Czech Public Procurement: the Fight Against Corruption

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Introduction

Since the transition from communism to democracy in the 1990s, the Czech Republic has been plagued with corruption scandals within its public administration. The government sector of public procurement has been especially susceptible to corruption due to several key vulnerabilities. Political pressure on procurement staff, the complexity of the procurement process, and insufficient oversight have all allowed Czech public procurement to fall victim to overpricing and unfair awarding of contracts. In 2008, for example, a large national government contract, the Ecotender, was created to organize the cleanup of pollution across the Czech Republic. When an anonymous whistleblower turned in the paperwork, the tender was found to be overpriced by several billion euros (“Hidden Costs”).

In the past several years, the issue of corruption has become more publicized and visible among Czechs. This awareness has led to the rise of several Czech anti-corruption organizations, all having the goal of mitigating corruption in different sectors. Organizations, such as Reconstruction of the State (RotS), Oživení, the Center of Applied Economics, and several international agencies, such as Transparency International and GRECO, are addressing corruption and vulnerabilities in Czech public procurement.

In this article, I first outline the Czech Republic’s current state of corruption and trace its historical roots in communism and the transition. After this overview, I analyze vulnerabilities within the Czech public procurement system and how they allow for corruption to persist. I then discuss what makes good anti-corruption policy and the effectiveness of current anti-corruption organizations. Specifically, I argue that current Czech anti-corruption organizations are not effectively confronting corruption in public procurement. Finally, I offer recommendations...
on how these organizations can improve their efforts.

**Important Definitions**

To analyze the situation of corruption in Czech public procurement, I first define the terms public procurement, corruption, and transparency. According to the Irish Environmental Protection Agency, public procurement can be defined as “the acquisition, whether under formal contract or not, of works, supplies and services by public bodies” ("Public Procurement"). The process of public procurement involves the conception of a project, the bidding (also known as tendering) for the project by companies, the choosing of a bidder, and the evaluation of the purchase. The primary goal of any public procurement project is to find the largest positive difference between the societal benefits and the costs of the project (“Public Procurement”).

According to Transparency International, corruption is defined as “the abuse of entrusted power for private gain” (The Anti-Corruption..., p. 14). More specifically, corruption in public procurement would fall under “grand corruption,” which constitutes “acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good” (The Anti-Corruption..., p. 23).

According to Transparency International, transparency can be defined as the openness of public administration in making information and documents related to the procurement process available to the public and bidders. The process involves providing information about the entire procurement cycle as well as being clear and intelligible about the conditions under which the purchase is being made (The Anti-Corruption..., p. 44).

**Historical Background**

In 1948, the previously democratic Czechoslovakia was taken over by Soviet communists and was forced to become a part of the Soviet Eastern Bloc. The communist rule forced the nationalization of nearly every industry, and a centrally planned economy was completely in effect by 1955. During this period there were virtually no public procurement laws in Czechoslovakia due to the shrinking private industry sector (Hobe et al., p. 152). As the private industry sector shrank dramatically, annual growth rates of industrial output fell from 10.9 percent in 1955 to 3.5 percent in 1980, and Czechoslovakia lost its leading industrial status, much to the dismay of Czechoslovaks (Rosenthal, p. 38). Under communist rule, the Czechoslovaks lost trust in their government. Low-level bribery between small businesses became a common way for the small private sector to spite the government (Lizal and Kočenda, p. 1). It eventually became clear to the Czechoslovaks that they wanted to return to a democratic government and a free economy. The Czechoslovaks successfully broke away from Soviet communist control in 1989 in a peaceful revolt known as the Velvet Revolution.

In the early 1990s, the biggest problem facing the Czechoslovak people was how to quickly and fairly form a new democratic government and a free market economy after living under communism and a planned economy for 41 years. In order to establish a free market economy, it was first necessary to re-privatize industry, which the Czechoslovak government decided to do with “voucher privatization.” The first wave of voucher privatization started in 1991 and gave every citizen the opportunity to buy a book of vouchers that they could invest in companies, making them shareholders (Hanousek and Kroch, pp. 5–6). This method of privatization was initially well received because it was successful in quickly privatizing industry on a large scale.

