Partnersing Against Corruption Initiative (PACI)
Infrastructure and Urban Development industries

Building Foundations for Transparency
Executive Summary

In collaboration with Deloitte

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Launched in 2004, the Partnering Against Corruption Initiative (PACI) is one of the Forum’s most prominent cross-industry collaborative efforts. PACI signatories have created a highly visible and dynamic agenda-setting anti-corruption platform, working together across industries and with the support of international organizations and governments around the world. The Building Foundations for Transparency project aims to tackle specific corruption risks and enhance transparency in infrastructure, engineering, construction and real estate. This paper provides a summary of the Phase 2 effort under way in India. It also discusses the highlights and outcomes of the PACI Community Meeting held in Delhi on 9 December 2015.

The first phase of the project focused on value chains, identifying global corruption risks and determining at which point in a project lifecycle corrupt practices are likely to occur. From this, a set of collective actions was developed to address the highest priority corruption risk areas. Phase 1 successfully concluded the analysis of corruption in the Infrastructure and Urban Development (IU) industries. The task force recommendations outline the need for collective action on permits and licences and increased interaction between the industry and government.

The project’s steering and advisory committees, consisting of industry leaders and experts in transparency and anti-corruption, launched a country-level pilot in India during the project’s second phase to establish a dialogue between business and local public officials on transparency-enhancing solutions. The project community members concluded that efforts should focus on changes in permits and licences, land acquisition and registration processes. The project committee members initiated a local dialogue between industry, public officials and civil society in Maharashtra through a workshop in Mumbai in December 2015 to discuss specific needs on a state and municipal level and to find solutions to make processes more transparent in key risk areas. In parallel to the dialogue, the project community is developing a diagnostic tool specifically adapted to transparency needs in the IU industries.

The second phase of the PACI/IU project, Building Foundations for Transparency, follows a collective action approach. The project seeks to develop practical solutions for more transparency in the Infrastructure and Urban Development industries in Maharashtra by bringing together local players from all the relevant stakeholder groups – public officials, regional industry representatives engaged in the construction and real estate businesses and civil society organizations active in governance and transparency – to participate in a workshop in Mumbai.

The project also considers principal-agent theory; the idea that actors base their decision on whether to engage or oppose corruption on a calculation of probabilities of gains and losses. Hence, the premise of the project is that more transparency can shift individual calculations towards less corrupt actions and help to achieve potentially large, long-term gains for all stakeholder groups.

Figure 1: Who can benefit from transparency in the long term?
The workshop design

The Mumbai workshop took a novel approach. Ahead of the meetings, participants were provided with a set of generic transparency-related solutions which could serve as a base to develop more specific and case-oriented solutions. At the beginning of the workshop, participants were given some of the key issues in the project's focus areas; construction permits, land acquisition, purchase and registration. The team also interviewed industry experts before the workshop to develop a detailed understanding of industry issues. The team used this experience to guide the workshop discussion towards developing solutions. The workshop comprised three core sessions:

– Interactive solution development
  Participants were seated in three groups at round tables and were asked to start developing solutions, based on either the material they had received beforehand or through further enhancing other existing solutions they were aware of. The only rules were that the groups had to focus on solutions instead of problems; stick to the key areas, building permits and land issues; and think about solutions in terms of feasibility and potential impact.

– Group presentations
  In a second interactive session, each of the three groups was asked to present to the plenary the solutions and suggestions they elaborated. Presentations were followed by Q&A.

– Open discussion
  As a last facilitated session, participants were given the floor to comment on all of the presented results. The goal was to find common ground across the perspectives and understanding of all stakeholders to identify the priorities for solution proposals.

To enable a solutions-oriented approach, more detailed knowledge of the key corruption issues particular to the IU industries in Maharashtra were gathered in preparation for the workshop. We presented expert opinions to the participants with as an ice breaker and to forestall potential later problem-oriented discussions, and to set a clear discussion focus on the development of solutions.

