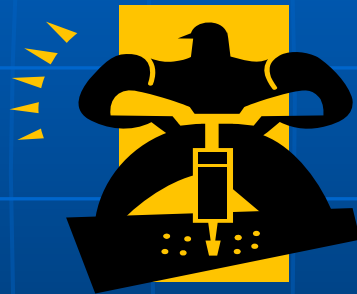


# CORRUPTION IN THE CONSTRUCTION SECTOR



PANAMERICAN ACADEMY OF  
ENGINEERING  
UPADI 2006

JOSE UGAZ  
PERU

# DIMENSION OF THE PROBLEM

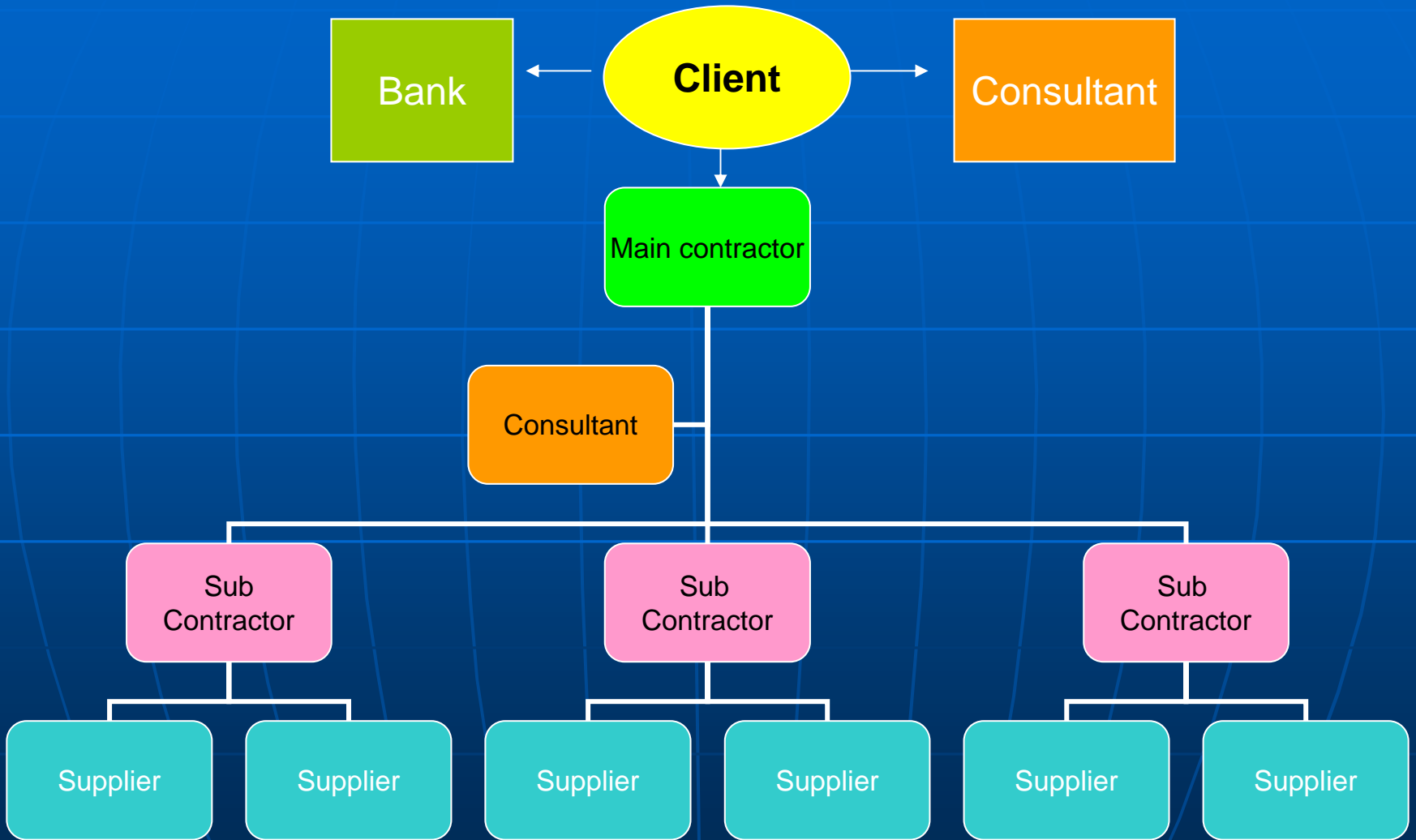
- Annual expenditure worldwide US\$ 3.9 trillion (2004) 10% lost in bribery: US\$ 390 billion (TI)
- US\$ 500 billion in consulting fees (FIDIC)
- US\$ 525 billion lent by WB since 1946: 5% to 25% lost to corruption (Sen. Lugar)
- The most corrupt industry



