

12th IACC
WORKSHOP SHORT REPORT FORM
FOR RAPPORTEURS

Number and title of workshop: 5.3 Taking Stock of Integrity Pacts:
Impact and Impact Measuring

Date and time of workshop: Thursday 16 November 2006, 15:00 -17:30

Moderator (Name and Institution): Mr. Michael Wiehen, TI Germany

Rapporteur (Name and Institution): Ms. Kate Sturgess, TI Secretariat

Coordinator (Name and Institution): Ms. Lisa Prevenslik, TI Secretariat

Panellists (Name, institution, title)

<p>Mr. Geo Sung Kim, TI Korea (South), Vice President Mr. Saad Rashid, TI Pakistan, Executive Director Mr. Andres Tobar, Latin-American Corporation for Development / TI Ecuador, Subdirector</p>

Main Issues Covered and Main Outcomes

Please note that the "Main Issues Covered" are the Workshop Working Questions listed below in italics. These served as the basis for discussion. The "Main Outcomes" are directly related to the Workshop Working Questions are listed below each question.

Introduction

The moderator introduced the workshop by briefly explaining the history of the Transparency International (TI) Integrity Pact (IP). The IP does not stand alone as a tool to curb corruption in procurement processes, but rather is an integral tool of a comprehensive monitoring system. It was noted that while no external IP impact assessment has been carried out to date by TI, that this is envisaged for the future.

NOTE: Many participants noted that measuring the various sorts of impact of IPs is difficult and at this point, still an imperfect science. Throughout the discussion panelists and participants provided evidence and informed opinions *on what they believe to be the impact or indicators of impact of IPs* in their respective countries.

Session I: Economic Impacts

1. Has the IP saved money? How much? In what stages of the procurement and contracting processes?

Participants believe that there is evidence that IPs help to save money. For instance, many participants cited differences between the initial cost estimate of a project and the actual contract award price. Based on Colombia's experience, it estimates a savings of about 20 percent in projects with IPs but that this is certainly difficult to attribute *directly* to IPs. See 2. for concrete examples from other countries.

Participants added that, in a number of cases, that projects were completed much more quickly than without the application of an IP (e.g., Pakistani Karachi Water Supply Basin (KWSB), KIII). It was also noted that beyond these types of savings in the bidding process that one could also take into account the positive economic impact of a project being completed in a timelier manner. (i.e., a completed dam would allow for power to be sold earlier).

Finally, cases where IPs have contributed to the opening of previously blocked markets were discussed. In Ecuador, the application of an IP in the mobile telecommunications industry, contributed to the opening of the market to a third company and a subsequent drop in mobile telecommunications prices of 25%. Prior to this, Ecuador had the second highest mobile

telecommunication prices in the world.

2. *How were these savings calculated? Provide – if possible - estimates of cost savings accompanied by a solid methodology expressed in absolute and relative numbers*

Examples include:

Country	Project	Initial Estimate USD	Contract Price USD	Savings	
				USD	%
Ecuador	Mazar Hydroelectric Dam	450 M	360 M	90 M	
Pakistan	Karachi Water Supply Basin (KWSB), KIII	4 M	1 M	3 M	75
Pakistan	Steel Project	100 M	37.5 M	62.5 M	

In the case of Pakistan, the savings in the bidding process were calculated either based on the cost of very similar projects (e.g., for the KWSB, KIII, the figures from the KII phase of the project were used. KII and KIII were designed for the same amount of water, source and delivery location). In other cases, the official and approved government cost estimates were used as a baseline.

In all Pakistani cases, the contract award amount was less than the official initial estimates.

3. *What is the added value of following an IP, compared to following existing 'good practice' in procurement following IFI guidelines? How do the IPs compare with the Minimum Standards for Public Contracting? What is the evidence we can use to persuade IFIs and other organizations to use IPs?*

No concrete responses to this question.

4. *How much does it cost to implement an IP? How or by whom is this funded?*

The cost of IP implementation varies greatly. This obviously depends on how it is implemented; on what scale, for which project(s), and by whom (TI NC staff, volunteers, paid consultants).

In Ecuador, companies wishing to bid on contracts must buy the bidding documents. The funds from this help to fund the independent monitoring process.

In Korea, the appointed IP Ombudsmen work on a pro-bono basis, with only their expenses being covered.

In Colombia, funding for IP implementation initially came from the public sector. Now, however, TI Colombia has determined that it will not accept funds from these institutions as it may affect peoples' perception about its independence as a monitor of contracting processes in public institutions. Unfortunately, TI Colombia's work in this area is severely limited as a result.

