ANGLO AMERICAN UNIVERSITY

KINSTELLAR

TRANSPARENCY INTERNATIONAL | Czech Republic

ANTIcorruption & fraud: DETECTION & MEASUREMENT

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Anglo-American University
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ABSTRACTS FROM ALL PRESENTATIONS

1. CURRENT ACADEMIC RESEARCH ON CROSS-BORDER BRIBING AND MEASURING CORRUPTION

Lucio PICCI

University of Bologna

I present results from a research project on cross-border bribes, and on how they permit to compute new measures of corruption. The project's results to date are reported in four papers, which are available online: https://sites.google.com/site/lucioxpicci/measure_corruption

Cross-border bribes represent a phenomenon with wide-ranging implications. They are often accompanied by other crimes, such as, illicit financial flows, which represent a serious draw of resources for many developing countries. Moreover, cross-border bribes represent a daunting policy issue, because of the intrinsic difficulties in implementing the 1999 OECD Anti-Bribery Convention, which led more than 40 countries to introduce legislation making it illegal for national firms to bribe abroad.

Interestingly, data on cross-border occurrences of corruption, which to a great extent have emerged precisely because of the introduction of the above mentioned piece of international law, present an exciting possibility to measure corruption internationally. For this reason, they provide a welcome alternative to existing, and often criticized, perception-based indicators, and to victimization statistics. The new measures of corruption, which these data allow to compute, might be seen as belonging to a broadly defined new wave of "objective measures", which are characterized by the fact that they are based on "hard data" of one type or another.

A research project based on such data and approach has led to the following results.

1) According to the new measure, levels of corruption around the world are comparable with those which emerge from the main perception-based indicators.

2) However, the two alternative measures provide contrasting messages regarding changes in time of levels of corruption. Such fact has important implications when the purpose is to assess the effects of anti-corruption policies.

3) A new measure of the propensity of firms in a given country to corrupt abroad, also based on the new data, leads to conclusions which are at odds with those emerging from Transparency International's Bribe Payers Index. In particular, unlike that measure, the available evidence does not indicate that firms from countries characterized by higher levels of corruption, also have a higher propensity to corrupt abroad.

4) Data on cross-border occurrences of corruption also lend themselves to an analysis of the determinants of corruption, providing results which in part confirm, and in part further qualify, those that are available from a vast literature based on cross-national perception-based

measures of corruption. In particular, the new approach permits for the first time to research the "relational" aspects of corruption, that is, how different concepts of distance between the countries involved may affect levels of corruption.

2. CORPORATE TAX AVOIDANCE AND OFF-SHORES DISCUSSION: CURRENT CHALLENGES

David ONDRÁČKA
Transparency International Czech Republic

David will present context of anti-corruption debate within which TI operates. Later he will brief current policy debate over beneficial ownership disclosure, anonymous ownership and examine its impact, obstacles and legislative challenges. He will present tools to overcome insufficiencies in fight against corporate tax avoidance and off-shore misuse.

3. CASE STUDIES FROM CZECH ENVIRONMENT: CAN EVIDENCE FROM STATISTICAL DATA HELP?

Jitka LOGESOVÁ, Stanislav MEČL

KINSTELLAR (Czech Republic)

According to the latest preliminary findings of the OECD working group for bribery, there are no incidents of corruption of foreign officials under investigation in the Czech Republic. Cases of domestic bribery are very rare in the Czech Republic as well. It is very difficult to prove bribery, and perpetrators are very often charged with other related crimes, such as tax fraud, misuse of official powers, breach of obligation of the duty of due care, etc. The question to address is why is this so, and what can be done to provide prosecutors with more evidence, or at least an impression of potential bribery. Statistical data indicating the specific situations where bribery is quite likely to have occurred could help. Such data could help also companies fulfil their obligation to ensure that they have established all compliance processes so as to effectively reduce bribery. However, it is unclear whether the courts would in fact accept such statistical data as evidence.

4. EVIDENCE OF MANIPULATION FROM INSPECTING DISCRETIONARY TRESHOLDS IN PUBLIC PROCUREMENT

Filip PERTOLD and Ján PALGUTA
CERGE-EI

We present evidence of how policies that create opportunities to avoid open competition in procurement lead to the manipulation of procurement values. We exploit a policy reform in which public bodies were given the autonomy to preselect potential contractors below newly defined discretionary thresholds. Manipulation is revealed through bunching of procurements just below the thresholds in construction works and services, and less so in goods. Among the manipulated contracts we document a threefold increase in the probability that procurements are allocated to anonymous firms, which can hide the final beneficiary in the procurement. This sorting violates assumptions behind regression-discontinuity designs.

