

# STATE CAPTURE: FROM THEORY TO PILOTING A MEASUREMENT METHODOLOGY

Alexander Stoyanov  
Alexander Gerganov<sup>1</sup>

## Introduction

The objective of this paper is to present a method to measure and quantitatively assess the prevalence of state capture. Such a task would be straightforward, given that there is a definition of state capture that could be broken down into components and subcomponents. Each of the elements would be measured independently and respectively the aggregation of subcomponents would render a quantitative measure of state capture. Defining state capture in the above described way is still work in progress; it would start with defining state capture and aim to describe its mechanisms, forms, outcomes, and effects. The current work is an attempt to address many of these aspects of state capture by developing a definition and a model of state capture that would make its empirical assessment possible.

State capture refers to the emergence of private interests which, in the course of modernization and growth tend to become dominant (in a sector, in the economy or globally) [1]. This domination is either 1) unaddressed by governments as a treat to competition or 2) is government assisted [2] deliberate acquisition of privileged status or monopoly position.

The assessment of this phenomenon is controversial and depends on the dominant perceptions of norm and deviation from the norm embedded in laws and regulations. In the context of the European civilizational model and the Weberian state ideal, the norm suggests that all interests and actors should be regarded equal and no specific privileges should exist. All actors should have equal possibilities to pursue their interest and should be equal before the law. However, privileges and unequal treatment exist for different reasons social, political, related to the national interest, ideological, religious, etc. (Teachout, 2018) The combination between the equality principle and the existence/creation of privileges is the main challenge in the analysis of state capture.

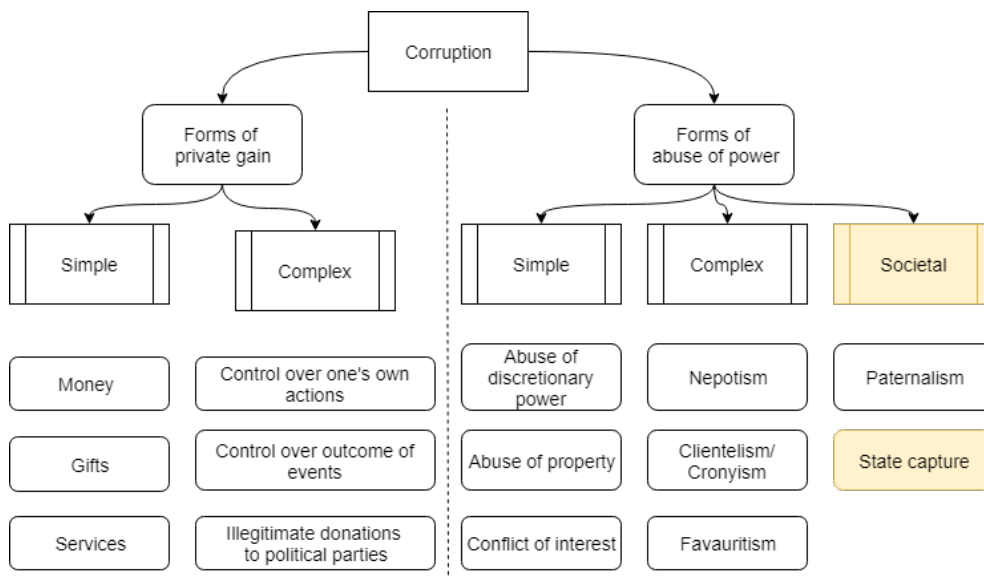
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<sup>1</sup> Alexander Stoyanov, PhD, Assoc. Prof., Department of Economic Sociology, UNWE, email: stoyanov.alex@unwe.bg

Alexander Gerganov, PhD, Assist. Prof., Institute for the Study of Societies and Knowledge at the Bulgarian Academy of Sciences, email: alexander.gerganov@csd.bg

## Assumptions

The analysis of state capture in this paper is based on several theoretical assumptions. First, corruption is interpreted with its most common definition as abuse of power for private gain (Tanzi, 1998). This definition includes two main elements (abuse and gain) which can be used to construct a dual typology of the forms of empirical manifestation of corrupt behaviour (Figure 1)[3]. Numerous combinations between the abuse and gain aspects are theoretically possible and most of them have been empirically observed. The more advanced societies, legal and monetary systems become, the subtler and more complex forms of observed corrupt behaviour become and the less possible it is to exclusively associate corruption with bribery and graft.



**Fig. 1.** Forms and elements of corruption

Second, the wide variety of corruption forms has led to conceptualizing it as an "umbrella concept" encompassing a multitude of phenomena (Varraich, 2014). Each form of corruption has its own specific features, but the common denominator is that all forms represent specific forms of abuse of power for private gain.

Third, based on the adopted classification scheme, state capture could be labelled as a specific and extreme form of corruption (Brooks et al., 2013). In terms of abuse of power, state capture could be classified into the category of "societal" forms of corruption, as it affects/targets societal level governance functions by modifying governance rules in order to facilitate private interest

domination over the public interest. It is labelled as extreme as it is a powerful legally based (impersonal) privatization of governance functions.

Fourth, both corruption in general and state capture in particular present different forms of abuse of power, they are exercise-of-power dependent and are conditioned by the structure of public power in society. Structures of power that are not subject to public control are essentially excluded from the analysis. In such social systems the highest level of power is personalized, the respective ruler/leader "owns" society, is the embodiment of the state, defines the rules, and decides on cases of abuse of power. The mechanisms of this privatization are largely dependent on the existing rules and regulations which in their turn comprise the principles of good governance. The different set-ups of public authority can be located along the continuum "totalitarian regimes – Weberian type democratic societies". One of the extreme scenarios (totalitarian regimes) is a highly hierarchical system of power that is largely self-elected and self-appointed. These types of political regimes do not significantly depend on the public for their own appointment in public positions and have overtaken the right to interpret and represent the interests of the public and the state interest. When public authority is "privatized" its interests "merge" with the interests of society and determine the rules for use and abuse of public power. The higher levels of public authority can in this context never abuse their power because they define how power should be used. Cases of power abuse could only occur at the lower levels of government (the officials of the public administrative system, the bureaucracy). Under this scenario defining and identifying corruption and state capture is not based on "impersonal rules" (laws) but is rather derived based on the political will of the highest level of government.

