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# Improving Public Sector Procurement in Latin America

A Synthesis Report on Eight Case Studies of Three Methods in Three Countries



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## FOREWORD

Chou-En-Lai, the famous Chinese prime minister, when asked what he thought of the French revolution, he reportedly answered “it is too early to tell”. One could say the same about the growing number of experiments being conducted to combat corruption. However, it is never too early to become more systematic in describing such experiments, sharing and exchanging experiences among practitioners, and comparing them to start drawing some lessons -- however imperfect. After all, for practitioners it is better to be vaguely right than definitely wrong.

As the TI movement passes from a period of awareness-raising to one where concrete actions are taken to fight corruption, there is an accompanying need to document the activities of the National Chapters and other parties, in order to share best practices and lessons learned. A lot of literature and know-how has been developed over the years on how public and private sectors entities can strengthen their governance structures to combat corruption and improve their performance. None of these efforts is likely to endure or become effective without a properly empowered civil society that has the wherewithal to engage public and private sectors in a well-grounded and effective manner.

In an attempt to start sharing experiences of civil society efforts, two CD-ROMs entitled “The Corruption Fighter’s Tool Kit” were produced last year presenting a range of anti-corruption activities in an accessible format. The cases drew attention to the importance of collaboration with the public and private sectors and, above all, the need for coalition building within civil society, and the mobilization of proper skills to manage these processes.

This report takes the issue one step further, by comparing the experiences of three approaches to monitoring public procurement in three countries, to start drawing some lessons for broader application.

Given the wide range of issues to be considered (from country conditions and civil society capabilities, down to impact of such interventions, sustainability of results, replicability of efforts, etc.), it is difficult to devise a single and pellucid method to enumerate and explain successes, rank initiatives, identify the attributes that determine success or failure. It is for this reason that the TI Chapters concerned and the analysis team agreed to follow the case method - - bringing in a small group of experienced professionals who could tell us what they saw and the conclusions they drew, with whatever qualifications they felt as appropriate.

This is what this study is all about. While the case method may not offer absolute proof, it is an effective way of illustrating both problems and possibilities. As more experiences get under way, we will be able to establish a stronger basis for drawing conclusions. In the meantime, this study enables us to accelerate our learning process, and thus sharpen our tools for greater impact.

*Miguel Schloss*

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## **I. INTRODUCTION**

1. Transparency International - Latin America has recently completed eight case studies of the application of three methods -- Integrity Pacts, Public Hearings and Comparative Prices --to strengthen the honesty and efficiency of public sector procurement in Latin America. Two case studies were done in Argentina, and another two were done in Panama, while four case studies were done in Colombia. Write-ups have been prepared on each of these eight experiences. In addition, more general papers were prepared on the experience in Colombia with both Integrity Pacts and Comparative Prices. [See Annex A for a list of these ten documents].

2. The objectives of this synthesis report are to both summarize these eight individual experiences and to indicate, to the extent possible given the limited number of cases, general conclusions about the most important factors contributing to success. The report is addressed to the TI community that can benefit from looking at the experiences of their colleagues. The views expressed in this Synthesis Report are those of the three individuals who prepared the case studies and drafted this summary report. To the extent possible, the comments received on the initial draft have been taken into account in this revised version. While reducing corruption in public sector procurement was the initial and primary concern of the Latin American chapters of Transparency International [TI-LAC], it is apparent that there are also needs and opportunities for significant increases in other aspects of efficiency in procurement. These can range from improving project design and to simply improving purchasing management and practices. In this summary we will consider these broader benefits as well as the reduction of corruption.

## **II. SUMMARY FINDINGS**

3. A number of clear lessons can be drawn from the case studies. First, the case studies clearly illustrate the fundamental importance of the support and leadership of the responsible public officials; the case study of waste collection in the Municipality of Moron illustrates what can be accomplished when TI is working closely with an administration which is determined to implement reforms. At the same time, while acknowledging the importance of leadership, the contribution made to the political economy- by simply helping ensure an open process- should not be underestimated. The collective action thus generated and the constraints imposed on politicians and public officials when issues are discussed in the open, enabling them to resist pressures to change decisions in favor of entrenched interest groups, is also of critical importance. Second, substantial financial savings are possible from reducing corruption and inefficiency in public sector procurement; case studies not only in Moron but also in Colombia (Compartel I) and Panama (INTEL) each have given rise to significant savings.

