



# KEY MESSAGES

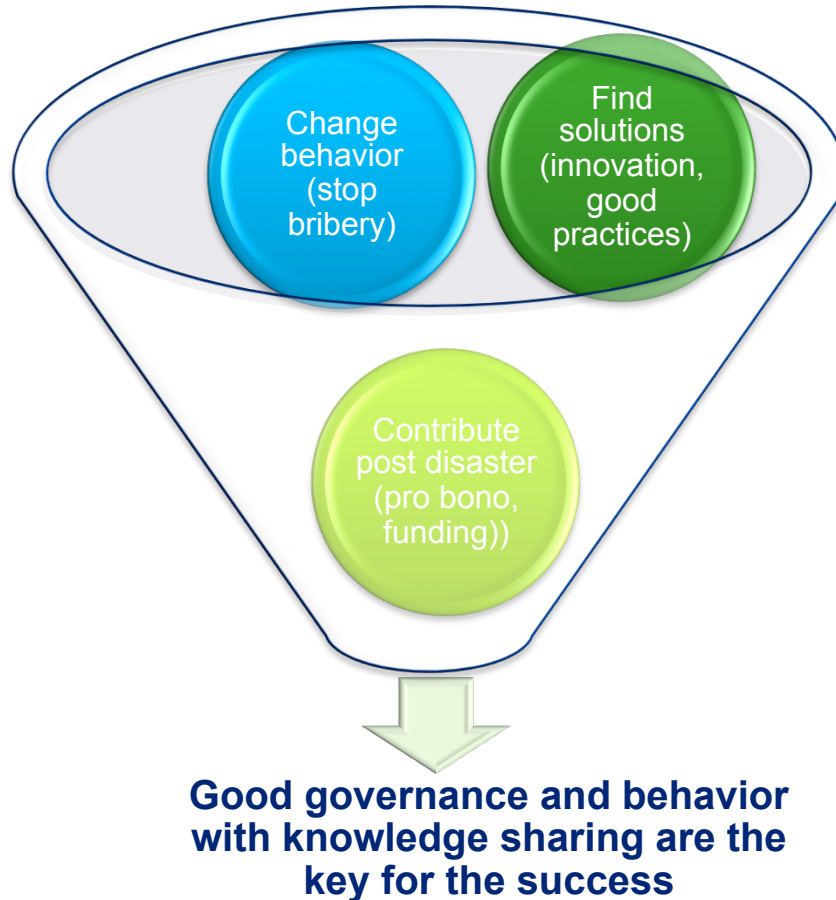
# THE BIG PICTURE



# THE ROLE OF THE PRIVATE SECTOR

## Why?

- Disasters also impact the private sector (e.g. operations in the country impacted)
- Disasters are not only for developing countries (e.g. Katrina, Japan)
- And the root cause is climate change ... with a zest of corruption

