Improving Transparency and Eliminating Corruption in the Engineering and Construction Sector in the APEC Region

Purpose: Consideration
Submitted by: United States
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The APEC Engineering and Construction (E&C) sector under the Small and Medium Enterprise (SME) Ministers met on September 5 in Lima, Peru to examine ways by which APEC governments can support the private sector’s efforts to combat corruption in the region and efficiently deliver quality infrastructure. This meeting was the fourth in a series that began in 2011 with the development of the Hanoi Principles (Appendix A), a voluntary code of business ethics for the APEC engineering and construction sector, upon which we have based our work. We would like to note that the Cámara Peruana de la Construcción (CAPECO) has developed a code of ethics for the Peruvian construction industry modeled on the Hanoi Principles. (Appendix B)

1. Recommendations for Consideration

During the Lima meeting, participants from both the government and private sector focused on four key areas.

They are:

- Establishing an APEC Engineering and Construction (E&C) Implementation Team to strengthen APEC economies’ ability to source high-quality infrastructure projects and reduce opportunities for corruption in the project bidding and execution phases. The team will analyze and assess methods to improve efficiency and reduce opportunities for corruption throughout the project lifecycle in APEC economies. The implementation team provides the E&C sector a voice in the APEC process and will strengthen cross-fora collaboration among APEC working groups on infrastructure development.

- Strengthening capacity building programs to improve civil servants’ ability to manage large infrastructure projects, from feasibility and design to bidding to execution. This is critical for improving the lives of APEC’s people and for the effective use of capital. In particular, we would like to recognize the Cadet Engineering Program established by the Department of Public Works and Highways (DPWH) in the Philippines. (Appendix C)

- Creating a set APEC-wide Principles and Guidelines for an Anti-Corruption Certification Program for certification of business compliance with anti-corruption/business ethics codes of conduct. These principles would establish a common baseline for certification processes. Once certified, companies would be eligible for potential incentives offered by APEC economies. We would like to note the work of the Philippines’ Integrity Initiative, which has developed an advanced certification program. (Appendix D)

- Improving Government Processes, such as greater automation of regulatory processes, would allow APEC economies to improve the business climate, enhance efficiency, and fight corruption. This includes using technology to automate government processes to strengthen transparency and to remove duplicative steps and layers of bureaucracy that provide opportunities for corruption.
2. Recommendations in Detail

APEC Engineering and Construction (E&C) Implementation Team

To strengthen APEC economies’ ability to source high-quality infrastructure projects and reduce opportunities for corruption in the project bidding and execution phases, we propose the creation of an APEC Engineering and Construction (E&C) Implementation Team. The team will be tasked with analyzing and assessing methods to improve efficiency and reduce opportunities for corruption throughout the project lifecycle in APEC economies. The team will explore regulatory processes, such as those governing the customs and tendering and bidding processes, to examine ways to reduce duplicative, unclear, and non-transparent rules and to promote the use of efficient technology.

The new team will consider the following action items:

- Assessing current APEC work in the infrastructure sector and determining areas of additional focus;
- Encouraging the use of the APEC-approved Hanoi Principles for E&C companies and associations to build business ethics codes of conduct;
- Supporting implementation of the recommendations to governments included in the APEC-approved Manila Declaration and the September 2016 Lima E&C workshop by identifying and working with interested APEC governments;
- Identifying additional ways in which the APEC governments and E&C sector can continue to work together to improve the ability of E&C companies to deliver quality infrastructure in an efficient manner;
- Developing a best practices document based on its work to help industry and government cooperate efficiently to develop high-quality, best-value infrastructure projects;
- Identifying opportunities to enhance and streamline burdensome, duplicative, or non-transparent government processes that are a part of the broader bidding and tendering systems in APEC economies. As one example, the team could consider ways to promote the use of strong pre-qualification processes or e-procurement;
- Ensuring that domestic regulations governing the design, bidding, tendering, and execution of projects are clear and accessible to potential bidders, both foreign and domestic, via electronic means;
- Encouraging enforcement of current laws and regulations.