4. Here are also a number of less obvious, but equally clear, lessons to be drawn from the experiences examined in the case studies. These lessons, outlined below, suggest that the transparency instruments examined [Integrity Pacts, Public Hearings and Comparative Prices] are a necessary, but not a sufficient, condition to reduce corruption and increase efficiency in public sector procurement processes.

I.- It is desirable for TI to be involved in the process as early as possible, particularly in complex projects. The experience in Argentina [Metro Line H] illustrates some of the problems that arise when the entry of the TI chapter did not take place until the bidding is already

underway. When TI gets involved at the start its tools and expertise are more effective in influencing the drafting of bidding documents, defining the bid evaluation criteria, and promoting genuine competition. At the same time, if early involvement is not feasible, this does not mean that TI should not get involved in any cases where the procurement or contracting process has already been initiated. The Panama INTEL case study provides an example where TI was not invited to become involved until the privatization process was underway, but where TI was still able to play a very useful role in the process.

II.- In general, it is important to draw on technical experts, familiar with state of the art approaches, in the design of bidding documents and the drafting of bid evaluation criteria. The specific kinds of technical expertise that will be needed will, of course, depend upon the complexity of the procurement process. The most useful experts will be those who are not only "procurement experts", but who are familiar with the kind of goods and/or services being procured as well as with the responsibilities and operations of the government entity for which the procurement is undertaken.

III.- In addition to well designed bidding documents, ensuring a truly competitive bidding process is essential for efficient procurement. When contracts are of sufficient size to attract international bidding interest, getting firms from other countries to enter the bidding may be the most effective way to bring to an end the domination of the market by colluding national contractors.

IV.- Public hearings, and the media attention they may engender, probably have a "multiplier effect" by helping build up a constituency concerned with transparency, honesty and efficiency in public procurement. This constituency, in turn, can help TI chapters mobilize the support they will need for their subsequent activities.

5. The report also identifies the following areas where further thought and analysis are still needed in regard to what Transparency International can, and should, be doing to be most effective:

I.- As noted also in the Status Report (October 2001), there are opportunities for corruption not only in the design of the bidding documents and at the contract award stage, but also during the implementation of the contract. Monitoring contract implementation seems generally to be beyond the present capacity of TI chapters. Should TI be making a greater effort to stay involved, perhaps on a selective basis, during contract implementation? If so, what role should it seek to play and what additional capacities would be needed?

II.- In cases such as the "Prices and Purchases" program in Colombia as well as with the purchase of pharmaceuticals by the Casa de Seguro in Panama, improving procurement transparency is exacerbated by major management inefficiencies. To what extent, therefore, should TI chapters seek to extend their activities beyond corruption and into areas such as management inefficiency? If they are to do this, what additional capacities, or perhaps links to other groups, would be needed?

III.- In the case of Integrity Pacts in Colombia, the relationships between TI and the government are particularly close. TI-COL in this case is providing a service wanted by the government and TI-COL is being reimbursed for providing this service. The case studies include an extensive discussion of the problem of maintaining TI's independence under these circumstances. A number of factors that contribute to this are mentioned. There are both important advantages and risks arising from TI-COL's close relationship with, and partial financial support from, the government. It may be argued that TI chapters should focus on monitoring what others do,

perhaps advising on what they should do, but that they should not become managers or co-managers of specific activities [which really should be carried out by the public authorities]. This is an area which needs further analysis and discussion.

IV.- The broad acceptance and increasing institutionalization of an instrument may not be without risks for TI chapters. One case worth examination concerns integrity pacts in Colombia. This instrument is now well established and, as noted above, the chapter is being reimbursed for its contribution. However, once an instrument becomes well established, there may be a case for having it implemented by a properly independent office rather than by the TI chapter itself. This might avoid the otherwise possible "bureaucratization" of the chapter and would leave the chapter with greater freedom to play the innovative and pioneering role that is needed elsewhere in the country.

V.- The effectiveness of Integrity Pacts depends in good part upon "whistleblowers" who are willing to point out violations by others participating in the particular pact. In some of the case studies concerns arose regarding the willingness of participants [perhaps because of possible future business relations] to play this role. Should something be done, and what can be done, to create incentives and protection for "whistleblowers"? What can be learnt from experience in other countries [Europe, North America] in providing such incentives?

