Appendix C

Decentralization, the Transport Sector, and Corruption Monitoring:
The First Eastern Indonesia Region Transport Project

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The Eastern Indonesia Region Transport Project: An Introduction

The Eastern Indonesia Region Transport Project (EIRTP-I), funded by the World Bank from 2001-2006, supports efforts to stimulate economic growth and improve social welfare in the 15 provinces and about 130 *kabupaten* (districts) and *kotamadya* (municipalities) of Eastern Indonesia through improving access to road transport facilities, reducing road transport costs, and facilitating efficient use of resources. EIRTP-I, which is the subject of this case study, is the first of two complementary and closely related transport projects. This project focuses on the preservation and development of national and other strategic road assets. It has three distinct components: the improvement of the condition of national and other strategic arterial roads; facilitation of an effective and sustainable decentralization of planning and management responsibilities for works on all primary roads (national, provincial and kabupaten) to the provincial and kabupaten governments; and increasing the efficiency, quality and transparency in awarding works, thereby improving the use of scarce financial and natural resources. US$200 million were committed by the World Bank to this project, which is carried out by the Directorate General of Regional Infrastructure (DGRI) within the Indonesian Ministry of Settlement and Regional Infrastructure (MSRI). The Directorate of Technical Affairs (BINTEK) in the DGRI is the lead implementing agency and executes the project through a Project Management Unit (PMU). The regional agencies (provinces) implement the project in the regions in accordance with the Government of Indonesia's (GoI) regulations on decentralization.

The World Bank's transport projects have been challenged by severe problems related to corruption, collusion and nepotism (KKN) in the past. However, this is a sector in which the World Bank will invest heavily in the future both in Indonesia and worldwide.[1] As more funds

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[1] Please, see Paul Wolfowitz, "Annual Meeting Address," Washington, DC, September 24, 2005. Available from

will be dedicated to transport projects in Indonesia by the World Bank, an increased focus on anti-corruption measures and monitoring efforts in transport projects is likely in the future.[2] Furthermore, in the context of Indonesia's massive decentralization and its impacts on infrastructure projects due to the mushrooming of new local regulations (*perda*, or *peraturan daerah*) in the form of taxes and levies, power struggles between different government layers, legal uncertainties and the emergence of new interest groups on the ground, corruption-related risks are on the rise.[3] Implemented at the provincial level, EIRTP-I has been exposed to the repercussions of the Indonesian decentralization process.[4] An examination of EIRTP-I thus provides useful insights for other projects that will be implemented at the provincial or district level. Against this backdrop, EIRTP-I is an interesting case study of current measures to prevent and monitor KKN in World Bank transport projects and its analysis will point to possibilities for improvement of anti-corruption measures for future transport projects.

Situation Analysis[5]

The Project Appraisal Document (PAD) outlines several measures to monitor corruption in EIRTP-I. There were two main fields of concern: one, to prevent and detect corruption during the procurement process of the project, and two, to forestall and identify corruption during the implementation phase of the project. The following section will outline the corruption-related problems EIRTP-I has faced during both the procurement process and the implementation phase, the measures that have been taken against these risks and finally which of these measures have been considered as useful by the people involved in the project.

The Procurement Phase of EIRTP-I

The most prominent corruption-related risks during the procurement phase of EIRTP-I have been collusion amongst bidders, coercion exerted by some bidders over others, and price inflation. Indications for such risks have been the proximity of the proposed costs to the bid

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http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20659654~menuPK:34472~pagePK:34370~piPK:34424~theSitePK:4607,00.html [Accessed: October 5, 2005].

[2] Interview with Steve Burgess, Senior Social Development Specialist, and Rizal Rivai, Senior Procurement Specialist, World Bank Office Jakarta (WBOJ), September 12, 2005.

[3] Please see Hidayat S. and H. Antlöv, "Decentralization and Regional Autonomy in Indonesia," In *Decentralization, Democratic Governance, and Civil Society in Comparative Perspective: Africa, Asia, and Latin America*, edited by P. Oxhorn, J.T. Tulchin and A.D. Seele. Washington, D.C.: Woodrow Wilson Center Press, 2004, 279. See also F. Fitrani, B. Hofman, and K. Kaiser, "Unity in Diversity? The Creation of New Local Governments in a Decentralising Indonesia," *Bulletin of Indonesian Economic Studies*, 41 (1) 2005: 57-79.

[4] The second generation of the EIRTP project, EIRTP-II, which is implemented at the district level, is even more exposed to the challenges of decentralization.

