the end of 2019).</li> <li>Need to improve the risk-based methodology for selection of PEPs to be checked.</li> <li>Lack of cross-border information sharing.</li> </ul>	<ul style="list-style-type: none"> <li>The National Integrity Agency (ANI) has high workload (estimated an average of 77 files checked per integrity inspector in 2021).<sup>107</sup></li> <li>Extended family and friends of the PEP can bid in tenders where the PEP can exercise decision-making power.</li> <li>Members of the legislative and executive branches are legally allowed to be shareholders in public and private companies, so long as they do not occupy decision-making positions.<sup>108</sup></li> <li>The law does not prevent civil servants from overseeing private companies that they used to work for before joining the civil service.<sup>109</sup></li> </ul>
Serbia	
<ul style="list-style-type: none"> <li>Since February 2021, a smaller number of persons is obliged to declare assets<sup>110</sup>.</li> <li>The cadaster is not updated regularly, hindering the annual checks of asset declarations.<sup>111</sup></li> <li>Most criminal cases end up with settlements and financial fines, while the statute of limitations expires after five years.<sup>112</sup></li> <li>The accused public officials can avoid criminal charges by paying fines to charity organisations or doing community work.<sup>113</sup></li> </ul>	

Source: CSD.

## Good practice examples

In addition to the legal and procedural loopholes described above, there are also some good practices, that could serve as an inspiration and example to the rest of the SEE-9 countries. These include the use of electronic platforms which provide automatic integrity warnings, cross-checks in multiple registers, gathering of information on the ultimate beneficial owners, increasing the scope of people obliged to declare assets, raising awareness, expanding the authority and role of other public bodies in checking suspicious circumstances and filing criminal charges, as well as setting procedures for cancelling immunities.

<sup>106</sup> State Commission for Prevention of Corruption, *Annual Report*, 2021.

<sup>107</sup> Ibid.

<sup>108</sup> Ibid.

<sup>109</sup> National Integrity Agency (ANI), *Incompatibility and Conflicts of Interest Guide*, 2017.

<sup>110</sup> National Assembly of the Republic of Serbia, *Autentično tumačenje odredbe člana 2 .stav 1. tačke 3) Zakona o sprečavanju korupcije* [Authentic interpretation of the provisions of Article 2, Paragraph 1, Point 3) of the Law on Prevention of Corruption], Official Gazette of RS, No. 35/19, No. 88/19, 18 February 2021.

<sup>111</sup> Đurić, S., "Imovina funkcionera koji su na vlasti devet godina nije kontrolisana poslednjih sedam" [The assets of officials who have been in power for nine years have not been controlled for the last seven], *Pistaljka.rs*, 1 July 2021.

<sup>112</sup> Milivojević, A., and Bosanac, B., "Vaspitne kazne za neodgovorne funkcionere" [Educational punishments for irresponsible officials], CINS, 17 July 2017.

<sup>113</sup> Đurić, S. "Opportunitet iskoristilo 137 funkcionera samo u jednoj godini" [137 officials used the opportunity in just one year], *Portal Pištaljka*, 4 March 2022.

### *Cross-checks, increasing the frequency of declaration and raising awareness (Croatia)*

Croatia is among the countries that could provide many good practices and measures, despite some remaining procedural gaps. For example, asset declarations are verified in detail for possible inconsistencies. The Conflict of Interest Commission (CIC) cross-checks the data in other registers for assets that are missing from the declaration (e.g. business register, property register, land register, tax administration's database, court registries, etc.). In some cases, the CIC requests specific data from other public bodies.<sup>114</sup> The new legal base, voted in 2021 and in force since the beginning of 2022, obliged at least 1,500 government officials to submit their property cards to the CIC for the first time. In addition, by the end of January 2022, about 2,400 current government officials also had to submit their property cards as part of the new annual procedure (the previous legal base obliged them to submit only at the beginning and end of their term).<sup>115</sup> Immunities do not prevent investigation and prosecution by the CIC, and for all responsible officials there is a possibility of cancelling immunity. Individual decisions on sanctions are published online.<sup>116</sup> A significant progress has also been made in raising public awareness of the dangers of neglecting conflict of interest issues. This has been achieved with the systematic preparation of educational and informational materials<sup>117</sup> by the CIC, and as a result of CIC's training programmes in various parts of Croatia on this topic (held in 2013-2022).<sup>118</sup>

### *Electronic submission platform, providing integrity warnings (Romania)*

The National Integrity Agency (ANI) of Romania experiences high workload, due to the physical submission of declarations (the number of people that need to submit asset and interest declarations is estimated to be around 300,000 for 2021). However, it is expected that this will change with the increased use of the e-DAI electronic submission platform, introduced on 1 January 2022.<sup>119</sup> From this date, the National Integrity Agency no longer receives declarations of assets and interests in paper format. All categories of personnel in the public system who have the obligation to submit declarations of assets and interests are able to do so either with a holographic signature or certified with a

<sup>114</sup> GRECO, Evaluation Report: *Croatia: Fifth Evaluation Round. Preventing corruption and promoting integrity in central governments (top executive functions) and law enforcement agencies*, 2020.

<sup>115</sup> Institute of Public Finance, telephone interview with Ms. Nataša Novaković, Chair of the Conflict of Interest Commission (CIC), April 2022.

<sup>116</sup> Povjerenstvo za odlučivanje o sukobu interesa, *Akti Povjerenstva* [Conflict of Interest Commission, Commission Acts].

<sup>117</sup> Povjerenstvo za odlučivanje o sukobu interesa, *Materijali za edukacije* [Conflict of Interest Commission, Educational materials], published online in 2014.

<sup>118</sup> Povjerenstvo za odlučivanje o sukobu interesa, *Izvješća o provedenim edukacijama* [Conflict of Interest Commission, Reports on conducted training programmes], 2013-2022.

<sup>119</sup> National Integrity Agency, *Communiqué: regarding the electronic transmission of asset and interest declarations exclusively through the e-DAI system and the deadline for submitting annual declarations*, 8 April 2022.

qualified electronic signature.<sup>120</sup> In order to facilitate the process, the public institutions or units to which these persons belong to, have the obligation to provide depositors with certificates qualified for electronic signature. By June 2022, 340,000 people registered as depositors in the e-DAI platform, 7,883 institutions, authorities or public companies have at least one account created in the platform, and 441,067 documents (asset and interest declarations) have been sent electronically to the Agency. The information entered in the e-DAI module will allow integrity inspectors to issue reports and apply sanctions, if required, within a very short timeframe, since mailing, physical storage and manual verifications will be eliminated. An integrity inspector within ANI has been appointed to respond to depositor's queries regarding the electronic submission of the declarations, supported by a chatbot (e-DAI Virtual Assistant) operational since May 2022.<sup>121</sup>

In addition, ANI uses a special mechanism ("Prevent System") for preventing conflict of interest in public procurement, set up by Law 184/2016,<sup>122</sup> which inter-connects several national datasets to produce an integrity warning. These datasets include the national public procurement platform (SICAP), population records, and Commercial Registry records. The system can be expanded further, although lack of inter-connectedness and inter-operability of digital records is a limiting factor. Asset declarations are archived after three years but are not removed from official records. Thus, all declarations ever submitted can still be found on ANI's portal.<sup>123</sup>

### *Empowering the Tax Administration to investigate property changes and illegally obtained assets in the country and abroad (Serbia)*

With the Law on Determining the Origin of Property and Special Tax, adopted in 2020 and in force since 2021, the Tax Administration Unit of Serbia was entrusted with a significant role in relation to the asset declarations.<sup>124</sup> In particular, the Tax Administration received the power to investigate property changes of individuals and legal entities, including public officials. It can start a preliminary procedure and a control procedure, if it identifies a difference exceeding EUR 150,000 between the reported assets and reported income for the last three years.<sup>125</sup> In case the preliminary and control procedures result in uncovering evidence of illegally acquired property or assets in the country and abroad by public officials and individuals, the Unit files criminal charges.

