Proceedings of the Institution of Civil Engineers
Municipal Engineer 161
September 2008 Issue ME3
Pages 149–150
doi: 10.1680/muen.2008.161.3.149

Paper 800006
Received 07/01/2008
Accepted 01/02/2008

Keywords:
contracts & law/economics & finance/infrastructure planning

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Institution of Civil Engineers

Briefing: Risks of corruption in government infrastructure projects

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1. INTRODUCTION

Anyone involved in bidding for and executing government engineering projects will be aware of their potential for corruption. Public works and construction were ranked as the most corrupt industry worldwide according to a Transparency International survey.[1]

Why is this so? What is it about infrastructure projects that render them particularly susceptible to corruption, and what might be done to limit such corruption? Is there a role for the civil engineering profession in facilitating efforts to control corruption?

2. KICKBACKS

Corrupt kickbacks are easy to hide in construction contracts, and the competitive nature of many bidding processes encourages firms to try to circumvent them through payoffs. In addition, once the contract is written, officials may seek to extract payoffs from the contractor and unscrupulous contractors have an incentive to pay bribes that permit them to cut corners to increase profits.

In a transparent competitive bidding process for a standardised product, corruption would not be possible so long as the head of government sought a clean process, either out of moral scruples or because he or she fears a loss of public support if corruption is revealed. In an honest process the most efficient firm would be the low bidder, if another firm tried to bribe officials, that firm would have to submit a bid high enough to cover the cost of the bribe. The discrepancy between the high-winning bid and the lower bid would be obvious to all and would have negative political consequences. Therefore the only firm that could get away with paying a bribe would be the most efficient firm. That firm, however, would have no incentive to pay a bribe because it can get the contract without that expense.[2]

Notice the conditions that produce this result

(*a*) standardised set of specifications
(*b*) competition between firms
(*c*) transparency of bids
(*d*) a political leader who will suffer politically from revelations of corruption.

Consider each in turn. If any of them is violated then corruption can occur, not just during the bidding, but at other points in the process as well.

First, many civil engineering projects are not fully specified *ex ante* by the contracting state. Hence, bidders both offer a price and specify aspects of the projects that they think will persuade the government to select them even if their price is higher. So long as the costs of idiosyncratic provisions are not common knowledge, kickbacks can be hidden in the special provisions that bidders propose. Bribes can be hidden in those parts of the contract, and the government's choice of such a bidder does not immediately signal that corruption has occurred.

Second, if there is little or no serious competition for a contract and if there are no benchmark prices for the service in world markets, then kickbacks can easily be paid.

In fact, one common corrupt technique is to help the government draft the specifications so that your firm is the only qualified bidder. For example, consider a perhaps apocryphal story of a tropical African country that sought to purchase telephones that would function well if the temperature dropped below freezing. Only one firm could meet that specification.

3. MONOPOLY

When a contractor has monopoly power, it may be able to refuse to pay bribes because the government has no choice but to deal with that firm. Thus, if the firm's management and owners are otherwise independent of the state, they can resist. This is what happened in the USA. A former governor of Maryland orchestrated a corrupt contracting system, but one or two specialised bridge engineering firms were exempt because they were the only ones able to fulfill certain necessary tasks.[3]

In very corrupt systems, however, a firm's monopoly power may simply facilitate corrupt deals between top officials and the firm, at the expense of the public. This was the case in states such as Zaire and in municipal governments operating in tight relationships with organised crime, as in parts of Italy.[4]

If corruption does not have negative political consequences for officials, they can orchestrate corrupt systems that benefit them personally.

4. BID RIGGING

In addition to individual kickbacks by bidders, corruption can facilitate bid rigging. Thus, even if there appears to be vigorous competition for government contracts, this may be a sham that hides a system of sharing the work and keeping prices high. Although bid rigging can occur without payoffs, officials are likely to be aware of firms' activities and must be bought off to keep them quiet. Even if officials are not corrupt and suspect bid rigging, it may be difficult to combat, as evidenced by the US Army's efforts in South Korea. Suppliers who attempted to operate outside the bid-rigging system were threatened and intimidated by the cartel.[6] Nevertheless, especially in a municipal government with access to national or international firms, efforts to bring in competitors can be successful. New York City, for example, bought in a national waste management firm to collect rubbish as a way to break organised crime control.[4]

5. CONCLUSION

How can such corruption be countered? Of course, the major focus must be within the governments involved. They need to improve their bidding processes along the lines suggested by Transparency International.[7] Beyond that however, they need to reexamine what they are purchasing. In the face of corruption, they should ask if they can shift to more standardised goods and services where national or international benchmarks exist, and where firms' bids can be compared. For this to occur, they might consider doing more of the engineering and design work in-house, so that contracts are made at a point where they can be standardised.[4]

Turning to engineering firms, they can, of course, simply refuse to bid on projects in countries or sub-national governments where kickbacks are aggressively demanded. That strategy, however, leaves the country's citizens at the mercy of firms willing to play the corrupt game. Engineering firms with a policy against paying bribes should consider bidding honestly for projects in such jurisdictions and then publicising their problems and the value of their bids. Furthermore, they might set conditions on their participation such as demanding that all bidders implement internal anti-corruption controls, following the protocol developed by Transparency International.[8] Bidders would report cases of suspected corruption to the prosecutors in the home countries of firms resident in countries that are parties to the Organization for Economic Cooperation and Development anti-bribery convention.[9]

As for the professional engineering societies, they could compile a database of the costs of various standard projects under a set of common conditions. Because the technical and engineering data are often not proprietary for many common civil engineering projects, this could be done without revealing trade secrets and could help international watchdog groups and domestic civil society organisations hold governments and their contractors to account. These actions would benefit firms that seek to do business honestly by providing circumstantial evidence of corruption in the case of projects that vastly exceed benchmarks or are overly specialised and complex for the needs of a particular population. Such data would seldom provide evidence sufficient for legal enforcement actions, but its use could provoke debate and put the burden of proof on contracting authorities to justify their expensive choices.

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