



The basics of integrity in procurement

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Abstract

Why and how does corruption occur in procurement? Why is it important to prevent corruption in procurement? What are the main risks at various stages of the procurement process, and what can be done to mitigate them? Commitments under the aid effectiveness agenda to use country procurement systems, mounting pressure on aid budgets, and increasing demands from donor countries to show impact and value for money have all combined to focus attention on the risks of corruption in aid procurement. Host-country systems, along with the practices of donor agencies and NGOs, are all vulnerable to mismanagement and corruption if the processes are not structured and managed in a transparent, accountable, and professional manner. This guide provides tools and guidance to help assess risk levels and support appropriate safeguards against corruption in procurement. As procurement is part of almost all projects, programmes, and sector work, this paper is intended not only for procurement officers but for all development practitioners and government officials affected by procurement processes.

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1. Introduction

The risks of corruption in procurement are receiving increasing attention in the world of development assistance. Commitments under the Paris Declaration on Aid Effectiveness in 2005 and the Accra Agenda for Action in 2008 encourage development partners to use procurement systems in the country of operation to the greatest extent possible. Mounting pressure on aid budgets and increasing demands from donor countries to show impact and value for money have also led to greater concern about possible losses due to corruption. Host-country systems, along with the practices of donor agencies and nongovernmental organisations, are vulnerable to mismanagement and corruption if procedures are not structured and managed in a transparent, accountable, and professional manner. Corruption can occur at any point in a procurement cycle, and irregularities are often difficult to detect. Therefore, vigilance is required when one assesses the level of corruption risk in procurement.

Many country procurement systems are fundamentally sound in terms of their basic organisation and procedures. However, weaknesses in execution, compliance, monitoring, and enforcement of existing regulations are common, potentially exposing donors to increased levels of fiduciary risk, including the risk of corruption. Development practitioners therefore need tools and guidance to help them assess the level of risk and support appropriate safeguards against corruption. Likewise, public officials need to understand the risk of corruption in procurement as well as mitigation techniques, both when working in partnership with donors and when managing independent procurement projects.

This Issue Paper provides an introduction to the core issues of corruption in procurement for development practitioners and partner-government staff who are involved in projects that involve funding, running, overseeing, or managing procurement processes. As procurement is part of almost all projects, programmes, and sector work, the target group is not primarily procurement officers. However, staff already specialized in procurement may find the content useful if they supplement their reading with documents providing more technical details. The guide focuses mainly on procurement in the public sector, though many of the principles are relevant to any procurement process, whether public or private.

This paper takes up the following questions:

- Why and how does corruption occur in procurement?
- Why is it important to prevent corruption in procurement?
- What are the main risks of corruption in procurement?
- What are best-practice strategies and tools for preventing corruption in procurement?
- What are good online sources for more information and resources?

The information and recommendations provided here draw on the work of the U4 Anti-Corruption Resource Centre, the Organisation for Economic Co-operation and Development (OECD), Transparency International, the World Bank, the United Nations (UN), and other organisations, as well as on the work of individual researchers who have developed advice on anti-corruption and integrity in procurement.

2. The basics of procurement and corruption

Procurement officers are not the only personnel involved in procurement. At several stages of a procurement process, technical staff and management will also play a role. Therefore, all involved parties must have a general knowledge of procurement and the risks involved. Before initiating a project where procurement is part of the planned task flow, the parties should consider why and how corruption may occur in the upcoming project and take stock of some best-practice procurement scenarios.

This section introduces the concepts of corruption and procurement, traces the steps of a typical procurement process, and explains why and how corruption occurs in procurement and why it is important to prevent corruption in procurement. A basic knowledge of procurement and corruption will make it easier to utilise the tools for spotting and mitigating risk that are discussed in the following sections.

2.1 The concepts of corruption and procurement

In this paper, we refer mainly to *public procurement*, which entails contracting between public institutions and the private sector. Examples are the acquisition of medical equipment for use in public hospitals or textbooks for use in public schools. Globally, procurement is estimated to constitute between 12 and 20 percent of total government expenditures (OECD 2006b). A large part of health and education expenditure is associated with procurement of goods and services; one general estimate is that between 20 and 50 percent of government health expenditure is spent on procurement of drugs (U4 2009b).

Corruption and inefficiency in procurement decreases the benefits that public resources otherwise could have delivered to citizens, and also lowers the level of trust and confidence in governments. Corruption is commonly defined as the “abuse of public funds and/or office for private or political gain” (Paterson and Chaudhuri 2007, 160).¹ While this definition of corruption refers to interaction between the public and private sectors, it is important to keep in mind that corruption also occurs among private sector parties. Transparency International’s definition of corruption, “the abuse of entrusted power for private gain,”² also includes the actions of private actors.

Corruption may arise at any stage of the procurement process. It can take place through violations of ordinary procurement rules or through misuse of legal authorisation for discretionary decisions (Schultz and Søreide 2006). Many practices that may in some cases be viewed as corruption have an unclear legal status.

Corruption can be either supply- or demand-driven. Public officials sometimes demand bribes and/or benefits, but the fault can also lie on the supply side—with potential vendors or service providers who offer tempting but corrupt deals to people who can influence the outcome of a procurement process. Mitigation strategies against corruption therefore have to take account of both the supply and demand sides. This guide focuses predominantly on the public sector, explaining how to create safeguards that both hinder the demand from public employees and make it more difficult for them to accept corrupt deals from suppliers in the private sector. The larger questions about the supply side of corruption, about international and national legislation against bribery, and about the inner workings of private businesses are beyond the scope of this brief.

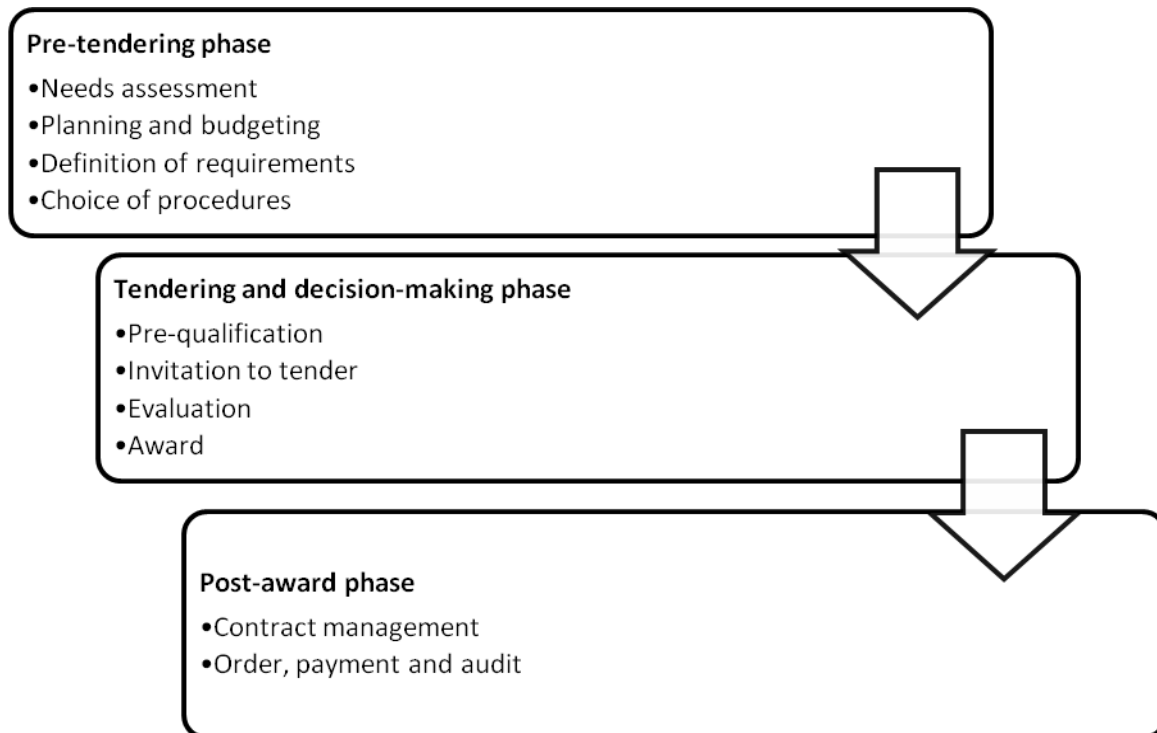
¹ Many different definitions of corruption exist. For discussions, see Thomas and Meagher (2004), Jain (2001), Aidt (2003), and Andvig and Fjeldstad (2001).

² See the FAQs on the Transparency International (2011) website.

2.2 Procurement step by step

A procurement procedure consists of many steps, starting from the moment a need is recognised and ending with the closing of the contract. Figure 1 shows an example of a procurement procedure that includes a tendering process.

Figure 1. Procurement steps when a purchase is out for tender



Source: Adapted from OECD 2009b, 52.

A common mistake is to focus only on the tendering and decision-making stage of the process, up to the point at which the contract is awarded and signed. As Figure 1 shows, there are several other steps, both before choosing the supplier and after signing the contract, during which integrity easily can be at risk. First, in the *pre-tendering phase*, the need for goods or services is identified; ideally there is an assessment of whether the need is real before requirements for the purchase are defined. Next, a choice is made as to procedure. The most basic question here is whether to go with a tender competition or award the job on a noncompetitive basis. Noncompetitive means that firms do not compete for the contract; instead, a supplier is chosen directly by the procurement officer, or by the requesting department or office. This type of procurement is most common when the value of the needed goods or services is low. For example, in the Cambodian public sector, competitive bidding is mandatory for any procurement above US\$12,500 (ADB and OECD 2006, 33). The thresholds vary among countries, and there is no agreement on an ideal limit. In general, a rule of thumb is that a competitive process will mitigate many of the integrity risks connected with noncompetitive procedures, such as favouritism towards friends and family or bribing of decision makers. Competitive bidding is not an absolute bar to mismanagement and corruption, but competition may increase the openness and transparency of the process and thus create pressure to explain irregularities such as inefficiency, low-quality results, and abnormally high prices.

The second box in Figure 1, the *tendering and decision-making phase*, includes some steps that are common to both competitive and noncompetitive processes. In both cases, potential providers must be evaluated and an award decision made. However, in a competitive tender process one may consider a

prequalification round of bidders, and the way tendering parties are invited should be carefully planned.

