UNODC
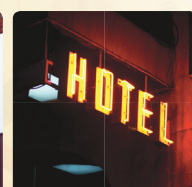## United Nations Office on Drugs and Crime

BUSINESS, CORRUPTION AND CRIME IN SERBIA:

The impact of bribery and other crime on private enterprise

2013

UNITED NATIONS OFFICE ON DRUGS AND CRIME
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Acknowledgments

Contents

Executive summary

This survey of businesses in Serbia reveals that corruption and other forms of crime are a great hindrance to private enterprise and have a negative effect on private investment. A significant percentage of businesses pay bribes to public officials repeatedly over the course of the year. Businesses in the Accommodation and Food service activities sector and the Transportation and Storage sectors combined are those most affected by bribery, followed by businesses in the Wholesale trade and Retail trade sector. The public officials with the highest risk of bribery in interactions with businesses are public utilities officers, police officers, municipal or provincial officers and customs officers.

While indicators of corruption perceptions are undoubtedly useful for raising awareness, this survey measures the actual experience of corruption and crime through representative sample surveys of businesses in order to provide a more realistic, evidence-based assessment of corruption and crime affecting the business sector. In so doing it focuses on the extent and pattern of bribery by businesses from five different sectors (accounting for over 71.1 per cent of all businesses in Serbia) in their frequent interactions with the public administration.

According to the survey, of all the businesses that had contact with a public official in the 12 months prior to the survey 17 per cent paid a bribe to a public official. The average prevalence of business bribery in Serbia is higher than the share of ordinary Serbian citizens (9.3 per cent) who experienced the same in UNODC's 2011 study on the general population.[1]

The examination of the experience of businesses that pay bribes to public officials underlines the fact that corruption plays a role in the daily business of many companies. Bribe-paying businesses pay an average of 7 bribes per year, or about one bribe every seven weeks. The prevalence of bribery is substantially higher among micro (up to 9 employees) businesses than among businesses of other sizes.

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[1] Data referring to bribery by individuals and households are taken from a survey implemented in 2010 and published in the UNODC study, *Corruption in Serbia: bribery as experienced by the population* (2011).

A substantial share of all the bribes paid to public officials by businesses in Serbia are paid in cash (45.2 per cent), followed by the provision of food and drink in exchange for an illicit "favour" by the public official (25.5 per cent) and other goods (21.7 per cent). When bribes are paid in cash, the mean amount paid per bribe is 52,588 Dinar, or the equivalent of 935 EUR-PPP.

As for which party actually broaches the subject of kickbacks, in 43.5 per cent of all bribery cases the payment of a bribe is offered by a representative of the business without a prior request being made, whereas in over half (56.1 per cent) of cases payment is either explicitly (16.2 per cent) or implicitly (22.4 per cent) requested by the public official or are paid after a third-party request (17.5 per cent).

The most common purposes for paying bribes cited by businesses is to "speed up business-related procedures" (40.3 per cent of all bribes), "receiving better treatment" (19 per cent) and "making the finalization of a procedure possible" (11.3 per cent). At the same time, almost a quarter (23.4 per cent) of bribes paid serve for no specific immediate purpose for the businesses paying them, suggesting that these are "sweeteners" given to public officials to "groom" them for future interactions in the interest of the company.

None of the businesses part of the survey had reported bribery incidents in the 12 months prior to the survey to official authorities in Serbia, which suggests that businesses often feel obliged to participate in bribery. This is also reflected in the main reasons cited for not reporting bribery: "it is common practice to pay or give gifts to public officials" (34.2 per cent), "it is pointless to report it as nobody would care " (30.8 per cent) and "the payment or gift was given as a sign of gratitude to the public servant for delivering the service requested " (21.6 per cent).

Bribery in the private sector not only comprises bribes paid by businesses to public officials, it also takes place between businesses themselves in order to secure business transactions. Though lower than the prevalence of bribery between the private and public sector, at 6.6 per cent the prevalence of business-to-business bribery indicates that the practice does exist in Serbia. None of the businesses in the survey reported such business-to business bribery incidents to relevant authorities.

Some 9.2 per cent of business representatives decided not to make a major investment in the 12 months prior to the survey due to the fear of having to pay bribes to obtain requisite services or permits, thus the impact of bribery on business activity can be substantial.

The consequences of other more conventional crimes on a business's property and economic activities can also be considerable, both in terms of direct costs stemming from physical damage and indirect costs in the form of insurance premiums, security expenditure and lost investment opportunities. For instance, more than one third of businesses (35.5 per cent) in Serbia fall victim to fraud by outsiders in various different guises in a year and such businesses are victimized an average of 10.1 times in that time period.

Annual prevalence rates for burglary (10.2 per cent) and vandalism (9.5 per cent) in the private sector are also significant, as are the average number of times businesses affected fall victim to those crimes (4.4 and 2.8 respectively). The prevalence rate of motor vehicle theft (MVT) is 1.7 per cent of all car owning businesses, with victims suffering an average of 1.4 incidents. Moreover, over the past 12 months 1 per cent of all businesses in Serbia fell victim to extortion, a crime that can be linked to organized criminal groups.

In marked contrast to corruption, a larger share of conventional crimes (on average, 41.8 per cent for five crime types) is reported to the police by businesses in Serbia. While the

majority of business representatives (76.2 per cent) consider that the crime risk for their company has remained stable in comparison to the previous 12 months, around one in six (17.1 per cent) think it is on the increase and 2.8 per cent on the decrease. The fear of crime plays a very important role in the decision-making process of business leaders when it comes to making major investments. Although there are some differences by economic sector, on average one out of ten (10.6 per cent) entrepreneurs in Serbia state that they did not make a major investment in the previous 12 months due to the fear of crime.

Yet while about 93.2 per cent of businesses in Serbia use at least one protective security system against crime, only 44.8 per cent have any kind of insurance against the economic cost of crime. Together corruption and other forms of crime place a considerable burden on economic development in Serbia. Putting in place more and better targeted measures for protecting businesses against crimes, as well as for preventing corruption (such as effective internal compliance measures and other policies concerning corruption) could make that burden considerably lighter.

Key Findings

- Business representatives in Serbia rank corruption as the fifth most significant obstacle to doing business, after currency fluctuations, complicated tax laws, frequent changes in laws and regulation and political instability.

- Around six out of ten companies had at least one direct contact with a public official or civil servant in the 12 months prior to the survey.

- The bribery prevalence rate among those businesses who had contact with public officials in that period is 17 per cent.

- Bribe-paying businesses paid an average of 7 bribes to public officials in the 12 months prior to the survey.

- There are some variations in the prevalence of bribery across business sectors in Serbia: Accommodation and Food service activities and Transportation and Storage combined (23.2 per cent), Wholesale trade and Retail trade (18.9 per cent), Building and Construction (13.3 per cent) and Manufacturing, Electricity, Gas and Water supply (12 per cent).

- In Serbia, 45.2 per cent of bribes are paid in cash. The mean amount paid per bribe is 52,588 Dinar which corresponds to 935 EUR-PPP. At the same time, the median bribe paid by bribe-payers in Serbia (20,000 Dinar) is substantially lower than the mean, indicating the arithmetic influence of some very large bribes.

- In over half of all bribery cases (56.1 per cent), the payment of the bribe is either explicitly (16.2 per cent) or implicitly (22.4 per cent) requested by the public official or requested trough a third party (17.5 per cent) on behalf of the official, while in 43.5 per cent of cases it is offered by a business representative without prior request.

- Around one quarter (25.7 per cent) of all bribes paid by businesses in Serbia are paid before the service, while 46.1 per cent are paid after the service is delivered.

- The main purposes of paying bribes are to speed up a procedure (40.3 per cent) and to make the finalization of a procedure possible (11.3 per cent). In addition, 23.4 per cent of bribes paid served no specific immediate purpose.

- The prevalence rate of bribes paid to public officials is highest for public utilities officers (15.4 per cent) and police officers (11 per cent).

- None of the businesses part of the survey had reported bribery incidents in the 12 months prior to the survey to official authorities in Serbia. Over a third (34.2 per cent) of business representatives did not report bribery because they consider giving gifts to public officials is common practice. In addition, 30.8 per cent of respondents stated they did not report bribery because it would be pointless to report it as nobody would care about it.

- The prevalence of business-to-business bribery in Serbia amounts to 6.6 per cent. This form of private sector bribery has higher prevalence rates in the Manufacturing, Electricity, Gas, and Water supply sector (8 per cent) than in the Building and Construction sector (7.3 per cent), the Wholesale trade and Retail trade sector (6.1 per cent) and the Accommodation and Transportation sectors combined (5 per cent).

- In over a third (36.4 per cent) of business-to-business bribery cases a prior request by a counterpart is made either explicitly, implicitly or by a third party. The most important purpose of business-to-business bribery in Serbia is to gain an economic advantage over competing companies (33.2 per cent).

- Businesses in Serbia are affected by different forms of crime to varying degrees: the 12 month prevalence rate of business victimization is 35.5 per cent for fraud by outsiders, 10.2 per cent for burglary, 9.5 per cent for vandalism, 1.7 per cent for motor vehicle theft (MVT) and 1 per cent for extortion.

- The share of each type of crime reported to the police ranges from 92.7 per cent for MVT, 85.5 per cent for burglary, 45.2 per cent for vandalism, 11.1 per cent for cases of fraud by outsiders and 6.5 per cent for extortion cases.

- Around nine in ten (93.2 per cent) businesses in Serbia use at least one protective security measure against crime.

- The majority of business representatives (76.2 per cent) state that they consider the crime risk for their business entity to have remained stable in comparison to 12 months previously, while 17.1 per cent think it is on the increase and 2.8 per cent on the decrease.

- On average one out of ten (10.6 per cent) entrepreneurs in Serbia state that they did not make a major investment in the previous 12 months due to the fear of crime.

Introduction

In different guises and to varying degrees, corruption exerts a negative influence on all societies. As shown in UNODC's 2011 report *Corruption in Serbia: bribery as experienced by the population*,[2] petty corruption also remains a pervasive reality in Serbia and has a significant impact on the interaction of private citizens with public officials in the country.

In addition to their negative impact on private households, certain types of corruption can also have grave consequences for the business sector and economic performance and can become a barrier to private and foreign investment, trade and economic development. Private companies may also be affected further by the impact of crime on their operations. This can range from extortion by organized criminal groups, to serious fraud and embezzlement of funds by managers to vandalism and assaults from criminal competitors, each of which has the potential to cause serious damage to the business environment in which companies operate and to increase the cost of doing business.

Anti-corruption infrastructure and the fight against corruption

Parallel to the progressive European integration, awareness of corruption has increased in Serbia and successive Serbian governments have committed themselves to fighting corruption. Important instruments in the upgrading of the legislative framework for the fight against corruption are represented by the ratification of the Criminal Law Convention against Corruption (2002) and the Civil Law Convention against Corruption (2008). Furthermore, Serbia introduced important anti-corruption legislation by adopting the Law on Prevention of Conflict of Interests in performing Public Functions (2004), the Law on Corporate Liability for Criminal Acts (2008) and the Law on the Agency for the Fight against Corruption (2010).

Regarding the institutional framework, Serbia has strengthened its institutional and administrative capacity for preventing, investigating and prosecuting corruption.

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[2] UNODC, 2011.

Important measures were included in the National Anti-corruption Strategy adopted by the Serbian Government in 2005 and in the subsequent Action Plan presented in December 2006. In recent years, the Anti-Corruption Agency was created (2010) as an autonomous and independent governmental body with wide-ranging authority in the field of corruption prevention. It supervises the implementation of the Strategy and the Action Plan, resolves conflicts of interest, keeps a register of officials, performs activities regulating the financing of political parties, and implements anti-corruption programs.

In 2005, Serbia became party to the United Nations Convention against Corruption (UNCAC). The Convention does not define corruption per se, but lists a number of different behaviours that States party to UNCAC have to criminalize or consider criminalizing (such as active and passive bribery of national public officials, active and passive bribery of foreign public officials, embezzlement, trading in influence, abuse of functions and illicit enrichment). Furthermore, the Convention explicitly requires or encourages the criminalization of corruption in the private sector (such as active and passive bribery in the private sector, embezzlement of property in the private sector and laundering the proceeds of crime), which is specifically directed at fighting corruption in the business sector.

States parties to UNCAC agreed to have a Review Mechanism to enable all parties to review their implementation of UNCAC provisions through a peer review process. One of the objectives of this mechanism is to encourage a participatory and nationally driven process towards anti-corruption reform and it is noteworthy that Serbia was reviewed in the second wave (2011-2012).

The scope and methodology of this study

While perception-based indicators can be useful for raising awareness about corruption and mobilizing support for anti-corruption policies, they fail to provide specific indications on the extent of corruption and on particularly vulnerable areas. To gain a more realistic, evidence-based assessment of corruption and crime affecting the business sector it is necessary to go beyond perception-based indicators and to measure the actual experience of corruption and crime through representative sample surveys of businesses.

Over the past decade, the understanding of corruption and crime has been much improved through the results of large-scale sample surveys in different contexts around the world. UNODC has been at the forefront of promoting household corruption surveys and victimization surveys in different contexts and has contributed to the further development and refinement of existing methodologies for measuring corruption and crime. Recent corruption surveys supervised by UNODC in countries as diverse as Iraq, Afghanistan and Nigeria, in addition to the countries/areas of the western Balkans, provide insights on the extent and nature of corrupt practices as well as a host of other issues relevant for the design of effective policies, such as the concrete modalities of bribery and the sectors, positions and administrative procedures most at risk.[3]

Following the conclusion of the household surveys on bribery and corruption in Serbia and other western Balkan countries and the publication of the survey results in regional and national reports in 2011, UNODC was approached with a request to complement the findings from the household surveys with an assessment of corruption and crime affecting the business sector in the region and entered into consultations with national counterparts and potential donors. The resulting project proposal to conduct large-scale sample

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[3] Reports of corruption surveys undertaken by UNODC in partnership with national governments can be found at http://www.unodc.org/unodc/en/data-and-analysis/statistics/corruption.html.

surveys of businesses focusing on corruption and crime was endorsed by the project countries and received funding from the European Union in the context of the Instrument for Pre-Accession Assistance 2011.[4]

To implement the research in Serbia, UNODC partnered with the Statistical Office of the Republic of Serbia (SORS), which has the recognized technical capacity and expertise to conduct large-scale surveys of the business sector. The SORS worked with UNODC and other relevant stakeholders in Serbia (including the Anti-corruption Agency, the Chamber of Commerce and various business organizations) to elaborate the most relevant questionnaire, guidelines for interviewers and other survey tools. The instruments and survey methodology were reviewed, tested and refined in meetings with stakeholders, a regional technical workshop organized by UNODC in June 2012 and a small-scale pilot survey.[5] At the regional level, a Technical Advisory Group supervised the process and provided expert inputs and advice.

The main objective of the survey was to produce evidence-based factual assessments of the patterns and nature of corruption and crime affecting the business sector, which feed into a process for strengthening integrity and transparency between public offices and the business sector, and for promoting an enabling environment for business development in Serbia. The research focused on the extent and patterns as well as the prevailing types and modalities of corruption affecting businesses, with a particular focus on bribery.[6]

This national report complements the analysis provided in the regional report for the whole western Balkan region.[7] The objective, both at the national and regional level, is not to rank or grade countries/areas but to provide analytical insights into a hidden phenomenon. It is hoped that the factual information contained in this report will supply the public authorities as well as the business organizations of Serbia with a useful tool for further strengthening their anti-corruption policies and strategies.

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[4] All countries/areas of the western Balkans have adopted the Multi-beneficiary Programme 2011 under the IPA-Transition Assistance and Institution-Building Component of the European Union.

[5] The pilot survey was conducted in July 2012 on 100 businesses in Belgrade, Novi Sad, Leskovac and Zajecar.

[6] Bribery is defined as (a) the promise, offering or giving to a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties and (b) as the solicitation or acceptance by a public official, directly or indirectly of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties.

[7] *Business, Corruption and Crime in the western Balkans: The impact of bribery and other crime on private enterprise*, UNODC (2013).

1. Prevalence of bribery

The extent and frequency of bribery

Running a business is essentially a private sector activity oriented towards clients and customers, but commercial activities are also enmeshed in a network of public services, administrative obligations and prerequisites (such as tax inspections or customs clearing) that require frequent interactions with the public administration. Some of these (such as filing tax declarations) are indirect while others take the form of direct interactions with public officials (such as health, labour or tax inspections, legal proceedings or the request of building permits). In this regard companies in Serbia are similar to companies elsewhere: around six out of ten (59.7 per cent) businesses surveyed had at least one direct contact with a public official or civil servant in the 12 months prior to the survey, with some variation in the five business sectors surveyed. The rate of direct interaction varied from 51.6 per cent in Manufacturing, Electricity, Gas, and Water supply sector to 78.5 per cent in Transportation and Storage.

The overwhelming majority of interactions with public officials follow the rules and regulations applicable to the administrative procedures in question, yet in every direct interaction those rules are vulnerable to manipulation in exchange for private benefit resulting from an illicit transaction between the private sector service user and a civil servant. The receipt of money, a gift or other counter favour, in addition to (or instead of) the requisite official fee, for the personal gain of a civil servant represents an act of administrative bribery. As the data show, such episodes still play a role in the interactions of private companies with the public sector in Serbia.

Direct interaction between a representative of a business and a public official is required for an act of bribery to take place (including through an intermediary), thus the prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses that had at least one contact with a public official in the same period. As such, the average prevalence of business bribery in Serbia is 17 per cent, which means that around one out of six businesses in the five economic sectors

surveyed, who had contact with a public official in the 12 months prior to the survey, paid a bribe to a public official.

But prevalence of bribery alone does not provide the complete picture of the extent and severity of bribery. Another important indicator is the frequency of bribe-paying, which in this case means the average number of times that bribe-payers actually paid bribes during the 12 months prior to the survey. In Serbia, bribe-paying businesses paid an average of 7 bribes to public officials in that period.

