



# Making Inroads on Corruption in the Transport Sector – Formulation of a Strategy

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***“The King shall protect trade routes from harassment by courtiers, state officials, thieves and frontier guards.... [and] frontier officers shall make good what is lost... Just as it is impossible not to taste honey or poison that one may find at the tip of one’s tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the King’s wealth.”***

***- The Arthashastra, Kautilya, chief minister to the king in India, circa 300 BC – AD 150.***



# Corruption "Cancer" to Development

**Commitment "to fight the cancer of corruption"**

**James D. Wolfensohn, President World Bank, 1996**

**"Corruption exists in all economies, but often flourishes in countries with weak governance and poorly functioning institutions and where civil society and the media are suppressed."**

**".. corruption undermines development by eroding the business climate and reducing investment, and by diverting resources away from uses which could provide individuals with opportunity to escape poverty.**

**Corruption subverts the concept of public service, undermines the legitimacy of state institutions, unravels the fabric of civil society, and destroys lives."**

***World Bank Board, April 2006***



## Acknowledgment

Based on:

*“Making Inroads on Corruption in the Transport Sector through Control and Prevention”,*

by William D. O. Paterson and Pinki Chaudhuri

*in...*

**“MANY FACES OF CORRUPTION – TRACKING  
VULNERABILITIES AT THE SECTOR LEVEL”**

Ed. J. Edgardo Campos and Sanjay Pradhan,  
World Bank 2007

## Vulnerability of Transport Sector to Corruption Risk

**Infrastructure, especially transport, typically accounts for large portion of state development budget, 10-30 percent**

**Budget priorities and allocation involve discretion at State and Local Government levels**

**Multiple entry points – many contracts, players, stages, bulk goods/materials**

**Revenue collection can involve direct contact with transport users**

**Quality deficiencies shorten asset life, increase frequency and long-run average cost of provision**

**Diversion rates vary widely, can be very high**

# Defining Corruption

**“The abuse of public funds and/or office for private or political gain”**  
*The World Bank Group*

## State Capture

- abuse of public office or manipulation of legislative process to divert funds, e.g., non-transparent or competitive sale of assets or concessions, control of funds by vested interests, preventing due process.
- “Grand corruption” – large scale

## Administrative Corruption

- Use of transactions, projects and official duties to divert funds

## Patronage and Nepotism

- Appointments and other favors to facilitate or protect corrupt behaviour
- “Political corruption” – favors exchanged for support to sustain political power of individuals or groups.

# Mapping Corruption Risk in Transport - (1) Sector Level

## **Institutional Structures and Policies:**

- Multifunction Public Works Depts – high risk
- Separated Agencies (Road Fund, Highway Agency, etc.) – function of oversight risks
- Private sector capacity and dependencies
- Political accountability – opaque or perverse

## **Resource Allocation:**

- Overall budget allocation – transparency?
- Prioritization of budget - discretionary influence
- Capital investments - land markets, pork barrel
- Recurrent expenditures - bias
- Analytical planning tools - bypassed
- Asset-based allocation - assets reclassified

## Corruption Risk in Transport – (2) Agency Level

### *Corruption facilitated by:*

- Weak internal processes and controls
- Network of cooperating agents

### **Business Processes and Controls**

- Planning process – top-down, bottom-up influences
- Procurement – controls, staffing, transparency
- Financial management & accounting
  - Recording systems, internal controls
  - Revenue collection
- Information management – gaps, accuracy
- Monitoring and Evaluation

### **Staffing appointments**



## Corruption Risk in Transport – (3) Project Level

*Most administrative corruption at transaction stages:*

### **Project Preparation:**

- Over-statement – raise fee, inflate quantities, expand
- Biased specifications, or bid packaging
- Evident in deeply collusive environment

### **Procurement:**

- Fraud – qualifications, documentation
- Collusion, bid-rigging, cartel operations, coercion
- Evaluation – manipulation, bribe demands
- Typically limits competition

### **Implementation:**

- Kickback demands – usually upfront
- Certification and payment bribes
- Weak quality controls and remedies



# RISK CONTROL FRAMEWORK

## **Risk Assessment**

## **Risk Mitigation Strategy**

- Controls and Enforcement
- Strengthened governance and capacity

## **Risk Monitoring**

# RISK ASSESSMENT

## **Identify Fraud and Corruption Threats**

- Identification phase
- Design phase
- Procurement phase
- Implementation phase

## **Identify Critical Decision-Makers**

- Who makes decisions
- Who influences decisions

## **Identify Critical Assets**

- Monetary? Physical Asset? Asset Utilization?

