



GOVERNANCE AND ANTI-CORRUPTION (GAC) IN PUBLIC PROCUREMENT

Public Procurement Forum

*Issyk-kul, Kyrgyz Republic
April 21-24, 2009*





WHY IS GAC IMPORTANT FOR PROCUREMENT

- ❑ Poor Governance Leads to Inefficient Use and Mismanagement of Public Funds and Higher Project Cost
- ❑ Direct Impact on Country's Economy (on Average 15-20% of GDP is Spent on Public Procurement)
- ❑ GAC is Part of World Bank's Development Agenda to Build Country Systems and its Capacity





GOVERNANCE AND CORRUPTION NOT THE SAME THING!

- ❑ **Good Governance** translates into more effective use of public resources to deliver quality services
- ❑ **Corruption** is the use of public office for private gain

- ❑ *Corruption is an outcome – a consequence of weak or bad governance*
- ❑ *Poor delivery of services and weak investment climate are other outcomes of bad governance*





GOVERNANCE IN PROCUREMENT

- ❑ **PROCESS SIDE** — Country Has Sound Financial Management & Procurement Systems, Financial Management & Procurement Laws, Regulations, Policies and Procedures
- ❑ **INSTITUTIONAL SIDE** — Strong Capacity, Transparency and Accountability of Institutions that Implement and Exercise Procurement Authority and Strong Public Financial Management





CORRUPTION IN PROCUREMENT

- General Definition: “Corruption is Use of Public Activity for Private Gains”
- WB Definitions of Fraud and Corruption are provided in the following documents:
 - WB Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (October 15, 2006)
 - WB Guidelines on Procurement Under IBRD Loans and IDA Credits (May 2004, Revised October 2006)
 - WB Guidelines on Selection and Employment of Consultants by WB Borrowers (May 2004, Revised October 2006)
 - WB Standard Bidding Documents and RFP





WB F&C DEFINITIONS

- ❑ **Corrupt practices:** the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party
- ❑ **Fraudulent practices:** any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation
- ❑ **Collusive practices:** an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party
- ❑ **Coercive practices:** impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party
- ❑ **Obstructive practices:** (i) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigators, or (ii) acts intended to materially impede the exercise of the Bank's contractual rights of audit or access to information