[5] This situation analysis is based on information derived from interviews with the Task Team Leader (TTL) of this project, Robert Scouller, Senior Infrastructure Engineer, WBOJ, September 13, 2005 and September 25, 2005; an interview with Susan Wong, WBOJ, September 20, 2005; an interview with Team Leader of Project Management Core Consultant Team (CTC), Roger Gould, Jakarta, October 5, 2005 as well as a review of project-related documents such as the project appraisal document (PAD), financial management documents and others.

estimate,[6] the proximity of the project costs across bidders, or incidences in which the same bidder won repeatedly. Further indicators for KKN in EIRTP-I that have been named were bidding documents that contained rounded numbers, bidding processes with an unusually small number of bidders, large differences in the quality of bidding documents, or withdrawals of bidders at the last minute.

The PAD numbers various measures to prevent the aforementioned risks during the procurement phase. Amongst others, regional kick-off workshops at the beginning of the project were planned to confirm the requirements of the Bank and to formally introduce the latest Bank procurement documents. Furthermore, training programs and certification processes for all bid and procurement committees were planned. Besides this, a procurement specialist was to be assigned for one year to the Regional Consultancy Teams, which were supposed to liaise with the Procurement Unit at the World Bank Office Jakarta (WBOJ). Additionally, an annex included in the PAD outlined measures for increased disclosure of project information to ensure compliance with procurement procedures, a reduction of procurement delays, and the improvement of the monitoring procedure.[7]

Various anti-corruption measures were implemented during EIRTP-I. When the project was started, the regulations required a pre-qualification of bidders in the procurement process. These stipulations were more detailed than in past transport projects.[8] However, pre-qualification of bidders still allowed collusion of such a scale that this procedure was changed during the running of EIRTP-I to post-qualification of bidders. Post-qualification of bidders allowed a more careful examination of the bidders by the WBOJ. Furthermore, regional workshops and training sessions were organized for bid and procurement committees as outlined in the PAD.[9] Notwithstanding, during these trainings, which usually lasted two-to-three days, no technical certification was obtained; all participants acquired certificates of attendance only.[10]

According to the Senior Project Engineer, there were no obstacles in getting most of the information that is considered to be vital for a thorough procurement review, although the tight project timeframe often made a careful review of the extensive procurement documents challenging. However, more specific data on companies that are bidding for a tender or which are otherwise involved in the procurement process would be welcome in future projects. Increased co-operation with bodies such as the Indonesian Chamber of Commerce (KADIN) has been mentioned as a possible means to obtain such information. Besides procurement reviews, the exchange of information with non-governmental organizations (NGOs), the questioning of

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[6] Please see E. Hafild, "Corruption Monitoring in the Bali Urban Infrastructure Project." In Sea-Change Partners, "Monitoring Corruption in World Bank Projects: An Organizational Learning Approach," September 2004, 53-60.

[7] Please see Project Appraisal Document, November 12, 2001, 24-27, 113-114. Henceforth, PAD.

[8] The Sumatra Region Road Project (SRRP) started earlier than the EIRTP-I. However, it was delayed due to the financial crisis and subsequently ran concurrently with the EIRTP-I. Not many lessons from the SSRP could thus be incorporated in the EIRTP-I PAD.

[9] These procurement committees were appointed within each province by the Dinas (office) for the discipline. In the case of EIRTP-I Dinas Bina Marga appointed staff from within the provincial Dinas. E-mail communication with Senior Project Engineer, November 1, 2005.

[10] This approach was not changed in the EIRTP-II.

corruptors as well as special commissioned studies have been identified by the Senior Project Engineer as the most effective means to identify potential corruption vulnerabilities and problem cases during the procurement process. Mid-term evaluations of projects and financial management reports were deemed to be less helpful since they did not reveal any corruption-related incidents during the running of the project.

The Implementation Phase of EIRTP-I

Various corruption-related risks were identified during the implementation phase of EIRTP-I. Reversed mark-ups, i.e. once budgets were agreed, cheaper material than proposed was used; experts obtaining kick-backs for benevolent feasibility studies; as well as the 10-15% of project funds that were spent on kick-backs to government officials are the major corruption-related problems this project has faced. By far the biggest challenge, however, was the under-usage of material during EIRTP-I construction. Either wrong material was used or existing material was stretched.[11] In the past, transport projects have been rated unsatisfactory because of this problem.

