



## Corruption in emergency procurement

Jessica Schultz and Tina Søreide

**U4 ISSUE 7:2006**

## **Corruption in Emergencies (CES)**

In the wake of the South Asian tsunami in 2004, a number of initiatives have emerged to tackle the particular dangers of corruption in the context of war and natural disasters. U4 resources consolidate current thinking, address gaps through original research, and offer practical approaches and tools for reducing corruption risks in humanitarian aid.

Launched in November 2005, the CES focus area is developed by a team led by Dr. Arne Strand and Jessica Schultz at Chr. Michelsen Institute (CMI)

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# **CORRUPTION IN EMERGENCY PROCUREMENT**

Written for U4 by Jessica Schultz and Tina Søreide, CMI<sup>1</sup>

## **ABSTRACT**

Corruption in emergency procurement reduces the amount of available resources for life-saving operations, impacts on quality of products and services, and diverts aid from those who need it most. This U4 Issue Paper aims to unpack and analyse this problem for the purposes of mitigating risk: how and where does corruption typically occur, and what can be done? Suggested strategies reflect a multi-layered approach that stresses internal agency control mechanisms, conflict-sensitive management, and the need for common systems among operators. Specific recommendations for donors highlight their role in supporting better coordination and monitoring.

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<sup>1</sup> The authors would like to thank the practitioners who donated their time to be interviewed for this study. In particular, we are grateful to Kirsten Ejlskov-Jensen, Odd-Helge Fjeldstad, Erling Grimstad, Paul Harvey, Robert Hyland, Corinna Kreidler, Julian Neale, and Arne Strand for their thoughtful comments on earlier drafts.

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## 1 INTRODUCTION

Emergency situations arising from armed conflicts or natural disasters demand an immediate humanitarian response. Typically, thousands of human lives are at risk, infrastructure has collapsed, and state institutions are overwhelmed. The first priority is to identify and meet the affected population's most urgent needs: food, water, shelter, sanitation, medicine, and protection. Purchase and delivery of the goods and services required involves an array of different actors, including the affected governments, donors, the United Nations (UN) and other international agencies, military personnel, private contractors, and non-governmental organisations (NGOs). Box 1 describes the complex flow of external funds for goods and services in emergency contexts.

In early coordination meetings following the onset of a crisis, corruption risks are rarely on the agenda. However, the potential for corruption to sabotage the best-intentioned efforts cannot be ignored. Corruption reduces the amount of available resources for life-saving operations, impacts on quality of products and services, and diverts aid from those who need it most. It also has indirect consequences, such as reduced public support for humanitarian action. It is extremely difficult to estimate the scope or financial cost of corruption.

In this study, corruption refers to a “misuse of entrusted power for private gain”.<sup>2</sup> Usually the corruption involves a payment made to obtain a deviation from the normal decision-making process. Favouritism is also important in some contexts, where procurement officers award contracts to family (nepotism) or members of the same ethnic, religious, or political group. “Agency” or “humanitarian agency” includes not only international relief operators (International Federation of the Red Cross (IFRC), NGOs, the UN), but to all organisations providing emergency assistance, including responsible governmental offices. The term “procurement officer” is used broadly to describe anyone with official procurement responsibilities.

Opportunities to engage in corruption are particularly high in emergency contexts, where controls are weak, funding levels and media pressure are high, and staff turnover is rapid. Despite the obvious risks, the humanitarian community rarely discusses corruption directly or openly. In post-crisis evaluation reports, for example, corruption concerns are typically raised in careful, imprecise terms:

*“Agencies are still not transparent or accountable enough to the people they are trying to assist. In some cases agencies are also not sufficiently accountable to those providing the funding.”*

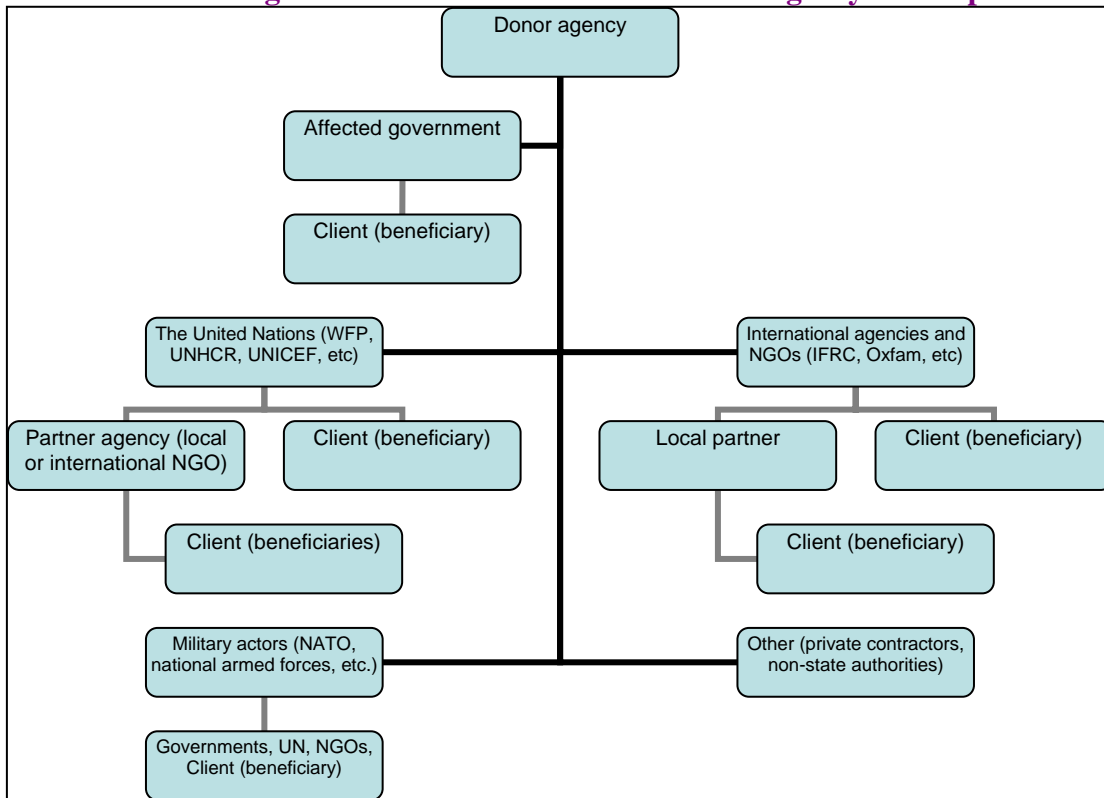
Tsunami Evaluation Coalition (TEC), 2005.

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<sup>2</sup> This is the definition popularized by Transparency International. However, it is important to note that the definition of corruption is contested; the United Nations Convention Against Corruption and other treaties do not provide a single definition but rather describe corruption through its various forms: bribery, trading in influence, embezzlement, nepotism, etc.

One reason for the vagueness is that it is difficult to produce concrete evidence when incidents of corruption are alleged. The potential for proven corruption to alienate donors or the taxpaying public also militates against disclosure – and therefore effective control.

**Box 1: The flow of goods and services in aid-funded emergency relief operations**



Box 1 illustrates the flow of funding from donor agencies to the various recipients of emergency aid. The black lines lead to the direct recipients of aid, while the grey lines represent these recipients’ transactions with other agencies, partners and clients. Corruption is a potential risk in each transaction.

However, critical international attention, particularly following high-profile responses, makes continued evasion untenable. Some agencies have indeed tried to take a more open approach. A recent press release by the aid agency Oxfam revealed, for example, the loss of \$22,000 due to procurement fraud in Aceh (Box 2). Even though this amount represents a fraction of programme costs following the Indian Ocean tsunami, the announcement acknowledges that corruption should not be excused as an unfortunate but unavoidable side effect of emergency operations. Indeed, in recent years, corruption has emerged as a hot topic on the aid management agenda.<sup>3</sup>

<sup>3</sup> Recent initiatives include an expert meeting on corruption in humanitarian aid organized by the ADB/OECD Anti-Corruption Initiative together with Transparency International in 2005; the “Corruption in Emergencies” research project at Overseas Development Institute; and the U4 Anti-Corruption Resource Centre’s Focus Area on the same topic.

## **Box 2: Procurement fraud in Oxfam's Aceh operation**

“Oxfam’s investigation has found evidence of losses amounting to USD 22,000 (GBP 13,000) of which USD 20,000 (GBP 12,000) has been recovered. The fraudulent activities centred on discrepancies between amounts paid to suppliers for goods and the quantity of goods delivered.

The investigation found that while Oxfam’s policies and procedures are of the highest standard, weak management and monitoring systems in certain areas, aggravated by high staff turnover and difficulties with recruitment, created the possibility for fraud to occur.

Oxfam’s investigation recommended that disciplinary action be taken against twenty-two staff for breach of Oxfam’s code of conduct and policies and procedures, out of which ten staff face possible dismissal for gross misconduct relating to fraudulent activities.

The amount of money involved represents a tiny proportion of our tsunami programme in Aceh. However by being open and conducting such a thorough investigation we hope to show that we will not tolerate any irregularities, and will live up to high standards of accountability, both to donors, and to the 300,000 people across Aceh who have received assistance from Oxfam.”

*Source: Press Release, Oxfam GB (2006)*

*[http://www.oxfam.org.uk/press/releases/aceh\\_040506.htm](http://www.oxfam.org.uk/press/releases/aceh_040506.htm)*

### **The aim of this paper**

This paper aims to assist donors and humanitarian agencies (including government agencies) reduce the risk of corruption in emergency procurement. Unlike traditional U4 papers, which communicate key findings on a topic from available resources, this study also tries to plug important gaps in the literature. One contribution, we hope, will be to unpack the problem in a way that makes corruption easier to understand and detect. A detailed range of mitigating measures in Section 3 can perhaps promote a more proactive approach to corruption control at the individual agency level as well as among humanitarian actors collectively.

Overviews of corruption in humanitarian aid are provided by Cremer (2000), Willits-King and Harvey (2005), and Ewins et al. (2006). The present paper focuses only on procurement, a particularly vulnerable process. While we recognise that procurement procedures for emergency goods and services differ depending on when the purchase occurs (i.e. before or during the crisis), this paper takes a broad approach to the problem, addressing practical challenges that agencies typically face at the field level. Supply chain risks are emphasised, although corruption impacts the delivery of goods and services as well.

The term “humanitarian emergency” is a contested one. Most descriptions include the following elements: an immediate threat to human life, and an acute need on the part of the affected population. The United Nations High Commissioner for Refugees (UNHCR), for example, describes an emergency as “any situation in which ... life or well-being ... will be threatened unless immediate and appropriate action is taken, and which demands ... exceptional measures” (UNCHR, 1998). Oxfam defines an emergency as “an exceptional and widespread threat to life, health or basic subsistence, that is beyond the coping capacity of individuals and the community” (Oxfam GB 2003).