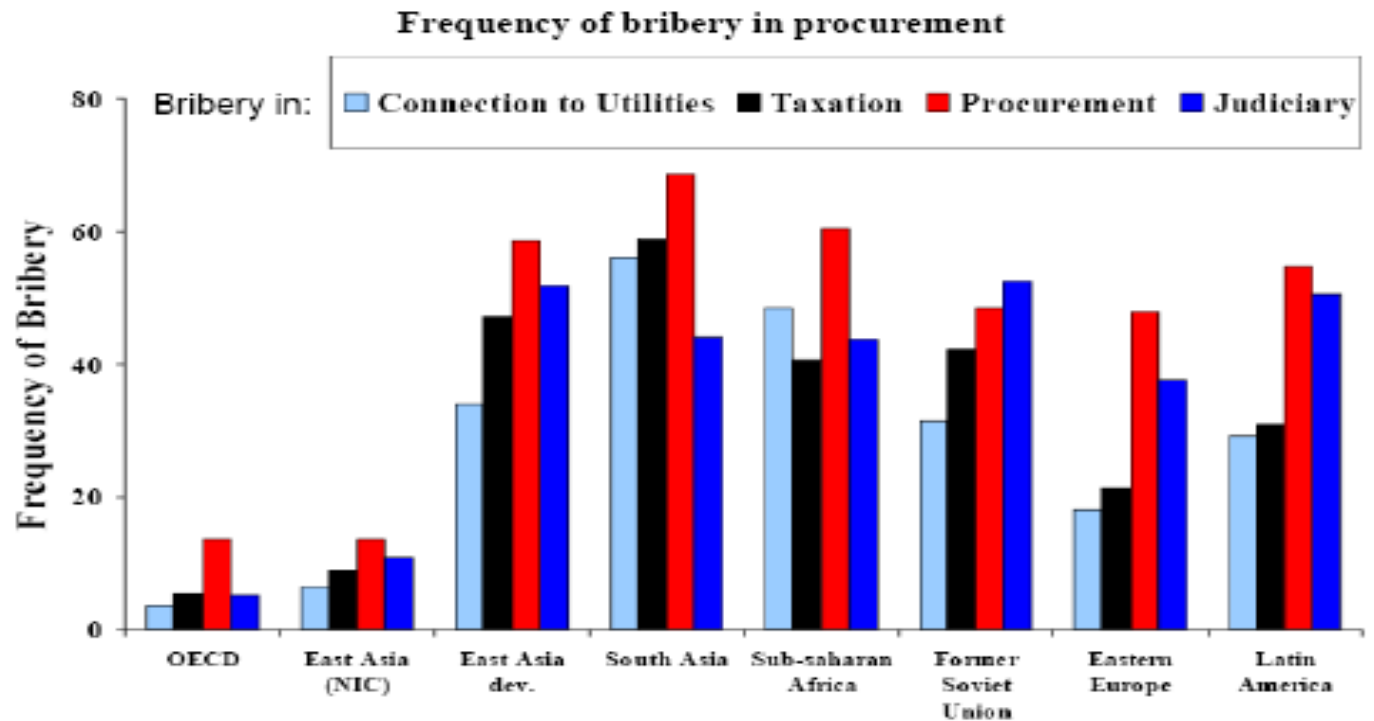
CORRUPTION IN PROCUREMENT

- ❑ Public Procurement is the Most Vulnerable Government Activity Prone to Corruption
- ❑ Frequency of Bribery in Procurement is high



CORRUPTION IN PROCUREMENT

Public Procurement has been identified as the government activity most vulnerable to corruption (OECD 2007)



Source: Kaufmann, World Bank (2006), based on Executive Opinion Survey 2005 of the World Economic Forum covering 117 countries. Question posed to the firm was: In your industry, how commonly firms make undocumented extra payments or bribes connected with permits / utilities / taxation / awarding of public contracts / judiciary?

INTEGRITY IN PUBLIC PROCUREMENT: GOOD PRACTICE FROM A TO Z - ISBN-978-92-64-02750-3 © OECD 2007





SOME WB DIAGNOSTIC TOOLS

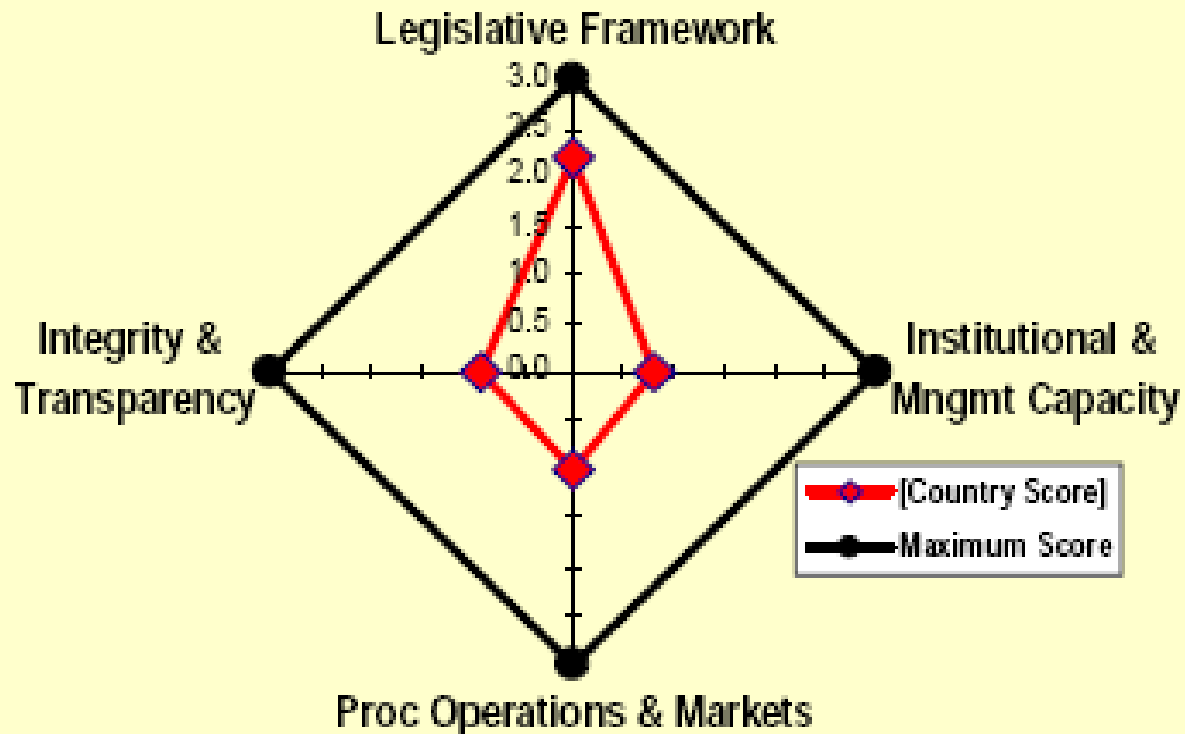
- ❑ CPAR (Procurement) and CFAA (Financial Management) Assessments at Country Level
- ❑ OECD/DAC “Methodology for Assessment of National Procurement System” – Version 4, July 17, 2006
- ❑ WB Board Approved Tool For Piloting Use of Country System Based on OECD/DAC Benchmark at Country and Project Level
- ❑ PEFA Assessment at Country Level
- ❑ Joint Fiduciary Assessments at Sector and Project Level
- ❑ Capacity Assessment at Project Level





