

## 6 Planning and Implementing Capital Projects

Section 5 identified a number of “hotspots” where corruption may occur in the process of planning and implementing capital projects. This section provides information on how to assess whether corruption is taking place in planning, procuring, and implementing capital projects.

Broadly, corruption or governance problems in relation to capital projects in the electricity sector can be grouped into:

- Problems in **planning** capital projects, including selecting which projects to implement, and evaluating their feasibility and financial viability
- Problems in **implementing** and **procuring** capital projects, and
- Problems in **supervising** project implementation.

Following a brief overview of corruption in capital projects below, the remainder of the section discusses corruption risk in these three areas.

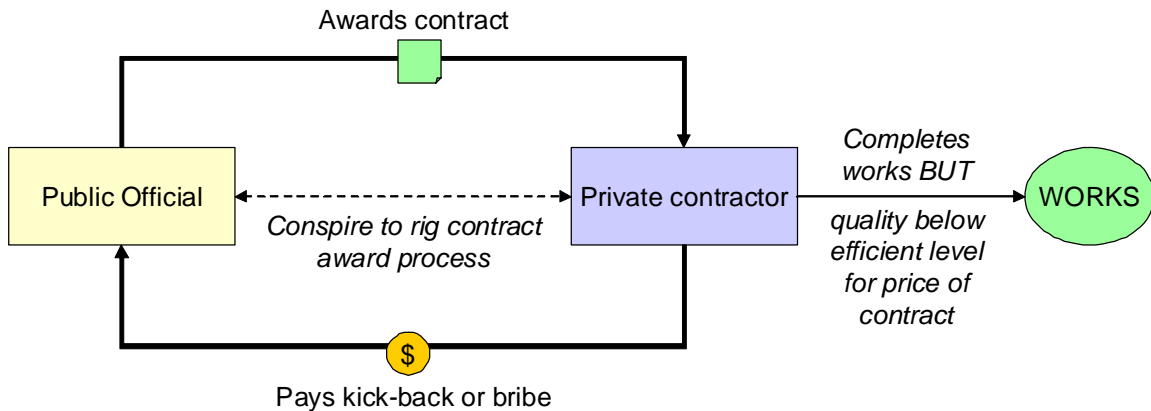
Where this Sourcebook refers to capital projects, it means major capital works commissioned by or for the electricity utility. Capital works provide substantial opportunities for corruption, due largely to the significant amounts of value involved. Indeed, the construction sector is consistently ranked as one of the most corrupt sectors internationally.<sup>12</sup> (Box 6.1 discusses the Construction Sector Transparency Initiative (CoST), which aims to address this problem.)

Corruption in capital projects generally operates by **inflating the price** or **reducing the quality** (or both) of the work, so that the public sector pays more to a private contractor than the work is worth. Thus, value is transferred from the public to the private contractor. The private contractor then may kick back some or all of that value to the public officials who control the contract award (see Figure 6.1).

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<sup>12</sup> See Kenny, Charles “Construction, Corruption, and Developing Countries”, World Bank Policy Research Working Paper 4271, June 2007.

**Figure 6.1: Corruption in Capital Projects**

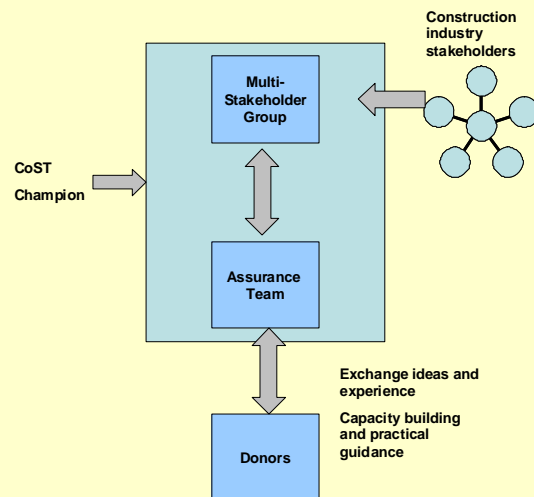


It is not the capital project itself that generates the corruption. Rather, the capital project offers the opportunity to **capture resources** from taxpayers, donors, or customers (who ultimately pay for the works). By passing those resources out of the public domain the captured resources can then be diverted to sector decision-makers.