Capacity Building

Opportunities to enhance civil servants’ expertise on the development and execution of infrastructure projects should be given priority. Strategies to identify, attract, train, and retain a professional class of civil servants who have a strong understanding of the full lifecycle of the engineering and construction projects should be developed. In addition, strategies to train civil servants on business ethics and to recognize forms of corrupt activity should be considered.

Specifically:

- Civil servants need additional training in project engineering, project management, estimating and procurement systems. To provide this training, economies could consider offering
scholarships to universities or having the private sector to help train civil servants through private training initiatives.

- Training needs to encompass not just bid preparation, but the entire lifecycle of the project, including execution, handling change orders and project closeout. Proper estimating skills are essential to making each phase of the project life cycle complete without surprises.
- Ongoing exchange of training programs among APEC economies.
- Highlighting the importance of this work to the prosperity of the APEC region and providing competitive compensation and recognition so that public sector can attract and retain quality personnel. Malaysia and Singapore were recognized by participants as having strong career tracks and incentives in their public sectors
- Ongoing exchange of training programs among APEC economies engineering and construction sector.

**APEC-wide Principles and Guidelines for Anti-Corruption Certification Program**

A common set of principles and guidelines should act as a basis for Anti-Corruption Certification Programs in APEC economies. These guidelines can provide a baseline to establish APEC-wide or sub-regional certification programs that can supplement the existing Hanoi Principles. Examples of more advanced programs from which a common baseline can be drawn include the Philippines Integrity Initiative and the Russian Compliance Alliance Self Evaluation. APEC can play a leading role in studying the issue of certification and developing recommendations on how to make such programs effective.

When considering this baseline, the following points should be considered.

- Respect cultural differences of the various economies in the APEC region.
- Recognize that corruption manifests itself differently in each economy;
- The certification process needs to be simple, low cost, and scalable so that SMEs can participate and enjoy the benefits of certification. Self assessments meet these criteria;
- For any third party verification, a subsidy to mitigate the cost should be considered for SMEs;
- Specific benefits that might accrue to companies that implement a successful internal compliance program might include:
  - Providing preference for participation in trade missions;
  - Linking certification to eligibility for preferential government rates or access to financing/lending (e.g. export credit);
  - Establishing a green lane or expedited customs clearance for certified businesses;
  - Providing a listing on government or trade association websites as an ethical supplier or contractor;
  - Having the certification recognized as an additional positive factor in public procurement and government tenders.

**Selected Improvements in Government Processes**

Using technology to automate government processes can help strengthen transparency and eliminate duplicative requirements and layers of bureaucracy that provide opportunities for bribery and corruption. In addition to combating corruption, automation speeds processing and improves the ease of doing business that can incentivize companies to invest in the APEC region. Automation of government processes to reduce corruption can be impactful when there is a high-level of individual discretion, complex regulations, extensive face-to-face interaction between public and private sector
employees, and where there is a time-sensitive nature to transactions that can create an incentive to circumvent procedures. In the E&C sector, customs, visas, permitting, and other transactions are often time-sensitive, as companies commit to deliver projects on-time and work is often delayed waiting for equipment or personnel.

Automation can help speed government processing times – an important factor for the E&C sector, given that the time-sensitive nature of transactions can create the incentive to circumvent procedures.

Economies should consider pursuing the following strategies to improve government processes:

- Automating the bid process (e-procurement) for infrastructure projects (to include RFPs, submission of bids, requests for additional information, and requirements);
- Automating other government processes used during the execution of a project, including permitting, customs, taxes, visas, and other payment processes;
- Reducing the number of local, regional, and national agencies involved in approvals and reducing layers of supervisory approvals by establishing a “single window”; and
- Encouraging consistent requirements for local and foreign companies to minimize bureaucracy.