



# Assessment of Governance in the Transport Sector – World Bank Experience

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## The corruption battle is not new....

*“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.*





## Why Focus on Governance and Anti-corruption?

- **Why is GAC important for economic development?**  
**Corruption:**
  - Imposes high costs on the economy and poor
  - Fosters sub-optimal policies and decisions
  - Impedes implementation and growth
- **Why is Corruption so resilient?**
  - Enduring incentives and mutual interests
  - Power of influence and networks
- **Balance Control v. Sustainable Development Approaches**
  - Will Corruption diminish naturally as growth and income improve?
  - Weak control – undermines investor confidence, reduces supply and quality of services
  - Need for both



## World Bank GAC Strategy, 2007 - 7 Principles

- **Rooted in Poverty reduction mandate**
- **Country-driven**
- **Adapt to country circumstances – not “one size fits all”**
- **Stay engaged to ensure “poor do not pay twice”**
- **Work with many stakeholders**
- **Work with partners, not in isolation**
- **Strengthen, not bypass country systems**



## Implementation of WB GAC Strategy - 2008

- **Country Level:**
  - Country strategies that effectively address GAC impediments
  - Stocktaking to assess GAC on development effectiveness
  - Facilitating engagement on demand-side governance
  - Working collaboratively with private sector
  - **Measuring governance better:**
    - **Systematic monitoring of indicators, incl. sectoral governance**
- **Project Level**
  - Govt to build GAC systems into their projects
  - Address GAC dimensions through project cycle
  - Strengthen quality management on GAC aspects of operations
- **Global Level**
  - Donor coordination, global learning, multi-stakeholder action



## WB Risk Assessment Matrix for Project Concept

*Risk factors / Description of risk / Rating of risk / Mitigation measures / Rating of residual risk*

***Risk factors:***

**1. Country and Sector level Risks**

- *Macroeconomic framework*
- *Sector policies and institutions*
- *Country ownership (incl. political aspects)*
- *Country/sector governance*
- *Systemic corruption*

**2. Operation-specific Risks**

- *Technical/ design*
- *Implementation capacity and sustainability*
- *Financial management*
- *Procurement*
- *Social and environmental safeguards*
- *Corruption*

**3. Overall Risk (including Reputational Risk)**



## 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**



## RISK CONTROL FRAMEWORK

### **Risk Assessment**

### **Risk Mitigation Strategy**

- Controls and Enforcement
- Strengthened governance and capacity

### **Risk Monitoring**





## RISK ASSESSMENT

### **Identify Fraud and Corruption Threats**

→ Allocation, Design, Procurement & Implementation phases

### **Identify Critical Decision-Makers**

→ Who makes or 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



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

### **Institutional Structures and Policies:**

- Multifunction Public Works Depts – high risk
- Separated Agencies (Road Fund, Highway Agency, etc.) – assess oversight effectiveness
- 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, jurisdictions
- Recurrent expenditures – bias or needs base
- Analytical planning tools – systematic use
- Asset-based allocation – prone to reclassification?



## Assessing 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
  - Accounting system, internal controls, internal audits
  - 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