As shown in Figure 1, while the prevalence of business bribery in Serbia is significantly higher than the regional average, the frequency of bribe-paying in Serbia is about the same as in the western Balkans as a whole (average prevalence of 10.2 per cent and average frequency of 7.1 at the regional level).

Figure 1 **Prevalence of bribery and average number of bribes paid, Serbia and western Balkan region (2012)**
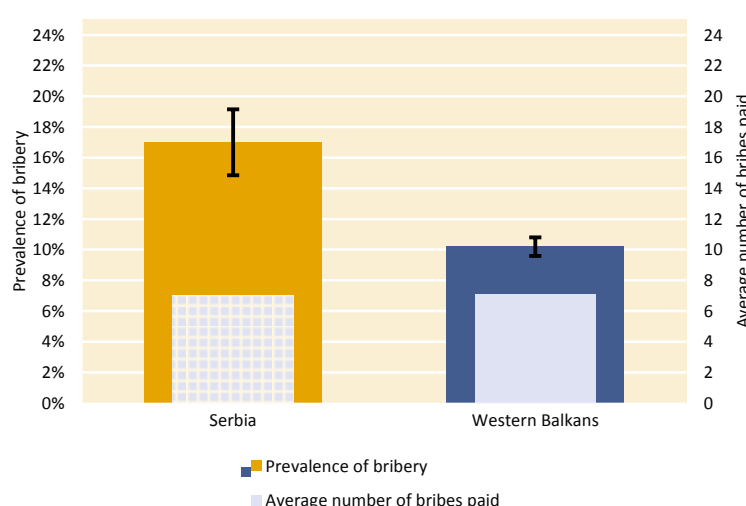
Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official. The average number of bribes refers to average number of bribes given by all bribe-payers, i.e. those who paid at least one bribe in the 12 months prior to the survey. The bars indicate the confidence interval at 95 per cent confidence level.

While direct comparisons between businesses and private individuals can raise difficult methodological issues, especially in relation to the size of companies, a comparison of businesses and private households regarding the prevalence and frequency of bribery reveals important differences in the pattern of bribery.

Figure 2 shows the bribery prevalence and frequency rates of businesses in Serbia together with those of private individuals from UNODC's 2011 general population survey on corruption and bribery.[8] In the same way as the average prevalence of bribery is substantially lower for private individuals (9.3 per cent) than for businesses (17 per cent), the average frequency of bribery among private individuals (4.6) is also lower than for businesses (7). This indicates that bribery is more concentrated among businesses (which more often pay bribes in relation to regular business transactions) than among private citizens. In this way, bribery becomes deeply embedded in the daily routine of bribe-

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[8] *Corruption in Serbia: bribery as experienced by the population*, UNODC (2011).

paying companies in relation to certain business procedures (e.g. clearing goods through customs or obtaining permits from local authorities).

Figure 2 **Prevalence of bribery and average number of bribes paid, by businesses and by private citizens, Serbia (2010-2012)**
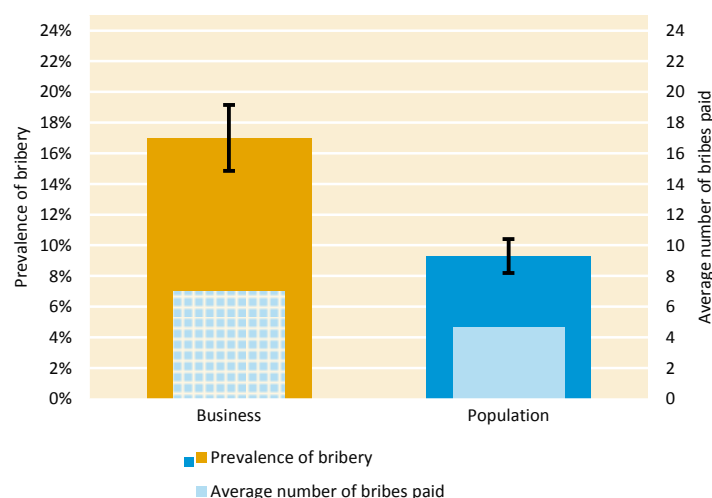
Note: Prevalence of bribery is calculated as the number of businesses/adult citizen (aged 18-64) who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses/adult citizens who in the same period had at least one contact with a public official. The average number of bribes refers to average number of bribes given by all bribe-payers, i.e. those who paid at least one bribe in the 12 months prior to the survey. The bars indicate the confidence interval at 95 per cent confidence level.

Economic sectors

The prevalence of bribery shows substantial variations across business sectors in Serbia. Among the five sectors[9] studied Accommodation and Food service activities and Transportation and Storage combined have the highest bribery prevalence rate (23.2 per cent), followed by Wholesale trade and Retail trade (18.9 per cent). Building and Construction (13.3 per cent) and Manufacturing, Electricity, Gas and Water supply (12 per cent) have a lower bribery prevalence rate.

In comparison to the regional averages by economic sector (Figure 3), all sectors in Serbia have significantly higher bribery prevalence rates. Accommodation and Food service activities and Transportation and Storage combined (23.2 versus 9.4 per cent) have a rate that is more than double the regional average, while Wholesale trade and Retail trade (18.9 versus 10.3 per cent), Building and Construction (13.3 versus 12.2 per cent) and Manufacturing, Electricity, Gas and Water supply (12 versus 9.2 per cent) also have substantially higher prevalence rates.

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[9] It should be noted that in this study the three sectors Manufacturing, Electricity, Gas, and Water supply have been combined into one sector for analytical purposes.

Figure 3   **Prevalence of bribery, by economic sector, Serbia and western Balkan region (2012)**
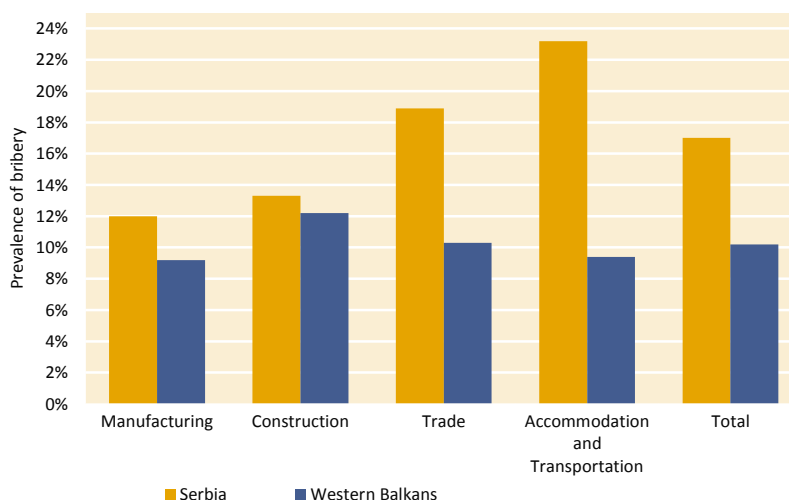
Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official.

The variation in the prevalence of bribery by economic sector has a direct influence on the calculation of the bribery prevalence rate at the national level. Figure 4 shows the underlying composition of the bribes paid in the five economic sectors in Serbia. The Wholesale trade and Retail trade sector accounts for the largest share (58.7 per cent) of the total national prevalence rate, which is partly also due to the fact that this sector accounts for the largest share (29.6 per cent) of businesses in Serbia.[10]

Figure 4   **Distribution of all bribes paid, by economic sector, Serbia (2012)**
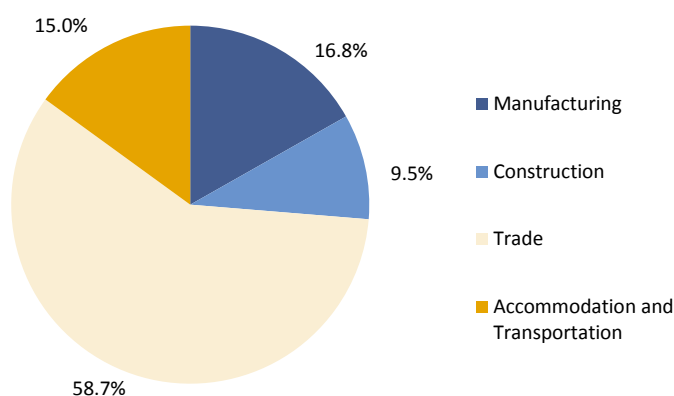
Another interesting pattern emerges when looking at bribery by business size (number of employees). The prevalence of bribery is higher for micro (up to 9 employees) businesses than for small businesses (10 to 49 employees), medium businesses (50 to 249 employees) and large (over 250 employees) businesses. As shown in Figure 5, this is a different pattern from the one found at the regional level. One possible explanation may

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[10] See Figure 45 on the structure of the economy.

be that in Serbia medium and large businesses may have more to lose in terms of their reputation and legal sanctions if detected, and may be more reluctant to disclose their experience of bribery.

Figure 5 **Prevalence of bribery, by number of employees, Serbia and western Balkan region (2012)**
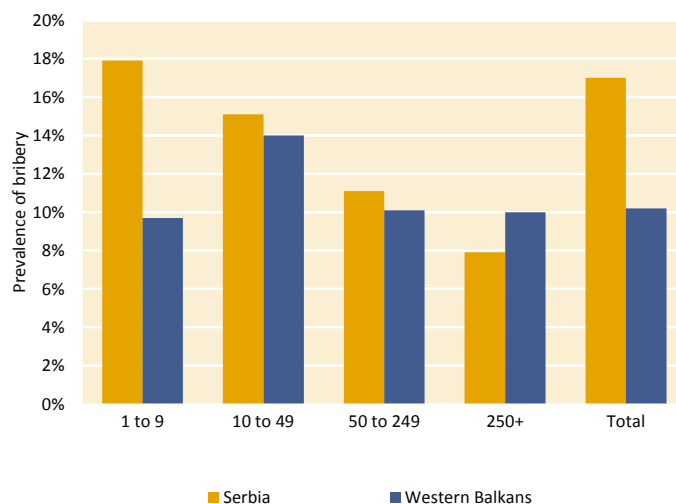
Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official.

2. Nature of bribes

Forms of payment

"Greasing the palm" of an official with cash is a common form of bribery but businesses may also exert influence through the offer of free goods or services that they normally sell, or by negotiating a direct or indirect exchange with a counter favour.

As shown in Figure 6, of all the bribes paid to public officials by businesses in Serbia, 45.2 per cent are paid in cash, followed by food and drink (25.5 per cent). The provision of other goods in exchange for an illicit "favour" by the public official is responsible for more than one fifth (21.7 per cent) of all bribery cases in Serbia, while 6.7 per cent of all bribes take place in the form of an exchange of one favour for another and 2.6 per cent are given in the form of valuables or other advantages.

In comparison to the forms of payment employed at the regional level, it is noteworthy that in Serbia a higher percentage of bribes are given in the shape of cash payments. At the regional level, 35.7 per cent of all bribes paid to public officials by businesses are paid in cash, followed by the provision of food and drink (33.6 per cent) and in the form of other goods (21 per cent).

Figure 6 **Percentage distribution of bribes paid by businesses to public officials, by type of payment, Serbia (2012)**
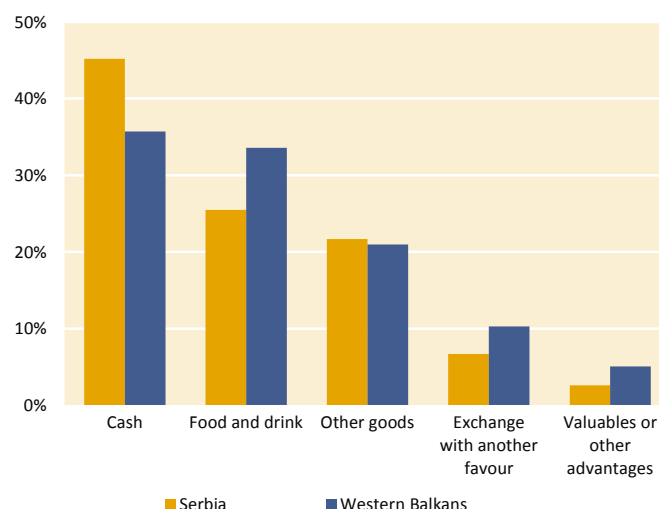
Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey. The sum is higher than 100 per cent since, in some cases, bribes are paid in more than one form (for example, money and goods).

In the case of the business sectors under study, cash payments generally appear to be the predominant form of bribery except in Manufacturing where the giving of food and drink is more important.

Bribes paid in cash

Given that the largest share of bribes by businesses in Serbia are paid in cash, the size of cash bribes paid by bribe-payers gives an important indication of the value of bribe payments. The mean amount paid per bribe across all economic sectors is 52,588 Dinar or 465 Euro at market exchange rates (EUR), a figure that amounts to 113 per cent of the average net monthly salary in Serbia. At the same time, the median bribe paid by bribe-payers in Serbia (20,000 Dinar) is substantially lower than the mean, indicating the arithmetic influence of some very large bribes (Table 1).[11] Taking into account differences in price levels in Europe, in Serbia the mean bribe amount in Euro corresponds to 935 EUR-PPP[12] while, at 881 EUR-PPP, the mean amount paid per bribe in the western Balkan region as a whole is somewhat lower.

When looking at the average size of cash bribes paid in each economic sector it is noteworthy that the mean bribe size for Wholesale trade and Retail trade (60,634 Dinar) and Manufacturing and Construction combined (54,840 Dinar) are somewhat higher than the mean size of all bribe payments (Figure 7). On the other hand, the mean bribe size paid in the Accommodation and Transportation sectors combined (4,176 Dinar) is significantly smaller than the national average.

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[11] The mean bribe size is calculated as the arithmetic average of bribes paid in cash. In most distributions, the mean is influenced by a relatively small number of very high values. As an additional indicator of the distribution of bribes by size, the median bribe size can be considered. The median bribe size is exactly the middle value of all the bribes sorted by size in ascending order, which implies that about 50 per cent of all bribes are higher and 50 per cent are lower than the median value.

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

Figure 7 **Mean bribe size paid by businesses to public officials (in Dinar)**, by economic sector, Serbia (2012)
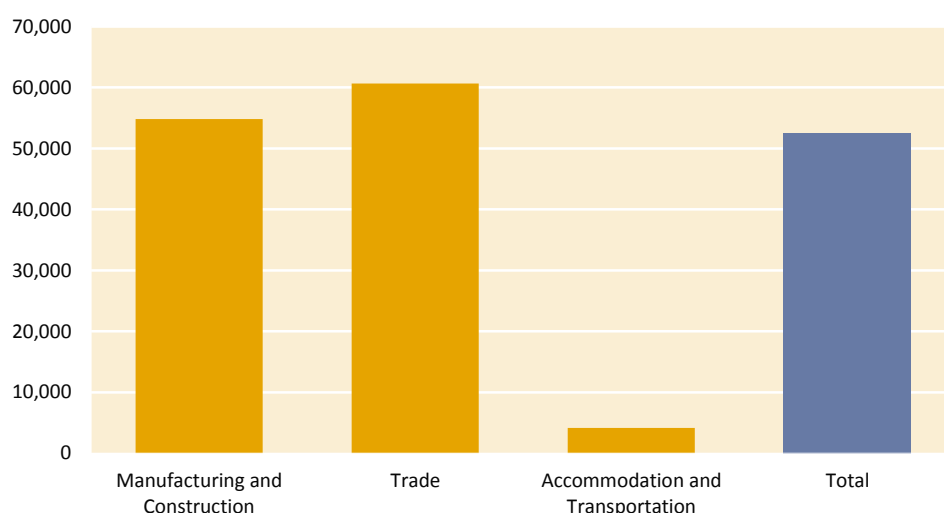
A comparison of the mean bribe size paid by businesses (52,588 Dinar) with the corresponding mean amount paid by private citizens (15,530 Dinar), as found in UNODC's 2011 general population survey on administrative corruption and bribery,[13] indicates that the average size of bribes paid by companies is more than three times that of private individuals (Table 1). Given that businesses typically have a much greater financial capacity than households and often have more to gain through bribery related to their business transactions, this is not surprising.

Table 1 **Average size of bribes paid in cash by businesses and by private citizens (in Dinar, EUR and in EUR-PPP), as a percentage of GDP per capita and as a percentage of the average monthly net salary, Serbia (2010-2012)**

	Reference group	
Indicators	**Population in Serbia (2010)**	**Business in Serbia (2012)**
Mean bribe (RSD)	15,530	52,588
Median bribe (RSD)	5,000	20,000
Mean bribe (EUR)	165	465
Mean bribe (EUR-PPP)	349	935
Mean bribe as % of GDP/capita (2012)	3.8%	10.3%
Mean bribe as % of average monthly net salary (2012)	37.5%	127%

Sources for additional indicators: Serbian national currency is Dinar (RSD), Euro/RSD average exchange rate in 2012: 1 Euro = 113.13 RSD: European Central Bank; EUR-PPP conversion rates and GDP per capita: Eurostat; average monthly net salary: Statistical Office of the Republic of Serbia (SORS).

Bribe-seeking modality and timing

Data on the modality of bribery can provide an important insight into how the bribery of public officials by businesses actually works. The mechanisms of bribe-paying are often characterized by certain implicit patterns well known to both bribe-payers and bribe-

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[13] *Corruption in Serbia: bribery as experienced by the population*, UNODC (2011).

takers that are based on the understanding of when a kickback may lead to an illicit advantage for both parties. This is even truer for businesses, for which speeding up administrative procedures or "cutting red tape" by circumventing laws and regulations with the help of bribery can create huge benefits. In the economic realm, where each comparative advantage can lead to greater profits and a larger market share for a business, this can result in a type of escalation in which bribes are not only expected but are actually offered "voluntarily" by businesses in order to get ahead of competitors. When bribery becomes a routine exercise for certain companies to gain privileged services or illicit benefits from public officials, payments may be both expected more often and paid more often.