In 1993 the federal parliament of Czechoslovakia voted to split the country into two separate states: Slovakia and the Czech Republic. Slovakia halted the privatization process for several years while the Czech Republic continued with voucher privatization (Hanousek and Kroch, p. 5). Several years after the Czech privatization was complete, voucher privatization was found to be a flawed system. There was no way to regulate the fair distribution of vouchers, and the process was not transparent. Consequently,
the privatization process resulted in a few investment funds owning two-thirds of all the private shares (Claessens et al., p. 1). This redistribution of assets provided a strong incentive for private interests to influence the government’s decisions in the process of privatization. Government officials took bribes to transform political influence into ownership that gave them an advantage in the new market economy. In October 1994, for example, the head of the Czech privatization agency was caught taking a bribe in connection with the sale of dairy products (Anderson et al., p. 32).

During this period, the Czech Republic also began to pass its first basic public procurement laws. In 1995 the first major public procurement legislation, Act No. 199/1994 Coll.1, on Awarding Public Contracts, came into effect (Hobe et al., pp. 153–54). Unfortunately, this legislation was not able to stop the growing conflicts of interest between the Czech government and the expanding private sector. Corruption grew from low-level bribery between small businesses into white-collar, systemic bribery and conflicts of interest with government officials. Several Czech military officers, for example, were charged with fraudulently awarding approximately $241 million in contracts between 1997 and 1999 for airport renovations. The case was eventually dropped due to the statute of limitations expiring (Embassy of the United States, Prague).

In 2004 the Czech Republic joined the European Union (EU). The nation then had to adopt new public procurement policies that met EU requirements. Since then, Czech procurement law has been amended many times, growing ever more complicated. As procurement law becomes more complicated, regulation becomes more difficult; and corruption becomes easier to hide (Hobe et al., pp. 154–60). However, in recent years, many issues of Czech corruption have been receiving more publicity, and the Czech public has become vocal about solving issues of corruption in the country.

Why Is Corruption in Czech Public Procurement a Significant Issue?

The large amount of money involved with public procurement has made it one of the most likely areas for corruption, according to the Organisation for Economic Co-operation and Development (OECD). Public procurement represents a significant portion of the Czech economy, approximately 15 percent of the $208.8 billion Czech national GDP in 2013, the third highest percentage in the EU (OECD, “Size of Public Procurement,” p. 137). Corruption within public procurement allows for significant overpricing of tenders or the unfair awarding of tenders by government officials. From a purely economic standpoint, corruption within Czech procurement hurts both competition and economic efficiency (OECD, “Bribery in Public Procurement…,” p. 9).

Another important effect of corruption is societal: corruption results in distrust of the Czech government. In the past several years, issues of Czech corruption have been attracting more publicity, and the Czech public has become vocal about wanting to reduce corruption. A perception survey conducted by the European Commission in 2014 found that 95 percent of Czechs believe that corruption is widespread in the government, and a majority believe that corruption is the most important national issue (European Commission, “Special Eurobarometer…,” p. 6). The success of governmental policy is often dependent on public support (Page and Shapiro, p. 189). If the public has little trust in the government, then it will be difficult for the government to successfully enact and enforce any type of policy. For this reason, the Czech government must gain the trust of its citizens and confront the issue of corruption in public procurement.