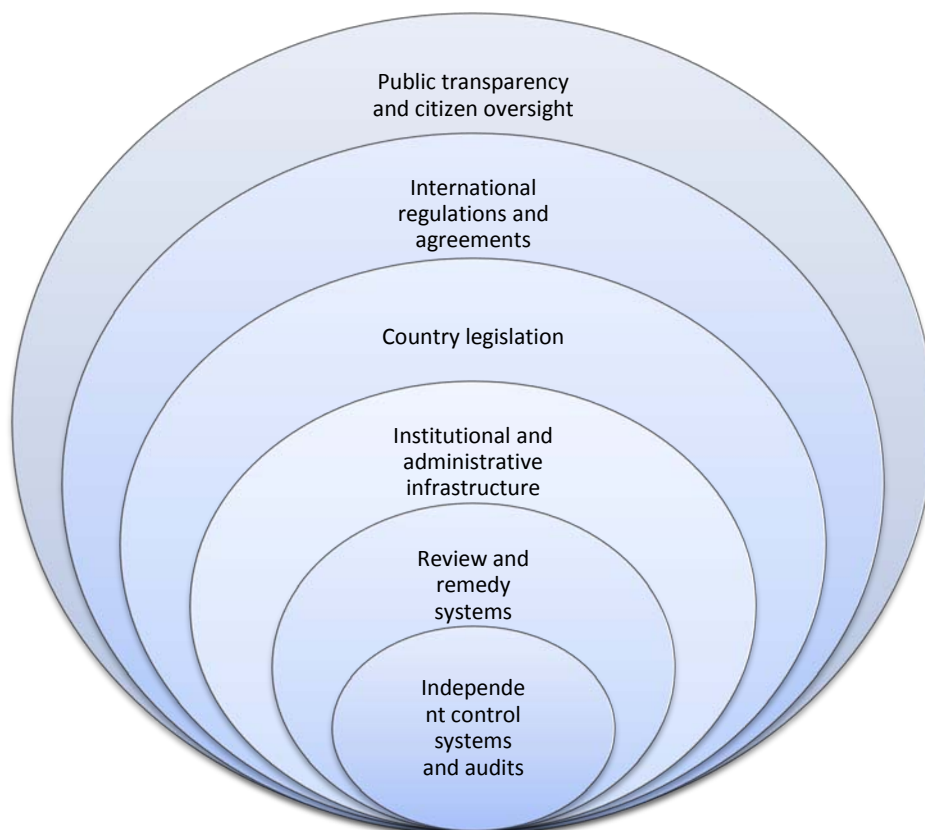
Third, the *post-award phase* entails the highly important job of monitoring, managing, and finally auditing the level of contract fulfilment. Especially in negotiations on large and complex projects, a change in the contract conditions may be requested after the contract has been awarded. Alert management of the procurement project in the post-award phase is necessary to ensure that such changes, for example to conditions, schedule, or prices, do not open the door to fraud.

2.3 The framework for procurement

The framework for a procurement process is important in determining the level of corruption risk, and a transparent, accountable, and well-managed structure will mitigate the risks. In many countries, however, procurement takes place within a framework that is generally weak and corruption-prone, either on a national scale or within the specific sector or organisation where the procurement takes place. Examples of common weaknesses include inadequate legislation and lax enforcement of existing laws, but the problem may also be with corrupt auditing officers or with sectors or companies that operate with lower standards of integrity than others.

The six elements presented in Figure 2 constitute the general framework for a procurement process that includes both external and internal control mechanisms.

Figure 2. Model framework for procurement



Source: Authors.

Figure 2 illustrates the importance of *public transparency* and *citizen oversight*, which may involve international, national, and local groups and individuals. Without public transparency and without the ability of citizens to monitor the procedures and outcomes of public procurement processes, corrupt

activities may go undetected, and there will be limited demand for reforms. Transparency requirements closely related to procurement affect the availability and terms of the tender, the justification for the award, and the outcome of the process. An alert civil society can also serve as a safeguard when auditing officers are corrupt.

The *international and country legislation* binding the countries involved in the procurement creates the overall framework in which the process takes place. The recent decade has seen a variety of regional and international anti-corruption treaties, most of which include rules for proper procurement. Most notable are the OECD Anti-Bribery Convention and the UN Convention against Corruption (UNCAC); they address the supply side of corruption (especially among multinational corporations) by, among other things, criminalising bribery of foreign public officials, demanding that bribery expenses not be tax-deductible, and promoting integrity mechanisms for procurement schemes. Other examples are the Paris Declaration and the Accra Agenda for Action (see Annex 3), the World Trade Organization Agreement on Government Procurement, and the Directives of the European Parliament and of the Council on Procurement (OECD 2008). The Paris Declaration recognises the importance of country ownership, and donors have agreed to work with host-country governments rather than to rely exclusively on their own procurement systems.

Country legislation ideally should cover all the steps of a procurement procedure and all the actors involved. Many countries that wish to demonstrate their willingness to fight corruption have enacted new procurement legislation. A tool for assisting such efforts is the model law for privately financed infrastructure projects adopted by the United Nations Commission on International Trade Law (UNCITRAL) in 2003.³ Model laws should not be viewed as offering an ideal for any particular country setting, as laws are generally easier to enforce if local concerns are incorporated. However, they may give a good idea of what should be considered when analysing risks in procurement. Box 1 looks at efforts to reform the legal and institutional framework in Bangladesh; that country's experience shows that model legislation is a good starting point only if it covers the whole procurement process. Another concern is the degree to which legislation is implemented. Where local willingness to fight corruption is strong, it is more likely that such laws will be enforced.

Figure 2 also includes the *institutional and administrative infrastructure* in the country of operations, which has a marked influence on how procurement processes are structured. The general political

Box 1 Model law in Bangladesh: Good starting point, but not enough

In 2003, Bangladesh reformed its legal and institutional framework for procurement. The new regulations were based on the UNCITRAL Model Law on Procurement of Goods, Construction and Services. When the ADB/OECD Anti-Corruption Initiative for Asia and the Pacific mapped the progress and challenges for that region in 2006, it pointed out that both the model law and the adaptation of the law by Bangladesh left some significant gaps. Neither version covers important phases of the procurement cycle such as the needs assessment and the actual contract implementation. Thus, some of the areas most prone to corruption are not protected by the legislative framework. For example, the law does not provide safeguards against common risks in the pre-tender and post-award phases, like the creation of false needs or the delivery of substandard work, goods, or services. The Bangladesh experience shows that a model law can be a good starting point for reform, but that it is important to ensure that all parts of the procurement process are included.

Source: ADB and OECD 2006, 31.

³ See the UNCITRAL Model Legislative Provisions on Privately Financed Infrastructure Projects at http://www.uncitral.org/uncitral/en/uncitral_texts/procurement_infrastructure/2003Model_PFI.html.

environment of the country helps determine whether a professional bidding process will be used and whether anti-corruption efforts will be efficient. The country's leadership must be willing to fight corruption. If grand corruption persists at the highest level, research has shown, it will be almost impossible to end petty corruption in the bureaucracy (U4 2009b). A recent evaluation of anti-corruption reforms indicates that "corruption can best be tackled when political reform and regulatory restructuring are complemented by a systematic effort to inform the citizens about their rights and entitlements and increase their capacity to monitor and challenge abuses of the system" (Fjeldstad and Isaksen 2008, xi).

Effective *review and remedy systems* are necessary to detect and correct irregularities. *Independent internal control systems* are a crucial means of strengthening integrity and detecting corruption or fraud. *External audit and oversight systems* offer the last independent check, potentially done by a supreme audit institution and/or civil society representatives in the country of operations.

2.4 The importance of preventing corruption

Corruption in public procurement is an important obstacle to development. As Søreide (2002, 1) states, "Corruption in public procurement makes the officials or the politicians in charge purchase goods or services from the best briber, instead of choosing the best price-quality combination." For instance, the firm responsible for building a new school may not offer the best quality for the best price, but instead may offer the biggest bribe to government officials. The result may be a more expensive, less-well-built school than would otherwise have been the case (Tanzi and Davoodi 1997). To the extent that such waste of resources reduces the availability and quality of public goods and services, corruption negatively affects the welfare of the population, especially the poor.

Corruption can lower the profitability of doing business legally, and this provides incentives to engage in corrupt activities (Andvig and Moene 1990). Rather than "greasing the wheels," corruption fuels the growth of excessive and discretionary regulations (Rose-Ackerman 1999). Corruption can lead to a disregard of laws and procedures, and to a lower level of trust and confidence in government. Politicians may be seen as motivated by bribes, and as creating rules only intended to generate rents. Public spending decisions can be seen as influenced by corruption when funds are allocated to sectors where the opportunities for bribery are high, such as the construction sector, while other sectors, such as education, are neglected (Tanzi and Davoodi 1997).

2.5 Causes of corruption in procurement

Although each case is to some extent unique, causes of corruption can be divided into two main groups: structural causes and individualistic causes.⁴ *Structural causes* relate to a country's political system, history, and culture, and to other systemic factors which can influence the overall level of corruption. *Individualistic causes* relate to decisions by individuals, companies, and other groups to engage in corrupt actions.⁵

An individual's choice to engage in corruption in turn depends upon two main factors. First, an individual or group must have *incentives* to exploit the power that comes with their position. Several factors create incentives for corrupt behaviour:

⁴ This section is based on the work of Andvig and Moene (1990), Aidt (2003), Schultz and Søreide (2006, 10), and Thomas and Meagher (2004).

⁵ This Issue Paper focuses on what individuals can do and should be aware of in order to strengthen integrity in procurement. For a guide on how to assess the structural causes of corruption in procurement, see *Linking Procurement and Political Economy* (Frøystad, Heggstad, and Fjeldstad 2010).

- The *perceived value* of possible benefits.
- *Low degree of professional integrity*. An individual's attitudes and behaviour may not coincide with the goals of the institution she or he represents.
- *The actual need of the individual*. In developing countries the salaries of many public officials and workers are low, and necessity may help explain why corruption occurs. However, it may be difficult to discern where need ends and greed begins.
- *Low risk of sanctions*. An absence of monitoring, supervision, and sanctions encourages corrupt activities. If a country has weak institutions, dishonest procurement staff run a low risk of being caught in corruption; if caught, they may be able to bribe their way out.