Identifying the issues faced in Maharashtra

The knowledge was derived through a series of expert interviews with leaders of businesses of construction and real estate companies active in Maharashtra as well as academic experts. Further, we launched an opinion survey that was shared with the project community as well as IU companies active in India that are not project members. The survey exhibits some of the critical areas but also confirms how crucial the industry-oriented work is for more transparency in India:

– Over two thirds of the respondents perceive the Indian IU industries as more affected by corruption than other industries in the country and over half perceive the Indian IU industries to be more affected than IU in neighbouring Asian countries.

– There seems to be cautious optimism: the majority of respondents expect that corruption will be less of an issue in the Indian IU industries in 2025, underlying the efforts towards reducing corruption in both government and industry, respectively.

Through expert interviews, we could get a closer look at corruption issues related to permits and licences, land purchase, acquisition and registration:

– It was confirmed that lengthy, complex and often opaque procedures are a major source of corruption in the IU industries in Maharashtra. Delays in getting permits and licences are very costly to the industry when taking into account the interest payments and blocked capital on projects, which in turn opens doors to speed money payments. These payments seem to be substantial: the premiums paid are said to be close to 50% of the total project cost.

– There are several sources that cause delays and complexity: in the case of land records, there are several agencies that keep records in parallel which slows down amendments and increases the potential for incorrect records. Failing to correctly update records following inheritance can be a further cause of incorrect display of ownership. Unclear ownership comes with an additional cost to society as it creates court cases that impede efficient dispute resolution overall.

– Ineffective regulation was mentioned to be another important cause of corruption. In the case of land transactions, the phenomenon of an availability paradox was described. While there are willing buyers and sellers, the price that is set by the regulator is often perceived as too low by sellers, so no transaction takes place. As a consequence, part of the payment might not be declared.

– Uncertainty of land use and sudden changes in land use are another problem that was mentioned. There is a perception that discretionary power of some players allows for sudden changes in land use which increase the valuation of a plot considerably and encourages bribery. Expecting that land use might change after a sale, sellers are even more impeded from engaging in a transaction.
Mumbai workshop – the conclusions

The Mumbai workshop yielded several conclusions, outlined below. In some cases, additional works may be required to further define the details.

The importance of transparency in designing corruption out of the system
All of the proposed solutions and recommendations shared the common theme that more transparency is crucial to reducing corruption in the construction and real estate industries in Maharashtra. Participants were also aware that if processes are set up in the wrong way, transparency can also have a negative impact; for instance, if requirements to comply with transparency standards are designed in a way that slow down the processes instead of accelerating them.

The importance of benchmarking
Throughout the workshop there was an emphasis on the importance of being able to benchmark the transparency of processes between various government agencies. This benchmarking should preferably be applied to all levels; it should be possible to track transparency performance across specific government agencies, municipalities, states and potentially even countries.

The importance of standardized procedures
There were agreements on the need for more standardization of procedures which will make processes more transparent, easier to understand and more accessible. Standardization will also help facilitate benchmarking as outlined above. Workshop participants concluded that a framework of general rules would help guide the implementation of processes that could be compared across government agencies at all levels. A rules framework could also help avoid the creation of complicated bureaucratic systems based on competing, conflicting requirements.

The importance of accessibility of information
As a first step, successful implementation could start with a standardization of how key information for processes is made available. Many of the participants emphasized the great need for standards on how information should be made public. In order to evaluate the quality and credibility of transparency, it may be necessary to find a simple way to measure the accessibility of key documentation processes. This would then enable preliminary benchmarking between different types of government agencies. An example of a simple and important assessment would be to what extent a specific government agency has made information about its service to the public available online and how clearly the key processes are described, such as getting a construction permit or purchasing and registering property.

The importance of clear definitions of ownership and accountability of processes
The participants concluded that there is a need to ensure that all processes between the government and the public should have someone who is responsible and accountable for a particular process. This, in turn, could have a large impact on the transparency and efficiency of key processes. For more complex processes, there should be a clear description of the chain of ownership describing who is responsible for which steps throughout all the stages of the process.