Vulnerabilities in Czech Procurement Leading to Corruption

There are several vulnerabilities in Czech public procurement that have allowed the spread of corruption. One example is the lack of professionalism and independence of Czech procurement staff. There is no legislation regulating employment in Czech

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1In this act 199 refers to the number of the act, 1994 refers to when the act was written, and Coll. is an abbreviation referring to a collection of public procurement laws contained in the act (Hobe et al. p. 153).
public service so procurement officials often are amateurs or politicians rather than experienced procurement experts (Bouda et al., p. 55). Having amateurs or politicians awarding tenders can lead to problems because there is political pressure on procurement officials to participate in corrupt practices. For example, when Libor Michálek became director of the Czech State Environmental Fund in 2010, he experienced pressure to manipulate the Prague water treatment plant tender, which was overpriced by over $157 million, in order to fund the Civic Democrat Party (“Case Dateline – SFŽP”). Michálek fortunately did not go through with the manipulation and reported the plot to the police. However, someone with less experience or someone more susceptible to political pressure could have been pushed into making the manipulation.

Another major vulnerability within Czech public procurement is the sheer complexity of and lack of transparency in the public procurement process. Czech procurement law is complicated and sometimes vague, making it easy to hide conflicts of interest and bribes. With the procurement policy currently in place, tenders can be manipulated in many ways. For example, Czech law states that the expected value of a tender must be estimated before the bidding process. If the expected value of the tender falls below a defined threshold, the procurement official can autonomously choose five suppliers rather than providing open access to other companies. This rule leads to the risk of procurement officials pricing tenders just below the threshold, then choosing companies for the tender in which they may have an unknown conflict of interest. It was shown by Palguta and Pertold (pp. 24–25) that cases involving manipulation of tenders to purposely fall below thresholds is likely associated with favoritism and corrupt behavior. Issues such as this can easily be hidden under the guise of “adhering to formalities” or by not publishing the selection process for a tender. Citizens are allowed to request access to contracts through Czech freedom of information law, but these requests are usually denied on the basis of not exposing “company secrets” (Bouda et al., p. 68). Thus, very few can see the process of establishing a tender, bidding for a tender, and selecting a bidder for a tender. If very few people see the tender, then procurement officials do not have to thoroughly justify or document their decisions, making it easy to hide corruption without fear of being prosecuted.

In the case of Libor Michálek, those involved with the corrupt procurement practices were neither tried nor convicted, highlighting the insufficient oversight and enforcement of Czech anti-corruption bodies. Because corruption cases in public procurement are often hidden or not well documented, it is generally challenging and expensive to investigate these issues sufficiently for conviction. In the case of Michálek and the Czech State Environmental Fund, for example, not enough evidence was gathered, so the case was permanently suspended, despite its seriousness (“Case Dateline – SFŽP”). Put simply, any control and oversight bodies that exist in the Czech Republic are not given sufficient power to be effective.

There are two bodies that oversee public procurement in the Czech Republic, the Supreme Audit Office (SAO) and the Czech Antitrust Office. The SAO does not have enforcement powers and can only make recommendations. The Czech Antitrust Office has enforcement powers but has been criticized for being too passive when prosecuting cases of potential corruption (Palguta and Pertold, p. 6). Many Czechs are afraid to become whistleblowers due to the lack of protection, which can be seen in that Michálek was quickly fired from his position and attacked by the Czech media and the prime minister for his whistleblowing.

**Successful Anti-Corruption Policy**

In order to effectively deal with the vulnerabilities in Czech public procurement, more anti-corruption policies must be created. Elements of a successful anti-corruption policy are diverse and dependent on the situation of the country in question. Based on the vulnerabilities and history of the Czech procurement system, there are three overarching factors that have the largest influence on the success of anti-corruption policy. A successful anti-corruption policy must have support of the public, laws that concretely
and directly address the vulnerabilities, and a method of enforcement and accountability.

Anti-corruption policies have typically been found more successful when there is increased community participation and support (McCusker, pp. 14–15). Companies and politicians can be held more accountable for their actions when put in the public eye and when pressured to enact/follow anti-corruption policies. This factor is particularly important for the Czech Republic because Czechs currently have so little trust and confidence in their government (European Commission, “Special Eurobarometer...,” p. 6). Unfortunately, the Czech government has not yet been able to produce any significant anti-corruption reforms that are widely supported by the public.

