



**TRANSPARENCY
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**How Integrity Pacts helped Generate
Market Competition in Pakistan**

Strives to make Pakistan a better country to live in

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History

On April 13, 2001, in a meeting held between TI Pakistan and KWSB to discuss Transparency in Procurement, the Managing Committee of the Karachi Water Sewerage Board (KW&SB) decided that there was a need for Transparency in its Public Procurement. TI-Pakistan decided to implement the "Integrity Pact" in the Greater Karachi Water Supply Scheme (K-III Project) with an estimated contract value of more than Rupees Six Billion or nearly US Dollars One Hundred Million.

Transparency International Pakistan executed the first phase of the project in 2002. The Integrity Pact was signed by all participating Consultants and Contractors on the Greater Karachi Water Supply Scheme, Phase-V, Stage-II, 2nd 100 MGD, K-III Project. The "IP" resulted in award of Consultancy Contact at 25% of the estimated cost, and the "Integrity Pact" became a success story in Pakistan.

In April 2002 in response to the invitation from Government of Pakistan, Executive Director TI Margit Van Ham, Michael H. Weihen, Member of the Board TI, and Executive Director of TI Pakistan visited Islamabad and Lahore from April 18 to 26, 2002. They discussed good governance proposals with all ministries, including Minister of Finance. They recommended a number of measures including reforms in Public Procurement System, and implementation of World Bank CPAR 2000, for formation of Public Procurement Regulatory Authority for making Transparent Procurement

Rules and monitoring Public Procurement. Immediately after the TI mission's visit, the PPRA Ordinance, which was pending for approval since two years in bureaucratic process, was signed by the President of Pakistan.

PPRA was then persuaded for one and half year by National Accountability Bureau and TI Pakistan with full support of Mr. Shaukat Aziz, the then Finance Minister, to finalize the Public Procurement Rules based on the National Anticorruption Strategy (prepared on TI NIS Tool) Recommendations on Transparent Procurement. Finally on 8th June 2004, Ministry of Finance, GOP issued Public Procurement Rules 2004 through S.R.O. 432 (I) 2004.

The main features of "Integrity Pact" have been incorporated in the PPR rules 2004. Integrity Pact, to be signed by bidders as no bribery pledge, with penalties has been made mandatory for all procurements of over US \$ 167,000.

In order to facilitate Government Agencies, TI Pakistan initiated a project for the Implementation of Public Procurement Rules 2004 and providing technical services to Government agencies to comply the Procurement PPRA Procedures and prepare Standard Bidding Documents free of cost.

Many MOUs were signed by TI-Pak with different procuring agencies for the application of Integrity Pact, two of these being KWSB in 2001 & Pakistan Steel in 2004.

CASE STUDIES

All figures in Pak Rupees

Case I

Application of IP in Karachi Water & Sewerage Board Project K-III in 2001 resulted in substantial savings.

Case study: Greater Karachi Water Supply Scheme (KIII Project) Integrity pact

An Integrity Pact, with a formal no-bribery commitment, was signed by KWSB, consultants, bidders and TI Pakistan. It resulted in a successful bid of Rs. 62 million (\$1.04m) against the reserved fees of Rs. 249m (\$4.2m). The project adopted the least cost selection method. The clean and open bidding process was monitored by Transparency International-Pakistan.

Given below is a summary of the results as officially reported by the Designated Consultants on the project and the success achieved through the Implementation of the Integrity Pact and Transparency in the Procurement Procedures for award of the Consultancy and Construction Contracts.

Total Saving in Consultancy and Construction Contracts due to Transparent Procurement in the Greater Karachi Water Supply Scheme, Phase-V, Stage-II, 2nd 100 MGD, K-III Project:

Nature of Assignment	GoP Approved Estimated Cost	Contract Award Cost	Saving
Design & Supervision Consultants	249 Million	62 Million	187 Million
Construction Contracts	5285 Million	4448 Million	837 Million
Total	5534 Million	4510 Million	1024 Million

The net saving of Rs. 1.024 Billion out of a total estimated cost of Rs. 5.534 Billion is solely due to the implementation of transparency in the procedures adopted for award of the contracts.

It also achieved at the same time a more efficient allocation of resources through increased competition, higher quality procurement and budgetary saving not only for the government but also ultimately for the taxpayers.