For the suppliers of bribes, often companies, incentives to take part in corruption are influenced by the competitive environment in which they do business. To prepare for a tender is both time-consuming and costly, and offering a bribe may be seen as a shortcut to a contract award. A Norwegian business survey studied the different motivations for firms to offer bribes and found that the most important was "the risk of having competitors who offer bribes" (Søreide 2006). Thus, increasingly the likelihood of sanctions for those caught taking part in corrupt actions will have a dampening effect on incentives for corruption.

Second, the individual needs the *capability* or *opportunity* to extract value from the procurement project. Most often this capability derives from *authority*: an individual who has authority to deal with rules and regulations in a discretionary manner is more easily able to misuse them. Authority, however, is not always required for an individual to put public money into his/her private pockets. Lack of supervision and oversight may allow those at lower levels to engage in corruption. In some cases, a contract may be corrupt even before it reaches the individual who has authority to deal with it in a discretionary manner. In such cases, even if the officer with authority follows all the correct procedures from that point onward, the deal will still be corrupt.

2.6 Methods of corruption in procurement

The most common methods and schemes for securing a corrupt deal in procurement can be grouped in four broad categories: bribery, bid rigging, fraud, and use of informal networks. The first two are arguably the most common and will be explained here in more detail.

2.6.1 Bribery

Bribery, frequently seen as the most common type of corruption, can be defined as an offer of money, goods, or services in order to gain an advantage that the bribe receiver is prohibited from providing (Transparency International 2011). Motives for bribery include, for example, gaining information, speeding up bureaucratic processes, receiving preferential treatment, disqualifying competitors, getting away with substandard work, influencing outcomes of legal and regulatory processes, and influencing the allocation of benefits such as subsidies, taxes, and pensions.

Bribery of officials is a common way of winning lucrative contracts. A bribe can be a direct transaction between two parties, or it can be channelled through intermediaries or informal networks, as in the examples in Box 2 and Box 3. A bribe may be only one of a series of actions intended to secure an illegitimate deal.

A *kickback* is a type of bribe in which the public official who influences the procurement process receives a proportion of the extra earnings that the private company will accrue due to the corrupt actions. In August 2010, a dozen major US drug and medical device companies were under investigation for allegedly providing kickbacks to foreign officials and medical personnel who ordered and prescribed their products (Harris and Singer 2010).

Box 2. Siemens used middlemen to do the dirty work

In 2008, the global engineering giant Siemens was served with what was then the largest fine for bribery in corporate history, US\$1.6 billion. A former accountant at Siemens, Reinhard Siekaczek, admitted that between 2002 and 2006 he oversaw a yearly bribery budget of US\$40 million to \$50 million.

The company's most common method of bribery was to engage outside consultants to help "win" contracts. Siemens paid fees to the consultants, who then passed on a portion of the cash to officials controlling the contract awards. More than 2,700 consultants worked for Siemens to fill the pockets of corrupt government officials worldwide.

Source: Schubert and Miller 2008.

Box 3. US pharmaceutical company fined for payment to fake charity

How to channel money from a company's accounts into the pockets of local politicians without it showing in the books? The head of the Polish branch of the US-based pharmaceutical company Schering-Plough managed to do so for three years before being caught.

From February 1999 to March 2002, the company official paid US\$76,000 to the director of the Silesian Health Fund through a charity, the Chudow Castle Foundation. The organisation worked for the restoration of Silesian castles, but its founder and president was the health fund director, in charge of funding the purchase of pharmaceutical products by hospitals and medical centres in the region.

The Schering-Plough manager in Poland made the payments, and the US parent company did not detect the irregularities. The US Securities and Exchange Commission (SEC) found that the manager had systematically set the payment amounts below the limit that would have required clearance from the parent company. False medical justifications for the expenditures were submitted to the US company's finance department.

During the investigation, the SEC found that the manager in Poland viewed the payments as necessary in order to influence the actions of the government official in charge of funds in the region. Whether the payments gave Schering-Plough an advantage compared to other companies was not disclosed in the investigation.

Source: Cohen 2006, 78.

An individual's or company's choice to offer bribes and kickbacks is influenced by the level of perceived risk. Since bribery entails an illegal, usually secret agreement between the parties, the benefits to be gained are uncertain. The briber, in particular, is vulnerable to a breach of the agreement because such illegal agreements generally cannot be enforced in court. Furthermore, the offer of one bribe may lead to a demand for more bribes, thus creating uncertainty as to whether the briber will ever get what he or she wanted in the first place (Søreide 2009). However, risk goes both ways: in a corrupt business environment, firms may perceive a risk in honest dealing, which could cause them to lose out on contracts when their competitors offer bribes (Søreide 2006). In general, the supply side of corruption should be watched carefully in procurement cases, because the initial request for an illicit agreement may just as well come from the private firm as from the public officials dealing with bureaucratic procedures.

2.6.2 Bid rigging

Bid rigging takes place when companies conspire to fix the outcome of a bid for goods and services purchased through a bidding competition.⁶ The additional funds obtained through the inflated contract price are usually distributed among the conspirators. In some cases of bid rigging, public officials participate, while in other cases only companies take part. These two situations are considered separately below.

(a) Examples of bid rigging in which public officials are involved:

Excluding qualified bidders: Qualified bidders can be disqualified or discouraged in order to promote a favoured bidder. This may entail limited publication of a request for bids, an unreasonably short time allowed for responses to the call for bids, unreasonably narrow contract specifications, or intimidating behaviour aimed at discouraging potential bidders from taking part in the bidding process.

Rigged specifications: The procurement officer or other actors involved in the process can modify the criteria in the request for bids to fit a particular company.

Unbalanced bidding: A favoured firm is provided with relevant information which is not shared with other participants in the bidding process. This information gives the favoured firm a competitive advantage in tailoring its bid and thus increases its likelihood of winning the contract.

Unjustified direct awards: Direct contracting is a common means of avoiding competition. In countries where regulations limit the use of direct contracting, a tender process can still be avoided by, for example, falsifying documentation to justify direct contracting, ignoring the requirement for direct contracting, or splitting up purchases in order to stay below the threshold beyond which competitive bidding is required.

Manipulation of bids: Procurement officers or other actors with access to the documents can tamper with bids after submission in order to ensure that a pre-designated firm wins the bid. This can involve making changes to parts of bids or bid scores, or “losing” certain bids. Box 4 illustrates how manipulation of bids occurred in the construction sector in Germany.

Undeclared conflict of interest: This occurs when an involved actor has vested interests in the procurement process but does not recuse himself or herself from the procurement process or does not make known the potential for conflict of interest. For example, there would be an undeclared conflict of interest if an officer on the committee awarding a public tender for school books owned shares in one of the publishing houses participating in the tender and did not make this information known to the appropriate oversight authorities.

Box 4. Manipulation of bids in the construction sector in Germany

Bid rigging was revealed in a trial in Germany in 2004. Bribery was disclosed in a tender for a contract concerning construction of waste processing facilities. One of the construction firms participating in the tender, LCS Steinmüller, bribed a civil servant to get hold of information about the other proposals submitted in the tender. LCS Steinmüller won the tender after it used this information to revise its original proposal.

Source: Transparency International 2005a.

⁶ This section is based on OECD (2009b) and on the U4 “red flags” learning tool (U4 2009c).

(b) Examples of bid rigging when contractors collude:

Complementary bidding: Also called cover bidding, this occurs when competitors agree in advance who will submit the winning bid. It can be done in several ways:

- Other participants in the bidding process agree to put forward bids that are higher than the bid of the designated winner.
- Other participants offer bids that are known to be too high to be accepted.
- Other participants submit bids that contain special conditions that are known to be undesirable to the purchaser.

Bid suppression: One or more potential competitors agrees to refrain from bidding so that one competitor, the designated winner, can win the contract.

In the case of both complementary bidding and bid suppression, the “losing” party or parties will usually be rewarded with kickbacks or subcontracting. There may also be a process of bid rotation, in which competitors take turns being the successful bidder. Box 5 illustrates how Norwegian firms colluded in order to inflate the price of a contract for the rehabilitation of bridges.

Market division: The conspirators may carve up markets into segments and agree not to compete in each other’s segments. When contractors cooperate in order to coordinate markets, prices, and production with the aim of increasing their own profits by reducing competition, they are said to form a *cartel*. Cartels may engage in the any of the forms of bid rigging mentioned above.

2.6.3 Other forms of corruption in procurement

Embezzlement: This is commonly defined as the illegal appropriation of property or money entrusted to one person but owned by others (Andvig and Fjeldstad 2001). For example, if a public official in charge of health financing pockets a share of the public funds that supposedly should go to a supplier of medical equipment, he or she could be charged with embezzlement.

Facilitation payments: Public officials may receive payments to do routine tasks that they are obliged to perform anyway, such as processing papers and issuing permits. The payment is not intended to influence the outcome of the job done by the public official, but to speed up the public officer’s performance of the task. A procurement officer could, for example, accept gifts or benefits in return for providing faster access to tender information that should be publicly available but is not easily accessible. This type of payment is not necessarily seen as corruption in many countries, but the practice easily ends up in a grey zone and thus merits attention. For example, in the US Foreign Corrupt Practices Act, facilitation payments are exempt from the bribery prohibition when they are made in connection with

Box 5. Norwegian construction firms fined for bid rigging

In 2007 two construction firms, Gran & Ekran and Grunnarbeid, entered a tender competition to rehabilitate five bridges in the province of North Trøndelag in Norway. According to the Norwegian Competition Authority, the companies shared price and other information before they submitted two seemingly independent bids.

The municipality of Steinkjer, which was handling the competition, received only those two bids. The prices in both bids seemed abnormally high. Suspecting irregularities, the procurement officials suspended the competition and contacted the Norwegian Competition Authority.

According to the official who directed the investigation, Gran & Ekran never intended to win the bid. Instead, the company exaggerated the costs significantly in order to make the proposal from Grunnarbeid look like a good deal. In fact, both companies were overpricing the job. The companies were found to have engaged in illegal cooperation to restrict competition in public procurement, and both were fined.

Source: Norwegian Competition Authority 2009.

routine government actions. Nepal's code of conduct for civil servants restricts the acceptance of gifts, and thus facilitation payments can be considered corruption if the procurement officer receives a gift that is not allowed under the code of conduct (ADB and OECD 2005).