<sup>120</sup> Juridice.RO, "Declarațiile de avere și de interese vor fi transmise ANI exclusiv prin sistemul electronic e-DAI. UPDATE: 340.000 deponenți înregistrați" [Declarations of assets and interests will be sent to ANI exclusively through the e-DAI electronic system], 7 June 2022.

<sup>121</sup> National Integrity Agency, *ANI has launched "e-DAI Assistant", a Chatbot dedicated to depositors of asset and interest declarations and responsible persons*, 10 May 2022.

<sup>122</sup> Law No. 184/2016 of 17 October 2016 to establish a mechanism to prevent conflict of interests in public procurement contract awarding.

<sup>123</sup> National Integrity Agency (ANI), *Annual Activity Report*, 2021; GRECO, *Fourth Evaluation Round Report on Romania*, 2015.

<sup>124</sup> Lapčević, A., "Tax or Penalty? The New Law on Origin of Property and Special Tax", *ZunicLaw*, 2021.

<sup>125</sup> *Zakon o utvrđivanju porekla imovine i posebnom porezu* [Law on Determining the Origin of Property and Special Tax], Official Gazette of RS, 18/2020-3.

### *Obligation to declare ultimate beneficial owner (Albania)*

The Albanian Parliament adopted Law no. 112/2020 on “Beneficial Owners’ Registry”, which entered into force on 28 August 2020. The law obliged legal entities (including non-governmental organizations) to declare their ultimate beneficial owner. Non-compliance with this obligation within the statutory deadline is subject to penalties amounting to ALL 150,000 (EUR 1268) for individuals, and ranging between ALL 250,000 (EUR 2113) to ALL 500,000 (EUR 4227) for legal entities. The penalties are doubled in case the contravention is repeated.<sup>126</sup> The legal change improved the procedure for checking the declarations of assets and conflict of interests since 2020. Part of the audited declarations were related to officials of the justice system as a result of Judicial Reform and Vetting.

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<sup>126</sup> KPMG, [Law on Beneficial Owners’ Registry](#), 18 August 2020.

# PUBLIC PROCUREMENT IRREGULARITIES AMONG POLITICALLY EXPOSED COMPANIES

## *Methodology*

A **politically connected company** is defined as a private company or state-owned enterprise (SOE), whose decisions could be influenced by politically exposed persons (PEPs). For the purposes of the current research, the main indicator used to identify politically exposed companies will be the participation of a PEP or their immediate relatives in the company or state-owned enterprise (as noted in asset declarations or other public registers). “**Immediate relatives**” are spouses, parents, siblings, and children (excluding cousins, aunts, etc.). A company is considered “politically connected” if the PEP is participating in the management board/board of directors of a private company or SOE and/or has an ownership of over 50% in the company. We use this definition because PEPs – and their immediate relatives – usually are obliged to report this information in their annual **asset declarations** which is the primer source of the data.<sup>127</sup>

The methodology used to measure procurement integrity is developed by the Government Transparency Institute (GTI). Several indicators are tested and validated using rigorous statistical methods to create the **composite Integrity Score** that measures the overall integrity of each procurement contract – for a detailed description of the methodology and steps of indicator calculation see Fazekas – Kocsis (2020)<sup>128</sup> or read the Training Manual written by GTI as part of the R2G4P project.<sup>129</sup> The indicators used in this report to create the Integrity Score are reported in Table 9. Each indicator can take the value of 0, 1 or in some cases 0.5, where 0 indicates high corruption risk. The Integrity Score is the simple arithmetic average of the seven indicators. It is important to note that each indicator is calculated and validated on the national datasets, hence each is robust on the national level.

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<sup>127</sup> Note that data accessibility and quality may vary significantly across the analyzed countries. Bulgaria has one of the best quality data on politically connected firms.

<sup>128</sup> Fazekas, M., and Kocsis, G., “[Uncovering High-Level Corruption: Cross-National Objective Corruption Risk Indicators Using Public Procurement Data](#)”, *British Journal of Political Science*, 50(1), 155-164, 2020. doi:10.1017/S0007123417000461.

<sup>129</sup> Czibik, Á. Et al., *Analyzing Public Procurement Risks – Training Manual*, Budapest: Government Transparency Institute, 2021.

**Table 9. Integrity indicator description**

Integrity indicator name	Integrity indicator description
Single Bidding integrity (multiple bidders)	Tenders/contracts receiving more than one bid
Advertisement Period integrity	Period between call for tender publishing date and bid submission deadline.
Call for Tender publication	Contract with published call for tender
Decision Period integrity	Period between bid submission deadline and award decision date
Procedure Type integrity	Tender procedure type

Source: GTI.

Where Y represents an integrity indicator or the composite Integrity Score, is a binary variable indicating whether the supplier of the procurement is politically connected, is a list of control variables including the location of the buyer, the type of the buyer, the location of the supplier, the type of the contract (supplies, works or services), contract value in deciles and market and year fixed effects.

## Contract volume share

The expectation behind politically connected firms participating in public procurement procedures implies that political connections can be used for corrupt exchange and favouring certain suppliers based on their relations to PEPs. Yet before analysing whether political connections significantly influence the outcome of public contracting, it is important to check the overall state of market penetration by PCs. The share of political connections is not likely to be very high, albeit the small group of connected firms can introduce a lot of corruption risks. At the same time, PCs in public procurement cannot be considered as signals of corruption per se, only if correlated with lower competitiveness or other corruption risks.

### Regional trends

Regional trend shows that the number of **contract volume share of politically connected firms varies between 2% (Croatia in 2017) and 16% (Serbia in 2021)** with an average share of 5%. Yet in some cases when calculated within the same CPV division the share can significantly differ.<sup>130</sup> For instance, in North Macedonia the share of politically connected firms within the same market is usually lower than the overall annual number (e.g. in 2016 the overall share is a little above 2% while within the same CPVs it is 1%). On the contrary, in Bulgaria the distribution looks different: in most of the cases the average volume share within the same economic market is 1-2% higher than the aggregated number per all sectors (Figure 5).