**Box 6.1: Construction Sector Transparency Initiative (CoST)**

DFID and the World Bank are supporting a pilot to support and promote transparency and probity in the construction sector. CoST is a two year pilot program in at least four countries (four already selected are Tanzania, Zambia, the Philippines, and the UK). The CoST initiative aims to increase transparency in the construction sector through three main channels:

- Regular disclosure and publication of selected project information related to all projects above a certain threshold (determined in each country)
- Quality assurance and analysis/interpretation of the disclosed technical information to ensure comparability and clarity to a non-technical audience, and
- Multi-stakeholder consultations, led by government, to scrutinize disclosed information



While CoST acknowledges the importance of transparency through all stages of construction project cycle, its initial focus will be the period between contract award and completion. At the end of the two year pilot phase, the CoST forum will evaluate the pilots and the lessons learned in each to further develop methods for

increasing transparency in the construction sector.

Source: World Bank (2008) Construction Survey Transparency Initiative, Washington, DC: The World Bank

The electricity sector essentially comprises three distinct levels: generation, transmission, and distribution. These three levels are often handled by different entities. This clearly affects that way in which sector participants plan for, procure, and implement capital projects.

For the purposes of this Sourcebook, we distinguish between three stylized sector structures:

- **Vertically integrated**—a single (usually public) utility owns and operates all the generation, transmission and distribution. This is a traditional model for small countries, such as Malawi and Samoa. The vertically integrated utility may buy some of its power from independent power providers (see Section 7 on page 82)
- **National transmission and generation, regional distribution**—one entity is responsible for planning and implementing all generation and transmission projects. This entity then supplies electricity to a number of local distributors, who deliver the electricity to end users. This model is common in larger countries (for example Thailand, or the Philippines before the reforms introduced by the Electric Power Industry Restructuring Act)
- **Vertically disaggregated**—several generating companies supply electricity. There is a single national transmission company, while distribution is handled by a number of regional or local distribution companies. This model tends to be used in larger countries and those that have been more ambitious in sector reform, such as the UK, Australia, and the Philippines following the reforms introduced by the Electric Power Industry Restructuring Act.

## 6.1 Corruption Risk in Planning

This section covers the following material:

- Implications of sector structure for planning
- Modes of corruption in planning capital projects
- Detecting corruption in capital projects
- Corruption at the policy level.

### 6.1.1 Implications of sector structure for planning

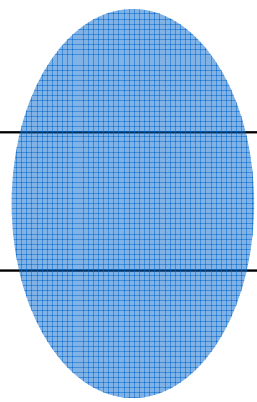
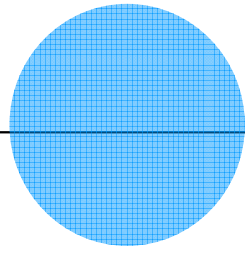
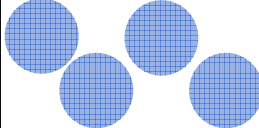
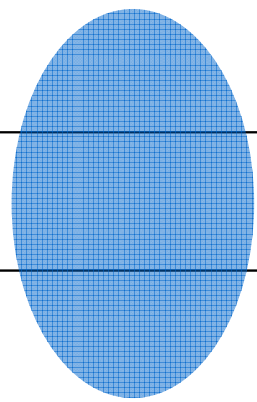
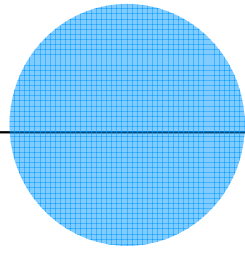
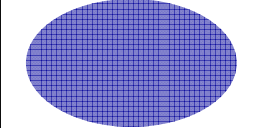
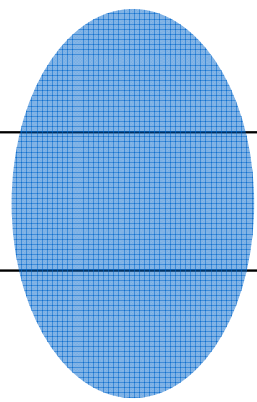
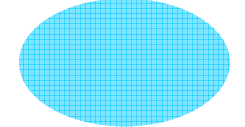
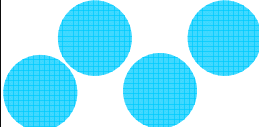
The location of corruption risk in planning capital projects will vary depending on the sector structure, in particular:

- The extent to which the sector is vertically integrated, or disaggregated
- The extent of private sector involvement.

Regardless of whether it is responsible for the whole sector, or only a segment, a well functioning electricity provider should have a logical plan setting out how it can meet demand for electricity. In checking corruption risk, therefore, practitioners should look hard at the planning processes of any publicly-owned electricity provider.