VI.- The importance of "cultural changes", whereby ethical considerations would replace legal compulsion as the reason for honest behavior by public officials and private contractors, is mentioned a number of times in the Colombia case studies. Further analysis and discussion is needed of the role of ethics and voluntarism, as opposed to legal compulsion, in strengthening public sector procurement processes. Can motivation based on ethics be encouraged, while at the same time motivation based on law and judicial enforcement is relied upon to obtain the desired behavior from all participants? Or could it be that, in at least some country situations, the problems in the legal system are so great that this is not really an effective alternative?

### **III. APPLICATION OF DIFFERENT INSTRUMENTS.**

#### **A. Integrity Pacts**

6. Four of the eight case studies were concerned primarily with Integrity Pacts -- three in Colombia and one in Panama. The two case studies in Argentina combined Public Hearings with Integrity Pacts; these two are considered separately and subsequently. The three Colombia case studies all relate to work with a single government agency, Compartel, which is associated with the Ministry of Communications. However, the chapter in Bogotá, TI-COL, has had a great deal of additional experience with Integrity Pacts which is discussed in a more general paper [see Annex A]. The present note focuses on the three Compartel case studies. Compartel I was TI-COL's first experience with Integrity Pacts, and thus was a "learning experience" as the staff concerned moved from the design to the implementation stage.

7. The circumstances in Colombia are somewhat special because of the close working relationship which has been established between certain Government ministries and TI-COL. In December 1999 a Presidential Directive was issued which indicated that, where bidding on large contracts was concerned, it was a general government policy to implement Integrity Pacts, with the assistance of TI-COL, "to the extent that it is possible". As a consequence, Integrity Pacts have been widely used in Colombia. By the time the Compartel case studies were being prepared, there had been 51 cases in which the Bogotá TI

chapter had been involved. Consistent with this, individual ministries have reimbursed part of the additional costs that TI-COL incurred in particular cases.

8. **COLOMBIA: Three Case Studies with Compartel:** Compartel I concerned the provision of telephone service for rural areas, particularly the establishment and operation of 6,500 posts providing telephone service. The objectives of TI-COL in this, as in the subsequent cases, included [1] creating, through following transparent procedures, confidence in the bidding process on the part of civil servants, bidders and the general public, [2] contributing to a cultural change which would include voluntary adherence to both ethical principles and the legal framework, [3] establishing "rules of play" to balance the relative forces involved, and [4] gathering information to help prepare a "risk map of corruption", i.e., to identify the points where corruption was most likely to enter the process.

9. The Integrity Pact approach developed by TI-COL involved pledges on the part of both bidders and government officials to neither offer nor accept bribes. It also included agreement by the bidders to report any violations they became aware of, penalties for bidders who violated the terms of the Pact, and agreement on an independent arbitrator to review any complaints concerning the behavior of any signatories to the Integrity Pact. The Pact would be signed by senior officials from the concerned government offices and senior executives of the bidding companies. In addition, other government officials concerned with the particular procurement would be asked to sign an "Ethics Proclamation".

10. The approach was similar in the three cases of Integrity Pacts related to Compartel's activities. However, TI-COL realized from the start that the Pact alone would not be sufficient. It was recognized that there were three points where risks and incentives for corruption could be found. These were [1] the preparation of the bidding documents, [2] the evaluation of the bids and award of the contract, and [3] the execution of the contract. Thus TI-COL, as a condition of participating in the process, asked for and received the right to review and make suggestions regarding the bidding documents. And it was recognized that outside experts, with experience in the particular field, would generally have to be called upon to assist in these processes.

11. In the case of Compartel I, the contract was awarded, but TI-COL has not been involved in a continuing review during the execution of the contract. This remains an area of concern. The case study reports that a number of individuals, particularly losing bidders, expressed their concern that the contract execution stage could become the source of many corruption problems through subsequent modifications in the contract.

12. Compartel II involved the provision of basic household telephone service in 302 rural localities. This was an unusual example of public sector procurement since, instead of awarding a contract to the qualified bidder offering the lowest price for a particular undertaking, it involved a maximum subsidy {US\$ 72.8million} to the provider of the specified telephone facilities which was known in advance. The first call for offers resulted in a single participant who proposed to provide service in only some of the areas covered in Compartel's proposal. This proposal was not accepted and a second call for offers was made. In the second round a single multinational firm responded. However, it was found that this firm had provided incorrect information regarding its relevant experience and qualifications. When this was discovered that single firm withdrew from the process.