Emergencies arise as a consequence of a both natural disasters and human-made crises, including earthquakes, war, deteriorating security, and forced displacement. The scope of when an emergency begins and ends for programming and funding purposes is a topic of ongoing debate. Different operations involve different degrees of urgency. Specific corruption challenges and their solutions depend on how acute the crisis is. For less urgent acquisitions, the corruption issues are very similar to those of procurement that is not part of a humanitarian relief operation.

## **1.1 The context of emergency-related procurement**

An emergency response requires the purchase and delivery of a vast range of goods and services: medical supplies and equipment, drinking water, food, sanitation equipment, transportation, power, shelter and housing, non-food items, communication equipment, and more. These goods and services are typically contracted for with private companies. The purchases may follow from long-term agreements with specific firms, based on sound pre-emergency tender procedures describing the cooperation to take place once an emergency occurs. However, many requirements cannot be anticipated, or organised in advance, and rapid acquisitions will often be necessary. This is particularly true when it comes to transportation, fuel, and specialised supplies such as winterized tents.

This paper focuses on procurement of goods and services to cover the basic, immediate needs of the affected population.<sup>4</sup> Like other procurement situations, price and quality are important criteria. The primary concern at this point, however, is that of urgent delivery. Inefficient acquisitions by people under severe time pressure will inevitably occur. Sometimes, these less efficient results are intentional and occur as a result of corruption.

### **Inefficient procurement versus corruption**

Considering the desperate needs of crisis survivors, participation in acts of corruption seems particularly perverse. Nevertheless, emergencies provide a number of unique

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<sup>4</sup> In practice, it is often difficult to draw a clear line between emergency and post-emergency contexts. Post-conflict countries are particularly prone to large-scale corruption in procurement associated with infrastructure projects. See Transparency International (2005) and Galtung (2005a) for more details. In this paper, however, we keep our focus on the acute phase of emergencies, often characterised by immediate threats to human life and health.



opportunities for corruption. Intense media pressure increases the need to be seen acting quickly. The risk of being caught in the crime is reduced under such circumstances. Requirements regarding financial records are often relaxed, so it can be difficult in an ex-post evaluation to distinguish between poor outcomes that result from corruption, and those that can be blamed on rushed decision processes and inexperienced personnel. Nevertheless, an agency's ability to learn from failed procurement requires it to distinguish between inefficient procurement and corruption.

The first type of inefficient outcome arises from some form of *incapability*. Procurement staff who are unfamiliar with the local market might accept high offers out of ignorance. Officers may simply not bother to hunt down the best price. However, there is no intention to capitalise personally from undue benefits. Alternatively, purchasing decisions may be influenced by concerns other than those that relate to the price, quality, or delivery time of the good or service in question. Such concerns include, for instance, district politics, employment issues, alternative welfare considerations, or the protection of domestic industry. Choosing suppliers on these grounds is not corruption, although less optimal outcomes are achieved in terms of the price/quality combination. When corruption takes place, someone has acted intentionally, often creatively, in order to profit personally from the situation.

### **Box 3. Inefficient procurement...**

A UNHCR report on the 2004 tsunami response in Sri Lanka noted that delivery delays of shelter supplies led to inefficient local purchases:

“The zinc roofing internationally procured cost US\$ 950,000. The local cost would have been US\$ 157,400 (16.5 per cent) higher, slightly higher than the 15 per cent benchmark established by UNHCR. The urgency of the procurement and the initial aim to complete the transitional shelters by 30 June 2005 was not fully taken into account. Before the internationally procured zinc sheets arrived a further 10,000 were procured locally at a cost of US\$ 98,000. Therefore most of the envisaged savings by procuring internationally were lost, and the programme over-procured roofing sheets: enough for almost 4,000 extra shelters.

*Source: UNHCR (2005)*

### **....versus corruption**

“When work on the Hungama tsunami housing project commenced in 2005, the plan was to build 100 houses for victims who had lost their homes. A year later only three houses were occupied, and of that only one by a tsunami victim. Only 70 houses were built, and most of them are falling part at the site located in Siribopura, Hambantota, 260 km from the Sri Lankan capital Colombo. The funders of the massive project and the contractors agree that the houses were constructed using low quality material, and each blames the other of embezzlement.”

*Source: Amantha Perera, journalist for the Sunday Leader*

Accordingly, corruption cases can be more difficult to root out, and require a different approach compared to the inefficient procurement caused by (honest) incapability. This

is why it is critical, when designing policies to reduce corruption, to identify the individual incentives, opportunities and actual mechanisms of corrupt transactions.

## **1.2 Consequences of corruption in emergency procurement**

The financial cost of corruption in procurement can be calculated by comparing the prices of similar goods and services delivered through direct negotiations versus those paid pursuant to an apparently competitive bidding process. Price differentials between the two procedures can be up to 20 - 30 percent of the contract amount; in cases of corruption they can be even higher. Such comparisons will of course be no more than rough approximations, see Tanzi and Davoodi (1998) and Strombom (1998) for discussion. Other costs include reduced quality of goods and services; inflated prices; biased allocation of goods and services; and reputational damage to the humanitarian community.

### **Reduced quality of goods and services**

A cost-efficient result is the aim of every tender-procedure. A bribe, in contrast, is a payment made to obtain a deviation from this goal, and a tender that has been influenced by corruption will, by logic, not ensure 'best value for money.' The contract is awarded to the most successful briber, not necessarily the firm that offers the best price-quality combination. In return, the agency may receive badly-maintained vehicles, expired medicines, or diluted cement.

### **Inflated prices**

Corruption can change the market structure in a way that increases the economic power of the best bribers. Corrupt customers (here, procurement officers) will repeatedly patronize those firms that are willing to bribe. As the profits of these firms increase, the potential *personal profits* become even higher for the corrupt customers. Higher profits and more contracts enable a firm to further increase its market power also through other (honest) mechanisms, such as through more extensive advertising or the reduction of prices to squeeze out competitors in certain segments of the market.

The ultimate result of more market power for one or a few firms will be higher prices for all customers. That is, all donors and agencies will have to pay more than usual for the required products (whether they are involved in corruption or not). In addition, as the urgency of an emergency reduces bargaining power anyway, rapid procurement is particularly prone to inflated prices and expenditures. In war and post-war contexts, the impact of monopoly suppliers can be devastating if such suppliers have an interest in sustaining a conflict economy.

### **Biased allocation of resources**

Corrupt procurement officers are not only biased in their choice of supplier, but also in their prioritization of procurement projects. Bribes will seldom be obtainable in all markets, and a corrupt official may shift the focus of acquisition to sectors where bribes and personal benefits are easier to gain. Besides, if the bribe is calculated as a percentage of the total contract, the corrupt official is likely to exaggerate investments

in certain products or services, at the expense of other needs. This could result in the acquisition of too many computers or power generators, or an overstated concern about shelter construction while real priorities lay elsewhere.

### Reputational damage

In addition to the tangible consequences described, corruption can undermine trust in the individual agencies involved, and in the humanitarian system as a whole. Media coverage of corruption may affect the way both beneficiaries and the donor public perceive aid providers. Such reports can be exploited by those seeking to discredit particular agencies or interventions. In some cases, exposure of corruption can result in reduced donor support.

## 2 WHY AND HOW CORRUPTION OCCURS

Most agencies involved in a humanitarian response, including NGOs, donors, and government offices, have written procurement procedures. Typically, these procedures reflect best practices in international competitive bidding (ICB), and cover the following elements: (1) the choice of what to request; (2) the tender design, including the technical tender specifications and criteria of evaluation; (3) qualification and identification of the tenderers; (4) the tender, when the bids are submitted by the tenderers; (5) evaluation of bids and assignment of the contract; (6) implementation of the contract/delivery of goods or services; and (7) evaluation of the procurement and control.<sup>5</sup>

Procurement procedures describe how to carry out each step of the process, when derogations are acceptable (for example, in emergency situations), and how the parties involved should communicate. Corruption represents a violation of these procedures or the principles behind them. No matter who condones or conducts corruption – whether networks or individuals, firms, civil servants or employees in donor organisations - its form often falls under one of the following two categories: (i) *misuse of legitimate derogations from the rules* and (ii) *hidden violations of procurement rules*, where it appears that normal procedures have been followed. These categories are discussed in greater detail below.

It is important to note that many practices have an unclear legal status, in spite of complex rules, procurement reforms, and more detailed legal definitions of corruption. Rather than engage in clear-cut corruption, firms will often try to influence procurement through less risky “grey zone” behaviour. As a part of their marketing efforts, firms commonly cultivate contacts in the donor environment. These activities verge on corruption when they include expensive gifts targeted at specific individuals, and result in favourable contracts.

The risk of corruption depends on a number of factors, most importantly the opportunity to influence decisions, the existence of obtainable benefits, and the possibility of getting

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<sup>5</sup> See Arrowsmith and Davies (1998) for a general discussion, and, for example, European International Contractors (2004) for the different steps of the procedure:  
[http://europa.eu.int/comm/development/body/theme/consultation/doc/social\\_partners/EIC.pdf](http://europa.eu.int/comm/development/body/theme/consultation/doc/social_partners/EIC.pdf)

away with the offence. In the following section, we evaluate these factors as they apply in emergencies to both parties of a corrupt transaction. We begin by examining the incentives and costs of corruption for those involved, and then explore how opportunities to take part vary according to certain characteristics of the procurement.

## 2.1 Incentives and costs

### Procurement officers<sup>6</sup>

A procurement officer's incentive to take part in corruption will depend on i) the amount and value of possible benefits and ii) his or her professional integrity: that is, the degree to which a staff member's attitudes and behaviour aligns with the goals and achievements of the institution that they represent. In emergency contexts, officers may divert relatively small sums to meet survival needs of their extended family and associates. Local employees who perhaps have lost family or property themselves can more easily justify displacement of resources from targeted beneficiaries.<sup>7</sup> Institutional loyalty can also flag over the course of rapid management turnovers common in emergencies.

Incentives can be dampened when the risk of sanctions is high. Sanctions may be social, administrative or judicial, and emanate from the official's clan, office, home country, or local authorities. The risk of sanctions is lower in crisis-affected countries, where administrative and legal controls are likely to be weak. A culture of impunity may seem to prevail, particularly in places torn apart by years of internal conflict.

Some forms of sanction, for example extortionist threats, serve to *increase* officers' incentives for corruption. The briber might threaten to expose a procurement officer's previous misdeeds in order to secure continued cooperation. Such a threat can involve violence, to the officer personally or to the officer's family, and it may be connected to organized crime.

