WORLD ECONOMIC FORUM

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Industry Agenda

Partnering Against Corruption Initiative - Infrastructure & Urban Development

Building Foundations for Trust and Integrity

Interim Report

In collaboration with Deloitte

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Background

The Infrastructure & Urban Development (IU) industries are an essential provider of goods and services to society. They are the foundation of economic development, economic diversification and inclusive economies. However, corruption severely impacts the industry through heightened risks of investment, cost overrun and reputational damage. These risks are often compounded in emerging market economies and through intermediaries and third parties. Public works contracts have been identified as the most vulnerable sector to bribery and corruption, causing inefficiencies in the provision of social services and risks associated to a country's stability.

Corruption is at the centre of many of the world's economic and political challenges, and evidence shows that it impedes economic growth, contributes to social instability and obstructs innovation. In 2014, business leaders of the World Economic Forum's Partnering Against Corruption Initiative (PACI) focused on the IU industries, with the aim of identifying challenges and opportunities to collectively level the playing field. Working with international organizations and governments, PACI members explored innovative solutions and worked to promote a culture of integrity within IU.

> **We can no longer fight corruption by simply fighting corruption alone.**

Daniel Kauffman, President and CEO of the Natural Resource Governance Institute

Corruption is ranked as a significant impediment to invest and conduct business in many regions of the world. The World Economic Forum's Global Competitiveness Report 2016-2017, Mexico is ranked 116th out of 138 countries for weak institutions and the most problematic factor for doing business is corruption. Corruption and impunity are strongly eroding trust in business and institutions contributing to economic and social instability region. However, Mexico has a new national anti-corruption system, and a national data policy, which demonstrates political will to tackle unethical behaviour and restore trust in business and institutions

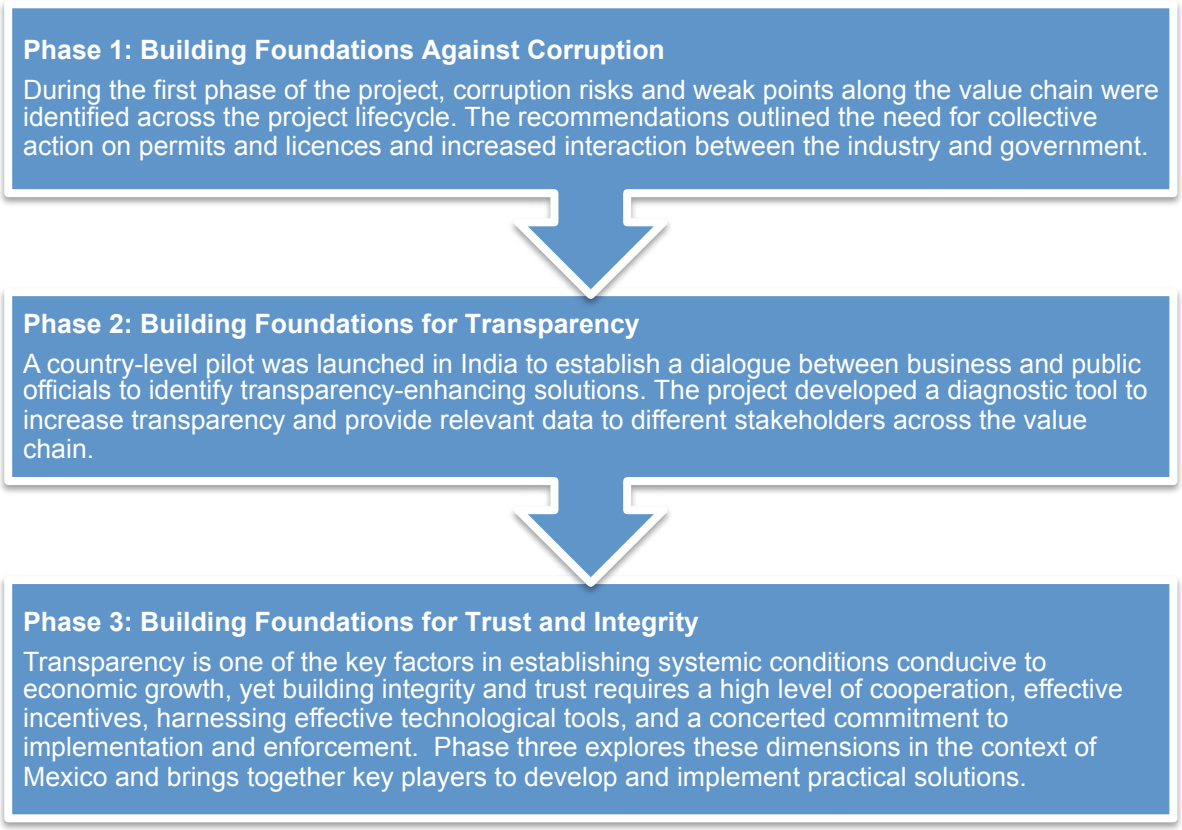
This interim report provides key dimensions for the IU industries and Mexico to consider in designing trust and integrity in business and institutions. The Building Foundations for Trust and Integrity project also identifies and designs solutions that IU and other sectors can adopt to rebuild trust and a culture of integrity.