Solution proposal: auditing chief or an ethics officer for government agencies
The workshop participants recommended that government agencies appoint an auditing chief or an ethics officer. The work of this person should be focused on checking the standard measures and processes to secure that they satisfy the following key criteria:

1) Simple: processes should be described in a clear and concise way that makes it easy for readers to understand its full meaning
2) Factual: all necessary process elements are correctly described
3) Transparent: all transaction data is stored and traceable in a publicly available database (however, data security and integrity is needed)
4) That no unnecessary work has been done and that executed tasks are effective in reaching their purpose
5) Efficient: all processes have been carried out efficiently

Solution proposal: social auditing function for government agencies
The workshop participants emphasized the importance of giving all stakeholders the opportunity of public consultation of the processes and transactions of government agencies, even if they serve a specific industry. One of the most effective ways of doing this is to empower all stakeholders to express their opinions and to submit proposals for changes and improvements. One possibility would be to create a specific web-based tool or enable the use of social media relating to the service performance of the government agency.
Towards the creation of a road map

The workshop participants contributed many ideas to advance the work for greater transparency and less corruption in the construction and real estate industries in Maharashtra. One of the more popular measures was to work towards ensuring that solid process descriptions are available online. This would then enable a dialogue on a more specific level where more transparency is needed and would facilitate engaging more stakeholders in this discussion. The measure would, in particular, make sense in the near future as key agencies in Maharashtra are redesigning several processes to make them more efficient. This first step would then open up the way to assessments on which procedures would need improvement but also allow for a benchmarking across agencies in different municipalities and eventually different states. Findings from this initial step would then also provide concrete ideas for a replication in other countries.

Further to working on better process descriptions, there was an interest in having an approach that allows measurement of the quality of transparency of interactions between the government and industry. Some participants expressed interest in developing such an approach and testing a prototype of such a measurement. Findings from an initial test could then be fed back into the project community so that the institutions engaged in the project (many have developed their own tools to advance efforts for better governance and increased transparency) can ensure that the right approach is followed. Once this goal is reached, benchmarking could take place on a local level and be scaled up incrementally to global level. This would then require a system for storing the gathered information.

The perceived impact of developing solutions for more transparency

As part of the workshop, participants were asked to express their perception of specific dimensions, in particular where and what impact they would have on certain categories (see below). For that purpose, at the beginning of the workshop the participants defined the dimensions relevant to industries on which they believed a higher degree of transparency would have a significant impact. After the definition process, the participants were asked to assess, on a scale from 0 to 10, where they think Maharashtra stands in terms of the dimensions, international standards and quality, efficiency and effectiveness. At the end of the workshop, there was a second round on the expected situation in 10 years.

The eight dimensions across categories that were defined by the participants are:

Public sector
1. Tax system
2. Legal enforcement and dispute resolution

Private or market readiness
3. Access to finance
4. Ease of market entry
5. Absence of information asymmetry

Public-private collaboration
6. Maturity of civil society
7. Success of public-private projects
8. Public perception

The voting outcomes provide some insights. As shown in figure 4, workshop participants do not expect that more transparency will improve access to finance or the success of public-private projects over the next 10 years. At the same time, these two dimensions are already among the dimensions where participants believe the IU industries in Maharashtra perform already quite well compared with international IU industries. This could mean either there is a belief that the success of PPPs and the access to finance is not constrained by low levels of transparency, or that the kind of solutions discussed during the workshop is not the right set of solutions for improving the state of the two dimensions.

Strikingly, the perception is that legal enforcement and dispute resolution has the potential to improve over the coming years. This is a promising result, given that dispute resolution is often cited as one of the major barriers to the success of the industries. The tax system and the maturity of civil society with a specialization in the topic are also expected to advance. An improved tax system and a more mature civil society could also be a contributor to a more transparent environment that reinforces the effect on other categories. Less of a surprise is probably the expectation that information asymmetry can be reduced and public perception improved. Making information accessible to the public is a powerful tool to provide the actors engaged in transaction with better knowledge on which to base their decisions. The expected improvement in public perception could mean that the public sees the IU industries in a better light than their current reputation on corruption, but it could also refer to the perception the public has about the key government agencies and the transactions between the industry and the agencies.
An instrument to advance the work: the diagnostic tool

A key instrument that could help to advance this agenda is the diagnostic tool, which is being developed by the project community of Building Foundations for Transparency. The diagnostic tool, to be hosted online, can serve as a front-end of the Maharashtra pilot that informs stakeholders about work being done and makes crucial data available. It could be designed in a way that allows input and feedback shared across all key stakeholders.