### The suppliers

The corruptors' incentives are also diverse. Their motivation to engage in a corrupt transaction depends on how they assess the possibility that their competitors offer bribes. A major challenge within business corruption is the lack of credible information about competitors' true strategies.<sup>8</sup> In addition, suppliers will weigh the threat of sanctions, including debarment or prosecution, either locally or, in the case of foreign companies, in their country of origin. Again, the risk of being caught in a crisis-affected

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<sup>6</sup> In most interventions, procurement can be undertaken by logisticians, specialized procurement officers, and ordinary programme staff. As noted earlier, the term "procurement officer" is used broadly to include anyone with responsibility for the purchase of goods and services.

<sup>7</sup> In many countries, men experience greater social pressure to provide support to family and friends, and therefore may be particularly susceptible to participation in corruption during crisis situations.

<sup>8</sup> A Norwegian business survey conducted in 2004 studied the different motivations for firms to offer bribes. The most important underlying motivation was suggested by the respondents to be "the risk of having competitors who offer bribes" (Søreide, 2006a).

country is extremely low, while the threat of punishment at home has a limited deterrent effect.<sup>9</sup>

The risk of sanctions will also depend on the legal status of the acts. The influence on procurement through “grey zone” behaviour, like marketing efforts that include expensive gifts, will obviously represent a lower risk for a supplier than engagement in clearly illegal corruption.

## 2.2 Factors that impact opportunities for corruption

The opportunities to take part in corruption will vary according to certain characteristics of the procurement. The following factors are important to understand the risk of corruption: size and location of contract; the types of goods and services purchased; reduced financial controls; increased demand for emergency supplies; the influx of funding; the complexity of purchase requirements; the discretion of procurement officers; the country of emergency; and the firm’s country of origin.

### Size and location of contract

There is a risk of corruption in all emergency-related acquisitions, not just major contracts. Often, responsibility for procurement is located with different individuals and offices, depending on the **size of the contract**. *The largest contracts* (above \$100 000, for instance) are often procured in agreement with headquarters staff. *Medium sized contracts* will normally be handled by a regional office or an office in the capital of the country of operation. The *small contracts* are usually negotiated by emergency-workers located in the area of the operation, including workforce hired locally. Several of the people interviewed for this study pointed out that **“on-the-spot” procurement** is more prone to corruption than the acquisitions handled by headquarters. This does not mean that local procurement is less desirable; on the contrary, it is often preferable than international procurement for a number of important reasons.<sup>10</sup> The key is to recognize the associated risks and take appropriate measures to mitigate them.

### Types of goods and services purchased

Certain **goods and services are more prone to corruption than others**. The box below identifies products and services that are perceived to be especially vulnerable.

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<sup>9</sup> One exception may be US companies, who are prosecuted more frequently than their counterparts in other countries under the 1977 Foreign Corrupt Practices Act. Although most of the major donor countries are party to the OECD Anti-Bribery Convention, the numbers of prosecutions following from their obligations under this treaty have so far been very low. The United Kingdom, for example, has yet to prosecute a single company for bribing a foreign official. In the emergency context, the OECD Convention is relevant when humanitarian aid is being channelled through national and local governments.

<sup>10</sup> “On-the-spot” procurement has a number of advantages over international procurement. First, it is normally much cheaper, as expensive transportation fees are avoided. Also, it helps stimulate the local economy, makes it more likely that goods and services are suitable for the local context, devolves responsibility to field staff who can better assess beneficiary needs, and increases the chance that the affected populations have a voice in determining the kinds of goods and services they receive.

**Box 4. Risks of corruption associated with commonly-procured goods and services in emergency situations**

*Shelter:* A sudden demand for tents, roofing and other materials creates opportunities for collusion between suppliers and subsequent demands for bribes as a means to guarantee supply. Cement is often mixed with sand and other materials to inflate volume. Poor quality tents, tarpaulin and quilts (inadequate filling) are accepted in return for a bribe. As new agencies stream into a given location, illicit payments may be exchanged to secure houses, offices and warehouses.

*Medicine:* Payoffs are made to accept incomplete shipments, or drugs that are low quality, expired, or counterfeit. Customs officers can purposely hold up medical supplies that are urgently needed in order to extract a bribe.

*Electricity and communications:* Bribes are made by firms to gain knowledge about contract arrangements and prices.

*Non-food items:* Bribes are exchanged to secure contracts for commonly-used items such as jerry cans, buckets, and blankets.

*Transport management:* Collusion between drivers and suppliers leads to falsification of receipts and other paperwork. Fuel can be siphoned off from the stocks or vehicle tanks. Substandard vehicles and/or parts may be substituted in purchasing agreements. Government and procurement officers can collaborate to collect “taxes” on cars and other imports that are legally exempt from duties following an emergency.

Corruption can even occur before the operations starts. During the needs assessment stage, responsible officials may exaggerate or skew the kinds of products and services supposedly required for their personal benefit. Alternatively, they might direct supplies and services to certain areas over other, needier locations. For a more detailed analysis of corruption risks in different phases of an emergency operation, see Ewins, Harvey Jacobs and Savage (2006).

**Reduced financial controls**

In emergency situations, normal financial control procedures are often “fast-tracked” to enable staff to respond flexibly and quickly to needs as they arise. In-time and ex-post monitoring and evaluation procedures are often cursory at best. Furthermore, ad hoc acquisitions, even where framework agreements exist, are more readily accepted. Corrupt individuals will exploit this weakness, and perhaps also be attracted to emergency-related projects because they provide better opportunities to get away with such offences.

**Increased demand for emergency supplies**

The more pressure there is to complete a contract the easier it is to cover corruption, and the more opportunities there are to inflate the price of a business contract with a bribe.

Emergencies often create a significant rise in the demand for important products, such as plastic sheeting, tents, medicines, etc. As prices soar, bribes and other improper costs will be harder to detect.

### Influx of funding

Bribes are often calculated as percentages of the total contract amount. The larger the potential contract, the more important it is for a firm to acquire it, and the more willing they might be to take risks in the form of corruption. Often, though not always, emergency response involves vast sums of money. Following the 2004 tsunami, for example, at least US\$13.5 billion was pledged or donated for emergency relief and reconstruction (Tsunami Evaluation Coalition, 2006). Donors and aid agencies experience enormous pressure to spend this money quickly, and therefore are likely to favour larger contracts with a few suppliers rather than many small contracts that are difficult to manage.<sup>11</sup>

### Complexity

The more technology involved, or seemingly involved, the easier it is to cover corruption. It can be difficult to tell if the price of a water testing kit should have been \$150 or \$250, or if the price of helicopter transportation should be \$75 000 or \$100 000. Rose-Ackerman (1999:29) warns, however, about the opportunities for corruption also in the procurement of simple and cheap consumable goods, like medicines and foodstuffs, as it is more difficult to monitor their delivery.

### Discretion

The more discretion a procurement officer has to determine demand and preferences, the easier it is to cover improper influence over his or her decisions. Della Porta and Vannucci (2001) rank levels of discretion in the box below, where the first level describes situations with the smallest scope for discretion, and the fourth level describes situations with the highest. In emergencies, procurement officers normally exercise high levels of discretion in terms of identifying beneficiary needs.

### Country of emergency

The geographical locality of the emergency situation matters as well. Transparency International ranks countries according to their perceived level of corruption. Such indices should not be interpreted to measure the actual level of corruption in different countries.<sup>12</sup> However, they confirm that levels of corruption are assumed to differ greatly between countries. The risk of corruption is probably higher in critical emergency situations if the general level of corruption in the given country is considered a significant problem. In Indonesia, for example, following the 2004 tsunami, assessment teams were informed that “incentive payments”, a 10% add-on to

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<sup>11</sup> Another related risk is the influx of ‘charitable donations’ in the wake of major disasters. Firms can donate goods and services to the relief effort which create binding and often lucrative contracts for, for example, technical support or spare parts. This is not corruption *per se*, but results in a form of biased decision-making with similar impacts.

<sup>12</sup> See discussions in Knack (2006), Galtung (2005b): <http://www.tiri.org/docs/boundaries.pdf> and Søreide (2006b) <http://www.cmi.no/pdf/?file=/publications/2006/wp/wp2006-1.pdf>

### Box 5. Four levels of discretionary power in procurement

1: Public demand and preferences are precisely defined with respect to both qualities and price structure. The *award is automatic*; the procurement official exercises no discretionary power.

2: Public demand is precisely defined. However, only *general criteria* for prices describe the public preferences. Discretionary intervention is necessary.

3: Public *demand is not defined with precision*. Public preferences are described by general criteria for both price and quality. The public official has the power to assign weight to the various offers, according to general criteria.

4: The demand and the public preferences are precisely defined during a *bilateral bargaining* process, delegated to the public agent. S/he is choosing the private part, while price and other contract conditions are the result of a negotiation process.

Source: Della Porta and Vannucci (2001)

the bid, were a normal and accepted practice. If 30% of approximately \$207 million in aid is spent on procurement (a conservative estimate), this would mean that potential losses could exceed US \$6 million. At the same time, it should be noted that mass irregularities were uncovered in connection with the United States government's response to Hurricane Katrina, a country associated with comparatively low levels of corruption.

#### Agency experience in the country

An agency's familiarity with the affected country also impacts corruption risks. In some emergencies, literally hundreds of new operators arrive with large sums of cash to spend quickly (TEC 2006). Expatriates are ignorant about local market conditions, and new programmes challenge staff to procure unfamiliar items (for example when a child protection agency takes on a latrine-building project). In these situations it is not surprising that corrupt individuals take advantage of the chaos.

#### Firm's country of origin

Firms' propensity to offer bribes can also depend on their country of origin. Cultural norms when it comes to corruption-like practices do differ between countries and also between exporters (Lambsdorff, 2001).

All OECD countries are parties to the OECD Anti-Bribery Convention, which requires them to outlaw the bribery of foreign public officials.<sup>13</sup> Many non-OECD countries, such as China and India, operate without such restrictions.<sup>14</sup> Firms from these countries could be expected to operate with a lower risk of being sanctioned for their involvement

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<sup>13</sup> The text of the OECD anti-bribery convention can be found on the OECD website at [http://www.oecd.org/document/20/0,2340,en\\_2649\\_34859\\_2017813\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/20/0,2340,en_2649_34859_2017813_1_1_1_1,00.html)

<sup>14</sup> However, as of mid-2006, China had ratified, and India had signed, the United Nations Convention Against Corruption. This technically requires them to include the bribery of foreign public officials and officers of international organisations as criminal offences under their domestic laws. See [http://www.unodc.org/unodc/en/crime\\_convention\\_corruption.html](http://www.unodc.org/unodc/en/crime_convention_corruption.html) for the text of the convention.



in corruption. However, it is important to note that the OECD Convention's impact is still unproven. As of mid-2005, only four countries have prosecuted more than one case under the Convention.<sup>15</sup> See Heimann et al., 2005. The extent to which firms' incentives are actually affected is therefore unclear.

It is often difficult to estimate the risk of corruption in a given context. Certainly, we should refrain from generalising on the basis of one factor, such as a firm's country of origin. All factors, including complexity, levels of discretion, country of operation, etc., should be considered in combination when assessing the risk of corruption.