When it comes to the modality of bribery in Serbia, the data show that businesses are often pro-active in influencing public officials through bribery. In 43.5 per cent of all bribery cases, the payment of a bribe is offered by a representative of the business without a prior request being made, whereas in over half (56.1 per cent) of cases payment is either explicitly (16.2 per cent) or implicitly (22.4 per cent) requested by the public official or requested through a third party (17.5 per cent) on behalf of the official (Figure 8).

Figure 8 **Percentage distribution of bribes paid by businesses, by modality of bribe requests and offers, Serbia (2012)**
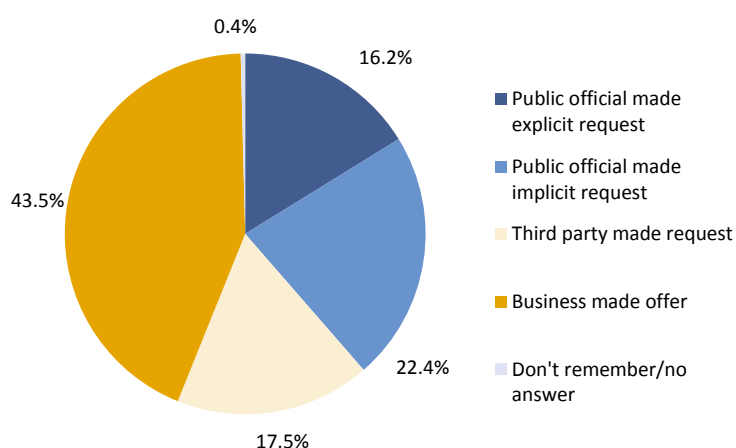
Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

When comparing the modality of bribery by businesses to the modality of bribery by private citizens in the household survey, some similarities appear: when private citizens pay bribes to public officials, in 56.1 per cent of cases the citizen makes the offer, while in 13.5 per cent of cases the request is made explicitly by the official. In 19.7 per cent of cases the bribe is requested implicitly from the citizen and in 8.4 per cent through a third party.

These findings have a number of policy implications. A high share of bribes requested by bribe-takers suggests that public officials are quite unafraid to request a bribe, either from businesses or households. If bribe-takers do not expect that bribery requests will be reported and do not anticipate any sanctions for extracting bribes, bribery may be met by a culture of acceptability and become endemic in certain public offices. In such cases, public officials taking bribes should be directly targeted by ending impunity through the dissemination and enforcement of strict anti-bribery rules. If bribe-payers feel coerced to

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

In addition to identifying the initiating party in a case of bribery, it is also relevant to know about the timing of bribe payments as this can provide further insight into the motivation and purpose of bribery. Payments made in advance are often seen as a requirement for getting things done, while payments made after the public service has been delivered may be seen either as a sign of gratitude or as another form of "grooming" in which the payment serves as a "sweetener" for luring public officials into a dependent relationship, and the acceptance of a "gift" at an earlier point in time obliges the official to return the favour to the business at a later point in time.

The data show that 46.1 per cent of all bribes by businesses in Serbia are paid after the service is delivered, while around a quarter (25.7 per cent) are paid before the service and slightly more than one fifth (22.3 per cent) at the same time. Some 5.2 per cent of bribes are paid partly before and partly after the service, while about 0.6 per cent of respondents do not remember when the bribe was paid (Figure 9).

Figure 9 **Percentage distribution of bribes paid by businesses, by timing of payment in relation to service delivery, Serbia (2012)**
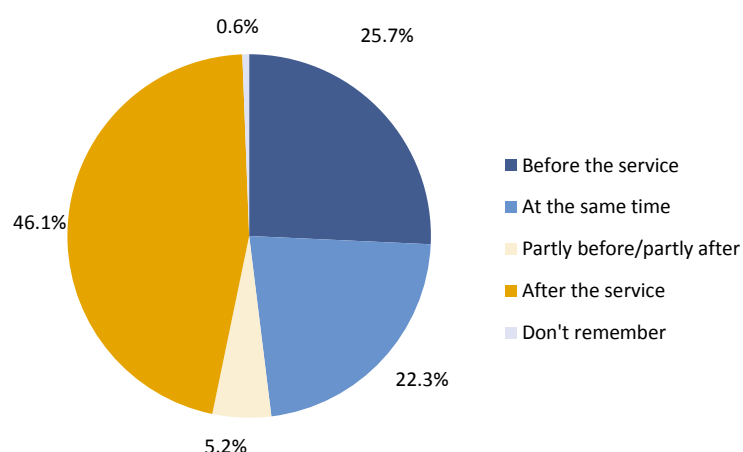
Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

When the form of bribe payment is analysed in relation to the modality of bribe requests or offers, the data reveal different preferences of bribe-payers and bribe-takers. While cash payments are preferred in both modalities, in over one third (36.1 per cent) of cases when a business offers a bribe, as opposed to 17.4 per cent of the cases in which the bribe is requested, payment is in the form of food and drink (Figure 10).

Figure 10 **Percentage distribution of bribes paid by businesses, by type of payment and by modality of bribe requests and offers, Serbia (2012)**
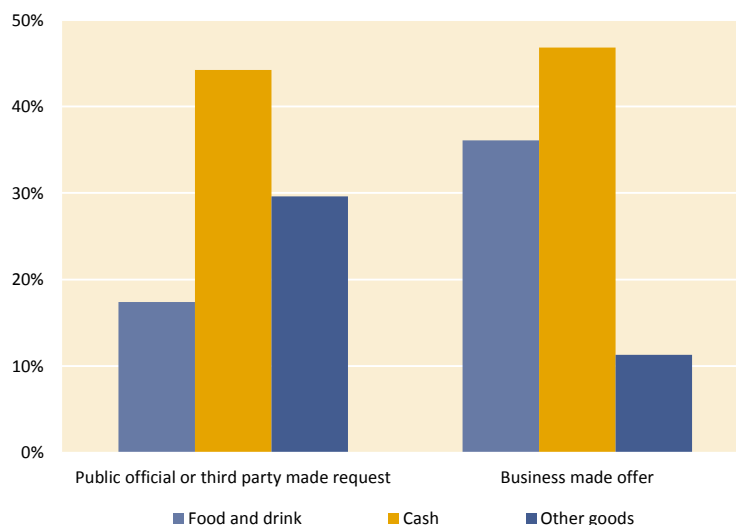
Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

Purposes of bribes

The bribery of public officials can have a variety of purposes. Public officials may be able to extract bribes for a legitimate public service that they could otherwise deny to the client or delay for an indefinite period. On the other hand, kickbacks may also be paid on the initiative of the business with a view to influencing regulatory decisions, tax assessments, public procurement processes or the provision of public services, among other things. For each of these business-related procedures, the purpose of bribery may differ according to the nature of the process or decision that is subject to manipulation. For example, bribes may aim to change a negative decision for a building permit and thereby allow the finalization of an administrative process in the interest of the company.

In the economic world, bribes may also be important for speeding up a variety of typically time-consuming and drawn-out procedures, such as obtaining utility connections (electricity or water), customs clearance of goods, obtaining certain types of authorization for production processes or speeding up health and safety inspections at business premises by providing advance notice of upcoming inspections. While speeding up administrative procedures may not seem a bad idea overall, speeding up procedures exclusively for bribe-paying businesses by prioritizing them over honest businesses creates unfair competition, thus damaging the economy.

On the other hand, some bribes may serve a purpose whose benefit to the official who accepts the "gift" is not immediately apparent, such as when a business representative uses "gifts" as a way of "grooming" the public official for future interactions by creating a dependent relationship between that official and the bribe-payer.
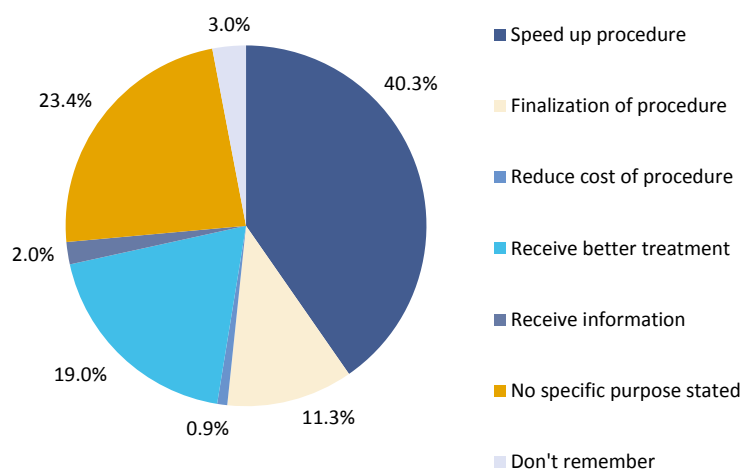
Figure 11 **Percentage distribution of bribes paid by businesses, by purpose of payment, Serbia (2012)**

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

From the perspective of businesses in Serbia, the most important purpose of paying bribes is to "speed up business-related procedures" (40.3 per cent) that would otherwise be delayed. Other stated purposes of bribes paid are "receiving better treatment" (19 per cent) and "making the finalization of a procedure possible" (11.3 per cent). At the same time, almost a quarter (23.4 per cent) of bribes paid serve no specific immediate purpose for the businesses paying them, suggesting that these are "sweeteners" given to public officials to "groom" them for future interactions in the interest of the company (Figure 11).
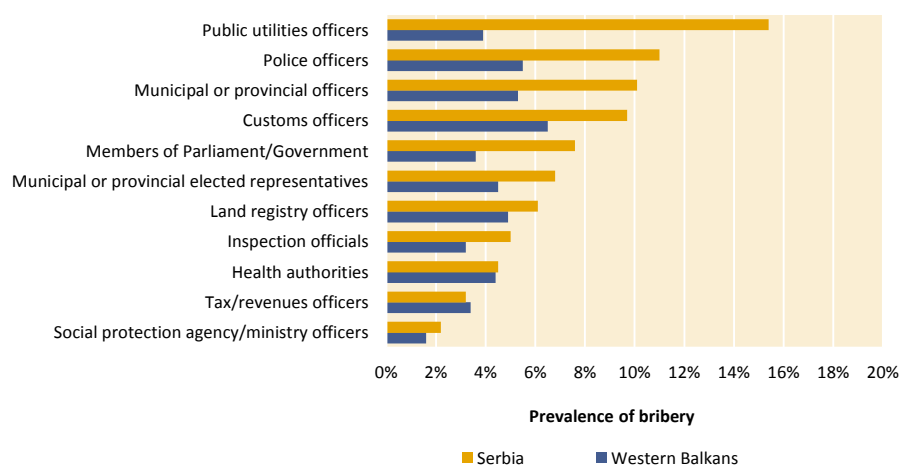
3. Public officials and bribery

Just as there are certain purposes and procedures for which businesses are more prone to making offers to public officials, certain types of public official are involved in bribery more often than others. For this reason, it is useful to analyse the probability of a particular type of official receiving a bribe when he or she is contacted, independently of the frequency of interaction. To measure this, the number of businesses who paid a bribe to a selected type of public official is compared with the number of businesses who had contacts with that type of official in the 12 months prior to the survey: in other words, the prevalence of bribery to selected public officials by businesses (Figure 12).

The prevalence rate of bribes paid to public officials by businesses in Serbia ranges from 15.4 per cent for public utilities officers to 2.2 per cent for social protection agency/ministry officers, which means that the likelihood of public utilities officers receiving a bribe from businesses each time they are in direct contact with a business is seven times that of social protection agency/ministry officers. Customs officers, municipal or provincial officers and police officers also have prevalence rates over 9 per cent, while those of other officials listed in Figure 12 are between 2.2 and 7.6 per cent.

Prevalence rates of bribes paid to most types of public official by businesses in Serbia are substantially above those of bribes paid to the same type of official in the western Balkan region as a whole, especially for public utilities officers (15.4 versus 3.9 per cent) and police officers (11 versus 5.5 per cent). At the same time, the prevalence rate of bribery for tax/revenue officers in Serbia is somewhat lower to that of the region (3.2 versus 3.4 per cent).

Figure 12 **Prevalence of bribery to selected public officials by businesses, Serbia and western Balkan region (2012)**
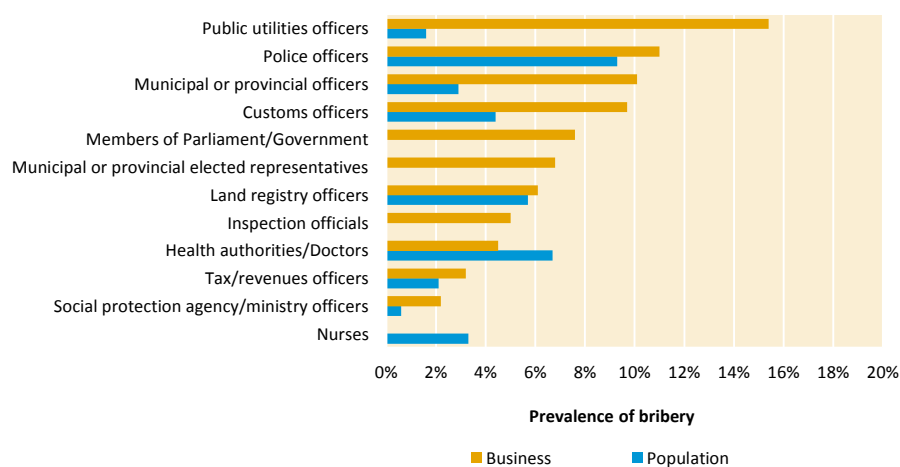

Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of all businesses who in the same period had at least one contact with a public official. In this chart prevalence of bribery is computed separately for each type of public official.

It is also useful to compare the prevalence of bribery by businesses to selected public officials to the prevalence of bribery to the same type of public official by private citizens. Both private businesses and ordinary citizens are affected by bribery in their own interactions with public officials, but businesses and citizens often deal with different sectors of the administration and can thus provide complementary perspectives on the vulnerability of public officials to bribery. For example, for ordinary citizens in Serbia the risk of bribery is higher in their interactions with customs officers and police officers than when dealing with public utilities officers. On the other hand, bribery risks for businesses are higher in interactions with the latter, which may indicate problems with lengthy bureaucratic procedures that businesses want to overcome through the payment of bribes.

These different patterns of bribery risk are shown in Figure 13, which compares the prevalence of bribery to selected types of public official who receive the bribe from businesses with the equivalent rates in UNODC's 2011 general population survey on corruption and bribery in Serbia.[14]

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[14] *Corruption in Serbia: bribery as experienced by the population*, UNODC (2011).

Figure 13 **Prevalence of bribery to selected types of public official who receive the bribe, by businesses and the population, Serbia (2010-2012)**

Note: Prevalence of bribery is calculated as the number of businesses/adult citizens who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of all businesses/adult citizens who in the same period had at least one contact with a public official. In this chart prevalence of bribery is computed separately for each type of public official.

4. Reporting bribery

There are a number of reasons for businesses to "blow the whistle" on bribery by reporting corrupt public officials to the police or other authorities. Businesses often feel forced to pay bribes to obtain services that should normally be provided by the state without additional costs, in a timely manner and of an acceptable quality. Bribes thus constitute an expense that cuts directly into their profits and – as businesses are confronted with routine tasks, such as paying taxes, health and safety inspections or clearing goods through customs, on a regular basis – acquiescing to a bribery demand may increase expectations of regular future payments on the part of public officials, which may become a significant cost factor over time. At the same time, the long-term market benefits that a business can glean from the payment of bribes are uncertain: the very fact that a public official regularly accepts bribes is an indication that any advantage over competitors gained through bribery will be quickly eroded if other businesses also pay bribes.

In the real world, however, such obvious incentives to report bribery to the authorities rarely translate into action. At the regional level, on average only 1.8 per cent of bribes paid by businesses in the western Balkans are reported to official authorities.[15] None of the businesses part of the survey had reported bribery incidents in the 12 months prior to the survey to official authorities in Serbia. Survey findings at the regional level indicate that most reports are made directly to the police but some are also made to other official institutions, such as prosecutor's offices, official anti-corruption agencies or official anti-corruption hotlines. A small number of bribes paid (0.3 per cent at the regional level) are reported to other non-official institutions, such as non-governmental organizations or the media.

Given that no business in the sample turned to official authorities in order to file a complaint about corrupt officials accepting bribes, when, in theory, businesses have good reasons for denouncing bribery, the important question becomes why businesses did not report bribery? Similarly to other countries in the western Balkans, the most important reason for not reporting bribery cited by responding business representatives in Serbia is

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[15] *Business, Corruption and Crime in the western Balkans: The impact of bribery and other crime on private enterprise*, UNODC (2013).

the perception that bribery is such a common practice that there is no need to report it (Figure 14). Over a third (34.2 per cent) of respondents gave this reason for not reporting bribery in Serbia, compared to 26 per cent in the western Balkans on average. In addition, 30.8 per cent of respondents stated that they did not report bribery because it would be pointless to report it as nobody would care about it, a share that is also over the regional average (26.3 per cent at the regional level). In contrast, the share of respondents who stated that they did not turn to authorities because the payment or gift was given as a sign of gratitude to the public servant for delivering the service requested (21.6 versus 22.6 per cent at the regional level) or due to the fact that the company received a benefit from the bribe (5.5 versus 8.2 per cent regionally) were below the regional average. Other reasons, such as lack of knowledge about where to report corruption or fear of reprisal (2.8 versus 7.7 per cent regionally) are considered less important in Serbia.