The PAD, again, outlines various measures to contain the aforementioned problems during the implementation phase.[12] Amongst others, the GoI was expected to establish a Steering Committee to facilitate coordination among ministries and departments as well as among local governments. The PMU was charged with monitoring progress in project implementation, and employees of these and other agencies involved in the implementation of this project were expected to follow a published code of ethics. The PAD further outlined complaints mechanisms for incidences of bribery and mentioned the possibility of reporting bribery to the official mailbox of the Vice President of the GoI. In the PAD, the Bank's Department of Institutional Integrity Investigation Unit (INTIU) was also given a role in investigating cases as considered necessary, although normally all cases of fraudulent and corrupt practices are supposed to be investigated by the GoI. During EIRTP-I, supervision of the implementation phase of a project was carried out by an independent consulting group.

According to the Senior Project Engineer, good supervision would be needed to tackle the aforementioned problems during the implementation phase of a transport project. However, during EIRTP-I and until the present, there is no systematic procedure in place to measure and track such corruption-related problems. Should incidents of corruption be detected during a financial audit of the EIRTP-I, the World Bank can defer or hold-up payments for a project. Financial audits were thus seen as a moderately useful instrument to detect and follow-up corruption cases in the EIRTP-I. During EIRTP-I, the World Bank repeatedly cancelled bids and re-bid packages. However, there was no blacklisting of corrupt contractors as a result of financial audits and few, if any, contracts were cancelled entirely.

Technical audits, on the other side, were seen as less useful. Although they might theoretically detect KKN in the project, World Bank staff cannot follow up on complaints deriving from these audits but can only report such accounts of corruption to the GoI. According to the Senior Project Engineer, the actions taken by the GoI to follow up complaints about corruption during EIRTP-I were erratic at best. With regard to the other anti-corruption measures outlined above, already the PAD was sceptical about their potential effectiveness. With regard to the code of ethics people involved in the project had to adhere to, the PAD criticized that as not "detailed enough to clarify all situations and answer all questions." The PAD further raised that the

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[11] An emblematic example for the latter problem was given by the TTL who mentioned several cases where road-posts were put into the ground every two kilometers whereas the budget foresaw road-posts every kilometer.

[12] Please see PAD, 13-17, 24-27.

complaint database of the Vice President of the GoI is not properly maintained, nor are follow-up actions consistently taken.[13]

These doubts were shared by the Senior Project Engineer, who pointed out that the results of the investigations led by the World Bank's INTIU were not available for public disclosure for a long time after the investigation. According to the Senior Project Engineer, the INTIU would need over two years to conduct a serious investigation and follow up on corruption-related complaints. This is too long for a project like EIRTP-I, the lifespan of which is only five years.

Assessment

The following section will briefly assess the anti-corruption efforts undertaken during the procurement and implementation phase of EIRTP-I and present an evaluation of the follow-up mechanisms for corruption complaints in that project.

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[13] Please see PAD, 26.

The Procurement Phase of the EIRTP-I

There seems to have been a solid understanding of the possible risks in the procurement phase of EIRTP-I. Indicators of KKN during the procurement phase were straightforward, people in the project were aware of them, and actions to prevent such incidents were put in place from the beginning or were adopted during the running of the project, as outlined above. Especially the change from pre-qualification of bidders to post-qualification of bidders seems to have resulted in very positive changes, such as an increase in numbers of potential bidders or reductions of project costs. Despite these precautions, the project still faced moderate-to-serious corruption problems during the procurement phase, according to the Senior Project Engineer's own evaluation. Although the absolute number of KKN-related incidents during procurement processes could be contained at a moderate level, the size of single incidents was sometimes of an enormous scale.[14] Other incidents included the tacit change of the conditions defined in the procurement document, e.g. the price for building material that was put down in the procurement document was increased later by the contracted companies.

The Implementation Phase of the EIRTP-I

Indicators of corruption during the implementation phase of EIRTP-I were less straightforward than during the procurement phase. This is probably part of the reason why monitoring of corruption-related risks during the implementation phase of the project was less distinct. However, World Bank staff affiliated with EIRTP-I seemed to have a thorough understanding of the corruption-related risks this project faced during the implementation phase and how such problems could be prevented. Yet, compared to the anti-corruption efforts that were taken during the procurement phase of EIRTP-I, the anti-corruption monitoring during the implementation phase were insufficient. There was no system in place that would allow measurement and tracking of corruption during the implementation phase systematically. Furthermore, the monitoring carried out by an independent consulting group was considered insufficient by the Senior Project Engineer. Furthermore, the scale of foreign supervision in EIRTP-I was considered to be far too small. Such problems were further exacerbated by the fact that the amount of funds allocated for supervision of this project was only a fraction of what private sector companies would spend for projects of similar size.[15]

Follow up

A major shortcoming regarding anti-corruption efforts during both the procurement and implementation phase of EIRTP-I was the complete absence of a stringent and systematic complaints monitoring system throughout the entire project period. In other words, there were

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[14] One case was mentioned during the interview with Robert Scouller in which collusion in procurement increased project costs by US$2.5 million in one project.

