

Identifying and Reducing Corruption in Public Procurement in the EU

Key findings and recommendations



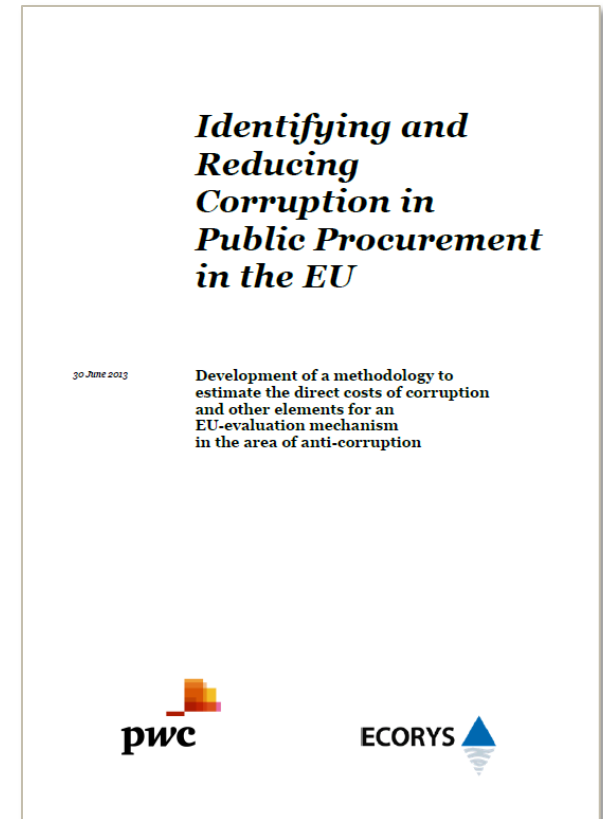
Count sharks



The study Identifying and reducing corruption in public procurement in the EU

Content

- An ***innovative methodology*** that enables estimating the costs of corruption in public procurement in the EU for the first time
- ***Positive and negative practices*** to prevent, detect and investigate corruption
- ***Recommendations***
- ***And more!***



Available from the OLAF-website: OLAF website: http://ec.europa.eu/anti_fraud/policy/preventing-fraud/index_en.htm

Scope of the study

In 2010 a total of **€ 2 406 billion** - **or around 20% of EU GDP** - was spent by governments, the public sector and utility service providers on public works, goods and services

Public procurement worth **€ 447 billion** (19% of this total expenditure) was published in the TED-database in 2010

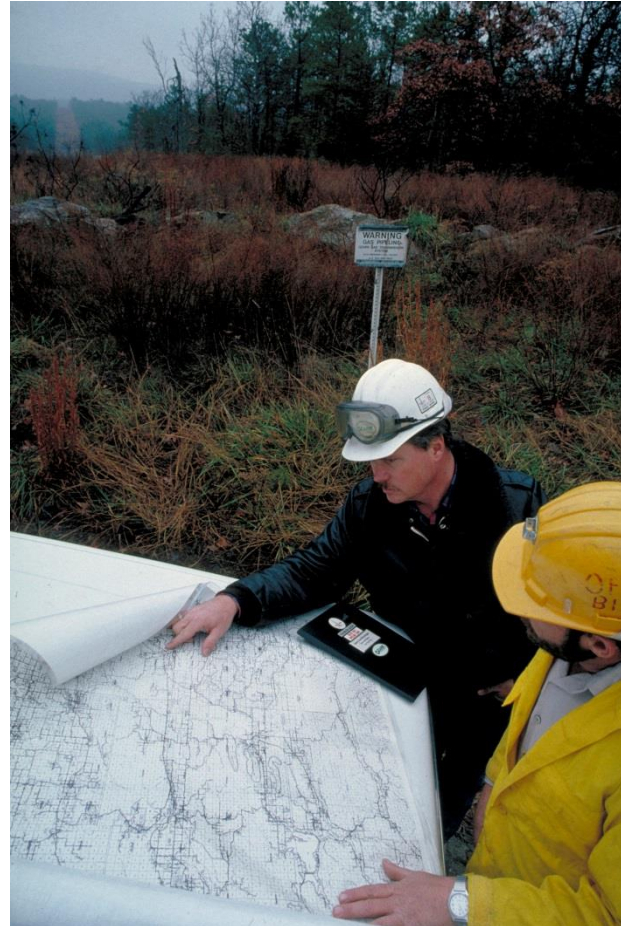
The study focused on public procurement in 5 sectors in 8 Member States



