

In the Balkans, investors operate within a devil's circle

*Promoting entrepreneurship is often viewed as a key component for generating growth in the transition economies of eastern Europe. **Tim Vorley** and **Nick Williams** write that tackling corruption has an important role in this process. Drawing on recent research in Bulgaria and Romania, they assess the challenges posed by corruption for entrepreneurs in the region, noting that the issue must be understood and tackled effectively if entrepreneurship is to have a positive and productive impact on national economies. Currently, investors cannot break out of a 'devil's circle' in which they are forced to engage in corrupt practices themselves, if they are to get anything done.*



In many transition and post-conflict environments, the nature of corruption is systemic and permeates many spheres of everyday life. It ranges from petty bureaucratic corruption to more organised corruption in the upper echelons of big business and politics, and undermines productivity and governance. For entrepreneurs trying to establish themselves across the Balkans, corruption has become an aspect of their business activities that needs to be considered and managed if they are to survive, let alone grow.



Since corruption is an everyday feature of the economic landscape, our research has found that it is factored into the decision making and business planning of entrepreneurs in much the same way as paying tax. It is regarded as inevitable rather than extraordinary or unusual. In many respects the expectation of corruption enables entrepreneurs to be prepared, a notion that would be alien to the average entrepreneur in the UK. However the prospect and practice of corruption is something that needs to be understood, as well as better understanding the implications for the individual entrepreneur and wider socio-economic impacts.

Constraining growth

Beyond being faced with the prospect of petty corruption, our recent research found that for many entrepreneurs looking to grow their business described how they often came to face a choice. They either become the subject of corruption or engaged in corrupt activities themselves. This situation either sees the entrepreneur experience the cost of corruption to their business or perpetuate corrupt practices which incurs costs to society. In both cases there are implications for economic productivity and growth, and often the illicit nature of corruption increase the prospect of further negative socio-economic externalities.

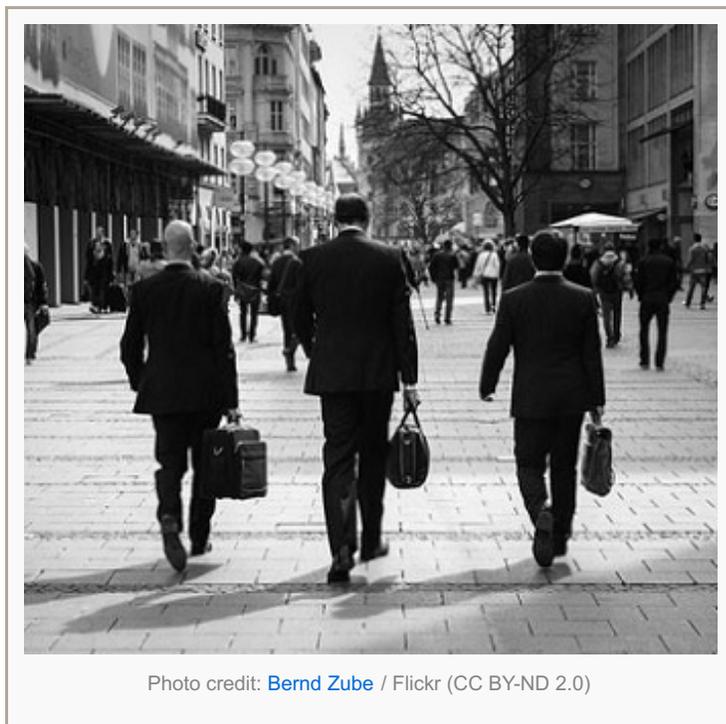


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The direct impacts and costs of corruption affect both the individual and wider economy of entrepreneurship led growth. However, another consequence of corruption is curtailing the growth ambition of entrepreneurs, as they actively seek to stay small so as not to encounter and actively avoid corruption. Compounding the impact of corruption, if entrepreneurs limit their ambition to grow, this in turn serves to constrain the prospect of entrepreneurial-led economic growth. In a [recent study](#) in Romania and Bulgaria we referred to this phenomenon as the *devil's circle* where entrepreneurs are unable to entirely escape from corruption, and the impact of corruption or

the prospect of corruption deters entrepreneurs from growing their businesses.