13. While in this Compartel II case TI-COL monitored the procedures and proposed an Integrity Pact, no Pact was signed in connection with either the first or the second request for proposals. This was because there was, in each instance, only a single bidder. Since one of the major objectives of a Pact would be to regulate the relations among competing bidders, it was concluded that the value added from an Integrity Pact would be insufficient to justify going through this process.

14. The third case study with Compartel, Internet Social, concerned providing community access to the Internet in 97 pilot centers and 26 cities that lacked such access. TI-COL was involved from the beginning of the process of Integrity Pact was signed. One potential bidder asked for modifications in the bidding documents. However, the request was rejected on the grounds that the proposed modifications would reduce the transparency of the process. This bidder then withdrew from the competition. In the discussions leading up to the signature of the Pact there was concern about avoiding arbitrariness in the implementation of the Pact, for example, sanctions without judicial review.

15. Several general questions are discussed in these three Compartel case studies. One important issue concerns maintaining the independence of TI when there is a formal agreement between the TI chapter and the government; in addition, a part of the chapter's costs are being reimbursed by a government ministry. The discussion concludes that it was both very important for, and also possible for, TI-COL to maintain its independence. Contributors to the latter included clarity and transparency in the relationship with the government. Another factor was the unilateral right of TI to withdraw from any process where it was not satisfied with how things were working out. This is a right which TI-COL, in fact, has exercised in a number of other cases, not reviewed as part of this synthesis report. The practice of involving outside experts also contributes to reinforce this independence. Importance was also attached to the ability of TI leadership to resist pressures. Finally, it was recognized that there were additional costs which had to be covered, and in this way the government's financial support helped make the process effective.

16. Another issue relates to monitoring performance in the stage of contract implementation. While the importance of this was recognized, it was also recognized that TI-COL did not have the capacity -- including the technical experience -- to properly carry out this function. Also it was pointed out that this goes well beyond what is expected to be accomplished by an Integrity Pact. Some other approach would be necessary for contract monitoring.

17. Another general issue raised in the Compartel case studies concerns incentives for, and the protection of, "whistleblowers". It is argued that, unless these exist, the incentive in the Colombia context is to remain silent about violations of the Integrity Pact. Most of those interviewed said they would not denounce a competitor because it would hurt their commercial relations. The discussion indicates that those with whom the problem was discussed recognize that the lack of incentives for, and protection of, "whistleblowers" as a deficiency in the system which, in the medium-term, could erode the effectiveness of the Integrity Pact.

18. Another issue discussed relates to whether participation in an Integrity Pact should be voluntary or obligatory. TI-COL has emphasized the importance it attached to creating a cultural change, and part of this involves a voluntary participation by both bidders and concerned government officials in Integrity Pacts. However, it is also recognized that, in actual practice, participation becomes obligatory when the Pact is made part of the bidding process and a firm wishes to participate in that process. The terms of the Pact, especially the sanctions for violations, however, are subject to discussion and to some extent modification by the participants.

19. **The Panama Case Study.** The privatization of state enterprises has been the subject of considerable public controversy in Panama. When the government initially sought to privatize the state telephone company, INTEL, only one firm remained in the running after the first round of pre-qualification. Rather than directly negotiate with this one firm, the authorities decided to reopen the bidding process, to actively seek additional bidders, and to invite TI-Panama to monitor the bidding process. Two major multinational telecommunications firms agreed to participate and TI played a major role in monitoring the process. TI's objectives in this case were similar to those in Colombia [see paragraph 8 above].

20. TI took on the role of an observer with a commitment to keep the public informed of all aspects of the privatization process. It received invitations to attend all meetings of INTEL's Board of Directors and had access to all the documentation concerned. Supported by an international expert, TI-Panama closely monitored the process and prepared a weekly bulletin on developments which was published in a leading newspaper. The two bidders [Cable & Wireless and GTE] signed an Integrity Pact which included a "no bribery" clause. The winning bidder's offer for INTEL's assets was \$152 million above the base price, and \$201 million above the other bidder's offer, so there were substantial financial benefits for the government. After the awards had been announced, both bidders indicated their satisfaction with how the process had been implemented.