OECD/DAC BENCHMARKING

A Typical Performance Score Chart





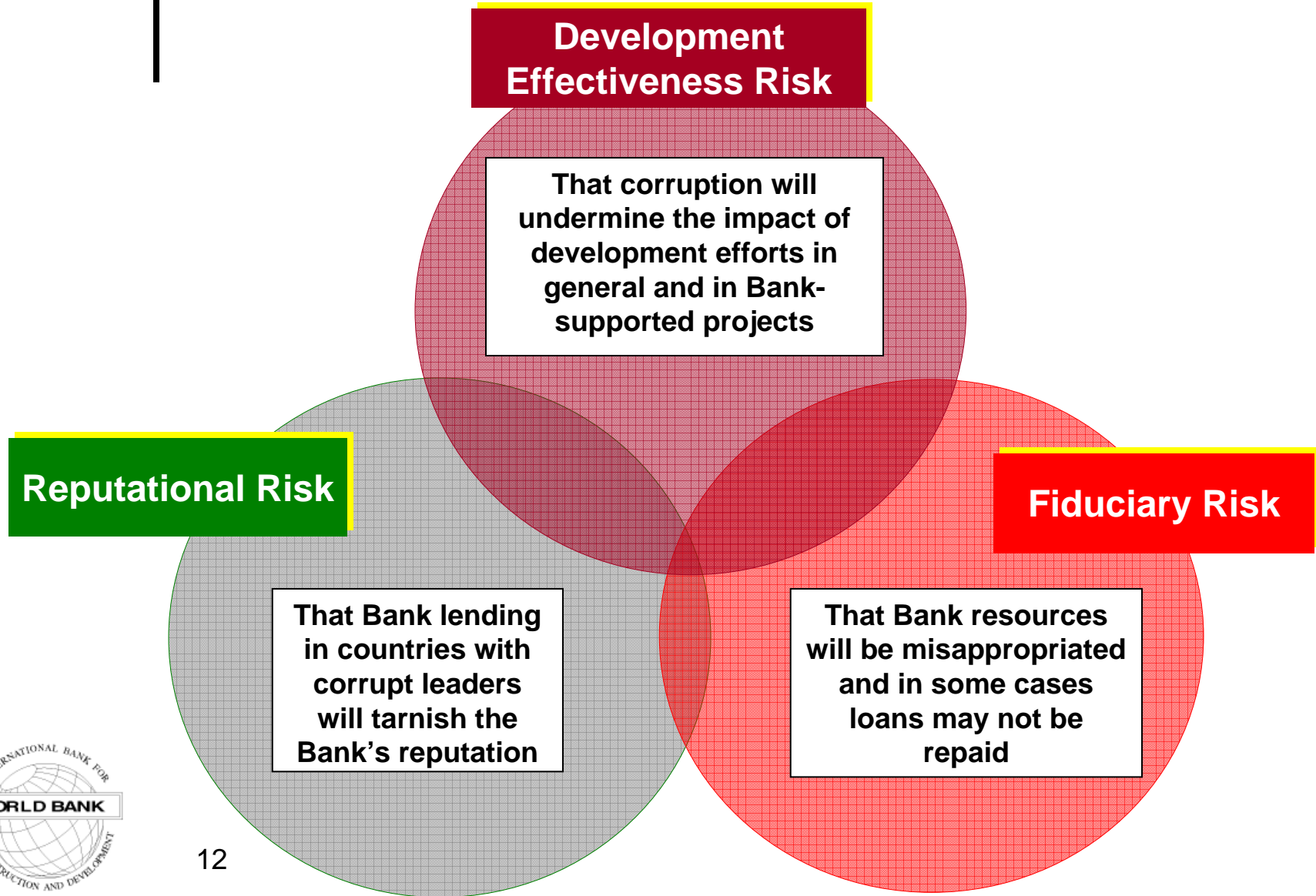
THE WORLD BANK'S FIDUCIARY RESPONSIBILITY

- ❑ Borrowers are responsible for the proper use of World Bank funds... **BUT:**
- ❑ WB is required to make arrangements to ensure that the proceeds of any loan/credit/grant are used only for the purposes for which the loan was granted... **THUS:**
- ❑ WB and its staff have a fiduciary responsibility to prevent fraud and corruption in projects financed