The type of planning will vary according to sector structure. In general, the more disaggregated the sector is, the more disaggregated (and less coordinated) planning for capital investment will be. Figure 6.2 illustrates this. For each of the three general models described above the figure shows where responsibility lies for planning capital investments, at each level of the sector. Each shaded area represents a single entity.

**Figure 6.2: Responsibility for Planning under Different Sector Structures**

	<b>Model 1: Vertically integrated sector</b>	<b>Model 2: Regional distribution utilities</b>	<b>Model 3: Vertical disaggregation</b>
<b>Generation</b>			
<b>Transmission</b>			
<b>Distribution</b>			

Note: Each shaded area represents a distinct power sector entity

### **Planning under a vertically integrated model**

As Figure 6.2 shows, under a vertically integrated model, responsibility for planning at all levels of the sub-sectors falls within one organization. To meet sector demand, this company must plan and implement system expansion in generation, transmission and distribution. With all capital projects for the sector under the control of a public utility, all projects afford opportunities for corruption for those with decision-making power in the utility.

A vertically integrated utility should have an integrated expansion plan showing the generation plants that can supply the necessary energy and capacity at least cost, the transmission upgrades and extensions necessary to carry the power to the load, and the distribution upgrades and extensions to serve growing demand and connect new areas. Where the utility is considering purchasing power from IPPs, the capacity to be procured from IPPs should be consistent with this least cost expansion plan (see Section 7 for more discussion on IPPs).

### **Planning under a disaggregated model**

Where separate utilities are responsible for different parts of the system, there will not be a central generation plan. Rather, generation companies should invest in new capacity in response to market signals, including their own views of likely future demand and supply. Even under a disaggregated model, transmission and distribution still need to be planned, so any provider responsible for transmission and distribution should have a well justified least cost plan for expanding the network to serve growing demand.

## The implications of private sector involvement

Where capital expenditure is no longer wholly under public sector control, corruption risk in planning will, in general, be correspondingly lower. Private utilities also need to plan well, and implement those plans, to be efficient. However, if a private utility fails to plan and implement capital projects well, this will simply result in lower profits for the owner (assuming a well-designed regulatory regime). Thus private operators have strong incentives to ensure their capital planning processes are least cost.

In some regulatory systems there is a risk that, if private operators fail to plan well, the costs of poor planning and implementation will ultimately fall on customers. While this is a public policy concern, it is better addressed by improving the regulatory system than by treating it as a corruption issue.

Private sector involvement in the electricity sector may give rise to different modes of corruption, depending on the form of private participation. Possible scenarios include the following:

- **A public utility awards power purchasing contracts to IPPs**—The procurement of contracts with IPPs often involves different organizations, procedures, and dynamics from the procurement of generation construction contracts. Thus corruption risks in relation to IPP contracts differ from procuring and implementing a capital project (see Section 7 of this Sourcebook)
- **A private company builds generation to sell into competitive power market**—In general the private company will have strong incentives, and the ability, to prevent corruption in the award and implementation of the construction contract. However, other potential sources of corruption arise, such as site permitting and environmental consents, or hedge contracts with publicly owned distribution companies (Section 8 discusses corruption in these areas)
- **A private utility is responsible for distribution investment**—in this case, corruption in capital investment is not likely. However, the related issue of related party contracting arises.

### 6.1.2 Modes of corruption in planning capital projects

Corruption in planning capital projects can manifest itself in a variety of ways. Three modes of corruption are particularly common:

- Overbuilding
- Crisis responses
- Technology bias.

#### Overbuilding

In simple terms, large construction contracts:

- Involve larger sums of money, and so increase the resources available for misappropriation
- Are decided on or supervised by more senior people, thus giving those people the opportunity to benefit from corruption (which they would not get from smaller value contracts).

As a result, senior public officials who are able to influence decisions on capital expenditure may bias decisions towards large, expensive projects, to create corruption opportunities for themselves. The result is too much capacity—excess generation capacity that is not required to meet demand, plus associated investment in transmission assets. This form of corruption usually diverts resources from maintenance and rehabilitation of existing assets, which may deteriorate and start to fail as a result.

### **Crisis responses**

Crises tend to justify exceptions to normal procurement processes. Where an electricity shortage threatens, public officials can justifiably fast-track projects. Fast-tracking often involves deviating from the least cost plan (since speed, not cost, becomes the dominant factor) and negotiating directly with suppliers.