Understanding the *devil's circle*

We conceptualise the devil's circle as follows (figure 1). The pursuit of entrepreneurial activity, whose size is per se constrained by the devil's circle, is inevitably going to lead entrepreneurs to become subjects of corruption or to be embroiled in corruption themselves. The larger the size of their activity, the bigger the risk entrepreneurs are exposed to. As the business grows, there is also the involvement of a larger variety of actors: especially in Bulgaria, there is a tendency among more established businessmen to bully up-and-coming competitors or to try to overtake their business at a knock-down price, often with the help of complacent government officials.

These dynamics act as an incentive to keep the businesses small, and the whole system is underpinned by an institutional environment which stimulates informalities, not least because of excessively bureaucratic and cumbersome procedures (though it has to be noted that there has been some – though insufficient – progress in both countries on the legislative front). The perception that such practices are 'mainstream' further normalises them and makes them appear as inescapable.

Figure 1. Dynamics of the devil's circle: curtailing entrepreneurial scale and perpetuating corruption.

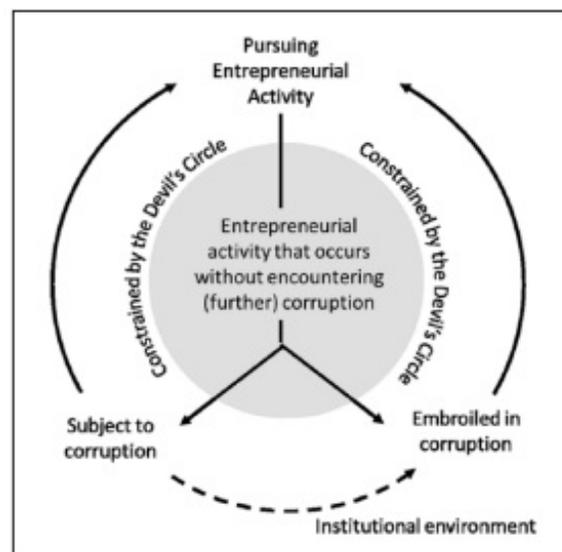
The main variation we find between the two countries is that small-scale bribery is much more common in Romania, whereas Bulgarian entrepreneurs keep experiencing consistent problems with large-scale organised crime. Part of the reason of this lies in the speed of reforms: while Romania was able to enact reforms more quickly, favouring a larger number of small-scale entrepreneurial activity, Bulgaria's reform process has been much slower.

Becoming entrepreneurial economies

Following the downfall of socialism in the Balkans, governments were slow to recognise the potential of entrepreneurship, instead privileging large employers and inward investment. However, the wider entrepreneurial turn which has captivated the global economy has gradually begun to gain traction with governments across the Balkans. That said, and despite public policy rhetoric extolling the virtues of entrepreneurship, little progress has been made in developing the conditions to foster more productive entrepreneurial activity.

Like other countries looking to leverage entrepreneurship for economic development, many Balkan governments have embarked on structural reform programmes of regulatory institutions (in part due to EU accession requirements). However the reality has meant that the design of policies and programmes, as well as their implementation, are often not one and the same thing. Coupled with this, the weak enterprise culture across the Balkans, which is symptomatic of former centrally planned economies, still serves to hinder entrepreneurs, and often sees them stereotyped as criminal or deviant.

Arguably if entrepreneurship is to become a driver of economic development in the Balkans then there is a need to break the devil's circle. The seemingly all-pervasive nature of corruption is undermining any prospect of entrepreneurial-led growth, and reinforces the negative perceptions of entrepreneurs (rightly so in some instances). Perhaps more concerning is that the effect of the devil's circle is constraining entrepreneurial ambition in the societies that need it most, as entrepreneurs seek to avoid corruption.



An entrepreneurial future?

Balkan economies are not devoid of entrepreneurship; however, the environment is not currently conducive for the pursuit of entrepreneurial activity. Consequently, entrepreneurship has not yet proved to be the much needed driver of economic development in the Balkans. It will require more than promoting entrepreneurship for this to change; what is needed is a substantive political commitment to eradicate corruption. However the very nature of corruption, often at the highest levels, has meant this commitment has been slow to come. Yet without confronting the corruption that entrepreneurs encounter and societies perceive, it is unlikely that entrepreneurship will be realised as a driver of change.

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