# WHY?

- Size of projects
- Costs difficult to compare
- Heavily regulated (permits, Government involvement)
- Culture of secrecy
- Vicious circle
- International pressure

# Complexity of Projects



# For What?

## 1. Planning and design:

- Over price
- Over design
- Unnecessary
- To be approved

## 2. Award:

- Secure the contract
- Level the playing field

# FOR WHAT?

## 3. Execution

- Variations
- Project delays
- Conceal defective work

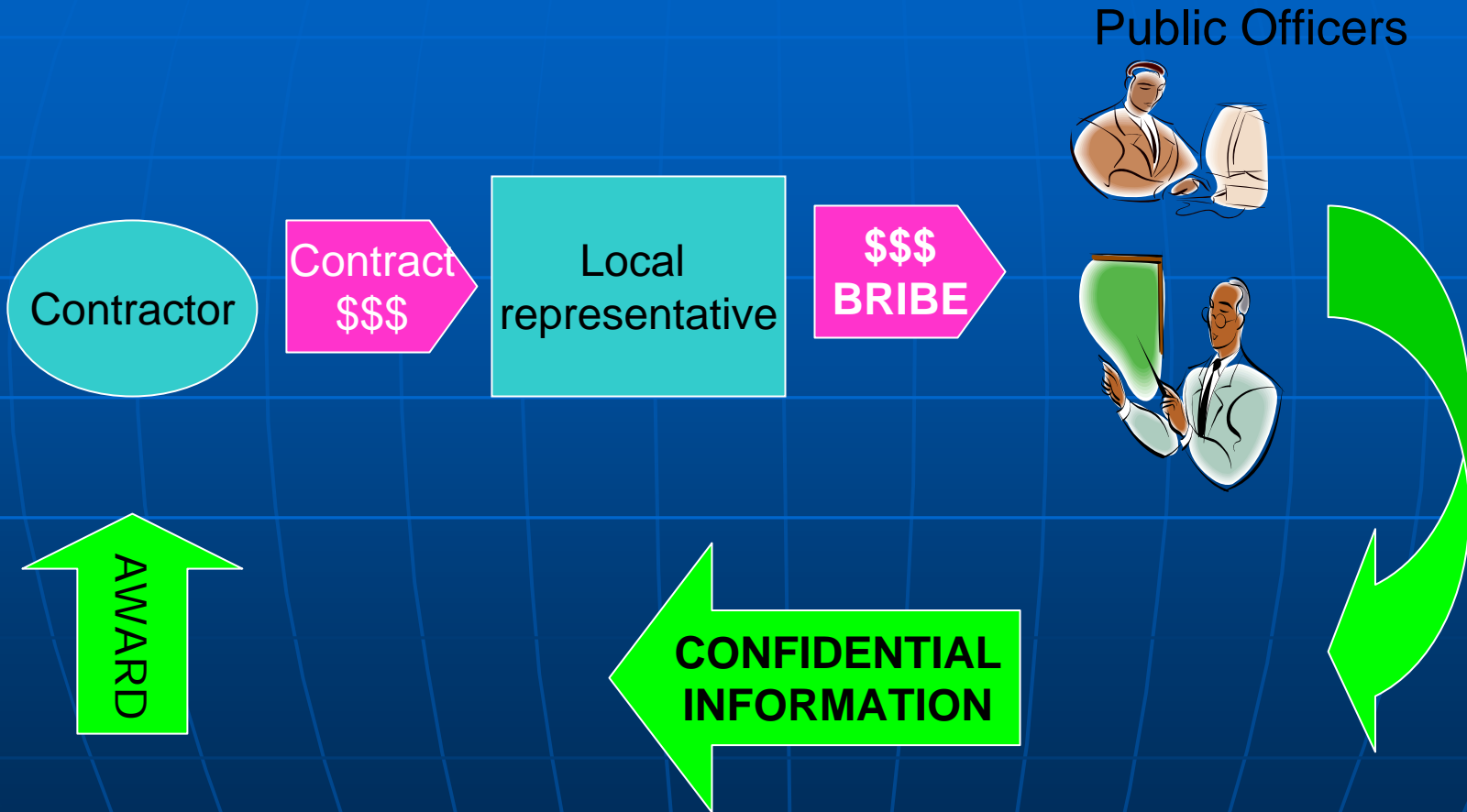
## 4. Maintenance

- To be awarded

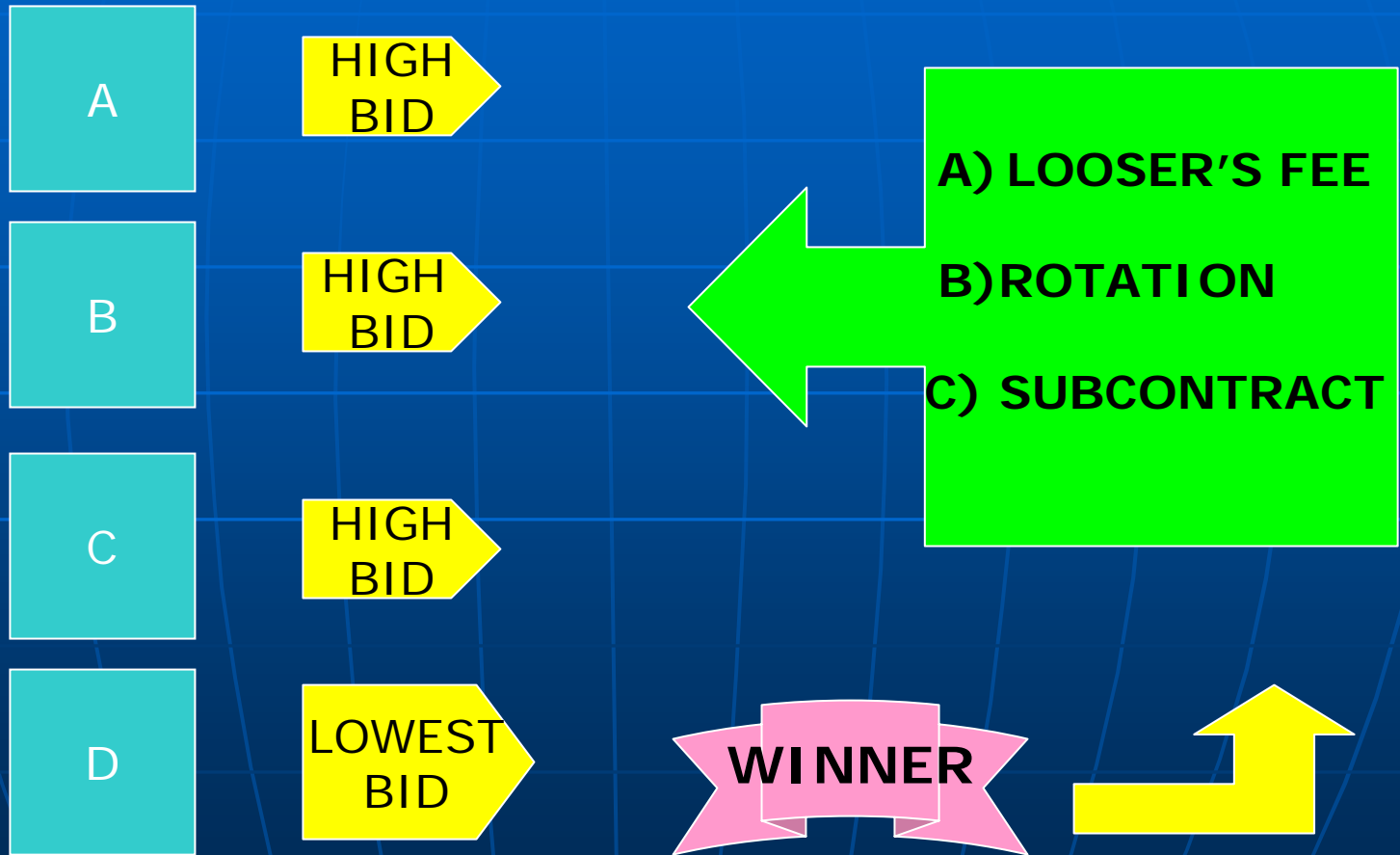
# HOW?