5. IDENTIFYING ODOMETER FRAUD: EVIDENCE FROM THE USED CAR MARKET IN THE CZECH REPUBLIC

Josef MONTAG
International School of Economics, Kazakh-British Technical University

This paper investigates the presence of odometer fraud in the used-car market using a unique dataset of 250,000 car-sale ads from the Czech Republic. Alternative identification techniques are discussed. However, selection into the market as well as the practice of rounding odometer readings — possibly strategic yet innocent — render the standard statistical tests unusable. A modification of the last-digit test, which was previously used to detect fraud in election and accounting data, is therefore developed and employed. The results suggest that suspicious patterns are more prevalent in the segment of cars imported from abroad. I also show that this methodology can be used at the firm-level, which may be of interest to authorities and market participants.

6. LUCK OR LUXURY? POSSIBLE CORRUPTION IN THE CAR REGISTRATION PROCESS IN THE CZECH REPUBLIC

Peter BOLCHA
Anglo-American University

Jan ROVNÝ
Cass Business School, City University London, UK

Research into the detection of fraud and corruption has brought many new insights in recent decades, partly thanks to a decrease in the costs of data collection and processing. However, access to data often remains an issue, especially when fraud or corruption seems to be present.

This article applies a simple detection method focusing on possible manipulations in the car registration process in the Czech Republic, where car registration plates are allegedly assigned in random order. As access to official data was denied, we collected data in the field for a random sample of 5,000 cars, and used this to examine the existence of statistical relationships between the cars' estimated price at registration and their registration plate numbers. The results show that cars with intuitively appealing registration plates are on average significantly more expensive than other cars. Moreover, this price difference corresponds to the relative scarcity of the given type of registration plate number, which could be a sign of discretionary behaviour in the allocation of such plates.

7. SPATIAL PROXIMITY AND A SYSTEM OF CORRUPTION
Steven GAWTHORPE
Charles University

The relationship between political influence and corruption is a significant domestic concern and contextual challenge in the Czech Republic. Despite this concern, tests of systemic corruption theories are limited in the area of quantitative research. The proposed research will expand the scope of this field by through analyzing clusters with unsupervised machine learning from the Czech public procurement sector. The empirical approach statistically distinguishes the performance differentials of awarded contracts and EU subsidies amongst firms that exhibit the characteristics of political influence from those that do not. The data suggests that patterns of political influence are a reoccurring phenomenon deeply embedded into the structure of public procurement and highly indicative of systemic corruption.

8. QUESTIONS FOR PANEL DISCUSSION AT 14:00

PARTICIPANTS (ABC): Jitka Logesová, Stanislav Mečl, David Ondráčka, Lucio Picci

- *What kind of data are Czech officials obliged to provide? What should researchers do in order to get data from the officials? What to do if access is denied?*

- *Which are the fields of corruption studies where academic researchers should focus on? Why?*

- *What might make their inquiries useful in everyday political, legal and law enforcement process?*

- *Which forms of corruption are probably bringing the highest costs to society? How to fight against them?*

- *Which forms of corruption are on rise? How to fight against them?*

9. EXPERIMENTAL EVIDENCE ON POORLY DESIGNED MODERATE LENIENCY PROGRAMS

Jana KRAJČOVÁ
CERGE–EI

Andreas ORTMANN
The University of New South Wales, Sydney, Australia

We provide experimental evidence that supports the theoretical conjecture formulated in Buccirossi and Spagnolo (2006) that poorly designed moderate leniency programs might induce occasional illegal transactions. We also provide evidence on the potentially moderating effects of gender. While some studies of corruption and corruptibility have found no effects whatsoever (even when characteristics such as age, ability, and religiosity matter; see Armantier & Boly 2011), there is a widely shared belief (e.g., Lambsdorff & Frank 2011 or Frank, Lambsdorff, & Boehm 2011; Andreoni & Vesterlund 2001) that women are less easily corruptible and fairer. Yet another interesting facet pertaining to this issue is that of the laboratory context. Abbink & Hennig-Schmidt (2006) found that whether instructions are presented in neutral or "loaded" language does not make a difference. We present evidence that it might and that indeed the frame of instructions might trigger differences in moral behavior by men and women. Specifically, we find that men and women react quite differently to "loaded" instructions. The treatment effect becomes significant once we allow for gender-specific coefficients. Our results contribute to a longstanding debate about the micro-determinants of corruption and corruptibility and their identification under laboratory conditions.

10. ANALYSIS OF DYNAMIC RELATIONSHIP BETWEEN CORRUPTION AND FOREIGN DIRECT INVESTMENT

Tomáš EVAN
Anglo-American University

Ilya BOLOTOV

University of Economics, Prague

This text builds on our seminary work about the contra-intuitively weak relation between FDI and corruption. The mainstream economic thinking suggests improving transparency leads to increased FDI inflow. While economic environment without corruption is certainly value per-se, we find that given the nature of multinational corporations and FDI, it does not necessary translate to higher FDI. Multinational corporations depend on arbitrary political decisions of

home as well as host governments to offset their extra costs from doing business in multiple socio-economic environments of various countries, thus somehow increased level of corruption might be an outcome of this relationship. Following our previous theoretical research as well as of others, mainly Dunning's eclectic model and Vernon's obsolescing bargain model this paper finds no significant dynamic relationship between corruption and foreign direct investment. We base our conclusions on the results of a parametric test consisting of two panel Granger causality tests within a dynamic panel model framework estimated with the help of Blundell-Bond (modified Arellano-Bond) estimator, applied to data from Transparency International, the World Bank, and the International Monetary Fund for 154 countries and the years 1980–2015.