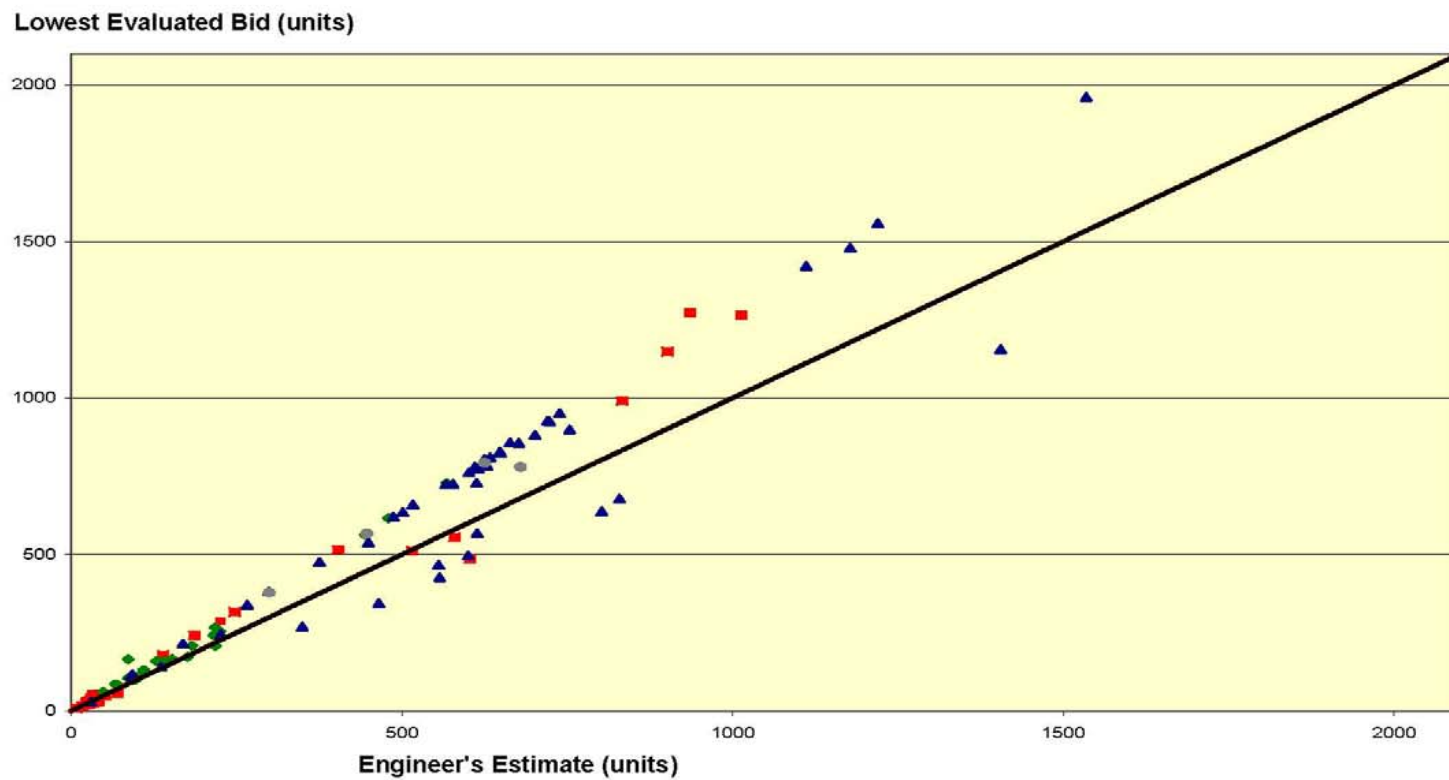


## Assessment: Political Economy Analysis

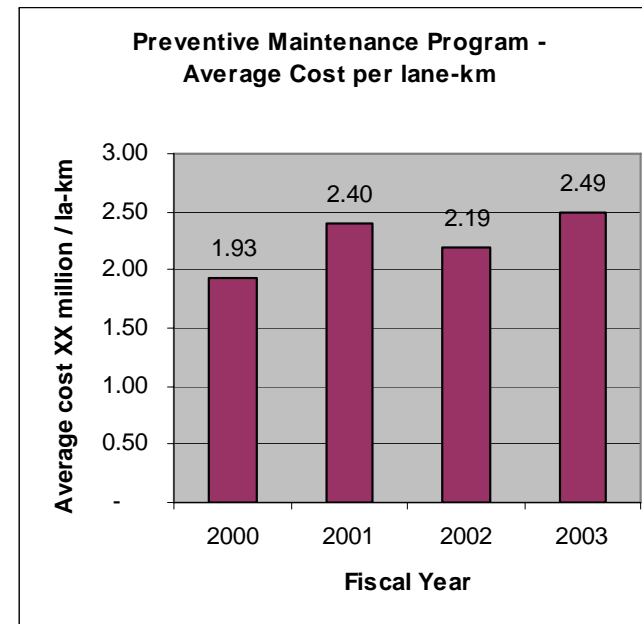
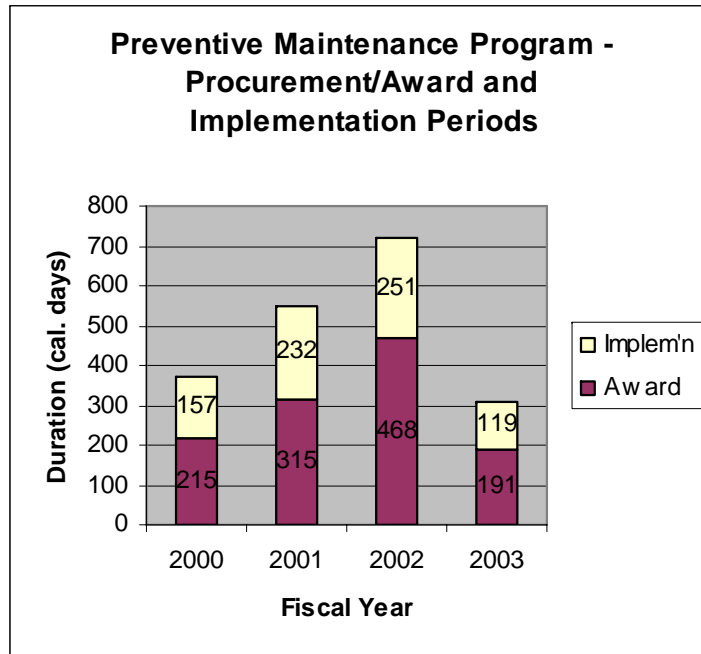
- **Understanding of political economy is foundation for assessing incentives and prevalence of corruption at sectoral and agency levels.**
- **Survey of media reports**
- **Analysis of cases & outcomes brought to public view**
- **Survey and interviews of representatives of stakeholders**
  - citizens, local politicians, local officials, firms engaged in local or national contracts, watchdog groups, agency officials (local and national), industry associations, etc.
- **Use report-card-type questions to assess: frequency/prevalence, concentrations by location, agency or type of service, cost (usually by % of service), etc.**