### **2.3 Corruption through the misuse of legitimate derogations from the rules**

Emergency procurement procedures are normally triggered by the onset of an immediate threat to life and/or public safety. Some derogations from normal practice are established in writing, others are not formalised but are nonetheless commonly understood and accepted. The application of a **“value for money” standard** in procurement decisions is one example<sup>16</sup>. It can obviously be difficult –and time-consuming- to concentrate on differences in the price-quality combinations offered by suppliers when human lives are at risk. A challenge of emergency-related procurement is thus to determine the **balance** between price-quality control and immediate purchase. In DfID, for example, the “value for money” standard still officially applies in emergency situations. In practice, however, price is subordinated more explicitly to other humanitarian imperatives. As one officer said, “value for money essentially means that the (goods and services purchased) are of sufficient quality, delivered on time, and can be used for the intended purposes.” The need to be flexible and make rapid purchases facilitates corruption in the sense that it can be easier to steer a purchase to one specific supplier without attracting suspicion. Specific ways of misusing legitimate derogations from the rules – even special emergency procedures – are described below.

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<sup>15</sup> These countries include France, Korea, Spain, and the US (Heimann et.al. 2006:5).

<sup>16</sup> Applying the “value for money” standard is an imprecise process. The United Nations Development Programme (UNDP) Procurement Manual (2006) offers the following guidance: “Best value for money should not be equated with the lowest initial price option rather requiring an integrated assessment of technical, organizational and pricing factors in light of their relative importance (i.e., reliability, quality, experience, reputation, past performance, cost/fee realism and reasonableness).”

### **Box 6. Legitimate derogations from the rules**

In a crisis situation an attempt is generally made to give priority to “curative operations” to recover from risk to health or life, through emergency intervention, deployment of a peacekeeping mission and/or humanitarian support, followed by recovery, rehabilitation, reconstruction and development. In such situations with need for quick action and immediate results, deviations from normal procurement rules may be made.

The Country Director (CD) or Resident Representative (RR) are authorized to waive competition for contracts valued up to USD 100,000, so long as the obtained offers conform to specifications, delivery schedules, and such contracts are submitted for post-facto review.<sup>17</sup>

*Source: UNDP Procurement Manual (2006)*

Following the tsunami in December 2004, CARE set up a Disaster Management Unit in Colombo and authorized Project Directors in districts to spend up to \$10,000 without seeking approval from the country office. This enabled field staff to respond more efficiently to beneficiaries, whose needs they – and not the country office – could evaluate best.

*Source: Humanitarian Accountability Partnership International (2005)*

### **Exaggerated emergency**

As noted in the introduction to this study, there is no consensus on the definition of an emergency in the humanitarian system.<sup>18</sup> The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) recently settled on a circular description for the purpose of operating its Financial Tracking System (FTS):

“The context in which aid reported to FTS can be considered humanitarian begins with an IFRC, UNHCR, or OCHA report, or comparable report or designation, such as by the host government or donors, that confirms humanitarian needs. It is deemed to have ended when six months have passed with no IFRC, UNHCR or OCHA situation report that confirms current humanitarian needs.” (UNOCHA, 2004)

Any definition of emergency is subjective and limited. Protracted crises that constitute an ongoing threat to human life can last for years, and even decades (for example the situations in Darfur and Somalia, respectively). In those cases, despite periodic surges of need (for example when fresh conflict breaks out), a certain “normalisation” of the

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<sup>17</sup> Contracts with a value above \$100,000 often trigger more formal review of a procurement decision. DfID officers, for example, are still required to place Contract Award Notices in the Supplement to the Official Journal of the European Communities (OJEC) in respect of all procurement costing £100,000 or more – even in emergency situations.

<sup>18</sup>The OECD Development Assistance Committee has noted the difficulty of evaluating member countries’ humanitarian programmes in the absence of a common definition of what constitutes an emergency or crisis situation. See Hammargren (2005).

procurement process can be expected, in the sense that supply chains are better established.

In most cases, however, the urgency of relief decreases substantially within a relatively short timeframe. Current practice in the aid system calls for a re-evaluation of emergency situations every six months, with the ultimate decision to re-qualify a given context resting with individual donors and agencies. DfID procurement procedures, for example, state that the “emergency” phase of an intervention should *not ordinarily* exceed 6 months from the onset of the original disaster, after which normal procurement procedures once again apply (*italics added*). The decision to suspend the emergency designation is made by the Head of the Country Office or Regional Office, or the Programme Officer with the Conflict and Humanitarian Affairs Department responsible for managing the relief operation. The European Union’s humanitarian aid arm, ECHO, funds “primary emergency projects” for three-month periods. Thus, any derogations from normal procurement procedures are only valid for that time frame. Many donors and implementing partners lack any guidelines at all for declaring an “end” to an emergency.

By emphasizing the continued threat to human life, procurement officials can abuse fast-track “emergency” procedures as a cover for corruption. In situations where some agencies are operating under competitive bidding procedures and others are not, corrupt suppliers will naturally align themselves with willing partners from the latter group. Finally, there is a danger that the inconsistent procurement requirements imposed by different donors - often for the same projects - will cause stretched agency administrations to emphasise correct paperwork over substantive controls.

#### Misuse of discretionary power

Procurement officers often enjoy the maximum degree of discretionary power during an emergency situation (see Box 5 above). This means that he/she has broad authority to determine and communicate the public’s needs and preferences without comparing alternative prices and qualities available on the market. The easier it is for the procurement official to defend the choice of contractor, the easier it is to engage in corruption.

#### Misusing lax requirements for written justifications

Direct, or bilateral, negotiations with just one supplier of a good or service are normally defended on various grounds: the preference for previous suppliers whose performance has been satisfactory; the uniformity of spare parts, or the familiarity of operators with similar equipment. This may result in “sole source procurement” or “single source procurement”. *Sole Source* is procurement in which only one vendor is capable of supplying the commodities or services. This may occur when the goods are specialized or unique in character. *Single Source* is procurement in which, although two or more vendors can supply the commodities or services, the procurement officer selects one.

Written justification for the use of sole source or single source procurement is usually required. During emergencies, however, procurement officers know that the expectation

of such reporting is low, while post-emergency evaluators are unlikely to have the information needed to evaluate any justification. Therefore, the risks involved in conducting direct negotiations with one (corrupt) supplier are typically quite small.

## **2.4 Corruption through violations of ordinary procurement rules**

It is important to remember that emergency situations may also involve the same corruption risks as non-emergency situations. Some of the common tactics are described below.

### **Limited invitation**

It is often too easy to cheat on the rules of announcement: the call for bids may be announced very late, while the bribing supplier is the only firm that is informed in due time to make a bid. The announcement can also be communicated to “fake competitors” who are clearly unable to supply the needed commodity or service. The procedure will thus appear to follow the procurement rules, until it is discovered, for instance, that one of the registered tenderers for a contract on the supply of tents in fact only sells water pumps. Another problem occurs when the procuring agency receives bids and quotes which seem to come from different bidders, but which in fact come from the same bidder in order to protect a territorial supplier. Forging signatures on bids – or supplying them on different letterheads - to make it look like they come from different suppliers is yet another (crude yet common) tactic.

### **Box 7. A bend in the rules**

The agency thought it had a good system for ensuring it got the best price for major purchases: even when a project was funded entirely from its own funds it followed a procedure it had learned from a donor, asking for three quotes for each major purchase. The agency insisted on this rule even though everyone in the country office knew that suppliers worked together to produce three inflated quotes, deciding among themselves whose should be the lowest on each occasion. The “lowest” then supplied the goods and paid a standard fee (which the agency, had it known, would have called a kickback) to the storekeeper. He certified that the goods had been received and were of good quality.

It was hard to persuade the agency that local knowledge of prices, suppliers and commercial practices, and a focus less on cost and more on value for money was a better approach than following a system that invited and received abuse.

*Source: Cammack et al. (2005)*

### **Short listing/pre-qualification**

The inclusion on a short list, the list of firms that are considered qualified to participate in the tender, normally provides another opportunity for a procurement officer to receive bribes. However, the procedure of short-listing is one of the ICB-steps likely to be dropped in emergency situations when immediate purchase is required. For large

operators who have frame agreements with relief suppliers in place, short-listing remains a potential risk for corruption.

#### Evaluation criteria and choice of technology

Another way of making the procedure appear as if ordinary rules have been respected is to match the evaluation criteria with the unique qualities of the bribing firm. For instance, requirements may call for aluminium washbasins (offered by the supplier of bribes), and not plastic; or if buses (owned by the briber), and not vans, were required to transport victims.

#### Misuse of confidential information

Firms may offer bribes to obtain confidential information regarding the other candidates' bids. Such information could include: the relative importance of various elements in a discretionary evaluation; information on competitors' bids – so the briber can offer a bid slightly better than its competitor; and information about the opportunity to negotiate the contractual conditions after the contract is awarded, get extensions of the project or promises of impaired quality controls.

#### Political and diplomatic pressure

Political pressure can influence procurement decisions. Domestic politicians may have personal or professional ties to certain firms, and can misuse their authority to ensure that these firms' products are purchased for the emergency operation.

#### **Box 8. Interests in conflict or conflicts of interest**

As of March 2004, the Houston-based company Halliburton had acquired projects in Iraq and Afghanistan worth at least \$39 billion. Immediately after the American invasion of Iraq, for example, it won a no-bid contract worth \$7 billion with the U.S. Army Corps of Engineers to extinguish oil well fires.

The name "Halliburton" is closely associated with that of Dick Cheney, its former CEO. Cheney left Halliburton in August 2000 when he joined the presidential race on George Bush's ticket. That year, Cheney earned more than \$35 million from salary, stock option sales and other sources. The fact that he still receives between \$180,000 and \$1 million annually in deferred compensation has led many critics, in and outside Congress, to question his influence in the contract awards.

*Source: Centre for Public Integrity ([www.publicintegrity.org](http://www.publicintegrity.org))*

Diplomatic pressure in the form of tied aid can also bias procurement decisions. The United States, Canada, France and Germany, for example, require a certain percentage of aid to go through domestic suppliers. In many cases, such political pressure is legal. However, corruption can also occur in relation to those contracts.

### **3 MEASURES FOR MITIGATING RISKS OF CORRUPTION IN EMERGENCY PROCUREMENT**

Often, formal procurement procedures are in place but are unclear or inadequate. As one seasoned aid worker stated, “we get in trouble for not having the right file, not for corruption in the process”.<sup>19</sup> This section will therefore suggest measures that not only strengthen existing procedures but also ensure better outcomes in practice.<sup>20</sup>

We have organized possible measures for mitigating corruption risk into **five categories** (see Box 9):

- **Preventive measures at the agency level**
- **Coordination**
- **Beneficiary participation**
- **Monitoring and evaluation**
- **Sanctions**

Please note that the categories are meant only as an organizational tool. They do not describe mutually exclusive approaches. For example, beneficiary participation can be harnessed both to prevent corruption at the agency level and to monitor procurement decisions.