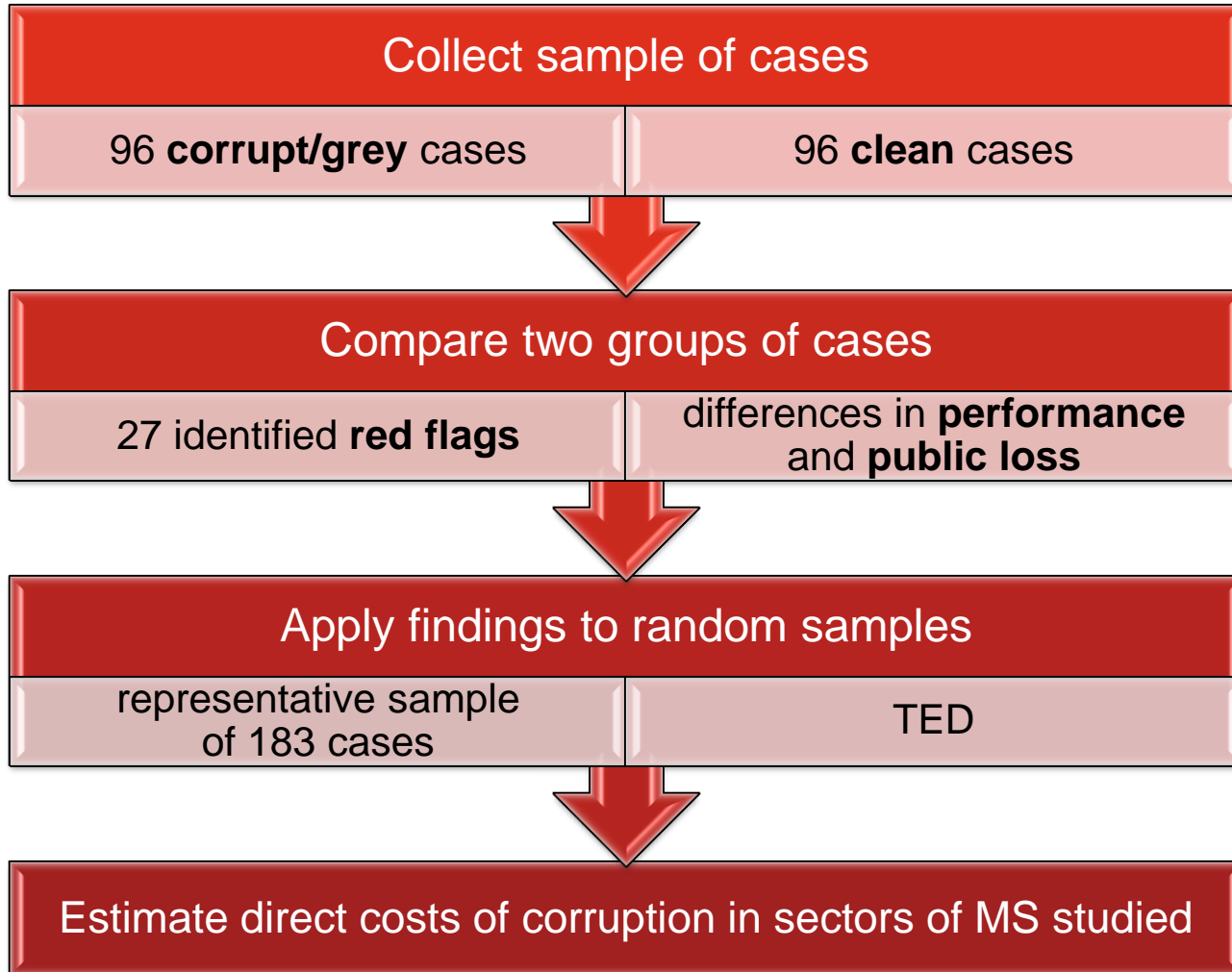
- *Road & rail*
- *Water & waste*
- *Urban/utility construction*
- *Training*
- *Research & Development*

Example of corruption in public procurement

Millions worth of contracts sold for football tickets and trips to Formula 1 races