Box 10.2 provides an example from the Philippines of how a power crisis may have facilitated corruption, leading to eventual overbuilding. In that case the government passed a law enabling it to fast track the negotiation of IPP contracts. On the basis of this law, the government signed a number of IPP contracts, agreeing to take on considerable project risks, even after the power crisis was considered to be over. The eventual result was extensive over-supply, and allegations of corruption in the government administration that signed the IPP deals.

### **Inappropriate project choice**

Inappropriate project choice can involve:

- Selecting excessively expensive projects, for the reasons outlined above. That is, more expensive projects maximize the resources transferred from the government or the utility to the private contractor, and so maximize the opportunity for misappropriation. Larger projects may also enable more senior members of the sector to get involved
- Selecting projects that favor a particular technology, fuel source or plant location that is not least cost. This may be an attempt to steer project work toward a particular firm. For example, a firm specializing in a particular technology may bribe sector officials, or agree to pay a kickback, in return for a construction contract. As a result decision makers may favor that technology over the alternatives, even where the alternatives would cost less or better serve the population.

Box 10.3 illustrates the potential impact of inappropriate project choice. In Nairobi, Kenya, drought is leading to 12-hour electricity blackouts, which are severely hampering day to day life and business operation. Diplomatic observers query why Kenya relies on hydroelectric power when it has always been susceptible to drought, suggesting that government officials may have selected inappropriate projects, in return for lucrative business contracts.

### **6.1.3 Corruption in policy formulation**

Similar issues may occur at the sector policy level. A normal planning process is to set out policy, and then form a plan that implements those objectives. Thus if corruption influences the policy, the resulting plan may be inefficient or corrupt. In this way, preferences and corruption opportunities may be seeded through the sector policy. Inexplicable elements of policy therefore become a warning signal for corruption.

For example, if the policy states that grid-connected solar photovoltaics are required for environmental or energy security reasons, planners may feel obliged to include such projects in the plan, even if they believe that environmental and security objectives can be achieved at lower cost with other technologies. Such policy mandates may favor certain suppliers.

#### 6.1.4 Corruption risk in capital planning

Regardless of who is responsible for planning, and which segment (or segments) of the sector the plan will cover, a good project planning process for the electricity sector involves three basic steps:<sup>13</sup>

- **Forecasting demand for electricity services**—Demand forecasts should be based on sound projections based on valid growth assumptions, and data on customer preferences and willingness to pay
- **Developing a least-cost plan to meet that demand over the medium term**—To arrive at such a plan it is necessary to consider a range of options, and analyze the options against clear criteria to select the projects that meet demand at least cost
- **Implementing the plan**—As a general rule, all capital projects (new generation plant, transmission lines, and distribution extensions) that are in the plan should be built. No other projects should be implemented.

Deviations from this simple process are, at best, an indication of poor management. At worst, deviations may indicate corruption. In scanning for corruption risk, sector practitioners should look for three main types of deviation:

- Lack of a coherent plan at all. Not having a plan may be simply incompetence, or may be a result of officials' preferences for flexibility, or for crisis responses, both of which facilitate corruption
- Having a plan that is not least cost, such as one that erroneously:
  - Favors new build projects over rehabilitation and systems loss reduction, or
  - Favors a particular technology, fuel source or plant location that is not least cost.
- Having a least cost-plan and then not implementing it. Failure to implement a well-considered plan may indicate an implicit preference for lurching from crisis to crisis, or for maintaining flexibility to procure projects that suit particular firms—both avenues for corruption.

Typical indicators of project selection that is not least cost (and may be corrupt) would include:

- High technical losses. Where sector decision-makers are focused on opportunities to build new plants, this will tend to divert resources away from maintaining existing plants (for example transmission and distribution lines). This may cause existing assets to deteriorate, contributing to losses. While this type of decision imbalance is often due to inefficiency, it may also suggest corruption

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<sup>13</sup> For more material on good practice in investment planning, see section Section 10.1.

- Asset rehabilitation cycles that are not in line with the economic lives of the assets. Failure to maintain assets suggests either incompetence or possibly a corrupt bias towards new projects. Alternatively, in some cases, sector staff might schedule maintenance more often than strictly necessary, to create opportunities for corruption in awarding maintenance contracts
- Tender documents that focus on inputs rather than outputs. If the tender for a new project focuses on inputs, or gives detailed technical specifications for the project, this will tend to bias the process in favor of particular technologies and/or contractors. As a general rule, the more the project tender documents specify inputs rather than describing the desired output from the project, the greater the opportunity for decision makers to bias the process in favor of a particular contractor.

Box 6.2 summarizes vulnerable areas at each stage of capital projects development, and “red flags” of corruption (see below).