11. USING RICO TO FIGHT CORRUPTION, FRAUD AND OTHER WHITE COLLAR CRIMES: A LOOK AT WHETHER RICO IS UP TO THE TASK AND COULD PROVIDE INSPIRATION IN OTHER JURISDICTIONS.

Carollann BRAUM
Anglo-American University

This paper will look at the use of the Racketeer Influenced and Corrupt Organizations (RICO) Act to combat corruption, including bribery, money laundering and other white collar crimes, in the United States, as well as corrupt acts that occur outside of the United States. While RICO was originally intended, and has been commonly used, to combat organized crime,[1] its design has potential for use in white collar crimes and corruption, as well. This was most recently evident in the application of RICO to the FIFA corruption case brought in 2015. Consequently, this article will analyse current evidence-gathering practices and determine whether these practices have allowed for the suitable application of RICO in criminal prosecutions or civil actions. Finally, this article look at whether elements of RICO could be incorporated into laws in other jurisdictions in order to help strengthen existing laws used to combat corruption and white collar crimes.

12. RE-THINKING THE PERVASIVENESS OF CORRUPTION IN WESTERN COUNTRIES

Pietro Andrea PODDA
Anglo-American University

This paper studies the pervasiveness of Corruption in Western societies. Corruption has often been presented as higher in developing or (former) transitional economies than in the North-West part of the world (Western Europe, North America). Internationally used ranking of

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[1] S. Rep. No. 617-91, at 76 (1969).

countries classified by the level of Corruption (i.e. Transparency International, World Bank) show that most of Western countries are on the safest side. Nonetheless, there are studies (Johnston, 2005; Shaxson, 2011) highlighting that Corruption is very diffused also in these area of the world, even if the available international ranking do not necessarily show Western countries as particularly tainted by Corruption. This apparent incongruent result may be due to the forms that Corruption takes in Western societies. Administrative Corruption or blatant extortion from public officials may be less diffused than in other areas of the planet. Nevertheless, State Capture and/or Grand Corruption (these two sub-phenomena are often equivalent) are present and may take extremely sophisticated (and less visible) forms. This paper investigates on the mechanisms of Corruption in the West, rather than measuring it numerically, through case-studies. Case studies are a method which is useful to research on particular mechanisms and to shed light on relatively under-researched phenomena (Bryman, 2016).

13. HERITAGE OF THE CZECH CAPITAL MARKET FAILURES
Vladislav PAVLÁT
University of Finance and Administration

Irena JINDŘICHOVSKÁ
Anglo-American University

The goal of this paper is to analyse typical failures connected with creation of the Czech Capital Market during the transition period in 1990s. The paper also analyses the forms and impact of the past irregularities of behaviour on the present public and market participants. Setting up of the Prague Stock Exchange was one of the most promising results of the long path to the standard capital market in the CR. During the „roaring 1990s", the Czech Capital Market suffered heavily from many scandals, caused by combination of different negative factors. The authors are trying to identify the roots of this special Czech situation, resulting primarily from the „home-made legislation" of capital markets. This in many respects reflected the distorted way of understanding the concept of "freedom". In Part two we are first highlighting two big scandals and subsequently we provide a brief description and analysis of the causes of long-lasting „disorder „at the Czech Capital market during the transition period. Firstly, the Viktor Koženy funds ("the old case") and subsequently the Key Investments ("the new" case). The analysis deals with the damages caused by corruption, financial ill-literacy of the Czech public, remnants of a non-standard situation of capital market legislation, and the failure of courts to find a way how the real tress-passers should and could be punished for their illegal activities. The preferable ways of overcoming the negative "heritage" are presented in the conclusion together with suggestions for further research, inter alia to study not only the difference between financial or economic criminality and corruption, but also the difference between lobbyism and corruption and how these factors affect institutions. In the Paper it is explained, firstly, that one of feasible ways how to limit the corruption is to upgrade financial sanctions to be paid for when

the corruption was detected, i.e. corruption should be made more costly than honest behavior. Secondly, it was explained that, corruptive practices on the capital market applied in developing markets are mostly used during the pre-trade phase (falsified documents about ownership, incorrect or falsified accounting, reports and fake auditing, etc.). Thirdly, it is proposed to draw on experience of advanced world Stock Exchanges where more powerful methods of potential corruption detection are applied (i.e. very strict regulatory measures, double-checking, high sanction as a deterrent, etc.).