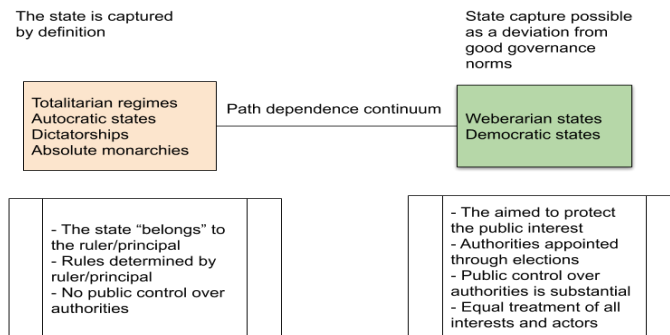


Fig. 2. State capture and political system type (path dependence)

The alternative public power structure would be the ideal model referred to as the Weberian state. In the context of this model, public authority is shaped by the public (political) choice. Government appointments are result of free elections, and the exercise of public authority is based on impersonal rules (laws). The latter set the criteria for the proper functioning of governments and the principles of good governance. A fundamental principle of the Weberian-type state is the uniform application of rules to all citizens. There are no privileged citizens and interests. Such a system of public authority implies the principle that laws themselves should ensure equal treatment of citizens and interests and apply equally to all citizens and interests.

In the context of the Weberian state, the privatization of law making and law enforcement violate the principle of equality. Most corrupt practices (at all levels) are in fact the sale of a privileged treatment that no citizen or private interest is legally entitled to. The result of this type of privatization is that it leads to the creation of legislation biased towards certain groups of citizens or interests, violates the principle of equality and creates privileges. There are, however, complications to the implementation of this principle which often make interpretations of equality problematic:

First, a democratic government is elected in order to implement certain policies. This includes adoption of laws and rules that set priorities and privileges for some interests or citizens at the expense of others. However, through elections (political choice) such privileges are accepted by the public as legitimate. For example, support for motherhood creates privileges for mothers and children at the expense of other groups (access to public resources). The creation of a strong army redirects resources from some sectors and creates privileges for the military and military-industrial complex. Such and other cases of privileges are generally supported by the public and not interpreted as illegitimate actions.

Second, depending on situational factors, the need to define privileges and preferences may change over time. For example, the 2008 financial crisis has forced many governments to intervene and "save" parts of the banking and other sectors under the threat of a general crisis and economic collapse. Situational factors can often be used as an argument to legitimize the creation of privileges and consequently to create rules that benefit specific groups or interests (Carpenter, Moss, 2014).

Third, as most rules and laws are justified based on public needs, the problem often is whether these needs are "real" and or "artificial" (deliberately produced and used as justification). Moreover, in most modern societies, conducting information campaigns in favour of a particular interest or cause is considered a legitimate activity. Eventually, such activities produce new rules, rearrange the public priorities and respectively lead to the creation or revocation of privileges.

Fourth, the legal regulation of lobbying varies substantially across countries. In many countries lobbying is not regulated at all and therefore most lobbying is illegitimate or illegal. In the quoted study by the World Bank (Hellman and Kaufmann, 2001), the paid for involvement of businesses (illegitimately) in the legislative process is the main proxy to the state capture processes. In the period of the survey (end of 1990s), the interests of the emerging private sector in post-communist countries were both important and unknown. Due to the novelty and absence of regulation, especially at the early stages of transformation, it was difficult to clearly distinguish between legitimate and illegitimate consultations of legislators with representatives of the private sector. It is also difficult to determine whether the laws adopted in the period of transition create privileges to protect emerging national private capital or they create prerequisites for cartels, monopolistic structures and restrict competition. It should be noted that the involvement of businesses in the design of rules is often motivated by rent seeking behaviour on behalf of officials and is not a symptom of paid access to "rule making".

Fifth, the primary aspect of most of the definitions of state capture (see below) is the exclusive focus on the rule making process (laws, norms, etc.) as the central element of the state capture process [4]<sup>1</sup>. State capture should not be related (as is often the case) with the concept of political corruption (e.g. corruption involving higher level government officials). In most cases, political corruption is a classic case of abuse of power, rather than an attempt to redesign the legal framework in order to violate the principles of administrative neutrality and equality of interests.

## Definitions of state capture

The specific focus of state capture as a type of abuse of public power is on the shaping of rules [5] that regulate society in general or the economy in particular. Two aspects of this phenomenon are relevant in this respect: the process, the abuse of public power in the process of shaping the rules, i.e. the undue influence of the rule-making process, or, the result (the content of rules), i.e. adoption of rules that violate the public interest and/or are biased in some specific way.

The most often cited state capture definition (Hellman and Kaufmann, 2001) is based on an empirical study by the World Bank in the countries of Eastern Europe (BEPS), and its main finding is that a substantial amount of companies (in post-communist transition countries) admit to have illegitimately contributed funds to members of the legislature in order to influence the design of laws and

<sup>1</sup> The focus of rules displays the interest of captors to achieve systemic or long-term results and not to "limit" the capture to a one-time corruption transaction. For more on systemic corruption see (Rothstein, 2018)

rules regulating different economic sectors. Both the number and the effect of this activity proves significant: companies taking part in the capture process are on average more successful than non-participating market competitors, i.e. state capture is a violation of the rules of public authority (abuse of power) in the process of drafting of the rules/legislation leading to comparative advantages for captors. In terms of identification and measurement the above approach assesses the prevalence of state capture through the instances of "paid participation" in the drafting of rules. The focus is on the state capture process and therefore "paid participation" becomes the proxy for capture.

The creation of special privileges in the economy through legislation has been discussed earlier, e.g. by Stigler (Stigler, 1971) who identifies two interests which coordinate the formation of special privileges in the economy. First, the interest of businesses to control the market environment in order to discourage undesirable competition, which is labelled as "demand" for regulations. Secondly, the interest of the public authorities, or the "supply" of regulations, which are based on two fundamental motives. On the one hand, there is the need for the legislator to account for various interests; this would eventually bring political benefits as well as possibilities to deliver on promises to voters. On the other hand, there is the individual greed and desire to benefit by providing services to specific people, groups or interests.