# Monitoring Contract Award Prices v. Cost Estimates



# Assessment: Monitoring Procurement Governance Indicators



- **Procurement:** Long period for bid evaluation and award is red flag especially if normative – indicative of manipulation
- Increases in average cost or selective unit costs can be compared with market benchmarks to detect abnormal changes and possible rise in kickback or bribes
- Also: Nr. bidders, respondents not bidding, contract cost margin over estimate, etc.



## Assessment: Monitoring of Red Flag Statistics - Road Sector WB Africa Study 2008

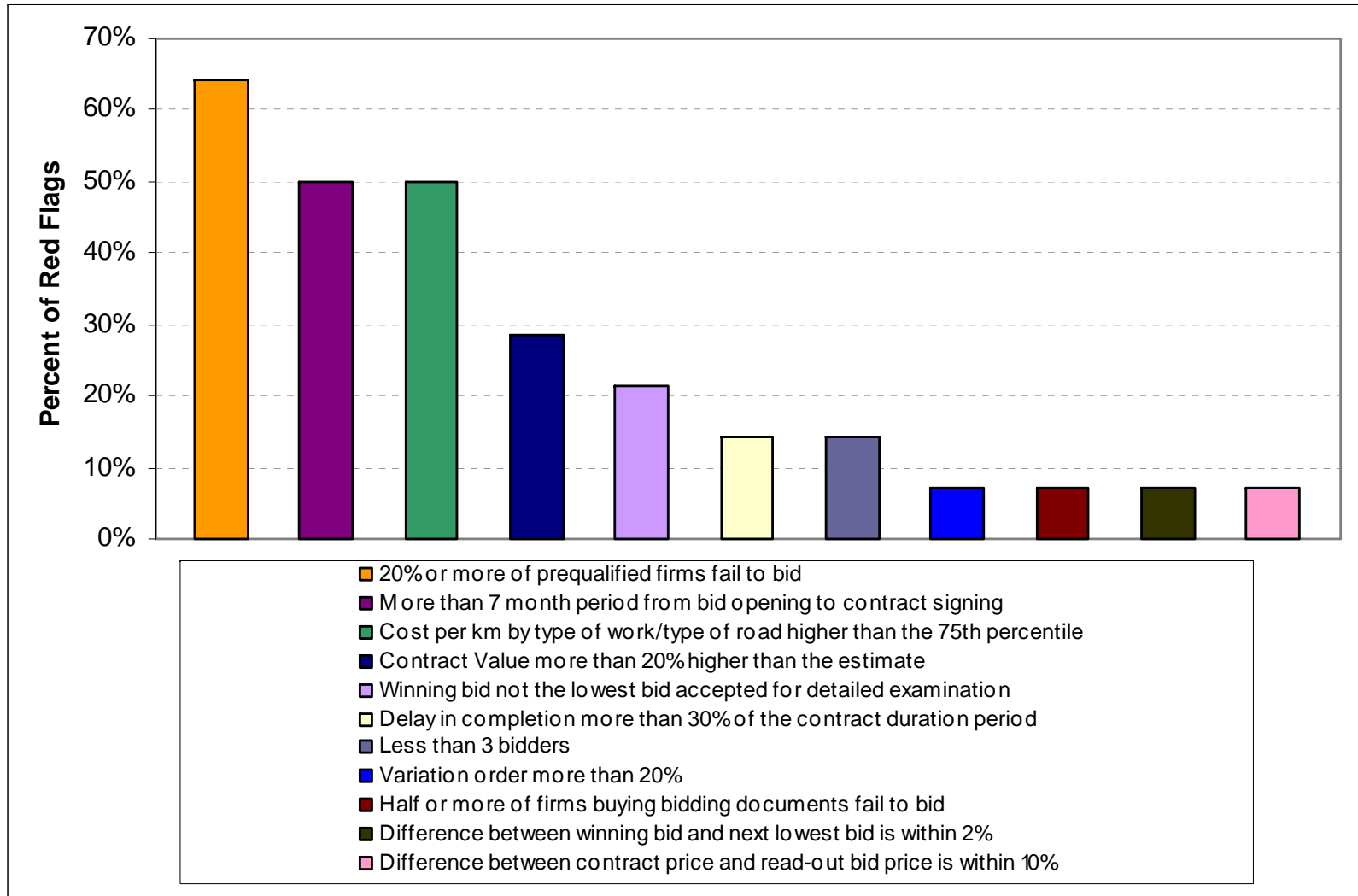
### Procurement – Red Flags

- 20% or more Prequalified firms fail to bid
- Period from bid opening to contract signing > 7 mths
- Contract value >20% above cost estimate
- Winning bid not lowest bid accepted for examination
- Cost per km above 75<sup>th</sup> percentile by type of work/type of road
- Number of bidders <3
- Nearest bid above winning bid within 2%
- 50% or more firms buying bid docs fail to bid