21. There was general agreement that the participation of TI-Panama had been a key factor in carrying out this privatization process in a clean and transparent manner, and in restoring public confidence more generally in the privatization process. Nonetheless, there were some disadvantages from the fact that TI-Panama did not become involved until the second round of bids. Under the circumstances it was unable to provide input into the design and pre-qualification stages of the process, and it was unable to negotiate a "full" Integrity Pact which would have included possible penalties for violations. However, the case study concludes that, given the nature of the bidders in this case, the transparency achieved, along with the observer role of TI-Panama, was a sufficient disincentive for them not to engage in unethical business practices.

### **B. Public Hearings**

22. **Land Purchase in Panama.** The Public Hearing approach to transparency and efficiency in public sector procurement was also tried in Panama. This was in the case of the direct purchase of land by the Caja de Seguro Social [CSS] for a new health clinic in the eastern part of Panama city. In this instance the General Manager of CSS approached TI-Panama and requested its help in the design of a bidding process [since it was not subject to the procedures governing public bidding]. Public hearings were chosen in part because of the political pressures related to the choice of sites for the new health clinic. Among the objectives were [1] involvement of the local communities in the decision process in a country where this was not a common practice, [2] an efficient and open bidding process which could be expected to yield the most favorable financial result for the CSS as well as generate confidence in the procedures followed.

23. Assistance was sought at the outset from the Argentine chapter of TI because of the latter's prior experience with public hearings, and staff from Poder Ciudadano [the Argentine chapter of TI] came to Panama to share their experience with the CSS and TI-Panama staff. Two well publicized public hearing were held, each attended by about 120-125 concerned individuals. At the first hearing the pros and cons of four possible locations were debated. Following the hearing the participants were given opportunity to present their arguments in writing. A month later a second public hearing was held at which the evaluation criteria were explained and the recommendations of a technical committee were reported. The technical committee included an experienced specialist who was highly respected for his integrity. Participants in this second meeting were able to question members of the technical committee as well as to comment upon its recommendation.

24. The public hearing process was a success in promoting community participation. A survey of participants indicated that 98% of them were in agreement with the public hearing process. Moreover, 70% indicated they were in agreement with the option recommended by the technical committee. The process resulted in a potentially large saving for CSS, since the competitive process resulted in a recommended purchase price of about half of the \$1 million in the original budget allocation for the purchase of land for the health clinic. The hearing process also brought out environmental

considerations [such as susceptibility to flooding and noise pollution from the Tocumen airport] that were valuable inputs for the technical committee.

25. The presence of TI-Panama was generally recognized as a way of assuring the credibility of the bidding process in an environment with strong political pressures. However, there are some respects in which the process could have been improved. First, there was a need for improved preparation of the technical criteria, in particular initial clarity in the weightings to be given to different factors in evaluating bids, a process which called for better technical input in preparation of the bidding documents. Second, there was a delay in obtaining valuations of the proposed land purchase which, according to the country's legislation, had to be carried out by both the Controller's Office and by the Ministry of Economy and Finance. The evaluations were not only delayed, but the two offices also came to different conclusions, which introduced uncertainty into the final award. The result has been that the selection of the winning offer was delayed beyond the originally scheduled date -- which is something that could still undermine the credibility of the entire bidding process and result in a rebid. Thus, in this case there was a clear need for more adequate preparation of the bidding documents and also better management of the timing of other essential steps in the process.

26. **Public Hearings in Argentina.** Argentina has a long history of scandals in public sector management, and nowhere is the loss of confidence more evident than in the administration of public sector procurement. Poder Ciudadano, which includes TI's Argentine chapter, has been making a determined effort to improve this situation. Two examples of public hearing were studied in Argentina, both of which also involved the use of Integrity Pacts. One of these was for a contract for the construction of an underground subway line ["Line H"] in Buenos Aires. The second concerned the bidding process for waste collection services in the Moron Municipality [which is part of the Buenos Aires metropolitan area].

27. In the case of the metro line, the broad objective was to hold public hearings, and thus have consultation with civil society, before any commitment was made to go ahead with the investment. Participation of all interested parties, including the municipal administration as well as bidders and the affected communities, was needed to obtain a careful evaluation of all the issues [including trade-offs between the public interest and operational considerations]. In addition, an Integrity Pact was to be included as part of the bidding process.