From Fighting Corruption to Building Trust and Integrity

PACI, in collaboration with the Forum's IU Industries community, explored various dimensions of anti-corruption across different regions. The three-year project (described in Figure 1) found that different types of corruption are experienced across the life cycle of a project[2]; risks are experienced adversely by different stakeholders and are compounded by cultural contexts.[3] To increase transparency, technology will play a key role in future efforts to combat corruption. Technology is undeniably a key enabler to improve transparency, citizen empowerment, social auditing and reduce human interaction in transactions to limit opportunities for bribery.[4]

The central finding for the IU industries is to fast-track its engagement with the underlying issues of corruption. This will require understanding and reshaping behavioural norms to act as an industry with the highest standard of integrity, and rebuilding trust across a diversity of stakeholders. A lack of trust between the public and private sectors has become a significant barrier to addressing corruption. Corruption risks in IU are intimately linked to structural relationships with governments that have weak institutional capacity, outdated policies, and dysfunctional legal and regulatory systems. Therefore, the industries are encouraged to prioritize public-private cooperation to actively build trust and integrity back into business and institutions.

Figure 1: Three Phases of the PACI-IU Project



Trust as an Engine for Growth

There is a direct relationship between higher levels of trust and higher levels of growth. Trust has often been cited as the engine that drives the wheels of economic transactions; it reduces transaction costs (spending fewer resources on formal contracts), releases capital for further investment, promotes cooperation and facilitates the provision of public goods which in turn promotes growth. Higher levels of trust also impacts relationships, improving productivity, minimizing risks and motivating collaboration.

When an individual or organization perceives others as trustworthy and honest, corrupt behaviour is correspondingly low. Trust is eroded through acting without integrity and legacies of unethical behaviour (either within sectors, nations or organizations). The project surveyed stakeholders to ascertain current levels of trust and changes over a 10-year period, and future potential for improvement.

The project is supported by a global community, consisting of a steering committee and an advisory committee that have shared knowledge and developed the necessary solutions. As a starting point, an expert opinion survey was conducted to provide insight into the main challenges and opportunities for rebuilding integrity and trust in business and institutions. The survey examined a cross-section of stakeholders, including government (19%), civil society (6%) and the private sector (75%). A workshop, co-hosted the Business Coordinating Council of Mexico, on the 9th of November was held with business leaders, government ministers, academic experts and leading NGOs to create a set of solutions that could serve as a pilot to develop more specific actions and commitments throughout Mexico.

01: Nicolás Mariscal, Chairman of Grupo Marhnos SA de CV, Juan Pablo Castañón Castañón, Chairman of Business Coordinating Council, Arely Gómez González, Secretary of Public Administration of Mexico and Javier Treviño Cantú, Undersecretary of Public Education of Mexico

Figure 2: Level of trust when professionally interacting with the public sector

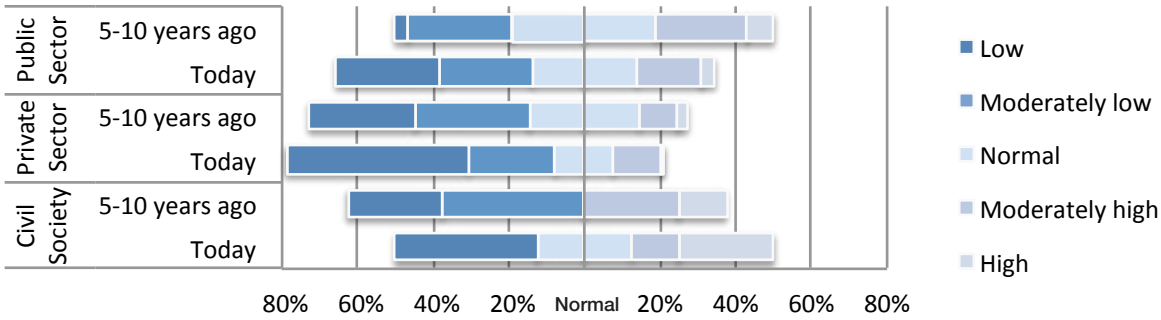


Figure 3: Level of trust when professionally interacting with the private sector

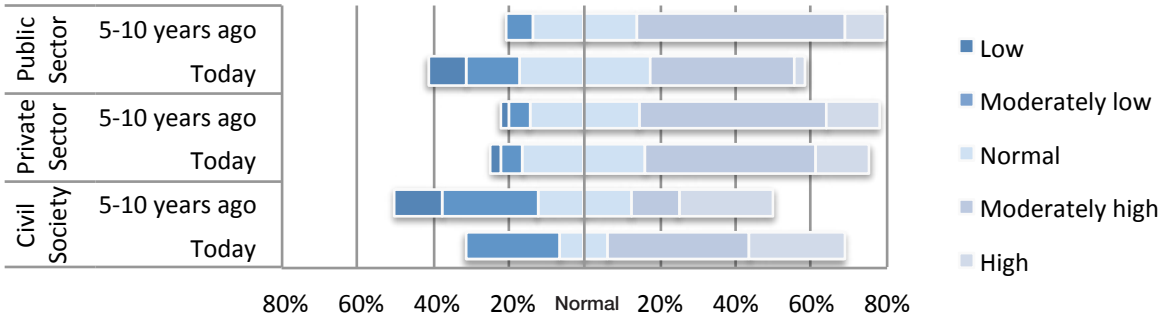
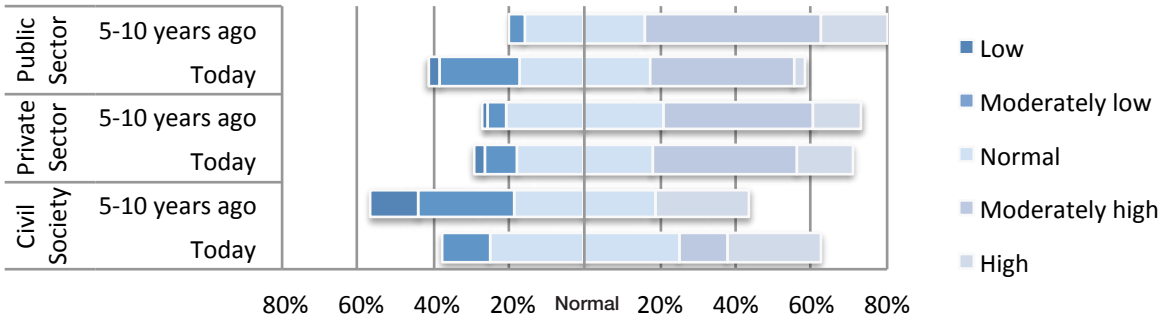


