

A global renaissance of trust – demonstrating ‘intelligent trust’ to mitigate infrastructure corruption risk.

South Africa based anti corruption practitioner **Anton Krause** of **GIACC-SA** says that trust is one of the three pillars of capitalism, and is what makes world markets work. Corruption undermines trust and combatting it should be a key part of an overall risk management strategy, he argues.

KEY POINTS

- Trust is the new currency of the global economy.
- Capitalism is based on three pillars – capital, liquidity and trust.
- Trust is what makes world markets work.
- High trust is a performance multiplier.
- Increased trust improves the “joie de vivre” of nations.

Warren Buffet once said, “Trust is like the air we breathe – when it’s present, nobody really notices, when it’s absent, everybody notices.” Presently the world is in a trust crisis which is blatantly noticeable in most global and national institutions extending to the global economic system and society, with developing countries suffering the most.

The exact cost of this global crisis is unfathomable and would inevitably be a speculative guess at best. Global media reports daily that the costs associated with this crisis is increasing exponentially and can be found in all industry sectors. Corruption deters local and foreign investors and reduces the investment

attractiveness of a country, which has a negative impact on the economy. The World Economic Forum estimates that the cost of corruption amounts to more than 5% of world GDP which in turn equates to approximately \$2.6 trillion. Infrastructure is typically associated with corruption and estimates of financial losses range between 10 and 30 percent of the value of publicly funded projects.

According to the former United Nations General Secretary, Kofi Anan, “This evil phenomenon (corruption) is found in all countries – big and small, rich and poor – but it is in the developing world that its effects are most destructive. Corruption hurts the poor disproportionately – by diverting funds intended for development, undermining a government’s ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment and aid. Corruption is a key element in economic underperformance, and a major obstacle to poverty alleviation and development”.

From a historic perspective, graft in the United Kingdom in the 1830s has recently been termed ‘Old Corruption’. This was characterised by a system of corrupt institutions and practices that redirected public money into the pockets of the political and socially privileged, who also largely relied on nepotism to advance their personal profits. From a common historic perspective, South Africa is no different and in fact, corruption

is one of the country's oldest traditions. It has been a constant feature of the South African political landscape for much of the past 350 years and is deeply imbedded in the culture. It dates to the initial colonisation of the Cape in 1652, when Jan van Riebeeck of the Dutch East India company got offered the position because he was given a second chance after he was sacked for ignoring the company's prohibition on using his office to pursue personal financial interests. Interestingly, when the Cape fell under British rule following the Dutch, public spending was directed to serve private interests. Cecil John Rhodes, a prominent colonialist at the time was forced to resign his office after he gave a friend an 18-year monopoly catering contract for the government-run railways.

Today, it is said that we are living in an age of 'New Corruption' where lessons learnt from the past seem to have long been forgotten and where new terms such as 'State Capture' (the use of state funds to serve private interests) are used to provoke latent rage in the present world population. Professor Rudi Klein states in *Global Construction Success*, "In December 1993 Latham published an interim report titled *Trust and Money*. In that report he observed that instead of oil (money) the construction engine had grit in it. The engine still has grit and, whilst it remains, the consequent lack of trust in the industry will continue to obstruct the collaborative effort that is desperately needed to bring the UK construction delivery processes into the modern era."

There is no internationally accepted legal definition of corruption and in its narrowest sense, corruption is often interpreted as referring to bribery only. However, in its wider sense, corruption includes bribery, extortion, fraud, cartels, abuse of power, embezzlement, and money laundering. Most, if not all these activities will normally constitute criminal offences in most jurisdictions although the precise definition of the offence may differ from country to country.

In focussing in the global infrastructure sector, the GIACC states that a wider definition is preferable as these corrupt acts:

- ◆ are all criminal offences
- ◆ normally involve deception
- ◆ are concealed
- ◆ have illegal profit as their objective
- ◆ often occur together
- ◆ normally result in financial loss/defective

quality/loss of life

- ◆ require similar preventive/detection measures.

