

IU PACI Survey: Building Foundations Against Corruption

The Infrastructure team of the World Economic Forum and partner companies of the Engineering, Construction and Real Estate industries launched at the Annual Meeting in 2014 a project on building foundations against corruption in the infrastructure industry, conducted in collaboration with the Forum's Partnering Against Corruption Initiative (PACI).

The project is aimed at assessing corruption risks in the industry and to assess potential avenues of industry collaboration against corruption. For that, in July 2014 a survey was sent to leading companies of the industry to capture views on the most important industry corruption risks and on priority areas where the community might work together to improve anti-corruption and transparency efforts, including other stakeholders such as governments and civil society. The survey was aimed at the chief compliance officer or equivalent expert functions and gathered responses from a global perspective.

The findings are represented on the following pages.

Executive Summary

IU PACI Survey

Background

- The IU Team of the World Economic Forum and partner companies of the Engineering, Construction and Real Estate industries launched in 2014 an **industry project on building foundations against corruption**, in collaboration with the Forum's Partnering Against Corruption Initiative (PACI).
- The project aims at **assessing corruption risks in the industry** and **finding** potential avenues of **industry collaboration against corruption**.
- In July 2014, a survey was sent to leading companies of the industry to capture views on important corruption risks and on priority areas where the community might work together.

Key outcomes

Identified key risks

- Bribery of government officials for obtaining business
- Inappropriate use of agents
- Bribery of officials for permitting and licensing
- Cash bribes or kickbacks to third parties
- Bribes from subcontractors or vendors

Stakeholder groups associated with key risks

- Customs agents
- Sales agents
- Government officials on local level
- Business consultants
- Government at state or provincial level

Identified corruption risks in the lifecycle

- Risks increase during the project life cycle and decrease after handover to operations
- The phases most prone to corruption are:
 - Bidding and contracting
 - Construction
 - Rework and changes

Insights on Collective Action initiatives

- Respondents are mostly already engaged in anti-corruption initiatives but would like work more with other companies
- Collective action proposals involve government collaboration, industry action on procurement, and targeted research on mechanisms against corruption

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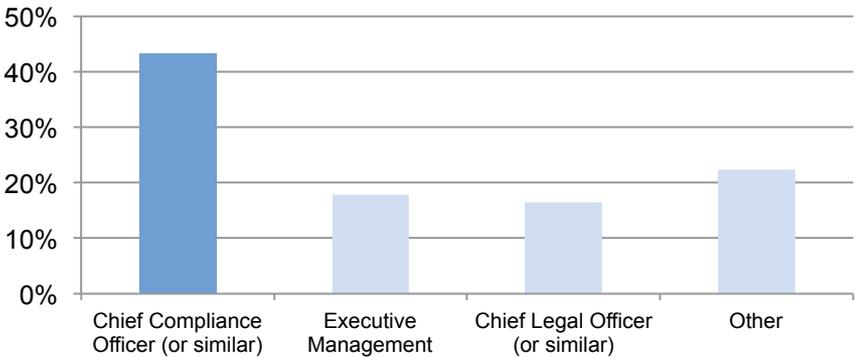
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Participants statistics

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Respondents functions

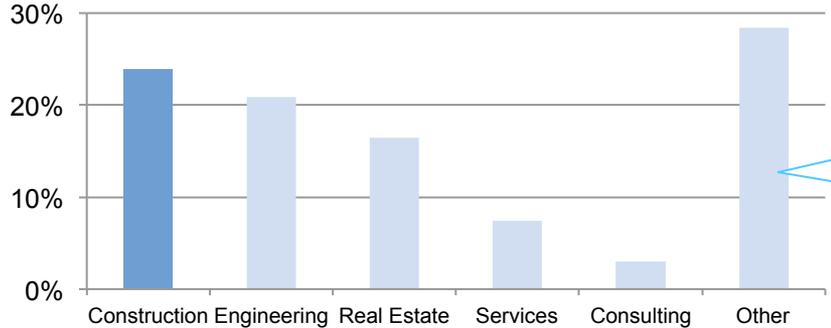


Geographical distribution



Country responses:
 North America 24%
 South America 4%
 Europe 31%
 Africa 5%
 Middle East 3%
 East Asia 8%
 South Asia 19%
 Other 5%

Sector affiliation



Example sectors:
 Integrated Services Provider,
 Energy, Hospitality, Home
 Building Materials Supplier

Survey responses came from a broad global participants' base, across all infrastructure sectors, and from compliance or similar corporate functions.