Figure 14 **Percentage distribution of bribe-paying businesses not reporting their experience to authorities/institutions, according to the most important reasons for not reporting, Serbia and western Balkan region (2012)**
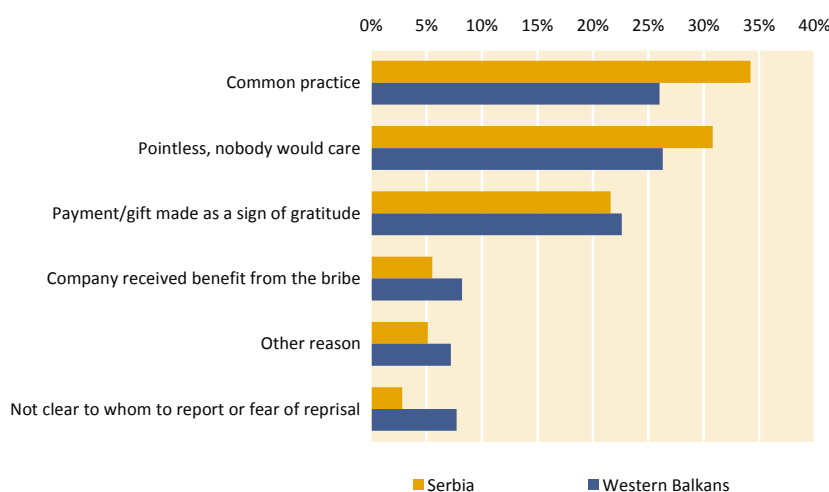
Note: Data refer to bribe-payers who did not report their last bribe paid in the 12 months prior to the survey to authorities/institutions.

The findings as to why bribery is not reported to public authorities in Serbia fit into the general patterns of timing, modalities and purposes of bribery outlined in Chapter 2. Large shares of bribes in Serbia are paid on the request of public servants (explicitly, implicitly or over a third party), are paid after the service is delivered, are paid in cash and may serve to "groom" public officials in order to receive preferential treatment in future interactions.

At the same time, the resulting conclusions should be qualified by data relating to the perception of business representatives about public authorities in general. In a wider context two thirds of business representatives in Serbia (66 per cent) reported that they do not consider it worthwhile to complain to public authorities (whether through a public agency or an institution such as an ombudsman) when feeling treated unfairly (Figure 15). This lack of faith in the accountability of public institutions in general is even more pronounced in Serbia than at the regional average (53.5 per cent).[16] For anti-corruption policy makers, the figures nevertheless signal the challenges of encouraging more businesses to report bribery and thereby facilitate the fight against corruption. In fact,

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

creating better and more secure reporting channels for denouncing acts of corruption will only result in increased reporting when there is a general feeling that turning to the authorities for help is worthwhile and is followed up by appropriate action.

Figure 15 **Percentage distribution of business representatives according to whether they consider complaints about public administration worthwhile, Serbia and western Balkan region (2012)**
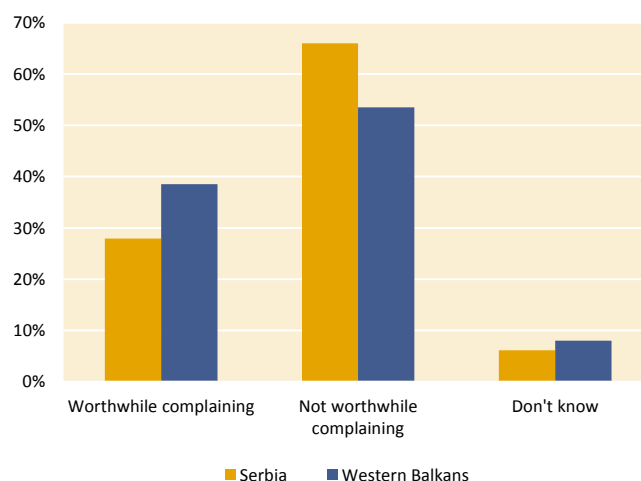

Internal compliance mechanisms

Despite the fact that very few businesses representatives consider the lodging of a formal complaint to the authorities worthwhile and even fewer report their experiences of bribery to the authorities, many businesses have recognized that illicit behaviour such as bribery and fraud can seriously harm their reputation and business interests. To prevent common malpractices in the workplace and to increase integrity and transparency in their own businesses, companies around the world are increasingly implementing comprehensive internal compliance policies that specify certain unacceptable practices and sanction violations of established standards.

In Serbia, while being far from universal, such internal compliance mechanisms are increasingly widespread. According to the survey, around half (51.6 per cent) of companies have adopted an internal code of ethics and over a quarter (27.6 per cent) have adopted policies and guidelines concerning bribery and corruption (Figure 16). In addition, around one in 8 (13 per cent) have organized dedicated meetings to inform employees of their existing anti-corruption guidelines and policies and 17.7 per cent have disseminated this information by email.

Figure 16 Percentages of businesses that have adopted selected internal compliance measures, Serbia (2012)
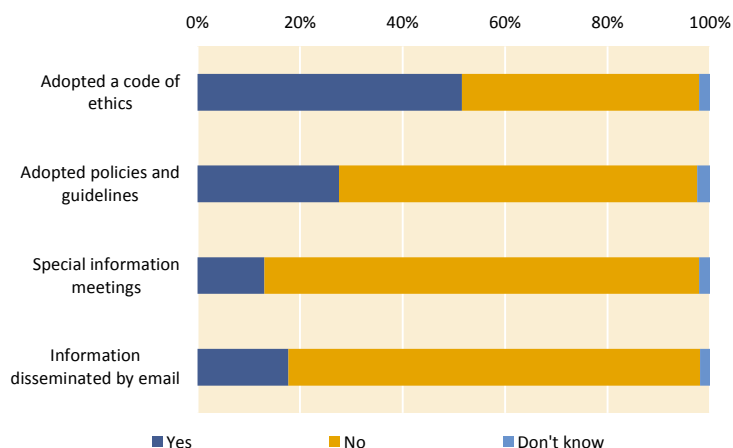
The data show that internal efforts to increase transparency and integrity by the private sector are slightly less common among small companies than among large ones. As shown in Figure 17, the adoption of a code of ethics, dedicated anti-corruption policies and guidelines, as well as their dissemination through meetings or emails, is to some extent more widespread among larger companies than among those with fewer employees. But given that micro and small companies make up the largest share of all businesses in Serbia, the widespread adoption of specific integrity standards and compliance policies by businesses in the region requires their promotion not only among large companies but also among small and very small companies.

Figure 17 Percentage of businesses that have adopted selected compliance measures, by number of employees, Serbia (2012)
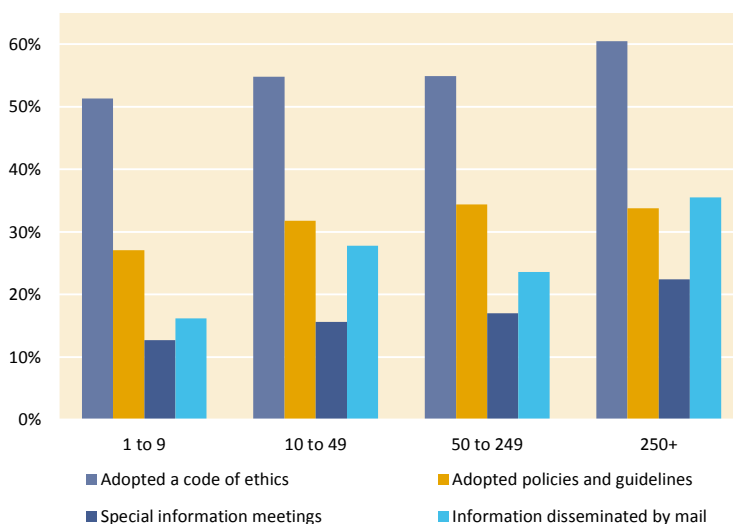
5. Business-to-business bribery

Bribery is most often associated with corrupt public officials who accept money, gifts or other illicit favours related to public service delivery, yet significant forms of bribery also take place within the private sector itself, that is to say, between representatives of private sector business entities. Such bribery in the course of economic, financial or commercial activities is defined in the United Nations Convention against Corruption (UNCAC) as the "promise, offering or giving (active bribery) as well as the solicitation or acceptance (passive bribery), directly or indirectly, of an undue advantage to/by any person who directs or works, in any capacity, for a private sector entity … in order that he or she, in breach of his or her duties, act or refrain from acting". The Convention requires that its signatories consider establishing such acts as criminal offences.[17]

Business-to-business bribery thus takes place between representatives of businesses who give a gift, counter-favour or pay extra money (excluding the normal payment) to secure a business transaction. Such illicit transactions are different from normal business transactions, for example marketing or public relations activities, in that they specifically aim, through illegal means, to breach the integrity of the bribe-taker in exchange for a bribe. This is a form of bribery that obstructs the beneficial mechanisms of the free market and is not only detrimental to businesses whose representatives accept bribes, but also to society as a whole. The prevalence of business-to-business bribery is calculated as the number of businesses who gave money, a gift or counter favour, in addition to any normal transaction fee, on at least one occasion in the 12 months prior to the survey to any person who works, in any capacity, for a private sector business entity, including through an intermediary.[18] As shown in Figure 18, according to this definition the average prevalence of business-to-business bribery in Serbia amounts to 6.6 per cent (against 4 per cent at the regional level). Although less than the average prevalence of bribes paid by businesses to public officials, this finding indicates that private sector bribery constitutes a substantial problem in Serbia.

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[17] Article 21 UNCAC.

[18] Since all businesses can be assumed to have regular contact with other businesses, or at least one contact with another business, either as supplier or client, in the previous 12 months, the prevalence is calculated as the share of bribe-paying businesses out of all businesses.

Opportunities for individuals in private sector entities to engage in illicit dealings with other private sector businesses vary across economic sectors. For example, individual business representatives may accept offers of contracts whose costs exceed current market prices in return for a personal kickback, or individual employees with access to confidential information may reveal this information to other businesses in return for a personal benefit. The data indicate that such private sector bribery episodes in Serbia have higher prevalence rates in the in the Manufacturing, Electricity, Gas, and Water supply sector (8 per cent) than in the Building and Construction sector (7.3 per cent), the Wholesale trade and Retail trade sector (6.1 per cent) and the Accommodation and Transportations sectors combined (5 per cent). As in the case of public sector bribery, prevalence rates are higher in micro (1 to 9 employees) companies (6.9 per cent) than in small (10 to 49 employees) companies (6.2 per cent) and medium and large (over 50 employees) companies (2.8 per cent), which contrasts with the patterns found in the western Balkan region as a whole (Figure 18).

Figure 18 **Prevalence of bribery among private sector business entities, by economic sector and by number of employees, Serbia and western Balkan region (2012)**
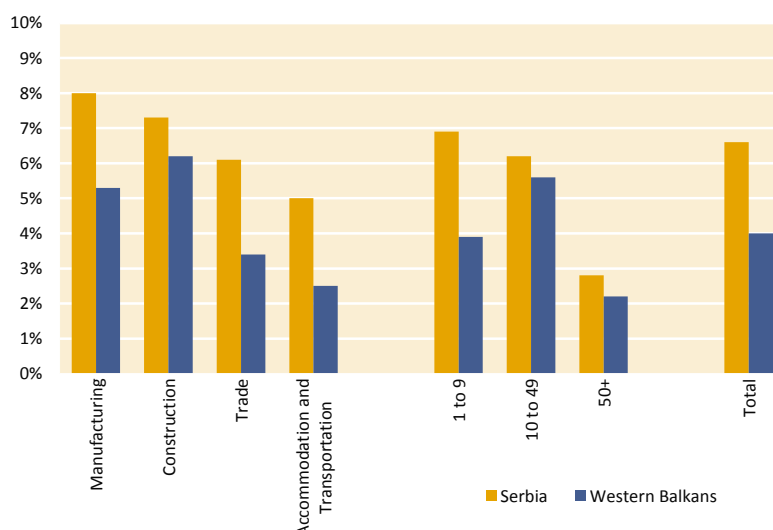
Forms of payment

As in public sector bribery, in business-to-business bribery payment can be made in a variety of forms: money, goods, food and drink, valuables or in the form of an explicit exchange for another favour. In the business world of Serbia, cash payments as well as the provision of food and drink are the most important forms of bribe payment among private sector entities, as they are between businesses and public officials. However, the exchange of one favour for another favour also plays an important role when it comes to illicit dealings among business representatives (Figure 19).

Figure 19 **Percentage distribution of bribes paid by businesses to private sector business entities, by type of payment, Serbia (2012)**
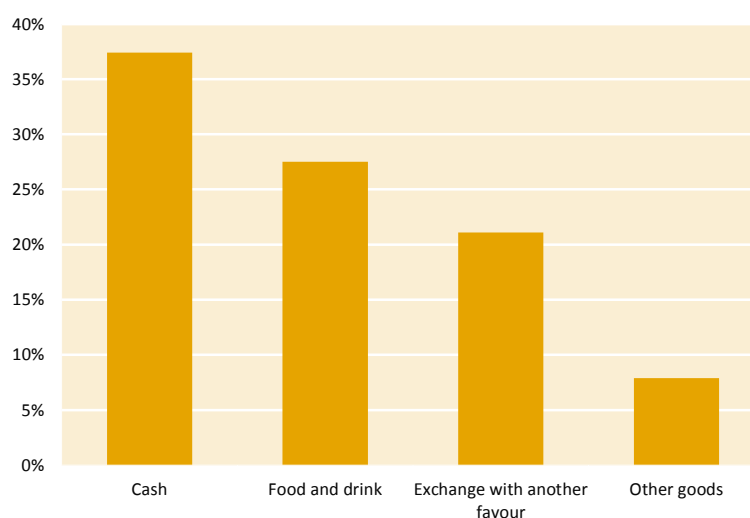
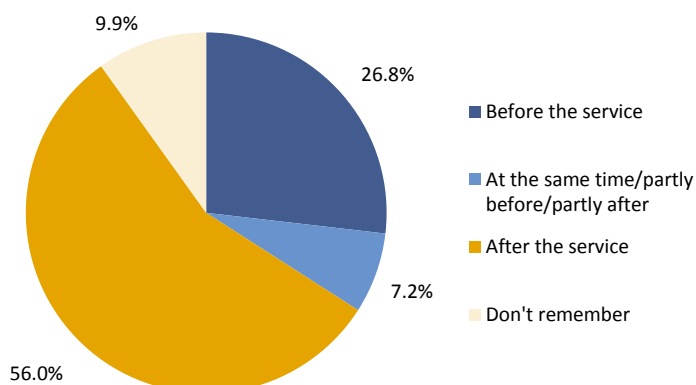Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey. The sum is higher than 100 per cent since, in some cases, bribes are paid in more than one form (for example, money and goods).

Bribe-seeking modality and timing

According to the survey, almost two thirds (63.4 per cent) of business-to-business bribes are paid without being requested by one of the business representatives involved and are offered instead by the bribe-payer in order to obtain a certain illicit advantage (for example, to facilitate or accelerate a procedure or to gain advantage over a competitor). In contrast, over one third (36.4 per cent) of cases involve some form of request. Bribes are given after they have been requested either explicitly (27.7 per cent) or implicitly (4.1 per cent), while in 4.6 per cent of cases a third party related the bribery request.

It is notable that a large portion of bribes are paid after the delivery of the goods or service in question (56 per cent), while around a quarter (26.8 per cent) are paid before the service. In addition, 7.2 per cent is paid either at the same time or partly before and partly after service delivery and almost one out of ten (9.9 per cent) business representatives did not remember when the bribe was delivered (Figure 20).

Figure 20 Percentage distribution of business-to-business bribes paid, by timing of payment in relation to service delivery, Serbia (2012)
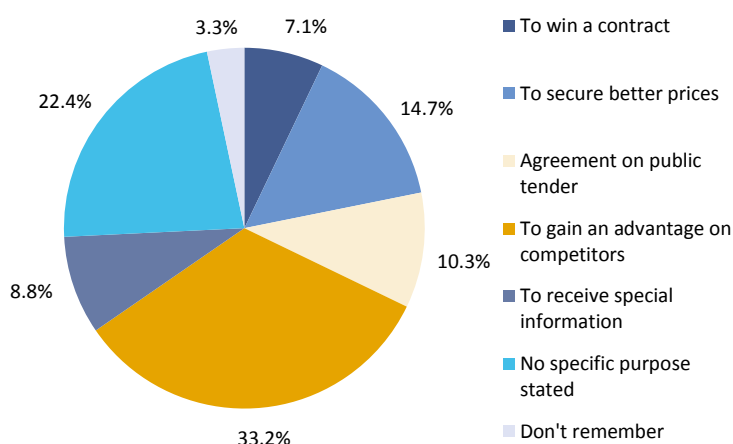

Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

Purposes of bribes

When bribes are paid by one business representative to another, it is normally to the detriment of the business whose representative accepts the bribe, whereas the bribe-paying business expects to benefit from the bribe. This is clearly reflected in the fact that when it comes to business-to-business bribery in Serbia by far the most important purpose of bribes is to gain an economic advantage over competing companies (33.2 per cent). Around one out of seven bribes are paid to secure better prices (14.7 per cent), 8.8 per cent are paid to receive special information and 7.1 per cent to win a contract. In addition, about a quarter of all business-to-business bribes (22.4 per cent) are paid with no immediately obvious purpose, though it can be assumed that such payments serve to entice bribe-takers into long-term "dependency", which makes them more amenable to the granting of favours to the bribe-paying business at some point in the future (Figure 21).

Figure 21 Percentage distribution of business-to-business bribes paid, by purpose of payment, Serbia (2012)
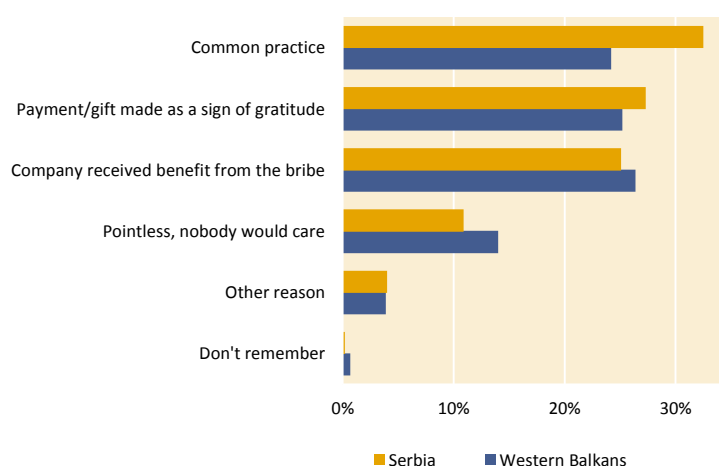

Note: Data refer to the last bribe paid by each bribe-payer in the 12 months prior to the survey.

