

## Pipe manufacturers in Colombia and Argentina take the anti-corruption pledge

Virginia Lencina, Lucila Polzinetti and Alma Rocío Balcázar<sup>1</sup>

Lacking transparency and plagued by mistrust, Colombia's pipe manufacturing industry faced a crisis of confidence in the 1990s. Several factors were conspiring to intensify corruption pressures. Because of unethical overpricing and substandard work quality, pipe companies were losing public projects. This, combined with a recession, pushed companies to boost revenues by any means – 'to the extent that the limits between commercial and corrupt practices blurred'. In the government sphere, job instability and low salaries made public employees more inclined to solicit bribes. By 2000 the situation had become unmanageable.<sup>2</sup>

Generally, corruption in Colombia is no small problem. More than two-thirds of entrepreneurs surveyed recently said public procurement processes have little or almost no transparency. On average, a competitor must pay an additional 12 per cent of a contract's value in order to win the deal.<sup>3</sup>

In 2003 the Colombian Sanitary and Environmental Engineering Association approached Transparency International's local chapter, *Transparencia por Colombia*, to try to find a remedy. The organisation, known as ACODAL, represents pipe manufacturing companies that account for 95 per cent of the national pipe market and 100 per cent of the public bids for water supply and sewer projects.

Negotiations ensued between *Transparencia por Colombia* and eleven of ACODAL's seventeen affiliated companies, which have combined annual revenues of more than P540 trillion (US\$266 million). Problems on the table included the lack of a corporate anti-corruption culture, an absence of internal ethical standards, the permitting of bribery and a lack of transparency in public procurement. In April 2005, after a year of talks, the parties signed an Anticorruption Sectoral Agreement.

By signing the pact, the companies agreed to define clear rules of the game among competitors, set minimum ethical standards, prevent corrupt practices, promote a culture of transparency and contribute to society by consolidating the country's economic and social development. Based on TI's Business Principles for Countering Bribery (BPCB), the agreement

---

<sup>1</sup> Virginia Lencina is the co-ordinator of the Business Sector Programme at Poder Ciudadano Foundation; Lucila Polzinetti is a programme assistant at Poder Ciudadano Foundation; Alma Rocío Balcázar is director of the Private

Sector Programme at *Corporación Transparencia por Colombia*.

<sup>2</sup> A. R. Balcázar. 'The Establishment of an Anti-Corruption Agreement with Pipe Manufacturing Companies: A Colombian Experience', presentation at World Water Week, Stockholm, August 2005; P. Stålgren, 'Corruption in the Water Sector: Causes, Consequences and Potential Reform', Policy Brief no. 4 (Stockholm: Swedish Water House, 2006).

<sup>3</sup> A. R. Balcázar, 2005.

contains specific measures to deal with bribery, facilitation payments, political contributions, pricing and purchasing, and internal controls and audits. Protection for whistleblowers was also instituted.

To help ensure compliance, an Ethics Committee was established to act as an arbitrator in the event of a conflict. Its decisions are binding on all parties, and those who fail to abide by the committee's rulings can be reprimanded or suspended from bidding on contracts.<sup>4</sup>

Improvement was swift. By 2006 bid award prices had dropped significantly, reducing the scope for paying bribes. 'We never before have had a code to guide us. Now we have parameters for action,' said one of the signatories. 'With this agreement, we . . . will act differently amongst ourselves, since the same rules and regulations apply to all.'<sup>5</sup>

Seven months after the Colombian pact took effect, pipe manufacturers in Argentina signed a similar agreement with the help of TI's local chapter there, Poder Ciudadano. In December 2005 nine companies, representing 80 per cent of the nation's water and drainage infrastructure market, signed the first Business Sector Transparency Agreement in the country.

As in Colombia, the agreement is based on TI's Business Principles for Countering Bribery. The companies agreed to implement an internal transparency policy to guide business transactions and their dealings with the government. Specifically, the companies have pledged to:

- promote transparency in bidding;
- refrain from all forms of corruption and bribery;
- make no political contributions;
- deal with sales intermediaries in a clear, transparent manner; and
- fight tax evasion.

In addition to the pipe companies, the agreement was also signed by the Argentinean Association for Sanitation Engineering and Environmental Sciences (AIDIS). And it was supported by the Avina Foundation, an alliance of social and business leaders working to promote sustainable development in Latin America.<sup>6</sup> As in Colombia, an Ethics Committee will be formed to monitor compliance and sanction companies that breach the agreement.

The parties have also agreed to present a consensus regarding transparent biddings to state and public organisations and multilateral organisations that participate in this kind of public bidding process and as financiers to achieve its adhesion and present proposals of modifications in the procedure. As a result, the local government of Rosario, in Santa Fe Province, has signed a Framework Agreement recognising the agreement for future activities in public bids and purchasing. Hoping to build on their success, the companies that signed the agreements in Colombia and Argentina may submit similar proposals elsewhere in Latin America.

---

<sup>4</sup> Ibid.

<sup>5</sup> P. Stålgren, 2006.

<sup>6</sup> TI, 'Leading Argentinian Water-sector Companies Say No to Bribery', 15 December 2005.