Figure 4: Level of trust when professionally interacting with civil society



The above figures illustrate the level of trust when professionally interacting across sectors. The mid point is a 'normal' level of trust with the right side of the graph showing higher levels of trust. The left side depicts low levels of trust when interacting with a stakeholder. Respondents were asked to rate the level of trust from low to high as experienced today and 5-10 years ago. The following are some overarching findings:

- The public sector is the least trusted sector by all stakeholders, including by the public sector itself.
- Trust has decreased across all stakeholders in Mexico today compared to 5-10 years ago, except for civil society which trusts itself more now.
- The public sector trusts all stakeholders less today than they did 5-10 years ago.
- Civil society trusts the public and the private sectors more today than it did 5-10 years ago.
- The private sector trusts civil society more today than the public sector but less than it did 5-10 years ago.

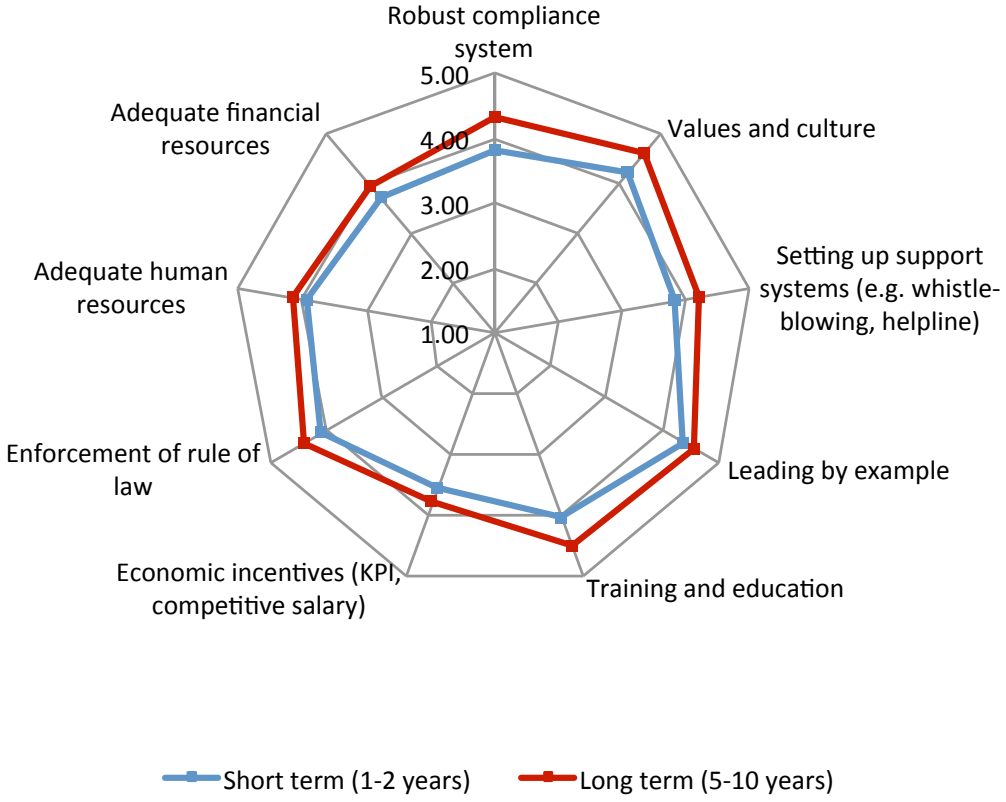
In summary, there have been some improvements over time in the level of trust between stakeholders. Yet the overarching analysis shows a significant decline in trust with the public sector experiencing both the lowest levels of trust and the least trusting of stakeholders, which partly accounts for its role of state that needs to verify, scrutinize and enforce administrative measures.

01: Workshop in Mexico City co-hosted by the Business Coordinating Council (CCE)

Enablers for Rebuilding Trust and Integrity

Working from this important juncture the project outlines areas where Mexico and the IU industries can effect change with high levels of impact over the short term and provides strategies for institutional change over the longer term. Figure 5 illustrates the most effective behavioural, regulatory and social factors to enable trust and integrity. In the long term, "training and education" and "values and culture" are perceived as the most effective focus areas to build systemic trust and integrity. "Leading by example" has both short- and long-term effectiveness, which suggests further focus on building individual and institutional integrity. Both the public sector and private sector regard "Enforcement of rule of law" as a top priority.[4] Technology is considered a cross-cutting enabler that can expedite change, particularly in the IU sector.