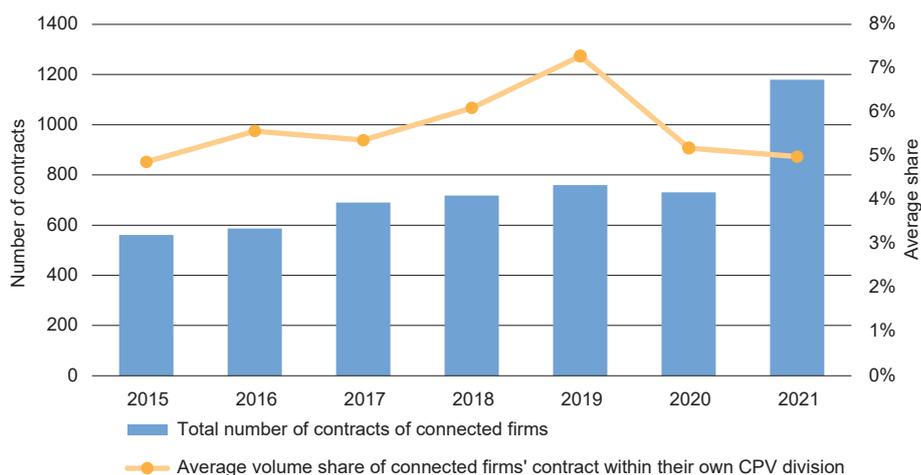
<sup>130</sup> CPV division in a common procurement vocabulary describing the subject of the contract, aggregated to the level of the market (first two digits of the code). Therefore by calculating shares within the same CPV divisions one can observe relative differences within comparable groups of products or within the same market.

The difference in annual share versus the share of politically connected firms per the same market can reveal whether there is an existing systemic dependency of the market on political connections, as well as potential presence of monopoly or oligopoly in the respective sector. Croatia and Bulgaria appeared to be the countries where the penetration of politically connected companies per sector is on average higher than the annual share, therefore some sectors are more likely to be dominated by firms with political connections.

### Examples

The Bulgarian case is a good example of how the distribution of contract volume share can be different in aggregated annual numbers and average numbers with the same CPV division (within the same market). While the overall number of contracts distributed among politically connected firms is getting slightly bigger every year, the share within the same CPV also increases but a bit more (Figure 5). For instance, the difference in average share between 2017 and 2019 is less than 0,5%, while increase within the respective CPV division raised from 5,5% to approximately 7,2%. At the same time, there was a reverse dynamic after 2019 – while in 2021 the average annual share increased from 3,5% to almost 7%, the average volume share within the same CPV decreased from 7% to 5%. Therefore, while in general political connections seem to be more prevailing in overall procurement procedures, they are becoming more scattered across different sectors.

**Figure 5. Contract volume share of politically connected companies in Bulgaria**



Source: GTI and CSD.

## Contract value share

While the share of contracts won by politically connected firms shows the general picture of their penetration in procurement procedures as well as the distribution across sectors, the contract value share is a more important indicator to assess how much money was actually distributed among such firms and therefore can potentially be prone to corruption risks. It can be the case that while the number of contracts is not high, their value itself is pretty big, meaning that politically connected firms are aimed at large contracts (for instance in the construction sector).<sup>131</sup>

Similar to contract volume share, one can observe different trends when it comes to aggregated annual numbers and average share within the respective CPV division. Higher numbers in the latter can be a signal of a more intense penetration of politically connected companies within certain economic sectors, and while on average it is not high, some sectors can be dominated more by politically connected firms.

### Regional trend

Most of the countries in the region showed a **higher contract value share than volume share of politically connected firms**. While in some cases the difference is moderate (0,5%-1% difference in Croatia or 2%-3% difference in Bulgaria), other countries show a more drastic distinction. For instance, in Hungary contract value share in 2015-2021 is between 2,5%-14% (EUR 200-800 million), while the contract volume share of politically connected firms is around 2%-4% which means such firms are mostly aimed at the bigger value contracts.

At the same time there is an observable difference between the average value share of connected firms within their own CPV division and the aggregated annual share. While in some countries contract value share within the same market is significantly lower than the aggregated share (e.g. in North Macedonia the difference builds around 3% on average), in majority of cases the average within market share is higher. This trend confirms the previously observed pattern with contract volume share: politically connected firms are quite frequently concentrated within certain markets rather than scattered across different sectors.

### Examples

In the case of Croatia, the value of contracts won by politically connected firms steadily increases over the years from 1,5% in 2015 to a little over 5% in 2021 (Figure 6). The 2021 increase is in line with the change in the contract volume share of politically connected companies reaching a bit more than 8% in the respective year. Yet the value share is slightly higher almost every year (around 0,5%-1,5% difference), except for the significant increase in 2016 (the

<sup>131</sup> Charron, N. et al., "Careers, Connections, and Corruption Risks: Investigating the impact of bureaucratic meritocracy on public procurement processes", *The Journal of Politics*, 79(1), 2017, pp.89-104.

average contract value share of connected firms' contracts was more than twice higher within the respective CPV division).

**Figure 6. Contract value share of politically connected companies in Croatia**



Source: GTI and IPF.

## Buyer type value share

The number of politically exposed companies' contracts is expected to be different for different types of buyers depending on the country-specific context, including type of electoral system, size of the country, administrative structure, and the amount of resources available to each level. In larger states with diverse administrative structures and resourceful local-level bureaucracy, one can expect a higher level of political connections being used within regional or municipal authorities due to the higher corruption risks.<sup>132</sup> At the same time, a lack of resources of high level of centralization can lead to either a lower level of corruption in municipalities or take a different form.<sup>133</sup> For instance, a large number of small contracts are prone to corruption risks at municipal or regional level, but in sum, several of large value contracts on the national level constitute a higher share.

### Regional trend

The regional trend is diverse and not straightforward, but in a majority of cases, there is an **observable difference between buyer type of politically connected companies' contracts versus other companies' contracts**. For example, in Romania there are significantly more National Authorities among politically connected companies' contracts than the others (40% versus 20% among non-connected companies). At the same time, while in Hungary National Authorities are also representing a larger share among connected firms,

<sup>132</sup> Baldi, S. et al., "To bid or not to bid: That is the question: Public procurement, project complexity and corruption", *European Journal of Political Economy*, 43, 2016, pp.89-106; Díaz, J.M. et al., "Corruption risk analysis in local public procurement: a look at the Àrea Metropolitana de Barcelona", *International Review of Administrative Sciences*, 2022.

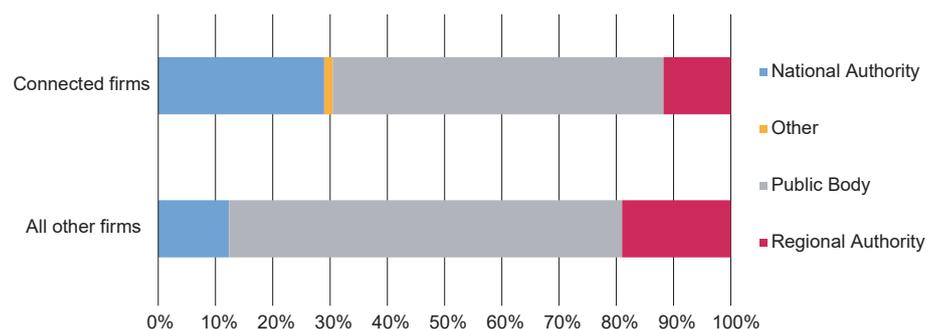
<sup>133</sup> Detkova, P., Podkolzina, E. and Tkachenko, A., "Corruption, centralization and competition: evidence from Russian public procurement", *International Journal of Public Administration*, 41(5-6), 2018, pp.414-434.

the prevailing category is Regional Authority (40% versus around 30% among non-connected firms). On the other hand, in the case of Croatia there is no significant difference between the two groups. Some countries show slight differences – for instance, in Bulgaria a slightly more prevailing group among connected firms is non-defined (around 5% difference).