Reporting business-to-business bribery

At the regional average, a mere 0.8 per cent of all bribes paid between business representatives are reported to authorities, such as the police, anti-corruption agency or to supervisors in the affected businesses.[19] Results for Serbia indicate that none of the businesses part of the survey had reported business-to business bribery incidents. This is indicative of the fact that both parties to a business-to-business bribery episode feel equally implicated in the crime and are reluctant to come forward and "blow the whistle".

The above conjecture is confirmed by the fact that the most important reasons given by bribe-paying businesses in Serbia for not reporting bribery are: bribery is such a common practice that there is no need to report it (32.5 per cent); the payment/gift is given as a sign of gratitude (27.3 per cent) and the company receives a benefit from bribing a representative of another company (25.1 per cent). Other bribe-payers do not inform the authorities because they consider reporting bribery is pointless as nobody would care (10.9 per cent) or due to other reasons (4 per cent). Similar reasons for not reporting business-to-business bribery are cited in the western Balkan region as a whole (Figure 22).

Figure 22 **Percentage distribution of businesses that pay bribes to other businesses not reporting their experience to authorities/institutions, according to the most important reasons for not reporting, Serbia (2012)**

Note: Data refer to bribe-payers who did not report their last bribe paid in the 12 months prior to the survey to authorities/institutions.

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[19] *Business, Corruption and Crime in the western Balkans: The impact of bribery and other crime on private enterprise*, UNODC (2013).

6. Perceptions and opinions about corruption

In the business world, perceptions are fundamental factors for shaping decisions, economic behaviour and outcomes. The perception of a favourable business environment, for example, creates the expectation of a positive return on an investment, making businesses more inclined to invest than when they perceive a negative business environment. Greater investment creates more demand, more jobs, higher growth and a more dynamic and prosperous economy. In economics, therefore, perceptions often translate directly into outcomes.

In order to carry out their economic activities effectively and to attain their business goals, private companies require a business environment with the right conditions to enable them to be both productive and profitable. These conditions include the rule of law to enforce contracts and provide security, the requisite regulatory environment and a functioning infrastructure, to name but a few. Conversely, the absence of these conditions, or the presence of factors detrimental to the business climate represent an obstacle to doing business and prevent the private sector from prospering and developing its full potential.

When asked whether certain issues represent an obstacle to doing business in their country, business owners and representatives in Serbia rank corruption as the fifth most important issue after currency fluctuations, complicated tax laws, frequent changes in laws and regulations and political instability. In fact, corruption is considered a major obstacle by more than half (52.5 per cent) of business representatives, after currency fluctuations (77.8 per cent), complicated tax laws (61.2 per cent), frequent changes in laws and regulations (59.3 per cent) and political instability (52.7 per cent). Another 26.1 per cent of respondents consider corruption a moderate obstacle to doing business, while around a fifth (20.7 per cent) of respondents consider it no obstacle (Figure 23).

Figure 23 **Percentage distribution of business representatives who consider selected issues a major or moderate obstacle to doing business, Serbia (2012)**
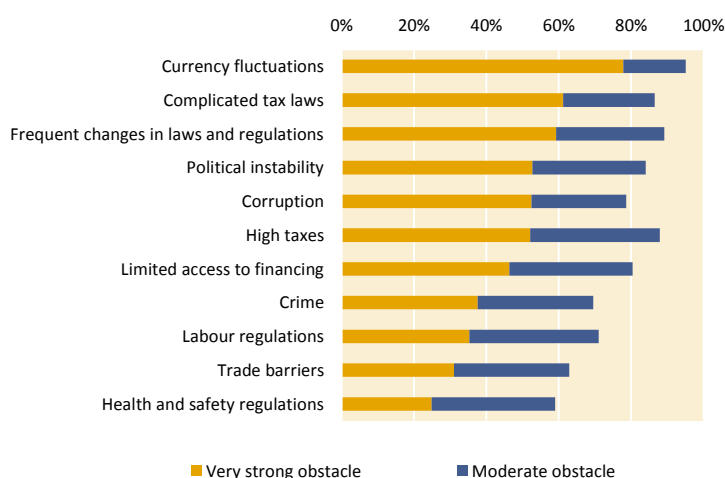
Perception of corruption of public officials

When business representatives consider corruption to be an obstacle to doing business they often have in mind particular types of public official (or specific administrative procedures) among whom corruption may be encountered more frequently than among others. These are often public officials at the local level with whom businesses are in frequent interaction or officials who are frequently mentioned in the media in connection with corruption. In Serbia, almost one fifth (18.6 per cent) of business representatives think that the payment of bribes to municipal or provincial officers occurs very or fairly frequently in companies such as their own, and almost as many think the same about customs officers (16.8 per cent), police officers (16.7 per cent) and public utilities officers (14.7 per cent, Figure 24).

Figure 24 **Percentage of business representatives who consider that the payment of bribes to selected public officials occurs very or fairly frequently in businesses like theirs, Serbia (2012)**
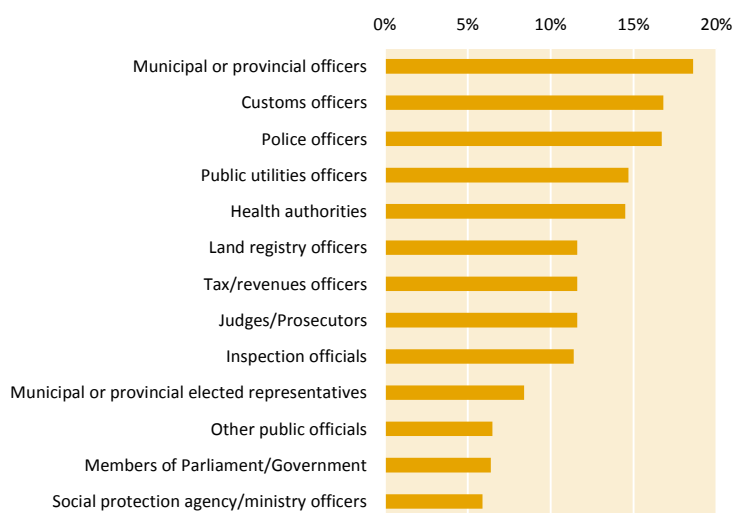
Such perceptions of the frequency of bribe-paying to certain types of public official need further differentiation by economic sector. Since business representatives were asked if they consider that the payment of bribes to certain officials by "businesses like theirs" occurs frequently, the comparison by type of official is most meaningful in relation to similar businesses in their own sectors. As shown in Figure 25, almost a third (31.9 per cent) of business representatives in Building and Construction consider the bribery of municipal or provincial officers to be very or fairly frequent, while less than a tenth (9.5 per cent) of respondents in the Accommodation and Transportation sectors combined think the same. Municipal or provincial officers are seen to be the most susceptible to bribery in the Construction sector (31.9 per cent), police officers in the Accommodation and Transportation sectors combined (23.8 per cent) and in the Manufacturing sector (20.3 per cent). In addition, customs officers are seen to be the most susceptible to bribery in the Accommodation and Transportation sector (22.7 per cent).

Figure 25 **Percentage of business representatives who consider that the payment of bribes to selected public officials occurs very or fairly frequently in businesses like theirs, by economic sector, Serbia(2012)**


Attitudes towards corrupt behaviour

As in the case of perceptions of corruption, attitudes towards what constitutes corruption and what is acceptable behaviour often differ among individuals, societies and different economic sectors. Surveying business representatives as to their attitudes towards certain forms of corrupt behaviour can also shed light on their willingness to become involved in bribery and corruption, as well as their expectations about it.

The data show that most business representatives are well aware of the limits of ethical behaviour in business transactions and classify acts outside those limits as "not acceptable". However, there are also significant numbers of them who qualify some illicit acts as acceptable behaviour, particularly when the severity of the violation is not immediately obvious. For example, almost two thirds of business representatives in Serbia (65.4 per cent) consider the use of relationships and personal contacts in public institutions for speeding up business-related procedures to be acceptable (Figure 26). Also, in cases that clearly violate ethical standards there is a sizable share of around 10 per cent of business representatives who consider seriously corrupt acts (including using public resources for private benefit or for the interest of a third party and performing

public functions while having an interest in private companies) to be acceptable. Also almost one out of eight business representatives (13.2 per cent) consider the performing of multiple public functions at the same time to be acceptable.

Figure 26 Percentage of business representatives who consider various forms of corruptive behaviours always/usually/sometimes/not acceptable, Serbia (2012)
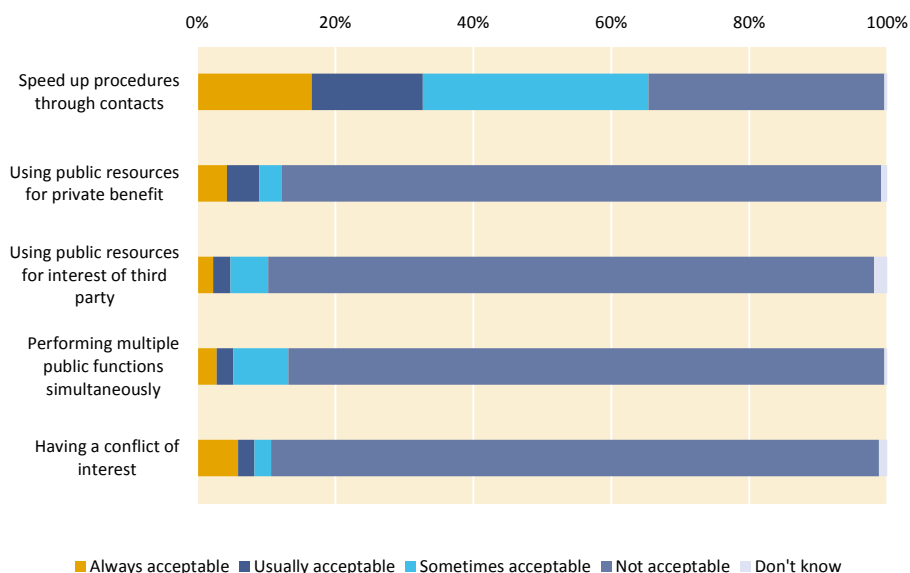
Perception of causes of corruption

Surveying business representatives as to their perception of the causes of corruption can shed light on some causes of corruption that an effective anti-corruption strategy could usefully target. The data show that three quarters (75 per cent) of business representatives consider influence of powerful individuals to be a common cause of corruption, followed by inappropriate influence of politicians (73.9 per cent). In addition, between 58 and 73 per cent of business representatives in Serbia consider great powers of public officials, absence of evaluation mechanisms, lack of transparency and lack of integrity of officials to be a common cause of corruption (Figure 27). In contrast, lack of integrity within businesses and low wages of public officials are perceived by around one third of business representatives (36.4 and 33.1 per cent) to be a common cause of corruption.

Figure 27 **Percentage of business representatives who consider various issues to be a common cause of corruption/partial cause of corruption/not a cause of corruption, Serbia (2012)**
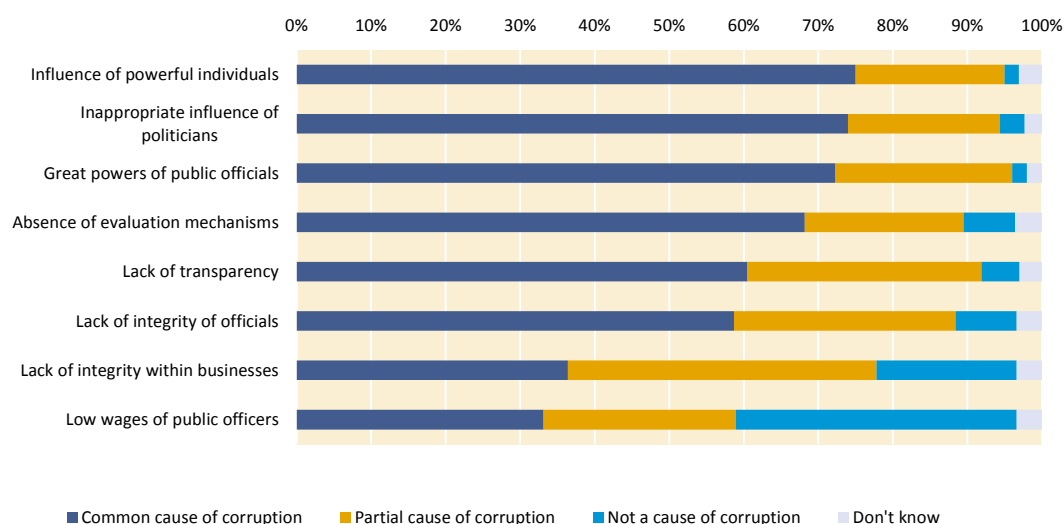
The impact of bribery on business investment

Besides having a direct effect on the disposition of businesses to pay bribes, the perception of bribery has an indirect effect on the willingness of businesses to make major investments, which has potentially disastrous consequences for economic growth and development. In all, 9.2 per cent of businesses in Serbia decided not to make a major investment in the 12 months prior to the survey due to the fear of having to pay bribes to obtain requisite services or permits.

Considering that only a certain portion of businesses are in a position to make major investments in the first place, the fact that corruption has such a negative impact is significant. But perhaps the most damaging aspect for economic development in Serbia is that the economic impact of bribery on the business climate and investment decisions is more pronounced for smaller than for larger businesses (Figure 28). Micro (9.6 per cent) and small companies (7.5 per cent) are much more affected than medium and large companies (2.8 per cent), which means that the fear of bribery has a bigger impact on precisely those businesses with the greatest potential for growth.

Figure 28 **Percentage of business representatives who decided not to make a major investment in the 12 months prior to the survey due to fear of bribery, by number of employees, Serbia (2012)**
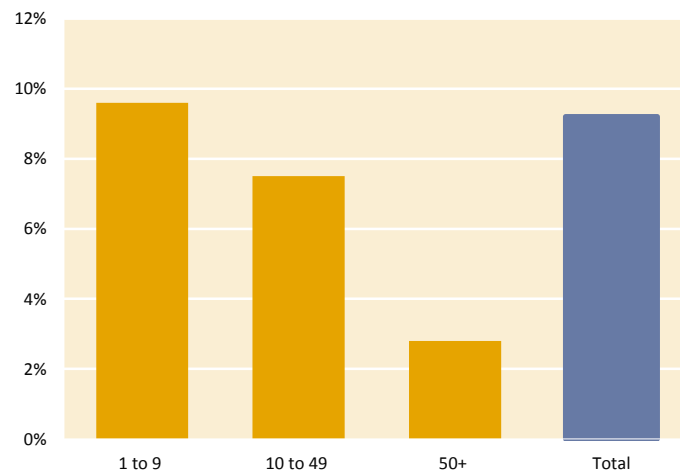
7. Prevalence and patterns of other forms of crime

In addition to corruption, businesses in Serbia, like businesses everywhere, are affected by various other forms of crime against their property or business activities. The impact of such crimes can be considerable, both in terms of direct costs and damages and of indirect costs, in the form of insurance premiums, security expenditure and lost investment opportunities. While crime is not ranked among the most important obstacles to doing business in Serbia (Figure 23), there is still a substantial share of businesses who consider crime to be either a major (37.6 per cent) or a moderate obstacle (31.9 per cent) to doing business.

Measuring the direct impact of crime is challenging for a number of reasons, irrespectively of whether the victims are individuals or businesses. Police-reported crimes are widely understood to undercount the true extent of criminal activity. Before a crime is recorded in administrative crime statistics, it must be detected, reported to the police, recognized as a criminal act and recorded as a crime in police statistics. A large number of crimes are not reported to the police and some of those reported are not recorded in police statistics. Such limitations in official crime statistics can be overcome with the help of crime victimization surveys, which provides data to assess the so-called "dark figure" of crime not reported to the police. Such data supply valuable additional insights into the nature and modalities of the criminal act as well as the characteristics of the victims – information that is not usually available from official police data.

Businesses in Serbia are affected by different forms of crime to varying degrees depending on their size, type of economic activity, location and other factors. Among five important types of crime,[20] the 12-month prevalence rate of business victimization in Serbia is highest for fraud by outsiders (this includes fraud by customers, distributors or suppliers, but excludes fraud by employees and managers). Over one third of businesses has been defrauded over the past 12 months (35.5 per cent) through various means, such as by customers deceiving the company about their willingness to pay, through deception of suppliers in relation to the quality or quantity of goods or services delivered, or through computer fraud (Figure 29). Moreover, many companies that experience fraud by

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[20] See the Methodological Annex for detailed descriptions of these crimes.

outsiders are victimized more than once – on average such businesses fall victim to fraud 10.1 times in a year.

The prevalence rate for burglary and vandalism are also considerable. In the case of burglary around one in ten (10.2 per cent) businesses have been victimized over the past 12 months and on average victimized businesses fall victim to burglary 4.4 times a year. In the case of acts of vandalism against businesses, where buildings, equipment or other property on business premises have been deliberately damaged by acts of force, arson, graffiti or other means, 9.5 per cent of all businesses were victimized an average of 2.8 times in the previous 12 months. The prevalence rate of motor vehicle theft (MVT) is 1.7 per cent of all car owning businesses, with victims suffering an average of 1.4 incidents (many businesses affected have more than one company vehicle in use at a time, including cars, vans, trucks, buses and other motor vehicles).

The data also show that 1 per cent of all businesses fell victim to extortion in the 12 months prior to the survey (since extortion is often an on going activity, no average frequency is calculated).