Figure 5: Social and regulatory factors enabling trust and integrity



1. Enforcement of the Rule of Law

Mexico's new National Anti-Corruption System demonstrates the capability of legal reform when civil society, the private sector, citizens and the government work collectively. However, Mexico's government and institutions are at an important cross-road where public scrutiny demands sufficient resources to implement and enforce reforms required to validate stakeholder commitments.

Perceived corruption at the centre of law enforcement agencies and the bureaucracy of the judicial system is a threat to the applicability of the rule of law, while the effectiveness of the enforcement is a key element to guarantee public trust.

Yet, prosecution and legal ramifications are not perceived as one of the primary risks to institutions acting corruptly, neither by the public sector (26%) nor the private sector (37%). Civil society also believes the rule of law is not a deterrent. This suggests a severe lack of trust in the ability of the judiciary system to implement and enforce its legal duties. It also begins to explain why "closing the roads of impunity" has become one of the main concerns for stakeholders.

2. Leadership: The Connection to Acting with Integrity

Evidence suggests that trust increases with a positive perception that others are acting with integrity. Conversely, this also means that unethical behaviour can create an unethical environment. The project examined individual and organizational drivers for fostering integrity or driving corruption and found that responsive and responsible leadership at the individual level supported by an affirmative organizational culture are required to uphold integrity.

Individual drivers

The survey explored different aspects of the role of leadership, and found that 94% of the respondents stated that actively "leading by example" is clearly the most important factor in upholding integrity. Indeed, individual principles and family values are said to motivate individuals to act with integrity twice as much as management and codes of conduct across all stakeholders.

Organizational drivers

Within the organization, stakeholders are motivated to build a culture of integrity for different reasons. The private sector and civil society state they are mostly motivated by "moral and ethical reasons", and the public sector through "regulation and legislation". Conversely, acting for "personal economic incentive" is cited as one of the main reasons for acting unethically in the public sector (68%) while within the private sector and civil society "ensuring access to business or public services" (55%) is the primary motivation to acting unethically.

In regards to reporting unethical practice the private sector and civil society on average are more comfortable raising concerns to management, supporting the role of strong leadership. However, in the public sector there is a higher fear of reprimand through loss of employment by reporting unethical conduct. Results show that across all stakeholders, leadership in any organization is "ready" to assist in building integrity, with the highest commitment in the private sector (97%), followed by civil society (89%) and the public sector (71%). The surveyed results are indicative of a typical organizational cognition issue: the knowing-doing gap. In spite of knowing that individuals should act with integrity, they often do not know how to do it, either because they lack practical examples, or the mechanisms and organizational process of reward for ethical conduct are not institutionalized. The survey pin-points that the respondents may perceive the moral and ethical reasons to perform with integrity as incompatible with future prospects for increased financial benefits when operating in the current business environment.

Figure 6: What motivates the individual to act with integrity in the professional environment?

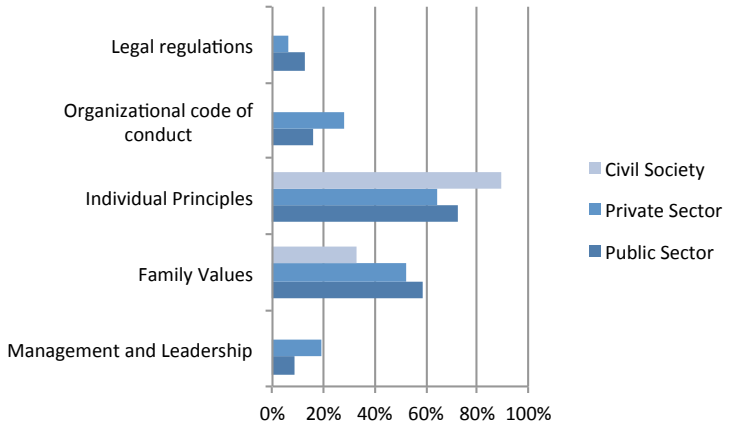
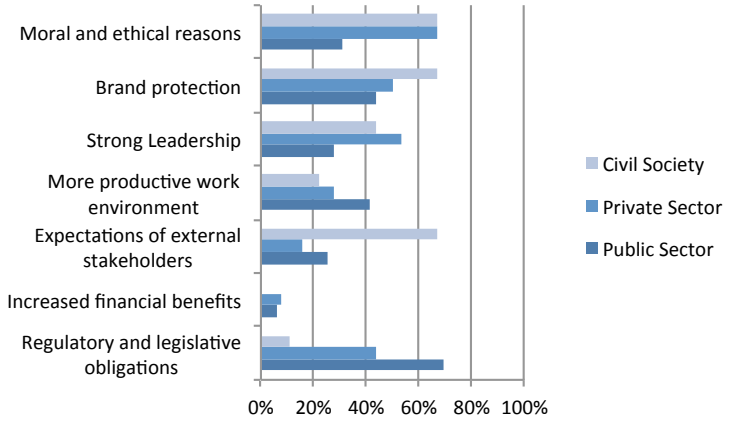


Figure 7: What drives the organization to create a culture of integrity?



3. Training and Education

Training and education has one of the highest results for the long-term impact for rebuilding trust and integrity. It is the most homogeneous response regardless of sector or stakeholder, which suggests potential support and implementation from all actors. It was noted during the *Building Foundations for Trust & Integrity* workshop that the education system can offer integrity training from an early age to both teachers and children. Based on these findings, members of the project team have begun to establish an educational and mentoring course to combat corruption and stimulate good governance. The expected outcome aims to promote a culture that reflects an ethical corporate behaviour towards the public transformation process with the involvement of civil society (see outcome 1 for more details).