- Local representatives
- Joint ventures (intercompany charges)
- Sub contractors (disguised arrangement)
- Bribe to obtain internal information
- Cartels:
  - Collusion to keep prices high
  - Pre agreed sum in tender (loser's fee)
  - Pre agreed winner (rotation)
  - Agree price of materials

# Corrupt Scheme: “Local Representatives”



# COLUSION SCHEME





**AFF**

**VMT**

**NHR**

**EXECUTORS**

**ADMINISTRATIVE SUPPORT**

**ADVISORS**



**ELECTORAL SYSTEM**

**JUDICIARY**

**CONGRESS**

**BUSINESS SECTOR**

**ARMED FORCES**

**REELECTION FRAUD**

**IMPUNITY  
POLITICAL HARASSMENT  
EXTORTIONS**

**MEDIA AND  
CONGRESS CONTROL**

**CONSTRUCTION  
MILITAR PENSION FUND  
FINANCIAL OPERATIONS  
BUDGET FRAUD**

**DRUG TRAFFICKING  
PARAMILITAR OPERATIONS**

**CRIMINAL PROCEEDINGS:**  
**201**

**INDICTED:** **2075**  
**DETAINED** **185**  
**EXTRADITED** **06**  
**(EXCEPT FUJIMORI)**

# SOME RELEVANT DETAINEES

## ➤ CHIEF OF THE CRIMINAL ORGANIZATION

## ➤ EXECUTIVE BRANCH

4 FORMER MINISTERS

## ➤ PARLIAMENT

1 PRESIDENT OF CONGRESS  
4 MEMEBERS OF PARLIAMENT

## ➤ JUDICIARY

1 EX SUPREME COURT MAGISTRATE