### Examples

In the case of North Macedonia (Figure 7) among connected companies' contracts there is a significantly higher number of National Authority buyers in comparison to non-connected firms (around 30% among connected firms and 12-13% among non-connected). At the same time, regional authorities construct around 10% of buyers with connected firms' contracts and almost 20% with non-connected. While other public bodies prevailing in both groups, non-connected firms' contracts are more likely to be procured by these buyers than connected ones.

**Figure 7. Buyer type value share of politically connected companies' contracts vs. other companies' contracts (2015-2021) in North Macedonia**



Source: GTI and IDSCS.

In some cases, connections within local authorities can result in the extraction of resources by connected persons from the national level. For example, in Bulgarian city of Kotel, farmers and companies connected to the town's mayor, Kosta Karanashev, and the now-former Minister of Agriculture, Dessislava Taneva, (both being members of the political party GERB), have been fraudulently extracting agricultural subsidies and procurement funds since as early as 2013.<sup>134</sup> The family received funding for lands which were not in active cultivation, constituting fraud.<sup>135</sup>

<sup>134</sup> Stoyanov, D., "Small Town "Gerbonomics" – Relatives, Nepotism and Syphoning of EU Funds", *Bivol*, 6 September 2020.

<sup>135</sup> Stoyanov, D., "Son-in-law of Bulgarian Small Town Mayor Absorbs EU Subsidies after Being Sanctioned for Abuses", *Bivol*, 25 September 2020; BIRD, "Родата на министър Танева се уреди и с коронасубсидии от ДФЗ" [Minister Taneva's family hooked up with coronasubsidies from SFA], 4 February 2021; Bivol, "Bulgarian Agriculture Minister's In-laws absorb 1M in EU subsidies", 10 June 2020.

## Procedure type value share

It is expected that politically connected companies' contracts will go through less competitive procedures prone to higher corruption risks. For instance, such procedures as negotiated, especially without publication, or restricted, as well as direct award, are less transparent and therefore can be used by the interested party for corrupt exchanges<sup>136</sup>. On the contrary, open procedures are more difficult to use for corruption because of the more transparent rules and publication requirements. At the same time, while procedure type can serve as a proxy for corruption risks, not all types of restricted procedures necessarily result in it, as interested parties can use other instruments for corrupt exchange even within open procedures: e.g. tailoring tender requirements, deliberately shortening the time for submission, taking longer time for decision period to negotiate terms with supplier.

### Regional trend

In the majority of the countries in the region, **the share of open procedures among connected firms' contracts is either not significantly different or trends counter to the expectations** (i.e., there are slightly more open procedures among connected firms). For instance, in the case of Bulgaria, there is no substantial difference besides a couple of percentages in negotiated procedures without publication (around 5% among connected firms versus 3% for non-connected firms). Yet a couple of countries showed some expected distributions, for instance in Romania the share of negotiated procedures without prior publication is almost twice higher for connected firms (25% versus 12%). At the same time, Hungary and Serbia showed counterintuitive results with open procedures being more frequent for connected firms' contracts. In the Hungarian case there is also a difference in negotiated procedure with publication showing a higher share for connected firms (17% versus 8% among non-connected firms). The relatively high share of open procedures among politically connected firms in a majority of the countries might mean that in most of the cases other practices are used for corruption (e.g., tailored tender specifications, short advertisement period, etc).

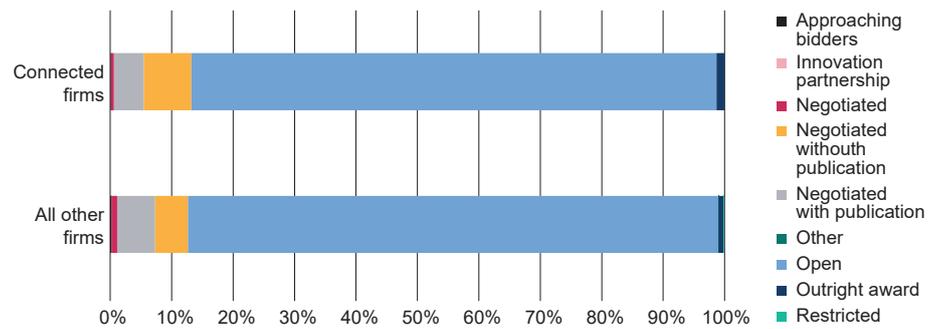
### Examples

The case of Bulgaria is more in line with the expected distribution of procedure types in the two groups. Figure 8 shows that both for politically connected and non-connected companies' majority of the contracts had open procedure types; the share of open contracts was around 87% for politically connected companies and 88% for non-connected companies. Likewise, for both groups 8-10% was distributed between negotiated with and without publication type procedures. However, for connected compa-

<sup>136</sup> Fazekas, M., Tóth, I.J. and King, L.P., [An objective corruption risk index using public procurement data](#), *European Journal on Criminal Policy and Research*, 22(3), 2016, pp.369-397; Fazekas, M. and Kocsis, G., ["Uncovering high-level corruption: cross-national objective corruption risk indicators using public procurement data"](#), *British Journal of Political Science*, 50(1), 2020, pp.155-164, 2020.

nies the share of negotiated contracts with no prior call for tender publication was around 3 percentage points higher. This is arguably a riskier procedure type as less information is available for other potential suppliers and for the general public.

**Figure 8. Procedure type value share of politically connected companies' contracts (2015-2021) in Bulgaria**



Source: GTI and CSD.

