



Corruption and tax evasion in public construction - Results from an inquiry in Finland

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Minsk, 18.4.2017

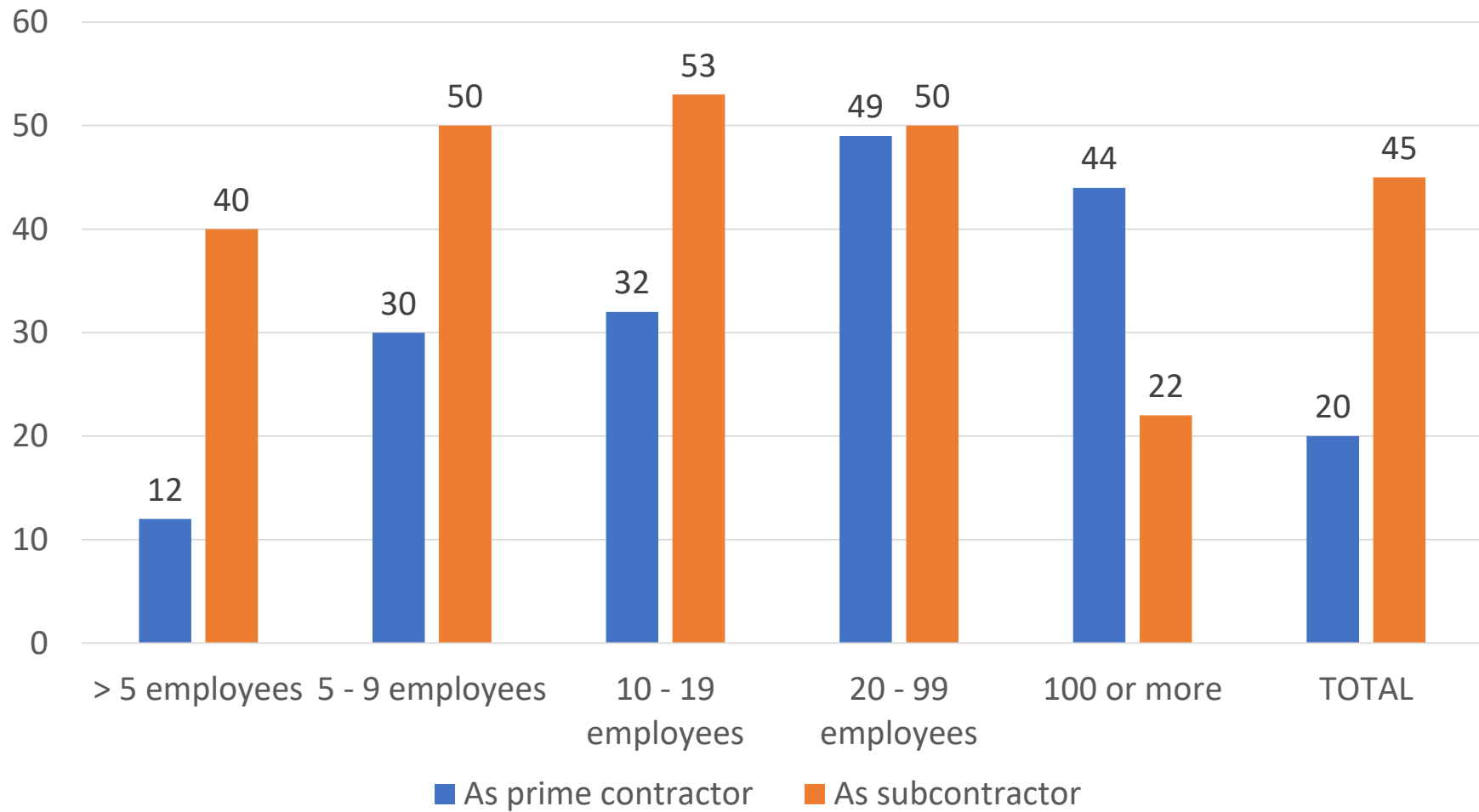
Data

- Net-based inquiry to enterprises affiliated to *Suomen Tilaajavastuu Oy*, a firm founded for the data delivery of contractors' liability.
- The questions of the form were produced by me, Erkki Laukkanen, and Sami Sinisalo, product manager of Suomen Tilaajavastuu Oy.
- The sample was weighted according size of enterprises in the real population. The form was open to reactions for one weeks time.
- From 1476 firms we received 527 answers to 20 questions and arguments, distributed on a Likert-type scale.