Figure 3: A template for the diagnostic tool

Figure 4: A template for the diagnostic tool, second level
Partnering Against Corruption Initiative (PACI) Community Meeting 2015 at the occasion of the International Anti-Corruption Day

PACI aims to be the foremost business-driven, anti-corruption platform and global catalyst committed to levelling the playing field and designing corruption out of the system through public-private cooperation.

Description

The Partnering Against Corruption Initiative (PACI) community, comprising representatives of PACI signatory companies, government and key stakeholders working in anti-corruption, convened in India on 9 December 2015. Building on the momentum created by the Indian government and PACI/ IU project work in India, the meeting provided an important opportunity for participants to consider the most pressing issues and latest trends in anti-corruption, contribute to developing ideas for future industry-driven collective action initiatives, share best practices and further advance ideas for PACI projects.

The discussions during the one-day event focused on PACI’s programme of work and proposals shaping collective action across industries and regions. The audience included PACI signatory companies, observer companies and stakeholders from government, international organizations, Global Shapers and Young Global Leaders.

The agenda included on emerging issues in the anti-corruption movement as well as market and institutional dynamics that create corruption and reputational risk challenges for companies. Special guests from government, the private sector and civil society organizations shared their perspectives.

The main topics canvassed in the discussions and breakout sessions were:

- Regional advocacy and perspectives from business
- Transparency and integrity in sports
- A new vision for PACI and building blocks for the future
- Technology and corruption
- Ultimate beneficial ownership and illicit financial flows

Key insights from India

- Building on momentum from the Modi government’s commitment to tackling corruption in India, local and state level government have taken a more hands-on approach to combat some of the obstacles related to the economic structures built around and feeding into corruption.
- At the international level, OECD’s Anti-Bribery Convention is advocated as an important tool to improve business and strengthen India’s global image. In order to urge India to sign, the OECD secretariat has pledged to support India in the process of adoption of the convention.
- At the state level, recent initiatives instrumental in tackling this issue include the adoption of the Jan Lokpal Bill by the Delhi assembly, simplification of processes through the leveraging of technology, the launch of the Jan Dhan Yojna for financial inclusion, and the signing of pacts with international agencies related to whistle-blowing, e-tendering and e-procurement.
- The implementation of these measures are a clear indication that the country is willing to actively combat corruption through targeted efforts to uphold honesty and integrity and weave these virtues into the moral fabric of the nation.

Key insights from the PACI Community

- Beyond the vision statement, the PACI Community will develop across three primary pillars: the community of purpose, collective action and strategic content development.
- Key business leaders reiterated the importance of public-private partnerships, technology and structural reforms and a zero tolerance to corruption at the intuitional level as critical factors for tackling corruption.
- Through greater access to technology, millennials are raising public awareness through social media and mobile applications and engaging in debates centred around the status quo and the accountability and responsibility of government and business leaders. These mediums are also used to examine efficient systems and practices and to implement them in other spheres.
- Efforts on collective action have evolved to include innovative methods to incorporate young leaders and millennials into the anti-corruption movement. For instance, start-ups and firms advocating community management are now being employed and it was recognized that flexibility and adaptability are crucial for the success of such affirmative actions.
- Developing nations such as India are in between analogue and digital corruption; i.e. improvements have been made to efficiency in terms of digital delivery of clearances, approvals and public services via new technology, but new challenges have also been created in the form of new kinds of corruption. While digitization can fasten processes, regulation needs to be in place to hinder the proliferation of new forms of corruption.
- There is a need to generate coherence at a global level on illicit financial flows and the taxation of the incomes of corporates. Greater transparency and improved data availability are needed to track transactions and profits, and business and government need to be better aware of base erosion and profit-shifting initiatives.

03: Tarun Vijay, Member of Parliament, Manish Sisodia, Deputy Chief Minister of Delhi Government and Ajit Gulabchand, Chairman and Managing Director of Hindustan Construction Company Ltd
A practical framework or legal structure for imposing ultimate beneficial ownership is needed to counter the emergence of opaque structures and remove layers of ambiguous ownership. This structure should have limited bureaucratic impediments.

