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Using Big Data to Identify Corruption Risks in Public Procurement and Politically Connected Companies

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Implemented by:



Scope of the study

Politically Connected Companies (PECs) vs Politically Exposed Persons (PEPs)

- PEP definition – Financial Action Task Force / EU Anti-Money Laundering Directive
- All persons holding or having held a political position by either appointment or election.
 - Close family (parents, spouses and children) as well as any close associates (individuals with interests in a legal entity in which the principal PEP also has an interest, currently or in the past) are also considered politically exposed and identified as PEP.
 - Close associates also includes private companies, entities, trusts charities, foundations, or any other onshore or offshore vehicles controlled, owned or co-owned by primary PEP. (Bussolo et al 2021; detailed definition in Bussolo et al 2018)

Based on integrated data from :

- Asset declarations (political connections)
- Company data (financial data, industry classification, employment data; but also ownership- and control- links)
- Procurement data (public spending as additional layer of analysis)

Challenges to classification of PEPs

Based on governance level:

- National, regional/district, local, NGOs, SOEs
 - “Senior members of the executive, legislature, judiciary, police, and military units of [...] governments, senior [...] government administration officials, senior civil servants, senior government officials, high-ranking officers in the diplomatic service, and senior executives of [...] state-owned enterprises” (Bussolo et al 2021)

High political posts vs other (current unpublished World Bank study):

- High political posts in executive: president, prime-minister, ministers, deputy ministers, heads of the cabinet, secretary generals, **commissioners (national regulators), chief experts, heads of departments**
- High political posts in legislative: MPs, MEPs, members of governing bodies of political parties
- High political posts in local government: mayors, deputy mayors, district governors, deputy district governors, **chief architects**, municipal councilors
- SOEs: directors, deputy directors, members of governing boards
- Other: judiciary, NGOs, **state hospitals**, universities

PECs assessment

Do PECs promote or retard economic growth generally?

Analysis by classification of PECs and by NACE sector

Data - Orbis database (Bureau von Djik / Moody's)

- Presence - economic sectors and positions: No/share of PECs / types of PECs
- Profitability – diff in average revenue/total assets/employees; cost of employees per employee;
- Productivity of capital: measured as value added over fixed assets as a proxy for the marginal product of capital
- Capital intensity total assets / fixed assets divided by cost of employees
- Leverage: the ratio of total debt to total assets
- Investment: change in fixed assets as a share of total assets
- Return on assets: percentage share of financial and operational profits (before taxes) to total assets
- Cash flow: cash flow as a share of total assets
- Sales growth: annual change in sales over total assets.

Challenges to asset declarations' raw data

Necessary pre-processing (recoding):

- Type of institution
- Type of position (also based on already recoded type of institution)
 - Different titles/wording for the same position
 - similar/same titles/positions in different institutions

//EXAMPLE//

Amendments in declared information during the years => duplications & different positions

Integration with company data, based on PEPs names (no unique identifier) with a reference to declared companies (most probably unique identifier)

Challenges to extracting company data

1. Extract data on declared companies
2. Identify and filter persons and companies, linked to declared companies (e.g. subsidiaries & parent-companies)
3. Identify and filter companies linked to declared close family and associates

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**Thanks for
watching!**