[15] According to the interview with the Senior Project Engineer Robert Scouller on September 13, 2005, in EIRTP-I, approximately 3-5% of the project budget was spent for monitoring and supervision. About 8% of the budget was spent for design reviews.

no mechanisms in place that would have allowed both the people involved in the project as well as members of the community to express their concerns. Although the PAD outlined several complaints mechanisms, the efficiency and effectiveness of these measures were already questioned in the PAD, as was shown above. These doubts were confirmed during the interview with the Senior Project Engineer who assessed the mechanisms in place as "not useful."[16] Furthermore, the rigid information dissemination scheme that was planned to be set up in the PAD[17] was never implemented. Similarly, plans to work together with "experienced NGOs" in the evaluation of anti-corruption efforts and information dissemination as outlined in the PAD[18] never materialized either.

Project-specific Proposals

Against the backdrop of the shortcomings outlined above, two suggestions are presented below. The suggestions are divided into immediate actions and medium-term actions. Immediate actions are those which are largely within the World Bank's control and can be undertaken in the short-term. It would be desirable to see the medium-term actions implemented, but these are to some degree outside the World Bank's control:[19]

1) Existing monitoring and evaluation (M&E) systems have to be refined and adhered to. The World Bank staff affiliated with EIRTP-I have a sound knowledge of the corruption-related risks that may occur during a transport project of this scale. Various measures have already been developed to curb such risks, as shown above. Against this backdrop, we thus argue that the biggest immediate potential for improving anti-corruption monitoring in EIRTP-I and similar future projects lies in the improvement and consolidation of existing M&E systems rather than trying to invent and establish new indicators to detect corruption-related risks. Therefore, existing anti-corruption measures have to be refined and steps taken to assure that these measures will be adhered to.

Procurement Phase

a) **Immediate Actions**

- The World Bank already has a Code of Conduct in place as outlined in the PAD[20] which requires bid and procurement committees to attend a workshop on the World Bank's regulations on bidding procedures. However, participating parties only have to obtain a certificate of attendance for these workshops in order to proceed to

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[16] Interview with Task Team Leader, September 13, 2005.
[17] Please see PAD, 111.
[18] Please see PAD, 102.
[19] For more general suggestions, see Transparency International, "Preventing Corruption on Construction Projects: Risk Assessment and Proposed Actions for Project Owners," March 16, 2005. [ONLINE] http://www.transparency.org [accessed September 30, 2005].
[20] Please see PAD, 113-114.

participate in the bids. The World Bank should thus ensure that the participants of future workshops also have to obtain a technical certification from the World Bank.

- During EIRTP-I, no civil society organizations were formally included in the supervision of the procurement process. This was corrected in EIRTP-II to some extent with the introduction of the Community Representative Officers (CRO) scheme. In each location where there is a road project from EIRTP-II, two CROs are supposed to monitor the project regarding incidents of KKN as well as to receive and handle complaints from the public. So far, this CRO scheme is active in 37 kabupaten (totaling almost 200 CROs) but is considered by the Senior Project Engineer far from being effective since it is still driven by *ad hocism* and subject to potential abuse both from bidders and the wider public. The fact that CRO members receive only reimbursed expenses rather than any remuneration for their efforts exacerbates further the potential for abuse of the CRO scheme. Still, until now, the CROs were only involved in part of the bidding process, the bid opening. The role of the CROs could theoretically be strengthened by involving the CROs in the bid-analysis process. At present, however, this is not a viable strategy as involvement of CROs in bid analysis is prohibited under GoI procurement legislation.

- Contractual safeguards should be improved by the World Bank. It is a requirement of all submissions with post-qualification to submit company information regularly with tender documents. This information should be used more systematically. A database with company information could be established from this, which would facilitate a comparison with company information derived from KADIN. Furthermore, lists of past companies and individuals involved in procurement collusion could be established which would strengthen anti-corruption monitoring in transport projects. The ownership of such a database would have to lie within the WBOJ.

b) **Medium-term Actions**

- As was suggested by the Senior Project Engineer, more specific data on bidding companies are needed to tackle KKN during the procurement phase more efficiently. Increased cooperation between the World Bank and the Chamber of Commerce on both the national and district levels should be established to derive such data. Such company-related information could then be pooled within the World Bank and made available to staff from other projects.