<b>Box 6.2: Vulnerability to Corruption—Different Stages of Project Development</b>		
<p>Mohinder Gulati and M.Y. Rao identify three stages of project development that are vulnerable to corruption: project formulation; project implementation; and project operation. The table below sets out corruption areas vulnerable to corruption and “red flags” of corruption at each stage.</p>		
<b>Activity</b>	<b>Areas vulnerable to corruption</b>	<b>Red flags</b>
Project formulation	Technoeconomic studies to establish feasibility and viability	A perfunctory study (or no study at all)
	Surveys and site investigations	Omitting surveys and site investigations or leaving them to be done later by the contractor
	Estimation of costs and implementation schedules	Poor estimation of costs
	Statutory and other clearances	Vagueness about procedure for obtaining clearances
	Land acquisition for the plant	Not allocating sufficient resources for paying compensation to project-affected persons.
	Rights-of-way for transmission lines	
	Rehabilitation of persons affected by the project.	
Project implementation	Procedure for selection of contractor	Procedure not spelled out in bid documents
	Type of contract (works, labor, turnkey) and contract documents	Lack of specificity in the contracts
	Monitoring and supervision of contractor’s work	Failure to designate supervisors with clear responsibilities
	Purchase and supply of plant,	Not allocating sufficient funds for

	<p>machinery, and materials</p> <p>Stage payments to contractors</p> <p>Completion and commissioning.</p>	<p>payment, leading to disputes and claims of escalation of costs.</p>
Project operation	<p>Procedures in bid documents</p> <p>Funds for payment.</p>	<p>Failure to specify the performance parameters and methodology of verification</p> <p>Failure to spell out clear procedures for routine as well as emergency purchases</p> <p>Requiring multiple certifications (thus diluting individual responsibility) before payments can be made</p> <p>Absence of codified and transparent procedures</p> <p>Failure to specify responsibilities of individual officers to ensure compliance with license conditions.</p>
<p>Source: Gulati, Mohinder and M.Y. Rao. "Corruption in the Electricity Sector: A Pervasive Scourge" in <i>The Many Faces of Corruption</i></p>		

## 6.2 Corruption Risk in Implementing Capital Projects

Corruption in capital projects often occurs in procurement process, but can also flow through to the implementation and supervision of the resulting construction contract. In assessing the risk of corruption in project implementation, sector practitioners can look at a number of indicators. These include:

- The procurement process
- Unit costs
- Supervision and quality of the works
- Frequency of contract variations.

### 6.2.1 Procurement

For the purpose of this section procurement is defined as the process of:

- Selecting the contractor (or contractors) who will undertake the capital project in question
- Negotiating the contract, including the price, quality standards and technical specifications for the works, and deadlines for completion, and
- Paying for the capital equipment.

Procurement is where the most money changes hands, and where. Procurement decisions give discretion to officials at various stages. Box 6.3 below describes types of corruption in capital projects in South Asia.

**Box 6.3: Corruption in Capital Project in South Asia**

In the South Asian power sector, cash transactions, some paid overseas in foreign currency, appear to be a common manifestation of corruption at the managerial level. Corruption appears more common in unsolicited bids, supplier's credits, and crash program-type procurement initiatives where there is little or no competition among suppliers, the definition of what is being procured is negotiable, and reputable firms may be reluctant to participate. Even where competitive bidding processes are used, side payments may be made to ensure favorable bid specifications, terms, and conditions, and favorable bid evaluations or endorsements. Side payments may also facilitate the issuance of work orders, the opening of letters of credit, and all stages of project implementation carried out by contractors and consultants, such as processing payments and obtaining permits.

Source: Lovei, L. and McKechnie, A. "The costs of corruption for the poor". *Energy Services for the World's Poor*. Chapter 8.

Box 6.4 identifies various indicators that would raise a "red flag" for corruption in the procurement of capital projects. (Sector practitioners may already have identified some of these "red flags" in the sector scan for corruption, see Section 4).

As Box 6.4 shows, unusual patterns in bids for capital projects can be an indicator of corruption in the procurement process. Patterns that are "red flags" for corruption include repeated packages just below certain procurement thresholds, similar bids submitted by losing bidders, and bid awards being "revolved" among a small number of bidders.

Practitioners can detect corruption in procurement by reviewing bids and looking for unusual patterns that may indicate corrupt behavior. Once a number of bids have been run, and the government has collected information on the offers and winning bid, practitioners can review this information, looking for unusual patterns such as those identified above. If practitioners are untrained in spotting such unusual patterns, they can use a procurement specialist or forensic accountant to assist in bid analysis, or assign this job to a probity auditor. Such analysis should be repeated on a regular basis, and used to feed-back in to future procurement design. Section 10.2 provides further information on this process.