#### **3.1 Preventive measures at the agency level**

Preventive measures at the agency level are key to controlling corruption risks in emergency situations. These include, among others, reducing risks associated with “on-the-spot” purchases; ensuring that emergency procurement procedures are established, understood and enforced; and increasing the professionalism of procurement personnel.

##### **Organise advance procurement of commonly-used supplies and services**

As noted above, the more relief procurement can be organized before a disaster occurs, the less likely purchases will be affected by the particular corruption risks inherent in emergency contexts. This is a simple point and, indeed, major relief operators often have regional warehouses and long-term arrangements with suppliers to ensure rapid delivery of commonly required goods for a predetermined price. UNCHR, for example, relies on two tools, a Central Emergency Stockpile in Copenhagen and “frame agreements” which cover the most frequently purchased relief items. These wide-ranging agreements are open in terms of quantities and are non-exclusive, which means

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<sup>19</sup> Interview with anonymous source, August 2006.

<sup>20</sup> This paper concerns the specific procurement situation and the practical implementation of anti-corruption measures. We will focus on the mechanisms of procurement, without distinguishing between different categories of staff that might be employed by donors, NGOs, or the local government.

## **Box 9. Measures for mitigating risks of corruption in emergency procurement**

### **3.1 Preventive measures at the agency level**

- Organise advance procurement of commonly-used supplies and services
- Assess and address risks in existing procedures
- Use standard products
- Create institutional memory through the use of technology
- Secure and up-skill internal procurement expertise
- Implement corruption-sensitive human resource policies for emergencies
- (Re)enforce professional integrity through administrative codes, complaints procedures and sanctions
- Invest in the administration of emergency response

### **3.2 Coordination**

- Integrate corruption risk analysis into joint assessments of needed supplies and services
- Develop and use common templates for sharing information about suppliers
- Standardize the most important goods and services at the sectoral level
- Operate common procurement systems for bulk supplies

### **3.3 Beneficiary participation**

- Facilitate beneficiary participation in the selection and monitoring of goods and services
- Consider providing vouchers or cash instead of goods and services

### **3.4 Monitoring and Evaluation**

- Include procurement as a focus in real-time evaluations
- Focus on outcome, not process, in procurement evaluation
- Ensure adequate budgeting and capacity for monitoring and evaluation (M&E)
- Facilitate effective monitoring by media and NGOs
- Encourage the establishment of complaints bodies for suppliers

### **3.5 Sanctions**

- Consider blacklisting firms that engage in corruption
- Consider favouring tenders from firms based in countries bound by anti-corruption conventions

that UNHCR can purchase from other suppliers if necessary. Items and services covered include blankets, kitchen sets, plastic sheets, generators, computer and telecommunications equipment, some office equipment, essential drugs and medical supplies, office stationery and materials, transportation, inspection of goods, and information technology support (UNHCR, 2004). DfID has similarly established long-term relationships with suppliers in disaster-prone regions. According to one officer, such arrangements reduce incentives for corruption since the terms are negotiated in advance and suppliers want continued business once a given crisis has passed. Like any relationship, however, these agreements need to be actively maintained. Regular control

visits – to monitor quality as well as to build confidence – are essential. At the local level, smaller agencies can secure favourable, long-term agreements through collective bargaining. In Nairobi, for example, the Inter-Agency Group on Disaster Preparedness in East Africa has negotiated contracts on behalf of member agencies covering commonly-required emergency commodities.

While **stockpiling** and **frame agreements** have built-in corruption controls, they are not a panacea for procurement corruption in emergency contexts. For example, procurement officers may ignore an existing agreement and make expensive ad hoc purchases.<sup>21</sup> Some purchases cannot be predicted, or cannot be transported to the affected location. Following the 2006 earthquake in Pakistan, for example, winterized tents were required to shelter victims in mountainous areas. The tents most agencies had in stock provided inadequate protection. In addition, transporting these tents from Europe was a major (and costly) operation. The UK government required nine airplanes to move just 2700 tents together with other supplies. This was a mere fraction of the total number of tents required in the overall relief effort. In this particular case, an existing agreement with suppliers in Pakistan helped. Another reality is that many agencies lack the capacity to organize and negotiate wide-ranging agreements in advance. It is essential therefore to focus equally on preventive measures at the field level. Advance preparation, including identification of domestic or regional suppliers, should be a part of local and national **disaster preparedness and contingency planning** processes.

#### Assess and address risks in existing procedures

In evaluating corruption risks within an agency's procurement procedures, it is important to review both policy and practice. Who is involved in any given purchase, and how, in the different phases of the process? While one person signs the actual contract, other people may have less visible power. Box 10 (below) outlines questions to help identify those individuals with influence over a procurement outcome.

An internal assessment of agency procedures can clarify where risks are most serious, and inform improvements accordingly. Should procurement requirements be cross-checked with other agencies working in the same setting? Should a designated logistics officer approve extensions? Other issues to consider are whether communication rules are clear, whether too much emphasis is placed on formal indicators of competition, whether criteria for “good procurement” are explained, and whether policies exist for lifting fast-track procedures. Donors in particular should evaluate the requirements they impose on their grantees, and minimize those measures that create unnecessary administrative burdens. Furthermore, they should make it a clear policy to encourage a transparent approach towards corruption, and back their partners through public statements where appropriate.<sup>22</sup>

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<sup>21</sup> Note therefore that ad hoc purchases outside an existing frame agreement may indicate that corruption has occurred.

<sup>22</sup> Likewise, international NGOs who implement through local agencies should review their partners' procedures and practices, and offer clear support to those that identify and address cases of corruption.



### Box 10. Who are the decision-makers?

Steps in the procurement procedure	<i>Invisible:</i> Agency staff who may have significant influence on the procedure.	<i>Visible:</i> Official in charge of procedure.
<i>Registration of a need</i>	Who registers and reports a need?	Who accepts?
<i>Technical specifications</i>	Who stipulates requirements?	Who decides?
<i>Tender procedure</i>	Who writes the tender documents? Who makes a tender procedure, and restrictions regarding time, costs, etc.?	Who accepts the tender documents and the decision about procedure?
<i>Evaluations</i>	Who is taking part in the evaluations?	Who is head of procuring entity?
<i>Enter into agreement</i>	Who writes the contract?	Who signs the contract?
<i>Payment of contract</i>	Who verifies the charges?	Who makes the payment?
<i>Extension of contract</i>	Who registers the need for extension?	Who accepts?
<i>Changes of specifications, post sign-up of contract</i>	Who reports the need for various changes, like cost increases or quality reductions?	Who accepts?

#### *Underemphasised communication rules*

Most procurement rules regulate communication during a tender process. Information about the tenderers' bids, and criteria for evaluation of bids, should be confidential. Contact between procurement officials and the tender participants should be kept on a formal basis. Nevertheless, firms often report that communication rules are among the less respected elements of formal procurement procedures (Søreide, 2006a). In an emergency, informal contact in the field is even more prevalent. Communication rules can and should be re-enforced in procedures, manuals and training.

#### *Overemphasis on formal competition requirements*

The inadequacy of formal requirements (i.e. the requirement to produce three bids, all of which may be offered by the same firm) is discussed above. Although abbreviated tender procedures are necessary in emergencies, there is still usually some attempt to ensure a degree of competition in prices and quality. In this aim it is important to realize that the connection between competition and corruption is seldom clear. More competition between firms may, for instance, increase their propensity to take shortcuts, like offering bribes. A monopolist, on the other hand, may offer bribes to keep its exclusive position. Furthermore, a high number of registered bidders will not be a proof of a clean tender procedure – due to the many opportunities to hide this kind of crime. What should be noted, however, is that a contract with a high rate of return and a small number of bidders *could* indicate corruption. It is important to assess whether agency procedures overemphasize the formalities. Basic rules should be reinforced by other measures, as discussed below: use of standard supplies, complaints mechanisms, real-time monitoring, etc. *Continued quality control* of commodities over time, by

comparing goods received with a fixed sample, should be integrated into the procurement process.

*Vague guidelines about what constitutes “good procurement”*

As noted earlier, “value for money” is a relative concept, and in acute emergencies rapid purchase and distribution are essential. As long as the product serves its intended purpose in a timely manner, a “value for money” standard might be met even at high cost. Agencies that drop the focus on value entirely in the interest of speed are likely to take shortcuts that enable corruption. Procurement guidelines should refer to specific standards (see below) and list considerations to be weighed in an emergency procurement decision.

*Lack of clear procedures for lifting the emergency designation*

The opportunities to bypass procurement rules by exploiting a vague definition of “emergency” are described above. It is important that agencies develop and communicate clear policies for distinguishing between acute emergencies and other stages of a relief intervention.<sup>23</sup> After a given point, any new procurements, even of the same supplies, should be conducted under normal procedures. Direct negotiations with suppliers should be replaced with a formal bidding process. It should also be noted that a failure to properly plan for an expected procurement, which then results in a situation where procurement rules cannot be followed, should not be allowed to constitute an emergency.

Finally, agencies should keep in mind that corrupt officers often operate in a **network**. For example, the cashier must agree to process the check for an inflated payment. Diversion of goods from their intended target may require cooperation from the driver. This implies that if one person is caught, the ramifications can impact the organization more broadly. No matter how implausible it seems, an organization cannot afford to rule out the possibility that several staff members may be implicated in cases of corruption. The time and resources required to investigate and respond to these cases can therefore be extensive.

**Use standard products**

One of the major strategies for reducing discretion is by requiring the purchase of standardized products where possible. The large relief agencies – UNICEF, Oxfam, Medecin Sans Frontiers - have extensive manuals with prices for goods and services commonly required in emergencies. The IFRC/ICRC catalogue of relief items, for example, includes about 6,000 items from cranial drills for surgery to plastic sheeting. In an emergency situation, donors, governments and smaller agencies can refer to these resources for their own purchasing. For example, in Liberia, the Oxfam procurement manual became a common reference for prices and quality of water and sanitation

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<sup>23</sup> Of course, agency policies will be subject to donor requirements. An agency could designate a specific situation as “acute” but still need to conduct formal bidding processes for an ECHO-funded project. Harmonization of donor requirements, particularly in terms of reporting, would greatly ease the administrative burdens on over-stretched agencies. As noted above, diverse demands motivate agencies to focus on formal compliance rather than actual value for money.

supplies. Where the prices or quality of a product or its component parts diverge significantly from standard specifications, an explanation should be provided and controlled by senior procurement personnel. As noted above, commodities should be quality checked over time to ensure consistent performance by the supplier.