28. Three public hearings were held over a six months period [with attendance as high as 450]. The initial hearing resulted in some modifications in the bidding documents and in the process to be followed that made the decisions subsequently taken by the municipal administration more acceptable to the affected communities. The second public hearing focused on the Integrity Pact, including changes in legislation that were needed to make the Pact part of the bidding process. At the third hearing the bidders were invited to endorse the Integrity Pact. The latter was subsequently sent to Congress as a proposed requirement to be included in all public bidding processes.

29. The Public Hearings, however, were initiated later than would have been desirable. The order of events seems to have been to start the bidding process, then hold hearings, and after this conduct a feasibility study. The desirable order would have been the reverse. The timing of the hearings limited the extent to which modifications could be made in both the bidding process and in the documents themselves. An example of this is the limitations placed on participation of foreign firms, which reduced potential competition and served the interests of the Argentine contractors. The case study concludes, however, that the public hearings were well organized and provided a number of benefits, even though these benefits would have been greater had the hearings been held at an earlier stage in the process.

30. The national contractors proved reluctant to sign the Integrity Pact. Also one must question the effectiveness of an Integrity Pact in an environment where collusion amongst contractors has a long history. Effective enforcement of the Pact is doubtful in an environment where bidders collude and will not object to each others' behavior.

31. The second case study in Argentina, which was concerned with the contract for waste collection in the Municipality of Moron, has had a highly desirable outcome and provides useful lessons in factors that can contribute to this result. A crucial contribution came from the mayor who took office at the end of 1999 with a commitment to eradicate the corruption that had been endemic in previous administrations. The contract involved in this case study covered the collection of domestic and industrial waste, street cleaning, and maintenance of the drainage system and public parks. The existing contract was costing the municipality almost US\$12 million annually.

32. The objectives of the mayor included [1] encouraging citizen participation, [2] an integrity clause to prevent the payment of bribes, [3] genuine competition among bidders in order to minimize costs, and [4] breaking a cartel of domestic waste collection contractors who had been exercising a monopoly influence in previous bidding processes. Poder Ciudadano [PC] supported these objectives and signed an agreement with the municipal government to cooperate with it in holding Public Hearings and in implementing an Integrity Pact in which bidders would commit themselves to "no bribery" behavior.

33. PC monitored the plans for the public hearing, including helping see that the event was appropriately publicized, that participants were invited well in advance, that a group of independent local experts were invited to review the documents and present their opinions at the hearing, and that the draft bidding documents were available both on the municipality's website and in printed form. The hearing was attended by more than 500 individuals, of which more than 60 testified regarding the proposed contract and contracting process.

34. The bidding documents were drafted in a way that would encourage genuine competition among bidders, including those from outside Argentina. A specialist from a neighboring country was brought in to assist in this process. The Public Hearing also contributed to revising the bidding documents, including giving attention to environmental concerns and a recycling plan for collected waste. Ten days after the hearing the Municipality was able to issue the final bidding documents. Four firms, three national and one Spanish, indicated that they wished to enter the bidding.

35. The Integrity Pact concept was introduced early in the process so the new rules were clear before potential bidders might have entered into different and perhaps collusive arrangements. The Pact provided for [1] a commitment by bidders not to bribe or collude, to disclose all payments, and to report violations by other bidders both in bidding and during contract execution, [2] a commitment by the Mayor not to demand or accept bribes and to prevent such actions by other officials, [3] heavy sanctions against any official or bidder violating the no-bribery commitment, and [4] public disclosure of the award decision, including the evaluation process and the reasons for selecting the winner. The Argentine chapter of TI undertook a monitoring role in all aspects of these procedures and also agreed to monitor how the winning bidder exercised its responsibilities.

36. As a result of the bidding a new 4-year contract was awarded to a Spanish company that had entered a bid of US\$32 million -- which represented a US\$13 million saving compared to the cost of the previous 4-year contract. The cartel of domestic contractors that had monopolized previous bidding processes was broken. Two factors were fundamental to these accomplishments. First was the leadership and commitment of the Mayor, including his ability to convince participants of the importance of getting international competition. The second was the promotional effort that was

undertaken to get foreign firms interested in bidding on the Moron contract. This was possible in this case in part because the contract was of sufficient size to attract foreign interest. As national contractors had a history on collusion, the attraction of an international competitor was probably essential to the favorable outcome in this case. It is believed that the winning bid by the Spanish contractor was made "at cost" in order to become established in a new market. This could give rise to efforts to renegotiate certain terms during the contract period. Consequently, it will be important to monitor the future administration of the contract.

