Anti-Corruption, Governance and Procurement

13th Procurement, Integrity, Management and Openness (PRIMO) forum on “Curbing corruption in public procurement”
May 23-25, 2017 – Kiev, Ukraine

Hiba Tahboub – Manager
Governance Global Practice
Procurement, Integrity, Management and Openness Forum

13th edition of ECA SIP yearly procurement forum

Two objectives

24 participating countries

10 international organizations

50 government officials
The costs and impact of corruption

Indonesian corruption investigator attacked with chemical

AP

JAKARTA – Police said an anti-corruption commission investigator leading a probe into a scandal that threatens to implicate high-profile Indonesian

Nigeria's anti-corruption unit finds $43 million cash in Lagos apartment

Brazil judge targets dozens of politicians for ‘corruption’

12 April 2017 | Latin America & Caribbean

Brazil political crisis

Indian Railways tops in corruption list; 67% jump in graft complaints

In its annual report tabled in Parliament recently, CVC said it received a total of 49,847 complaints in 2016, as against 29,838 in 2015.

52 SHARES

Nepotism, corruption and farce taint French elections

Macau Billionaire’s Aide Pleads Guilty In U.N. Bribe Case
USD 2 Trillion Worldwide
EUR 120 Billion in the EU

Corruption

State Functions

- Fiscal
- Market Regulation
- Monetary Policy
- Financial Sector Oversight
- Public Order & Enforcement

Macro Financial Stability
- Banking crises
- External sector imbalances
- Inflation
- Fiscal unsustainability
- Financial Inclusion

Public & Private Physical Capital
- Inefficient public investment
- Costly investment and production
- Distorted composition of projects
- Uncertainty
- Distorted asset prices

Human Capital
- Insufficient spending on education/health
- Poverty and inequality
- Disincentives for skills acquisition

Total Factor Productivity
- Insufficient investment in research and development
- Inefficiency
- Distorted capital allocation
- Skills mismatch

Political Instability and Conflict

Potential Inclusive Growth
The costs and impact of corruption – the example of Nigeria

- Nigeria’s tax revenues amount to 8% of GDP
- Problematic sector: Oil sector
  - $9.8 billion in outstanding recoverable revenues from 1999 to 2008
  - Corruption in Nigeria could cost up to 37% of GDP by 2030
The costs and impact of corruption – the example of the health sector

Sector very vulnerable to corruption
- Complex sector, large number of actors, different sources of funding etc.
- Pharmaceutical/Medical equipment sectors particularly sensitive

Corruption can have a tremendous impact in various ways
- 6% of annual global health expenditure being lost to corruption and errors
- Distortion of the prices and the market, decreased quality of health, restriction of access to health etc.

Various corruptive practices used
- Bribes, bid collusions, favoritism, kickbacks…
- Example: Since 1991, the health industry has paid US$30 billion in criminal fines in the US for various corruptive practices.
Corruption, Good Governance, and Development

Corruption Perceptions Index 2016

Source: Transparency International Corruption Perceptions Index 2016

Predicted control of corruption scores based on Human Development Index scores, selected countries

Sources: WDR 2017 team, based on data from the United Nations Development Programme (Human Development Index–HDI scores) and WDR 2017 Governance Indicators for Absence of Corruption, based on Mungiu-Pippidi 2015.
How corruption impacts governance?

- **Political dimension**
- **Economic dimension**
- **Institutional respect dimension**

**Corruption**

**Governance**

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How does Governance contribute to the Bank’s goals?

First, Assessing the underpinnings of governance malfunctions and enablers

- Understanding governance malfunctions:
  - exclusion
  - capture
  - collusion

- Understanding governance enablers:
  - trust
  - legitimacy
  - cohesion

Second, design and implementation of public policies

- Effective policy design and implementation
  - Agenda Setting
  - Policy Formulation
  - Policy Maintenance, Succession or Termination
  - Implementation
  - Legitimation
  - Evaluation

- Poverty reduction
- Shared prosperity
WB supports government enhance transparency and reduce corruption

1. Building a sound legal framework, including procurement and anti-corruption policies
2. Strengthening institutions to deliver their mandates
3. Capacity building and engaging civil society
4. Operational requirement under WB operations
Corruption and Procurement – A Negative impact

“Good” procurement: Average 5% losses

Corrupted/Grey procurement: Average 18% losses

Mechanisms to curb corruption – Preventive measures

- Transparent and Accountable system
- Clear legal framework
- Professionalization
- Red flags
- Code of Conduct
- Protecting sensitive sectors
Mechanisms to curb corruption – Punitive measures

- Administrative Sanctions
- Penal Sanctions
- Protection of whistleblowers
- Collaboration among countries
Mechanisms to curb corruption – Close scrutiny by various actors

- National Audit Offices
- Anti-Corruption Agency
- Internal monitoring
- Citizens monitoring
- Civil Society Organizations
Governance continued to be a key theme

WDR 2004 focused on the short and long routes of accountability for service delivery.