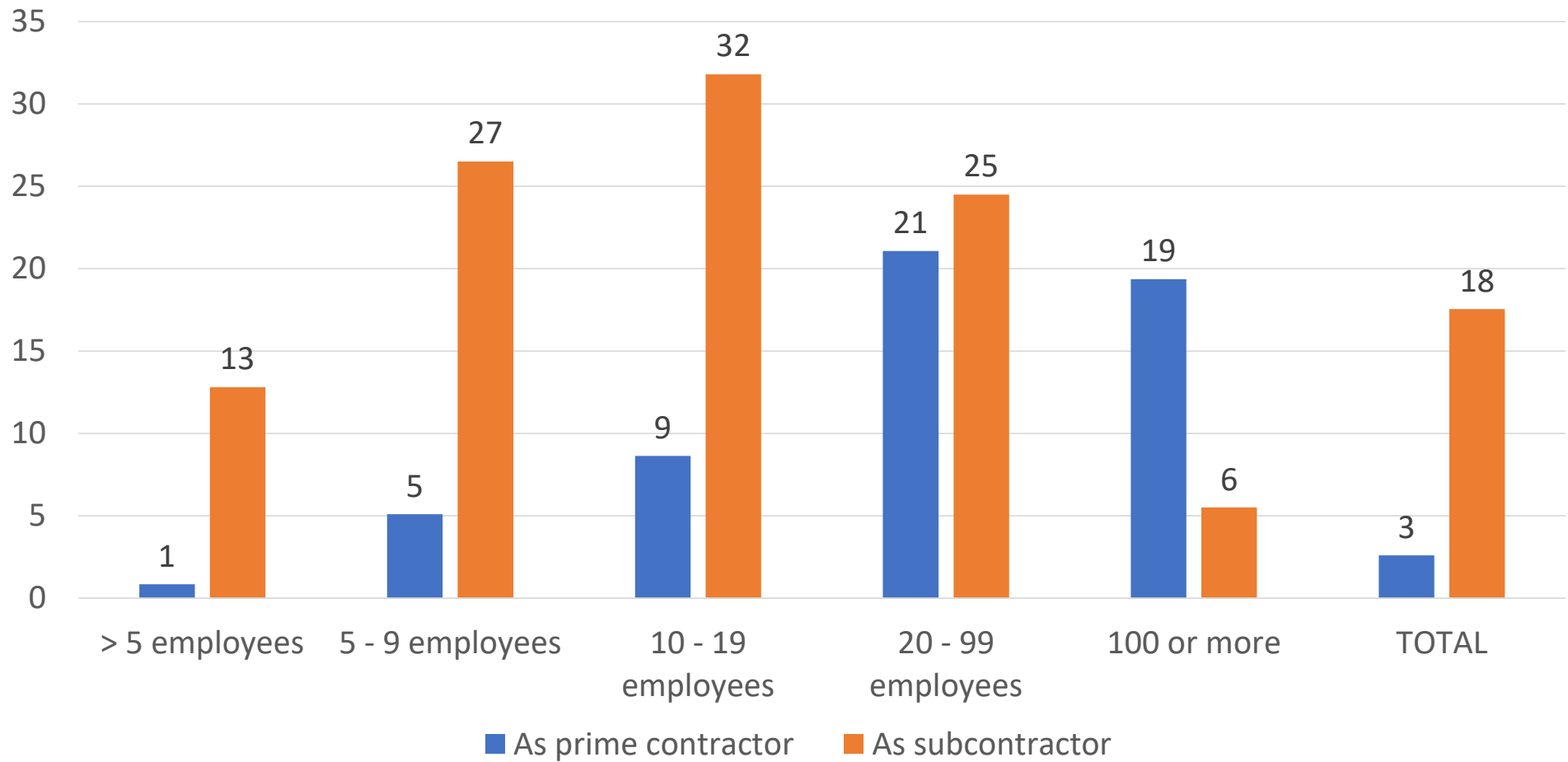
Background

- Most firms have experience in public procurement. During the last 2 years,
 - 80 % had participated in public tenders as main contractor, 55 % as subcontractor.
 - 13 % had contracted as main contractor, 39 % as subcontractor.
- When it comes to problems to be discussed here,
 - 13 % found corruption as a major problem (37 %, no problems).
 - 14 found tax evasion as major problem (39 %, no problems).
 - 9 % found undeclared domestic labour as major problem (58 %, no problems).
 - 33 % found undeclared foreign labour as major problem (21 %, no problems).
- When it comes to firm size and contractor position,
 - Small firms and subcontractors report more problems.