In Germany, in the case of the Berlin Brandenburg International Airport project, the monitor receives a very modest honorarium and expenses paid by the airport authority. There are obvious questions as to whether this limits the monitor. There is a publicly available and carefully designed contract wherein the conditions of the agreement are set out and help to safeguard the independence of the monitor.

In Argentina, the NC does not receive funds from the state or the private sector to fund IP activities. To date support for this has come from international donors such as the UK Embassy.

Session II: Trust and Confidence

1. Do you have evidence that the use of IPs has influenced the confidence and trust of those involved in the public contracting process (principal as well as contractor)?

A TI Korea survey (2004) indicated that 83.3% of Seoul Municipality Government officials and 66.2% of private sector respondents felt that IPs are effective in curbing corruption. Another survey (Busan, 2005) found that most government agencies in this area had already adopted IPs and found that they were useful.

IPs have led to greater participation of companies in bidding processes in a number of countries.

Some argue that the implementation of IPs also shows political will of relevant public sector institutions and politicians.

2. Do you have evidence that the use of IPs has influenced the confidence and trust of the public in the public decision making process?

No concrete responses with evidence for this question in the workshop.

3. Do you have evidence that the application of IPs has influenced the local investment climate?

In Korea, it can be said that the application of IPs has contributed to positive changes in the local investment climate.

4. Has the application of IPs been mentioned in any reports of international organizations such as World Bank, OECD, ADB, etc. ?

The implementation of IPs in the context of the KWSB, KIII Project in Pakistan has been cited by the World Bank and OECD, due in large part to the significant savings. In Korea the implementation of IPs is cited in national level reports.

5. What is the role of a NC in the administration of an IP.; Awareness raising? Direct involvement in monitoring an IP using their own staff or hiring consultants?

The role of TI NCs varies:

- Training
- Advice and assistance (including revision of bidding documents)
- Monitoring

Session III: Deterring Bribery:

1. Do you have evidence that IPs discourage bribing during the bidding process for a public contract? How? If so, what discourages bribing the most (e.g. the knowledge that competitors are bound by the same rules, fear of sanctions, especially fear of the debarment sanction, knowledge that government agencies will take action to prevent corruption, the presence of the monitoring function, the role of donors)?

Participants noted that more companies took part in the bidding process with an IP than similar projects without.

In Korea, where IPs have been implemented at the local government level in 248 municipalities a number of mayors have been prosecuted, mainly for bribe taking (latest figures are 78 of 248 mayors). This may prove to be a deterrent.

2. Do you have evidence that the impact of the Integrity Pact is reduced due to business corruption such as bid rigging and collusion?

3. Do you have evidence that contacts arranged long before the tender is announced reduce the IP's impact?

No concrete responses with evidence for this question in the workshop.

4. Do you have evidence that the Integrity Pacts sanctions have a limited effect?

In Korea, a company that violated the terms of an IP. However the court did not convict this company, thereby limiting the sanctions of this particular IP. All participants noted that in order for IPs to have an impact, that the judicial system must be sound.

5. Do you have evidence that firms with greater market power enter into Integrity Pacts more readily? Why?

No concrete responses with evidence for this question in the workshop.

A summary of more general points includes:

- That IPs are only one piece of a comprehensive monitoring system
- That sector specific and strategic implementation of IPs can bring about change in the industry (i.e., greater participation in bidding by a range of companies, catalyst for development in otherwise stalled or locked industry)
- That there are visible and measurable economic impact in the bidding process (up to 75 % savings)
- Surveys, focus groups and follow up meetings with relevant actors are methods of determining the impact of IPs
- It is a big challenge to find appropriate sources of funding for IP work

The Moderator, Michael Wiehen, also described the case of the Berlin Brandenburg International Airport Project: the Airport Authority approached TI Germany three years after being sent away after proposing an IP; the IP is seen as an absolutely necessary tool in order to ensure and show that all processes are clean and transparent and monitored by an external and independent expert; now the major construction contracts are being signed and there have been no complaints from any involved parties to this point in the project.

Main Outputs

At this point, the Workshop Report is the main workshop output.

Recommendations, Follow-up Actions

This Workshop Report can feed into the development and implementation of IP impact assessment processes in the future.

Workshop Highlights (including interesting quotes)

Highlight included (more detail on each can be found in the Main Issues Covered and Main Outcomes Section):

- Concrete numbers detailing savings due to the implementation of IPs (i.e., 5% savings in KWSB, KIII project)
- Wide spread adoption of IPs in Korea
- Results of a survey carried out by TI Korea indicate that 83.3% of Seoul Municipal Government officials and 68.6% of private sector respondents believe that IPs combat corruption
- Unlocking of market in Ecuador (telecommunications)
- Good to target cases strategically and trust that the experience there will permeate into the sector and related projects in the country

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Signed _____