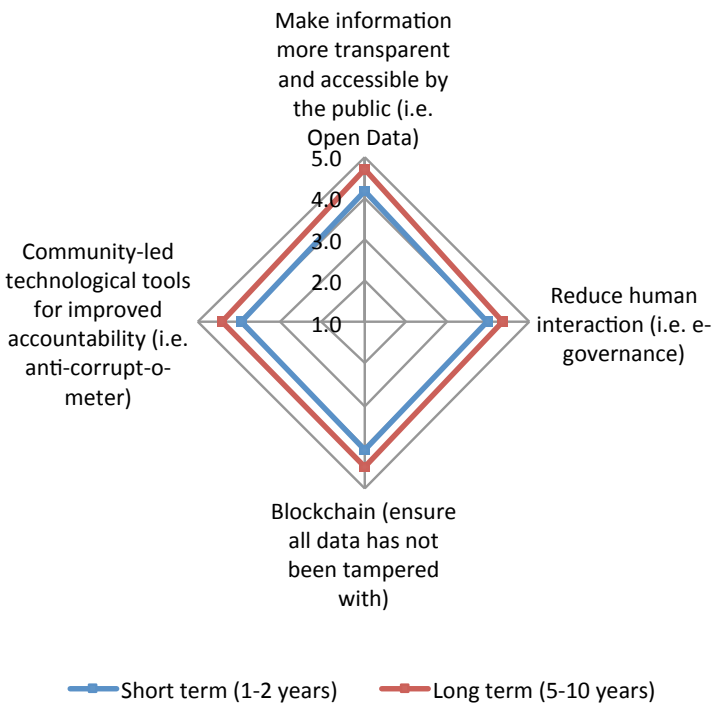
4. Technological Enablers: Instruments to Build Trust and Integrity

Although traditionally the Infrastructure and Urban Development Industries have been conservative in adopting technology, they are now undergoing a rapid transformation. In the digitalization era, technology gives citizen a voice and allows switching from a top down to bottom up approach. Technology has the potential to build trust and integrity with e-governance systems, open contract partnerships and open data.

Globally, technology has been proven to be a useful tool to substantially reduce corruption. Through the correct application of new technologies, corruption can be diminished in Mexico. However, it is also important that technology is harnessed to identify corruption when it occurs. Big data analytics can help to overcome the seemingly overwhelming amount of information generated by public transactions. New technologies are now able to detect patterns of suspicious transactions in areas such as taxation, payment of government services and healthcare. In addition, forensic tools such as Self-Monitoring, Analysis and Reporting Technology (SMART) can be used by auditors to identify corrupt practices. All of this greatly enhances auditability and public oversight.

The technological innovations surveyed are perceived as almost equally effective solutions to rebuild trust and integrity. All proposed solutions are perceived as having a rather high impact, although "open data" has the lowest standard deviation and a better long-term impact. Reducing human interaction through e-governance, developing blockchain-based architectures to ensure all data has not been tampered with and developing technological tools for improved accountability (i.e. anti-corrupt-o-meter in Mexico) are all solutions that lead to improving trust and integrity in business and institutions.

Figure 8: Technology innovations enabling trust and integrity



Turning Intent into Action

A key demand from all stakeholders is how to move positive intent into impact. Several dimensions have been highlighted that can rebuild integrity and trust in business and institutions. The need to create meaningful change and advance the agenda has never been more critical globally. PACI and project partners are committed to demonstrating solutions and assisting Mexico and IU industry to address corruption. Based on the identified dimensions the project working groups have come up with four actions/outputs needed to rebuild trust and integrity within and across all stakeholders. These actions have the advantage of being expandable to other regions and sectors.

Outcome 1: Create trust and integrity through online educational platforms
Establish an educational and mentoring mechanism to combat corruption, stimulate good governance and restore integrity in the building permit acquisition process.

Proposed action
PACI partners and constituents eGovlab at Stockholm University and the Accountability Lab will launch a multistakeholder programme that provides practical assistance to Mexico through a localized (Spanish) blended (online–offline) educational offering. Taking into account current national conditions, the implementation of this programme will use current good practice and existing international instruments towards a roadmap for a sustainable anti-corruption ecosystem.

Outcome 2: Develop a framework for mapping digital solutions
The project steering and advisory committees noted that the Mexican government has already launched several open data or open contracting projects that would enable building trust and integrity. By increasing transparency and fighting corruption, it is hoped that citizen trust can be restored to these institutions. Technological applications such as e-services and other digital solutions have not only made the permitting process more efficient, but also reduce or eliminate the need for human interaction. This will facilitate public trust and ensure due process.

Proposed action
To address the challenge of declining citizen trust in public institutions in Mexico, the project proposes the development of a framework for applying technology to promote transparency in public works and licensing and permitting. The framework for applying technology must incorporate several basic principles:

- Existing solutions that have shown their worth should be scaled up to ensure broad reach with minimal extra cost.
- Equal access must be ensured so that all citizens have the opportunity to benefit from these advances.
- Civil participation should be continually encouraged to ensure that the authorities are making adequate technological choices and to optimize accountability.
- Auditors should work with civil society groups to ensure that audit results are made publically available.

Outcome 3: Raise awareness through information sharing
Sharing information and data empowers all stakeholders to make the right decisions and improves accountability.