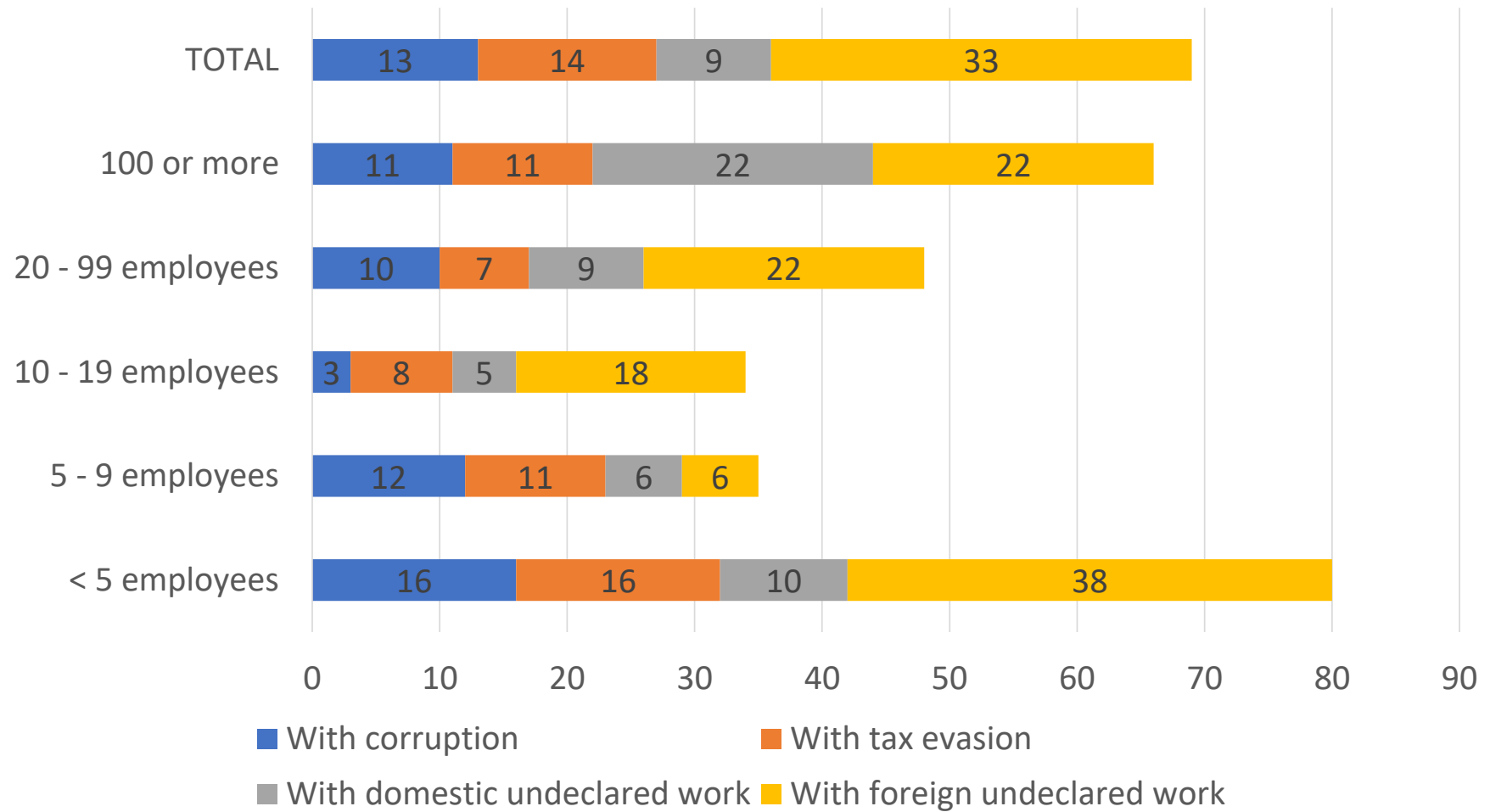
Tenders by firm size in last 2 years, %



Contracts from tenders by firm size, %

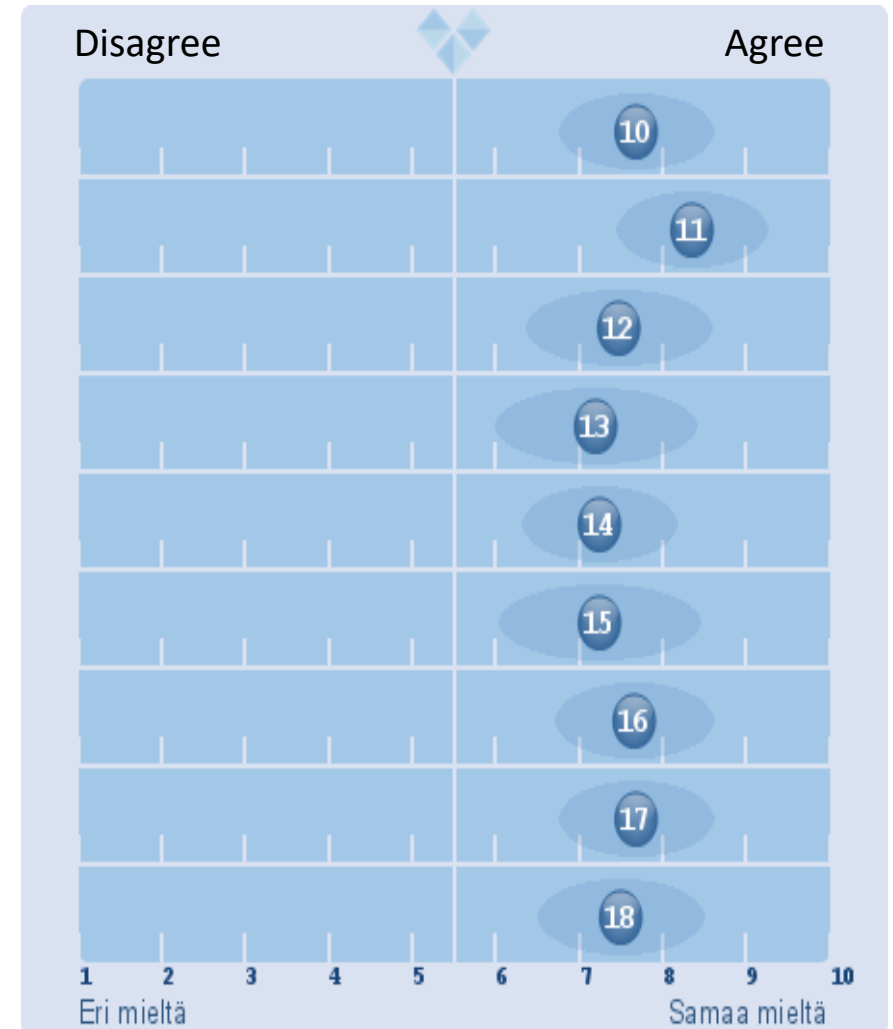


Serious problems by firm size, %



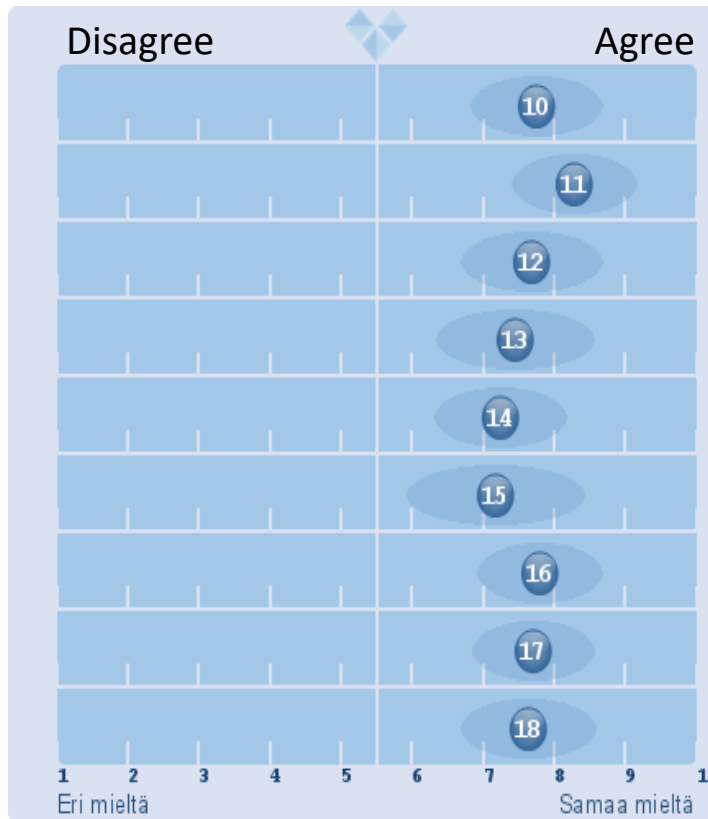
What should be done?

10. Big international firms can submit lower bids because of their lighter real taxation.
11. Communal procurement units should have register-based means for checking the tendering firms compliance with their societal obligations.
12. It should be possible to restrict ex post invoicing beyond what originally was agreed in the phase of competitive tendering.
13. There is need for a public net-based contract register, containing all relevant information.
14. The needed regulation already exists. Therefore, the focus should be in correcting the faults still existing in the implementation of the existing regulation.
15. Long subcontracting chains as such create a problem, and they should be shortened.
16. Competitive dialogue restricts transparency of tendering and often leads to a consultant-dominated tendering process.
17. Restricting malpractice calls for better whistleblower protection.
18. Whistleblower protection as such is not enough. A law-enforced reporting channel, giving protection for those who are reported too, is needed.