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Definition and effects of corruption

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Definition and effects of corruption in the infrastructure industry

92%

of respondents agree that corruption is a **significant reputational risk** for a **company**

91%

of respondents agree that corruption is a **significant reputational risk** for the **industry**

87%

of respondents agree that corruption imposes **additional costs of business** and negatively impacts profits

66%

of respondents agree that corruption **prevents** companies from **expanding and reaching new markets**

Ranking of corruption risks

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Corruption risks with the biggest effect on the infrastructure industry (nominal ranking)

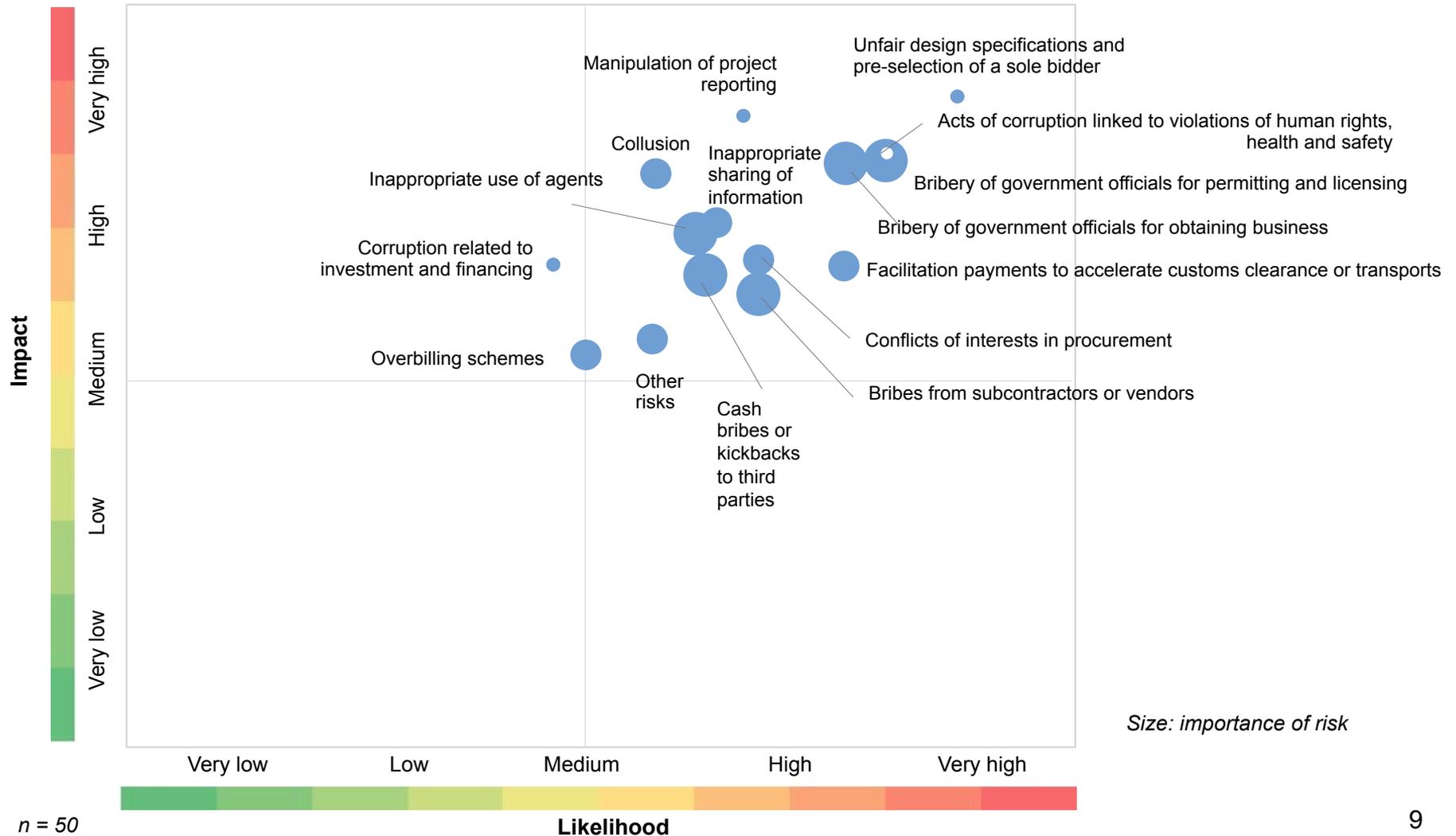
<p>Very important risks</p>	<ul style="list-style-type: none"> Bribery of government officials or employment of government officials or their relatives for obtaining business Inappropriate use of agents (e.g. sharing their fee with personnel at the client side) Bribery of government officials for permitting, licensing, land acquisition and zoning Cash bribes or kickbacks to third parties Bribes from subcontractors or vendors (e.g., excessive gifts and lavish entertainment)
<p>Important risks</p>	<ul style="list-style-type: none"> Inappropriate sharing of information (e.g. in the bidding process) Facilitation payments to accelerate customs clearance or transport of goods Conflicts of interests in procurement or contract administration Collusion (bid-rigging, price-fixing, cost-inflating) Other risks Overbilling schemes whereby an enterprise receives higher than normal invoice prices
<p>Less important risks</p>	<ul style="list-style-type: none"> Unfair design specifications and pre-selection of a sole bidder Manipulation of project reporting (e.g. fictitious progress reports, site inspections, etc.) Corruption related to investment and financing Acts of corruption linked to violations of human rights, health and safety