To date, definitions and contents of state capture as a phenomenon has been described in several similar and/or overlapping ways:

Type of abuse of power/ interaction	Definition/interpretation
Government-private sector Design of rules/laws	"... shaping the formation of the basic rules of the game (i.e. laws rules, decrees and regulations) through illicit and non-transparent private payments to public officials." (Hellman and Kaufmann, 2001)
Government-political parties-private sector Design of rules/laws, legal environment, policies and the economy	"... companies, institutions or powerful individuals use corruption such as the buying of laws, amendments, decrees or sentences, as well as illegal contributions to political parties and candidates, to influence and shape a country's policy, legal environment and economy to their own interests." (Martini, 2014)

<p>Government-private sector Design of rules/laws and other government sources. Capture of one state by another state</p>	<p>"State capture then, is seen as a form of grand corruption, which involves the actions of individuals, groups or firms, both in the public and private sectors, that are able to influence the formation of laws, regulations, decrees and other government sources to their own advantage, as a result of the illicit and non-transparent provisions of private benefits to public officials. ... We suggest that while this description is sufficient for explaining post-communist transitional economies, it is insufficient in identifying and examining the complex interplay of state capture in democratic western states, and the capture of another state by a western state." (Brooks et al., 2013)</p>
<p>Government-private sector (corporate state capture) and parties-government (party state capture) Design of laws/rules Parties politicize the state to achieve political monopoly</p>	<p>"... The argument advanced here is that the region is peculiarly vulnerable to two modes of state capture: party state capture and corporate state capture. In the former, parties re-politicize the state in pursuit of political monopoly. In the latter, public power is exercised primarily for private gain, and private interests pay to subvert the legitimate channels of political influence (Hellman et al., 2000, pp. 2–3). While it is plausible that both modes could operate together, the evidence suggests two surprisingly clear clusters of central European states around a dominant mode, with some relatively non-corrupted systems facing vivid attempts to re-monopolize the values and allegiance of the state (for example, Hungary, Poland) and the more corrupted systems showing a clear and consistent prioritization of the extraction of financial value (for example, in the Czech Republic, Bulgaria). (Innes, 2014)</p>
<p>Network of companies and official colluding at the expense of the public good</p>	<p>... "a distinct network structure in which corrupt actors cluster around parts of the state allowing them to act collectively in pursuance of their private goals to the detriment of the public good." (Fazekas and Toth, 2014)</p>

Existing definitions are relatively simple, but not particularly effective, if state capture is to be identified and measured. Its main elements are the captor (the actor who makes an illegitimate payment in exchange for representation of his interests in the regulations), public officials (most often these are representatives of the executive and/or legislative authorities who develop and adopt the respective biased regulations), privileges/benefits (the privileges and benefits for the captor from the implemented regulation) and disadvantages (the forms of losses for every other social actors appearing as a result of the implementation of a biased regulation). The application of the described definitions leads to several more significant conclusions on the nature of the phenomenon of state capture:

- The ultimate effect of a state capture (conceptualised as an illegitimate influence on the adoption of regulations and laws) is the existence of laws and regulations that violate two basic principles: the neutral attitude of the administration towards individuals, groups and interests in society when implementing public authority, and that of equality of individuals and interests in society (absence of privileges). Violation of these rules creates differential privileges that favour individuals and interests through the laws at the expense of others.
- The principles of neutrality and equity are under constant threat from the governing politicians, as they are by definition chosen to protect certain interests and priorities. Their election pledges include changing priorities and favouring particular interests. In this sense, violation of the principles of equality and neutrality goes through the filter of legitimacy – some violations are publicly supported (elections) and others are not. That is why the creation of biased regulations can be both legitimate and illegitimate.
- The legitimacy of protection through regulations of an interest or a group is changing over time. Lobbying and advocacy contribute to changes and it is often difficult to assess whether certain regulations reflect legitimate or illegitimate influences.
- The focus on the capture process (illicit payments to officials) is in most cases perceived as the main indicator for the existence of capture. The lack of empirical evidence makes the identification of cases of capture difficult and contradictory.

### **Extended definition of state capture**

Successful identification of state capture can lead to disclosing both problematic sectors and actors who have illegitimate relative advantages and privileges, as well as regulations that generate such advantages and privileges. Respectively, if political will exists, the problem could be analyzed and resolved. There are several dimensions along which the existing definition of state capture could be operationalized:

**Type and number of actors involved.** Existing descriptions of the phenomenon show that state capture cannot in principle be a mass phenomenon. This concerns the number of captors and, respectively, the privileges they hold. The essence of privileges is that they favour the interests of few at the expense of the interests of the rest of society. It is not possible for privileges to be a mass phenomenon, as this contradicts the idea of privilege. Captors can be analysed based on their activity or the characteristics of the sector in which they operate. In this respect a major capture target is the business sector. A captor in the business



sector is an actor who can has comparative advantages in the sectors in which he operates in two main ways:

- Protection from competition and the possibility of achieving a dominant market position through regulatory preferences. This also includes a possible legally-based possibility of cartels and other similar agreements that lead to market dominance and comparative advantages.

- Ensuring privileged access to public resources (public procurement, concessions, structural funds, land for construction, land and forests, etc.) through rules that reduce competition and provide privileged access.

**Administrative environment.** Many elements of the process of state capture are more or less illegitimate and/or inadmissible. In an environment characterized by the rule of law, a low level of administrative corruption and media freedom, achieving state capture would be very difficult or impossible. In the model of state capture developed in the present analysis, these elements are referred to as environmental enablers, as they are factors conducive to the process of capture (Figure 2).

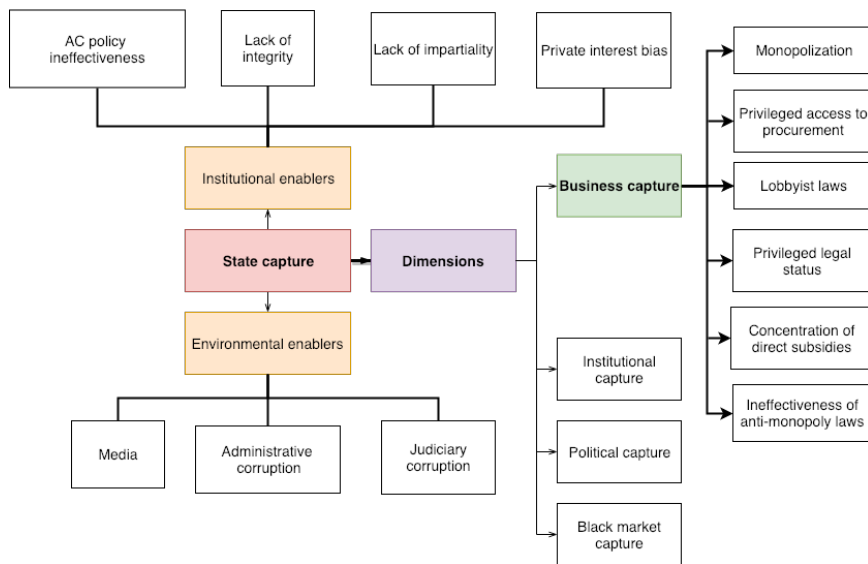
**Reverse capture.** Together with the traditional understanding of the state's capture by non-state actors, Yakovlev notes that, for example, a reverse process can be observed in Russia (Yakovlev, 2006). The consolidation of bureaucracy (after the initial period of transformation) raises interests among the public authorities to use their power to control or capture the business sector: groups of public officials use their powers to acquire business assets. In fact, this is a modified "reverse" form of early post-communist administration's involvement in the privatization of state assets. It should be noted that the situation in Russia described by Yakovlev exposes the possibility for public sector employees to play an active role: a number of authors (Нончев, 2017) note the possibility of informal groups of employees in different public organizations merging into a network that provides "multidimensional" corrupt services to private individuals, thereby playing the role of mediator in the capture processes (Jancsics and Jávor, 2012).