Of course, reliance on standards can be problematic. Non-standard items might be required, and the lack of common standards *among* agencies creates its own set of risks. However, technical references for quality and price can serve as a shield against corruption where procuring personnel or their supervisors are unfamiliar with the local context or under pressure from manipulative suppliers.

### Create institutional memory

In an emergency response, timely and accurate information about available goods and services is critical. Agencies should consider simple software solutions to track supplies and payments, compare bids and prices, and keep records of suppliers. Humanitarian Logistics Software (HLS), used by the IFRC, is one such tool.<sup>24</sup> This can be a useful not only to streamline procurement but also to mitigate the corruption risks that emerge from rapid staff turnover. Information about suppliers' past performance is invaluable to incoming procurement personnel who have limited knowledge of the local market. It also facilitates financial control by consolidating information in one place.

### Secure and up-skill internal procurement expertise

The trend towards integrating the supply chain in relief operations means that logisticians often carry out major procurements. Most of these specialists have no formal training on procurement *per se*. Still, they know exactly what it should cost to deliver a ton of supplies to a town in Somalia from Nairobi. They also understand technical obstacles and their solutions, and are in a position to question suppliers' suggestions. While nothing can replace practical experience, building up a larger pool of trained procurement staff can be an important tool for corruption control.

Until recently, most agencies did not regard supply chain management as a professional sector on par with finance, human resources, and information technology. It is easy to undervalue the analytic abilities and bargaining skills required for good procurement. While anyone could probably buy 1000 tents, not everyone can get them at the best price-quality combinations, at the right time and place, and with insurance of re-delivery if something goes wrong. Emergency procurement poses special difficulties as well. One is the change in bargaining powers of those involved, mainly because of the sudden rise in the demand for certain commodities. Another is the lack of time: cost efficiency must be balanced against speedy purchase and secure delivery.

A major benefit of **professional training** – besides building skills to tackle these challenges - is that it provides a common foundation to participants from diverse organizational backgrounds. The more people who are familiar with good practice, and who speak a “common language” with colleagues from other agencies, the less

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<sup>24</sup> For more information about this software, see Fritz Institute, [www.fritzinstitute.org](http://www.fritzinstitute.org).

risk that corruption will occur with impunity. Well-networked staff will collaborate more effectively during major emergency operations. In addition, by acknowledging that specific skills are required for good procurement, salaries and status of procurement staff – particular local staff – will be more likely to rise to a level commensurate with their actual responsibilities. There is no wonder that a senior national logistician earning \$1000 a month might be tempted by a bribe on a contract worth \$200,000. Agencies should encourage professional development, and take advantage of the numerous international arrangements available.<sup>25</sup>

Finally, it is important that **all** emergency personnel, whether they have the word “procurement” in their title or not, receive **basic training on agency purchasing procedures**. Many programme officers assume primary responsibility for procurement within their own project. They should be encouraged to consult with procurement specialists before agreeing on contract terms. In addition to improving their own procurement decisions, well-trained staff can reinforce good practice and identify/report bad practice when they observe it. It is also useful to assess whether in-house procedures include adequate guidance on handling common practical dilemmas. Good procurement depends on technical capacity *and* good judgement. By providing staff with the skills to respond appropriately to different situations, they will be more likely to “do the right thing” when faced with opportunities to engage in corruption (see Box 11).<sup>26</sup>

#### Implement corruption-sensitive human resource policies for emergencies

When hiring emergency procurement personnel, it is essential that expertise is evaluated not only on technical grounds but also on local knowledge. Over and over again, corruption occurs because procurement specialists are ignorant of the local market dynamics, as well as cultural norms. For emergency situations, senior procurement personnel should have previous experience from the affected country. All international staff – even those on short-term contracts – should receive briefings on the country they will work on, including information about politics, traditions, and even market dynamics from someone who knows the country well. Following the 2004 tsunami, the aid agency Merlin required employees to receive orientation on culture and language before deployment to Aceh (Bhattacharjee et al., 2005). Local staff should to the extent possible **mirror the diversity of society at large**. Hiring people with different ethnic and religious backgrounds, for example, reduces the possibility that existing social networks are exploited for corrupt purposes.

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<sup>25</sup> For example, UNDP’s Inter-Agency Procurement Services Office offer a variety of targeted courses, while the Fritz Institute’s certification program for humanitarian logisticians covers procurement in addition to other topics.

<sup>26</sup> The British NGO MANGO (Management Accounting for Non-Governmental Organisations) offers useful resources on internal financial control mechanisms ([www.mango.org.uk](http://www.mango.org.uk)).

### **Box 11. Good practice: purchase controls**

#### **Specify the goods or services in as much detail as possible**

- Standard specifications are available for many relief items - use them.
- If there is no time to find or prepare a detailed specification, at least obtain and keep a sample, and order goods "as sample".
- Be clear about what you want, so that the supplier understands.
- Specify the quantity precisely, even if it is only your best guess.
- Agree price including delivery. There is often a big difference between the price including transport, and the value of that item on the local market

#### **Delivery**

- Fix the date clearly. Ensure it is realistic. Is the supplier agreeing to your date only because they want the contract? Will they be able to deliver?
- Ask for delivery at the most convenient place for you.
- Agree in advance who is responsible for unloading and stacking any supplies.

#### **Responsibility for losses**

- Agree who is responsible for any losses and how these will be repaid, using the replacement cost in the country.
- Insurance may also be possible.

#### **Payment terms**

- Advance payments may be necessary as a sign of commitment.
- Check with others working in the area before giving any advance. Be particularly careful if supplier does not have an obvious office.
- Keep advances as low as possible and stop as soon as possible.

#### **Tenders**

- Your organisation and donors may require tenders according to set procedures for all purchases above a certain value - if so carry out as soon as possible.
- If not, asking more than one supplier to give you a price in writing. This may take more time at the start but may save time and money later.
- When choosing the successful tender, consider value for money first, total price second.

*Source: Cammack et al. (2005)*

It is also important to **check references** for procurement candidates carefully. The humanitarian system is full of cases where egregiously corrupt staff fired by one agency are picked up by an unknowing employer during the next big disaster.

### Box 12. Lessons never learned

The habitual dependence of most major relief agencies upon expatriate managers (more often than not male) means that the humanitarian system's key managerial cadre are too often devoid of local language skills and adequate cultural knowledge. Corruption is frequently perpetrated through bent procurement practices, and many expatriate managers have insufficient knowledge of local markets to be able to “sniff a rat” and initiate investigative proceedings. How many national staff appointed by expatriates are locally renowned as persistent crooks?

*Source: Stockton (2005)*

(Re)enforce professional integrity through administrative codes, complaints procedures and sanctions

For over a decade, significant efforts have been made to improve accountability in the humanitarian system. It is widely appreciated that accountability should flow “backwards”, to the donor public, as well as “forwards”, to the affected population.<sup>27</sup> That is, humanitarian actors, whether they work for the state or non-state entities, should answer to funders (or, in the case of the state, their taxpayers) and to beneficiaries, who have a right to adequate assistance. Whether relief workers are employed by the government, the UN, or an NGO, they are expected to carry out their tasks with high standards of integrity – higher than ordinary citizens because of their entrusted position. Procurement officers are no exception.

However, “integrity” is a difficult concept to grasp, and enforce, in practice. One definition of integrity refers to “the proper use of funds, resources, assets, and powers, for the official purposes for which they are intended to be used.” (OECD, 2005) Many government offices, the United Nations agencies and most major international NGOs do have **codes of conduct** in place to manage issues like conflicts of interest. However, very little time or money is generally invested in making sure that staff can digest and discuss the substance of these codes, much less evaluate and respond appropriately to situations that actually arise. In emergencies, administrative niceties are often brushed aside. Expatriate staff may have little appreciation of where private and public duties intersect in the local context, leading to heavy pressures on local staff to favour certain groups in the procurement process. However, such shortcuts can come at a great cost, both financial and in terms of agency morale. Professional integrity is not innate– it needs to be practiced.

Codes of conduct should clearly spell out expectations regarding staff integrity. Setting aside one day (or, several 2 hour sessions) with a new or reinforced emergency team to discuss expectations, and **practice ethical decision-making** through role plays, is a small investment with the potential to impact broad areas of humanitarian action. **Clear**

<sup>27</sup> See, for example, the work of Humanitarian Accountability Partnership-International (<http://www.hapinternational.org>), People in Aid (<http://www.peopleinaid.org>), and the Sphere Project (<http://www.sphereproject.org>).

**reporting channels, defined sanctions, and an established procedure for responding to complaints** are necessary to support the code's implementation.

To facilitate internal communication, a **whistle-blowing** policy that protects colleagues who report on corruption should be considered. If internal channels (whether they involve a line manager, human resource staff, or the director) fail, protections should be in place for staff who take their concerns public. The United Nations recently established a whistle blowing policy that incorporates many of the “best practices” developed by local governments and other organizations. (UN Secretariat, 2005). However, it should be noted that implementing an effective policy requires careful planning, buy-in by senior management, and adequate resources. (People in Aid, 2002).

Agencies should also consider the **impact of expatriate perks and lifestyles on institutional loyalty**. Hardship postings carry certain benefits that seem unfair to local colleagues, who have often suffered terrible personal losses as a result of the crisis. For example, internationals commonly have free access to agency vehicles outside working hours. They often receive hundreds of dollars in cash – as frequently as every six weeks - to go on “rest and relaxation”. These sums are usually transferred directly by local accountants. It is not surprising, then, that some national staff might be tempted to cheat a system they see as fundamentally unfair. Simple measures, such as requiring payment for the use of agency property, or handling special payments at the headquarters level, can minimize tensions and reinforce boundaries between public and private goods. Explanations for high expatriate salaries and other benefits should be carefully communicated to the entire emergency team.

### Invest in the administration of emergency response

Many agencies advertise their low overheads to attract public and private donations. Who has never heard reassurances like “donations go directly to help those in need”? However, investment in the administration of an emergency response is critical to reduce risks of corruption. In terms of procurement, administrative funds should support a sound hiring process of specialized personnel, adequate induction of all new employees, management capacity at the field level, and ongoing monitoring (internal and external) of the programme. Where governments are responding to a domestic disaster, administrative capacities should be assessed and buttressed as needed by the international community. Following the 2004 tsunami, for example, local government offices in Sri Lanka could not keep up with the countless projects under their purview; on-site visits were the exception rather than the rule.<sup>28</sup>

## 3.2 Coordination

Coordination of procurement processes in an emergency can range from “coordination lite” – that is, basic sharing of information – to a heavier approach involving common supplies and services. The appropriate form of coordination will depend on the given context: who the actors are, whether the government is functioning, how urgent needs

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<sup>28</sup> Interview with Amantha Perera, May 2006.

are, and the geographic scope of the crisis. Coordination can also occur **in advance** of the emergency, through the negotiation of multiple-agency agreements that establish mechanisms for group purchasing.