Bribery of government officials, inappropriate use of agents and cash bribes are the corruption risks with the biggest effect on the industry.

Corruption risks: heat map

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Heat map of corruption risks



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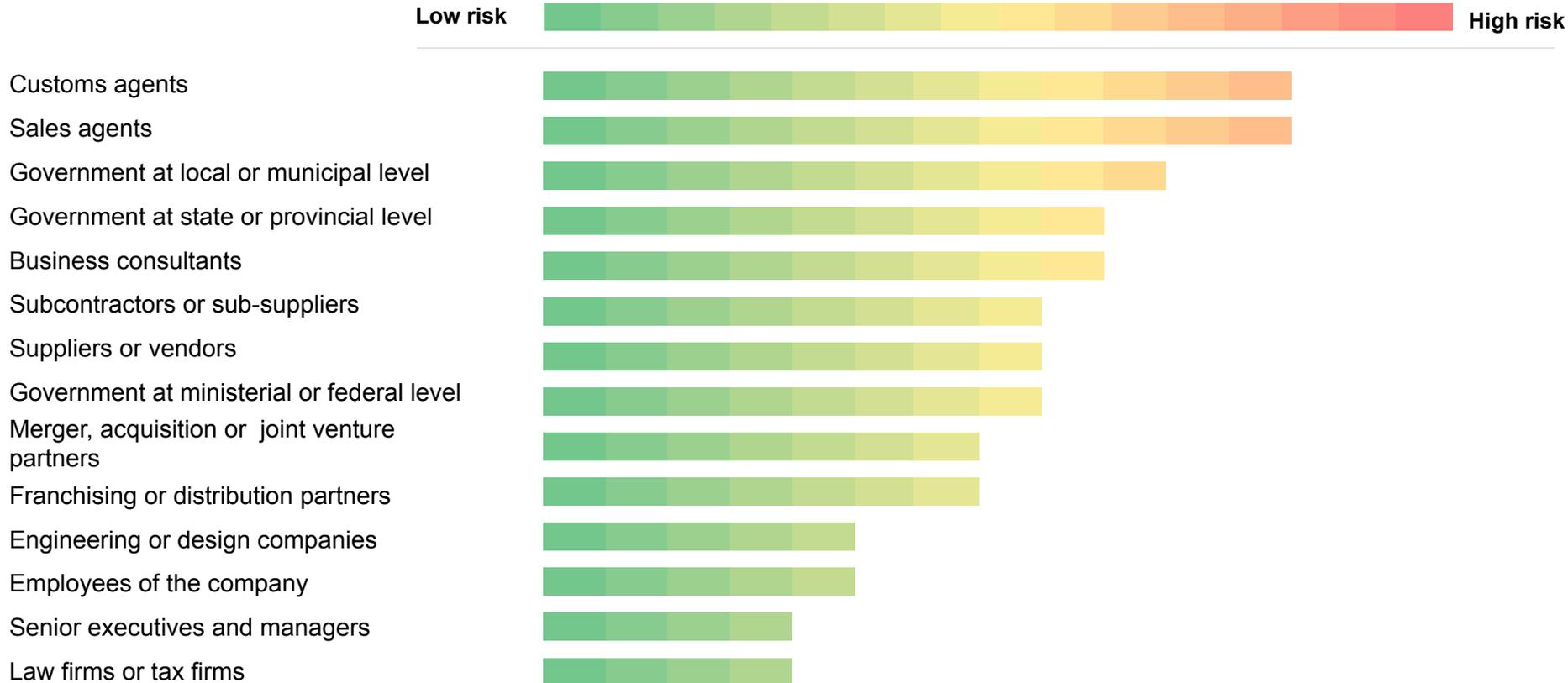
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Stakeholder corruption risks analysis

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Stakeholder associated with corruption risks in the infrastructure industry



According to survey respondents, the groups of stakeholders with the highest corruption risks are customs agents, sales agents, and government officials at municipal or provincial level.

