

PRESS RELEASE



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Embargoed until 10.00 GMT, Wednesday 16 March 2005

FOR PRESS: to request a review copy of the *Global Corruption Report 2005* or to view the report electronically, contact gcr@transparency.org or visit www.globalcorruptionreport.org. For interview requests, please contact press@transparency.org.

A world 'built on bribes'? Corruption in construction bankrupts countries and costs lives, says TI report

Transparency International's *Global Corruption Report 2005* shows how corruption in the construction sector undermines economic development, and threatens to hamstring post-conflict reconstruction in Iraq and beyond.

TI publishes Minimum Standards for Public Contracting

London, 16 March 2005 --- "Corruption in large-scale public projects is a daunting obstacle to sustainable development," said Peter Eigen, Chairman of Transparency International (TI), launching the TI *Global Corruption Report 2005* today. "Corruption in procurement plagues both developed and developing countries," Eigen added. "When the size of a bribe takes precedence over value for money," he said, "the results are shoddy construction and poor infrastructure management. Corruption wastes money, bankrupts countries, and costs lives." TI is the leading international non-governmental organisation combating corruption worldwide.

"Funds being poured into rebuilding countries such as Iraq must be safeguarded against corruption," Eigen said today. "Transparency must also be the watchword as donors pledge massive sums for reconstruction in the countries affected by the Asian tsunami," he added. The *Global Corruption Report 2005*, with a foreword by Francis Fukuyama, includes a special focus on construction and post-conflict reconstruction, and highlights the urgent need for governments to ensure transparency in public spending and for multinational companies to stop bribing at home and abroad.

"The unfolding scandal surrounding the UN sponsored oil-for-food programme in Iraq highlights the urgent need for strict conflict-of-interest rules and transparent and open bidding processes," said Eigen. As Reinoud Leenders and Justin Alexander write in the *GCR 2005*, much of the anticipated expenditure on building and procurement in Iraq has not yet been spent. "If urgent steps are not taken," they write, Iraq "will become the biggest corruption scandal in history".

To mark the publication of the *Global Corruption Report 2005*, today TI launched its Minimum Standards for Public Contracting, setting out a blueprint for transparent public procurement. According to Juanita Olaya, TI Programme Manager for Public Contracting, "international donors and host governments must do more to ensure transparency in public procurement by introducing effective anti-corruption procedures into all projects. Tough sanctions are needed against companies caught bribing, including forfeiture of the contract and blacklisting from future bidding."

The TI Standards call on public contracting authorities to ensure that contracts are subject to open, competitive bidding. Other measures include maintaining a blacklist of companies caught bribing; providing

public disclosure of the entire process; and ensuring monitoring by independent oversight agencies and civil society. The TI Standards also advocate the use of a TI Integrity Pact, which commits the authority and bidding companies to refrain from bribery. The Integrity Pact is a tool that has already been successful in reducing corruption and cutting the costs of dozens of procurement procedures around the world, and most recently has been agreed to be deployed in the EUR 2 billion development of the Berlin-Brandenburg International Airport in Germany.

TI also urged the private sector to do more to curb bribery. "Companies from OECD countries must fulfil their obligations under the OECD Anti-Bribery Convention and stop paying bribes at home and abroad," said Eigen. "With the spread of anti-bribery legislation, corporate governance and anti-corruption compliance codes, managers have no excuse for paying bribes," he said. A promising sign, he said, was the addition of a tenth anti-corruption principle to the UN Global Compact, signed by close to 2,000 international companies, and the endorsement of a public anti-corruption pledge by 63 companies from the energy, metals and mining, and engineering and construction sectors at the World Economic Forum in Davos in January 2005. The challenge now for companies is to enforce tough anti-bribery policies.

The costs of corruption

The scale of corruption is magnified by the size and scope of the construction sector, estimated globally at some US\$3,200 billion per year. The *Global Corruption Report 2005* presents detailed case studies of large-scale infrastructure projects that have been plagued by corruption – including international bribes paid to secure contracts for the Lesotho Dam, and the implication of politicians in corruption concerning the purchase of a waste incinerator in Cologne, Germany.

The *Global Corruption Report 2005* finds that a lack of transparency in large-scale projects can have a devastating impact on economic development. "Corrupt contracting processes leave developing countries saddled with sub-standard infrastructure and excessive debt," said Eigen today. Corruption raises the cost and lowers the quality of infrastructure. But the cost of corruption is also felt in lost lives. The damage caused by natural disasters such as earthquakes is magnified in places where inspectors have been bribed to ignore building and planning regulations. Corruption steers money away from health and education programmes towards large capital-intensive infrastructure projects. Corruption can also have disastrous environmental consequences – the Yacyretá dam in Argentina, the Bataan nuclear power plant in the Philippines and the Bujagali dam in Uganda have all been subject to allegations of the improper diversion of money.