An example of using, for instance, direct awards to get contracts through political connections was found in Romania. Ana Kraus, who was a head of Sibiu County Council's Administrative Service while her husband was employed first as a driver and then as a personal counsellor to former County Council President Ioan Cindrea, awarded telecommunication service contracts to her son, Robert Kraus through direct award catering. Media Impex SRL, the catering company, therefore initially provided this service free of charge, but was later awarded an actual contract, and sent 58 invoices to Kraus amounting to EUR 63,500 from 2013 to 2014.<sup>137</sup>

## Integrity indicators

By looking at the individual integrity indicators for politically connected and non-connected firms it is possible to assess whether there is a substantial difference between the two groups when it comes to competitiveness, submission and decision dates, as well as procedure type and publication of the call for tender. Different sets of indicators could have been used for different countries depending on the data availability and quality. All the states in the region had a "call for tender publication" indicator. One of the easiest ways to fix tenders is by avoiding publishing the call for tenders in the official public procurement journal, as this makes it harder for non-connected competitors to prepare bids. Another straightforward way of measuring integrity is through the "procedure type" indicator: using less

<sup>137</sup> Deleanu, T., "Cinci ani de închisoare, cu executare, pentru Ana Kraus. Dosarul achizițiilor fictive la CJ Sibiu s-a încheiat cu pedepse mai mari" [Five years in jail for Ana Kraus. The fictitious procurement case at the Sibiu County Council ended with higher sentences], *Turnul Sfatului*, 31 March 2022; Deleanu, T., "Dosarul produselor de protocol. Șefii din CJ își reparau toate mașinile neamurilor pe banii județeni" [Protocol products case. County Council chiefs got their cars repaired with county money], *Turnul Sfatului*, 18 February 2018; DNA, *Press release*, Nr. 730/VIII/3, 21 July 2017.

open and transparent procedure types can indicate the deliberate limitation of competition. Too short or too lengthy “advertisement period” and “decision period” can be signaling the corruption risks too. Extremely short number of days between publishing a tender and the submission deadline or between submission and decision deadlines can be a sign of a tender’s requirements being specified for a particular supplier. Too long time periods could happen due to legal challenges suggesting the outright violation of laws. Finally, “single bidding score” is an easy and direct measurement of the level of competitiveness in procurement procedures.

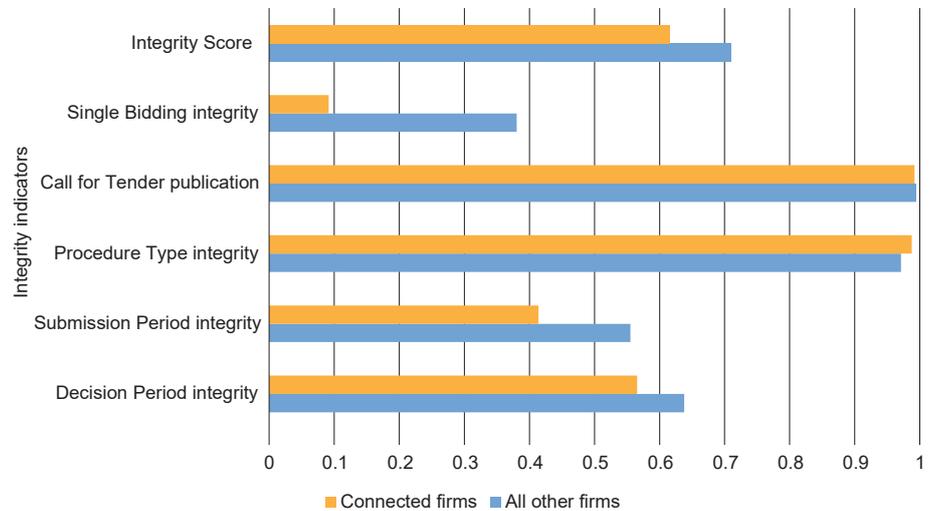
### *Regional trend*

Across the region, **the aggregated integrity score is always slightly lower for connected firms**, with some variation across countries. For instance, in Hungary and North Macedonia, the difference adds up to around 0.05 points, while in Croatia or Serbia the difference accounted for around 0.1 points. The single bidding indicator is one of the most factors differentiating the two groups of contracts. For some countries, the single bidding integrity level for politically connected firms is lower than for non-connected in about 0.1 points or more (e.g., Serbia or Croatia). In some cases, call for tender publication indicators also showed significant differences. For instance, in Croatia this indicator shows almost twice less integrity for politically connected firms’ contracts. In most of the cases the procedure type similarly showed better integrity for non-connected firms (e.g., in North Macedonia, Croatia, and Bulgaria, the difference is around 0.05 points). At the same time, in some cases advertisement and submission periods showed higher integrity levels for connected firms. For instance, in Romania and North Macedonia both groups scored either almost the same or with connected firms having slightly higher scores.

### *Examples*

The Serbian case is a good example of clear difference between the two groups as demonstrated by integrity indicators (Figure 9). Politically connected firms’ contracts are associated with a significantly lower single bidding integrity (0.1 versus almost 0.4 for non-connected firms). Submission and decision periods also significantly contributed to the aggregated integrity score difference: both indicators show around 0.05 points difference with non-connected firms. At the same time, call for tender publication indicator and procedure type integrity both scored very high and do not show any significant difference.

**Figure 9. Integrity indicators for politically connected and non-connected companies (2015-2021) in Serbia**



Source: GTI and EPC.

It is very likely that contracts awarded to connected persons suffer from lack of transparency and other violations in the tendering procedures. For example, in the case of Hungary, Mr. Bács, former deputy mayor of Erd, is suspected of awarding HUF 278.4 million (EUR 900,300 on 2017 average exchange rates) through a public procurement process to businesses in which he had a personal interest. The case contained many exploitations of legal and procedural gaps and other suspicious actions, such as coordinated market behaviour between the applicants, the amount announced in the tender almost exactly matching the amount proposed by the winner of the procurement, and the applications of both the loser and the winner having been submitted by the same person.<sup>138</sup>

## The effect of politically connected suppliers on procurement integrity

Besides visual differences between two groups, it is important to check if the observed differentiation is statistically significant. The goal of the regression models is to produce a more robust picture of the effects of politically connected firms on overall procurement integrity. A negative estimated coefficient indicates a lower average level of integrity for contracts of politically connected companies compared to contracts of non-connected companies. Therefore, negative effects may signal an increased risk of corruption. The expected outcome is to observe statistically significant and negative coefficients in the level of integrity for politically connected firms' contracts at least in the majority of indicators.

<sup>138</sup> Kis, Z., "Kétmillió közbeszerzési bírságot és egy baljós uniós jelentést kapott Érd" [Two million euro public procurement fine and a sinister EU report for Érd, Átlátszó, 12 February 2020; Kis, Z., "Kartellezés gyanúja miatt nyomoznak egy 280 millió forintos érdi óvoda-közbeszerzés ügyében" [Suspected cartel investigation into a HUF 280 million public procurement of a kindergarten in Érd], Átlátszó, 28 July 2021; Kis, Z., "Érdi botrány: egyvalaki írta a "versengő" óvodai közbeszerzési ajánlatokat" [Érd scandal: one person wrote the "competing" kindergarten tenders], Átlátszó, 29 June 2022.