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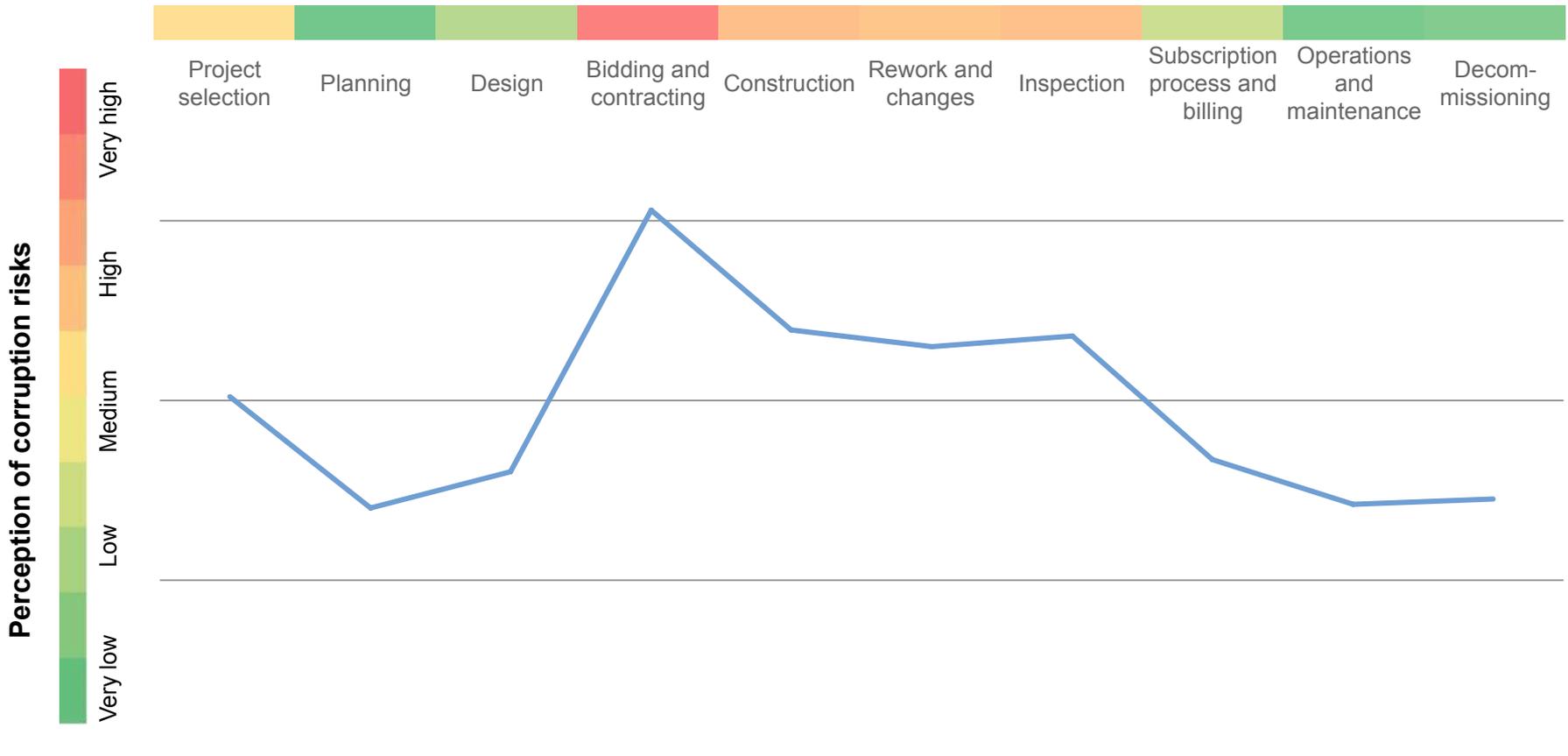
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Corruption risks in the lifecycle of a project