**Virtual privatization of public organizations.** Another specific case observed is when the high levels of administrative corruption in a public organization actually leads to the corrupt privatization of this public organization by its employees. In this situation, public sector employees sell their services to the public, while the employees deviating from corrupt relations are eliminated, and the organization itself starts formulating its objectives on the basis of the interests of its employees rather than on the basis of the public interest. In some post-communist countries, an example of such a public organization is the traffic police. The inability to deal with the capture of the organization by its employees has led to radical reforms. For example, such a decision was made by the government in Georgia which closed down parts of its police force and recruited new staff.

**Institutional enablers.** The functional characteristics listed above operate as institutional enablers or disablers/inhibitors of corruption transactions. In this

respect the unfavourable status of environmental and institutional enablers is a factor enabling the operation of state capture mechanisms. The experience in transition societies shows that the privileged status of the captors can be achieved not only by influencing the regulations but also by influencing the implementation of the regulations. Using environmental and institutional enablers, some captors have been able to build mechanisms which practically make them exempt from public scrutiny. Such mechanisms include a web of connections to the executive and the judiciary which are able to block most attempts for public control and rule of law interventions. The term most often used for this type of captors is oligarchs. Their specific modes of operation have been described in numerous analyses which detail the modes of connection of businesses to public power (Magyar, 2016).

The above considerations show that the functional nature of the capture process – the acquisition of privileged status in a given public sector – can be achieved not only by impacting the adopted regulations and rules but also through other mechanisms. Therefore, at a general level, state capture could be described as virtual long-term privatization of the state functions which ensures a systemic privilege for captors. Depending on who the captors are (business, government officials, parties, politicians, etc.) capture could include combinations of multiple base mechanisms: particularistic modification of the legal environment, particularistic law enforcement and implementation of regulations/rules, particularistic access to public resources, asymmetric control over media and the functioning of the financial sector, particularistic political control over domestic and foreign policy, development plans and others.



**Fig. 3.** Elements of the state capture model

## State capture dimensions and strategies

The dimensions of state capture can be defined on the basis of the specifics of actors playing the role of captors. In principle, this role can be played by many actors, but the most of the analysed cases of state capture narrow this circle to businesses, institutional actors, politicians and representatives of the criminal world [6]<sup>1</sup>. The forms of state capture are respectively business capture, institutional capture, political capture and black-market capture:

Business capture	The active side (captors) are business entities which use different forms of corruption to influence legislation affecting the business sector and other social areas and the implementation of legislation and rules in order to acquire a privileged status.
Institutional capture	The active side are state institutions and/or political networks/parties. Typically captured are business structures which ensure kickbacks after being provided with contract assignments (procurement or other) by institutional actors. The incentive for captors is the appropriation of corruption rents. The incentive for the captured business structures is part of the corruption rent and their eventual privileged position in a given market.
Political capture	The active sides are groups of politicians who establish close relationships to ensure party donations from sources of funds (mainly business entities) in exchange for future access to public funds and law making. Political capture would show symptoms very similar to clientelism and party favouritism and could be measured through traditional methods, for example based on analyses of the parties financing, etc. The three main subcomponents of political capture are clientelism, procurement capture and media capture.
Black economy capture	The active side are typically organized crime groups who capture state institutions (typically the judiciary, but also the executive) in order to secure systematic violations of the law and regulations for conducting black sector activities (on a large scale) and launder the profits.

In general, four types of state capture strategies seem most common: clientelism, predation, fusion and exploitation (Grzymala-Busse, 2008). They differ in the mechanisms used for obtaining control over the state. They are also heavily influenced by the initial conditions, as exemplified in the case of SEE countries. In Bulgaria and Romania, which belonged to the former Soviet bloc, state capture has been characterised by the transformation of political into economic power through the process of privatisation, and the use of the state resources through public procurement and concessions to strengthen monopoly positions. In the countries of the Western Balkans, this process has been heavily

<sup>1</sup> This refers to one of the most often discussed forms of capture and not to all possible forms of state capture. The latter are, of course, numerous.

influenced by ethnic divisions and the newly emerging nation states. Political leaders riding on guaranteed ethnic support and on their role in the process of re-starting nation building have leveraged their support to monopolise (state) economic resources.

**The final result of the capture is the achievement of a privileged status** that allows the captor to extract benefits, which he/she is not legally entitled to and that are usually at the expense of others and/or society as a whole. The problem of the empirical identification and assessment of the processes of state capture are mainly hampered by the fact that the processes that produce it are secretive, concealed and most often untraceable. Therefore, the empirical assessment can be based mainly on the results of state capture, combined with the status of the environmental and institutional enablers. The existence of processes of state capture in this sense is occurring when there are essential signs of its results (privileged actors in a given sector). In this sense, the empirical assessment of capture can help the outline of the areas in which capture processes are in place.

It should be noted that the specific identification of the captors in a sector cannot be achieved through research methods but would rather be the result of investigations carried out by competent control authorities. Naturally, at the beginning of any such investigation is the issue (discussed above) of whether the privileged status of certain actors is legitimate or "natural" or is the result of corrupt activities.

