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Global Corruption Report 2005.

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Corruption doesn't just line the pockets of political and business elites ; it leaves ordinary people without essential services, such as life-saving medicines, and deprives them of access to sanitation and housing. In short, corruption costs lives.

Nowhere is corruption more ingrained than in the construction sector, the focus of Transparency International's Global Corruption Report 2005. From the Lesotho Highlands Water Project (page 31) to post-conflict reconstruction in Iraq (page 82), transparency in public contracting is arguably the single most important factor in determining the success of donor support in sustainable development. Corrupt contracting processes leave developing countries saddled with sub-standard infrastructure and excessive debt.

Building a world free of bribes

However ingrained corruption seems, it can be beaten. Transparency International (TI) has pioneered the no-bribes Integrity Pact, which includes sanctions such as blacklisting if a bidder for a public contract breaches the no-bribes agreement (page 59). Now used in more than 20 countries around the world, in 2003-04 TI's campaigning bore fruit on a global level. The Integrity Pact is increasingly being used by multilateral development banks, a major breakthrough that will bring tremendous benefits to ordinary people in the developing world.

In September 2004 the World Bank announced a decision to require companies bidding on large Bank-financed projects to certify that they 'have taken steps to ensure that no person acting for [them] or on [their] behalf will engage in bribery'. This breakthrough is evidence of the increasing impact of the anti-corruption movement in shaping the global agenda.

Another initiative of TI (together with Social Accountability International and a group of international companies), the Business Principles for Countering Bribery, offers companies practical guidance on how to prevent corruption throughout their operations. In January 2004 at the World Economic Forum in Davos, 19 leading international companies took a major step towards building a corruption-free construction sector when they signed up to Business Principles customised for the engineering and construction industries (see page 49).

The costs of corruption

These and other initiatives are essential if we are to build a world free of bribes. More than US \$4 trillion is spent on government procurement annually worldwide. From the construction of dams and schools to the provision of waste disposal services, public works and construction are singled out by one survey after another as the sector most prone to corruption - in both the developing and the developed world. If we do not stop the corruption, the cost will continue to be devastating.

Most horrifically, the cost will be lives lost. In the past 15 years alone, earthquakes have killed more than 150,000 people. As James Lewis writes, '[e]arthquakes don't kill people ; collapsing buildings do' (page 23). Examples from Turkey and Italy demonstrate that buildings often collapse because building and planning regulations are ignored – and regulations are often ignored because bribes have been paid to bypass them.

In economic terms, research gathered by Paul Collier and Anke Hoeffler (page 12) demonstrates how corruption raises the cost and lowers the quality of infrastructure. Corruption also slows down development, reducing long-term growth rates. In short, corruption has the potential to devastate emerging economies.

Corruption in the construction sector not only plunders economies ; it shapes them. Corrupt government officials steer social and economic development towards large capital-intensive infrastructure projects that provide fertile ground for corruption, and in doing so neglect health and education programmes. The opportunity costs are tremendous, and they hit the poor hardest. Were it not for corruption in construction, vastly more money could be spent on health and education and more developing countries would have a sustainable future supported by a functioning market economy and the rule of law.

Corruption also steers public spending towards environmentally destructive projects. Peter Bosshard (page 19) points to 'monuments of corruption' the world over - huge construction projects that went ahead only because bribes were paid and environmental standards were not applied. 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. Too frequently, corruption results in redundant infrastructure projects with potentially disastrous environmental consequences.

The bricks and mortar of corruption

The list of construction projects plagued by corruption is a long one. The Global Corruption Report 2005 presents case studies from Lesotho (page 31) and Germany (page 51), while the country reports on China, Costa Rica, the Czech Republic, Norway and others all cite allegations of corruption in construction during 2003-04.

Neill Stansbury describes (page 36) how the characteristics of the construction sector slant it towards corruption : the fierce competition for 'make or break' contracts ; the numerous levels of official approvals and permits ; the uniqueness of many projects ;

the opportunities for delays and overruns ; and the simple fact that the quality of much work is rapidly concealed as it is covered over by concrete, plaster and cladding.

Too often, international investors and financial institutions are also culpable in supporting corruption. An over-readiness to lend against a background of weak oversight and accounting safeguards has led the World Bank and regional development banks to invest heavily in projects that have been subject to allegations of corruption. Export credit agencies (ECAs) - semi-governmental agencies that provide guarantees and insurance for domestic companies seeking business abroad - have also been heavily criticised for lack of transparency and their willingness to continue working with construction companies known to be corrupt. As Susan Hawley argues (page 55), multilateral development banks and ECAs have an impact and responsibility far beyond the sums of money they themselves invest, not least because the guarantees they issue help mobilise private sector investment.

[...]

Peter Eigen, Chairman, Transparency International