Frequently governments enact a policy that is not significantly different from what is already in place or simply do not pass laws that directly attack the source of corruption. A lack of effective legislation renders the entire policy ineffective at mitigating corruption (Heeks, pp. 2–3). Over the past few years the Czech government has enacted policies that have continually been deemed insufficient to address Czech issues of corruption (Group of States against Corruption, “Third Evaluation Round...,” pp. 6–7). The Czech government’s policies have thus far not fully addressed the roots of the problem, summarized in the previous section.

Without a strong system of enforcement and accountability, companies and politicians will not be put under pressure to follow the anti-corruption policy (McCusker, pp. 14–15). In the Czech Republic, it is difficult to confront issues of corruption in procurement because the procurement process is opaque, and there is no institution with sufficient power to pursue possible offenders. The lack of a sufficiently powerful institution has made it difficult to enforce procurement laws, and as a result bribery and collusion remain a normal part of doing business (Palguta and Pertold, p. 6).

Current Efforts to Mitigate Corruption in Czech Public Procurement

There are currently several organizations in the Czech Republic that are attempting to combat corruption in public procurement. These organizations can be categorized as large Czech organizations, small Czech organizations, and international organizations. If these organizations are to decrease levels of corruption in Czech public procurement, they should at least address the three factors discussed in the previous section.

A Large Czech Organization—Reconstruction of the State

RotS is a unified group of 20 different Czech nongovernmental organizations (NGOs), which all specialize in fighting corruption. While RotS was being formed in 2012, the Czech government passed a set of new, relatively strict amendments to the Czech Public Procurement Act. The amendments limited the ability of procurement officials to restrict competition for contracts and extended the obligation of contracting authorities to disclose tender information, among other things (Nedelka and Jandová). These amendments were expected to have a significant impact on corruption in public procurement, so public procurement was not explicitly stated as being on RotS’s anti-corruption agenda (Skuhrovec). The new amendments made improvements to the transparency of the Czech procurement process, but they still did not effectively deal with many of the other vulnerabilities in Czech procurement (European Commission, “Annex to the EU Anti-Corruption Report...,” p. 8).

RotS is working to combat corruption by lobbying the Czech government to pass a number of distinct anti-corruption laws. Although public procurement is not officially on its agenda, several of the proposed laws for which RotS is lobbying will still have an effect on the major vulnerabilities left open in public procurement. One proposed law would require that public officials declare their assets upon taking office. Making public officials declare their assets upon taking office helps address conflict of interest issues in public procurement. Currently officials are expected to declare their assets, but the process is an unenforced formality, so the information reported is generally not accurate. As a result, it is difficult to know what officials owned before
taking office and what assets they gained while in office. By forcing procurement officials to declare their assets, it will be easier to know the ownership structure of companies and detect if officials are awarding contracts to companies of which they own a portion (Rekonstrukce Státu).

RotS has also proposed a law that would extend the powers of the SAO. Extending the powers of the SAO would allow it to have powers of enforcement, rather than only the ability to make recommendations (Rekonstrukce Státu). This said, since the public procurement process is complicated with many loopholes and the ownership of many companies is unclear, it may still be difficult for the SAO to effectively enforce policies. In the end, the effectiveness of the SAO’s enforcement will hinge on what powers are given to it in the final version of the law. In addition, a single national institution may become overwhelmed trying to deal with every local procurement corruption issue.

Another proposed law for which RotS is lobbying would require people appointed to state companies’ boards and public administration offices to be deemed qualified. Reviewing persons appointed to public administration helps to address the issue of “amateurism” of public procurement officials. Often, procurement officials are appointed as a political favor, and those appointed may not have appropriate experience. This lack of experience often leads to inefficient decision making and susceptibility to bribery and other forms of corruption. Reviewing these appointments would help ensure that procurement officials will be experts with a history clear of corruption (Rekonstrukce Státu).