### **Empirical identification and assessment of business capture**

Based on the major features of the state capture process, the main empirical business capture model used in this analysis includes three basic components:

**Institutional enablers.** They characterise the institutional environment in which the business operates, in terms of its capacity to provide neutrality of the administration and equality among the participants in the economy. The impact of these factors concerns all participants in the specific sector of the economy and in that sense the values of particular indicators are set to be measured on a sectoral level. This also translates to the fact that the empirical assessments refer to the public authorities that are related to the particular sector (it has to be kept in mind that some public authorities affect all sectors, such as the tax and customs authorities).

The enablers of state capture refer to institutions and processes that produce an environment which is favourable to state capture processes. These elements of the environment cannot be directly linked to state capture as a whole or to specific state capture forms but enhance or reinforce most state capture mechanisms. Unfavourable values/status of these processes make the organizations vulnerable to different corruption influences and create favourable conditions for the

realization of state capture mechanisms. In this respect the expectation with regard to the empirical findings is that high business capture pressure would be correlated to unfavourable institutional environment characteristics.

Direct capture enabling statuses/situations in the organizations explored include:

- Effectiveness of anticorruption policies in the organizations;
- Integrity of the organizations;
- Impartiality in the decision-making process (to specific interest and/or cases) in the organization;
- Existence (or lack of) bias towards private interests.

**Environment enablers** refer to the status of various processes in society that favor or inhibit corruption transactions. These are vital aspects of societal functioning that could enhance or inhibit state capture mechanisms and include:

- Level of media freedom or media independence;
- Overall level of administrative corruption in the country;
- Level of corruption in the judiciary and law enforcement in general.

The effect of environment enablers is similar to the effect of institutional enablers: unfavourable statuses enhance state capture processes. The essential difference however is, that the main components of environment enablers operate and can only be assessed empirically at the national level.

**Business capture.** This is one of the most common forms of state capture (Dassah, 2018). Moreover, the potential for its identification and empirical assessment is comparatively greater than in other fields due to objective information on the various economic sectors.

The natural outcome of business state capture is market concentration which can be measured directly with the Herfindahl-Hirschman Index (HHI) (Miller, 1982) or other established instruments for market concentration measurement. Estimates should be made at the sectoral level with different economic sectors having different weight when determining the risk of business capture. There are some caveats to such an approach. Firstly, it could be argued that some companies/corporations have established their monopoly legitimately – through innovative and superior product/service/business model. To account for such a possibility, anti-monopoly laws or policies in the diagnosed state should be assessed/monitored for their effectiveness. A combination of high market concentration in key economic sectors (energy, construction, transport, agriculture, etc.) and ineffective anti-monopoly laws/policies/bodies would be a very strong indicator of the presence of business capture. Secondly, market concentration analyses could be sometimes misled by having a set of companies which appear to be independent, but are connected and operating as an entity for the purposes of the captor, hidden behind them (Wallis, 2004). The presence of such structures is by

itself a very strong predictor of business capture and could be discovered with the appropriate network analyses.

Regarding business capture, privileged actors (captors) usually obtain (though corruption) undue multiple advantages with respect to society and the market, and manage to extract rents because their captor status enables them to:

- Acquire monopoly status in a given sector;
- Effectively counter attempts to limit their market power;
- Have privileged access to public resources and effectively block attempts to be deprived of this privilege;
- To ensure legal advantages by modification of rules and legislation;
- To control media and influence public opinion;
- Block investigations or court proceeding against their actions or business.

Two regional case studies in the Middle East and in Central and Eastern Europe exemplify the vulnerability of countries in transition to state capture pressures. Although most of the countries in the two regions have made some progress in adopting formal democratic and market economy institutions, these are still seen as functioning in a particularistic manner (benefiting some at the expense of all), rather than following universalistic principles of public goods provision (Stoyanov et al., 2014). The accumulation of social injustices has made people resort to vertical accountability measures in the form of street protests, as mechanisms for horizontal accountability between institutions have failed to provide good governance (Diamond, 2019).

### **The assessment model**

The empirically based diagnostics of state capture would help measure and assess at least the following aspects of this phenomenon:

- Existence of capture and its relative impact in a given sector (what part of the sector is captured based on turnover in the sector)
- Identification of public sector units that have been captured and to what extent
- Estimated loss or damage for the economy and the society from the observed level of state capture.

The direct measurement of the prevalence of state capture is, however, difficult or rather close to impossible due to the hidden character of capture relations. It could hardly be expected for captors or the captured to report or share information on any aspect of the capture process. Therefore, it seems quite obvious that the identification and measurement of the state capture process using research methods is rather impossible. To achieve such an objective, investigative techniques should be employed (Školka, 2018). This would mean access to confidential, hidden or secret information, specific investigative

resources and methodologies, etc. Regarding the potential of empirically based research diagnostics of state capture, its heuristic value is mainly in identifying the probable spheres or sectors where state capture processes are likely to evolve or are already in operation. Respectively which elements of these processes are manifested with greater intensity and which sectors appear most vulnerable to state capture.

Vulnerability assessments do not show which sectors/spheres have been captured and how these sectors have been captured, but rather which the high vulnerability sectors are. Therefore, state capture research instruments are primarily vulnerability identification and diagnostics **tools** which show where attention should be directed. All subsequent analytic and investigative work fully depends on existing institutional and political capacity and will.

The concrete state capture assessment methodology used focuses exclusively on business capture and is based on a model which is slightly simpler than the base model, elaborated above. The simpler model features three level one indicators of state capture: institutional enablers, environmental enablers, business capture elements. The interpretation of the model is straightforward: state capture processes likely exist if the values of the indicators for each level one concept are high and/or unfavourable. Indicators (and respectively the processes they measure) tend to reinforce each other. Dynamically, unfavourable statuses in one dimension (level one concept) would be expected to have a negative impact on values in the other dimensions.

**Institutional enablers.** This group of indicators characterize the institutional environment in which businesses in a specific sector operate with respect to the ability of the environment to ensure the neutrality of the administration and equal opportunities for each economic actor. These factors affect all actors in a sector and therefore their values should be measured at the sector level. This would mean that assessments refer to public organizations which have an operational mandate to regulate businesses in a specific sector. Some organizations, however, regulate all sectors and businesses (e.g. tax administration, customs, etc.)

The enablers of state capture pertain to institutions and processes that produce an environment which is favourable to state capture processes. These elements of the environment cannot be directly linked to state capture as a whole or to specific state capture forms but enhance or reinforce most state capture mechanisms. Unfavourable values/status of these processes make the organizations vulnerable to different corruption influences and create favourable conditions for the realization of state capture mechanisms. In this respect the expectation for the empirical findings is that high business capture pressure would be correlated to unfavourable institutional environment characteristics. Direct capture enabling statuses/situations in organizations explored include:

- Effectiveness of anticorruption policies in the organizations;

- Integrity of the organizations;
- Impartiality in the decision-making process (to specific interest and/or cases) in the organization;
- Existence (or lack) of bias towards private interests.

