Identifying and reducing corruption in public procurement in the EU (study)

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Outline

- Objectives of a recent Commission (OLAF) study
- Methodology developed and applied
- Main findings
- Policy recommendations

Pilot Project

- Pilot project requested by the European Parliament
- Budget 2011: EUR 1.5 Mio
- Responsible DG: The European Anti-Fraud Office (OLAF)
- Main objective: methodology to measure the costs of corruption in public procurement

Context

- Public procurement = about 20% GDP in the EU (2010: € 2.4 trillion)
- 19% thereof (€ 447 billion) EU regulated, registered in Tender Electronic Daily (TED)

- Corruption = "*abuse of power for private gain*" (broader than bribery)

Tender procedure for the study

- Open call for tender for a study
- 6 bids submitted
- The winning bid:
  - PwC EU / Ecorys (consortium)
  - Subcontractors
    - University of Utrecht
    - ECLAN
    - Expert panel of 4 independent experts
- Contract signed in March 2012
- Finalisation in June 2013

Objectives of the Study (I)

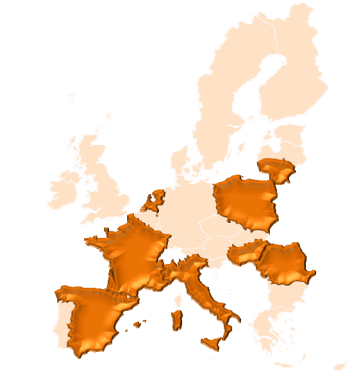
- To identify:
  - Indicators of corruption, based on the common definition of corruption
  - Innovative tools and methodologies, best practices
- To develop:
  - Methodology to measure direct costs of corruption, using market and statistical data, investigations etc.
- To test it:
  - In 5 sectors of the economy concerning EU funds
  - In at least 7 Member States

Objectives of the Study (II)

- To collect information on:
  - Best and negative practices (all Member States)
  - Existing anti-corruption measures in all MS – benchmark set for 51 of these measures
  - Usefulness of standard unit prices
  - Key actors contributing to the fight against corruption (7 Member States)
- To make recommendations for further policy development

Sectors and Member States (MS)

- 5 sectors (different types, with substantial involvement of EU funds)
  - road & rail construction
  - water & waste
  - urban & utility construction
  - training
  - R&D/high tech/medical products
- 8 Member States (balanced: geographically, size, level of corruption etc.)
  - ES, FR, HU, IT, NL, PL, LT, RO



Source: PwC

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Methodology to measure the costs (I)

- Analysing real cases in selected sectors and MS
  - Identifying indicators/red flags (27)
  - by comparing 96 corrupt/grey cases
  - with 96 clean cases
  - Assessing frequency -> weight of indicators
  - Estimating average direct costs attributable to corruption
    - Effectiveness (not fully meeting objectives)
    - Efficiency (cost/benefit ratio: higher price, lower quality)

27 red flags for corruption in public procurement			
1	Strong inertia in composition of evaluation team	15	Award contract has new bid specifications
2	Conflict of interest for members of evaluation team	16	Substantial changes in project scope/costs after award
3	Multiple contact points	17	Connections between bidders undermines competition
4	Contact office not subordinated to tender provider	18	All bids higher than projected overall costs
5	Contact person not employed by tender provider	19	Not all/no bidders informed of the award and its reasons
6	Preferred supplier indications	20	Award contract and selection documents are publicly (e.g. online) available
7	Shortened time span for bidding process	21	Inconsistencies in reported turnover/number of staff
8	Accelerated tender	22	Winning company not listed in Chamber of Commerce
9	Tender exceptionally large	23	No EU funding involved
10	Time-to-bid not conform to the law	24	No public funding from Member States
11	Bids after deadline accepted	25	Awarding authority not filled in all fields in TED
12	Number of offers	26	Audit certificates by auditor without credentials
13	Artificial bids	27	Negative media coverage
14	Complaints from non-winning bidders		

Table: 27 red flags assembled – including assumptions about patterns of corruption (Source: PwC)

Methodology to measure the costs (II)

- Econometric model
- Applying on randomly selected set of projects:
  - Sectors / product groups
    - *motorways construction works*
    - *railway track construction materials and supplies*
    - *construction of waste water plants*
    - *(airport) runway construction works*
    - *staff development services*
    - *radiotherapy, mechanotherapy, electrotherapy and physical therapy devices*
- Calculation of probability of corruption and costs
- Extrapolate to sectors as a whole

Study development

- Research techniques:
  - Open source research and literature
  - Data on corruption investigations from the 8 MS
  - Interviews with experts
  - Market and statistical data
  - 2 expert workshops
- Obstacles
  - Access to investigation files
  - Availability of data on procurement projects

Main findings – total costs of corruption in the studied sectors

Direct costs of corruption in public procurement		
Sector	*Direct costs of corruption (in million EUR)*	*% of the overall procurement value in the sector in the 8 Member States*
Road & rail	488 –755	**1.9 % to 2.9%**
Water & waste	27 –38	**1.8% to 2.5%**
Urban/utility construction	830 - 1 141	**4.8% to 6.6%**
Training	26 –86	**4.7 % to 15.9%**
Research & Development	99 –228	**1.7% to 3.9%**

Table: costs of corruption by sector (Source: PwC)

Total (for TED): € 1.4 to € 2.2 billion 2.9 – 4.4%

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Main findings (II) – costs of corruption per corrupt project

Clean projects

5% loss

Corrupt/grey projects

18% loss

Average loss attributable to corruption: 13%

Smaller projects, higher losses
"Soft" projects, higher probability and losses

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Main findings (III) – types of corruption identified