The global business scenario has undergone a slew of changes and upholding integrity in business is highly crucial in this exceedingly interconnected and technologically advanced business setting.

**Executive Summary**

**Transparency and integrity in sports**

Issues of trust and integrity in sports emerged as an important topic for the PACI Community. Recent scandals and instances of money-laundering in the sports industry in the USA, Switzerland, Germany and FIFA have highlighted the urgent need for a greater regulation of the industry. To restore trust, there is community-wide recognition that financial integrity and good governance are needed.

For example, football generates revenue of about $33 billion a year. With an annual growth rate of about 11% in 2013, football generates around 15 million jobs annually, equivalent to 5.4% of the workforce in the European Union. Despite the importance of sport, the industry is mired in fraud, scandals, illicit financial activities, organized crime, etc., causing great reputational damage. Hence, there is a need to develop an international code of conduct or a set of standards/guiding principles to oversee the jurisdiction of the sports industry globally. These could be implemented by independently elected and accountable regulators who could be part of an international and independent public-private partnership to curb corruption in sport. This organization or consortium could also oversee the effective regulation/discipline of the sports-betting market and a credible, concerted and coordinated global approach against match-fixing, illegal betting, etc. Such an alliance (the Global Sports Integrity Alliance), already advocated by organizations such as the ICSS, needs to be supported by various stakeholders such as international organizations, broadcasters/sponsors, sporting organizations, NGOs and government organizations.

**Challenges**

- On a regional level, momentum gained in India needs to be sustained and reinforced to create a sustainable environment of more transparency.

- Building trust and improving public perception remains a challenge. Corruption has led to loss of the public trust in government and law enforcement, a trend that needs to be reversed.

- On a global level, the four key discussion areas—technology and corruption, ultimate beneficial ownership, illicit financial flows and transparency and integrity in sport—all pose their own challenges:

  1. While access to better technology has helped increase transparency and curb corruption, the issue remains for regulators to keep up with these developments. Solid regulation needs to be in place to hinder the proliferation of new ways of corruption enabled through access to new technology.

  2. To advance efforts to shed light on beneficial ownership, more information needs to be made available. The challenge is to now develop a regulatory framework that is consistent across borders free from bureaucratic impediments.

  3. Recent high-level corruption scandals in sport underline the need to create a global alliance to cope with these issues and to develop an international code of conduct.

- In terms of the community, to best deal with emerging anti-corruption issues, constant and consistent adaption of PACI goals is needed to serve the interests of signatories and to create meaningful impact on an international scale.

**Next steps**

The World Economic Forum is committed to engaging with governments and industry to tackle the pertinent issues in the anti-corruption movement. The Forum will further leverage its platform to level the playing field and design corruption out of the system through the PACI Community of signatories. The following important issues were identified to be included in the 2016 objectives and scope for PACI:

- Increasing collaboration/collective action with regional/local bodies

- Greater knowledge and impact-sharing

- Engaging with senior business leaders and government

- Achieving measurable results

- Creating a platform for governments, businesses and civil bodies to interact

- Attracting high-level corporate commitment to fight corruption

- Greater focus on the demand side of corruption

- Mobilizing a multistakeholder community to promote integrity

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1 Harvard Centre for International Development – ICSS Sponsored Research

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04: Group photo of participants at the PACI community Meeting 2015
Project Team

Samuel Rohr, Project Manager, PACI Vanguard / IU
Lauren Silveira, Project Specialist, Partnering Against Corruption Initiative

Editors

Pedro Rodrigues de Almeida, Head of Basic Industries, Head of Infrastructure & Urban Development Industries
Michael Max Buehler, Practice Lead Real Estate Industries

Deloitte (Adviser and Knowledge Partner)

James H. Cottrell, Lead Partner, Deloitte Financial Advisory
Penelope Lopeudy, Partner, Deloitte Financial Advisory