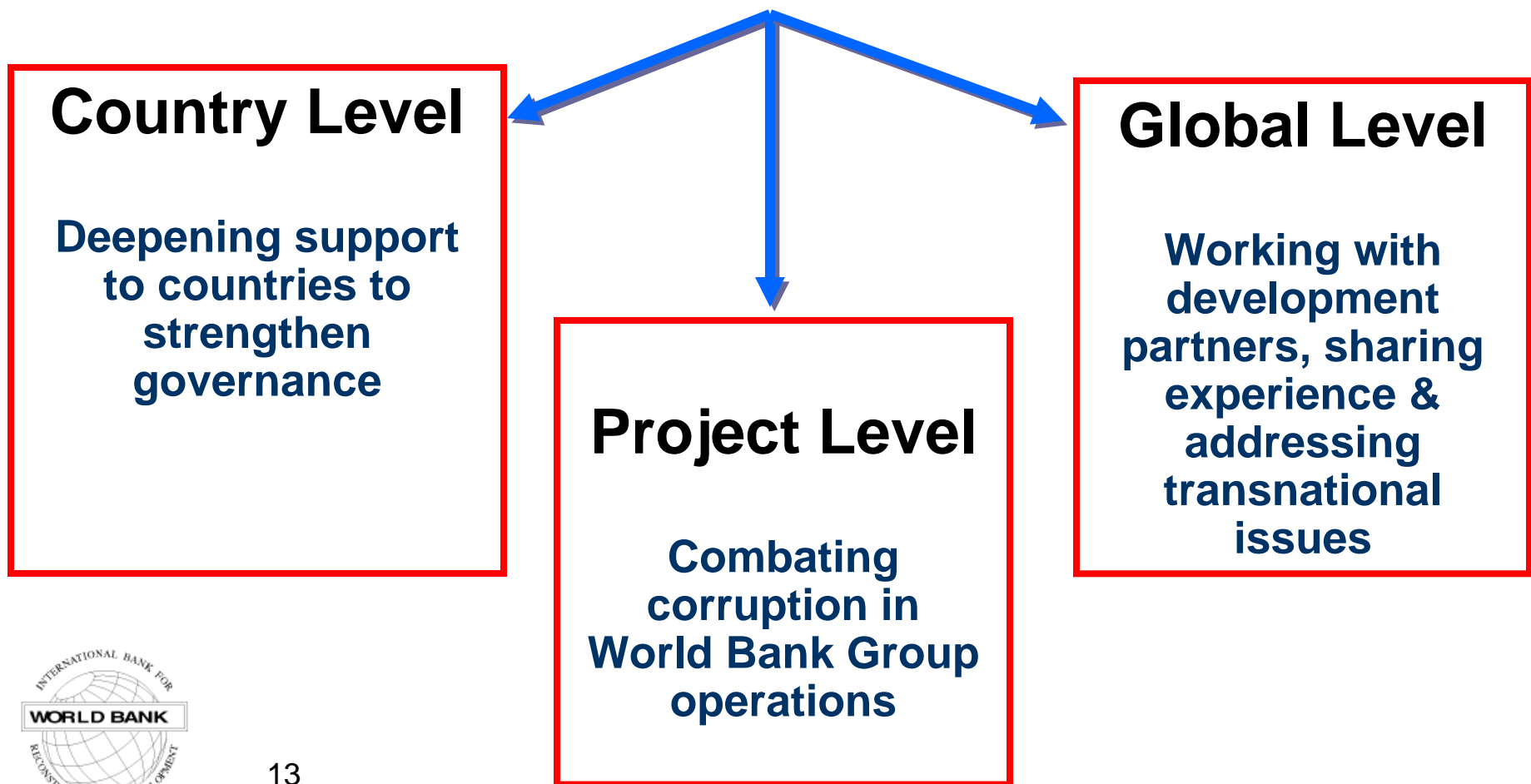
The World Bank's Mission & GAC





THE WORLD BANK'S GAC STRATEGY

Key Elements of WBG GAC Strategy





WORLD BANK CAN HELP COUNTRIES IMPLEMENT THEIR GAC AGENDA

Key Principles of World Bank GAC Assistance

- ❑ GAC work must be country driven
- ❑ GAC implementation adapted to individual country circumstances
- ❑ Creation of a capable and accountable state as the best “remedy” against corruption
- ❑ Strengthening, not by-passing, of country systems
- ❑ Engagement with a broad array of stakeholders
- ❑ Working with governments, donors & other actors at the country & global levels