**Box 6.4: Red Flags in Procurement of Capital Projects**

**Red flags for bribes and kickback**

- Multiple sole source awards
- Project officials insisting on the use of certain local subcontractors or suppliers
- Unusual and/or unexplained delays in the procurement process. This may be to allow secret late bids, or so the decision makers can canvas bidders in an attempt to extract bribes
- Project officials accept or excuse poor quality work, and then want to re-hire the same provider
- Project employees living beyond their means
- Reports of close association or socializing between contractors and project officials and/or

reports of gifts and gratuities to project officials

- Disqualification of bidders for dubious reasons and/or selection of high priced bidders without sufficient justification
- Bid specifications that favor a particular contractor and/or unreasonable pre-qualification requirements
- Unreasonably short time frame for bid proposals to be submitted
- Clusters of contract awards just below thresholds for competitive procurement
- Contract awards to firms or consultants that appear unqualified
- Procurement competitions with few bidders, with losing bidders then becoming subcontractors on the project

#### **Red flags for bid rigging**

- Bid specifications that are too narrow or too vague
- Unreasonable pre-qualification requirements, that appear to exclude legitimate firms
- Unreasonably short time frame for bid proposal preparation and submission (it may be that a preferred bidder was given advance notice of the tender)
- Unjustifiable disqualification of winning bidder
- Recommendation for award to firm other than the lowest priced bidder without adequate justification
- Selection of low bidder followed by a change order increasing price or decreasing scope
- Repeated requests to extend expired contracts rather than re-bidding
- Multiple contract awards just under the bidding threshold
- The same few bidders are the only participants, bidders are active in local trade or contractor associations
- A pattern of rotating bid winners, with losing bidders often becoming subcontractors for the winner
- Bid documentation showing possible collusion among bidders, such as the same fax numbers on bidding documents, and so on
- Use of unwarranted bid protects or other means to exclude new bidders
- Bid prices drop when new bidders begin to participate in tenders

#### **Red flags for fraud**

- Complaints from users or beneficiaries
- Delays or refusals to allow inspections. Contractor or project officials insist on choosing sites for inspections
- Repeated failed quality and operational tests
- Poor quality of civil works that require frequent or early replacement
- Services provided by unknown or unqualified vendors. Unknown vendors may be facades to enable unqualified individuals to bid for the work. This approach has been used by government officials, so that they can award the work to their own company
- Inadequate supervision and site visitation inspections

Source: World Bank Water Sector Anti-Corruption Workshop, 8 January 2008

### **6.2.2 High unit costs**

If the cost of project inputs and equipment are high compared to other similar countries, this may be due to corruption. The contractor may inflate the costs of inputs as a way of pushing up the total project value, and kick some or all of the extra profit back to the officials awarding the contract. One way to assess whether unit costs are inordinately high is to compare them against unit costs in bids for similar works:

- From other utilities in the same country
- In tender processes in other similar countries.

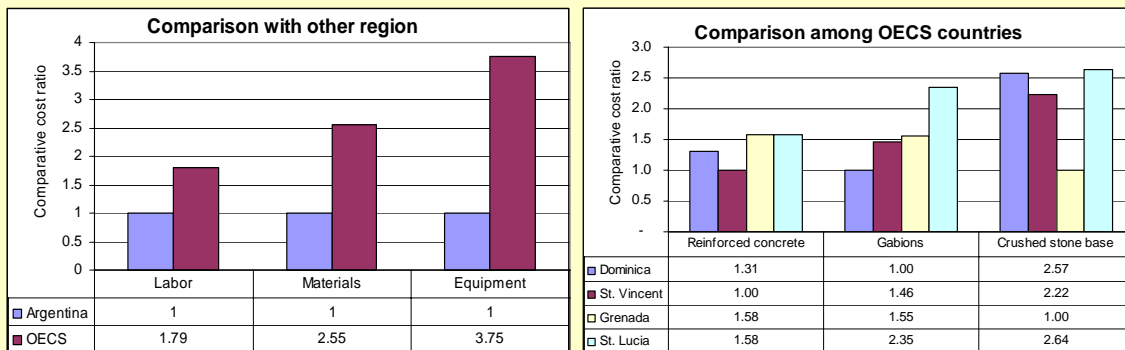
In the electricity sector, the most appropriate indicators to benchmark will vary depending on the type of capital project:

- **Baseload generation projects**—the all-in costs of energy supplied from units of a similar size will often be the best measure. If energy costs (\$/MWh) appear unjustifiably high compared to generation plant in other similar countries, then this may be due to corruption. Capital cost per megawatt benchmarked against the cost of similar technology elsewhere will also be a good indicator, and one that it easier to calculate
- **Peaking plant**—benchmarking the unit costs of peaking plant is a bit more complicated. Part of the benefit provided by the plant is the security for users in having the plant available should it be needed to meet peaks in demand (even when the plant is not actually running). One approach to assessing the relative cost of peaking plant is to benchmark the cost of the generating capacity, and the cost of power, for other generation plant with similar planned load factors
- **Transmission and distribution**—practitioners can assess unit construction costs, compared to utilities in similar regions or countries. For example this would involve benchmarking the utility’s cost per kilometer for a circuit of a particular voltage (this analysis would need to adjust for factors such as geography which could impact installed costs). In assessing the cost of transmission and distribution investments, practitioners should look further than just the wires, at the cost of other elements of the network, for example the cost per unit of transformer capacity compared to other utilities.

Box 6.5 shows how revealing a benchmarking analysis of this sort can be.

**Box 6.5: Explaining High Basic Input Costs in Eastern Caribbean Infrastructure**

An unpublished World Bank study compared infrastructure basic input costs between Organization of East Caribbean States (OECS) and Argentina, and among OECS countries. This comparison is presented in the charts below.



*A senior infrastructure practitioner from the region gave the following opinions on the reasons for these cost differences, in an interview with Castalia. The information below is the opinion of the interviewee, and not the opinion of Castalia or the World Bank*

A lot of corruption, where it exists, appears to be motivated by the need to properly fund political parties.

Wealthy political parties can campaign for election of their leaders in future elections. Contractors are sometimes awarded public works contracts for sums that are significantly above the estimated costs. The excess profits are then transferred by the contractor to the political party as a 'donation'. Evaluation processes for competitive bidding are often not as transparent as they appear to be, and in some countries, not only politicians are to blame, also senior public servants are sometimes complicit in the process. Senior officials, most of whom are political appointees, are often involved in manipulating the bid evaluation process to make an award to the contractor predefined by their political leader. Of course, it would be very difficult, if not impossible, to prove this statement to the standard required in a court of law.

In cases where funding is sought from Official Development Assistance (ODA), there is a distinct tendency among OECS government agencies to have contracts awarded to local contractors. To this end, large contracts, which are commonly beyond the capacity of the largest local contractors to finance, are often broken up into smaller contracts. Smaller contracts however, lead to several problems:

- Smaller contracts tend to be prepared using weaker and less formal contracts than those used by ODAs for larger contracts. As a result, these contracts can lead to complex and difficult disputes
- Breaking up the contracts often results in severe coordination problems such as in the case of road works, when separate contracts are awarded for drainage works and for preparation, surfacing or sidewalk construction. Coordinating three or four contractors in the planning and execution of the works can be a daunting task for the limited staff with limited experience. Delays and claims for extension of time usually result in significant cost overruns
- Breaking up contracts also gives rise to increased costs resulting from the loss of economies of scale in the contractor's preliminaries.

Generally, there is reluctance among officials to accept the procurement rules mandated by ODAs as governments often see this as a restriction on their ability to defend their interests, as described above. Hence, the recent trend among regional governments to approach private financial institutions which have virtually no procurement rules. Private financial institutions charge significantly higher interest rates and additional commission, and require sovereign guarantees.

Labor productivity in the OECS is very poor compared to say Jamaica. Relatively high wages and salaries (in US\$ terms) are paid out to employees for very little work compared to that produced by their Jamaican counterparts. This is true when comparing both public and private sector performance, and is probably due to relatively stronger trade union activity in the public sector in the OECS. This also sets the tone for low private sector labor productivity, which in the opinion of the interviewee, is not perceptibly better than public sector productivity.

Frequent shortages of critical materials which are imported into the OECS, such as cement, have also been known to delay the completion of public works and in turn increase costs.

Source: Castalia interview with senior utility practitioner in the OECS

### **6.2.3 Inadequate supervision, poor quality of works**

As discussed at the beginning of this section, corruption in capital works can take the form of a reduction in the quality of the work, for the same contract price. Indications that this type of corruption is occurring can include:

- Delays or refusals by the contractor (or project officials) in allowing site inspections
- The contractor or project officials insisting on choosing the sites for inspections, or only allowing inspections at specific sites.

