



**Organization for Security and Co-operation in Europe
Secretariat**

EF.NGO/3/06/Rev.1
22 May 2006

ENGLISH only

Conference Services

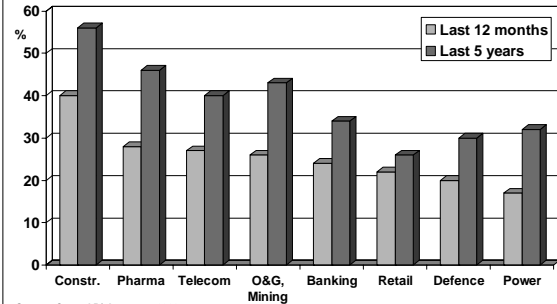
Please find attached the power point presentation by Mr. John Bray, Director Analysis, Control Risks Deutschland GmbH, delivered to Session II (*The key role of governance: effective practices in border management and the fight against corruption: WCO framework of standards to secure and facilitate global trade; the implementation of the OSCE Border Security & Management Concept; customs and cross border co-operation; fighting corruption in the transport sector; strengthening public-private partnership and dialogue*), of the 14th OSCE Economic Forum, Part 2, Prague, 22-24 May 2006.

Project-based approaches to reducing corruption in large infrastructure development projects

John Bray
www.control-risks.com

Fourteenth OSCE Economic Forum, Prague
22-24 May 2006

Who has lost business to a competitor due to corruption?



Transport Construction Projects

Characteristics include:

- Long-term (can take several years)
- Huge sums
- Complex bidding, tendering process
- Not-so-transparent interactions between companies and officials...
- ... and therefore highly vulnerable to corruption

Profits and losses

- **Anecdotal evidence**
"Road construction is more profitable than drug trafficking"
 (Ljubiše Buhe Ćumeta, Serbian gangster, in an interview with *Balkan*, 11. May 2005)
- **Attempts at objective measurement**
 – E.g. Ben Olken (Harvard University) estimated an average of 28% loss on road construction projects in Indonesia
- **Costs to society...?**

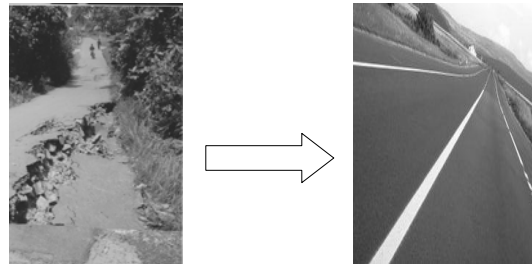


Vulnerable areas

- Information leaks during bidding process
- Manipulated requirements favouring certain companies
- Bribery, conflict of interest of officials
- **Renegotiation of contracts (subsequent to signing)**
- Hiring "recommended" companies, subcontractors, middle-men, consultants, etc.
- **Reducing quality to maximise profits and compensate for income lost to bribery**
- Bribery at project hand-over

The good news is:

Well-planned anti-corruption measures can decrease loss due to graft.



Control Risks

Project-based 'integrity pact' approach

- Draws on the experience and expertise of governments, companies and civil society (e.g. Transparency International)
- Clear commitment from the beginning and **throughout the project life-cycle** to avoid corruption

Control Risks

Key features

- Full transparency
- Vetting of applicant and selected companies
- **Code of conduct signed by officials and all bidders**
- Establishing a whistleblowing-system
- Monitoring (by civil society and / or other independent bodies)
- Dispute resolution mechanism
- **Sanctions**
- External monitoring of monitors, investigations and application of sanctions
- **Independent assessor**

Control Risks

Benefits

For companies

- Offers a level playing field
- Rewards good companies rather than bad ones

For society

- Better quality (if corruption avoided)
- Participation, civil society

For government

- Reduces costs
- Supports groups that are committed to raising integrity standards
- Builds capacity

Control Risks

Experience to date

- Relatively complex
- Not yet "mainstream"...
.. but no longer "*unorthodox*"
- Applied in several countries
 - Full application of process: e.g. Argentina, Colombia, Ecuador, Germany, Mexico, Pakistan, Indonesia
 - Partial application of process: e.g. Peru, Paraguay, Bulgaria
 - Can be applied in other OSCE countries

Key condition for success is political support

Control Risks

Possible OSCE role

Crucial OSCE facilitation role:

- Working with international donors to make new procedures mandatory
- Garnering political support in member countries

Control Risks