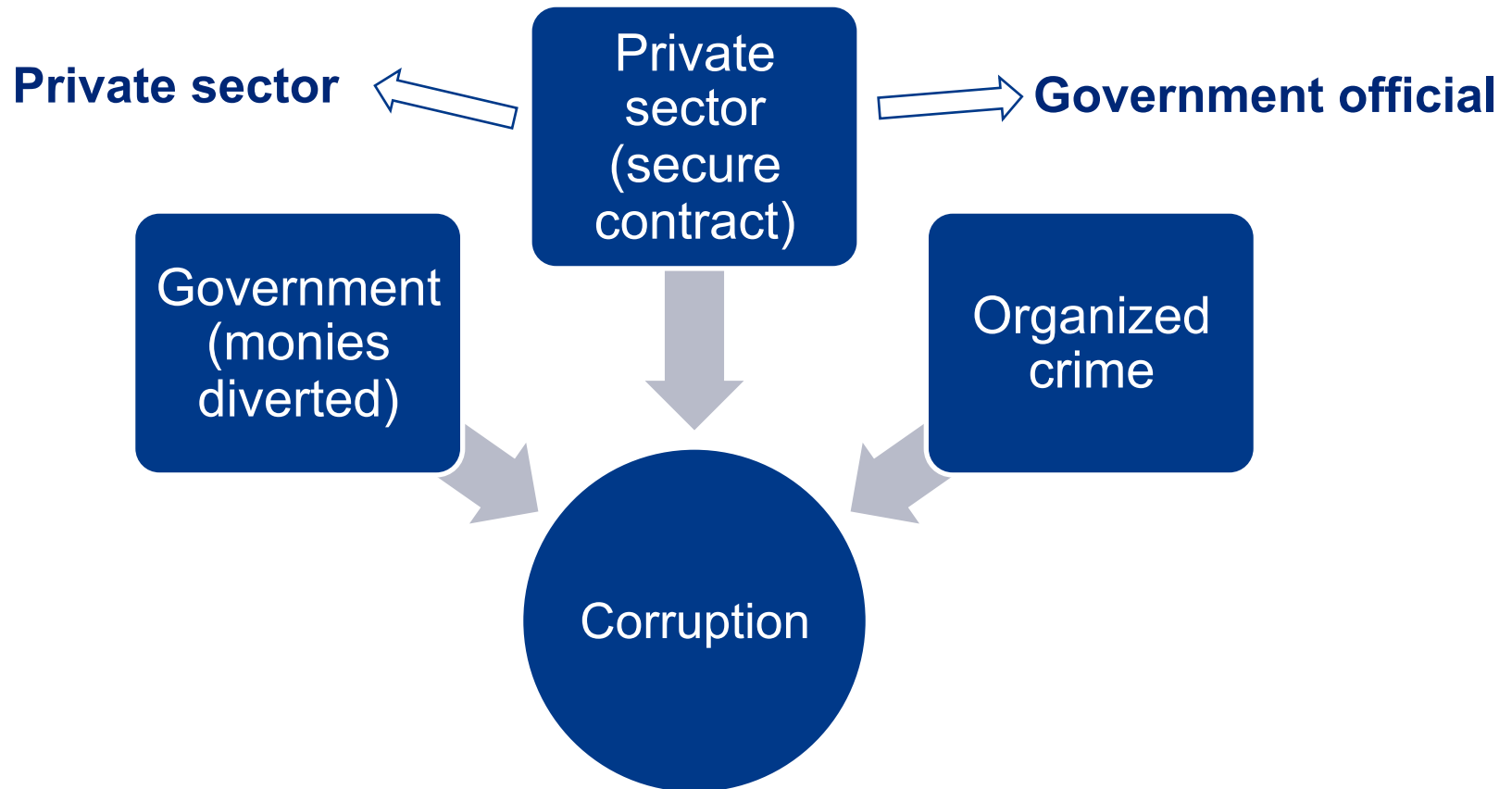


## **COST OF CORRUPTION**

- **The annual amount of bribes paid is estimated at USD 1 trillion according to WB**
- **Corruption have disastrous effects on struggling economies (development and growth): WB estimate the impact on growth rate up to 1%**
- **Corrupt practices scare away investors (5% less investment according to WB)**
- **Standard and Poor's gives investors a 50 to 100 per cent chance of losing their entire investments within five years in corrupted countries**
- **Corruption leads to less resources for local countries, therefore less budget for infrastructure**
- **Organized crime managed to infiltrate cities (e.g. Italy and the garbage industry) and governments and it can prevent countries to change**
- **Up to \$30 billion in aid for Africa (an amount twice the annual gross domestic product of Ghana, Kenya and Uganda combined) ended up in foreign bank accounts, according to TI**
- **WB estimates that one Asian country has lost \$48 billion over the past 20 years to corruption, surpassing its entire foreign debt of \$40.6 billion**
- **For corruption, there are three main players: corruptor, corrupted and the financial system (some \$30 billion in Nigerian "flight capital" is on deposit with European and North American banks)**