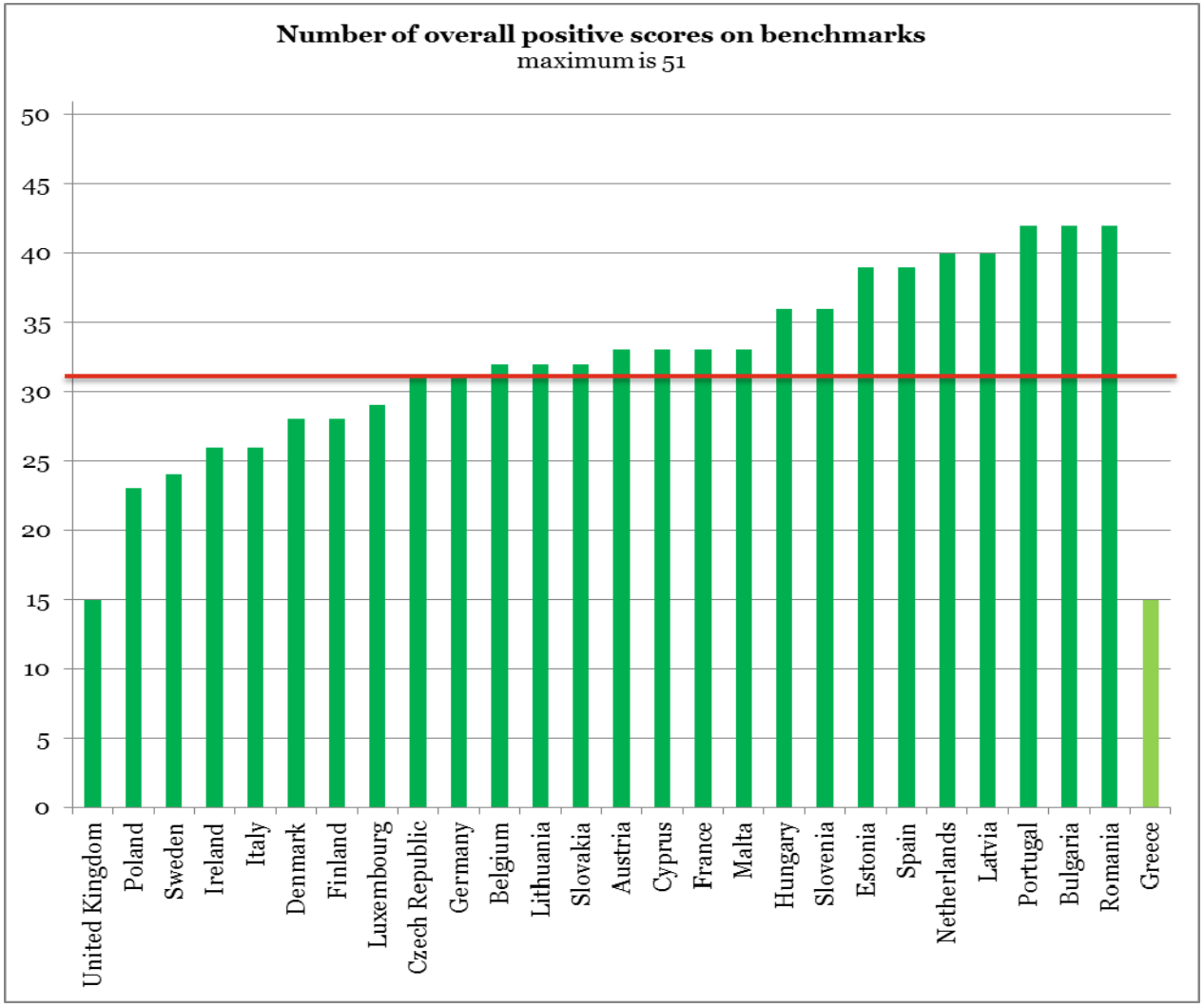
Type of corruption by sector				
Sector	*Bid rigging*	*Kickbacks*	*Conflict of interest*	*Deliberate mismanagement*
Urban/utility construction	19	14	11	3
Road & Rail	10	8	4	1
Water & Waste	15	6	3	0
Training	1	3	2	1
Research & Development	12	4	2	0
Total*	**57**	**35**	**22**	**5**
Type of corruption by Member State				
Member State	*Bid rigging*	*Kickbacks*	*Conflict of interest*	*Deliberate mismanagement*
France	6	3	5	1
Hungary	9	2	4	0
Italy	12	3	4	0
Lithuania	11	2	1	1
Netherlands	0	0	1	0
Poland	10	6	2	1
Romania	4	8	4	1
Spain	5	11	1	1
Total*	**57**	**35**	**22**	**5**

Table: types of corruption identified (Source: PwC)

Recommendations of policy measures

- Well structured thorough data on projects, including on beneficial owners and transparency
- Centralised collection of data
- Training, rotation vetting of staff, etc.
- Performing risk assessments, market analyses, using SMART tools for detection of anomalies
- Independent audits/evaluations
- Whistleblower protection
- Independent investigative services
- Specialised institutions to fight against procurement corruption

Anti-corruption measures (benchmark)



Paradox: States with higher level of corruption – best record on anti-corruption tools

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Next steps

- Wide distribution of the findings
  - Publication on OLAF website
  - Public hearing (1/10/2013)
  - Presentation at COCOLAF
- Further discussions
  - European Parliament committees (CONT already planned)
  - Commission internal discussions
  - EU Anti-Corruption Report

Thank you

http://ec.europa.eu/anti_fraud/policy/preventing-fraud/index_en.htm

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