#### **Integrate corruption risk analysis into joint assessments of needed supplies and services**

One of the major challenges at the outset of emergencies is the lack of coordination around assessment of humanitarian needs. Donors and implementing partners alike tend to emphasize individual activities and achievements at the expense of a common approach. As a result, multiple assessments of the same population can result in diverging views about procurement requirements. This makes coordinated purchasing activities practically impossible.

Since “on-the-spot” contracts are most prone to corruption, joint assessments should include a local market analysis to identify not only available supplies but also the structure of supply networks and the methods in which corruption typically occurs. General assessments could be prepared in cooperation with local researchers either at the beginning of, or even before (in conflict or disaster-prone countries), an emergency response. Untraditional sources, such as intelligence personnel and foreign businesspeople, should be solicited for their (anonymous) inputs.

#### **Develop and use common templates for sharing information about suppliers**

While experienced procurement personnel will compare purchases informally with each other, information should also be formally coordinated at a sectoral or centralized level. The development and updating of a **simple template** – with the supplier’s name, type of good or service, prices and lead times quoted - can be managed by OCHA or the governmental office responsible for humanitarian response. Such information should (with limited exceptions) be **publicly available**, so that donors, the media and beneficiaries themselves know what is being purchased from whom.<sup>29</sup> **Shared technological solutions** with offline capabilities can help agencies coordinate supply pipelines and compare prices for specific goods and services without added administrative burdens. One such program, Helios, is being piloted in Nairobi for use in emergency operations in northern Kenya, Sudan and Somalia.<sup>30</sup>

#### **Standardize the most important goods and services at the sectoral level.**

As noted above, standardizing supplies is an important tool for reducing corruption and maintaining quality in emergency relief. However, as agencies often use different standards, and not all “standard goods” are always appropriate, sectoral coordinating mechanisms should advocate for, and facilitate, a common approach in each context. After the 2006 earthquake in Pakistan, where the new United Nations-led “Cluster Approach” was piloted, the shelter cluster quickly recognised that agencies were using different qualities and paid different prices for the purchase and transport of metal sheets needed for emergency shelter roofs. The cluster then recommended a standard

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<sup>29</sup> Buyers should seek legal advice before initiating practices that could potentially be deemed anti-competitive (such as the creation of buyer’s cartels through the sharing of post-contract prices or quotes).

<sup>30</sup> Interview with Fritz Institute, August 2006.



quality and maximum purchase and transport price for all member agencies, effectively limiting the possibility for corruption in the purchase of a major relief item.

### Operate common procurement systems for bulk supplies

A stronger form of coordination involves assigning one operator to purchase and deliver a given set of supplies or services on behalf of other agencies. This drastically reduces the opportunities for corruption as suppliers interact with a single purchaser rather than dozens or even hundreds. In Darfur, for example, a common logistics system was established in 2004 for non-food items (blankets, plastic sheeting, cooking kits, etc.). While UNICEF managed the actual purchasing, the aid agency CARE warehoused and distributed these items throughout greater Darfur. Common humanitarian fuel stations and logistics offices would be another way of reducing corruption risks in the vulnerable transportation sector. Such structures would also compensate for the shortage of senior procurement and logistics personnel in major emergencies.<sup>31</sup> To the extent possible these arrangements can be agreed in advance as part of a crisis-preparedness strategy.

### 3.3 Beneficiary participation

#### Facilitate beneficiary participation in the selection and monitoring of goods and services

To the extent possible, beneficiaries (and/or their representatives) should be informed about procurement processes and provide inputs into procurement decisions. Evidence from community development projects shows that beneficiaries can also be effective monitors of non-technical inputs (Olken, 2005; Ramkumar and Krafchik, 2005). There is no reason to believe the same is not true in emergency contexts. In its Aceh shelter project, for example, the aid agency World Vision posted details such as the cost of construction and labour on a billboard. The community also worked with aid staff to design houses, select materials, and organize equipment, labour, vehicles and warehouses. At the end, the construction groups and zone shelter coordinator signed a certificate of successful completion. (Australian Council for International Development, 2005). This kind of collaboration can effectively prevent some of the more common forms of corruption in humanitarian procurement, such as the mixing of sand or salt water with cement.

Consider providing **vouchers or cash** instead of goods and services. One way of reducing corruption risks in the procurement process might be to transfer risk to beneficiaries themselves. Beneficiaries have an obvious interest in securing the best value for money when their own food or shelter is at stake. However, providing vouchers or cash instead of tangible supplies challenges common practice and presumptions in the humanitarian field; it also challenges the capacities of agencies to administer large numbers of small financial transactions.

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<sup>31</sup> According to specialists in humanitarian logistics, there are probably about 20-30 senior logisticians worldwide with the ability to procure and distribute supplies for a major humanitarian crises. Interviews with Fritz Institute and UNHCR (2006).

Some agencies have, in fact, developed promising models of beneficiary-led procurement. Catholic Relief Services has organised “seed fairs” in several emergencies as a substitute for the blanket distribution of seed packages. Beneficiaries receive a voucher with which to acquire seeds. By negotiating their own prices with the suppliers present, and checking the quality first-hand, they can secure the best possible value for money. Furthermore, the opportunities for corruption inherent in mass agency purchases are avoided (Bramel and Remington, 2005)

Harvey (2005) reviews past experiences with cash transfers in humanitarian relief operations, and provides a broad discussion about advantages and drawbacks of the practise. In some situations, of course, agency purchase is clearly preferable. This would be the case where people cannot access a supply of commodities, or where prices are inflating so quickly that cash loses value. Aid operators in many crises can better exploit economies of scale to buy cheaper goods. The benefits and risks of cash transfer should therefore be carefully considered on a case-by-case basis.

### **3.4 Monitoring and evaluation (M&E)**

Many of the measures described earlier - clarifying procedures, investing in administrative costs, communicating procurement information, and using software to track the contracting process - facilitate more effective monitoring of procurement decisions. However, the key challenge is that too often monitoring is simply deprioritized or so delayed that findings have little impact.

#### **Include procurement as a focus in real-time evaluations**

“Real-time evaluations” (RTE), a concept originally developed by UNCHR, can be a useful tool to identify and correct problems in procurement from the outset. As the name suggests, RTEs involve a rapid, interactive peer review of humanitarian response on the agency or inter-agency level. The aim is to provide simultaneous recommendations that can be quickly implemented by currently-deployed staff. The RTE concept seeks to compensate for traditional difficulties with post-facto audits such as: 1) the frequent lack of baseline information, 2) the high turnover of staff, and 3) the difficulty of reconstructing rapidly evolving situations. They can be one-off exercises or, preferably, continued several times over the course of emergency to measure compliance with recommended actions. However, the opportunities that these exercises provide to identify and mitigate corruption risks in procurement are rarely exploited. In a web search of over a dozen RTEs published during the last four years, the authors did not find a single instance in which corruption concerns in procurement are mentioned. Moreover, procurement itself is given surprisingly little attention considering the proportion of resources dedicated to anti-corruption efforts. RTE teams should include **procurement expertise**, and have a mandate to **compare key purchases across agencies**. In addition, Terms of Reference for any RTE should address corruption risks to ensure that this important threat to effective aid is covered.

### Focus on outcome, not process, in audits and evaluations

Procurement decisions should be evaluated not only at a technical level (i.e. were three bids collected as the rules require?) but also according to the actual outcome (i.e. was satisfactory quality provided for a reasonable price?). This requires a skilled evaluating or auditing team to provide independent judgement of decisions made under pressured circumstances. Where it is unrealistic for auditors to compare data from other purchasers, they can ask beneficiaries directly whether they felt value-for-money was achieved.

### Ensure adequate budgeting and capacity for M&E

Monitoring and evaluation should be a prominent budget item in any aid intervention. Money and time are needed to hire external evaluators, manage evaluation processes, and share findings with staff. Effective monitoring by beneficiaries also comes at a cost. Funds are needed to communicate information, to receive and process complaints, and to investigate corruption allegations. Where host government monitoring capacities are weak, donors should consider seconding staff to plug immediate gaps and support the development of in-house expertise.

### Facilitate effective monitoring by media and NGOs

Both media and NGOs can play an important watchdog function when it comes to exposing corruption in procurement. Publishing, publicizing and making proactive efforts to communicate information about relief activities will enable journalists and NGOs to identify problems that arise. Agencies should develop long-term relationships with reliable local journalists to promote in-depth, rather than sensational, coverage.<sup>32</sup>

### Encourage the establishment of complaints bodies for suppliers

New international laws have enhanced firms' awareness of their responsibilities in the fight against corruption. However, it is rare for a supplier to report on a competitor's suspected use of bribes to win a contract. Reporting the illegal business practices of competitors could positively influence the general business climate. Agencies, particularly government agencies, should establish a **board of contract appeals**, so that suppliers know where to file a charge. For firms to employ an appeal process, however, they need information about the decisions behind the tender procedure, and an explanation of why their bid was rejected. These requirements may be simplified during an emergency operation, but should not be skipped altogether.

In this setting it should be noted that the opportunities for firms to form spontaneous cartels are greater in developing countries, especially during crisis situations. A responsible approach to a difficult business climate may be weighed against the opportunities to obtain cartel profits.<sup>33</sup> Procurement officials should be aware of such connections. Evidence of illegal business practices should be sanctioned with some form of debarment (discussed below).

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<sup>32</sup> For specific recommendations on support to media, see the U4 Report, "Corruption in Emergencies: What Role(s) for Media?" (2006). <http://www.u4.no/themes/ces/mediaworkshop.cfm>.

<sup>33</sup> See Søreide (2006c) for an elaboration of this assumption.

### 3.5 Sanctions

Ultimately, the most effective way to reduce the risk of corruption is to increase the costs to dishonest procurement officers and suppliers. Punishment can include administrative sanctions at the agency level, debarment of firms, and prosecution in national courts. As sanctions for agency staff members are discussed earlier (see 4.1 Internal Agency Control Mechanisms), the following measures focus on supplier sanctions.

#### Consider blacklisting firms that engage in corruption

Firms that offer bribes should be ineligible to participate in future tenders for a defined period of time.<sup>34</sup> To the extent legally and practically permissible, a policy of blacklisting firms that violate procurement guidelines (such as that adopted by the World Bank) should be considered by national governments, the United Nations and donor organizations.<sup>35</sup> There are considerable challenges associated with such policies. For example, experts disagree on the evidence required to trigger blacklisting. In the wake of the Volker report on the oil-for-food scandal in Iraq, for example, UN officials were advised that they could not debar the implicated firms unless they were convicted for corruption within their own jurisdiction.<sup>36</sup> In addition, substantial resources are needed to monitor and administer the process.