Figure 29 **Annual prevalence rates for different types of crime against businesses and average number of crimes per victimized business, Serbia (2012)**
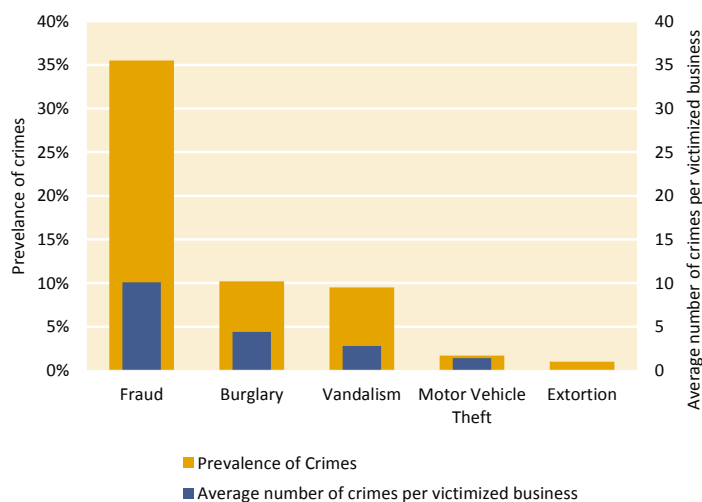
Note: Annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies; the annual prevalence rate for motor vehicle theft is calculated as the number of companies that experienced at least one theft of a car, van, truck, bus or other motor vehicle in the 12 months prior to the survey, as a percentage of companies owning a car, van, truck, bus or other motor vehicle. The average number of crimes is calculated as the average number of times businesses victimized by a crime experienced that type of crime.

While taking into account the fact that the comparability of the survey results with those in other countries may be influenced by divergences in survey procedures, such as differences in sample selection, survey mode, response rates and weighting procedures, an international comparison with survey findings in other countries will add further perspective on the results obtained. Comparability is greatest with recent survey results in the western Balkan region, where the same survey design and methodology was

employed.[21] In addition, the results of an EU-wide pilot survey on business victimization are expected to be published in late 2013.[22]

The cost of crime

The survey data indicate that the average cost of criminal damage caused by the five crime types covered is substantial in Serbia. However, such costs are highly unevenly distributed, with a limited number of crime incidents that cause extremely costly damage and a larger number of incidents that result in below-average damage costs. This skewed distribution can be described by using two separate indicators, namely the average (mean) cost of criminal damage and the median cost of criminal damage.[23] As shown in Table 2, the mean cost of criminal damage is around 3 to 7 times higher than the median cost of all crime types, except for burglary, where the ratio between mean and median is 15.7.

Table 2   **Cost of economic damage caused by the last crime incident experienced by businesses in Serbia (in Dinar, EUR and EUR-PPP), by crime type, Serbia (2012)**

Cost of criminal damage	Burglary	Vandalism	Motor Vehicle Theft	Fraud by outsiders
Mean damage (RSD)	1,570,274	295,699	2,455,318	3,982,227
Median damage (RSD)	100,000	44,000	685,000	600,000
Mean damage (EUR)	13,881	2,614	21,704	35,201
Mean damage (EUR-PPP)	27,921	5,258	43,657	70,807

Multiple crime victimization

Understanding characteristics of businesses that experienced a certain crime type multiple times over a short period is very important for determining the concentration of crime risk for certain types of businesses or of businesses in certain locations.[24] To examine high risk accumulation by certain businesses it is useful to divide victimized businesses into groups by the number of times a certain crime type was experienced in the preceding 12 months. As shown in Figure 30, fraud by outsiders is a crime that tends to target the same business multiple times, with one out of seven (14.3 per cent) victimized businesses having been victimized once, 15.4 per cent twice, 10.3 per cent three times and three fifths (60 per cent) four or more times. On the other hand, more than half (53.2 per cent) of victimized businesses experienced one burglary, 14.8 per cent experienced two burglaries, 18.5 per cent three burglaries and 13.5 per cent four or more such incidents. A similar pattern applies to vandalism: 45.9 per cent of victimized businesses experienced one such incident, 13.8 per cent two, 17 per cent three and 23.3 per cent four or more such incidents.

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[21] *Business, Corruption and Crime in the western Balkans: The impact of bribery and other crime on private enterprise*, UNODC (2013).

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

[23] The median cost of criminal damage is exactly the middle value of all the damages sorted in ascending order, which implies that about 50 per cent of all the damages incurred are higher and 50 per cent are lower than the median value.

[24] This is sometimes also called "multi-victimization rate of crime" and denotes the percentage of victimized businesses that have experienced a certain crime type more than once over the past year out of all businesses who experienced that crime over the past year.

Figure 30 Percentage distribution of victimized businesses that experienced a certain crime type on one or several occasions in the preceding 12 months, Serbia (2012)
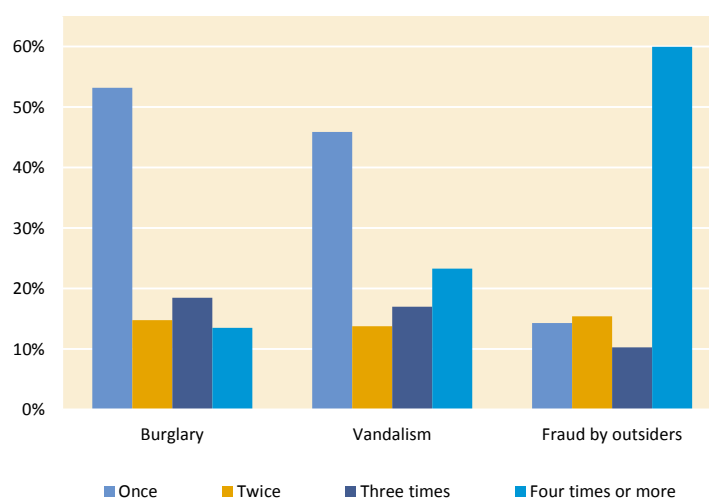

Note: The distribution by number of crimes is calculated as the percentage distribution of the number of times businesses victimized by a certain type of crime experienced this type of crime.

Victimization by economic sector

An analysis of the prevalence of business victimization in the five economic sectors covered by the survey indicates some pronounced differences between sector-specific crime victimization rates in Serbia. As shown in Figure 31, sector-specific prevalence rates for vandalism are generally below 11.3 per cent in all sectors and prevalence rates for burglary are at or below 12 per cent in all sectors. In contrast, businesses in the Accommodation and Transportation sectors combined (11.6 per cent) and businesses in the Construction (15.7 per cent) sector are the victims of fraud by outsiders less often than businesses in the Trade (39.7 per cent), and the Manufacturing (44.6 per cent) sectors.[25]

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[25] Sector-specific data on extortion and motor vehicle theft are not available as the number of victimized businesses in the sample that experienced those crimes in each sector is too small to allow statistically significant comparisons.

Figure 31 Annual prevalence rates for burglary, vandalism and fraud by outsiders experienced by businesses, Serbia (2012)
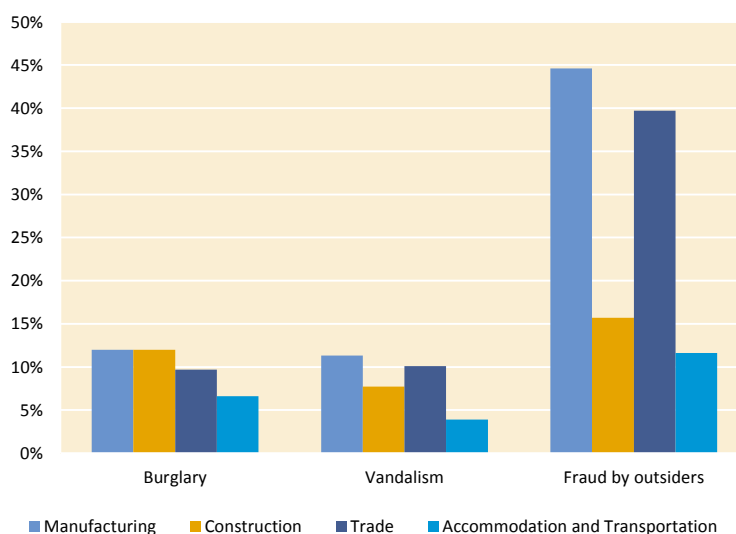

Note: Annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies.

Burglary

Burglary is the act of unlawfully breaking and entering into (business) premises in order to steal something without coming into contact with anyone in those premises. As such, not all burglary attempts are successful in the sense that the perpetrators manage to steal something valuable. Out of all burglary incidents reported by Serbian businesses in the survey, 9.4 per cent can be classified as mere burglary attempts as nothing was actually stolen.

In cases when something is actually stolen from a business's premises there is usually a wide variety of valuables for the taking. As shown in Figure 32, in around half (50.5 per cent) of the cases machinery or equipment is taken, as are other goods (not produced by the company itself) in over a quarter (27.9 per cent) of cases. Other common items stolen are goods produced by the company (22.9 per cent), money belonging to the victimized business (17.3 per cent) and money of employees (8.1 per cent).

Figure 32 **Percentage distribution of valuables stolen from businesses in burglary cases, Serbia (2012)**
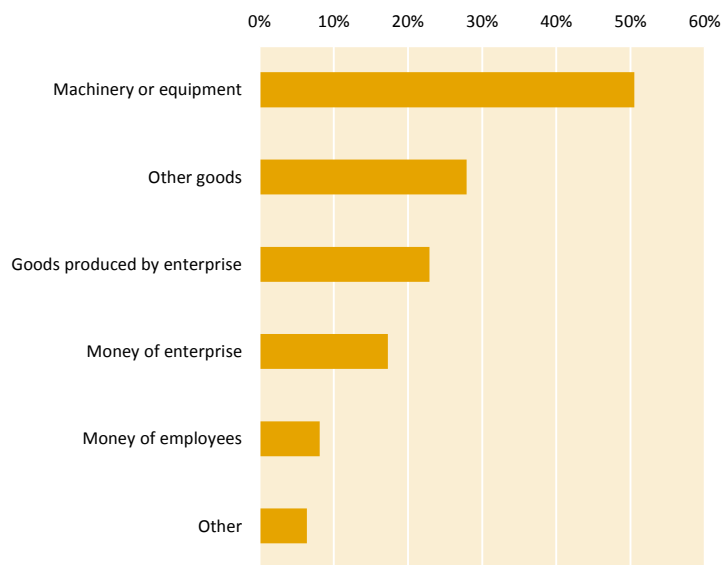
Note: Data refer to the last burglary that resulted in any type of valuables stolen in the three years prior to the survey. The sum is higher than 100 per cent since, in some cases, more than one type of valuable is stolen (for example, machinery and money).

The aim of burglary also depends on the type of business broken into and the type of machinery, equipment and other valuable items in use. For example, machinery and equipment are the most typical types of valuable stolen from businesses in Building and Construction (75.7 per cent), whereas other goods produced by the company in question are also items commonly stolen from businesses in the Manufacturing, Electricity, Gas, and Water supply sector (31.6 per cent).

Vandalism

Acts of vandalism against businesses can be very damaging in terms of direct damage and repair costs, loss of production output as well as deterioration in the image of business premises and reduced attractiveness to clients. On average, acts of vandalism in Serbia most often target vehicles belonging to the targeted business (45.8 per cent), buildings (44.8 per cent) and machinery and equipment (23 per cent).

Motor Vehicle Theft (MVT)

Theft of motor vehicles is different from the other crime types against businesses reported here in that the physical location of the offence can be either at the business premises or elsewhere. In fact, data on the location of MVT from businesses in Serbia indicate that the majority of it takes place away from business premises. While 17 per cent of such incidents take place directly from business premises (such as a parking lot or garage), almost two thirds (64.8 per cent) of MVT occurs outside business premises but within the same municipality as where those premises are located. Almost one fifth of MVT takes place elsewhere, both in the country (17.4 per cent) and abroad (0.7 per cent); in the latter cases, during business trips, for example (Figure 33).

Figure 33 Distribution of the location of motor vehicle thefts from businesses, Serbia (2012)

- 0.7%
- 17.4%
- 17.0%
- 64.8%

- ■ Within the premises of business
- ■ Within the municipality
- ■ Elsewhere in the country
- ■ Abroad
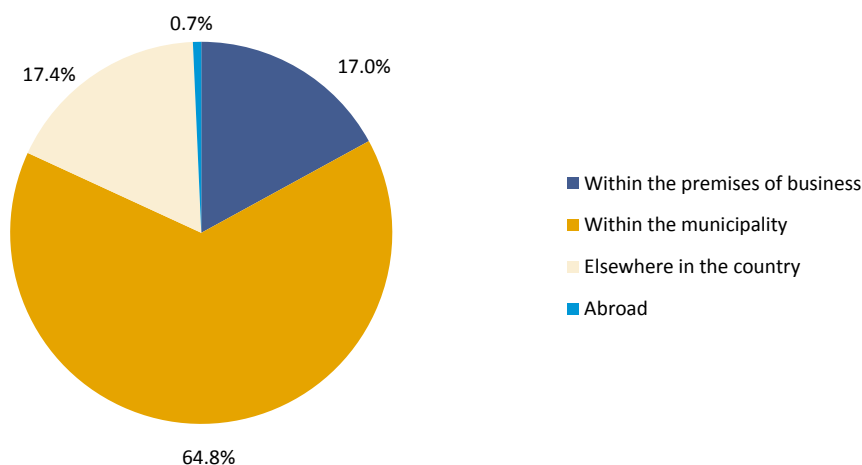
Note: Data refer to the last motor vehicle theft in the three years prior to the survey. Motor vehicles include cars, vans, trucks, buses or other motor vehicles.

A certain share of stolen vehicles can later be recovered. In many cases, offenders use the stolen vehicle for a limited time only (this could be the case, for example, for so-called "joy-riding" or for transportation while committing another crime) and abandon the vehicle after some time at a place where it can be found and returned to the owner. According to the data, every eight motor vehicle (12.6 per cent) stolen from a business in Serbia is eventually recovered after having been stolen.

Extortion

While the prevalence of extortion for businesses in Serbia is 1 per cent, it is nevertheless cause for concern. Extortion is a very serious crime in which the perpetrators try to obtain money or other benefits from a company by threatening or intimidating managers or employees. In some cases, extortion is also presented as the offer of "protection" from damages to property or persons and the money paid is presented as a type of "protection money". In some cases extortion can be linked to organized crime groups, who have the power and the means to make a credible threat towards a business with potentially dire consequences if their demands are not met.

The data indicate that extortion threats take on a variety of menacing forms. According to victimized businesses in Serbia, over a quarter (26.9 per cent) of extortion threats involve unspecified consequences, while 8 per cent spell out specific damage to the business or its property and 5.3 per cent involve specific personal threats to harm the owner, manager, employees or their relatives. Other cases involve promises of protection against crime or other threats, such as harming clients, contaminating products or kidnapping employees, managers or their relatives.

It is notable that the methods used to convey extortion threats to businesses in Serbia are fairly conventional and seem designed to have the greatest possible impact on the person threatened. While around nine out of ten (93.2 per cent) extortion threats are communicated by telephone, in 4.5 per cent of cases the threat is made in a personal encounter somewhere outside the premises of the business and in almost as many cases

(3.6 per cent) one or several offenders walk into the premises of the victimized business to convey the threat.

Reporting crime to the police

Businesses that have been victims of crime have a number of reasons to report the incident to the police and provide detailed information to the authorities about its circumstances and the damage incurred, among them the hope of recovering stolen property and preventing similar occurrences in the future. The willingness to report crimes to the police varies with the general level of trust in the police but is also dependent on the type of crime and the expectation of what the police can and will do about the reported offence.

Further factors that have an influence on the reporting of crime are the seriousness of the crime and the amount of damage suffered, potential loss of reputation among clients and customers, and formal requirements for insurance payments. As shown in Figure 34, the share of each type of crime actually reported to the police ranges from 92.7 per cent for MVT and 85.5 per cent for burglary, to 45.2 per cent for incidents of vandalism, 11.1 per cent for cases of fraud by outsiders and 6.5 per cent of extortion cases. On average, for the five crime types covered, victimized businesses in Serbia reported over two fifths of the crimes experienced in the three years prior to the survey (41.8 per cent). In comparison, none of the businesses had reported bribery incidents to the authorities in the 12 months prior to the survey, as shown in chapter 4.

Figure 34 Police reporting rates by businesses, by type of crime, Serbia (2012)
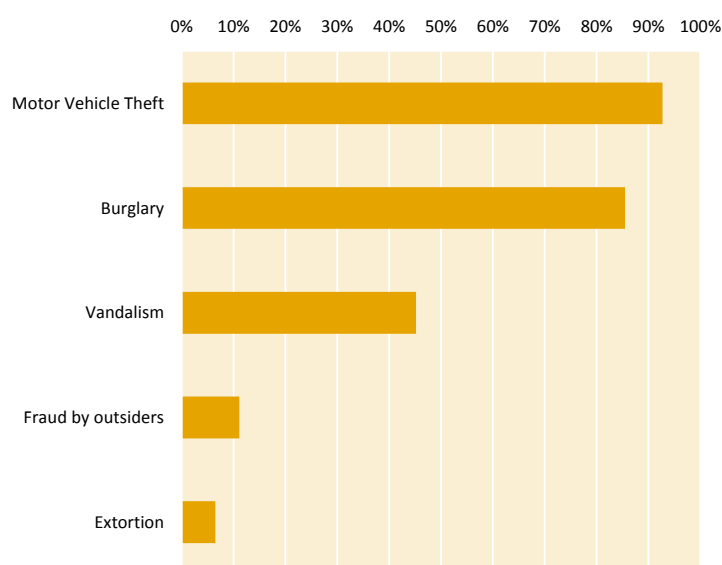

Note: Reporting rates for bribery refer to the last bribery experience in the 12 months prior to the survey, reported to official authorities; for other forms of crime, reporting rates refer to the last crime experienced in the past three years and reported to the police.