## THE COORDINATED FIGHT AGAINST CORRUPTION

- It is not only the issues of the government, but also of the private sectors
- It should be coordinated at the industry level and not only at the company level
- There is a difference between corruption and participating to the development of a country or region



# COMMON PATTERNS: THERE IS MORE CORRUPTION AFTER A DISASTER

## Why?

- Emergency leads to bypass formal process (e.g. bidding) to re build rapidly
- Lack of coordination of funding received
- High involvement of governments (which is an issue in corrupted countries)

## Actual examples of fraud and corruption

- Selection of NGOs owned by government officials relatives without clear business purpose
- NGOs having to bribe governments to receive funds
- Distribution of relief goods to unaffected people
- Creation of fake recipient names
- Fake NGOs
- False data on number of affected people
- Sales of expired products or products donated
- Donor officials staying in expensive hotels using the cash donated by a government / or donors paying high salaries to friends

## ... LEADING TO MORE CONSEQUENCES ON FUTURE DISASTERS

- Rebuilding process focused on the rapidity of the construction, versus on the quality
- But at the same cost of quality reconstruction due to mismanagement and fraud & corruption

### Areas

- Hospital, schools and buildings not sustainable, i.e. that the next disaster will have the same impact or even worst: building will collapse without a disaster
- Ineffective food for work programme (e.g. in India in 2001 / 2002, donation of enough food to feed 20 million workers for a year. Food was mostly diverted)
- Difficulties with the donation in kind (expired products, products donated but sold at high price, etc.)

### Without forgetting collateral damages

- Children sexual exploitation in camps
- Sexual harassment “the chief came to my house with the list of beneficiaries. He showed me all the names that had been erased and tells that my name will be erased if I don’t accept to have sexual relations with him: He starts to caress me and I accept in spite of me”
- Fake drug products sold at low costs (annual market of USD 32 billion)

EXAMPLES





## **FLOODING IN PAKISTAN - 2010**

- 1,500 people died, 4 million lost their home and 20 million were impacted (one fifth of the nation under water)
- Material impact worst than Hurricane Katrina, Haiti earthquake or the Asian tsunami

### What are the impacts of the image of corrupted country?

- Reluctance of donating due to high risk of corruption and lack of transparent mechanism
- The monies did not always reach the people who needed it
- Already allegations of flooding aid corruptions, impacting the reconstruction process

### Lessons learned from the past

- This disaster was more destructive in term of loss of property than the 2005 earthquake
- Government acknowledged that the main issues were lack of transparency of funds used to rebuild the damaged areas after previous disasters
- The same is happening now

### Quality of the funding

- The fight against “militants” received a funding of USD 1 billion a year from the US versus USD 25 million for flood contribution

## **EARTHQUAKE IN HAITI - 2010**

**230,000 dead, 300,000 injured and 1.2 million without a home. Total reconstruction cost: USD 14 / 20 billion**

### **Lessons learned from 2008 Hurricane**

- **Poor and long reconstruction process (no improvement in infrastructure)**
- **Funds were diverted, e.g. to companies closed to government**

### **Fighting against corruption is not easy**

- **Between 2004 and 2008, a special anticorruption unit and a national contract award commission were created, The person responsible of the commission was kidnapped and disappeared in 2006**
- **The person in charge of investigating the use of the funds was dismissed**

### **So where to start**

- **Before reconstructing the infrastructure, the entire institutional system should be revisited**
- **Creation of trust fund monitored by independent parties (e.g. Worldbank), reducing some risks**

# TSUNAMI

- 2011 Tsunami in Japan: 10,804 killed, 16,244 person disappeared (versus Kobe in 1995: 6,434 people died), 530,000 home impacted with significant nuclear impact. The total estimated damage is about USD 216 billion (versus a total of USD 218 million worldwide for natural disaster in 2010)
- 2004 Asian Tsunami: 300,000 dead and thousands of communities destroyed. Total estimated cost of recovery is USD 11.5 billion