Public infrastructure is particularly vulnerable to corruption, because so many functions of public service delivery is linked to weak governance, both in policy, legal and regulatory systems and institutional policy. The very nature of engineering, procurement and construction and the way in which infrastructure services are operated creates structural susceptibilities that encourage corruption. This projectised environment is often intensified by a country's political economy, where policy choices are more than often motivated by personal and political agendas. Neill Stansbury of the GIACC highlights thirteen features of infrastructure projects that make them particularly vulnerable to corruption. These being:

- ◆ The size of the project – large complex projects such as hydro-electric dams create abundant opportunity to hide corrupt behaviour.
- ◆ The uniqueness of the project – projects are often one-offs which makes it difficult to compare costs, which in turn makes it easier to inflate costs or hide corrupt behaviour.
- ◆ Government involvement – governments either own infrastructure or regulate its development and with insufficient controls in place it can be relatively easy for officials to extract bribes.
- ◆ The number of contractual links – these provide ample opportunity to offer a bribe for a contract award or for a payment to be made.
- ◆ A high number of project phases and professional service integration makes oversight difficult.
- ◆ Project complexity creates uncertainty in managing problems – this creates opportunities to submit unjustified claims or inflate claims for payment.
- ◆ Projects come at irregular intervals, thus creating pressure to win new contracts.
- ◆ Work is concealed where many physical construction components are concealed by other components, combined with a lack of competent supervision leading to the opportunity to conceal poor quality work, defective work, or the use of cheaper components.
- ◆ A culture of secrecy where there is no culture of transparency in the sector.
- ◆ Entrenched interests, where companies often

have entrenched positions in the marketplace, often cemented by bribery.

- ◆ No single organisation governs the industry, where each of the many construction professions or trades have differing codes of conduct with differing levels of enforcement of such codes.
- ◆ Cost of integrity, where corruption is an accepted norm within organisations who are unwilling to change the status quo as they risk losing out to less trustworthy competitors.
- ◆ The lack of any or adequate due diligence by financing bodies on the infrastructure project participants allows corruption to flourish.

So, corruption in infrastructure project delivery which inevitably leads to the overall lack of trust is certainly a risk that needs to be recognised and considered by all international role players within the industry. The important question is, how do we demonstrate our trustworthiness to those who we would like to do business with? The answer is to develop an 'ITQ' for business (Intelligent Trust Quotient), starting with self-trust, then extending out to relationship trust, organisational trust, market trust to eventual societal trust. In simple terms, 'ITQ' for business is the legal requirement to develop demonstratable "adequate procedures" that considers factors of both proportionality and reasonability in relation to the outcome of an organisational corruption risk assessment.

Infrastructure corruption is antithetical to transparency and accountability which increases social and economic deprivation and inequality in society. It shapes real-world project preparedness which even disrupts the normal operations of a project organisation, the project delivery and the ongoing operations of the completed structure. This type of disruption can turn an infrastructure project into a media crisis.

The best method to manage infrastructure corruption is for organisations to prevent it from happening in the first place and for them to make it part of their overall risk management strategy. Smart infrastructure investors should develop and implement a digital early warning system (EWS) so that potential corruption events affecting the project, or its stakeholders get communicated to project funders and owners in real time. To ensure this happens, infrastructure investors and owners must possess the necessary discipline to heed early warning signals in respect of deviant-behaviour

and thus overcoming the widespread tendency for denial and optimism bias.

In a world where there is a wholesale move towards digital working, a digital EWS supported by a mobile technology application can enable early warning systems, allowing project stakeholders to take more swift and definitive action in mitigating real time corruption risk. It could also assist in the measurement of the maturity and effectiveness of the infrastructure project anti-corruption compliance program. The proliferation of technology (big data capturing, data mining for detecting, mobile applications for increasing accessibility and forensic tools for reducing opportunities for corruption events) has the potential to create unparalleled opportunities to increase infrastructure transparency and boost anti-corruption measures. Mobile technology applications are a godsend in the developing world as it can empower citizens in remote areas to provide systematic feedback from the users of public services through digital citizen report cards.

Developing and implementing an integrated digital EWS is straightforward, requiring commitment and discipline by all infrastructure project stakeholders and participants. The stakeholders and participants simply identify potential underlying deviances from a predetermined set of project behavioural norms and assigns an independent corruption risk assessment board to continuously monitor such deviances. The independent corruption assessment board behaves like an intelligence agent in the field, regularly reporting their anti-corruption intelligence back to all project stakeholders. This then provides the infrastructure stakeholders the real-time opportunity to assimilate, evaluate, identify and act on infrastructure project corruption threats before they become a reality.

In conclusion, the guiding principle is that there is no substitute for an organisation to develop and maintain their 'ITQ' ensuring that 'T' (Top-Level Commitment), 'R' (Risk Assessment), 'U' (Undertaking Control Measures), 'S' (Systemic Review, Monitoring and Enforcement) and 'T' (Training and Communication) becomes the new global business intelligence of the future. **CL**

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