Fraud: This refers to deceitful manipulation or distortion of information by a public official for the purpose of personal gain. Fraud is an economic crime and as such it is broader than bribery and embezzlement. As Andvig and Fjeldstad (2001, 9) state, "It is fraud when politicians and state agents take a share for closing their eyes to economic crimes, and it is serious fraud when they have an active role in it." In procurement, fraud often takes the form of failure to meet contract specifications or submission of false, inflated, or duplicate invoices (U4 2009c). Box 6 provides an example of fraud in the health sector in Nigeria.

Box 6. Cracking down on killer drugs in Nigeria

One of the major risks of corruption in the health sector is the sale and use of counterfeit drugs, a practice that can have fatal consequences. Sick people are given ineffective medicine, drug resistance develops, and confidence in the health care system is eroded. Fake and substandard drugs began to dominate the pharmaceutical market in Nigeria in the 1980s. By 2001, an estimated 41 percent of drugs on the Nigerian market were counterfeit, yet most Nigerian consumers remained unaware of the danger. This made it easy for unscrupulous drug dealers to continue their business.

The National Agency for Food and Drug Administration and Control (NAFDAC) became the key actor in Nigerian efforts to fight killer drugs when Dr. Dora Akunyili took over as director general in 2001. In 2004, NAFDAC documented an 80 percent reduction in the presence of fake drugs on the market. Lessons learned in the Nigerian case suggest that the following factors are important in efforts to control fraud in drug procurement:

- There must be political will and leadership in order for a positive change to take place.
- Raising the awareness of civil society is important because it creates a demand for unethical drug sellers to change their behaviour. NAFDAC mounted campaigns to raise public awareness about the dangers of counterfeit drugs and to encourage reporting of suspicious drugs for sale.
- Staff concerned with reducing fraud must receive training and must be made accountable through transparent procedures. NAFDAC staff were trained and offered better working conditions, while some were let go due to allegations concerning their integrity.
- Increased monitoring of medicines brought into the country, as well as checks of shops selling medicines, make executing the crime more difficult. In Nigeria, the number of inspectors was increased, and controls were made more effective. NAFDAC organized raids on warehouses, shops, and manufacturers in order to seize fake drugs.
- There must be a legal framework in place so that prosecuting unethical drug sellers is possible and credible. This will give drug sellers an incentive to stay on the right side of the law.
- Protection of whistleblowers is a vital necessity. Two assassination attempts were made on Dr. Akunyili, and she received several death threats. Other NAFDAC employees were physically abused, while NAFDAC buildings were burned down.

Sources: Akunyili 2008; Cohen, Mrazek, and Hawkins 2007; WHO 2006.

Extortion: Extortion may be a form of corruption if a public servant misuses his/her power to pressure private actors, or if private actors misuse their networks and informal power to threaten public officials. Extortion may entail causing or threatening harm to a person in order to obtain an advantage, so it does not constitute a win-win situation for the parties in the same way as do some other forms of corruption.

Informal networks: Informal circles of people are often able and willing to help each other (Grødeland 2005, 2). Examples are people who attended the same school; former and current colleagues; acquaintances and friends; and, more generally, people with common economic or political interests. Affiliation according to family, clan, ethnic, or partisan background is also common. Informal networks can have a large influence on public integrity.

Nepotism: Relatives may receive favour in the granting of jobs or benefits (Andvig and Fjeldstad 2001).

Patronage: Public office holders may grant favours, jobs, and contracts in return for political support. Such systems tend to disregard formal rules, instead giving importance to personal channels (Andvig and Fjeldstad 2001).

Conflict of interest: This arises when a public official has a private interest which could potentially interfere with the impartial performance of his/her duties. Conflicts of interest are a normal phenomenon, but they need to be anticipated, declared, and well managed, and prevented altogether where they are likely to lead to corruption (Reed 2008).

3. The basics of risk and risk mitigation

Corruption can take place at any stage of the procurement process. The first step is to take seriously the risk of corruption and to understand the specific risks at every step, from early needs assessment through the closing of the contract. As PricewaterhouseCoopers says in its manual *Cracking Down*, “Be proactive. Don’t wait until you have a problem” (PwC 2009, 32).

Risks of corruption are often linked to a lack of transparency, in particular, inconsistent distribution of information to bidders, unclear reasons for the choice of a procurement procedure, unjustified use of a noncompetitive procedure, and unclear evaluation criteria. Another problem is that the staff and management involved in the procurement may not be adequately trained and thus may lack the necessary professionalism to carry out adequate planning, budgeting, and risk management. Insufficient accountability and control mechanisms may also translate into mismanagement. It might be unclear what the procurement officer is accountable for, or the officer’s supervision of firms’ performance may be unsatisfactory (OECD 2007b, 26).

How should corruption in procurement be curbed? Most guidebooks and recommendations focus on competitive bidding as a means to ensure fair competition and value for money. However, competitive bidding does not in itself stop corruption, although it lowers some of the risks.

3.1 Risk factors

A wide variety of factors can increase the level of corruption risk in a given contract, including large size, complex technology, corruption-prone sector, excessive discretion, lack of financial controls, restricted access to information, links to funding schemes, time pressure, lax social controls, and conflict of interest. These should be considered “red flags,” although not all of them will be present in every case of corruption, nor does any one of them inevitably lead to corruption. Let us consider each in turn.

Large contract: Bribes tend to be calculated as percentages of the total contract amount. The more money involved, the higher the potential for kickbacks, so large contracts may offer greater temptation to corruption than small ones (Søreide 2002). On the other hand, they may also entail greater risk of detection if a correspondingly greater sum is budgeted to monitor and control the activity. In some ways, oversight of numerous small contracts may be more difficult than keeping track of one large one. For both large and small contracts, oversight of the plans and resources for monitoring the contract is key.

Complex technology: When contracts involve the acquisition of high-level technology, there is a danger that the public officials involved in procurement will not have sufficient knowledge of the technology to detect attempts at fraud or corruption. Unless people with the required expertise are engaged, this risk is high. For example, there may not be many people who can say whether a particular aircraft should cost US\$25 million or US\$30 million (Søreide 2002; Moody-Stuart 1997).

Corruption-prone sectors: Some sectors are more vulnerable to corruption than others. Transparency International’s (2008) Bribe Payers Index ranked sectors according to the likelihood that firms in the sector will be involved in bribery of public officials. It found 10 sectors particularly vulnerable to corruption:

- Public works, contracts, and construction
- Real estate and property development
- Oil and gas
- Heavy manufacturing

- Mining
- Pharmaceutical and medical care
- Utilities
- Civilian aerospace
- Power generation and transmission
- Forestry

Although these 10 sectors were rated as the most corrupt, corruption may occur in any sector. Thus, while it is important to recognise that some business areas are corruption-prone, it is not safe to assume that other sectors are free of corruption.

Discretion: This can be linked to corruption risk if the transparency of decision making is low. If a single individual has discretion over all decisions, the risk is higher than if multiple people are involved in decision making. If the same official has held discretionary power over a long period, the risk may be higher still, as he or she may have established strong informal networks and corrupt relationships.

Lack of financial and operational controls: With weak systems of internal and external oversight and lax enforcement of rules and laws, corrupt individuals are less likely to be caught. The perceived low risk of sanctions may increase the levels of corruption (UNDP 2004).

Restricted access to information: Lack of transparency concerning executive decisions together with a lack of public demand for information increase the risk of corruption by making it difficult to keep an eye on the public officials managing procurement funds (UNDP 2004).

Links to funding schemes: Funding schemes that limit donor control over project aid funding may increase the chances of corruption in national contexts where public institutions are weak. More recent funding schemes in development assistance, especially direct budget support, give broad discretionary power to public institutions in the recipient country, transferring to these institutions many of the risks discussed in this paper. The Paris Declaration strongly supports this approach by committing donor countries to make use of partner countries' procurement systems (see Annex 3). However, donors have expressed worry about the high level of corruption in some countries. A procurement process conducted through public institutions will potentially leave the donor with few possibilities for monitoring, and if the country does not have and enforce firm integrity guidelines, there is a risk of corruption that donors will find difficult to address (Plummer and Cross 2007).

On the other hand, a government may have more resources to devote to corruption monitoring than some donors do. Hobbs (2005), for example, questions the World Bank's capacity to investigate procurement projects in light of the large number of Bank-funded projects and the limited staff and resources available to carry out investigations. In short, evaluations of the risk connected with various types of funding schemes in a particular country should consider the monitoring mechanisms and resources of the donor as well as those of the host country.

Time pressure: The more urgent it is to complete a contract, the more opportunities there are to take advantage of the situation, for example by inflating the price of the contract or making exceptions to open bidding requirements (Schultz and Søreide 2006). Procurement in emergencies, in particular, raises the risk of corruption because there is not enough time for safeguards such as due diligence tests of suppliers and competitive bidding rounds.

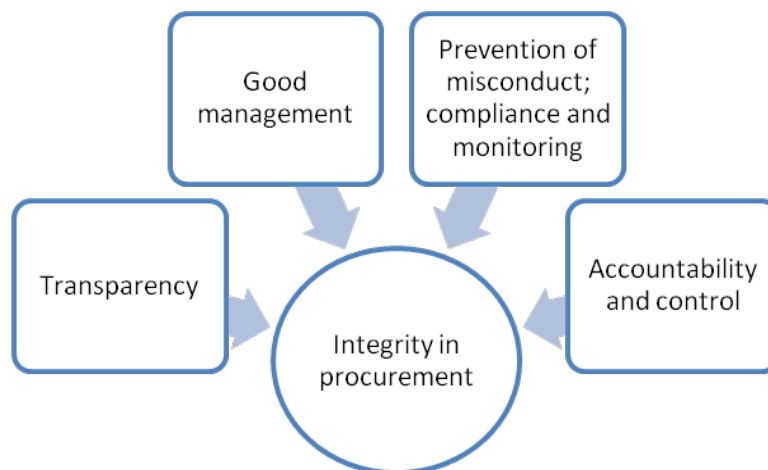
Conflict of interest: The risk of corruption increases when the public duties and private interests of an involved actor intersect, because the person may be tempted to exploit his or her public position for personal benefit (OECD 2005b). Conflicts of interest may arise at various stages of the procurement

process: for example, the person who identifies the need for a purchase may have a personal interest in seeing that a specific item is acquired; the person who decides which company will be awarded the contract may have an economic interest in one of the bidding companies; the winner of the contract may have a personal interest in hiring specific subcontractors due to kinship ties. There are countless possibilities, but the most important conflicts of interest are those affecting persons who are in decision-making positions and/or have access to confidential information.