## Couple of facts related to the post Asian Tsunami

- Building were re-built, but without foundation
- Roads and communities rebuilt in risky areas
- Construction of temporary shelters, which became permanent housing

This was not the expectation of the donors. Some resulted from funds diverted

# POST WAR RECONSTRUCTION

## 1990 Lebanon post war

- Who should participate in reconstruction: public or private sector?
- Increase of corruption after the war in Lebanon due to (estimated at more than USD 1.5 billion a year):
  - Involvement of the state in the reconstruction, managing significant capital projects using intermediaries and long implementation phases
  - Rapid growth of GDP (100%)
  - Lack of re-thinking of rebuilding institutions taking account good governance (justice, state control, impunity, etc.)
  - Lack of involvement of private sectors

## Afghanistan

- Political campaign to build highway in 2004 – road was built in less than 2 years but was quickly disintegrating due to poor design and poor quality materials despite high price (roads are critical in case of disaster)
- 533 schools and clinics rebuilt at a cost of USD 226,000 each under US reconstruction (estimated cost: USD 50,000 per building). Many buildings were later damaged during the winter because poor design quality and material
- Many NGOs funded the reconstruction, subcontracting to local organizations which subcontracted again

## Irak

- Several audits by the US showed that funds used to rebuild the countries were not used on priority matters (e.g. construction of swimming pool or infrastructure not used, etc.)

NEXT STEPS



## WHAT ARE THE SOLUTIONS?

- **Better access to information / transparency (match funding sources and donations to specific projects)**
- **Creation of anti-corruption commissions and robust legal framework**
- **Centralization of all the funding with strong external oversight**
- **Involve the victims in the reconstruction process**
- **Transparency of aid flows (including in-kind assistance)**
- **Monitoring of the reconstruction process and use of the funds (e.g. public disclosure)**
- **Complaints and reporting mechanisms (question: to who? Governance will need to change first as well as legal provisions)**
- **Implement indicators to identify procurement fraud**
- **Better bidding process even in emergency situations**
- **Accountability for funds**
- **Involvement of the private sectors**

## **SUCCESS STORIES**

### **Earthquake in India - 2001**

- **7,900 villages affected, 400 completely destroyed, 10 million people affected (13,805 dead)**
- **Total reconstruction cost: USD 3.3 billion**

### **The reconstruction was successful over 4 years thanks to:**

- **Involvement of NGOs and private sector**
- **Coordination of the different actions**
- **Involvement of affected people, elected representative and civil society in the reconstruction process**
- **Monitoring of the use of the funds**
- **Independent audit**

## **HOW PROFESSIONAL SERVICES COMPANIES CONTRIBUTED**

### **Main actions:**

#### **•Pre-disaster**

**Protect its own employees by ensuring that the working location is safe**

**Share knowledge on transparency and accountability**

#### **. Post disaster**

**Support its own employees**

**Assist government to manage and monitor financially the reconstruction**



## Examples

- **Awareness**

Involvement in anticorruption initiatives (Global Compact, WEF, TI, ICC, Worldbank, etc.) and trainings

- **Post Asian Tsunami**

- Some Professional Services firm offered hours of services to assist the UN with its accounting and investigative efforts related to the Tsunami funds as well as to contribute in the improvement of the UN' s tracking system. Deloitte for example gave 17,000 hours of assistance involving 60 professionals over 6 months to provide recommendations on business and operation processes as well as financial controls to strengthen the capacity and accountability. Deloitte also gave monies

- Some created their own disaster relief fund to support its employees and organize fund raising

- **Post Katrina**

Deloitte participated in establishing procedures to assess internal controls that help preventing and detecting potential fraud, waste and abuse of funds.

- **Post Haiti**

Deloitte participated in projects to support with the due diligence of the investments and the evaluation of the investment (prioritization)



MANY THANKS

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