In many cases, the main reasons that businesses report crimes to the police are to recover property and a general belief that crimes should be reported to the police: between 60.8 per cent and 44.1 per cent of businesses that reported incidents of burglary and vandalism cited these reasons as their two main motives. Other important reasons for reporting crime are a desire for the offenders to be caught (burglary: 62.7 per cent; vandalism: 64.1 per cent; MVT: 58.3 per cent) and to stop it from happening again (burglary: 41.3 per cent; vandalism: 55.8 per cent; motor vehicle theft: 18.4 per cent). Claiming insurance payments is not a dominant motive for reporting crime in Serbia, not even for MVT (19

per cent), as shown in Figure 35, which is also in line with data from the survey showing a low level of insurance cover against crime by businesses (Figure 40).

Figure 35 Reasons for reporting motor vehicle theft (MVT) from businesses to the police, Serbia (2012)
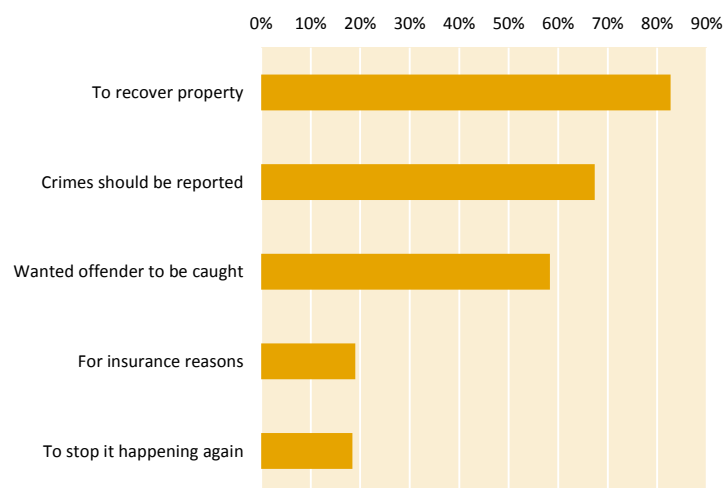
Note: Data refer to the last case of motor vehicle theft experienced in the three years prior to the survey and reported to the police. The sum is higher than 100 per cent since, in some cases, more than one motive for reporting motor vehicle theft to the police exists (for example, to recover property and for insurance reasons).

Information relating to satisfaction with law enforcement authorities by victims of crime can be useful for improving the services and procedures of the police. In the case of businesses that fall victim to crime, around half of those that reported the incident to the police were completely or mostly satisfied with the way the police dealt with their reports. As in the case of police reporting, satisfaction with the police varies according to the crime type reported and is lowest for burglary (33 per cent were satisfied) and highest for fraud by outsiders, where 39.9 per cent of reporting businesses were satisfied. On the other hand 58.6 per cent of businesses were not satisfied with the action taken after reporting motor vehicle theft to the police (Figure 36).

Figure 36 Satisfaction of businesses with the police, by type of crime reported to the police, Serbia (2012)
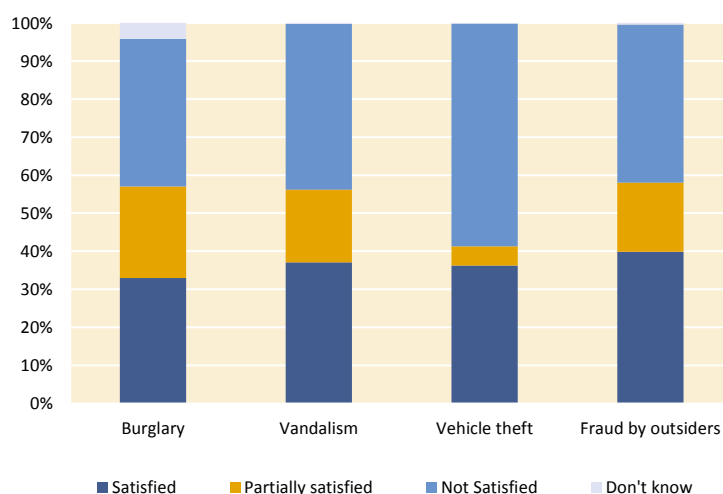
Note: Data refer to the last crime incident experienced in the three years prior to the survey and reported to the police.

The main reasons for the dissatisfaction observed in the way the police react to crime reporting are often related to the difficulties of solving the crime in question and obtaining compensation for the victimized business. In the case of vandalism, for example, dissatisfied victims were not satisfied or not completely satisfied mainly due to the fact that the police did not find the offender (56.4 per cent) or the police were perceived as not doing enough (55.2 per cent). Over a third of businesses also felt they did not receive sufficient protection from crime (35.9 per cent) or were not treated correctly (33.7 per cent), as shown in Figure 37.

Figure 37 Reasons for dissatisfaction of businesses that reported vandalism to the police, Serbia (2012)
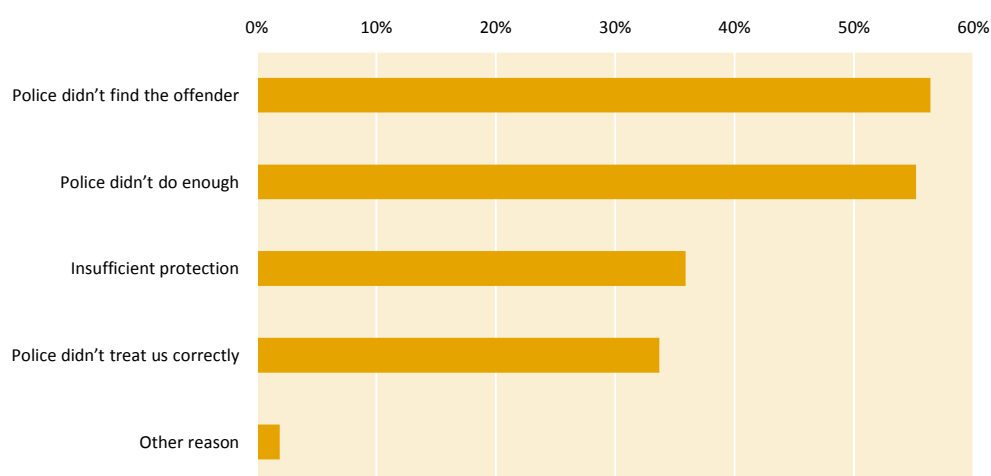
Note: Data refer to the last case of vandalism experienced in the three years prior to the survey and reported to the police. The sum is higher than 100 per cent since, in some cases, more than one reason for dissatisfaction with the police exists (for example, police did not find the offender and did not treat us correctly).

In the case of less frequently reported crimes against businesses, such as vandalism and fraud, there are a number of reasons why crime is not reported to the police, which depend on the crime type. For example, in cases of vandalism around half (50.6 per cent) of businesses considered the crime not worth reporting to the police, while that was the case in 6.1 per cent of unreported fraud incidents (Figure 38). In addition, in cases of vandalism 43.2 per cent of businesses considered the police wouldn't have been interested and 40.8 per cent believed the police could do nothing. In contrast, in the case of fraud by outsiders, over four fifths (84.9 per cent) of respondents did not report it to the police because they considered it was not the responsibility of the police.

**Figure 38 Reasons for not reporting selected types of crime incidents to the police, Serbia (2012)**
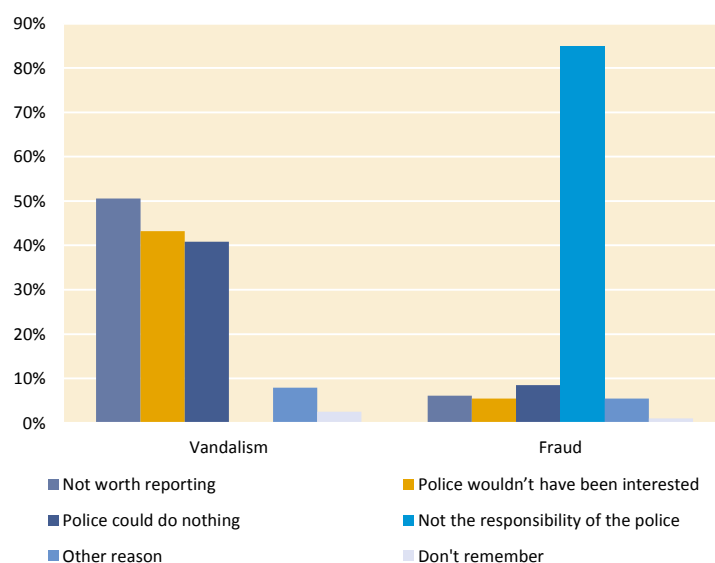
Note: Data refer to the last crime incident experienced in the three years prior to the survey that was not reported to the police. The sum is higher than 100 per cent since, in some cases, more than one reason for not reporting the incident to the police exists (for example, police could do nothing and fear of reprisals).

Crime prevention measures and costs

As the data from this survey show, businesses in Serbia face a real risk of crime and its associated damage and costs. To protect themselves against crime, businesses often install special security systems (alarm systems, cameras) or use security guards or other measures. In total, 93.2 per cent of all businesses in Serbia use at least one protective security measure against crime. As shown in Figure 39, the most widely used security measures are barriers or fences (55.1 per cent), cameras (54.6 per cent) and alarm systems (43.3 per cent). Security guards (33.4 per cent), special door protections (31.1 per cent), security patrols during non business hours (28 per cent), special window protections (22.4 per cent), security patrols during business hours (20.2 per cent) and systems of entry controls (11.5 per cent) are less widely used protection measures.

Figure 39 Percentage of businesses that use selected security measures against crime, Serbia (2012)
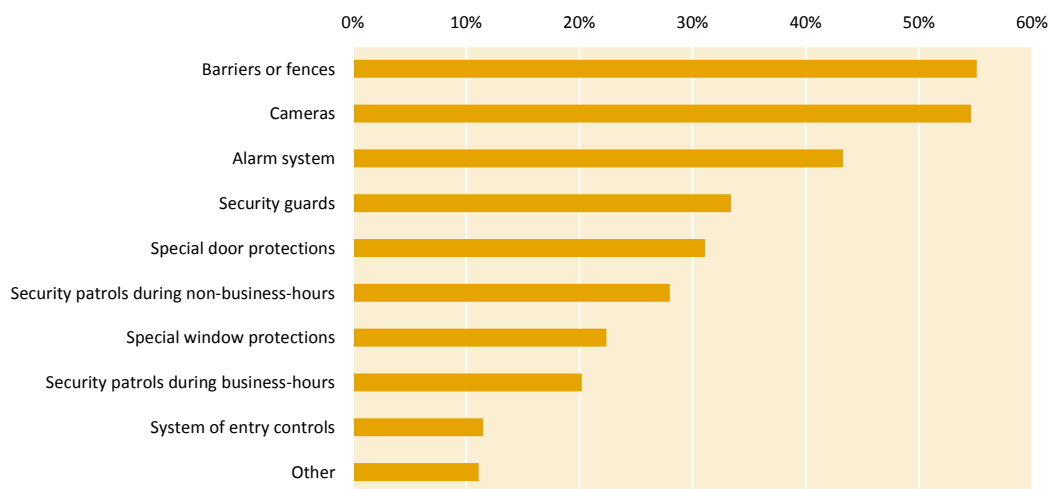
Note: Data refer to all businesses in Serbia. The sum is higher than 100 per cent since, in some cases, more than one security measure is used (for example, alarm system and camera).

Crime against businesses often causes considerable harm to businesses. To protect themselves against the financial implications, businesses can make use of insurance policies that pay compensation for damages. In Serbia, only a minority of businesses have any kind of insurance against the consequences of crime. On average, only 0.6 per cent of all businesses have a specific type of insurance policy that specifically protects against crime events, whereas 44.2 per cent have a general insurance policy that also protects against criminal incidents and over half (53.9 per cent) have no insurance against crime (Figure 40).

Figure 40 Percentage of businesses that have an insurance policy against crime, by type of insurance, Serbia (2012)
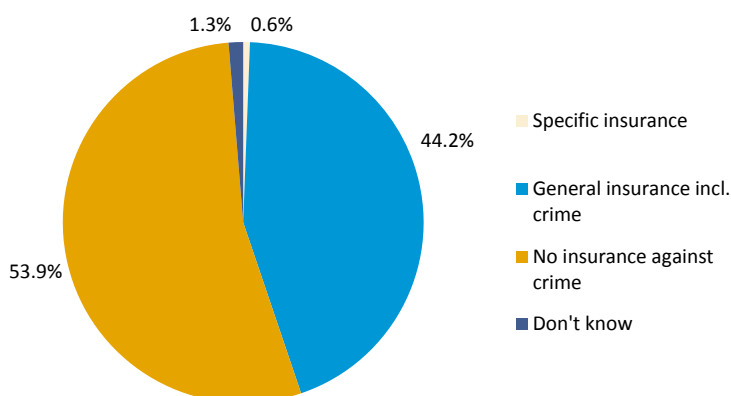

Perceptions and opinions about crime

As with perceptions about corruption, in addition to objective experience, perceptions about crime risk are influenced by a number of factors. Media reports and general feelings of insecurity and fear may contribute to an elevated perception of crime risk, as

does the physical appearance of an area. Such perceptions may also influence the extent to which crime in a certain area is perceived to be on the increase or decrease.

The majority of business representatives in the survey (76.2 per cent) stated that they considered the crime risk for their business entity to have remained stable in comparison to 12 months previously, whereas 17.1 per cent of respondents saw an increase in the crime risk and 2.8 per cent saw a decrease (4 per cent expressed no opinion). These perceptions of business leaders indicate a heightened sensitivity to crime (Figure 41).

Figure 41 Perceptions of whether the risk of crime for one's business entity has increased, remained stable or decreased, Serbia (2012)
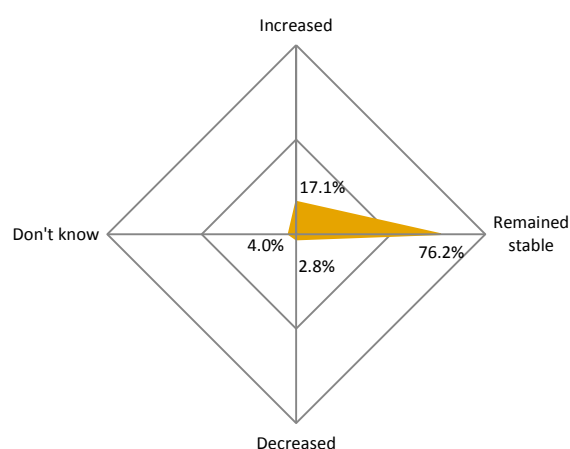

The impact of crime on business investment

Although perceptions of crime risk alone do not have a high correlation with real crime risk, as measured by the experience of crime by businesses, such perceptions do nevertheless matter for shaping opinions about the prevailing "business climate" and the assessment of business and investment opportunities. A negative perception of the general crime situation in a country may lead to diminished investment and impact economic development and growth.

The data show that fear of crime is indeed a very relevant factor in the decision of business leaders to make a major investment. While there are differences in the impact of this factor according to economic sector (Figure 42), on average, 10.6 per cent of all business leaders stated that during the previous 12 months they decided not to make a major investment due to fear of crime. This is a very significant share of all businesses, considering that only a limited number of businesses are in a position to make major investments in the first place. It should be recalled that, in addition to businesses deciding not to make an investment out of fear of crime, over 9 per cent of businesses cancelled an investment decision out of fear of corruption (chapter 6). Together fear of crime and corruption add up to a considerable hindrance to economic development in Serbia.

Figure 42 **Percentage of business representatives who decided not to make a major investment in the 12 months prior to the survey for fear of crime, by sector, Serbia (2012)**
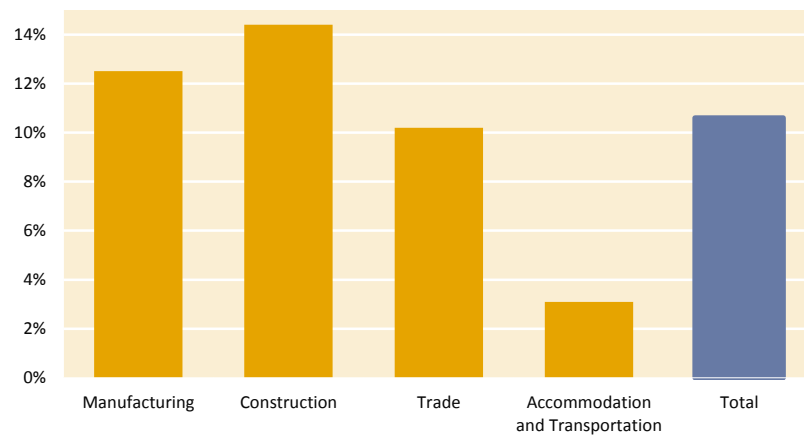
8. Concluding remarks

While corruption may be difficult to quantify, this report shows that surveys on the direct experience of corruption can help to draw at least a partial picture as to how, why, when, where and how much corruption affects the business sector in Serbia. From this analysis the following elements could be retained for further consideration in view of developing effective anti-corruption measures at national level:

- The survey identifies some priority business sectors, such as Accommodation and Food service activities and Transportation and Storage, as well as certain types of public official, including public utilities officers, police officers, municipal or provincial officers and customs officers, on which attention should be focused in an attempt to hinder involvement in bribery.

- The prevalence rates of "white collar" crime such as bribery and fraud by outsiders are somewhat higher, yet the reporting rates of bribery and fraud are far below those of other conventional crimes. This failure to report corruption implies that there is a lack of trust in authorities and that business organizations need to be more proactive in encouraging and promoting anti-corruption measures, codes of ethics and integrity.