Steering Committee

Tony Awad, Corporate Ethics Compliance Officer, Consolidated Contractors Company (CCO), Greece
Laurence Bates, Chief Legal Officer, LIXIL Group Corporation, Japan
John M. Beck, Executive Chairman, Aecon Group Inc., Canada
Deepak Chhabria, Managing Director, Finance, RMZ Corp., India
Jeanne Cranford, Senior Managing Director, Newmark Grubb Knight Frank, USA
Kens ct. Fisheries & Aquaculture, Corporate Social Responsibility, USA
Ajit Gulabchand, Chairman and Managing Director, Hindustan Construction Company Ltd, India
Gregory Hodkinson, Chairman, Arup Group Ltd, UK
Carlos Moreira, Chairman, Chief Executive Officer and Founder, WiSeKey, Switzerland
Raja Nahas, Executive Manager, Corporate Office, Construction Products Holding Company (CPC), Saudi Arabia
Mark Ohringer, General Counsel and Corporate Secretary, JLL, USA
Anne Randall, Chief Compliance Officer, WS Atkins Plc, UK
Susan Ringler, Vice President and Chief Ethics and Compliance Officer, Alcoa Inc., USA
Daniel Trujillo, Senior Vice President, Chief Ethics & Compliance Officer – International, Wal-Mart Stores Inc., USA
Lee Charles Tashjian, Special Assistant to the Chairman and Chief Executive Officer, Fluor Corporation, USA
Sabine Zindera, Vice-President, Legal and Compliance, Siemens AG, Germany

Advisory Committee

Gemma Aiolfi, Head, Corporate Governance, Compliance and Collective Action, Basel Institute on Governance, Switzerland
Yetunde Allen, Chief Executive Officer, Clean Business Practice Initiative, Nigeria
Abdullah Al-Nimri, Secretary General, Saafah Foundation, Saudi Arabia
Norman Anderson, President and Chief Executive Officer, CG/LA Infrastructure, USA
Jacqueline Beckett, Founder, Beckett Ethics & Compliance, USA
Susan Cote-Freeman, Programme Manager, Private Sector Team, Transparency International, Germany
Jan V. Dauman, Chairman- Advisory Council, International Business Leaders Forum, UK
Mahmoud El Burai, Chief Executive Officer, Dubai Real Estate Institute, United Arab Emirates
Blair Glencorse, Founder and Executive Director, Accountability lab, USA
Harald Kjellin, University Professor, Stockholm University, Sweden
Robert Klitgaard, University Professor, Claremont Graduate University, USA
Vasilis Koulolias, Director, eGovlab, Stockholm University, Sweden
Douglas Krone, Chief Executive Officer, Dynamism, USA
William S. Laufer, University Professor, The Wharton School, University of Pennsylvania, USA
Macedo de Medeiros, Chief Executive, ICSS Europe, UK
Petter Matthews, Executive Director, CoST International Secretariat, UK
Galina Mikhailin-Oliver, Director, Strategy and Core Services, Integrity, The World Bank, USA
Andreas Pohlmann, Partner, Pohlmann & Company, Germany
Sushanta Sen, Principal Advisor, Confederation of Indian Industry (CII), India
Pranjal Sharma, Consulting Editor, Consulting Editor, Businessworld, India
Neville Tiffen, Principal, Neville Tiffen & Associates, Australia
Enrico Vink, Managing Director, FIDIC, Switzerland
Contact Information

Pedro Rodrigues de Almeida
Head of Basic Industries
Head of Infrastructure & Urban Development Industries
Member of the Executive Committee
World Economic Forum
Tel.: +41 (0)22 869 3613
Email: pedro.rodriguesdealmeida@weforum.org

Michael Max Büehler
Practice Lead
Real Estate
Infrastructure & Urban Development Industries
World Economic Forum
Tel.: +41 (0)22 869 1327
Email: michael.buehler@weforum.org

Samuel Rohr
Project Manager, PACI Vanguard / IU
Partnering Against Corruption Initiative
Infrastructure & Urban Development Industries
World Economic Forum
Tel.: +41 (0)22 869 1297
Email: Samuel.Rohr@weforum.org

Lauren Silveira
Project Specialist
Partnering Against Corruption Initiative (PACI)
World Economic Forum
Tel.: +41 (0)22 869 3521
Email: Lauren.Silveira@weforum.org
The World Economic Forum, committed to improving the state of the world, is the International Organization for Public-Private Cooperation.

The Forum engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.