Case II
Application of IP results in large
Saving for Pakistan Steel

Case Study : Procurement of 100,000MT of Flat Battery Produced Metallurgical Coke by Pakistan Steel.

In 2004 TI Pakistan signed an MOU with Pakistan Steel for the application of Integrity Pact and compliance of PRR 2004. TI-Pak prepared a "Procurement Manual" for Pakistan Steel which comprises of Bidding Processes, and SBD's for Services, Works, Goods, Equipment and IT, and has provided the services of procurement experts without any fee or cost.

TI-Pak is also vetting TENDER Documents, which was agreed initially for 3 months, but has been extended mutually. Till date TIP has vetted and amended over 500 tender documents. Pakistan Steel from time to time also refers special cases of Procurement for advise to confirm application of PPR 2004.

The production of Pakistan Steel had dropped to 35%, due to delay in major overhaul of Coke Oven Batteries. As repairs would take many months, Pakistan Steel urgently required Metallurgical Coke, which would enhance the production upto 90%. The market inquiry by Pakistan Steel in June 2005, could identify only one supplier quoting US\$ 400 Per ton. The issue was referred to TI Pakistan to be handled in accordance with Public Procurement Rules 2004.

TI-Pakistan guided Pakistan Steel and prepared Tender Notice and Tender Documents based on the Procurement Manual.

On 12th August, 2005, 15 bids were received, opened publicly. 35,000 Tons. Contract was awarded on 12th September 2005

to the lowest responsive bidder, M/s Rag Trading GMBH Germany, at US \$ 176 Per ton for a total of US \$6,160,000. The good response was due to the transparent tendering which included signing of IP. The process assured the suppliers that contract award will be on merit and they participated in the bidding process. Similarly second tender was awarded in Oct 2005. Further procurement of 250,000 tons was processed on same procedures saving Pakistan Steel over Rs 300 million.

The estimated price by Pakistan Steel initially for 105,000 tons was US \$ 42 Million. The award saved Pakistan Steel 60% of the initial estimated cost. **Net saving US \$ 25.7 Million. Or Rs. 154 Million.**

Lesson Learned

In 3 Months and 11 Days, the Procurement Process was completed, tender advertised, contract awarded, and the material supplied to Pakistan Steel. This could have happened only due to Transparent Procurement Procedures, which included signing of the Integrity Pact by the Contractor. The strength of procurement manual is in the award of contract within 45 days once tenders had been opened.

Case III

Case Study : Consulting Services for Lining of Canals in Sindh Province.

The tendering was conducted under guidance of Transparency International Pakistan. The tenders were reinvited in July 2006 when the first ranking Consultants, with a quoted fee of Rs. 577,023,000 were observed to have an associate who was black listed in the past, and concealed the facts in their bid.

In the re-bidding, M/s Nespak attained the first ranking position, and awarded the contract on 8th February 2007 at Rs. 374 million, a net saving of over 35%

Case IV

Case Study : Procurement of Heavy Earth Moving Machinery & Workshop Equipments 2007

The most outstanding result of Transparent Procurement Procedures, with millions of rupees saving compared to 1994 procurement has been seen in the tenders of Procurement of Heavy Earth Moving Machinery & Workshop Equipments for the GOS.

Compared to the Purchases made in 1994 by Irrigation and Power Department, under Contract No P-FE/B Bulgaria/94/1/1 27-7-1994, and Contract No P-FE/B Bulgaria/94/1/2 27-7-1994, the procurement after 13 years was made at much lower costs.

The tender process invited on the basis of Local Currency in 2007 as per Public Procurement Rules 2004, has resulted in a 22.76% to 42.34% saving. These savings are in spite of the fact that the parity rate of US \$ it was Rs. 61. i.e. a 15% devaluation. The other aspect of 2007 procurement is that it includes an additional 10% for cost of spares, whereas in

1994 the spares were only 2%

The comparative statement of similar equipment/plant in the two procurements in 1994, and that of 13 years later in 2007 is tabulated below.

The reason for this saving of Rs 110 million in 4 equipments worth Rs 367 million, is that the tender was prepared on the International Standards as per SBDs of WB, FIDIC, & PEC, including open specifications, IP, Public Procurement Rules 2004, and evaluation report to be given to bidders for submitting objections prior to award of contract.