- The issue of business-to-business bribery highlighted in this report sheds new light on illegal "marketing" practices in the form of bribery used to gain an unfair advantage over rival businesses. Further analysis of such practices should be undertaken to help guarantee a "level playing field" in the market place and guarantee that the usually beneficial mechanisms of the free market remain untarnished by corruption. A review of the legal provisions against corruption in the Criminal Code of Serbia should ensure that, in addition to provisions against bribery of public officials, effective legal instruments against bribery in the private sector are available.

- The fear of having to pay bribes to obtain requisite services or permits led a total of 9.2 per cent of all businesses leaders in Serbia to not make a major investment in the 12 months prior to the survey. This shows the "ripple effect" that corruption can have, with potentially disastrous consequences for economic

growth and development, particularly when only a certain portion of businesses are in a position to make major investments in the first place. Any efforts made to stem corruption need to be widely publicized to prevent further damage to investment and economic development.

- While conventional crimes against businesses engender substantial costs for the economy, businesses in Serbia seem to give relatively little thought to crime prevention in the shape of security measures and the mitigation of crime consequences by means of dedicated insurance policies.

- Though ostensibly small in numerical terms, the fact that 1 per cent of all businesses in Serbia fall victim to extortion is still significant, not least because extortion is a crime that can be linked to organized criminal groups. This reason alone means that the relationship between extortion and business needs to be explored thoroughly.

- In addition to the direct consequences of the crime, merely being investigated for corruption and fraud can have negative repercussions on a company's reputation. Many companies around the world are recognizing this and more and more are implementing comprehensive internal compliance policies that specify certain inacceptable practices and sanction violations of established standards. In Serbia, such internal compliance mechanisms are still far from universal and in further need of promotion. In particular, compliance policies are less common among smaller companies. Given that micro- and small companies make up the largest share of all businesses in Serbia, this situation needs to be addressed.

- Awareness of corruption and what is considered unacceptable behaviour is high in Serbia and more than half of business representatives consider corruption a major obstacle to doing business, yet bribery often appears to be tolerated as a tool for getting things done or receiving better treatment. A further assessment of corruption awareness among business leaders could be considered and further initiatives might be developed to increase understanding about the pernicious effects of corruption on the efficient allocation of resources in a market economy.

- As the data pertaining to the perception of corruption reveal, public opinion about corruption in Serbia shows a considerable level of concern about the issue. A window of opportunity is, therefore, open as it is likely that business organizations, as well as their constituent members, would welcome the further implementation of anti-corruption policies.

The present survey represents the first attempt to conduct a comprehensive assessment of the actual experience of business bribery in Serbia in order to help identify effective measures to fight it. Added value can be gained if the exercise is repeated over time so as to monitor changes in the experience and impact of bribery in Serbia.

Such a monitoring system on corruption at national level should include a variety of tools to collect evidence about its various manifestations and assist policy-making:

• Sectoral assessments of the working conditions and integrity of civil servants by sector (health sector, judiciary, police, customs, etc.) for the purpose of providing more in-depth and specific information and assist in identifying targeted policy measures. This should be prioritized in areas particularly vulnerable to bribery, as indicated in this and the UNODC 2011 general population survey;

• General assessments of the experience of bribery and other forms of corruption (both for the general population and the business sector), for the purpose of providing benchmarks and measuring progress

• A system for monitoring the state response to corruption, both repressive and preventive measures, in order to identify successful and unsuccessful practices.

A national monitoring system on corruption could be initiated and developed by the country's main anti-corruption bodies. The system should enjoy the attention and trust of the public and relevant civil society organizations. Further involvement of the national statistical office (SORS), relevant ministries and experienced research centres, with the support of international and regional organizations, will enable the monitoring mechanism to produce high quality and relevant information for fighting corruption in a more effective manner.

Annex I: Economic context of business corruption in Serbia

The recent economic history of Serbia is closely tied to the progressive economic decline of the former Socialist Federal Republic of Yugoslavia (SFRY). By the time Yugoslavia broke apart in the early 1990s, the economies of the successor states slumped dramatically, there was a collapse in production and employment, widespread scarcities and hyperinflation. Economic recovery returned to Serbia only after 2000, followed by solid economic growth until 2008 (the average annual GDP growth rate from 2001 to 2008 was 4.9 per cent). There have been significant efforts in implementing structural reforms in Serbia, including the privatization of enterprises, liberalizing prices and opening to foreign trade. In 2009, the effects of the global financial and economic crisis led the country into recession. After recovering in 2010, the Serbian economy again contracted in 2012 due to the impact of the second wave of the on-going financial crisis on large parts of Europe. Serbia's GDP growth trends have been very similar to the (weighted) average in the western Balkans over the past five years (Figure 43).

Figure 43 **Percentage change in GDP, Serbia and western Balkan region (2007-2012)**
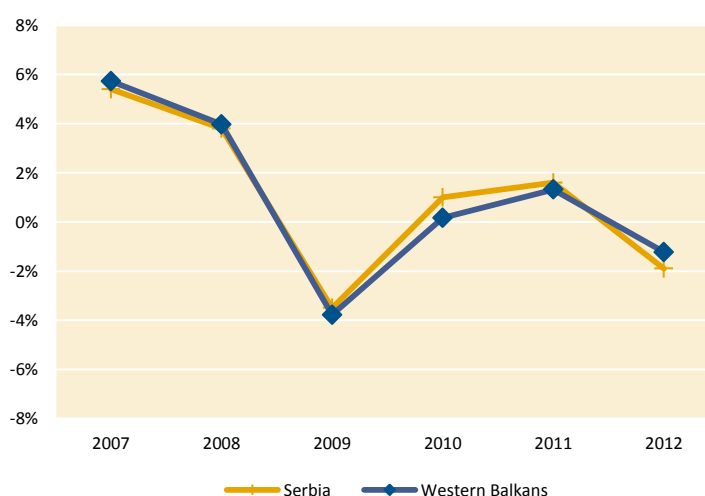
Sources: Eurostat; EU Progress Reports 2012; Vienna Institute for International Economic Studies (WIIW) 2013

There is a strong inverse relationship between employment and unemployment rates in Serbia. Due to the impact of the recent economic crisis, the employment rate decreased by more than 9 percentage points between 2008 and 2011, while the unemployment rate increased from around 13.6 per cent in 2008 to 24 per cent in 2012 (Figure 44).

Figure 44 Rates of employment and unemployment, Serbia (2007-2012)
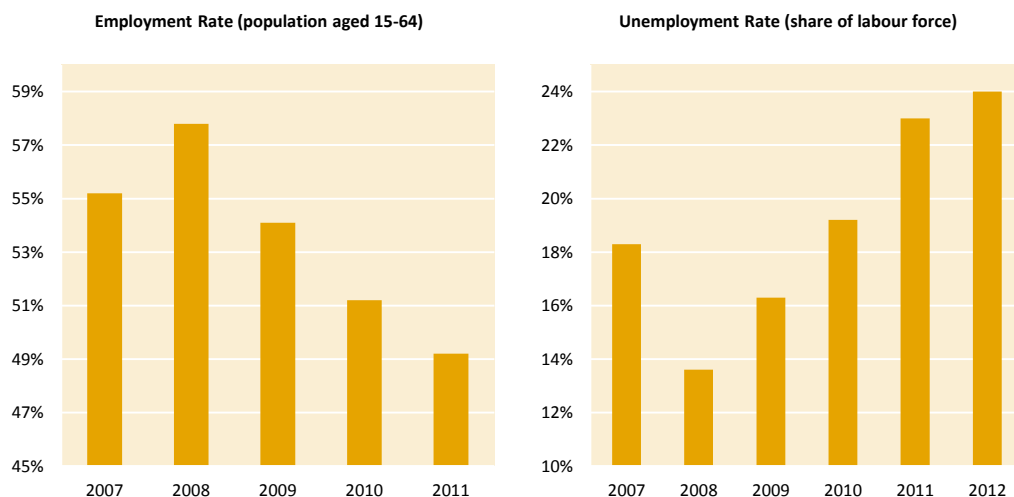
Sources: EU Progress Reports 2012

In terms of economic structure, the majority of the companies in Serbia operate in only five sectors of the economy. Following the "Statistical classification of economic activities in the European Community" (NACE), these five sectors are defined as:

1. Manufacturing, Electricity, Gas, and Water supply[26]

2. Building and Construction[27]

3. Wholesale trade and Retail trade; Repair of motor vehicles and motor cycles[28]

4. Transportation and Storage[29]

5. Accommodation and Food service activities (hotels and restaurants)[30]

The present survey of corruption and crime affecting businesses surveyed only businesses from these five sectors while excluding other economic activities (such as agriculture, education or health services). This choice of economic sectors also ensures broad coverage of the Serbian economy in terms of the value added (percentage of GDP by sector) and employment (percentage of total employees in each sector), as well as the share of businesses covered. The five sectors listed account for 71.1 per cent of all businesses in the country, 48.7 per cent of total employees and 42.7 per cent of the total GVA (defined as GDP net of taxes less subsidies). The rest is distributed among all other economic activities that are typically carried out either by private businesses (such as agriculture, mining, financial activities, real estate activities, professional, scientific or

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[26] For analytical purposes, in this study sections, C, D and E of NACE Rev. 2. have been combined into one sector (Manufacturing, Electricity, Gas, and Water supply). For brevity, this combined group is sometimes referred to as 'Manufacturing' only.
[27] Section F of NACE Rev. 2.
[28] Section G of NACE Rev. 2.
[29] Section H of NACE Rev. 2.
[30] Section I of NACE Rev. 2.

technical activities) or by public institutions (public administration, defence, education, health).

On taking a closer look at the structure of businesses in Serbia (Figure 45), the largest shares are in the Wholesale Trade and Retail Trade; Repair of Motor Vehicles and Motor Cycles sector (29.6 per cent). The Manufacturing, Electricity, Gas, and Water supply sector (17.1 per cent). Smaller shares of businesses are in the Transportation and Storage sector (9.5 per cent), the Building and Construction sector (8.3 per cent) and the Accommodation and Food Service activities (6.8 per cent) sector.

Figure 45 **Relative shares of businesses in the five economic sectors represented in the survey, Serbia (2012)**
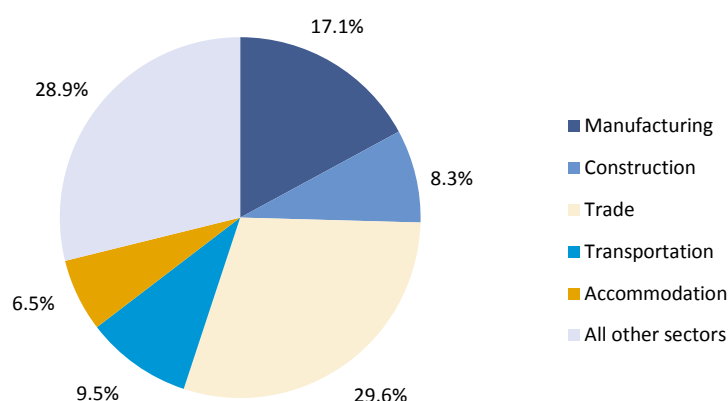
Source: Statistical Office of the Republic of Serbia (SORS)

Another important structural characteristic is that most businesses in Serbia are comparatively small in terms of the number of employees: 92.2 per cent of all registered businesses in the five sectors covered have less than 10 employees, 6.3 per cent have between 10 and 49 employees, 1.29 per cent of all business have between 50 and 249 employees, while only 0.3 per cent of all businesses have more than 250 employees.[31] Despite the preponderance of very small business units, it should be noted that the relative importance of larger companies is far greater in terms of their contribution to GDP and total employment than their share in the number of businesses indicates.

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[31] Statistical Office of the Republic of Serbia (SORS)

Annex II: Methodology

Data presented in this report were collected in a national survey carried out as part of the EU-funded project "Assessment of Corruption and Crime affecting the Business Sector in the Western Balkans". The project involved seven independently administered surveys, which were conducted autonomously by national partners in accordance with jointly developed survey tools and common methodological standards.

A core questionnaire was jointly developed and, after testing in a pilot survey, was adopted by each national partner. All surveys used face-to-face interviews, either PAPI or CAPI, for data collection. Along with the questionnaire, a complete set of common tools was specifically developed for this survey, such as guidelines for interviewers, a codebook and other operational tools for the fieldwork. At all stages, strict statistical standards, including measures for protecting data confidentiality, were followed so as to ensure the highest possible quality of data.

The field work was carried out by Statistical Office of the Republic of Serbia (SORS) between 15 October 2012 and 2 November 2012. SORS organized the training of interviewers and supervised the whole data collection process from first contact to data entry. The net sample size was 1,725 businesses from the five main economic sectors, which together account for 71.1 per cent of all businesses in the country. The sample was stratified by economic sector and four sizes of company (micro, small, medium and large).

The target population included active businesses of all sizes. The sample design used for this survey is a simple stratified random sample. The different strata from which the units were drawn refer to the five main economic sectors according to NACE Rev. 2 (Manufacturing, Electricity, Gas, and Water supply (sectors C, D, E); Building and Construction (sector F); Wholesale trade and Retail trade and Repair of motor vehicles and motor cycles (sector G); Accommodation and food service activities (sector I) and Transportation and storage (sector H)) and from 4 business size categories (micro (1-9 persons employed); small (10-49 persons employed); medium (50-249 persons employed) and large (more than 250 persons employed) companies).

The first rule taken into consideration for the sampling procedure was that a minimum number of 40 business entities (net) per business size and sector were to be selected for

large and medium size businesses. In those sectors, where the number of large business entities (250+ employees) is smaller than 40, all units in the frame were sampled.

In the case of business entities with multiple business local units, the interview was to be addressed to the company's head office and all the questions in the survey referred to the entity's activities at all its business premises. One-man businesses (including self-employed) were generally excluded from the sample except where otherwise indicated.

Regarding the questions on victimization from crime, the five crime types covered in the survey are defined in the survey questions as follows:

1. Burglary: "has anyone broken and entered into any of the premises of your business entity in order to steal something without coming into contact with anyone in the premises (owners, employees or customers)"
2. Vandalism: "has any part of any buildings belonging to your entity, or to equipment, vehicles or stock belonging to your entity at its premises, been deliberately damaged? INCLUDE, for example, damage through force, arson or graffiti. DO NOT INCLUDE any damage as a consequence of other types of crime (e.g. breaking into the premises)";
3. Theft of vehicles: "have any motor vehicles (cars/vans/trucks/buses, or other motor vehicles) owned or leased by your entity, been stolen, when nobody was in the vehicle?"
4. Fraud by outsiders: "has any outsider, such as a customer, distributor or supplier, defrauded the business entity obtaining a financial advantage or causing a loss by implicit or explicit deception (e.g. customers deceive about their willingness to pay the agreed price; distributors and suppliers deceive about the quality or the quantity of goods /services delivered)? (INCLUDE fraud using electronic communication network or information system)"
5. Extortion: "has anyone tried to obtain money or any other benefits from the business entity by threatening and/or intimidating managers and/or employees working for your business entity, including threats to damage property or to damage/contaminate products or by offering informal "protection" against such damages?".

A summary of the characteristics of the survey in Serbia is provided in Table 3

Table 3   Key survey characteristics, Serbia (2012)

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

Annex III: Main indicators

Table 4 **Main indicators by sector, Serbia and Western Balkan region (2012)**

Indicator	Economic sector					
	Manu-facturing	Constru-ction	Trade	Accom-modation	Transpor-tation	Total
Contact rate (Serbia)	51.6%	67.2%	61.9%	54.6%	78.5%	59.7%
Contact rate (western Balkans)	67.0%	72.1%	72.6%	72.5%	76.6%	71.8%
Prevalence of bribery (Serbia)	12.0%	13.3%	18.9%	23.2%		17.0%
Prevalence of bribery (western Balkans)	9.2%	12.2%	10.3%	9.4%		10.2%
Mean size of bribes (Serbia, in RSD)	54,840		60,634	4,176		52,588
Mean size of bribes (Serbia, in EUR-PPP)	975		1,078	74		935
Mean size of bribes (western Balkans in EUR-PPP)	910		1,066	105		881
Prevalence of business-to-business bribery (Serbia)	8.0%	7.3%	6.1%	5.0%		6.6%
Prevalence of business-to-business bribery (Western Balkans)	5.3%	6.2%	3.4%	2.5%		4.0%

Indicator	Economic sector					
	Manu-facturing	Constru-ction	Trade	Accom-modation	Transpor-tation	Total
Prevalence of burglary (Serbia)	12.0%	12.0%	9.7%	6.6%		10.2%
Prevalence of vandalism (Serbia)	11.3%	7.7%	10.1%	3.9%		9.5%
Prevalence of fraud (Serbia)	44.6%	15.7%	39.7%	11.6%		35.5%
Reporting rate of burglary to police (Serbia)	82.5%	81.4%	87.8%	87.2%		85.5%
Reporting rate of vandalism to police (Serbia)	49.8%	30.1%	44.2%	60.8%		45.2%
Reporting rate of fraud to police (Serbia)	7.9%	3.8%	13.8%	9.9%		11.1%
Percentage of businesses that use any kind of security measures (Serbia)	94.8%	89.3%	92.7%	95.6%		93.2%
Percentage of businesses that have an insurance policy against crime (Serbia)	32.2%	33.2%	49.4%	67.1%		44.8%

Note: Prevalence of bribery is calculated as the number of businesses who gave a public official money, a gift or counter favour on at least one occasion in the 12 months prior to the survey, as a percentage of businesses who in the same period had at least one contact with a public official. The annual prevalence rates for fraud by outsiders, burglary and vandalism are respectively calculated as the number of companies experiencing each of these crimes, as a percentage of the total number of companies. Reporting rates for bribery refer to the last bribery experience in the 12 months prior to the survey, reported to official authorities; for other forms of crime, reporting rates refer to the last crime experienced in the past three years and reported to the police. EUR-PPP estimated on the basis of Eurostat.