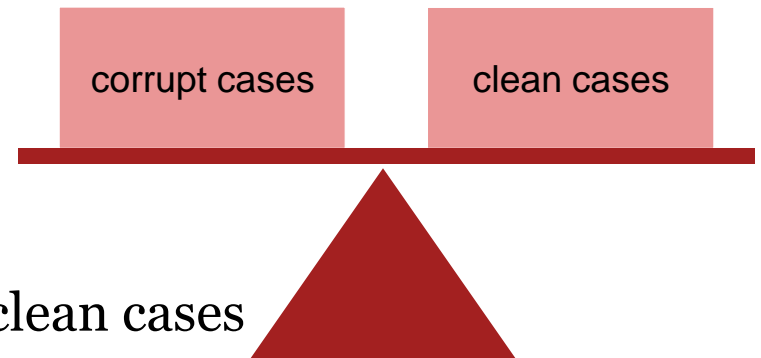
The methodology to estimate costs of corruption



The 27 red flags

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		

Key findings from the application of the methodology to estimate costs of corruption



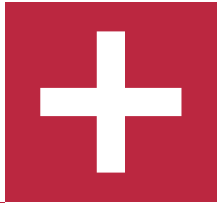
- Corrupt cases ***differ markedly*** from clean cases
- A ***combination of 14 red flags*** proved to be the strongest predictors for a higher probability of corruption in a procurement case
- A ***clearly higher public loss*** in the corrupt cases was identified: ***13%*** of the performance problems in corrupt/grey procurements can be attributed to corruption
- Direct public losses in corrupt/grey cases are typically a result of ***cost overruns, delays of implementation*** and ***loss of effectiveness*** (e.g. inferior quality, questionable usefulness)

The methodology to estimate costs of corruption and key findings

- The two tests on random samples appear to come to comparable results, especially in the case of road and rail construction as well as waste water treatment
- **The overall direct costs of corruption in public procurement in 2010 for the five sectors studied in the 8 Member States constituted between 2.9% to 4.4% of the overall value of procurements in the sector published in the TED, or between € 1 470 million and € 2 247 million**
- During the course of the study, **4 main types of corrupt practices** in the 96 corrupt/grey cases were encountered:
 - ✓ Bid rigging
 - ✓ Conflict of interest
 - ✓ Kickbacks
 - ✓ Other – including deliberate mismanagement / ignorance

Other findings

- In many Member States, ***data on public procurement*** is difficult to obtain: no (central, structured) databases, insufficient data in databases, databases not publicly accessible
- In most Member States, ***data and statistics on investigations and prosecution*** of corruption in public procurement are difficult to obtain
- It is ***difficult to draw clear-cut conclusions on the effectiveness of anti-corruption measures and programmes*** since there is –even with these study results – too limited factual knowledge about the scale of corruption or changes in corruption levels in public procurement



Positive practices

- ***Independent audits and evaluations*** performed according to EU-wide audit and evaluation standards
- ***Optimal transparency*** in the entire public procurement process
- The ***administrative data*** on tenders, bidders, projects and contractors are ***collected and stored in a structured way, available for controls, investigations and analyses***
- ***Proper screening of contractors and beneficiaries***, especially their ultimate beneficiary owners
- ***Corruption risk management*** that not only focuses on the contractors, but also on subcontractors and others involved in the proper execution of the contract
- ***Specialised, well-trained public procurement staff*** who share their expertise and market intelligence across Member States' borders



Negative practices

- The ***context of corruption in public procurement is fragmented***: many very different actors involved in the prevention, detection and investigation of corruption - none of these actors has fighting corruption in public procurement as its sole or main task
- There are ***no authorities at national or EU-level that link or integrate all data on public procurement***, relevant for the prevention, detection and investigation of corruption
- With regards to EU Structural Funds, the internal systems of Managing, Certifying and Audit Authorities set up in Member States - to prevent, detect and correct irregularities and suspected fraud, and recover amounts unduly paid- are ***not designed for the detection of corruption***, and evaluators of these programmes do not always focus specifically on it

Recommendations

More data

- Central collection of public procurement data
- Central collection of statistics on corruption in public procurement
- Public availability of documents and data

Audit, evaluate, investigate

- Adequate tools and methods for audits and evaluations to signal the presence of corruption
- Focus on substance of projects rather than procedural compliance
- More/ better monitoring, analysis and reporting technology

More research

- Expand this pilot to other sectors and Member States
- Research on ways to measure causality and effectiveness of instruments and practices to prevent, detect and investigate corruption

Thank you for your attention

Wim Wensink

Tel: +31 6 51 59 21 96

email: wim.wensink@nl.pwc.com

© 2013 PwC. All rights reserved. Not for further distribution without the permission of PwC.
"PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network.

Please see www.pwc.com/structure for further details.