- In the midterm and long run, the World Bank should only contract with companies that have implemented an internal anti-corruption code of conduct and management program. To exert pressure on the companies to implement such anti-corruption codes of conduct, the World Bank should specify a date after which it will only work together with companies that have implemented such measures. As there is the risk that certain companies will only pretend to have implemented such an anti-corruption code of conduct but still engage in corrupt practices, this measure has to

be accompanied by the introduction of an (international) externally audited ethical standard (ISO). Companies would only be able to attain this standard if they implement an effective anti-corruption code of conduct. After this standard has been introduced, the World Bank will only contract with companies that have qualified for this standard for projects above a certain size. Such requirements could be introduced under the umbrella of the existing integrity pact between contractors and the World Bank.[21]

Implementation phase

a) **Immediate Actions**

- The Senior Project Engineer felt that designs are required that are completely ready for implementation. The World Bank should thus consider revising its project design review procedures and make the appropriate changes.

- It seems that the shortcomings in the design review process are an expression of a more fundamental need for supervision. Currently, the number of audits conducted is considered to be too small and their effectiveness to be hampered by factors outside the World Bank's influence. The World Bank, for example, cannot follow up cases of malfeasance in transport projects detected by technical audits but has to report such incidents to the GoI, which seems to process such cases in an errant manner, according to our various interviewees. Against the backdrop of recent studies on corruption in transport projects in Indonesia which have confirmed the importance of audits and top-down control to deter corruption activities[22] the number of independent and transparent audits should be increased.

- Furthermore, during our analysis of EIRTP-I, we learned that the amount of foreign supervision in World Bank transport projects was considered inadequate. Given the positive impact foreign supervision in past transport projects has

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[21] For an example of such an integrity pact, see Transparency International, "Preventing Corruption on Construction Projects: Construction Integrity Pacts," March 16, 2005 [ONLINE] http://www.transparency.org [accessed September 30, 2005].

[22] Please see B. Olken, "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," 2004 [ONLINE] http://www.imf.org/external/np/res/seminars/2005/weak/bo.pdf [accessed October 7, 2005].

had,[23] the World Bank should support the appointment of more foreign independent assessors to monitor the execution of a project.[24]

- For the implementation phase there seems to be ample space for both an improvement of the indicators of corruption as well as the systematization of the information derived from such indicators. Additionally, EIRTP-I faced various corruption-related challenges that originated in the ongoing decentralization process of political institutions in Indonesia. Overall, corruption-related risks have increased due to decentralization. Current (EIRTP-II) as well as future infrastructure projects are likely to feel the repercussions of decentralization as well. An improved corruption information system for the implementation phase would thus have to have the following characteristics: it needs indicators that allow estimation of the level of corruption, it has to be systematic, and it has to take the challenges of decentralization into account. In other words, to provide the World Bank with the knowledge to implement efficient and effective anti-corruption measures, more systematic information about regional differences regarding corruption is needed in the first place. Past attempts to estimate corruption in Indonesia on both a national and sub-national level were largely based on "data" derived from perception-based surveys.[25] Such surveys, however, are subject to a number of biases which make their explanatory power questionable. One of the biggest weaknesses of perception-based indices is that they are only telling the reader something about how corruption is perceived, which can depend on factors that are unrelated to actual rent-seeking and

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[23] The Senior Project Engineer compared the Tol Ciari road that was built from Jakarta to Bogor in 1978, where there was intense foreign supervision during the implementation phase with the Ciawi-Cikampek road, which was a project of similar size, built a few years later without extensive foreign supervision. Despite intense traffic, only standard maintenance procedures have to be carried out for the Tol Ciawi road, whereas the Ciawi-Cikampek requires serious maintenance every couple of years.

[24] For a description of such a foreign assessor scheme, see Transparency International, "Preventing Corruption on Construction Projects: Independent Assessment," March 16, 2005 [ONLINE] http://www.transparency.org [accessed September 30, 2005].