To date, RotS has seen three of its proposed laws passed by the Czech government, one of which states that procurement contracts must be posted online on a government portal. This law will give the public access to procurement contracts, making it easier to detect issues such as purposeful overpricing. However, the law does not address the overwhelming complexity of the procurement process, making corruption easy to hide, even if the final result is published. There is also no provision in place to ensure that all contracts are posted with accurate information (Rekonstrukce Státu).

In addition to lobbying for its proposed laws, another goal of RotS is to involve the Czech public in its anti-corruption efforts. On its website, RotS not only writes about its platform and progress but also shows how every member of the Czech Parliament voted on anti-corruption laws. This practice keeps the public informed about what politicians are doing and puts pressure on politicians to support RotS’s goals (“Reconstruction of the State”).

RotS has attempted to get the public involved with anti-corruption efforts, but its policies still do not address all of the main vulnerabilities in public procurement. The proposed laws ignore several vulnerabilities, such as the complexity of the procurement process. Increasing the power of the SAO would improve enforceability of national procurement laws but may still not be sufficient to effectively enforce laws against private companies and local procurement officials. Despite these shortcomings, RotS is the first large and successful group in the Czech Republic to put pressure on the government to pass more effective anti-corruption laws.

**Small Czech Organizations**

In addition to RotS, there are smaller, individual anti-corruption NGOs in the Czech Republic, which specialize in public procurement. Although there are many such organizations, my analysis will focus on two: the Center of Applied Economics and Oživení. These are two of the most active NGOs in the area of public procurement corruption.

The Center of Applied Economics, also called zIndex, is a Czech NGO that was developed in 2011 through EconLab, another Czech NGO affiliated with Charles University's Institute of Economic Studies. zIndex monitors public procurement contracts in the Czech Republic and uses a specialized system to rate Czech public organizations based on best practices for public procurement. zIndex is driven purely by the data that it collects. The organization does not involve the general public with what it does, and it does not recommend policy improvements. However, the data are compiled into a database accessible to anyone and can be
used to analyze available information about an organization to try and detect corrupt practices (Soudek).

Oživení is a Czech anti-corruption NGO founded in 1997 with an initial mission of promoting and developing sustainable transport. Over time, this mission became increasingly more difficult to achieve as Oživení ran into instances of corruption. As a result, its mission evolved from sustainable transport to anti-corruption. Although it is a relatively small organization, it is active in directly addressing some of the major issues within Czech public procurement. The organization has released several reports that thoroughly address the technical aspects of some of the main vulnerabilities in Czech public procurement as well as providing suggestions for possible legislation. After the amendments to the Czech Public Procurement Act in 2012, for example, Oživení published an extensive 75-page report analyzing the effectiveness of the amendments in mitigating corruption and suggesting how to improve the legislation (Kameník et al.). Oživení also tries to get the public involved by providing free legal services as well as public seminars to educate citizens about its goals (Oživení, p. 6).

Oživení is primarily hampered by its small size. The NGO only has 17 full-time staff members, limiting the scope of the projects it can undertake (Oživení, p. 6). Oživení’s small size also makes it more difficult to put pressure on the government to develop its suggested legislation. The only major channel through which Oživení puts pressure on the Czech government is RotS, since Oživení is a member organization of RotS. However, RotS has its own set of proposed legislation separate from Oživení’s. As a result, pressure applied through RotS does not effectively motivate members of the Czech Parliament to pass the legislative suggestions of Oživení related to public procurement.

When outside organizations suggest and push for reform legislation, there is often a feeling of lack of ownership by members of Czech Parliament (Napolitano). A lack of ownership therefore gives members of Czech Parliament little motivation to support and fight for the legislation. As a result, even if smaller organizations like Oživení and zIndex consistently suggest new legislation, improvements will not be made if they cannot motivate the Czech government to develop and pass the legislation.