WORLD BANK SUPPORT FOR GOOD GOVERNANCE

- ❑ Self Standing Capacity Building Project
- ❑ Technical Assistance
- ❑ IDF Grants
- ❑ DPLs (Procurement as Part of the Policy Reform)
- ❑ Capacity Building Component as Part of Investment Project





GAC AT SECTOR LEVEL

- **Value Chain Analysis:**

Creation of a generic model of a sector's value chain – the series of critical points where decisions are taken or “value added” is created

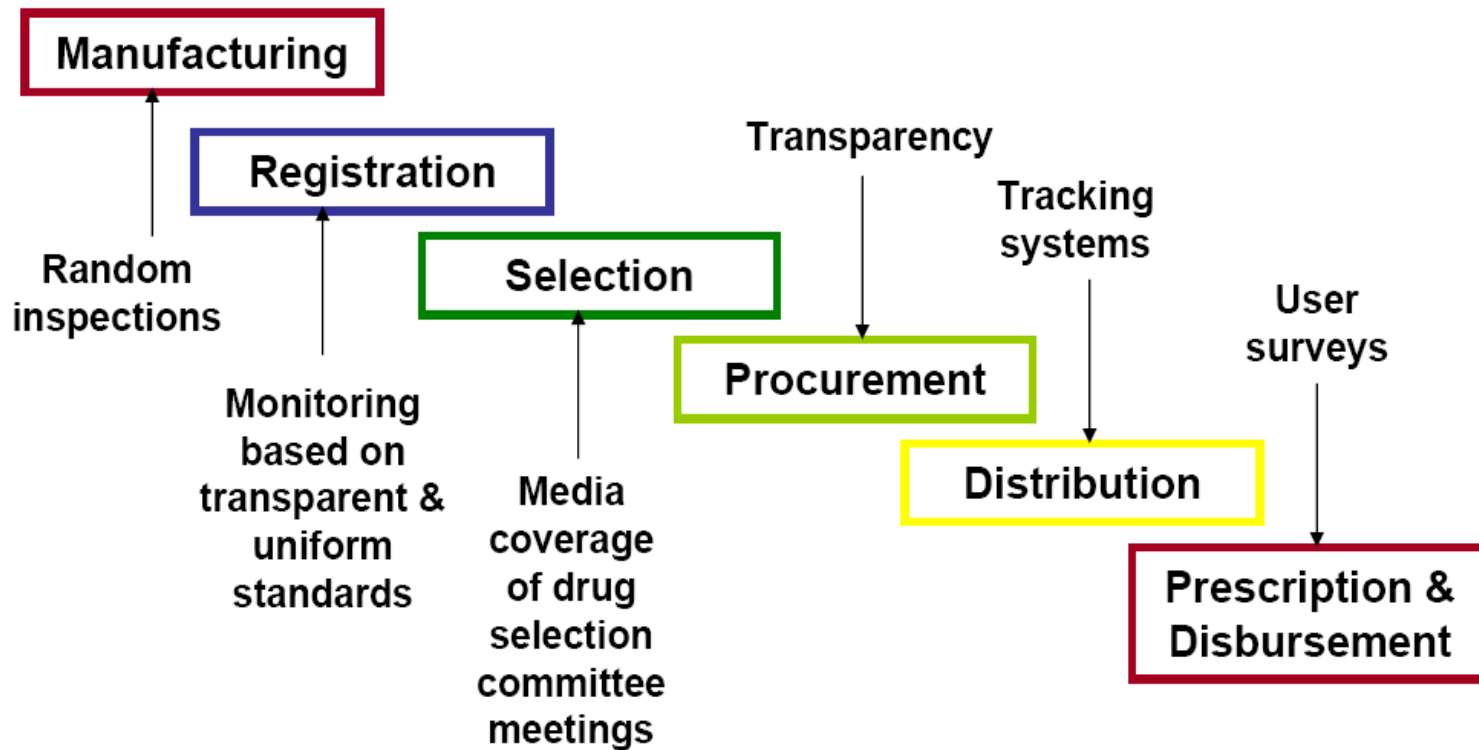
→ Define measures to address corruption risks at the weakest spots along the value chain