## **Assess Vulnerability to Corruption Risks**

- Value, Prevalence = Impact \* Probability

## **Define and Rank Corruption Risks**

- Identify high and moderate risk elements

# STRENGTHENED CONTROL & ENFORCEMENT

**Goal: Raise the risk and penalties of punishment**

## **State & Sector Level:**

- Strengthen judicial and legal basis for prosecution
- Strengthen and train inspection and audit agencies
- Strengthen political will and leadership to prosecute
- Prosecute winnable “big fish” cases - demo effect
- Financiers should also act

## **Agency and Project Levels:**

- Detection procedures – identify and report “red flags”
- Activate whistleblower hotlines and protections
- Gather actionable evidence
- Adequate resources for investigations

# RISK MITIGATION – PREVENTIVE APPROACH

**Goal: Improve governance in sector**

## **State and Sector Level:**

- Reform judicial & legal independence and accountability
- Improve budget allocation methods and transparency
- Improve public access to information
- Engage industry to cooperate

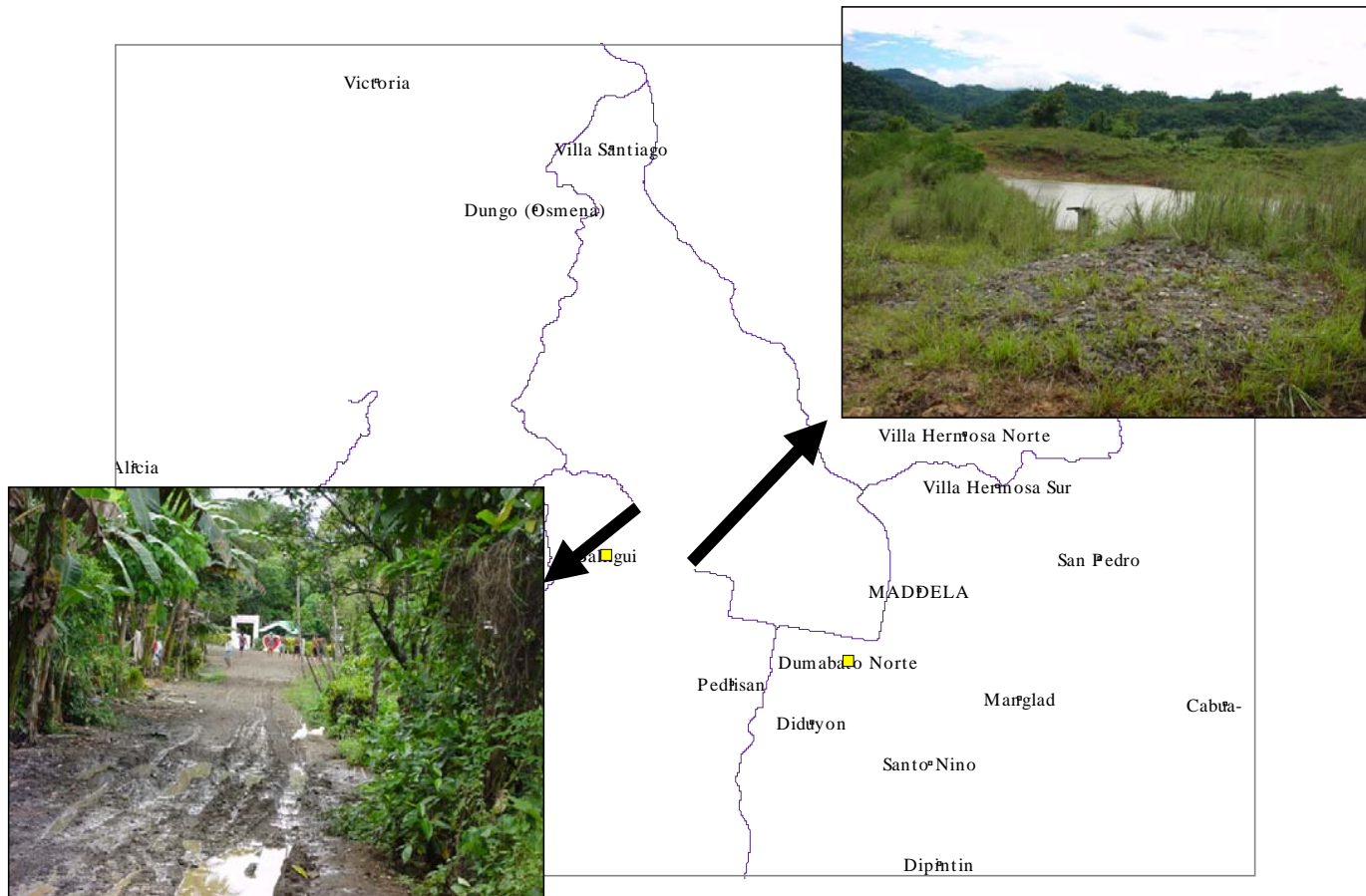
## **Agency Level:**

- Adopt Integrity or Anti-Corruption Action plans
- Modernize business processes and information
- Improve fiduciary control – procurement & financial mgt
- Improve staffing process, incentives and capacity
- Accountability through independent monitoring

