CURBING CORRUPTION IN AID SPENDING

CORRUPTION IN AID MATTERS

In 2011, more than 50% of total worldwide aid was disbursed to country governments which then used their own systems to procure infrastructure, supplies, services.¹ This procurement, like all government contracting, is vulnerable to corruption.² As well as being wasteful and meaning that resources don’t reach their intended recipients, corruption matters because it undermines the legitimacy of aid.

To tackle corruption, we first need to identify it, or to measure how prevalent it is. But this is problematic: most measures are subjective, imprecise, and prone to bias. This makes it difficult to test whether interventions designed to curb corruption lead to real changes in behaviour.

In our research project, Curbing Corruption in Development Aid-funded Procurement, we analyse big data from major aid agencies to calculate more accurate and targeted indicators of corruption in aid-funded procurement.³ Our research is funded by the British Academy/Department for International Development under the Anti-Corruption Evidence (‘ACE’) Programme.

RESEARCH QUESTIONS

- Do donor efforts to control aid spending make a difference?
- Do some types of control work better in some contexts?
- How do patterns of corruption risk in aid-funded procurement differ depending on the type of political regime?

Our research has been made possible by two factors: improved transparency of government data; and enhanced computing capacity which enables automated data collection.

¹ Ellmers 2011.
² Between 1999 and 2014, 57% of cases investigated under the OECD Anti-Bribery Convention involved bribes to influence public procurement (OECD, 2014).
³ Research team: Elizabeth Dávid-Barrett, Mihály Fazekas, Olli Hellmann, Lili K Márk, Ciara McCorley. For queries, contact e.david-barrett@sussex.ac.uk

RED FLAG METHOD

We have developed a new methodology that identifies ‘red flags’ in aid-funded procurement contracts that are collected and published by major donors. The ‘red flags’ that we have built are proxy indicators of corruption risk using objective data.

ADVANTAGES

Detecting corruption:
Spot patterns across contractors and suppliers, and over time

Policy response:
When curbing corruption in one phase of the procurement process, there is a risk of displacement to another phase. With good enough data, this method allows you to track whether corruption is simply shifting to other areas

However, they make sense to anyone involved in procurement – common tricks include avoiding competition by running a competition so quickly that firms don’t have time to prepare a credible bid (unless they had insider info); signing contracts quickly to avoid challenge; and awarding contracts to the lowest cost bidder but then allowing costs to multiply during implementation. Single firms winning multiple contracts; and winning bidders being registered in tax havens are also ‘red flags’.

Ours is a risk-based approach: these practices do not necessarily signify corruption, but they are risky enough to warrant closer examination.

RED FLAG VARIANCE BY COUNTRY⁴

⁴ Single bidding data should be interpreted with care as there is considerable country variation in number of contracts, levels of missing data, and sectoral distribution of contracts.
PROCUREMENT PROCESS & OUTCOMES

We analyse more than 500,000 contracts in 100+ developing countries over the last 20 years. We identify and track 8 corruption risks in aid-funded procurement contracts from the World Bank, the Inter-American Development Bank, and Europe Aid.

We examine procurement processes and outcomes and track red flags over time to see how and what interventions might curb corruption.

DOES THE PROCUREMENT PROCESS HAVE SUSPICIOUS CHARACTERISTICS?

• Short advertisement period
• Single bidders: process is ostensibly open, but only one company bids
• Concentration of spending (single firms win many contracts)
• Excessive use of consultancy contracts (difficult to evaluate whether work was carried out)

CORRUPTION RISKS

SINGLE BIDDING IS ASSOCIATED WITH TIGHT DEADLINES

When contracts are advertised only for a very short period, the probability of there being only one bidder increases substantially. European data suggests that single bidder contracts are 9-10% more expensive than contracts with multiple bidders. 5

DO THE WINNING BIDDERS HAVE SUSPICIOUS CHARACTERISTICS?

Depending on what data is available, it may also be possible to identify cronist practices by checking whether winning bidders have links to political leaders/particular governments, or were established purely to win a certain contract.