S.No	Equipment	2007 Price in Complete Cost of each plan/ machinery	1994 Price of each in assumed with 30% duty/ ST/ port tax addition	Difference in total Machine/Plant	Percentage Saving
	Hydraulic Excavator 35 Nos.	6,900,000 (241,500,000)	8,471,125 Korean (296,489,375)	54,989,375	+22.76%
	Track Type Angle Bulldozer 8 Nos.	11,500,000 (92,000,000)	16,415,006 (131,320,04B)	39,320,048	+42.74%
	Low Bed Trailer 4 Nos.	5,560,788 DAEWOO (22,243,152)	4,259,958 (17,039,832)	+5,203,320	-23.39%
	Oil Tanker 5 Nos.	2,950,786 DAEWOO (11,803,144)	7,072,778 (28,291,112)	16,487,968	41.34%
	Total Cost of 4 items	367,546,296	473,140,358	105,594,071	Avg. saving 28.73%

Conclusion

The TI-Pakistan experience confirms that IP allows Procurement to be based on Standard Bidding Documents of International Standards, and generates healthy Market Competition and Contract is awarded to the most experienced, competent and lowest responsive evaluated bidder in the shortest possible time.



Karachi Water & Sewerage Board

The Executive Director,
Transparency International Pakistan,
62-C, National Highway,
Defence Housing Authority-Phase-II,
Karachi-Pakistan Transparency International Pakistan

13 July 2003

Dear Sir,

Through these few lines, I want to express my gratitude to the management of Transparency International Pakistan, especially the Procurement Specialist for their support and advise during the arduous undertaking of award of K-III Contracts in KWSB.

The Contract Award System in our environments are marred by a number of factors. Most damaging being absence of transparency and unwarranted discretion exercised by clients and contract awarding authorities at various stages of contract processing. This approach due to moral and professional deficit is further exacerbated by lack of, fair and efficient procurement documentation, pliant and exploitable contractors and utter absence of accountability of executives for their malafied decisions or non decisions. Resultantly, massive cost overruns, poor quality control regimes and major defaults have characterized our mega projects.

Another degradant is the arbitrary cost reductions after a legitimate bidding process. This is resourced by individuals and organizations without any inhibition. The irony being that those negotiations are not allowed under rules, violate integrity of tender processes, reduce credibility of organizations and open avenues of financial malfeasances. Obviously the completion cost of project not critical in this expeditious scheme of things. In K-III tendering we countered this vehemently. Tender evaluation criteria's were sacrosanct and not compromised despite all pressures.

Transparency International Pakistan in this backdrop was a big help in establishing this changed paradigm. In processing of the Tenders for Contracts of K-III Projects, a system of procedures with help of Transparency International Pakistan was put in place that obviated need of client discretion. The results are evident from this report of TI Pakistan experts. I thank once again TI and the procurement specialist for his informal help failing which the processing of K-III contract would not have achieved fruition as it did.


Sardar Javed Ashraf Khan, SI(M)
Managing Director
KWSB - Karachi



PAKISTAN STEEL

Khurshid Anwar
Director Finance

PAKISTAN STEEL
Bin Qasim, Karachi-75000

18th October, 2005

The Vice Chairman & CEO,
Transparency International (Pakistan),
5-C, 2nd Floor, Khay-e-Ittehad,
Defence Housing Authority, Phase-VII,
Karachi-Pakistan.

I thank Transparency International (Pakistan), especially their Procurement Specialist in their effort to prepare Pakistan Steel Procurement Manual.

2. The Procurement Manual was completed in September 2004, and all Procurements in Pakistan Steel are being processed according to the procedures prescribed in the Manual, and complying PPRA Rules. We are getting all our tenders vetted by TI Pakistan and their assistance has helped solve many outstanding procurement issues, and the Transparent Procurement Procedures has resulted in economical purchases, and contract award period has also been reduced substantially.

3. Transparency International (Pakistan), contribution in procurement of Metallurgical Coke is commendable. This Procurement at very competitive cost has resulted in substantial savings and the award process was completed in 30 days, has helped Pakistan Steel increase its production from 35% to 90%. The results are described in this report of Transparency International (Pakistan) experts. I thank Transparency International (Pakistan) once again and the CEO for his valuable help.

CMY Documents/Chairman & CEO (TI/P)doc


(Khurshid Anwar)

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