[25] Please see, for example, K. Kaiser, B. Hofman, and G. Schulze, "*Dezentralisierung und Korruption – Erste Erfahrungen aus Indonesien*," *Vierteljahreshefte zur Wirtschaftsforschung 2*, 2004.; B. Brodjonegoro, "The Effects of Decentralisation on Business in Indonesia, " In *Business in Indonesia: New Challenges, Old Problems,* edited by M.C. Basri, and P. van der Eng, Singapore: ISEAS Institute of Southeast Asian Studies, 2004; G. Cremer, *Schein-Consulting, Titelblattgeschäfte, Kick-Back-Auftragsforschung als Instrument der Mittelumlenkung. Beobachtungen zum Wissenschaftsektor in Indonesien, Internationales Asienforum* 21 (3/4), 2004, 209-234; P. Keefer, *The Political Economy of Corruption in Indonesia Development Research Group DECRG,* 2002, The World Bank, Available from www1.worldbank.org/publicsector/anticorrupt/FlagshipCourse2003/KeeferIndonesia.pdf. [accessed April 13, 2005]; A. Kuncoro, *The New Laws of Decentralization and Corruption In Indonesia: Examination of Provincial and District Data Ideas*, undated [ONLINE] http://ideas.repec.org/p/wiw/wiwrsa/ersa02p053.html [accessed April 15, 2005]; A. Kuncoro, "Corruption and Economic Growth in Indonesia." *Ekonomi dan Keuangan Indonesia* XLX (1), 2002, 79-114; A. Kuncoro, *Bribery at the Local Government Level in Indonesia: A Preliminary Descriptive Analysis.* Jakarta, 2003; A. Kuncoro and J.V. Henderson, *Corruption in Indonesia* [NBER Working Paper], 2004 [ONLINE] http://www.nber.org/papers/w10674.pdf [accessed January 11, 2005].

corruption activities in a country, a province or a district.[26] Current corruption research is thus trying to develop more reliable indicators for corruption-related risks. Infrastructure projects have been proven to be an interesting "playground" for such research endeavours in the past. The World Bank's transport projects provide thus an ideal opportunity to gain a more systematic understanding of corruption-related risks in such projects. Against this backdrop, the WBOJ should try to establish a "corruption map" across Indonesian districts that would become the reference point for an efficient and effective anti-corruption strategy in transport projects in the future. Indicators for differences between districts with regard to corruption could be derived by comparing the difference in the physical quantities of public infrastructure as established in World Bank transport projects to the cumulative price the World Bank pays for projects. A large difference between the existing physical infrastructure and the funds spent would indicate that much money is siphoned off to fraud, bribes and kickbacks, i.e. corruption. Inter-district comparison based on such methods has recently been carried out in other countries and has proven that the forms and extent of corruption differ to a large degree between sub-national units, i.e. provinces and districts.[27] Such a "corruption map" would allow identification of the forms and extent of corruption across Indonesian districts more systematically.

a) **Medium-term Actions**

•   There was no NGO supervision during the implementation phase of EIRTP-I, despite the PAD foreseeing such an eventuality. This was corrected to some extent during EIRTP-II with the introduction of the CRO scheme (which brought in members of the public, not NGOs) described above. However, the contribution of this scheme to anti-corruption monitoring is still questioned within the World Bank and a revision is currently underway. Perhaps the contribution of community oversight initiatives to anti-corruption efforts should be evaluated more fundamentally. Given that the results of community oversight of anti-corruption efforts have been mixed at best,[28] the World Bank should assess whether funds spent for such community oversight initiatives would not be more efficiently used if they would be spent to increase the number of Bank-supervised audits instead. However, as the World Bank most likely will have to commit to a policy in which community oversight plays an important role due to support for this strategy in various sectors, Bank-community

[26] For an excellent analysis of the weaknesses of perception-based corruption indices, please see F. Galtung, *Measuring the Immeasurable: Boundaries and Functions of (Macro) Corruption Indices,* TIRI, 2005 [ONLINE] http://www.tiri.org/metrics-indicators.html [accessed February 2, 2005].
[27] Please see Golden and Picci, "Proposal for a New Measure of Corruption, Illustrated with Italian Data," *Economics and Politics*, Vol. 17, No. 1, 2005, 37-75.
[28] Please see again B. Olken, "Monitoring Corruption: Evidence from a Field Experiment in Indonesia" 2004 [ONLINE] http://www.imf.org/external/np/res/seminars/2005/weak/bo.pdf [accessed October 7, 2005]. Two other interviewees also questioned the contribution of community oversight initiatives to anti-corruption monitoring.

interaction mechanisms should be revised to make community supervision a more effective anti-corruption monitoring tool.[29] In past projects, community supervision has yielded positive results regarding anti-corruption monitoring when NGOs (another form of popular involvement in project monitoring) could report corruption-related incidents directly to World Bank staff rather than the GoI, as for example in the *Kecamatan* Development Project (KDP).[30] This is currently not the case in EIRTP-I and EIRTP-II.

2. Follow-up systems have to be improved. Corruption can only be contained if it is reported. Successful anti-corruption mechanisms thus encourage and enable people to report corruption-related incidents. Furthermore, no anti-corruption mechanism can fully succeed unless there is a real possibility of prosecution. A solid follow-up system for corruption complaints has thus to reach out in two directions: one, it has to encourage people to report corruption, and two, it has to process such complaints in a fast and effective manner; this will be important both for prosecution of corruption-related incidents as well as to avoid discouragement among whistleblowers.