GAC AT SECTOR LEVEL

Tracing Vulnerabilities in Pharmaceuticals





GAC AT PROJECT LEVEL

- ❑ Integrating Governance and Anticorruption in Projects: *“Governance and Anti-Corruption is everybody’s business”*
- ❑ “Smart” Project Design; Risk-Based Approach
- ❑ Anti-Corruption Action Plan
 - Enhanced Disclosure
 - Civil Society Oversight
 - Mitigation of Collusion Risks
 - Mitigation of Forgery & Fraud Risks
 - Complaint Handling Systems
 - Sanctions and Remedies



GAC AT PROJECT LEVEL

Indonesia - Kecamatan Development Project: Incentives for Corruption – Risk Identification

STAGE	OPPORTUNITIES FOR CORRUPTION
(1) Dissemination of information & selection of consultants	Low <ul style="list-style-type: none"> • But risk of nepotism in choosing consultants & elite capture for later kickbacks
(2) Socialization: villagers learn how the project works and what their rights are	Low <ul style="list-style-type: none"> • But risk of elite capture
(3) Villages prepare proposals	High <ul style="list-style-type: none"> • Kickbacks with selection of TA; collusion; budget-mark-ups; false groups formed to get micro-credit
(4) Technical teams look at the proposals to see if they are feasible	Low <ul style="list-style-type: none"> • But incentive to try to influence results of assessment in village's favor
(5) Villages choose proposals that will be funded	Low <ul style="list-style-type: none"> • But incentive to simply split funds among villages: leads to bad projects
(6) Preparations for implementation: funds are released	High <ul style="list-style-type: none"> • Main threat is collusion among three signatories of bank withdrawal to take a cut of funds before transferring to village
(7) Implementation: <ul style="list-style-type: none"> • Materials are bought • Village labor is mobilized • Roads & bridges are built 	Extremely high <ul style="list-style-type: none"> • Most common source of corruption in KDP (apart from operational funds & consultants' payments) is with procurement of materials. Implementation teams buy cheaper materials than those specified and pocket the difference.
(8) Post-implementation: <ul style="list-style-type: none"> • Loans repaid; revolving funds set up • Maintenance of infrastructure 	Medium <ul style="list-style-type: none"> • Loan repayments managed badly; risk of corruption with user fees for maintenance.





SOME KEY INSIGHTS ON FIGHTING CORRUPTION EFFECTIVELY

- ❑ **Make it difficult** – Design control mechanisms and activities; implement & monitor closely
- ❑ **Make it visible** – Asset declarations; third party oversight; complaints' mechanisms; beneficiary surveys
- ❑ **Make it detectable** – Segregation of duties; supervision; reporting
- ❑ **Make it provable** – Documentation; audit trail
- ❑ **Make it costly to the perpetrator** – Zero tolerance policy; penalties if applicable





CANCER OF CORRUPTION

Corruption is a cancer of development that steals from the poor, eats away at governance and moral fiber, and destroys trust. Let's join forces to fight corruption!

Thank You!