3.2 Basic principles of risk mitigation

The OECD has set out four principles essential to integrity in procurement, shown in Figure 3. They are (1) transparency, (2) good management, (3) prevention of misconduct, compliance and monitoring, and (4) accountability and control (OECD 2008, 12–27). These principles can guide risk mitigation measures throughout the procurement process. Methods of implementing safeguards based on the four points vary widely, and there is no blueprint for what to do, when, and how. However, organisations such as the OECD, Transparency International, the UN, the World Bank, and the U4 Anti-Corruption Resource Centre have gathered knowledge based on their experiences with anti-corruption work in procurement. The remainder of this section presents practical advice based on their experiences in mitigating corruption risks.

Figure 3. OECD'S four pillars of integrity in procurement



Source: OECD 2008.

3.2.1 Transparency

A central rule of thumb is to ensure easy access to information for all interested parties throughout all the stages of the procurement process. In “Minimum Standards for Public Contracting”, Transparency International (2005c) lists the stages of procurement where transparency is particularly important:

- Activities carried out before initiating the contracting process
- Tender opportunities
- Selection criteria
- The evaluation process
- The award decision and its justification
- The terms and conditions of the contracts and all its amendments
- The implementation of the contract
- The role of intermediaries and agents
- Dispute and settlement mechanisms and procedures

Confidentiality should be limited to legally protected information (Transparency International 2005c). At the same time, confidential information should be treated respectfully and according to set routines (U4 2009b).

3.2.2 Good management

Management that is aware of corruption risks and promotes integrity in procurement should address all stages of the procurement process, from planning to final evaluation. Long-term planning of procurement projects needs to allow time to establish control and mitigation measures, and resource planning should allow for procurement to become an integral part of public financial management. Additional elements are a good system for publishing information, reporting at different stages of the procurement process, and audits that make fraud and corruption difficult to hide.

Some countries have had good experiences with establishing codes of conduct, integrity pacts, and rules of disqualification. Such guidelines make it easier for public officials to renounce corruption and for donors to measure performance. Indeed, “Codes of conduct are a compulsory part of any procuring institution,” according to the U4 Anti-Corruption Resource Centre (2009b). Box 7 provides details on the main elements to be included in codes of conduct.

With respect to codes of conduct and other integrity guidelines, the challenge is not the creation of a written document, but putting the guidelines into practice. Thus, a part of good management is the implementation of the code of conduct and the integration of its principles into all daily activities. Since a code of conduct can never account for all possible scenarios, it should set forth clear guidelines based on professional ethics and applicable to a wide range of situations. Whitton (2009a, 2) identifies three key principles to be included in any ethics code:

- Act responsively
- Avoid conflict of interest
- Do no (avoidable) harm

The ability to apply these three basic concepts will make complex and difficult ethical dilemmas easier to handle. Capacity development training may therefore be a fundamental part of a corruption mitigation strategy in procurement and in other areas of work (Whitton 2009a, 2009b).

3.2.3 Prevention of misconduct; compliance and monitoring

Transparency is a necessary but not sufficient condition to ensure integrity throughout the procurement process. The professionalism of the staff involved is essential for good management, prevention of misconduct, compliance, and monitoring. For example, officials need technical expertise in order to carry out internal evaluations. Training of staff and the recognition of procurement as a professional

Box 7. Codes of conduct provide guidelines for practitioners

A code of conduct gives practitioners and managers clear examples of situations and dilemmas they may encounter in the course of their work, along with values to adhere to and guidance on expected behaviour. The OECD Procurement Toolbox lists seven elements that should be included. Procurement officers should: (1) serve the public interest; (2) be transparent and accountable; (3) show integrity and not use their public position for private gain; (4) exercise legitimate authority impartially; (5) act in a fair and equitable manner; (6) be responsive to public needs; and (7) be efficient and effective.

An example is the Canadian government’s Code of Conduct for Procurement, available on the website of Publics Works and Government Services Canada.

Sources: OECD 2011; Public Works and Government Services Canada 2010.

field can help raise awareness of, and commitment to, good practices and integrity in procurement. (For more on enhancing professionalism, see OECD 2007b, chapter 3.) A general recommendation is to create an independent procurement unit staffed with professionals.

Clear and publicly known procedures for sanctions can promote compliance and integrity. Some advice from U4 (2009b):

- Suspicions of misconduct should be investigated by the prosecution authorities or other suitable authorities.
- Once discovered, offenders should be held accountable by, at the very least, requiring them to repay the amount stolen and by debarring them from future bidding processes.
- Sanctions should be proportional to the price of the contract.

3.2.4 Accountability and control

Independent internal control systems and external audit and oversight should be part of the framework for procurement. These mechanisms ensure that the process is open and that the involved parties are held accountable for their actions throughout the cycle (for more on this, see OECD 2007b, 89–120). Record keeping throughout the process is essential to allow inspection of the rationale behind all decisions, and a document archive is an important tool, together with standardised templates and forms. Standardising both archives and reporting enhances accountability and transparency because access to information is made less complicated. Standardisation allows the officer to compare information from other processes with the current process in a reliable manner, because the available information is similar in content and structure.

Transparency International (2005c) has defined 13 minimum standards for public procurement (Box 8). Some of these will be addressed more in detail in the following section, connected to the stage in the procurement process where the problem is most likely to occur.

Box 8. Transparency International's minimum standards for public procurement

Public procurement authorities should:

1. Implement a code of conduct
2. Define strict anti-corruption policies
3. Consult blacklists to exclude corrupt companies from tendering
4. Require use of project integrity pacts
5. Ensure open, competitive bidding
6. Provide easy access to all appropriate information
7. Ensure that no bidder is given access to privileged information
8. Allow sufficient time for bid preparation and for challenges to the award decision
9. Ensure high-level monitoring of contract change orders
10. Ensure that independent auditing bodies function effectively
11. Separate key functions
12. Apply standard office safeguards
13. Promote participation of civil society organisations as independent monitors

Source: Transparency International 2005c.

3.3 Practitioners tools for risk mitigation

Box 9 shows examples of tools and methods often used to detect and prevent misconduct and fraud. Red flag guides and checklists are two examples. In order to use the tools effectively, officials must understand how and why corruption in procurement can happen, as outlined in Section 2, and the risks involved at the various stages, as outlined at the start of this section.

Guidelines for identifying risks and corruption: Red flag guides are useful in examining a procurement process for possible fraudulent behaviour. They should be used with caution, however, because the lists often are so extensive that all processes—whether corrupt or not—could potentially raise a few red flags. Thus, procurement staff and management, as well as donors, should use these tools in combination with other methods to gain an accurate picture of the legitimacy of a given procurement process. For example, a red flag for corruption would come up if the quality of the work is lower than agreed. In one such case, the Asian Development Bank discovered that substandard material was used in an emergency flood rehabilitation project in Tajikistan. But on closer examination, the evaluation found that the use of substandard material was motivated by the desire to stretch budgets and increase outputs; it therefore did not seem that corruption was the cause of the quality shortfall (ADB 2007). In short, red flags are a warning of a *potential* risk and not a certain sign of corruption. Red flags for each step of the procurement process are listed in Annex 2.

Standardisation of information gathering, reporting, and filing: Electronic procurement and auctioning can be used to identify the best possible contract price through an online competition. This minimises personal interaction between the procuring agency and bidders and facilitates standardisation of the offers. The method is best suited for purchase of homogenous products where the award decision is likely to be made on the basis of price. The process improves transparency and is more time-efficient than paper-based systems. However, an initial investment is required to set up the technological framework and a supporting legal environment (OECD 2007b, 74).

Capacity building of persons involved in procurement: An understanding of professional ethics and of the procurement process can help lower the risk of corruption. Annex 1 gives an overview of some of the most comprehensive online resources, and the Ethicos Group provides some material for anti-corruption training, such as videos.

Box 9. Examples of tools and activities for mitigating corruption in procurement

Guidelines for identifying risks and corruption

- Red flag guides
- Online interactive tools
- Local advisers and consultants
- Codes of conduct and integrity pacts
- Minimum standards for transparency (see section 3.2)
- Model laws aligned with country systems

Standardisation of information gathering, reporting, and filing

- Electronic procurement and auctioning
- Well-organised archive system for documents
- Standardised checklists for documentation
- Gifts and gratuities checklist
- Conflict of interest mapping with registration of private interests

Capacity building of persons involved in procurement

- Training in professional ethics and skill development
- Resources on integrity in competitive procurement

Source: Authors.

Table 1. Tools for red flags, checklists, and assessments and where to find them

Tools	Where to access tools
<i>U4 Anti-Corruption Resource Centre</i>	
U4 red flag tool	http://www.u4.no/themes/corruption-aid/red-flag-tool/AAA%20Start.cfm
<i>Organisation for Economic Co-operation and Development (OECD)</i>	
Codes of conduct for procurement practitioners	www.oecd.org/governance/procurement/toolbox
Conflict of interest mapping with registration of private interests	
Gifts and gratuities checklist	
Standardised checklists for documentation	
<i>Business Anti-Corruption Portal</i>	
Public procurement tools	http://www.business-anti-corruption.com/due-diligence-tools/public-procurement-tool/?pageid=728
Interactive tool to assess risk from procurement	http://www.business-anti-corruption.com/fileadmin/user_upload/pdf/Procurement_Tool.xls
<i>United Nations Commission on International Trade Law (UNCITRAL)</i>	
Model legislative provisions on privately financed infrastructure projects	http://www.uncitral.org/uncitral/en/uncitral_texts/procurement_infrastructure/2003Model_PFI.html

Source: Authors.

4. Risk mitigation step by step

As explained in Section 2, procurement is a process with several stages. While Section 3 explained the general risks and some useful strategies for enhancing integrity in general, this section gives advice on what should be specifically considered at each step of the procurement process.⁷

4.1 Pre-tendering phase

The initial phase comprises four main steps: needs assessment, planning and budgeting, definition of requirements, and choice of procedure.