Immediate Action

- Mechanisms have to be put in place that encourage people to report corruption. The World Bank should adhere to its dissemination of information policy outlined in the EIRTP PAD. This strategy could include the possibility of reporting corruption-related incidents via the project website. A tracking system could be established in the context of such a system. Once the complaint is filed, the whistleblower would be issued with an electronic password and a "corruption-complaints number," which would allow tracking of the status and outcome of the complaint within the World Bank. Such a system would also help the World Bank to gain insights about the working mechanisms of its own follow-up system. With an internet penetration of only about 7% of the Indonesian population, a solid complaints monitoring system, however, has to establish other means, such as phone lines or a complaints post office box, to ensure that community members not yet wired to the Internet are also able to make their voices heard.

- Whistle-blowing structures *within* the World Bank have to be improved as well. Currently, there is no real incentive for TTLs to draw attention to corruption risks in their project as is exemplified by the fact that if a project receives an

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[29] A follow-up study to find ways to improve NGO participation in World Bank project oversight is proposed as part of this report. See Appendix G for a draft terms of reference.

[30] Please see Andrea Woodhouse, "Village Corruption in Indonesia: Fighting Corruption in the World Bank's *Kecamatan* Development Program," 2002 [ONLINE] http://siteresources.worldbank.org/INTINDONESIA/Resources/Social/Village+Corruption+in+Indonesia.pdf [accessed October 7, 2005].

unsatisfactory rating (because of corruption or other factors) it may be put on hold; this is not in the career interest of a TTL.

Medium-term Action

- As was mentioned above, a solid follow-up system does not only have to improve mechanisms for whistleblowers but also has to ensure that complaints are handled in an efficient way. Until today, a lot of frustration seems to originate in the inertia of the GoI to follow up on complaints that are reported to it through the World Bank.[31] An obvious action to tackle this problem would be to replace the current monitoring and follow-up system carried out by the GoI with a World Bank monitoring system.

- The World Bank should refine its blacklisting procedure. Above all, blacklisted companies should be mentioned on the project's website and also disseminated via other channels mentioned above.[32]

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[31] This is still a problem in EIRTP-II: "The lack of movement from the PMU to fulfill its commitment to independent, objective, third party monitoring is the most serious cause for concern in relation to the implementation of EIRTP-II's Anti-Corruption Action Plan." In *Anti-Corruption Action Plan Review: Second Eastern Indonesia Regional Transport Project*, September 13, 2005 [unpublished World Bank document].

[32] Please see the project's website which does not show such information. Available from: http://web.worldbank.org/external/default/main?menuPK=287104&pagePK=141143&piPK=141103&theSitePK=226309 [accessed October 7, 2005].

Summary of Indicators

Red-Flags

- *Proximity of proposed costs to the bid estimate*
  Validity and Reliability of Indicator: I think this would be a "good" red flag according to our spectrum. An increase in variance between proposed costs and the bid estimate would show that collusion is going down.
  Implementation: Establish a data base on the discrepancy between proposed costs and the bid estimate over time.
  Costs: No clue, I am sorry.

- *Proximity of project costs across bidders*
  Validity and Reliability of Indicator: I think this would be a "good" red flag according to our spectrum. An increase in variance between project costs proposed by bidders would show that collusion is going down.
  Implementation: Establish a data base on the proximity of costs across bidders over time.
  Cost: Dito

- *Variance in companies which are winning bids*
  Validity and Reliability of Indicator: I think this would be a "good" red flag according to our spectrum. An increase in variance in the companies that are winning bids shows that the risk for collusion has been curbed.
  Implementation: Establish a data base with company facts and analyse the bidding companies over time.
  Cost: Dito

- *Accuracy of bidding documents* i.e. inaccurate documents that contain rounded numbers would be an indication for corruption
  Validity and Reliability of Indicator: I think this would be a "good" red flag according to our spectrum. An increase in accuracy of the bidding documents shows that the risk of handing in documents with rounded numbers has become too high.
  Implementation: Establish a data base with information on the data that submitted in the bidding documents. Comparison over time will allow you to evaluate the change in accuracy of bidding documents.
  Costs: Dito

- *Number of bidders in a given project*
  Validity and Reliability of Indicator: I think this would be a "good" red flag according to our spectrum. An increase in number of bidders shows that competition has been increased, thus the likelihood for KKN has been reduced.
  Implementation: Establish a data base on number of bidders and compare over time.
  Costs: Dito

