

LAUNCH OF TI'S 2005 GLOBAL CORRUPTION REPORT (GCR 2005) SPECIAL FOCUS : CORRUPTION IN THE CONSTRUCTION SECTOR

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By Daniel Batidam (Executive Secretary, Ghana Integrity Initiative)

Ladies and Gentlemen of the Press!

We have invited you this morning to share with you the contents of a new publication from our mother organization, Transparency International – The 2005 Global Corruption Report (GCR 2005). The Global Corruption Report, first published in 2001, is an annual overview of the state of corruption worldwide. In the past the Report has focused on various sectors of societal life and governance. For instance, the report of 2003 had a special focus on *Freedom of Information* , while that of 2004 focused on *Political Corruption* .

This year's report has a special focus on *Corruption in Construction and Post-Conflict Reconstruction* . To mark the publication of the report, TI is today also launching its 'Minimum Standards for Public Contracting,' which sets out a blueprint for transparent public procurement.

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.

THE COSTS OF CORRUPTION

The scale of corruption is magnified by the size and scope of the construction sector, estimated globally at some 3,200 billion US Dollars per year. TI estimates that the amount lost due to bribery in contracting is at least 10 per cent of contract value, putting the figure of lost funds at more than 300 billion US Dollars per year worldwide.

The costs of corruption in the construction and engineering sector are not limited to money. The damage caused by natural disasters such as earthquakes is magnified in places where corrupt building practices flourish, such as where inspectors are bribed to ignore building and planning regulations. When poorly built homes collapse, the result is that lives are lost and thousands are injured.

Corruption in the construction sector also ravages the environment. Many projects have progressed only because bribes were paid to ignore environmental and social hazards, often with the collusion of consultants who risk forfeiting future projects if they fail to endorse their client's interest in promoting these investments.

TI ON THE NEW REPORT

The *Global Corruption Report 2005* finds that a lack of transparency in large-scale projects can have a devastating impact on economic development. As TI Chairman, Peter Eigen, puts it,

“Corrupt contracting processes leave developing countries saddled with sub-standard infrastructure and excessive debt.”

Corruption in large-scale projects is a daunting obstacle to sustainable development, Eigen said, at the launch of the report today. “When the size of the bribe takes precedence over value for money,” he said, “the results are shoddy construction and poor infrastructure management.”

MONUMENTS OF CORRUPTION

The report has a list of what it terms “Monuments of Corruption” around the globe. These include: • The **Lesotho** Highlands Water Project, in which \$2 million was allegedly paid in bribe by Acres International and 11 other international dam-building companies.

- The Cologne incinerator project in **Germany** , where \$13 million was allegedly paid in bribes during the construction of a \$500 million waste incineration plant.
- 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.

LESSONS FOR GHANA 'S CONSTRUCTION SECTOR

The *GCR 2005* does not include a country report on Ghana nor does it cite some of the “monuments of corruption” dotted around the country; this does not mean that Ghana is immune to the problem. Shoddy construction works and poor infrastructure management is a visible phenomenon - from schools and classroom blocks through roads and dam constructions, to private residences and KVIPs.

Scandals in the construction industry and the poor execution of public contracts at both national and district levels have been the subject of countless media reports. Allegations relating to conflict of interests and malfeasance in the award of contracts surfaced during the recent vetting of certain ministers of state. Mainly because of Parliament's limited resources and technical base, they were unable to properly cross-check these allegations and verify counter claims by those nominees who had been accused of wrongdoing. The vetting process has underscored the absence of a credible code of conduct for ministers and high public officials, especially regarding conflict of interests, and the flawed nature of assets declaration. These are issues that must be addressed.

The unhealthy link between political patronage and lucrative industries encourages unacceptable levels of corruption. In the construction industry, a good percentage of contracts often go to political party loyalists and insiders without due regard for competence and meritocracy, and at the expense of possible loss of human lives.

Sadly, political patronage and weak accountability have also encouraged high levels of corruption in the award of construction contracts at the district assembly level.

Ghana 's construction industry is especially prone to corruption at various stages of the construction process, as manifested in:

- The lack of transparency in the award of contracts
- The fierce competition for 'make or break' contracts
- The numerous levels of official approvals and permits
- The uniqueness of many projects, which make it difficult to compare pricing
- The opportunities for delays and overruns
- The fact that poor quality of work is often concealed by concrete, plaster and cladding.
- The indication of high quality and expensive materials and labour in contract bidding while low quality and cheap materials and labour are used in the actual execution of the contract.
- Collusion between supervising engineers, architects, surveyors and the contractors they are supposed to watch over.

In addition, projects are executed by dozens, sometimes hundreds, of small-scale subcontractors, creating several stages of transactions that are difficult to monitor and that lead, in many instances, to end results that are sub-standard and unable to stand the test of time.

GII/TI RECOMMENDATIONS

The Ghana Integrity Initiative once again commends government for passing the Public Procurement Act (663) over a year ago. As we stated last October during the launch of the 2004 Corruption Perception Index, we shall continue to monitor whether the Act is being implemented in a credible and transparent manner so as to help check public corruption, of which over 70 per cent derives from public procurement. Already, knowledgeable people have raised doubts as to whether the Act in its present form can achieve the desired objectives

We remain concerned about the continued delay in the implementation of the Act and the issues of accountability this raises in the procurement sector. We urge government to speed up the process of implementation in order to prevent corrupt procurement practices and to safeguard the taxpayer's money.

GII also urges government and the private sector/business community to adopt TI's "Minimum Standards for Public Contracting" already referred to earlier. Specifically, public procurement authorities should:

- 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
- 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
- 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
- Ensure that public contracts above a low threshold are subject to open competitive bidding

- 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
- Ensure that no bidder is given access to privileged information at any stage of the contracting process, especially information relating to the selection process.
- 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
- Promote the participation of civil society organisations as independent monitors of both the tender and execution of projects
- Encourage professional bodies such as the Ghana Institution of Engineers and the Institute of Architects to enforce their codes of ethics on their members.
- Strengthen the Architectural and Engineering Services Company (AESC) and improve its management to enable it play its proper role as a competent state organ capable of competing effectively with private firms and providing competent services to the state.
- Enact a credible code of conduct for ministers and high public officials
- Make official asset declarations more accessible to dissuade high public officials from amassing ill-gotten gains while in public office.

CONCLUSION

This year's budget statement identified construction as one of two areas (agriculture was the other) that achieved growth. The construction sector is therefore of great importance to the country. However, corruption continues to exact a heavy toll on the sector and consequently on the development and the moral of citizens. Sub-standard construction projects in Ghana, which are tainted by bribery and corruption, not only result in the loss of money, but injure and kill people, especially when buildings are built in disaster-prone areas (flood and earthquake zones). In calling attention to corruption in the construction sector, the Ghana Integrity Initiative urges government to make good on its pledge of zero tolerance for corruption by implementing the Procurement Act, subjecting ministers and public officials to greater degrees of scrutiny, and promoting more accountability and transparency in the award of construction contracts.