4.1.1 Needs assessment

Typical risks during needs assessment:

- Assessment of needs is insufficient due to shortage of time and/or a lack of capacity and competence on the part of the procurement staff.
- The purchase is unnecessary; demand is induced so that a certain firm can profit. The goods or services purchased are of little value to the public.
- Political and diplomatic pressures influence the assessment of needs.

The first recommended task before the procurement process begins is to do a *mapping of the country setting, sector, and market conditions*. Such information, when handled properly, can contribute to well-informed decision making. Badly informed decisions may raise the risk of corruption. Data gathering is potentially a time-consuming task. The process may be made more efficient by creating

- databases with vendors that have been contracted before;
- databases identifying vendors that should be excluded from public procurement contracts for various reasons (blacklisting);
- databases showing past performance of vendors that have already been contracted in public procurement; and
- electronic procurement systems that systematise the data and bids for easy dissemination (OECD 2007b, 67–68).

An example of a centralised information database is the United States government's Acquisition Central.⁸

A tool that can be used to structure the mapping of a national procurement system is the OECD's Methodology for the Assessment of National Procurement Systems (OECD 2006a). A mapping of the political context can help donors understand appropriate methods of mitigating the risk of corruption within the specific country setting. For public officials, too, such mapping can provide new insight into a complex context where important information may be hidden from view. The Overseas Development Institute guide *Mapping Political Context: A Toolkit for Civil Society Organisations* offers a good overview of where to start and how to proceed (Nash, Hudson, and Luttrell 2006). Regardless of which databases and data storage facilities are available in a certain setting, some kind

⁷ The section is based on OECD (2008, 28–45; 2007b, 21–27), Schultz and Søreide (2006, 15–19), Søreide (2002, 14–19), and Transparency International (2006, 17–23), in addition to sources cited in the text.

⁸ The Acquisition Central website is at <http://www.acquisition.gov>.

of standardised structuring of the data related to award decisions is recommended. If the process is reviewed later, standardised reporting formats ensure easier documentation of the basis on which the award decision was made. A standardised template for market studies and a standardised checklist for suppliers will contribute to a streamlined process that is easier to review.

4.1.2 Planning and budgeting

Typical risks when planning and budgeting for procurement:

- Planning and budgeting of purchases is insufficient and/or unrealistic.
- Goods and services to be procured are not in line with the overall investment plan of the government.

The following steps can help mitigate corruption risks in planning and budgeting:

- Use data from the mapping exercise to ensure that the planning and budgeting of purchases is sufficient and realistic.
- Use the data from the mapping of the country setting to ensure that the goods and services to be procured are in line with the overall investment plan of the government.

4.1.3 Definition of requirements

Typical risks in the definition of requirements:

- Bidding documents or terms of reference are tailored to fit one company, so that competition is either restricted or not possible.
- Bidding documents or terms of reference are unnecessarily complex in order to hide corrupt actions and make monitoring complicated.
- Selection and award criteria are not defined objectively.
- Selection and award criteria are not established in advance.
- Firms are prequalified or shortlisted because they have offered bribes and not because of their qualifications and experience.

The following steps can help mitigate corruption risks in defining the requirements for procurement:

- Create clear and simple rules that specify which products and/or services an honest procurement system is expected to produce.
- Simplify requirements for the goods procured to avoid grey areas of price and quality that can arise when custom-made or state-of-the-art products are requested. Benchmarking done on the basis of private market prices and quality requirements inspired by off-the-shelf items make it possible to create assessable requirements for the tender (U4 2009b). Give civil society representatives an overview of the public officials' areas of responsibility and levels of discretionary authority.
- Maintain or adopt a blacklist to guide debarment decisions.
- Implement a code of conduct for the contracting authority and its employees (Transparency International 2006).
- Include rules for exceptional cases in procurement procedures. Terms such as "emergency," "exceptional," and "immediate" should be clearly defined.
- Make sure the tender information includes identification of all persons, including middlemen and agents, involved in a tender.

- Encourage companies to certify that they comply with all anti-bribery laws, and require anti-corruption commitments such as integrity pacts.
- Make provision for registering and managing conflicts of interest. The OECD (2005a) guide *Managing Conflict of Interest in the Public Sector: A Toolkit* can be useful to practitioners needing more comprehensive guidance.

4.1.4 Choice of procedure

Typical risks in the choice of procedure:

- Noncompetitive procedures are used without adequate justification or in ignorance of the requirements.
- Noncompetitive procedures are misused by means of legal loopholes such as splitting the contract (in order not to exceed the competitive bidding limit), declaring an unwarranted emergency, or prolonging existing projects without justification.
- Suppliers are evaluated without a prior tender process, possibly because decision makers have a private agenda for choosing a particular firm. The risk is that the best potential bidder is overlooked.

A competitive bidding process can reduce the risk of corruption in contract awards if the process is properly conducted and monitored. Clear rules for the process and for mechanisms to ensure professionalism, transparency, and accountability are crucial. A widely accepted description of a competitive bidding process is summarised on the U4 website (U4 2009b) and includes the following main elements:

- Public notification of bidding opportunities
- Documents that clearly set out the needs, describe the bidding process and contract terms and conditions, and give the criteria for choosing the winner
- Submission of secret sealed bids that are opened in the presence of the bidders at a specified time and place by someone not involved in the call for bids
- Impartial evaluation and comparison of bids by competent evaluators, without influence or interference by bidders or other parties

In addition, it is necessary to define what is required for a bidding process to be competitive and successful. For example, Indonesian regulations deem the process to have failed if (a) there are fewer than three bidders; (b) no responsive bid is submitted; or (c) the lowest bid exceeds the available budget (ADB and OECD 2006).

Donors will have to engage in continuous decision making as to which procurement system shall be used. According to the Paris Declaration and the Accra Agenda for Action, using the procurement system in the country of operation is the preferred option. However, use of parallel systems is an option when the local system is not sufficiently developed to ensure efficiency, accountability, and transparency at levels deemed adequate. The country system can thus be complemented with other systems as long as the ones used by the donor harmonise with the local system (OECD 2005/2008). Open competitive bidding should be the default practice, whatever system is used.

4.2 Tendering and decision-making phase

The tendering and award decision-making process has three steps: (1) invitation to tender, (2) evaluation, and (3) making an award.

4.2.1 Invitation to tender

Risks when inviting to tender:

- There is no public notice of the bid invitation.
- Relevant information is not disseminated equitably to all bidders.
- The time frame for response to the public call for bids is not applied equitably to all bidders.
- An unreasonably short time is allowed for responses to the public call for bids, so that only firms with advance knowledge have time to prepare tender documents.
- The criteria for selecting the winner are not made public.
- Lack of competition leads to an excessive price.
- Competitors conspire to fix the purchase price at an artificially high level.
- Firms offer bribes to gain access to confidential information about the relative importance of different elements in the tender, or about competitors' bids.
- Firms provide falsified quality assurance certificates, allowing unqualified firms to take part in the bidding competition.

The following steps can help mitigate corruption risks in tender invitations:

- Allow sufficient time for bid preparation and for complaints after the contract is awarded (Transparency International 2006).
- Strictly respect time limits.
- Make bid evaluation criteria public from the beginning.
- Reduce the number of decision-making centres.
- Separate the personnel involved in the evaluation of bids into a technical and an economical team (U4 2009b).

See also the description of the main elements in a competitive process in Section 4.1.4 above. Choice of procedure.

4.2.2 Evaluation

Typical risks in the evaluation phase:

- Decision makers are biased due to corruption in the evaluation process.
- Unclear definitions of the selection criteria make the selection process subjective instead of objective.

The following steps can help mitigate corruption risks in evaluating tender decisions:

- Award the contract to the bidder complying with all requirements and offering the best bid, as defined by the selection criteria published at the beginning of the process.
- Implement a code of conduct for the tendering companies.
- Establish clear protocols for communications.
- Create a clear contact point for bidders, and allow only a small number of officers to deal directly with the bidders (Queensland Purchasing 2006).

- Apply strict anti-corruption policies to all actors involved, including subcontractors and middlemen (Transparency International 2006, 54–56).
- Run background checks on consultants, and make their hiring process transparent.
- Use different staff for the bid evaluation and the award decision.

4.2.3 Award

Typical risks in the award phase:

- Decision makers are biased due to corruption in the award process.
- Records of the award procedure are not easily accessible.

The following steps can help mitigate corruption risks in the awarding of contracts:

- Ensure that the award is made by someone other than the person or group that issued the tender in the first place. When the decision on what to procure is delinked from the decision on which provider to use, there is less risk of corrupt arrangements between the issuer of the tender and the bidding companies.
- Involve civil society in the decision-making process, for example through public hearings.
- Use a group to agree on the award decision instead of leaving it up to one individual.
- Practice regular staff rotation to avoid the growth of corrupt relationships (Transparency International 2006, 44).
- Disclose information about the award publicly.
- Provide unsuccessful bidders with an explanation of why they did not win the tender and tell them whom to contact if they have further questions.
- Keep detailed documentation of the decision-making process. Such documentation will be important in case of complaints or an investigation.
- Appoint a board of appeals for contracts. At a minimum, an appeals process should be in place, and the contact point for appeals should be easily accessible. The appeals board or person should be overseen by actors who were not involved in the original procurement.

4.3 Post-award phase

The procurement cycle does not end with the contract award. Final steps include managing the contract, monitoring the delivery of goods, and overseeing the payments. In many countries the phase after the contract award is not regulated by procurement law. Instead it is covered by civil and contract law, which often is less focussed on transparency and accountability than procurement law. This may add to corruption risks in public procurement (OECD 2007b, 26).

4.3.1 Management of contracts

Typical risks in contract management:

- Renegotiation attempts are made after the contract has been awarded, but before it has been signed. For example, the contractor may press for significant revisions to the contract to allow a longer time frame for delivery and/or higher prices for products or services. Such a renegotiation can make the whole tender process useless and nontransparent.

- The winning contractor delivers a product of poorer quality or different specifications than stated in the contract. The products or services agreed upon in the contract may be replaced with inferior substitutes, perhaps in an effort to compensate for bribery expenses.
- New assets are “stolen” before delivery or before being recorded in an asset register.
- Public officials intentionally provide lax supervision; as a result, substandard goods and services are not detected.
- Collusion between a corrupt company and a corrupt supervising official leads to price increases, often through changes in specifications.
- Subcontractors are not selected in a transparent manner and not held accountable for their work.