**Environment enablers** refer to the status of various processes in society that favour or inhibit corruption transactions or mechanisms and include:

- Level of media freedom or media independence;
- Overall level of administrative corruption in the country;
- Level of corruption in the judiciary and law enforcement in general.

The effect of environment enablers is similar to the effect of institutional enablers: unfavourable statuses enhance state capture processes. The main difference, however, is that the main components of environment enablers operate and can only be assessed empirically at the national level.

**Business capture.** Business capture elements have been constructed to reflect those elements of the business sector environment which would have unfavourable statuses if capture processes exist or are evolving. Existence or absence of these elements would prove existence or absence of state capture processes. The business capture dimension is defined by a classical state capture scenario: the captors are business entities which use different forms of corruption in order to:

- influence law makers to adopt favourable legislation which enhances its market position (biased legislation);
- prevent the relevant government agencies from interfering in cases of established market concentration of different forms;
- achieve long-term dominant position on the procurement market in its sector not through innovation and competition but through wholesale corruption deals (usually high-level corruption);
- accumulate illegitimate government assistance through concentration of direct subsidies or other forms of direct government assistance.

Business captors could use some or all the mechanisms listed above to achieve and retain dominant position in key economic sectors. Successful business capture eventually leads to high market concentration and/or privileged local players. The latter are as a rule not established internationally or innovative and/or efficient companies, i.e. their dominant position has not been achieved through normal market mechanisms. Antitrust laws and state regulations are supposed to prevent monopolization and promote competition; however, these laws and regulations are typically fictitious or ineffective in a business capture environment or even can be used as tools to facilitate the goals of captors.

The business capture dimension is measured as a combination of high monopolization pressure and ineffective antimonopoly laws. Monopolization pressure is used as the primary indicator. However, under some scenarios it could



be argued that high market concentration is a result of market success. Therefore the effectiveness of antimonopoly laws should also be evaluated. A scenario with high monopolization pressure and ineffective antimonopoly laws would strongly suggest business capture.

Effectiveness of the anti-monopoly laws should yield practical results. State capture sometimes can exist within a perfect legal framework which could be even used by captors to their business advantage. Therefore, the instrument measuring this component should differentiate between implementability, implementation (formal and real) and effectiveness of a policy/law and should be able to estimate all of these adequately.

### **The assessment diagnostic instrument**

The main instrument used for the state capture assessment diagnostics is a survey of experts and government officials implemented in the five pilot countries. At least 20 public officials and 20 experts are required to participate for a country estimate. Unlike typical instruments relying on experts' assessments, the instrument uses a large pool of both external experts and acting public officials who can participate in the assessment process with only one restriction – they have to be familiar with some of the regulatory and control bodies in the country. Different views and opinions are represented through the large sample and the high-pressure areas are those where the different expert opinions converge. Discrepancies between public officials and external experts contribute to yet another level of analysis. The diagnostic instrument is developed specifically for assessment of some of the less visible dimensions and enablers of state capture and consists of two groups of questions/ indicators:

The first group of indicators focuses on public organizations regulating and/or controlling the market. These organizations are assessed in terms of integrity, impartiality, tendency to serve the public or on the contrary – demonstrating private interest bias, and the effectiveness of their anti-corruption policies.

The second group of indicators focusses on the assessment of economic sectors. Initially a very thorough list of NACE rev.2 economic sectors is provided to the experts who select those of the sectors for which they have reasons to suspect the existence of a monopoly/ oligopoly / cartel in the sector. The list covers more than 40 of the sectors with the highest turnover in the country or sectors which have been proved to be high risk in many countries (like gambling and waste treatment for example). If a sector is assessed as monopolized, additional questions regarding the potential risks in this sector are asked. Finally, experts assess the quality of rules and regulations in each of the sectors in the context of their anti-monopoly effectiveness.

The information about the environmental enablers indicators is collected from external sources which measure the respective indicators (media freedom and rule of law indexes).

**Judiciary corruption** assessment is based on several key indicators from the Rule of Law index, presented in the table below. The Judiciary corruption score is computed as the average of the five components. Media corruption is assessed as the average of two media freedom indexes (World Press Freedom Index by Reporters without Borders [7] and Freedom of the Press Index by Freedom House [8]) and two key components of the Media Pluralism Monitor by CMPF [9].

Overall the instrument includes three levels of operationalization of indicators (Table 1) and combines data obtained from the assessment instrument as well as data from external sources.

**Table 1.** Measured concepts, indicators and sources of information of MACPI State Capture

Level one concept	Business capture	Level three indicators [10]
Level two indicators	Assessed monopolization pressure (national level)	Assessed level of monopolization of sectors at the country level
		Sector turnover in national economy (% of operating turnover in sector)
	Sector level assessments of monopolization (for sectors with high levels of assessed monopolization)	A specific company or a small number of companies win too many public tenders
		Laws provide illegitimate competitive advantage
		Selective application of control and/or sanctions
		Concentration of public funds in the sector (euro funds, direct subsidies, etc.)
	Ineffectiveness of antimonopoly laws	Laws regulating the sector help/hinder/not related to the formation of monopolistic, oligopolistic or cartel structures
Level one concept	Institutional enablers	Level three indicators
Level two indicators	Lack of Integrity	Activities are not transparent
		Not accountable for its actions

		No checks and balances
	Lack of Impartiality	Often serves private interests
		Would never sanction certain people/ firms
		Its rules of operation are violated often
	Private Interest Bias	
	Ineffectiveness of anti- corruption policies	Estimated External Corruption Pressure
		Estimated Pressure from Above
		Estimated Involvement in Corruption
<b>Level one concept</b>	<b>Environmental enablers</b>	<b>Level three indicators</b>
<b>Level two indicators</b>	Media corruption	World Press Freedom Index Freedom of the Press Media Pluralism Monitor: Market Plurality Media Pluralism Monitor: Political Independence
	Administrative corruption	CMS survey of CSD and Eurobarometer data
	Judiciary corruption	Rule of Law indicator: 7.3. No corruption Rule of Law indicator: 7.4. No improper government influence Rule of Law indicator: 2.2. No corruption in the judiciary Rule of Law indicator: 8.5. No corruption Rule of Law indicator: 8.6. No improper gov. influence

As noted, an important element of the assessment is the evaluation of public organizations (institutions) which regulate a certain sector or are relevant to this sector. These evaluations are matched with the sectors evaluated at the stage of data processing in order to assess vulnerabilities that apply to a specific sector. Implementing this principle for different countries, however, has been troublesome as national regulations differ and are implemented by different "sets" of public organizations. The approach adopted to address this specific problem has been to structure public organizations by function and match assessments by function. This ensures proper comparability of data across countries.