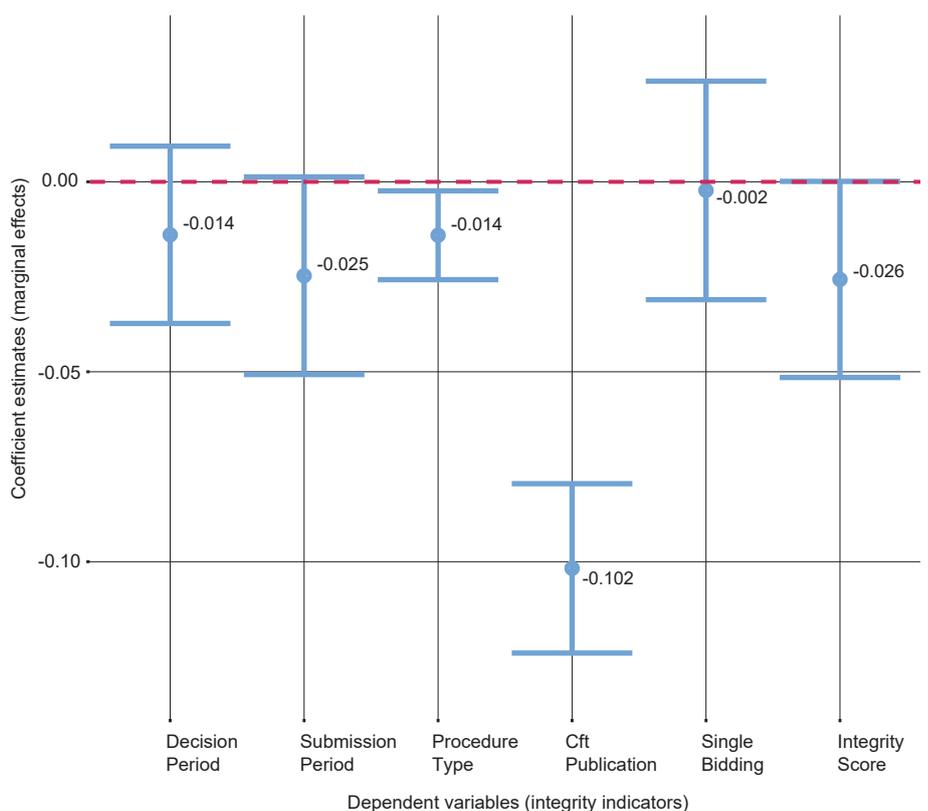
**Regional trend**

Depending on the quality of the data, for some countries the models showed more robust and expected results than for others. For instance, in the case of North Macedonia almost all of the variables are statistically insignificant due to the low number of politically connected firms in the dataset. Similarly, the Serbian model is not sufficiently robust due to a low number of observations. On the other hand, Croatian and Bulgarian models have a majority of the indicators as significant predictors for lower integrity level among politically connected firms' contracts.

**Examples**

Figure 10 shows the estimated coefficients for six separate models in Croatia. In each model, a politically connected company binary (indicating whether for a given contract the supplier company was owned/controlled by a PEP or family member) is regressed on an integrity indicator. The bars show the 95% confidence interval for the given estimate. The effect is significant for the Call for Tender (Cft) publication rate, submission period integrity, and Procedure Type integrity, indicating that on average connected companies are more likely to win contracts without a prior Cft publication, they often receive contracts where

**Figure 10. The effect of politically connected suppliers on procurement integrity in Croatia (2015-2021)**



Note: Bars indicate the 95% confidence interval

Source: GTI.

there is less time for potential competitors to submit their interest and they are more likely to win contracts with riskier procedure types (such as outright awards). While the predicted Single Bidding integrity (multi-lot procedures) and Decision Period integrity are not significantly different for politically connected companies, the negative estimates suggest that they are still more likely to be lower. The combined Integrity Score highlights that the composite effect of connected companies winning a contract is significantly negative. Overall, the results suggest that politically connected companies in Croatia often win contracts where the risk of corruption is higher.

## Post COVID corruption risks in public procurement

### *Methodology*

In order to analyse the regional trends in post-COVID corruption risks, legislative changes were taken into consideration first- in particular, the introduction of emergency procedures for public procurement (e.g., negotiated procedures for buying COVID-related products). Additionally, to compare countries' CRI trends, the average scores were calculated for three markets. Figure 11 shows the average score for three types of products: a) COVID-19 related, b) general health related, and c) all other public contracting between 2017 and the end of 2021. The types of products were categorised based on the CPV codes associated with the contracts. By COVID-related goods such products were counted as masks, ICUs, etc. Other medical goods were categorised as healthcare market, and everything outside of the two groups is categorised as non-healthcare market products.

### *Comparison of all countries' general trends (drops in integrity level after introduction of emergency period by three markets)*

All the countries in the region went through an **emergency period due to the COVID-19 outbreak**, resulting in the changes in legislative regulations of public procurement. Usually, these changes in the regulations were introducing emergency procedures for COVID-related products, allowing for more expedient procedures but also **resulting in less transparent procurement**, which was therefore more prone to corruption. The newly introduced procedures **usually included direct negotiations** under which the procuring body was freed from objective assessment and fair specification and evaluation of bidders. For almost all of the countries in the region, the emergency period due to COVID-19 was lifted over the spring of 2022; in Hungary, however, it was re-introduced due to the war in Ukraine, and the state of emergency decree states that special rules apply to the procurements related to the supply of persons recognized as entitled to temporal protection.

The analysis of the regional trends among three markets (healthcare products, COVID products and non-healthcare products) is presented in Figure 11. It can be observed that **the level of integrity either goes down for COVID market only** (Romania, Hungary, Croatia), **or results in a downward trend for the healthcare market with rapid fluctuations in COVID**

**market** (Bulgaria and North Macedonia). In the case of Bulgaria, the significant drop in the level of integrity for COVID products can also be observed with some time lag after the introduction of the state of emergency, which can be attributed to the increase in the number of COVID-market contracts in the second quarter.

**Figure 11. Three markets, quarterly integrity trends before and after the introduction of emergency periods in Bulgaria, Croatia, Hungary, North Macedonia and Romania (2017-2021)**



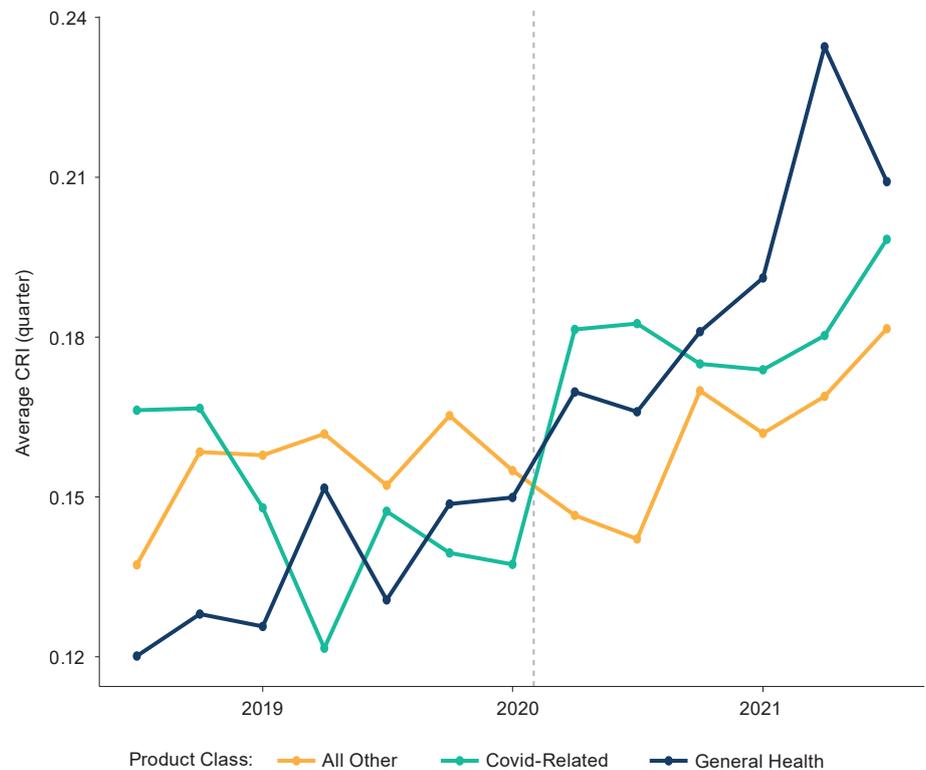
Source: GTI.