Box 10 provides an example of how the price of construction projects in the Philippines increased drastically as a result of contract changes.

To reduce the risk of unauthorised *quality or price changes*, frequent and unannounced controls and external monitoring should be done regularly until the project is finalised. There should be a threshold for how much change in price or quality will be allowed. If the threshold is crossed, the project will automatically be put under monitoring by the highest level of authority involved. The rules for contract change orders should be clear and established in the original contract (Transparency International 2006). Among the questions to be addressed in the contract: What kind of supplementary work calls for a new procurement procedure? What is the definition of supplementary work? How should the price for supplementary work be decided?

In addition, the following steps can help mitigate corruption risks in contract management:

- Use online reporting and electronic systems to enhance transparency and oversight.
- Ensure that the project’s objectives are as specific as possible from the start. In areas where there is still room for individual interpretation, one solution can be to have a committee respond to the contractor instead of just one officer.
- In large projects, include a performance rating of the contract winner as part of the monitoring procedure. A final rating at the end of the project should indicate whether the provider’s overall performance met the expectations stated in the agreement. If irregularities are detected, the contractor can be considered for blacklisting or other remedial actions.
- Establish and make known provisions for whistleblowing as a way to report evidence or suspicions of corruption. Whistleblower protection is important, both to protect the individuals involved and to increase the likelihood that people will come forward with information about sensitive issues. A strategy should be developed before someone is in need of protection.

4.3.3 Order, payment, and final audit

Typical risks in overseeing order and payment and conducting final audits:

- False claims are filed, charging for goods and services that have not been delivered.
- Corrupt supervisors are willing to approve false claims.
- Lack of separation of financial duties and supervision increases opportunities for false accounting, cost misallocations, and false invoicing.
- Contractors and consultants deliberately delay completion of projects to lengthen their period of work.

The following steps can help mitigate corruption risks in ordering and payment:

- Maintain close communication between the staff managing the contract and the staff approving the payments, to make sure that payment is not made for goods and services that have not been delivered.
- Make sure that the contract includes provisions for holding back payment if bribery is detected.
- Appoint staff who were not involved in any of the earlier stages to carry out a final audit of the project. This can help avoid collusion or cover-ups of irregularities at earlier stages.
- Conduct performance audits in addition to normal audits.
- Sanction wrongdoing if it is discovered. (See Section 3.2 for more details)

Box 10. Contract changes raise costs for construction project in the Philippines

In the Philippines, extensive anti-corruption measures have been employed in the construction sector, and post-award contract modification has been one of the focus areas. A case in point concerns a steel bridge built over one of the country's largest rivers, the Abra River. Construction work was originally scheduled to last 420 days, but at the final count, the number of days had more than doubled to 1,000. A major reason for the delay was that the bidder and evaluators failed to factor in weather and river conditions. The river swelled in rainy periods, forcing the contractor to suspend work several times, sometimes for as long as four months. Because of the delays, the cost of the project ended up rising from 177 million to 218 million Philippine pesos.

Contract changes may happen for countless reasons, and corruption does not need to be one of them, as this example shows. However, caution is needed because the risk of corruption is always present. The distinction between genuine unforeseen events and corruption is not always obvious, and proof may be hard to establish.

Source: Procurement Watch Incorporated 2009

Annex 1. Online resources on integrity in procurement

Organisation	What can you find?	Web address
ADB/OECD (Asian Development Bank / Organisation for Economic Co-operation and Development) Anti-Corruption Initiative	Supporting the fight against corruption in Asia and the Pacific and offering resources on policy dialogue, policy analysis, and capacity building.	http://www.oecd.org/corruption/asiapacific
ADB/OECD Anti-Corruption Initiative	Thematic review on curbing corruption in public procurement. Country self-assessment reports.	http://www.oecd.org/document/39/0,2340,en_34982156_34982431_35028199_1_1_1_1,00.html
Business Anti-Corruption Portal, anti-corruption tools inventory	Links to a large number of specific anti-corruption tools.	http://www.business-anti-corruption.com/anti-corruption-tools-inventory/
Business anti-corruption portal, public procurement due diligence tool	Three documents and an interactive tool.	http://www.business-anti-corruption.com/due-diligence-tools/public-procurement-tool/?pageid=728
CoST (Construction Sector Transparency Initiative)	An international multi-stakeholder initiative designed to increase transparency and accountability in the construction sector.	http://www.constructiontransparency.org/
Ethicos Group	Videos, publications, and links for ethics training and teaching.	http://www.theethicosgroup.org/
IAE (Integrated Acquisition Environment)	Acquisition Central provides a one-stop website for all matters related to acquisition in the United States, including databases, regulations, information, training, and advice.	https://www.acquisition.gov/
OECD (Organisation for Economic Co-operation and Development)	Guidebooks, tools, country cases, and other resources for integrity in procurement.	http://www.oecd.org

Organisation	What can you find?	Web address
OECD, procurement toolbox	Interactive toolbox on procurement integrity for practitioners.	http://www.oecd.org/governance/procurement/toolbox
OLAF (European Anti-Fraud Office)	Office to protect the financial interests of the European Union by combating fraud, corruption, and other illegal activities. Provides reports and other publications.	http://ec.europa.eu/dgs/olaf/
PPN (European Public Procurement Network)	Network for cooperation among expert public procurement officials, focused on European companies involved in procurement across national boundaries.	http://www.publicprocurementnetwork.org/
PPRA (Public Procurement Regulatory Authority, Tanzania)	Tools, e-library, guidelines, legislation, and even some procurement humour.	http://www.ppra.go.tz/
Transparency International	Handbook on transparency in procurement.	http://www.transparency.org/publications/publications/other/procurement_handbook
U4 Anti-Corruption Resource Centre	Research, help desk, and training on anti-corruption.	http://www.u4.no
UNCITRAL (United Nations Commission on International Trade Law)	Online resources on procurement and infrastructure.	http://www.uncitral.org/uncitral/en/uncitral_texts/procurement_infrastructure.html
UNPCDC (United Nations Procurement Capacity Development Centre)	Resource centre to support procurement capacity development.	http://www.unpcdc.org/home.aspx
UNPD (United Nations Procurement Division)	Provides responsive, effective, and quality expert procurement services and business advice.	http://www.un.org/Depts/ptd/
World Bank blogs	Cover procurement, anti-corruption, governance, and	http://blogs.worldbank.org/publicsphere/procurement-

Organisation	What can you find?	Web address
	accountability, with links to related resources.	monitoring-citizens-it-effective
World Bank, Procurement	Procurement site with information on public procurement systems, including Country Procurement Assessment Reports and more.	http://go.worldbank.org/9KQZWXNOI0
World Bank Institute, Business Fighting Corruption	Anti-corruption resource for business with e-tools, case studies, and publications.	http://www.fightingcorruption.org
WTO (World Trade Organization), Working Group on Transparency in Government Procurement	Advice and documents on government procurement and transparency.	http://www.wto.org/english/tratop_e/gproc_e/gptran_e.htm

Annex 2. Checklist summarising risks and mitigation strategies

1. General comments on corruption in procurement	
Examples of risks	<ul style="list-style-type: none"> • There is insufficient transparency in the procurement process. • Actors involved in the process are not held sufficiently accountable. • Actors involved in the process lack professionalism. • Actors involved in the process have conflicts of interest.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Establish minimum standards for transparency as a threshold. • Implement a legislative framework covering the whole procurement process. • Make use of internal control systems and external audits. • Train staff on procurement and integrity issues. • Create codes of conduct and include integrity clauses in the contracts. • Follow up and make a plan for implementation of codes of conduct. • Obtain assets declarations from the involved actors. • Debar middlemen who have bribed or tried to bribe public officials from future tenders. • Aim to have sanctions that are proportional to the price of the contract. • Investigate suspicions by using the prosecution authorities or other suitable external auditors. • Hold the guilty accountable by requiring repayment of the amount and debar them from future bidding processes.
Sources and tools	<ul style="list-style-type: none"> • Guides to integrity in competitive procurement (see Annex 1) • Minimum standards for transparency • Model laws aligned with country systems • A good archive system for documents • Standardised checklists for documentation* • Training and education • Codes of conduct for procurement practitioners* • Conflict of interest mapping with registration of private interests* • Gifts and gratuities checklist*

2. Pre-tendering phase	
Examples of red flags	<ul style="list-style-type: none"> • Efforts to purchase unnecessary or inappropriate items • Manipulation of procurement thresholds to avoid prior review • Inadequate evaluation criteria or procedures • Unreasonable prequalification requirements • Ambiguous, incomplete, or misleading contract specifications • Contract specifications that are too narrow or too broad
2.1 Needs assessment	
Examples of risks	<ul style="list-style-type: none"> • Needs assessment is insufficient due to time pressure or lack of capacity or competence on the part of the procurement staff. • Purchase is unnecessary, and demand is induced. • Political and diplomatic pressures influence needs assessment.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Map the market conditions and the sector. • Use trained procurement staff. • Allow sufficient time for mapping. • Determine whether there is actual need for the service or product. • Map the risks created by the political climate and institutional framework in the country setting.
Sources and tools	<ul style="list-style-type: none"> • Templates for market study reports and to solicit supplier information* • Public hearings • Methodology for assessment of national procurement systems (OECD 2006a) • <i>Mapping Political Context: A Toolkit for Civil Society Organisations</i> (Nash, Hudson, and Luttrell 2006)
2.2 Planning and budgeting	
Examples of risks	<ul style="list-style-type: none"> • Needs assessment, planning, and budgeting of purchases are insufficient and/or unrealistic. • Goods and services procured are not in line with the overall investment plan of the government.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Get more than one officer to approve the data from the mapping of the product, sector, and country. • Involve an independent organisations in an oversight role, such as think tanks or civil society organisations. • Check alignment with government strategies while doing the country mapping.
Sources and tools	<ul style="list-style-type: none"> • Data from the mapping exercise • Special advice from independent experts • Data from the mapping of the country setting • Standardised checklists to design tender methods to reduce bid rigging*