#### Consider favouring tenders from firms based in countries bound by anti-corruption conventions

A current challenge to the business climates in many developing countries is the influence of firms with few legal home-country restrictions on their foreign-market business behaviour. While companies from most OECD countries are constrained by the OECD anti-bribery convention or the US Foreign Corrupt Practices Act, other countries, for example India, Indonesia, China, Malaysia, Israel, Egypt, South Africa, and Venezuela, lack similar regulations. An increasing number of countries have, however, ratified the United Nations Convention against Corruption, which requires them to criminalize bribery of foreign public officials *and* officials of public international organisations.

Efforts to level the playing field need support, and the growing marketplace of emergency supplies and services should not be excluded from these efforts. Countries should consider amending their procurement laws to favour bids from firms bound by cross-border anti-bribery conventions. This strategy is **politically sensitive**, and,

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<sup>34</sup> The Consolidated EU Public Procurement Directive (2004/18/EC) requires public authorities to exclude companies previously found guilty of procurement from tender. Technical issues around implementation are still the subject of much debate. In addition, it remains unclear whether the provision could come in conflict with existing competition laws.

<sup>35</sup> For the list of firms debarred by the World Bank, see: <http://web.worldbank.org/external/default/main?theSitePK=84266&contentMDK=64069844&menuPK=116730&pagePK=64148989&piPK=64148984>. It is important to note that the World Bank's approach to debarring firms has been criticized for its expense and lack of transparency. For more information about debarment, see the U4 theme page on the topic at <http://www.u4.no/themes/debarment/main.cfm>.

<sup>36</sup> Email to author, October 2006.

innocent suppliers would inevitably be harmed. It can also be **inappropriate** in some cases, taking other goals into account (i.e. cost effectiveness, support for the recovery of local and regional markets). Legal advice is required to ensure such measures are not deemed anti-competitive. However, a requirement to evaluate the adequacy of supplier country legislation can be a powerful bargaining tool where major contracts are concerned.<sup>37</sup> Such pressure has potential in the long run to reduce the threat of bribery in major relief contracts.

#### **4 CONCLUSION AND RECOMMENDATIONS TO DONORS**

This study has explored the risks of corruption within aid-funded emergency procurement. How, and why, does corruption occur? Most importantly, what can be done to control it? Opportunities to engage in corruption are particularly high in emergency contexts, where controls are weak, funding levels are high, and staff turnover is rapid. Despite the obvious risks, corruption in relief aid has traditionally not been a topic of public debate. One reason is that it is difficult to produce concrete evidence when incidents of corruption are alleged. The risk that exposure could alienate donors or the taxpaying public also militates against disclosure – and therefore effective control.

However, the potential for corruption to sabotage the best-intentioned relief efforts cannot be ignored. Corruption reduces the amount of available resources for life-saving operations, impacts on quality of products and services, and diverts aid from those who need it most. Indirect consequences include reputational damage to individual agencies and the humanitarian system in general.

The incentives for both suppliers and procurement officers to engage in corruption depend on the availability of desired benefits and the risk of punishment. In emergency contexts, the influx of aid can result in extremely lucrative contracts for chosen suppliers. Institutional loyalty, which would normally re-enforce professional integrity, can flag over the course of rapid management turnovers common in emergencies. The threat of detection and formal sanctions is normally low in crisis situations due to weakened domestic institutions, and firms are unlikely to face debarment or international prosecution. It is also difficult to evaluate procurement decisions made under extreme circumstances through ex-post audits and monitoring. There is often little objective information about the population's real needs and preferences. Formal requirements, such as the collection of multiple bids, can easily be manipulated by forging signatures, or collecting quotes from the same company on different letterheads.

The study outlines a range of measures agencies can use to reduce procurement-related corruption. These fall under five categories: preventive measures at the individual agency level; coordination; beneficiary participation; monitoring and evaluation; and sanctions. Possible strategies acknowledge that most donors, NGOs and governments already have formal corruption controls. Reviewing existing procedures to identify

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<sup>37</sup> Clearly, to be credible, OECD countries must make equally vigilant efforts to improve their own prosecution records under the convention.

weaknesses is a first step to improved practice. In such exercises it is important to consider the influence of non-frontline staff on those responsible for signing the contracts.

The use of standard supplies, coordination with others on key purchases, and common systems (such as humanitarian fuel stations) are recommended. Monitoring and evaluation efforts that address outcomes as well as process improve the odds of exposing corruption. In addition, all aid staff should receive basic training on procurement procedures and have access to professional advice for more technical purchases. Agencies should keep in mind that corrupt individuals often operate in networks, so investigations into alleged cases can be complicated and expensive.

Anti-corruption responsibilities also fall on the firms; this study emphasises suppliers' duties and possible sanctions. Donors should promote cross-border anti-corruption conventions, even if some suppliers are unfairly affected. International cooperation is critical when it comes to improvements in the field of emergency-related procurement. Donors should develop common (best) practices not only in regular public procurement but also for emergency procurement.

The main reason for reducing corruption is to improve the effectiveness of life-saving operations. Achievements in the area of procurement can have a potentially broad impact. By combating corruption in the purchasing process, which is most prone to abuse, agencies increase the integrity of the entire relief effort.

## Recommendations to Donors

- Encourage the establishment of inter-agency groups in crisis-prone countries and regions to facilitate **advance preparations for emergency procurement**. Disaster preparedness groups can plan joint assessments and negotiate long-term frame agreements on behalf of their members. Standards and procedures established should be communicated to new partners at the outset of an emergency.
- Promote consistent practice in emergency procurement through the development of **standard procedures**. “Best practices” have been established for general public procurement through the OECD Development Assistance Committee (DAC).<sup>38</sup> A similar initiative should address emergency-specific procedures.
- Support innovative efforts to **streamline corruption controls** within humanitarian operations. UNOCHA has, for example, facilitated monitoring of relief monies through its Financial Tracking System.<sup>39</sup> **Corruption assessments** (including a local market analysis) should be piloted in countries known to be particularly corrupt.
- Increase **funding for administration** of emergency operations. Extra management support is needed to implement **basic transparency measures**, such as reporting on the disbursement of funds and publication of contract awards. Donors should set an example by making information about their own funding easily accessible to the public.
- Promote the inclusion of **procurement specialists in inter-agency evaluations**, including real-time evaluations. Lessons learned from these evaluations should be disseminated and discussed with responsible authorities in the affected government and international agencies.
- Support the **professionalization** of procurement officers, through certification and training programmes.
- **Second experienced procurement advisers** to UN-organized sectoral clusters where capacity is lacking.
- Assess the capacity of the affected government to monitor relief programmes, including procurement decisions. **Increase monitoring capacity** where needed with both human and financial resources.
- Provide **incentives for common procurement systems** in emergencies. Previous experiences with joint NFI and fuel purchasing is promising in major operations.

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<sup>38</sup> <http://www.oecd.org/dataoecd/12/62/36044494.pdf>.

<sup>39</sup> For a review of this experience, see Ramkumar (2006).

- **Publicly support NGOs that deal with corruption openly** and professionally in their programmes. Encourage an open dialogue about challenges posed by corruption, both in bilateral discussions and collectively among NGOs and other donors. Cooperation on common approaches to the problem would help destigmatise the issue and increase buy-in from non-audit staff.
- **Consider support to local investigative journalism** as part of emergency response. Professional and independent media outlets should be encouraged to monitor relief operations. **Specialized courses on humanitarian aid** should be offered in donor-country journalism schools.
- Consider policies that favour purchasing relief supplies from firms based in countries with a recognised commitment to international anti-corruption conventions. Advocate for **prosecution of donor country companies** found in violation of the OECD anti-bribery convention.
- Advocate in donor fora for the **untying of aid**, as meaningful competition not only increases value-for-money in relief purchasing, but also reduces opportunities for political interference and corruption.



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## ONLINE RESOURCES

### Useful websites: international cooperation

UNDP

<http://www.undp.org/bcpr/>

UNDP on procurement: <http://www.iapso.org>

UN OCHA

<http://ochaonline.un.org/>

OECD DAC

[http://www.oecd.org/department/0,2688,en\\_2649\\_33721\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,2688,en_2649_33721_1_1_1_1_1,00.html)

The International Monetary Fund on emergency operations

<http://www.imf.org/external/np/exr/facts/conflict.htm>

The World Bank - on its procurement practices

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,pagePK:84271~theSitePK:84266,00.html>

### Other relevant websites

*Active Learning Network for Accountability and Performance in Humanitarian Action (ALNAP)*

[www.alnap.org](http://www.alnap.org)

*Fritz Institute*

[www.fritzinstitute.org](http://www.fritzinstitute.org)

*Humanitarian Accountability Partnership – International*

[www.hapinternational.org](http://www.hapinternational.org)

*Management Accounting for Non Governmental Organisations (MANGO)*

<http://www.mango.org.uk>

*People in Aid*

[www.peopleinaid.org](http://www.peopleinaid.org)

*Overseas Development Institute:*

Humanitarian Policy Group

<http://www.odi.org.uk/hpg/index.html>

*Transparency International:*  
Corruption and Humanitarian Relief  
[http://www.transparency.org/global\\_priorities/aid\\_corruption/relief](http://www.transparency.org/global_priorities/aid_corruption/relief)

*Tsunami Evaluation Coalition*  
<http://www.tsunami-evaluation.org>

*U4 Anti-Corruption Resource Centre:*  
Corruption in Emergencies  
<http://www.u4.no/themes/ces/main.cfm>

### **Various articles of relevance, evaluation reports and discussions**

Discussion on corruption and procurement by Donald Strombom.  
<http://usinfo.state.gov/journals/ites/1198/ijec/strombom.htm>

OpinionJournal on the hurricane Katrina and emergency aid handled by the local government: <http://www.opinionjournal.com/forms/printThis.html?id=110007312>

Report by the UK Comptroller and Auditor General on emergency aid and the Kosovo crisis: <http://www.dfid.gov.uk/pubs/files/naoemergencyaidkosovo.pdf>

Reuters foundation on corruption and aid:  
<http://www.alertnet.org/thefacts/reliefresources/11315551833.htm>

Speech by Sam Vaknin in Central Europe Review on humanitarian assistance to Kosovo: <http://www.ce-review.org/99/2/vaknin2.html>

Tsunami Evaluation Coalition Joint Evaluation Report on the Indian Ocean Tsunami.  
<http://www.tsunami-evaluation.org/The+TEC+Synthesis+Report>





U4 is a web-based resource centre for donor practitioners who wish to effectively address corruption challenges in their work. We offer focused research products, online and in-country training, a helpdesk service and a rich array of online resources. Our aim is to facilitate coordination among donor agencies and promote context-appropriate programming choices.

The centre is operated by the Chr. Michelsen Institute (CMI – [www.cmi.no](http://www.cmi.no)), in association with Transparency International. CMI is a private social science research foundation working on issues of development and human rights, located in Bergen, Norway.

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[www.U4.no](http://www.U4.no)

U4 - CMI  
PO Box 6033  
5892 Bergen, Norway  
Tel: +47 55 57 40 00  
[U4@U4.no](mailto:U4@U4.no)