In most of the cases the non-healthcare market is not associated with any significant changes due to the introduction of the state of emergency. Specific case studies prove the point regarding COVID-related products and corruption risks associated with them. For instance, in Serbia, NITES Group signed three contracts with the Ministry of Health worth EUR 3.2 million in April of 2020. This coincides with the period when Darija Kisić Tepavčević, sister of the executive director of the NITES branch in Czech Republic – Bojan Kisić, became a member of the COVID-19 Crisis Task Force before becoming a Minister later on the same year. NITES was usually applying to tenders as part of consortia with other companies that also have politically exposed persons in their top management.

### Comparisons to the EU-wide benchmark

Figure 12 shows the average CRI score for three types of products for all EU countries between August 2018 and August 2021. COVID-19 and general health products saw an increase in CRI scores after COVID-19 restrictions in February 2020, with little change in other products. Similarly, whereas the trendline of corruption risks in Europe remained relatively the same for non-health products in the 18 months before and after periods, **all health-related products (general and COVID-19) saw a steep increase in CRI scores** in the after period.

**Figure 12. Three markets quarterly corruption risk trends before and after the introduction of emergency period in Europe (2019-2021)**



Source: Fazekas, Sanches, and Abdou, 2022 (GTI).

Therefore, the regional trend shown in Figure 11 is not vastly different from the European averages. While the non-healthcare products remain on average at the same level of integrity, changes in corruption risks for the healthcare market and COVID-related products are markedly visible. However, the scale of the trend differs for the region in comparison to European averages. While Figure 12 shows European corruption risks at the beginning of 2020 on the level of 0.15 (or 0.85 in integrity level), the average integrity for the region Figure 11 in the same time frame is around 0.7. The highest pick of corruption risks for European averages was at 0.24 in corruption risks (or 0.76 in integrity level), which constitutes around 0.10 points in the change of CRI score. This scope of change is similar to the regional trend (within 0.10 points change) with the exception for Bulgaria (the integrity level for COVID products dropped by 40% in the second quarter).



# THE WAY FORWARD: CONCLUSIONS AND POLICY RECOMMENDATIONS

Enhancing the risk assessment methodologies, policy procedures and measures aimed at preventing corruption, state capture,<sup>139</sup> illicit enrichment, and illicit finance<sup>140</sup> could be achieved only through the cooperation between the public bodies, the civil society, investigative media and international partners. In particular, the use of big data could facilitate the identification and sanctioning of integrity breaches in the distribution of public procurements, state aid, concessions, strategic investments, and EU funds. Thus, the following **key policy recommendations** are in order:

## *Coherent checking procedure of asset declarations*

The checking procedure of the asset declarations should be clarified in **detailed internal rules and/or regulations**.

- *First*, the relevant authority should check if the asset declarations are submitted on time by the public servants.
- *Second*, the anti-corruption authorities should **set up a body or department dedicated fully to the detailed check** (“lifestyle audit”) of asset declarations (not just their gathering). It should verify not only the reported information but whether there are hidden or undeclared assets, including abroad and/or held by friends and (extended) family members. Ideally, the procedure should ascertain the origin of assets.
- *Third*, this body it should utilize a risk assessment and checking procedure, based on **big data and a set of red flags** and indicators. In the countries where more than one body performs the checks, this procedure should be unified across all of them. An example of a comprehensive list of risk indicators for checking asset declarations is presented in the text above, based on analyses published by the World Bank,<sup>141</sup> Council of Europe,<sup>142</sup> and OECD.<sup>143</sup>

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<sup>139</sup> Stoyanov, Gerganov, and Yalamov, *State Capture Assessment Diagnostics*, Sofia: CSD, 2019; Galev, Gerganov, and Todorov, *State Capture Deconstructed. Risk Measurement in Vulnerable Economic Sectors in Europe*, Sofia: CSD, 2021.

<sup>140</sup> R2G4P, *Second specialised regional training for R2G4P members: Innovative tools and methodologies for tracking illicit financial flows, state capture and corruption*, 18-20 May 2022, Budapest; Presentation by Dr. Vanya Petrova, Senior Analyst, Economic Program, Center for the Study of Democracy, 18-20 May 2022, Budapest.

<sup>141</sup> The World Bank, *Automated Risk Analysis of Asset and Interest Declarations of Public Officials: A Technical Guide*, 2021.

<sup>142</sup> Council of Europe, *Practitioner Manual on Processing and Analysing Income and Asset Declarations of Public Officials*, 2014.

<sup>143</sup> OECD, *Verifying Asset Declarations in Greece: Guidelines for Standard Procedures and Oversight Bodies*, 2017.

- *Fourth*, the body should **perform three types of checks**: a random sample undergoing detailed check / audit (e.g., 5% or 10% of the civil servants in a public body), checks of priority/risk groups (based on the big data risk analysis), as well as such triggered by anonymous signals from third parties (whistle-blowers, CSOs, media articles, etc.). This would increase the risk of detecting irregularities and decrease the sense of impunity.
- *Fifth*, strong **cooperation** among all relevant bodies (anti-corruption, tax, finance, money laundering, prosecution, etc.) should be established, as well as the inter-connection of all available databases – a key for the investigation of ill-gained wealth. The data declared in the asset declarations should be cross-checked with the data from other public registers (national and international) according to national and EU data privacy rules,<sup>144</sup> and if relevant – with private sources (professional bodies, social media, etc.). This would also prevent the practice of asset declarations to include “personal assessment” of the value of the assets, or their incorrect classification.
- *Sixth*, there should be a possibility to submit the issue to the prosecution or to other relevant authorities, and administrative, criminal (and if relevant-civil) procedures to be initiated by multiple bodies or stakeholders. The investigations should not omit the issue of how someone has obtained property before taking office.
- *Seventh*, the SEE-9 countries should **cease the practice of removing asset declarations from public registers** shortly after the end of the public servant’s term in office.

### *Improving the legal base in terms of asset disclosure*

The legal base should oblige police, customs officers, senior managers, directors and board members of state-owned enterprises, military personnel, members of political parties (e.g. the ones outside of the members of parliament and receiving subsidies), and where relevant – members of religious groups – to also submit asset declarations. However, the increase of the number of collected asset declarations should be accompanied by **efficient checking and sanctioning procedures**, as well as use of big data and red flags to identify a smaller sample of risk groups to be checked. The legal specifications regarding the **post-employment restrictions for PEPs**, the receipt of gifts, as well as the allowed types of additional income for public servants, should be clarified in detail. The legal base could be improved by obliging PEPs to disclose not only their majority shares in a company, but also their assets held in that business.