### **Comparative Prices**

37. Only a single case study is concerned with the Comparative Prices approach to reducing corruption and improving efficiency in public sector procurement. This is the study of the program which has been implemented by the Veeduría Distrital de Santa Fe de Bogotá. The objective of the Veeduría is strengthening internal management and procedures in public sector organizations rather than exercising control and sanction functions [which belong to the Contraloría Distrital rather than to the Veeduría]. The hope was that, if given information on the prices and purchasing arrangements of others, individual government agencies that were paying above the norm would undertake whatever measures were necessary to improve their own purchasing management.

38. The Colombian authorities refer to the program as "Precios y Compras" ["Prices and Purchases"], a name which indicates the attention given to the purchasing procedures followed by the agencies concerned. At the time the case study was initiated the Veeduría had published [beginning in 1998] a series of nine Bulletins on Prices and Purchases. These reports provided information on the prices paid by various agencies for commonly used goods and services, the qualities of which were comparable so their purchase prices could be compared. The Veeduría, acting incognito, also went to the market and sought bids for these same goods and services. The prices paid by government agencies are then compared with those obtained by the Veeduría, which were taken as estimates of the "normal market price". The Veeduría, acting as if it were a private rather than public sector customer, found that it was frequently offered goods and services at prices below those being paid by public sector organizations. Inquiring as to the reasons for the difference, Veeduría staff were told that the differences were justified by the delays in payments by government agencies and also by some extra costs associated with sales to public agencies [such as publication in the *Diario Oficial*].

39. This program has proven more difficult to implement than expected. Agencies may not systematically organize information on their purchasing. And they complain of the volume of information they must provide to the Veeduría and also to the offices implementing control functions. A strong defensive reaction was encountered in some of the agencies concerned, who looked upon the "Prices and Purchases" program as one more effort at control by outsiders. Moreover, opposition to the program had arisen because the bulletin seemed to be stigmatizing as corruption what in fact were more often problems of management. In this case study, more than in any of the others, the problems seem to arise more from inadequate management than from corruption. As a result, during 2001 the procedures were revised to include a step of coordination with the entities concerned before the results of the surveys were published in the bulletin.

40. Looking at the trends in prices being paid by purchasing agencies, there is no evidence that the program is producing significant savings. Over time, the movement of prices seems to be erratic, increasing in some areas and going down in others. The prices paid by the public sector offices continue to be, in many cases, substantially above the normal market prices. Although the original focus of the project was in fact the combat of corruption, this is changing to a focus on increasing purchasing efficiency through improved management. The case study concludes that the problems of

inefficiency in purchasing management require an approach which is different from that of a set of tools which focus on transparency<sup>(\*)</sup>.

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<sup>(\*)</sup> Recent studies with public price comparisons in Argentina, undertaken by Professors Rafael di Tella of the Harvard Business School and Ernesto Schargrodsky of UTDT, demonstrate as much as a 17% fall in such prices following announced steps to check on invoice data; this sudden fall in prices strongly suggests the prior presence of corrupt practices. While prices later went back up, and while management inefficiencies in the purchasing agencies of some countries also contribute to higher prices, the impact of public price comparisons is nevertheless striking.

## Integrity Pacts

Panama -- Privatization of National Telecommunication Institute [INTEL]  
Colombia -- Caso #1: Compartel I [6,500 public telephones in rural areas]  
Colombia -- Caso #2: Compartel II [basic telephone service for 302 localities]  
Colombia -- Caso #3: Compartel - Internet Social [Internet service in 97 pilot centers]

## Public Hearings [combined with Integrity Pacts in Argentina]

Argentina -- Concession Contract for the Construction of an Underground Subway Line for the Buenos Aires Metro [Line H]  
Argentina -- Monitoring of the Bidding Process for the Contracting of a Waste Collection Service in the Municipality of Moron  
Panama -- Purchase of Land by the Caja de Seguro Social [CSS]

## Comparative Prices

Colombia -- Precios Comparados Caso: Veeduría Distrital de Santa Fe de Bogotá

In addition to these eight case studies, two additional papers were prepared regarding the experience in Colombia. These are:

Precios Comparados -- Republica de Colombia  
Pactos de Integridad -- Republica de Colombia

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