The Governance and Anti-corruption (GAC) Strategy looked at how Governance could address corruption inside and outside the Bank.

![Diagram showing the GAC Strategy and its impact on development outcomes.](image)
**Fraud and Corruption – The World Bank experience**

**Guidelines**
- Selection and Employment of Consultants
  - under IBRD Loans and
  - IDA Credits & Grants
  - by World Bank Borrowers
- Procurement of Goods, Works, and Non-Consulting Services
  - under IBRD Loans and
  - IDA Credits & Grants
  - by World Bank Borrowers

**The World Bank**
- Procurement Regulations for IFB Borrowers
- Procurement in Investment Project Financing
- Goods, Works, Non-Consulting and Consulting Services
- July 2016

- Corruption definition introduced in 1996
- Procurement Framework become effective on July 1, 2016

**Image 23x15 to 762x519**
Procurement in the World Bank

**Before 1998**
- WB Articles of Agreement (Art. III, Section 5 (b); and IDA V 1 (g))
- ICB gradually introduced, starting in 1951, as default method
- Alternative methods emerge during the ‘80s (NCB, Shopping)
- Ex-post review and model documents introduced during the same time
- CPAR also introduced in mid ‘80s, mandatory in 2002 (not currently)
- By FY05 all borrower have had at least one CPAR
- SBDs become mandatory in 1993
- Progressively detailed Guidelines (‘61; ‘64; ‘77; 97; 99; ‘04; etc.,)
- Wapenhans Report in 1992 identifies procurement as one of the core services that needs improvement
- 1997 strategic compact almost doubles number of procurement specialists
- Staff is progressively decentralized (in FY13, 225 staff in 68 COs)
- Plan is adopted in ‘98 to balance approach between fiduciary function and development objectives of procurement

**1998-2000**
- Corruption definition introduced in 1996, as cause for misprocurement - AC emerged as key theme after “cancer of development” 96 JDW speech and subsequent establishment of INT
- Procurement Roundtable, and successors (Procurement JV, and Procurement Task Force, led by the WB, produce several good practice papers and MAPS, as a work stream under the Paris Declaration System)
- Unsuccessful Country Systems Pilot (FY09/10) – key reasons are “equivalency” requirement and too complex
- PforR approved in October 2012, moves focus on performance and outcomes
- Procurement Companion Piece to GAC update in 2013 proposes a principle and performance-based approach, and fit-for-purpose as enabler for value for money

**2001-2017**
- Between Paris, Accra, and Busan role of procurement evolves from aid effectiveness, to development effectiveness, to critical contribution to effective institutions
- More than 5,000 people and 100 countries visited over two years of consultations
- In February 2014, IAD Efficiency Review recommends sharper risk and strategic focus for prior reviews
- GGP-SIP Strategy; transformational engagements; MDTF in FY17
- MAPS updated (aligned with modern approaches, consistent with Framework, and including modules on topics such as agency level assessment, sustainable procurement, professionalization, etc.)
- On to implementation and moving the “frontier” faster to help solve complex operational issues and link more strategically to the Bank’s key objectives and agendas
Corruption and Procurement – Affecting Different Steps

- Procurement Planning
- Procurement Preparation
- Advertisement
- Pre-qualification
- Bid Evaluation and Award
- Contract Implementation
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- Legitimation
- Maintenance, Succession or Termination

Poverty reduction
Shared prosperity
Systemic action and evaluation

- Monitor, evaluate and take an action
- Invest in institutions and get the right incentives
- Identify the political and socio-economic environment
- Cut the red tape
- Sanction and punish corruption
- Power of the people, data and technology
- Corruption is not only about bribes

Power of the people, data and technology
integrity is doing the right thing when no one is watching
Who Is Accountable?
Trust
Enforcement