- *Reduction of project costs*
  Validity and Reliability of Indicator: I think this would be an "average" red flag according to our spectrum. Reduction of project costs might occur due to other reasons than a reduction in corruption e.g. experience, improvement of logistics etc. However, if very similar projects in similar settings are compared, then this indicator would probably allow to make a meaningful statement about corruption.
  Implementation: Establish a data base on project costs and compare projects over time and district.
  Costs: Dito

- *Large differences in the quality of bidding documents*
  Validity and Reliability of Indicator: I think this would be an "average" or "bad" red flag according to our spectrum. Differences in the quality of bidding documents could be due to all sorts of reasons e.g. experience of a company, quality of the staff of a company, facilities of a company etc.
  Implementation: Establish a database on the quality of bidding documents submitted. Compare both within and between companies over time.
  Costs: Dito

- *Anomalies during the bidding process* e.g. withdrawal of bidders at the last minute
  Validity and Reliability of Indicator: I think this would be an "average" or "bad" red flag according to our spectrum. There might be anomalies in the bidding process for all sorts of reasons e.g. companies go bankrupt, they might secure a more lucrative contract and thus withdraw from the bidding etc.
  Implementation: Establish a data base and record anomalies during bidding processes. If there is a district or a project where similar anomalies are occurring repeatedly, this might be an indication for corruption. Compare over time.
  Costs: Dito

- *Comparing the difference in the physical quantities of public infrastructure as established in World Bank transport projects to the cumulative price the World Bank pays for projects.*
  Validity and Reliability of Indicator: I think this would be a "good" red flag according to our spectrum. Of course, you would have to weight the discrepancy against labour costs of a region, a district etc. (The stuff we discussed yesterday) to say something meaningful.
  Implementation: Spot checks would have to be conducted in roads, bridges etc. of the EIRTP-I. It is up to experts involved in this project e.g. engineers to decide what kind of infrastructure would have to be checked in order to come up with an adequate picture of how much money might be lost due to corruption.
  Costs: Dito

Systemic indicators

- *Number of training programs*
  Validity and Reliability of Indicator: I think this would be a "good" systemic indicator according to our spectrum. The number of training programs held tell you something about the work of the ACI.
  Implementation: Establish a database on number of training programs and compare over time and projects.
  Costs: Dito

- *Certification processes for all bid and procurement committees (binary)*
  Validity and Reliability of Indicator: I think this would be a "good" systemic indicator according to our spectrum. Whether bid and procurement committees have to go through a certification process or not tells you something about the anti-corruption work of the Bank.
  Implemantion: Establish a data base with the required data and compare over time and project.
  Costs: Dito

- *Degree of disclosure of project information*
  Validity and Reliability of Indicator: I think this would be a "good" systemic indicator according to our spectrum. We have discussed the reasons why.
  Implementation: Establish a data base which allows you to compare the number of document pages on the web, in the library, disseminated to the public with the number of document pages that are actually produced.
  Costs: Dito

- *Reduction of procurement delays*
  Validity and Reliability of Indicator: I think this would be an "average" systemic indicator to measure anti-corruption monitoring efforts. More efficient procurement processes might result because of other reasons.
  Implementation: Establish a data base on the average time a procurement process takes. Then measure deviations from this average time. Compare over time and project.
  Costs: Dito

- *Accuracy of data on bidding companies*
  Validity and Reliability of Indicator: I think this would be a "good" systemic indicator. More accurate data shows that the system is working better.
  Implementation: Define a minimum standard of company information required. Then establish a data base on the deviation of a project's company information. Compare over time and project.
  Costs: Dito

- *Number of blacklisted companies per project*
  Validity and Reliability of Indicator: I think this would be an "average" systemic indicator. Increasing numbers of blacklisted companies would only allow to say something about the "improvement" of the WB's anti-corruption monitoring if the number of corrupt companies out there would be constant. Since this is not the case, this indicator is biased.
  Implementation: Establish a data base with the number of blacklisted companies. Compare over time and project.
  Costs: Dito

- *Number of audits conducted per project*
  Validity and Reliability of Indicator: I think this would be a "good" systemic indicator to measure WB's anti-corruption efforts.
  Implementation: Establish a data base with the number of audits conducted in a project per year. Compare over time and project.
  Costs: Dito

- *Number of foreign supervisors per project*
  Validity and Reliability of Indicator: Against the backdrop that the Senior Project Engineer of EIRTP-I considered foreign supervision to have a considerable impact on corruption related risks, the appointment of more foreign supervisors would be an indication of the WB to curb corruption (WATCH OUT: NOT a red flag to measure if corruption is actually curbed).
  Implementation: Establish a data base and count the number of foreign supervisors per project. Compare over time and project.
  Costs: Dito