2.3 Definition of requirements	
Examples of risks	<p>Complex and unclear:</p> <ul style="list-style-type: none"> • Bidding documents or terms of reference are unnecessarily complex, in order to hide corrupt actions and to make monitoring complicated. • Unclear selection and award criteria are not objectively defined. • Selection and award criteria are not established in advance. • Conflicts of interest exist where one or more involved actors have personal interests in the various stages of the procurement process. <p>Low integrity:</p> <ul style="list-style-type: none"> • Bribes are offered by bidders for shortlisting or prequalification. • Bidding documents or terms of reference are tailored to fit one company, so that competition is restricted or is not possible. • Firms provide falsified quality assurance certificates, allowing unqualified firms to take part in the bidding competition.
Examples of mitigation strategies	<p>Simple and clear:</p> <ul style="list-style-type: none"> • Create clear and simple rules to specify what an honest procurement system is expected to produce. • Simplify the goods procured as much as possible. • Benchmark prices on the basis of private market prices and quality requirements inspired by off-the-shelf items. • Give civil society representatives an overview of the public officials' areas of responsibility and degrees of discretionary authority. • Define the evaluation criteria in measurable factors and establish a committee to evaluate subjective parts of the bid. • Require disclosure of potential conflict of interest. <p>Check integrity:</p> <ul style="list-style-type: none"> • Ensure that a code of conduct is implemented for the contracting authority and its employees. • Encourage the companies to certify that they comply with all anti-bribery laws, and require anti-corruption commitments such as codes of conduct. • Include identification of all persons involved in a tender, including middlemen and agents, in the tender information. • Maintain or adopt a blacklist to guide debarment decisions. • Request insurance coverage and payments of deposits.
Sources and tools	<ul style="list-style-type: none"> • Rule book for procurement • Market analysis, civil society involvement • <i>Managing Conflict of Interest in the Public Sector: A Toolkit</i> (OECD 2005a) • Code of conduct for bidders and procurement office • Certificates • Blacklists • Due diligence checks
2.4 Choice of procedures	
Examples of risks	<ul style="list-style-type: none"> • There is lack of justification/ignorance of requirements for the use of non-competitive procedures.

	<ul style="list-style-type: none"> • Non-competitive procedures are misused because of legal loopholes. • Relevant information is not provided equitably to all bidders.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Create clear rules that specify when competition is required. • Include rules for exceptional cases in procurement procedures. • Define terms such as “emergency,” “exceptional,” and “immediate.” • Use available channels to reach all potential bidders. • Establish clear protocols for communications.
Sources and tools	<ul style="list-style-type: none"> • Criteria for selecting appropriate tender methods* • Procurement rule book • E-procurement systems • Templates for noncompetitive tender method reporting* • Standardised checklist to enhance integrity in noncompetitive tender methods* • Guidelines for designing tender methods to reduce bid rigging*

3. Tendering and decision-making phase

Examples of red flags	<ul style="list-style-type: none"> • Failure to make bidding documents available • Short or inadequate notice to bidders • Unusual bidding patterns • Apparent connections between bidders • Bidder not listed in business or telephone directories • Multiple contract awards to the same company • Qualified companies fail to bid • Rotation of winning bidders • Unreasonably high bids • Unreasonably low bids • Nontransparent bid-opening procedures • Award to other than the lowest qualified bidder • Disqualifications that are poorly supported • Pressure to select a certain contractor, subcontractor, or agent • Winning bid is very close to budget or estimate • Long unexplained delays in contract award or negotiations
3.1 Invitation to tender	
Examples of risks	<ul style="list-style-type: none"> • There is a lack of public notice for the bid invitation. • Criteria for selecting the winner are not made public. • Competitors conspire through collusive bidding. • Confidential information is misused.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Allow sufficient time for bid preparation and for complaints after the contract award. • Respect time limits strictly. • Make bid evaluation criteria public from the beginning. • Demand that codes of conduct be put in place. • Encourage whistleblowing by creating clear lines of communication and protection for whistleblowers.

	<ul style="list-style-type: none"> • Create a clear contact points for bidders. • Allow only a small number of officers to deal directly with the bidder. • Provide information equitably to all bidders.
Sources and tools	<ul style="list-style-type: none"> • E-tools, mass media, and available channels relevant to the country setting • Channels for whistleblowers to inform management • Whistleblowing protection • E-tools to formalise communication • Template for supplier questionnaire* • Access to contractor information clause* • Anti-collusion tender clause* • Certificate of independent bid determination*
3.2 Evaluation	
Examples of risks	<ul style="list-style-type: none"> • Decision makers are biased due to corruption in the evaluation process. • Unclear definitions of the selection criteria make choosing the winning company subjective. • Confidential information is misused.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Ensure that a code of conduct is implemented for the tendering companies. • Require all actors involved, including subcontractors and middlemen, to comply with strict anti-corruption policies. • Hire consultants to do due diligence, and ensure that the hiring process is transparent. • Use different staff for the bid evaluation and the award decision. • Reduce the number of decision-making centres. • Separate staff involved in the evaluation of bids into a technical team and an economic team.
Sources and tools	<ul style="list-style-type: none"> • Code of conduct • Due diligence routines • Structures of responsibilities • Guidelines for detecting bid rigging in public tenders*
3.3 Award	
Examples of risks	<ul style="list-style-type: none"> • Decision makers are biased due to corruption in the award process. • Access to the records of the award procedure is not given or is limited.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Involve civil society. • Disclose award information proactively. • Use a group to agree on the award decision instead of one individual. • Practice regular staff rotation to avoid growth of corrupt relationships. • Provide an explanation of why unsuccessful bidders did not win the tender.
Sources and tools	<ul style="list-style-type: none"> • Public hearings • Staff rotation • Electronic information sharing • Guidelines and model format for supplier debriefings*

4. Post-award phase	
Examples of red flags	<ul style="list-style-type: none"> • Use of questionable agents or subcontractors • Complaints regarding poor-quality goods, works, or services • Delivery of poor-quality goods, works, or services • Continued acceptance of poor-quality goods, works, or services • Questionable contract amendments (change orders) • Questionable invoices • Payment of high prices without justification • Absent or questionable documentation
4.1 Contract management	
Examples of risks	<ul style="list-style-type: none"> • Price, quality, or specifications change after contract is signed. • Public officials exercise poor supervision. • Corrupt company and corrupt supervising official collude. • Subcontractors are not selected in a transparent manner and are not held accountable for their work.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Run frequent and unannounced controls. • Put in place external monitoring. • Set a threshold for changes allowed and plan for how to handle change requests. • Appoint a board of contract appeals. • Include provisions making it possible to hold back payment if bribery is detected in the contract. • Make whistleblowing possible. • Have a whistleblower protection strategy ready. • Follow the “four eyes rule”: always have more than one officer inspect, supervise, and interpret issues that are not objectively clear.
Sources and tools	<ul style="list-style-type: none"> • Online reporting and electronic systems* • Independent body to receive whistleblower messages • Whistleblower protection strategy • Supervisory committees • Post-award risk assessments of financial vulnerability of contractors*
4.2 Order, payment, and audit	
Examples of risks	<ul style="list-style-type: none"> • Claims are filed for goods and services not supplied. • Corrupt supervisors are willing to justify false claims. • Lack of separation of financial duties and supervision increases the possibility for false accounting, cost misallocations, and false invoicing. • Renegotiation of contract is allowed and substantial changes to the contract are introduced, undermining the relevance of the bidding process.
Examples of mitigation strategies	<ul style="list-style-type: none"> • Include a performance rating as part of the procedure in large projects. • Conduct performance audits in addition to normal audits. • Make sure that staff managing the contract and staff approving payments communicate closely so that payment is not approved for goods and services that have not been delivered. • Include provisions in the contract making it possible to hold back payment if

	<p>bribery is detected.</p> <ul style="list-style-type: none"> • Use staff who have not been involved in any of the previous phases to carry out the final accounting of a project to avoid collusion or cover-ups of irregularities at earlier stages. • Conduct performance audits in addition to normal audits. • Sanction wrongdoing when it is discovered.
Sources and tools	<ul style="list-style-type: none"> • Performance rating • Black lists • Investigative units • Sanctions

* Templates, guidelines, forms, and explanations for tools marked with * can all be found at <http://www.oecd.org/governance/procurement/toolbox> (last accessed 6 July 2011).

Sources: The checklist was compiled by the authors, drawing on discussions with researchers, donors, and project staff, and on the following sources: OECD 2005a, 2005b, 2006a, 2006b, 2007a, 2007b, 2008, 2009a, 2009b, 2009c, 2010, 2011; Schultz and Søreide 2006; Søreide 2002; Transparency International 2005a, 2005b, 2005c, 2006, 2008; and U4 2009a, 2009b, 2009c.

Annex 3. Declarations and agendas on procurement

In the Paris Declaration of 2005, several donor and partner countries agreed on a number of steps to make aid more efficient. This was reinforced in the subsequent Accra Agenda for Action in 2008. Their main points regarding procurement are as follows.

Paris Declaration on Aid Effectiveness (2005)

Partner countries and donors jointly commit to:

- Use mutually agreed standards and processes to carry out diagnostics, develop sustainable reforms, and monitor implementation.
- Commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development.
- Share feedback at the country level on recommended approaches so they can be improved over time.

Partner countries commit to take leadership and implement the procurement reform process.

Donors commit to:

- Progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes.
- Adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.

Accra Agenda for Action (2008)

Donors agree to use country systems as the first option for aid programmes in support of activities managed by the public sector.

Should donors choose to use another option and rely on aid delivery mechanisms outside country systems (including parallel project implementation units), they will transparently state the rationale for this and will review their positions at regular intervals. Where use of country systems is not feasible, donors will establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures.

Source: OECD 2005/2008.

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Abstract

Why and how does corruption occur in procurement? Why is it important to prevent corruption in procurement? What are the main risks at various stages of the procurement process, and what can be done to mitigate them? Commitments under the aid effectiveness agenda to use country procurement systems, mounting pressure on aid budgets, and increasing demands from donor countries to show impact and value for money have all combined to focus attention on the risks of corruption in aid procurement. Host-country systems, along with the practices of donor agencies and NGOs, are all vulnerable to mismanagement and corruption if the processes are not structured and managed in a transparent, accountable, and professional manner. This guide provides tools and guidance to help assess risk levels and support appropriate safeguards against corruption in procurement. As procurement is part of almost all projects, programmes, and sector work, this paper is intended not only for procurement officers but for all development practitioners and government officials affected by procurement processes.