Proposed action
In line with online platforms, a diagnostic tool has been replicated from phase two of the project to share relevant data to inform stakeholders about issues in the Infrastructure and Urban Development industries within Mexico. The tool explores the situation of two countries, India and Mexico, with the opportunity to be extended into other regions. The content includes access to twitter through #PACI and up-to-date infrastructure and anti-corruption related news in the region. The tool consists of different elements of content. One element is the aggregated relevant data from different specialized databases, such as the World Bank Doing Business ranking, World Bank Enterprise Surveys and the JLL Global Real Estate Transparency Index. It also provides information from key experts on dimensions for rebuilding integrity and trust in IU (see Figures 9 & 10).

Outcome 4: Develop a digital blockchain application
Developing a blockchain backbone[5] to address corruption will increase corporate and government transparency internationally by increasing the use of publishing cryptographic hashes during each step of a process of a transaction. This will provide an irrefutable "proof of existence" and establishes a standard of trust that can be deployed among participating parties. Blockchain has the potential to increase the trust deficit between stakeholders in large organizations and within governments. As the number of systems multiplies worldwide, each has sway over some sets of data, making international audit and settlement increasingly difficult.

Proposed action
PACI partners have developed a pilot anti-corruption blockchain backbone (ACBB). In line with the UN's Sustainable Development Goals to provide every person on the planet with a tamper-proof digital identity by 2030, an ACBB using an internet secure platform integrating blockchain technology is being piloted. The application will increase corporate and government transparency internationally and provide an irrefutable "proof of existence" and establishes a standard of trust that can be deployed among participating parties joining an ACBB. A shared ACBB-trusted ledger could ensure that transactions and data shared with the core systems are consistent and error free and available for everyone to see.

Figure 9: Template of the diagnostic tool - Homepage

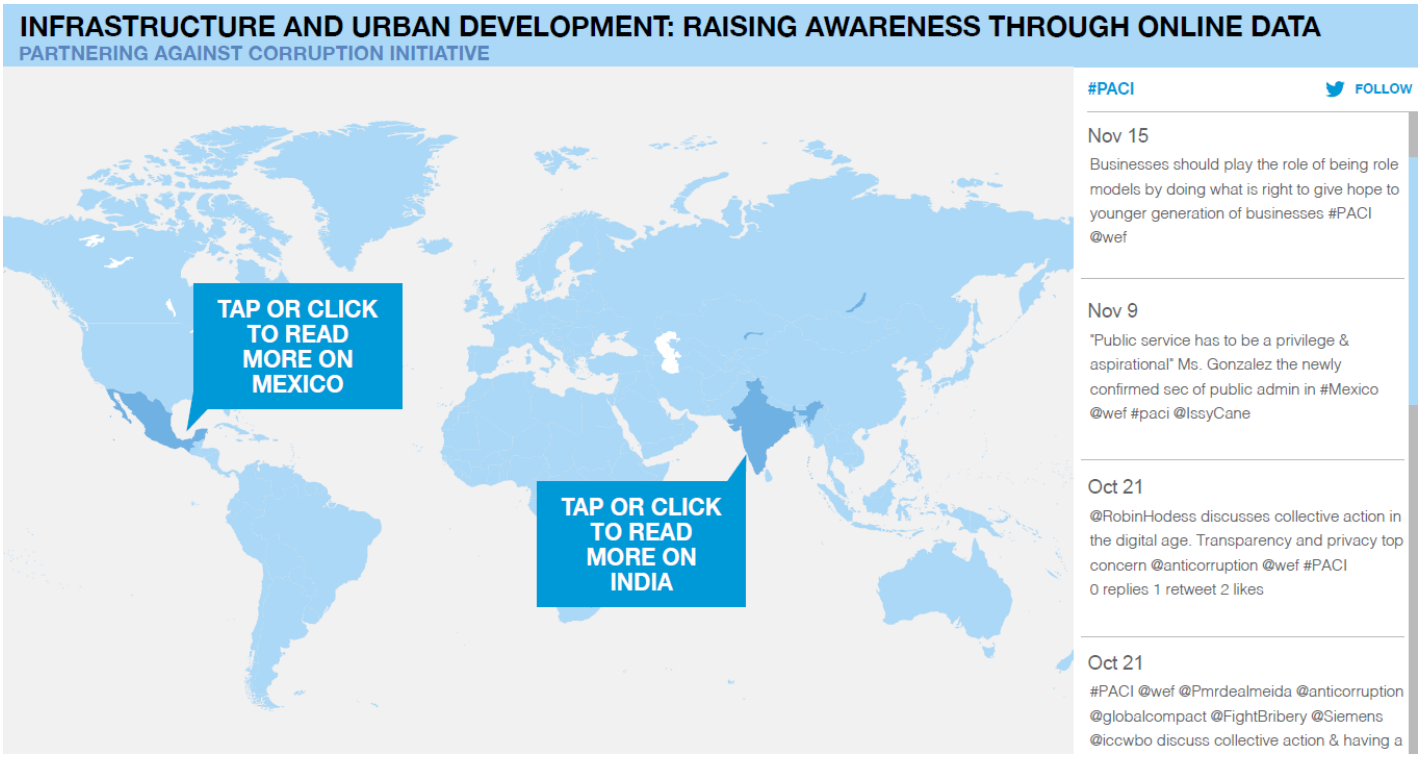
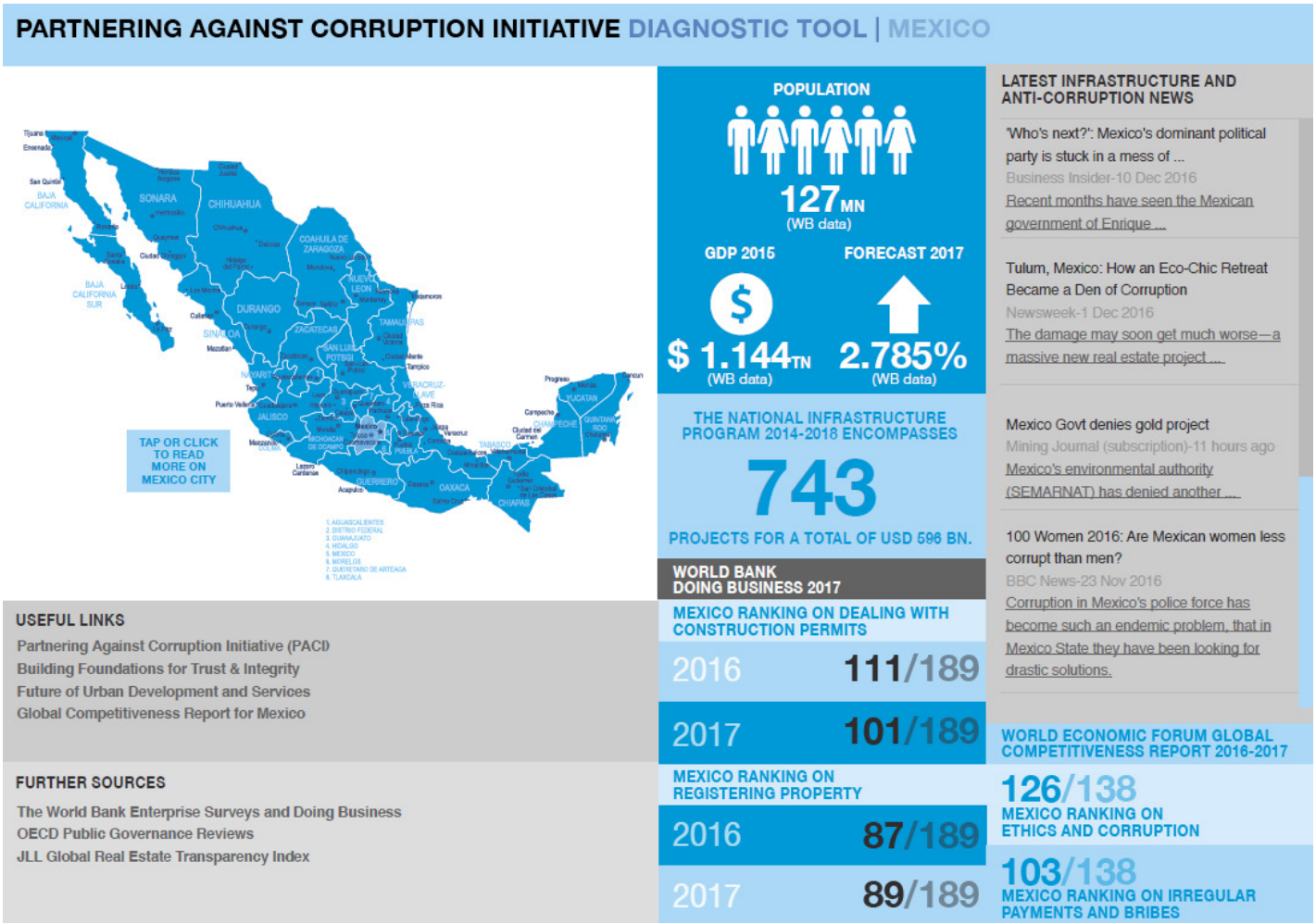