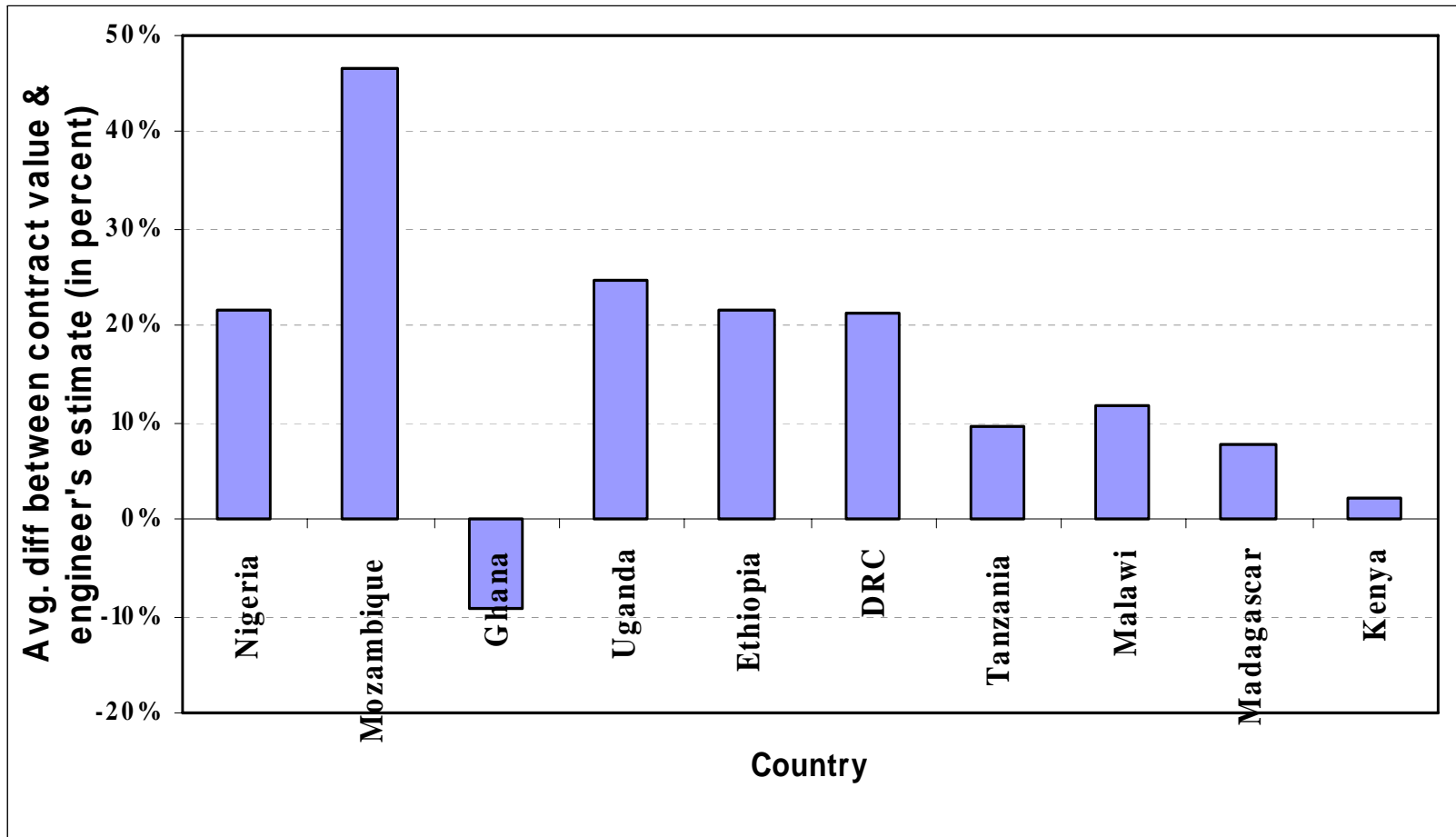




## Red Flags in Projects with Corruption Complaints – SubSaharan-Africa, World Bank 2008



# Monitoring Procurement Flags – Difference between Contract Value and Engineer's Estimate (WB Study on SubSaharan Africa, 2008)





## Recommendations on Monitoring to Support Governance Assessment at Agency/Project Levels

- **Systematically collect data on procurement and implementation performance**
  - to allow comparison of cost trends, procurement process flags, contractor performance
- **Monitor bidding behavior of firms**
  - Using numbers collecting documents, prequalified, submitting valid/invalid bids, bunching of bid prices, margin over cost estimate
- **Monitor payment performance data**
  - Key stages of payment processing
- **Identify early warnings through systematic monitoring of flags**
  - Gain information to address fiduciary problems



## Draft Project-level Framework for Assessment and Remedial Provisions of Governance and Transparency

### STAKEHOLDERS

#### 1. Awareness and Capacity

→ *Satisfactory GT framework in place, all stakeholders aware of Project GTF provisions, and adequate capacity for implementing Project GTF.*

#### 2. Transparency and Disclosure

→ *Relevant project information disclosed to stakeholders, project managed transparently and fairly, fair access to information, integrity information on officials & contractual partners disclosed.*

#### 3. Stakeholder Integrity Commitments and Responsibilities

→ *Owner, contractual partners and financing partners adopt & commit to ethical business standards, Project integrity controls, fair implementation and reporting of sanctions.*



## Draft Project-level Framework for GT Assessment – 2 – Project Operations

### 4. Enhanced Process Controls

- *Procurement, financial management and environmental/social safeguard procedures to prevent and detect prevalent corrupt practices, and to ensure acceptable transparency, fairness, quality and cost.*

### 5. Independent Assessment & Benchmarking

- *Effective mechanism in operation for impartial third party parallel assessment of integrity aspects of project transactions (through contractual independent assessor, civil society and/or public inspector) including feedback into project decisions and implementation.*

### 6. Reporting & Complaints Mechanism

- *Mechanism and protocols for confidential reporting of corrupt practice tips and complaints, management of records, fair processing, monitoring, and confidentiality, in operation at Project and Owner levels.*

### 7. Enforcement, Remedies & Sanctions

- *Appropriate and fair actions to enforce remedies and sanctions for proven incidents of corrupt practice are imposed by Project Manager, Owner or relevant authority, and duly reported.*



## Draft Project-level Framework for GT Assessment – 3 – Administration of Project Governance

### **8. Performance Monitoring**

- *Key performance indicators of PGTF are monitored, reported and disclosed within applicable guidelines.*

### **9. Administration of PGTF**

- *Project Governance and Transparency Framework is duly authorized, related funding and administration of PGTF activities is adequate and duly impartial, and appropriate oversight is functional.*



## References

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*Thank you!*



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