## **Pilot test results and their empirical validation**

The values of all indicators are presented in a scale of 0 to 100, where the most favourable value is 0 and the most unfavourable – 100. All primary (level three) indicators are percentages and the combined level-two indicators (e.g. Table 2 below) are a simple average of the percentages of their corresponding sub indicators. All data from external sources were normalized to match the 0-100 range with once again the most favourable value being 0 and the most unfavourable – 100.

The concept of business capture is measured through a combined indicator called business state capture pressure, while the different groups of enablers (institutional and environmental) are combined into an aggregate indicator called "state capture enablers". These two main outputs of the state capture measurement methodology provide a rough overall estimate of the situation in each country. As becomes evident in Table 2, the lowest summary assessment of state capture enablers is that of the Czech Republic (27), followed by Spain (28) and Italy (30). The difference between these three countries with respect to enablers of state capture is very small and the conclusion that they have a similar state capture vulnerability level is relatively straightforward. Business state capture pressure for these three countries is also relatively similar with again Czech Republic presenting the lowest score (12) followed by Spain (15), and Italy (17).

The second group of countries in the pilot study is that of Romania and Bulgaria which have overall state capture enabling scores of respectively 38 and 41. This shows that the two countries have a similar capture vulnerability which is larger than in the first group of countries. The business state capture pressure overall indicator also puts Bulgaria at the top with 26, followed by Romania with 21.

While the overall scores for the enablers and business capture rank the countries very consistently, there are some important differences in the level-two indicators. For example, Spain's score is much lower than all other countries when it comes to administrative corruption (despite being assessed worse than Czech Republic in all summary indicators). These differences complement the overall country scores with more precise estimates of where potential vulnerabilities might occur. This can guide more detailed micro-analyses as well as adequate policy responses addressing concrete vulnerabilities in the particular country.

**Table 2.** Summary results for State capture vulnerability and State capture pressure

Indicator	Bulgaria	Italy	Czech Republic	Romania	Spain
<b>Business State Capture Pressure (average)</b>	<b>26</b>	<b>17</b>	<b>12</b>	<b>21</b>	<b>15</b>
Assessed monopolization pressure	27	13	7	22	13
Ineffectiveness of antimonopoly laws	25	23	20	21	19
<b>State capture enablers (average)</b>	<b>41</b>	<b>30</b>	<b>27</b>	<b>38</b>	<b>28</b>
Institutional enablers (average)	42	35	31	43	33
Lack of Integrity	44	38	44	38	54
Lack of Impartiality	39	40	30	44	32
Private Interest Bias	27	10	12	33	9
Ineffectiveness of Anti-corruption Policies	57	53	36	56	38
Environmental enablers (average)	41	24	24	33	23
Media corruption	51	37	39	48	36
Administrative corruption	16	10	13	18	2
Judiciary corruption	55	24	19	33	29

The institutional enabling measurement was tested through factor analysis to see if empirical data supports the theoretical model and if the different primary (level-three) components are internally consistent in forming the level-two indicators as predicted in the model. The four second level institutional enabling indicators (Lack of Integrity, Lack of Impartiality, Private Interest Bias, and Ineffectiveness of Anti-corruption Policies) were included in a factor analysis using the combined data from all five countries where the instrument was piloted.

From a theoretical perspective, Lack of Integrity, Lack of Impartiality and Ineffectiveness of Anti-Corruption Policies are based on three level three indicators each (see Table 1). As explained in detail in the previous sections, each of the three indicators reflect different potential vulnerabilities or governmental gaps which could enable one or more state capture aspects. Private Interest Bias is a separate "stand-alone" indicator which describes state-capture-like actions from public authorities which are symptomatic for the presence of actual state capture (institutional or business).

This theoretical structure was tested empirically in the following factor analysis. Data from the pilot testing of the instrument in five countries were merged in a single file with experts' answers for different institutions treated as separate data points [11]. This led to 1605 different institutional assessments from all five countries.

Factor analysis was performed on the 10 level three indicators using SPSS software. Principle axis factoring was used as the extraction method. Fixed number of factors (four) was used as an extraction criterion and Varimax rotation was performed. The rotated solution is presented below.

**Table 3.** Factor analysis of 10 primary institutional enabling indicators

Rotated Factor Matrix	Factor 1	Factor 2	Factor 3	Factor 4
Often serves private interests	.744	.317		
Its rules of operation are violated often	.743			
Would never sanction certain people/ firms		.406		
Estimated Involvement in Corruption	.550	.419		
Estimated Pressure from Above	.369	.667		
Estimated External Corruption Pressure		.665		
Activities are not transparent	.396	.360	.307	
Not accountable for its actions			.575	
No checks and balances			.484	
Private interest bias	.452			

*Extraction Method: Principal Axis Factoring. Rotation Method: Varimax with Kaiser Normalization.*

The expected factor structure is marked with grey in the corresponding cells. For the purposes of the current empirical validation, factor loadings above 0.7 are considered to be good, loadings between 0.55 and 0.7 are considered fair and between 0.3 and 0.55 are treated as low. Coefficients below 0.3 are not shown or considered for interpretation.

The factor analysis shows that empirical results deviate slightly from the theoretical assumptions. The strongest first factor can be matched to "Lack of Impartiality" and it indeed consists of "Often serves private interests" and "Its rules of operation are violated often" ("good" loadings above 0.7). "Would never sanction certain people/firms" is not well correlated with this factor, but since

its highest coefficient with Factor 2 is also low (0.41), the theoretically derived structure of the Lack of Impartiality indicator could be preserved.

The second factor is formed by "Estimated Pressure from Above" and "Estimated External Corruption Pressure" with fair factor loadings (0.67 for both) and therefore matches the theoretically formulated "Ineffectiveness of Anti-Corruption Policies". "Estimated Involvement in Corruption" has low correlation with both this factor and "Lack of Impartiality". While its loading with Lack of Impartiality is slightly larger (0.55), it should remain in "Ineffectiveness of Anti-Corruption Policies" (loading 0.42) based on the theoretical arguments and better overall clarity of the indicators structure.