Figure 10: Template of the diagnostic tool - Mexico



Contributors

Steering Committee

Tony Awad, Corporate Ethics Compliance Officer, Consolidated Contractors Company (CCC), Greece
Laurence Bates, Chief Legal Officer, LIXIL Group Corporation, Japan
John M. Beck, Executive Chairman, Aecon Group Inc., Canada
Pierre Patrick Buffet, Strategy Officer, Acciona, Spain
Jeanne Cranford, Senior Managing Director, Newmark Grubb Knight Frank, USA
Diane De Saint Victor, General Counsel and Company Secretary, Member of the Executive Committee, ABB Ltd, Switzerland
Hentie Dirker, Chief Compliance Officer, SNC-Lavalin Group, Canada
Douglas Durst, Chairman, The Durst Organization, USA
Ken B. Graversen, Officer, Corporate Ethics and Compliance, Danfoss A/S, Denmark
Wilfried Grommen, Director and Account Chief Technology Officer, International Governmental Institutions, Hewlett-Packard Company, Switzerland
Gregory Hodkinson, Chairman, Arup Group Ltd, United Kingdom
Therese Lee, Senior Counsel, Google, USA
Nicolas Mariscal Torroella, Chairman of the Board, Grupo Marhnos, Mexico
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, United Kingdom
Susan Ringler, Vice-President and Chief Ethics and Compliance Officer, Alcoa Inc., USA
Peter Smith, Chief Executive Officer, Blockchain, USA
Daniel Trujillo, Senior Vice-President, Chief Ethics and 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
Abdullah Al-Nimri, Secretary-General, Saafah Foundation, Saudi Arabia
Norman Anderson, President and Chief Executive Officer, CG/LA Infrastructure, USA
Christina Bain, Director, Initiative on Human Trafficking and Modern Slavery, Babson College, USA
Jacqueline Beckett, Founder, Beckett Ethics and Compliance, USA
Brian Behlendorf, Executive Director, Hyperledger, Linux Foundation, USA
Eduardo Bohórquez, Executive Director, Transparencia Mexicana, Mexico
Ania Calderón, Director of Digital Innovation, Office of the Presidency, Mexico
Juan Pablo Castañon Castañon, Chairman, Business Coordinating Council, Mexico
Gabriel Cecchini, Director Latin America, Transparent Markets, Argentina
Gerardo Corrochano, Country Director for Colombia and Mexico, World Bank, Washington DC
Jan V. Dauman, Chairman, International Business Leaders Forum, United Kingdom
Ricardo Dueñas Espriu, Chief Financial Officer, Grupo Aeroportuario de la Ciudad de México (GACM), Mexico
Mahmoud El Burai, Chief Executive Officer, Dubai Real Estate Institute, United Arab Emirates
Blair Glencorse, Founder and Executive Director, Accountability lab, USA
Joaquín González Casanova, Director, International Affairs, Instituto Nacional de Transparencia (INAI), Mexico
Gavin Hayman, Executive Director, Open Contracting Partnership, United Kingdom
Harald Kjellin, University Professor, Stockholm University, Sweden
Max Kaiser, Director Anti-Corruption, Instituto Mexicano para la Competitividad (IMCO), Mexico
Matthias Kleinhempel, Professor of Business Policy, IAE Business School, Universidad Austral, Argentina
Robert Klitgaard, University Professor, Claremont Graduate University, USA
Vasilis Koulolias, Director, eGovlab, Stockholm University, Sweden
Douglas Krone, Chief Executive Officer, Dynamism, USA
Paul F. Lagunes, Assistant Professor, School of International and Public Affairs (SIPA), Columbia University, USA
Alessandro Lanteri, Professor of Entrepreneurship, Hult International Business School, United Kingdom
William S. Laufer, Associate Professor of Legal Studies and Sociology, The Wharton School, University of Pennsylvania, USA

Emanuel Macedo de Medeiros, Chief Executive, ICSS Europe, United Kingdom
Petter Matthews, Director, CoST, United Kingdom
Galina Mikhlin-Oliver, Director Operations and Strategy, World Bank, Washington DC
Andreas Pohlmann, Partner, Pohlmann & Company, Germany
Adriana Sanford, Professor, State University of Arizona, USA
Carlos Santiso, Division Chief, Institutional Capacity of the State, Inter-American Development Bank, USA
Sushanta Sen, Principal Advisor, Confederation of Indian Industry (CII), India
Pranjal Sharma, Consulting Editor, Consulting Editor, Businessworld, India
Jorge Soto, Founder, Data4, Mexico
Neville Tiffen, Principal, Neville Tiffen & Associates, Australia
Luis Urrutia Corral, General Counsel, Central Bank of Mexico, Mexico
Enrico Vink, Managing Director, FIDIC, Switzerland
Duncan Wood, Director, Mexico Institute, Woodrow Wilson International Center for Scholars, USA

Deloitte (Adviser and Knowledge Partner)

Penelope Lepeudry, Partner, Deloitte Financial Advisory

World Economic Forum

Pedro Rodrigues de Almeida, Head of Partnering Against Corruption Initiative (PACI); Member of the Executive Committee
Isabel Cane, Project Lead, Partnering Against Corruption Initiative (PACI)
Raphael Forestier, Project Manager, Partnering Against Corruption Initiative (PACI)
Michael Max Buehler, Head, Infrastructure and Urban Development Industries

Contact Information

Pedro Rodrigues de Almeida
Head of Partnering Against Corruption Initiative (PACI)
Member of the Executive Committee
World Economic Forum
Tel.: +41 (0)79 593 7033
Email: pedro.rodriguesdealmeida@weforum.org

Isabel Cane
Project Lead
Partnering Against Corruption Initiative (PACI)
World Economic Forum
Tel.: +41 (0)75 402 2796
Email: isabel.cane@weforum.org

Raphael Forestier
Project Manager
Partnering Against Corruption Initiative (PACI)
World Economic Forum
Tel.: +41 (0)75 402 3027
Email: raphael.forestier@weforum.org

Michael Max Buehler
Head of Infrastructure and Urban Development Industries
World Economic Forum
Tel.: +41 (0)79 590 6533
Email: michael.buehler@weforum.org

Endnotes

[1] From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

[2] World Economic Forum, *Learnings from the Field: Cases on Corruption in the Infrastructure and Urban Development Industries*, 2014, http://www3.weforum.org/docs/WEF_IU_PACI_2014_Learning_from_the_field.pdf.

[3] World Economic Forum, *Cases on Corruption in the Infrastructure and Urban Development Industries*, 2015, http://www3.weforum.org/docs/WEF_IU_PACI_2014_Learning_from_the_field.pdf.

[4] World Economic Forum, *Partnering Against Corruption Initiative - Infrastructure & Urban Development*, 2016, http://www3.weforum.org/docs/WEF_PACI_IU_Report_2016.pdf.

[5] The enablers with the highest average (and the lowest standard deviation) were selected and the most standardized answers synthesized.

[6] A backbone is the part of the computer network infrastructure that interconnects different networks and provides a path for exchange of data between these different networks (https://www.techopedia.com).

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The World Economic Forum, committed to improving the state of the world, is the International Organization for Public-Private Cooperation.

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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org