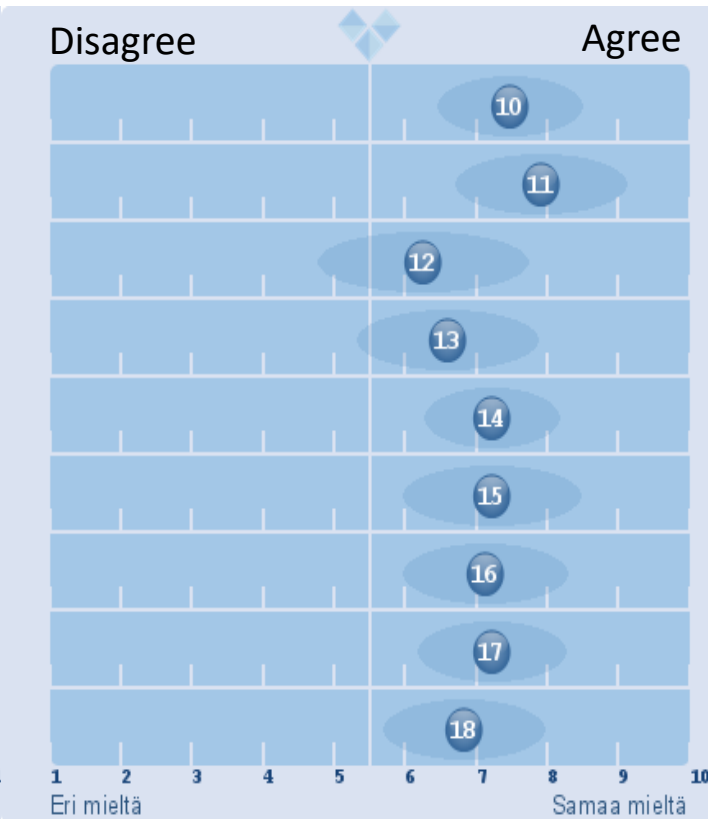


According to firm size

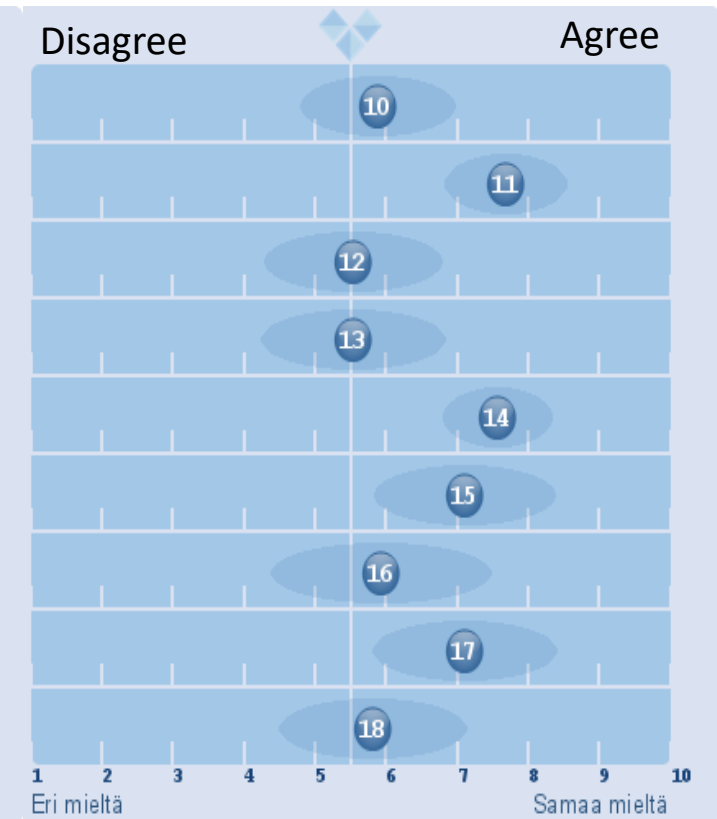
Less than 5 employees



10-19 employees



100 or more employees



Some tentative conclusions

- Corruption and tax evasion exist in Finland too.
- Small firms and subcontractors report more problems, mostly connected to use of foreign undeclared work. They also see more need to counteraction.
- All in all, the most supported suggestions are as follows:
 - Better means for checking the tendering firms compliance with their societal obligations, restrictions to tax avoidance schemes (utilised by big international firms), better whistleblower protection and restrictions to so called competitive dialogue.
- The bigger the firms are, the less they support
 - restrictions to ex post invoicing, net-based contract register, restrictions to so called competitive dialogue and law-enforced reporting channel for whistleblowing.