Taking action to prevent corruption

To coincide with the publication of the *Global Corruption Report 2005*, Transparency International is launching an international initiative aimed at preventing corruption in construction projects. Neill Stansbury, Project Director for Construction & Engineering at TI-UK, who is leading the initiative, said that "corruption in construction projects can be avoided if all parties put into place the necessary preventive measures. This requires coordinated international action by governments, banks, export credit agencies, project owners, contractors and other relevant parties." TI has produced a series of risk assessments, action plans and anti-corruption tools for this sector, and it will use these to lobby relevant organisations to take action to prevent bribery.

The *Global Corruption Report 2005* also includes detailed assessments of the state of corruption in 40 country reports written by Transparency International's national chapters and other experts. The book contains the findings of the latest research into corruption and ways to combat it, including studies on the links between corruption and issues such as pollution, gender and foreign investment.

The *Global Corruption Report 2005* is published in London by Pluto Press (ISBN 0 7453 2396 0). The book can be ordered (£19.99 / \$29.95 plus postage and packing) through online booksellers, local bookshops or the publisher (www.plutobooks.com). The report is published in French by Economica (ISBN 2-7178-5025-2).



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'Monuments of corruption' from the *Global Corruption Report 2005*:

- The **Lesotho** Highlands Water Project, in which US\$2 million were allegedly paid in bribes by Acres International and 11 other international dam-building companies.
- The Cologne incinerator project in **Germany**, where US \$13 million was allegedly paid in bribes during the construction of a US\$ 500 million waste incineration plant.
- The Yacyretá hydropower project on the border of **Argentina** and **Paraguay**, built with World Bank support, is flooding the Ibera Marshes. Due to cost overruns, the power generated by Yacyretá is not economic and needs to be subsidised by the government. According to the head of Paraguay's General Accounting Office, US\$1.87 billion in expenditures for the project 'lack the legal and administrative support documentation to justify the expenditures'.
- The reservoir of the Bakun dam in Sarawak, **Malaysia**, which will submerge 700 km² of tropical rain forest. The mandate to develop the project went to a timber contractor and friend of Sarawak's governor. The provincial government of Sarawak is still looking for customers to consume the power to be generated by the project.
- The Bataan nuclear power plant in the **Philippines**, built at a cost of more than US \$2 billion. The contractor, Westinghouse, admitted paying US \$17 million in commissions to a friend of former president Marcos. The reactor sits on an active fault line, creating a major risk of nuclear contamination if the power plant ever becomes operational.
- The Bujagali dam in **Uganda**, which is currently being investigated for corruption by the World Bank and four different governments after a British subsidiary of the Norwegian construction company, Veidekke, admitted paying a bribe to a senior Ugandan civil servant. The cumulative environmental impacts of Bujagali and other dams on the Nile have never been assessed.

***Transparency International's Minimum Standards for Public Contracting*¹**

Public procurement authorities should:

1. Implement a code of conduct that commits the contracting authority and its employees to a strict anti-corruption policy. The policy should take into account possible conflicts of interest, provide mechanisms for reporting corruption and protect whistleblowers.
2. Allow a company to tender only if it has implemented a code of conduct that commits the company and its employees to a strict anti-corruption policy.
3. Maintain a blacklist of companies for which there is sufficient evidence of their involvement in corrupt activities. Debar blacklisted companies from tendering for the authority's projects for a specified period of time.
4. Ensure that all contracts between the authority and its contractors, suppliers and service providers require the parties to comply with strict anti-corruption policies. This may best be achieved by requiring the use of a project integrity pact committing the authority and bidding companies to refrain from bribery.
5. Ensure that public contracts above a low threshold are subject to open competitive bidding.
6. Provide all bidders, and preferably also the general public, with easy access to information about all phases of the contracting process, including the selection and evaluation processes and the terms and conditions of the contract and any amendments.
7. Ensure that no bidder is given access to privileged information at any stage of the contracting process, especially information relating to the selection process.
8. Allow bidders sufficient time for bid preparation and for pre-qualification requirements when these apply.
9. Ensure that contract 'change' orders that alter the price or description of work beyond a cumulative threshold are monitored at a high level, preferably by the decision-making body that awarded the contract.
10. Ensure that internal and external control and auditing bodies are independent and functioning effectively, and that their reports are accessible to the public. Any unreasonable delays in project execution should trigger additional control activities.
11. Separate key functions to ensure that responsibility for demand assessment, preparation, selection, contracting, supervision and control of a project is assigned to separate bodies.
12. Apply standard office safeguards, such as the use of committees at decision-making points and rotation of staff in sensitive positions. Staff responsible for procurement processes should be well trained and adequately remunerated.
13. Promote the participation of civil society organisations as independent monitors of both the tender and execution of projects.

¹ This is an edited version of the Standards. The complete text can be found in the *Global Corruption Report 2005*, pp 4-6.