<sup>144</sup> According to Article 6 of GDPR, processing of personal data is lawful if necessary to the performance of a task conducted in the public interest or in the exercise of official authority vested in the controller. In addition, GDPR Recital 113 justifies the data transfers necessary for a single case investigation. See also: Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (GDPR).

### *Transparency and digitalization of asset declarations and related registers*

Stronger efforts are needed to ensure data availability and transparency through digitalization of information. The countries from SEE-9 should not allow asset declarations to be submitted as hand-written photocopies, nor to be scattered on the websites of different public bodies. The relevant bodies should not retroactively change the asset declarations, so that a detected irregularity no longer exists. There is also a need to **establish machine-readable public procurement and corporate databases**, as well as databases of sanctioned legal and physical persons, which can be downloaded in bulk. The databases should include information on ultimate beneficial ownership and financial data at company level. It is also recommended that all countries establish procedures for tracing transactions with crypto currencies, and harmonize their approaches towards the taxation of crypto assets, as suggested by the European Parliament.<sup>145</sup>

### *Improving the data publication related to public procurement*

While in general the data related to public procurement is available and on average is of good quality, there are further steps needed, particularly in **the publication of the call for tenders**. If a contracting authority does not make a call for tenders publicly available, only connected bidders will know about the tendering opportunity. This corruption technique is strongly associated with using non-open procedure types, but it can also be utilized independently. The publication of a call for tender should be monitored and implemented for all procedure types.

### *Inter-connecting public registers*

A core prerequisite for the efficient use of big data is for all SEE-9 countries to inter-connect all public registers. This is a two-step process – first, the primary (basic) registers should be connected with each other: physical persons register (including civil status and family members), business (legal entities) register, and the property register. Second, all remaining registers should be joined one by one.<sup>146</sup> If possible, databases of professional bodies and bank accounts should also be included or a procedure for information requests should be established.

Based on data from all inter-connected public registers, the governments from the SEE-9 countries, supported by the civil society, are recommended to **elaborate electronic platforms for detecting corruption risks and patterns of abuses**. Such platforms could benefit from the red-flags and indicators, tested in the framework of the R2G4P initiative and presented in the current and

<sup>145</sup> European Parliament, [Cryptocurrency dangers and the benefits of EU legislation](#), 11 October 2022.

<sup>146</sup> Tax, social security, land register, motor vehicles register, stocks and securities, patents and licenses registry, customs, court registries, party finance database, etc.

future reports. The next and final step would be to enforce the International Treaty on Exchange of Data for the Verification of Asset Declarations.<sup>147</sup>

### *Introducing data-driven analysis of public procurement and asset declaration*

Use of big data for early warning and risk analysis should be developed and regularly used by the relevant public bodies, jointly with the civil society, international bodies and investigative media. The digitalization and consequent big data analysis could be utilized in all areas – public procurement, strategic investments and distribution of state aid, checking of asset declarations, measuring illicit financial flows, etc.

- In regard to **asset declarations** – big data could allow a set of red-flags to warn if illicit wealth has potentially been acquired and/or transferred to (distant) relatives or friends (against no or low compensation), and if it has been hidden in a complex chain of subsidiaries and mother companies (incl. use of shell companies and straw persons). Such approach could alleviate the high workload of the anti-corruption bodies.
- In regard to **company behaviour** – big data could reveal if the companies linked to politically exposed persons have higher turnover, market position (possible monopolization), profit per employee, etc. – compared to the companies without political ties in the same sector. In addition, big data calculations will show if the operational assets and equipment value as a share of the profit are lower in politically exposed companies, thus indicating risk of irregular sub-contracting practices on the procurement market.
- In regard to safeguarding **public procurement integrity**, it is recommended that government bodies, supported by civil society, set up systems to regularly monitor red flags such as large shares of single bidding, buyer dependence on supplier, company tax haven registration, too short of a submission or decision period, a missing call for tender, or use of restrictive procedure types. This could be best achieved using an interactive dashboard which contains not only the source data, but also includes performance and risk indicators, and warns the user about data quality shortcomings and analytical challenges (see Opentender.eu). Alternatively, the central procurement platform publishing calls for tenders and contracts can adopt the system of automated calculations of red flags.

### *Improving public procurement legal base and reducing the use of non-competitive procedures*

In parallel to the use of red-flags, the public procurement legal base should also fully revert to its pre-COVID state, **abolishing all “temporary” emergency procedures** (with special focus on reducing the share of single bidder

<sup>147</sup> Regional Anti-Corruption Initiative, [Regional Data Exchange on Asset Declarations and Conflict of Interest](#), RAI, 2021.

contracts and the number of direct awards). Although the use of non-open procedures does not necessarily aim at corruption rent extraction – institutions might use it to decrease the administrative burden by avoiding a difficult procedure – it certainly weakens competition and transparency and hence increases the risk of corruption. The number of such procedures should be decreased where possible with introduction of additional monitoring mechanisms.

### *Improving tender design by allowing more time for deciding on the winning bid*

Lengthy decisions with corruption risks concentrated within a small number of days centred around some parts of the decision-making can be a signal of overburdened bureaucracy and lack of staff assessing the applications. Increasing the number of people working on procurement documents could **improve the overall speed of decision-making period**, as well as the quality of the assessment. All parts of the procurement procedure, from the tender announcement to the decision on the winning bid should ideally be allowed the maximum foreseen time by the relevant regulations. Artificially shortening some of the decision-making periods, for example by placing them around major holidays or invoking emergency regulations, is typically an indication of strong corruption risks.

### *Improving competition in public procurement*

Objective bid evaluation criteria, matching tender sizes to the market capacity and splitting large tenders into smaller lots can potentially boost the level of competitiveness in public procurement. While a high number of bidders should not be pursued at all cost, lowering the incidence of tenders with no to very little competition is a safeguard for value for money in public procurement<sup>148</sup>. Moreover, it can be observed that **politically connected companies are more likely to get a contract without any competition**, which can be a signal either of a tailored tender specification, or of non-competitive market conditions under which it is easier for a buyer to approach connected bidders.

### *Efficient punishment*

One of the most worrying issues frequently raised both by civil society, and by EU-level and international bodies is that most criminal charges against public officials are dismissed or are replaced with looser administrative sanctions, especially when higher-level political officials are concerned. At the same time, the relatively small fines do not encourage submission of accurate asset declarations or the full compliance with the law. Thus, it is important for policymakers to ensure that the size and severity of penalties is high enough (dismissal, seizure of assets, imprisonment), **prosecution is more efficient**, and the final penalty decisions are published online. Furthermore, the SEE-9 countries should set up a mechanism for removing immunities, especially for criminal proceedings.

<sup>148</sup> Fazekas, M., and Blum, J. R., *Improving Public Procurement Outcomes: Review of Tools and the State of the Evidence Base*, Policy Research Working Paper No. 9690, World Bank Group, 2021.