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>DEFINITION</th>
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<tbody>
<tr>
<td>Single-bidding</td>
<td>1=1 bidder contract</td>
</tr>
<tr>
<td>Non-open procedures</td>
<td>1=non-open procedure types (e.g. single source)</td>
</tr>
<tr>
<td>Spending on Consultancy</td>
<td>1=consultancy procured</td>
</tr>
<tr>
<td>Signature period &lt;14 days</td>
<td>Time between award date and contract date is shorter than 14 days</td>
</tr>
<tr>
<td>Advertisement period &lt;14 days</td>
<td>Time between publication and bidding deadline is shorter than 14 days</td>
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<tr>
<td>Supplier tax haven registration</td>
<td>1=foreign supplier registered in a tax haven</td>
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<tr>
<td>Share of published contract awards</td>
<td>Sum of contract awards amount/total project cost</td>
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<tr>
<td>Cost overruns</td>
<td>Final project cost compared/original committed amount</td>
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INTERVENTIONS TO CURB CORRUPTION

We analysed all changes in each donor’s procurement guidelines between 1998-2015. 6 Most of the changes increased oversight over procuring authorities and occurred during major reform processes.

In 2004, the World Bank overhauled its procurement guidelines for Goods, Works and Services. We tested the impact on corruption risks.

5 Farekas & Kocsis 2017

6 It was impossible to systematically qualitatively code the changes for Europe Aid because the organization updated their guidelines incrementally and annually, making it impossible to extrapolate major changes. In the final analysis, we focussed on the World Bank and Inter-American Development Bank changes.
We expected that increased oversight would augment accountability, increase the costs of corruption, and reduce the discretionary power of elites with access to procurement money. The increased public scrutiny was expected to act as an additional constraint on corrupt elites.

**WORLD BANK 2004 INTERVENTION**

Using corruption risk as a dependent variable measured by the rate of single bidding in procurement, we found strong and consistent support that the 2004 intervention decreased corruption risks.

**CORRUPTION CONTROLS WORK**

Using data for World Bank funded projects approved in 1993-2007, we find that having only a single bidder for a tender increases the likelihood of cost overruns (final spend compared to the originally planned budget). The likelihood of considerable cost overrun (20% or more) increases by 9 percentage points (from 16% to 25%) when the increase in average single bidding increases from nil to 19%. This is after taking into account differences in project size, country of implementation, year, and main sector.

However, we also find that the 2004 World Bank reform was effective in reducing corruption risks: it lowered the share of single bidding on competitive markets by 3.8-4.3 percentage points.

**LOW STATE CAPACITY AUGMENTS THE EFFECT OF THE 2004 INTERVENTION**

Countries with low state capacity to start with gain most from the 2004 reform.

Two factors explain this effect:

In low state-capacity countries, donor controls substitute for the government’s own inability to control funds, thereby increasing oversight. This helps to ensure that aid reaches the right destinations.

It is also possible, however, that elites in high state-capacity countries are better able to respond strategically, to circumnavigate reforms by finding new and more sophisticated ways to manipulate the system to their advantage.

**IMPACT AND OUTREACH**

We shared our procurement dataset with the African Data Initiative, a Kenya-based NGO which has built a free and open-source software to make analysing statistics easier.

R-InStat provides an easy-to-use menu driven interface for the popular statistical analysis language, R. ADI programmers used our method to develop tools for analysing government contracting data and incorporating them into R-InStat’s menu system.

This will make it possible for all sorts of users – from government, law enforcement, civil society, journalists – to collect evidence on corruption risks in procurement.

A video illustrating R-InStat is available – please contact us on the details below.

**POLICY RECOMMENDATIONS**

- **Invest in building better data infrastructure.** Not only can this help donors control aid, but it can also empower civil society groups, provide leads for investigative journalists and better equip local law enforcement agencies.

- **Teach people to collect and analyse data.** We offer an automatically updating public database of contracts, along with a new open-source software package R-InStat developed by our partners at the African Data Initiative to ensure wide access to these kinds of methods.

- **Oversight-enhancing interventions help control corruption.** However, they may have long-term negative consequences because local institutions will not gain experience in monitoring and controlling funds.

**REFERENCES**