**International Organizations**

In addition to Czech organizations, there are several international organizations that try to confront corruption in many different countries, the most prominent organizations being the Group of States against Corruption (GRECO) and Transparency International. GRECO is an international anti-corruption organization established by the Council of Europe in 1999 with the purpose of helping EU members and the United States fight corruption. Every few years GRECO conducts exhaustive studies on corruption in its member states and releases “evaluation reports” with recommendations. Periodically, GRECO also releases “compliance reports” reflecting on how member states have acted on GRECO’s recommendations. Several of the primary topics of the evaluation reports have addressed corruption in public procurement.

GRECO works directly with the governments of member states but puts no pressure on the governments to adhere to any of its recommendations. Unfortunately, the Czech government puts little effort into following GRECO’s recommendations. This can be seen in one of GRECO’s compliance reports for the Czech Republic. The report was released in 2015 and concluded that out of the 13 recommendations made in the evaluation round “only one has been dealt with in a satisfactory manner…” (Group of States against Corruption, “Third Evaluation Round…”).

*The Council of Europe is Europe’s leading human rights organization. The organization was founded in 1949 to promote democracy, rule of law, economic development, and regulation. The organization has 47 member states (Council of Europe).

*This was GRECO’s second compliance report in reference to its third evaluation round of the Czech Republic. The first two evaluation rounds were completed in 2002 and 2005 and looked at anti-corruption enforcement. The third evaluation round was completed in 2010 and looked at issues such as how to deal with party funding and conflicts of interest (Group of States against Corruption, “GRECO Mutual Evaluations”).

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p. 6). GRECO can make recommendations, but it does not have the power to enforce them in member states.

Transparency International is an international NGO founded in 1993 to monitor and publicize political and corporate corruption. There are over 100 independent chapters of Transparency International, including a Czech chapter, Transparency International Czech Republic (TIC). Every year TIC releases several studies on corruption issues in the Czech Republic, such as the “Corruption Perceptions Index,” a large-scale survey of public perceptions of corruption. TIC also gets the Czech public involved with anti-corruption issues through projects like PAKT, for example, which hosts debates, courses, clubs, and discussions about corruption for university students (“PAKT”).

Although TIC has been in existence for many years, it has not been effective in reducing corruption in Czech public procurement. TIC itself does not suggest legislation for the Czech government nor does it actively lobby the Czech government, as some other organizations do. Although it disseminates general knowledge of corruption to Czechs, TIC’s lack of lobbying for specific public procurement issues has made it ineffective at getting the government to develop anti-corruption legislation.

Conclusion and Recommendations

One of the biggest obstacles in getting successful public procurement anti-corruption legislation passed is being able to pressure the Czech government into passing legislation that addresses the key vulnerabilities in public procurement. While most organizations understand what the vulnerabilities are in public procurement and what can be done, they struggle with getting legislation actually implemented and enforced. The most effective way these organizations can constantly pressure politicians to support anti-corruption legislation is through a well-informed public. The public can put pressure on politicians through rallies, petitions, letter writing campaigns, etc. As such, the public should be educated about the current vulnerabilities within the Czech public procurement system and what is currently being done to deal with corruption in public procurement. The anti-corruption organizations themselves should also be lobbying for anti-corruption legislation while educating the public.

In addition to improving the public’s knowledge on the issues, I also recommend that smaller Czech organizations band together to form a larger lobbying effort, which focuses specifically on public procurement. One of the main obstacles for smaller Czech organizations is their size, which limits their public exposure and how much they can lobby for anti-corruption legislation. Although RotS does not have public procurement as part of its agenda, it is able to effectively inform the public and put pressure on the government to pass the legislation that it supports. Currently there are no other Czech organizations even close to the size of RotS that focus specifically on corruption in public procurement. The various smaller Czech organizations could band together in a similar fashion to RotS, pooling their resources in order to expand their capabilities. Rather than simply suggesting legislation changes, the smaller organizations can bring about more effective change by jointly lobbying for anti-corruption legislation and by educating the public.
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