Poor supervision or quality can also be symptomatic of fraud in the bidding process. If the contractor won the tender on the basis of a fraudulent bid, it may seek to prevent proper site inspections, or may pay relevant officials to ensure inadequate supervision.

Post-procurement fraud may also arise, such as:

- Falsification of inspection certificates

- Falsification of quality tests.

The combination of fraud in the bidding process, and inadequate project supervision, is likely to result in works that are not up to standard—for example generation plant that is unreliable and must be frequently taken off-line for maintenance.

Good practice requires multiple inspections of multiple sites (where the work involves more than one site). The utility or government should not sign off on completion of any project without (preferably independent) inspection of all project sites, to confirm that the works meet project specifications.

#### **6.2.4 Frequent contract variations**

The initial process of procurement and contract negotiation is usually considerably more transparent and includes more checks on accountability than subsequent contract variations. As a result, contract variations provide an opportunity for those managing the project to vary the contract in way that reduces value for money for the utility while increasing profits for the contractor, some of which can be kicked back to the utility staff involved.

Post contract disputes, caused by poor contract preparation, can be an avenue to corruption. Sector practitioners should therefore treat disputes of this nature as a “red flag” that corruption may be taking place. Mohinder Gulati and M.Y. Rao discuss this as follows:

*Even where competitive bidding processes are used, broad (rather than detailed) specifications and manifestly impractical terms and conditions leave scope for post-tender negotiations with bidders and consequent bribes. A combination of managerial venality and incompetence may be seen in a wide range of activities. Contracts awarded without obtaining legal possession or right-of-way over the land, without getting necessary environmental or other clearances, and without furnishing clear data giving topographical details and soil conditions open up a rich field for litigation with the contractor. Sheer incompetence may partly explain such poorly drawn contracts, but given the powerful links between the contractors and the utility managers, there is a strong possibility that these loopholes are deliberate. Eventual settlement of these disputes, irrespective of whether they are through court intervention, arbitration, or mutual discussion, invariably favors the contractor at the expense of the utility.<sup>14</sup>*

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<sup>14</sup> Gulati, Mohinder and M.Y. Rao (2006) “Corruption in the Electricity Sector: A Pervasive Scourge” in *The Many Faces of Corruption*, at page 130.

**Source List 6.1: Planning and Implementing Capital Projects**

Source	Description
<p><b>Kenny, C. (2007)</b>  <b><i>“Construction, Corruption, and Developing Countries”</i></b>,                      World Bank Policy Research Working Paper 4271</p>	<p>Construction is consistently ranked as one of the most corrupt sectors. This paper recommends that plans to combat corruption should begin at the level of planning and budgeting. It also recommends output based and community-driven approaches as tools for reducing corruption, in combination with a range of other interventions (like publishing procurement documents, oversight by the community, and physical audits).</p>
<p><b>Campos, J.E. “A Practical Approach to Combating Corruption: The Value Chain Methodology”</b> <a href="#"><i>The Governance Brief</i></a>, ADB, Issue 16, 2007.</p>	<p>This paper describes a value chain methodology for detecting and combating corruption. The paper highlights the prevalence of corruption in procurement, and discusses the three most common manifestations of corruption here: kickback schemes, front companies, and bid rigging.<sup>31</sup></p>
<p><b>Kramer, W. (2007)</b>  <b><i>“Corruption and Fraud in International Aid Projects”</i></b> U4 Brief</p>	<p>Highlights the many similarities of how fraud is taking places, but cautions not to underestimate the ingenuity of those who skim or steal project funds to come up with new avenues for enrichment. It provides a good description of corruption and fraud schemes encountered during investigations and consulting engagements, primarily in Africa and Central, South and East Asia, on behalf of major international aid organizations over the last 10 years.</p>
<p><b>Gulati, Mohinder and M.Y. Rao (2006)</b>  <b>“Corruption in the Electricity Sector: A Pervasive Scourge”</b> in <i>The Many Faces of Corruption</i></p>	<p>This chapter of <i>The Many Faces of Corruption</i> identifies three stages of project development that are vulnerable to corruption: project formulation; project implementation; and project operation.</p>
<p><b>Nahkooda, S. et al (2007)</b>  <b><a href="#"><i>“Empowering People: A Governance Analysis of Electricity”</i></a></b>, World Resources Institute</p>	<p>This report is based on an Electricity Governance Initiative assessment in Asia. It argues that greater attention should be paid to institutions, processes, and actors that determine how decisions are made. One of the principle findings is that “in general, very little information about the basis for [electricity policy and planning] is shared with the public” and provides recommendations (in Section 5) on how this can be improved.<sup>32</sup></p>