## ➤ ELECTORAL SYSTEM

PRESIDENT OF THE ELECTORAL COURT

## ➤ ATTORNEY GENERAL

## ➤ MAYORS

2

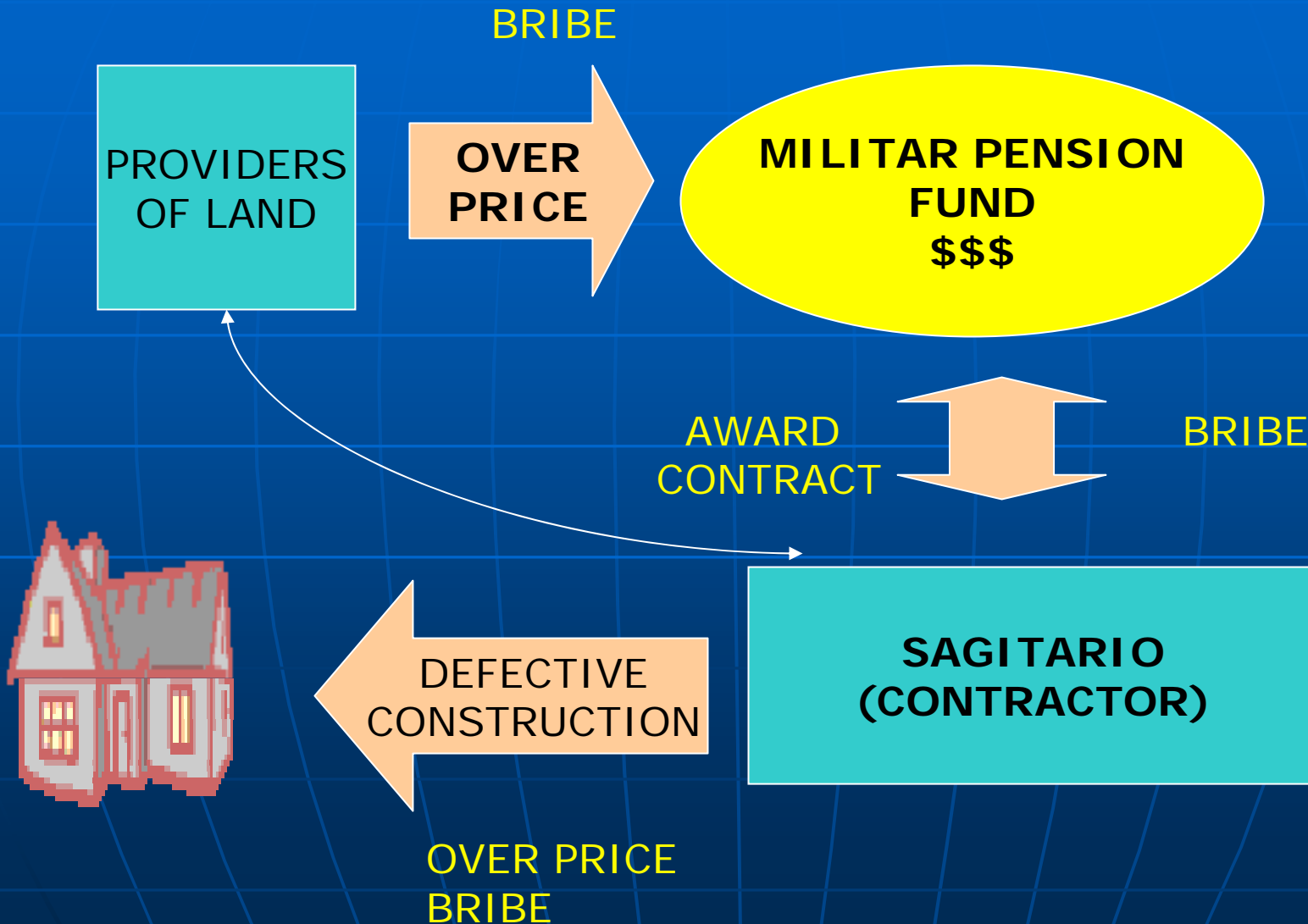
## ➤ ARMED FORCES

4 EX GENERAL COMANDERS  
10 GENERALS OF THE ARMED FORCES  
5 OTHER OFFICIALS

## ➤ MEDIA

1 DIRECTOR OF A NEWSPAPER  
2 DIRECTORS AND BROADCASTERS

# MONTESINOS CORRUPTION SCHEME IN THE CONSTRUCTION SECTOR



# WHAT CAN BE DONE?

## Internal Measures

- a) Business Integrity Policy
  - Diagnosis (weaknesses)
  - Assessment
  - Manual
- a) Code of Ethics
- b) Compliance officer (management staff)
- c) Project Integrity Records

# WHAT CAN BE DONE ?

## External Measures

- a) Identify allies (other companies, lending institutions, authorities, associations, TI, etc.)
- b) Integrity Pacts for procurement
- c) Integrity Cartels
- d) Multilateral Banks:
  - prevention.....alert, VDP, pressure
  - sanctions.....monitor INT

# Why should we do it?

- Social responsibility
- Corruption:
  - \* Undermines development
  - \* Increases Poverty
  - \* Weakens Democracy and its institutions
  - \* KILLS People

# It is possible!!!

- Companies can make the difference
- Leveling de playing field: spiral effect
- Need to speak out