The third factor consists of "Not accountable for its actions" (loading 0.58 which is considered "fair") and "No checks and balances" (0.48 – low correlation). This factor while not very well-formed still matches the "Lack of Integrity" level two indicator. "Activities are not transparent" has low correlation with factors one to three, so for clarity and theoretical purposes it can remain as part of factor 3: "Lack of Integrity".

Finally, "Private interest bias" has low correlation only with Lack of Impartiality which is somewhat logical given that it also addresses problems with the Impartiality of the organization. Private interest bias however is directly derived from the question: "Q57C In your opinion, how effective is the control and punitive activity of the following organizations?" with one of the answers treated as 1 and all other answers as 0. The answer which defines "Private interest bias" is "The control and the imposition of sanctions are done selectively, and the choice of whom to control / sanction follows private interests" – actions which are strongly associated with state-capture-like behaviour.

Another empirical test was performed to check for possible bias in the answers of public officials. It was assumed based on results from previous studies showing "institutional bias" of employees' answers (e.g. (Stoyanov et al., 2015) that external experts will be more critical in their assessments than public officials. This hypothesis was supported strongly by the pilot results – the percentage of experts from the two group who gave a state-capture contributing assessment for each of the primary (level-three) indicators is presented below.

**Table 4.** Differences in the assessments by public officials and external experts.

	Public officials	External experts	Difference
Estimated external corruption pressure	56%	69%	12%*
Estimated pressure from above	47%	65%	18%*
Estimated involvement in corruption	23%	43%	20%*
Often serves private interests	21%	40%	19%*

Would never sanction certain people/firms	51%	75%	24%*
Its rules of operation are violated often	19%	30%	10%*
Activities are not transparent	41%	62%	22%*
Not accountable for its actions	28%	41%	13%*
No checks and balances	36%	43%	7%*
Private interest bias	12%	25%	13%*

*\* all differences between the two groups are statistically significant at  $p < 0.05$*

While systematic bias like the one above is usually considered a methodological issue, here it was expected and left intentionally as a separate level of analysis – the larger the differences between the assessments of experts and public officials, the larger the gap or vulnerability in a particular country, indicator or assessed organization. Larger assessment gaps between internal and external experts demonstrate clearly that real problems are rather concealed than admitted and addressed properly which is the worst possible scenario with respect to state capture.

## Conclusion

The overall conclusions based on the empirical testing of the proposed state capture assessment methodology show that the model is theoretically consistent and can be used to further explore the state capture phenomenon. Another pilot test finding is that state capture processes, especially the business capture segment, should be explored at the sectoral level where more concrete hypotheses could be tested and supplemented with the qualitative data (anecdotal evidence). What has been difficult to evaluate directly are the "normal" and "deviant" threshold values levels of indicators. This is mainly due to the lack of extensive use of the methodology and respectively larger scale comparisons within national economies and between the economies of different countries.

In terms of practical applications, what follows directly from the state capture assessment measurements is the need to follow up the analysis of sectors with legal analysis, and, eventually direct investigations. However, as argued in the paper, such executive and legislative follow ups are heavily dependent on the existing political will and national priorities.



## Notes

[1] Two papers are especially important when attempting to describe the phenomena which delineate scope and characteristics of state capture – the publications of G. Stigler (Stigler, 1971) on the one hand, and Hellman, Kaufmann and Jones (Hellman and Kaufmann, 2001), on the other.

[2] Most often through intense lobbying, adoption of legislation granting specific privileges, declaring emergencies that need to be addressed by specific actors, legislation to protect the national capital and businesses, etc.

[3] For other types of decomposition of the elements of corruption see also: (Vargas-Hernández, 2009) (Vargas-Hernández, J., 2009. *The Multiple Faces of Corruption: Typology, Forms and Levels*).

[4] The focus of rules displays the interest of captors to achieve systemic or long-term results and not to "limit" the capture to a one-time corruption transaction. For more on systemic corruption see (Rothstein, 2018).

[5] The term "rules" is used throughout the paper to denote to law, decrees, executive orders, etc., i.e. all formal/legal documents produced by the executive, the legislative and the judiciary to regulate activities and behavior in all sectors of society.

[6] This refers to one of the most often discussed forms of capture and not to all possible forms of state capture. The latter are, of course, numerous.

[7] <https://rsf.org/en/ranking>

[8] <https://freedomhouse.org/report/freedom-press/2017/romania>

[9] <http://cmpf.eui.eu/media-pluralism-monitor/mpm-2016-results/>

[10] Indicators and questions are formulated negatively in order to make interpretation of values easier – the higher the value, the more unfavorable the status of the respective capture aspect is.

[11] If an expert assesses more than one public organization, each assessed organization is added as a separate row in the data file.

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## **STATE CAPTURE: FROM THEORY TO PILOTING A MEASUREMENT METHODOLOGY**

### **Abstract**

The objective of this paper is to present a method to measure and quantitatively assess the prevalence of state capture. This phenomenon refers to the emergence of private interests which, in the course of modernization and growth tend to become dominant (in a sector, in the economy or globally). The assessment of this phenomenon is controversial and depends on the dominant perceptions of norm and deviation from the norm embedded in laws and regulations. In the context of the European civilizational model, and the Weberian state ideal, the norm postulates that all interests and actors should be regarded equal and no specific privileges should exist. The paper is based on the idea that the functional nature of the capture process (the acquisition of privileged status) can be achieved not only by influencing the adoption of regulations and rules but also through other mechanisms. At a general level, state capture could be described as virtual privatization of the state functions which ensures a systemic privilege for captors. Depending on who the captors are (business, government officials, parties, politicians, etc.) capture could include combinations of multiple base mechanisms. The concrete state capture assessment methodology used focuses exclusively on business capture and includes three groups indicators of state capture: business capture pressure assessment, institutional enablers, environmental enablers. This theoretical structure has been tested using factor analysis. Pilot test data from five countries have been merged to produce 1605 different institutional assessments. The factor analysis generally confirms the initial theoretical assumptions about the structure of indicators necessary to assess state capture vulnerabilities.

**Key words:** Corruption, Corruption definitions, State capture, Forms of corruption, Abuse of Power, Collective actor

**JEL:** A14, A13, H11, K42