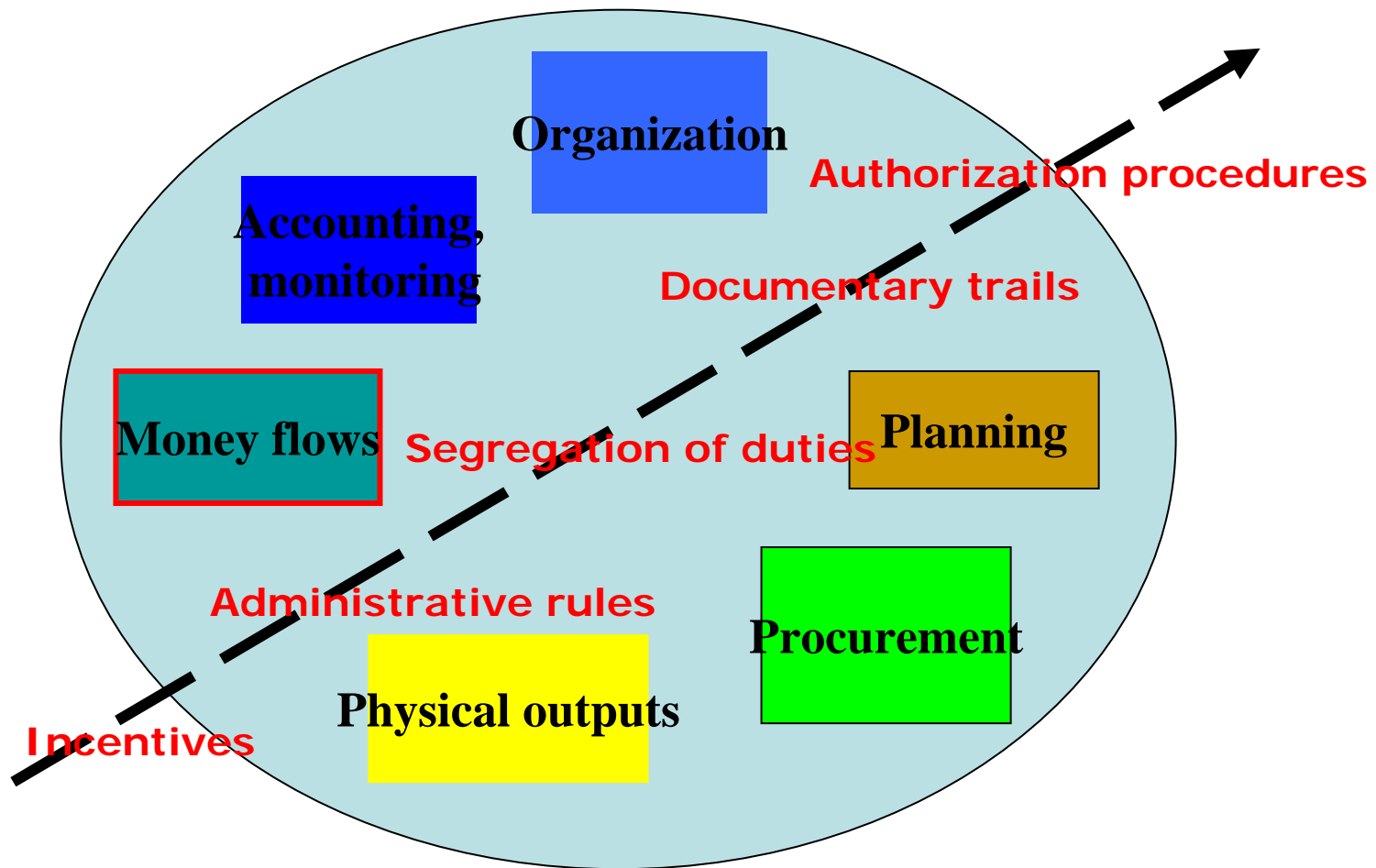
## **Project & Transaction Level:**

- Monitor transparency, results v benchmarks
- Refer irregularities for investigation

# Power of ICT to Combat Information Fraud



# Scope of Internal Control Systems (following the money trail)



# RISK MITIGATION STRATEGY – KEY ELEMENTS

## 1. INFORMATION POWER:

- a) Evidence enables accountability and transparency.
- b) Demonstrates actual results, reduces subjectivity
- c) Inputs – asset inventory, industry, finances, etc.
- d) Options & evaluation – systematic selection
- e) Outputs & Results – reliable measures
- f) Monitoring – making info accessible to others
- g) Info & Communications Technology

## 2. TRANSPARENCY MECHANISM

- 1) Consistent use of objective criteria and processes
- 2) Making public information accessible
- 3) Clear agreed and published guidelines
- 4) Use of computer technology



## RISK MITIGATION STRATEGY – ELEMENTS (2)

### EXTERNAL ACCOUNTABILITY MECHANISM

- a) Primary controls and preventive tools
- b) Financial audit
- c) Technical audit – *verifies estimates, quantities & quality*
- d) Fiduciary review – *capacity and procedures*
- e) Third-party Monitoring
  - *Internal, external monitors*
  - *Parallel evaluator*
  - *External agent*
  - *Social contracts*

### INCENTIVES

- a) Formal rules v Informal rules v. Values
- b) Perceived chance and cost of being caught
- c) General remuneration

# RISK MITIGATION STRATEGY – ELEMENTS (3)

## **Role of the Firm and Elite**

- Environment of patronage
- Dominant firms
- International accountability
- Industry integrity agreements

## **National Factors**

- Simultaneous AC actions in external environment

## **International Drivers**

- Effects of international agreements (WTO, etc.)
- International organizations (financial and other)



## SOME CURRENT INTERVENTIONS

### **Country level**

- National Governance and Anti-Corruption Consultations
- Fiduciary reviews
- Governance strengthening programs

### **Operational level**

- Anti-Corruption Action Plans
- Case Investigations – from tips or detection

### **International level**

- Collaboration with International Organizations
- CoST Initiative (Construction Sector)

## Leadership and Perseverance ...



*“Reducing corruption and improving governance can be slow - particularly when .. reforms do not move in tandem. While there is often enormous demand from citizens for ridding their societies of corruption, it takes political leadership, resources, and perseverance to build institutions that can sustain good governance.”*

*The World Bank Board, April 2006*

*Thank you!*