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Stages of a project



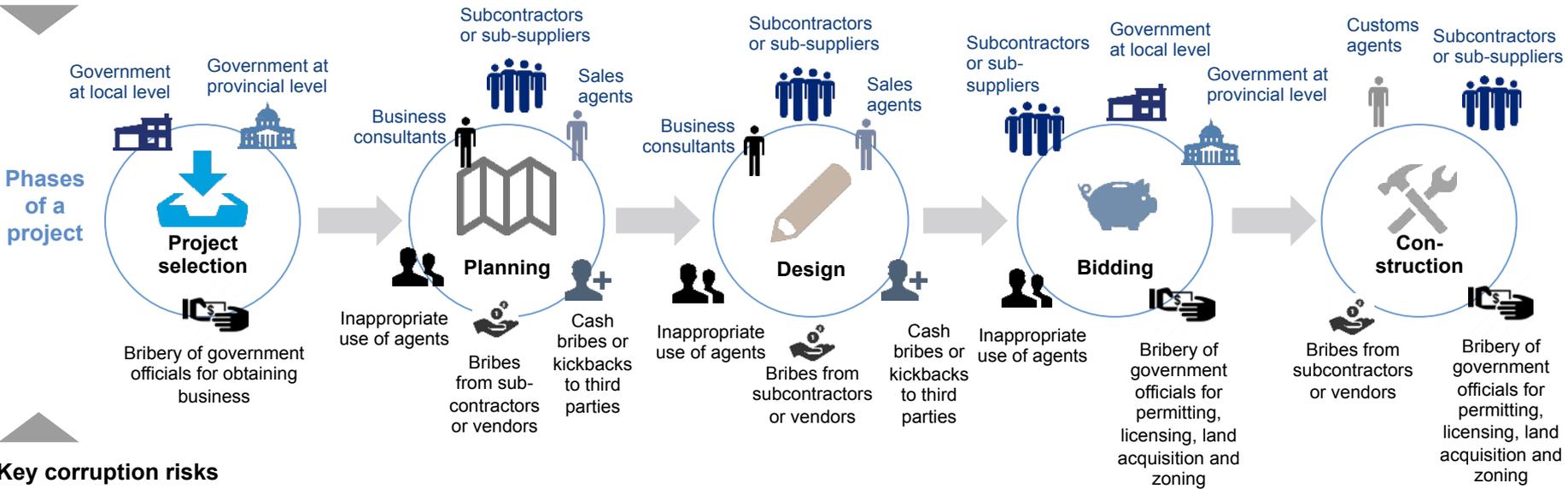
The bidding and contracting phase of a project is associated with the highest corruption risk in the infrastructure industry.

Key corruption risks in an infrastructure project

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Key corruption risks in selected phases of an infrastructure project

Stakeholders at risk



Only key risk highlighted, not exhaustive nor exclusive

Infrastructure companies should analyse and manage the highlighted corruption risks when involved in a project.

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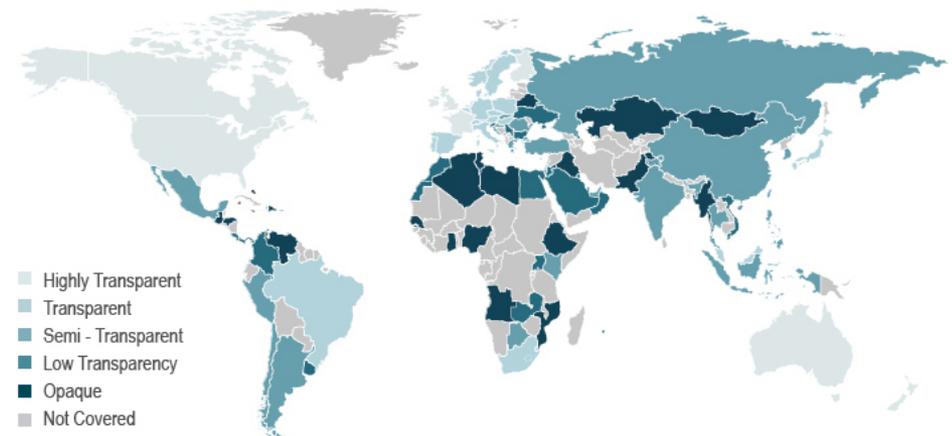
Regional corruption risks

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Regional corruption risks



Jones Lang LaSalle Global Real Estate Transparency Index*



Africa and East Asia including China are perceived as the regions with the highest corruption risks for the infrastructure industry, in line with JLL's Global Real Estate Transparency Index.

Engagement and collective action

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Engagement and collective action of companies

31% of respondents have quantified the **cost of corruption**

72% of respondents are **already engaged** in sector-specific anti-corruption initiatives

73% of respondents would be **interested in working with other companies** to address industry corruption risks

Most respondents are already engaged in anti-corruption initiatives, but show an appetite for working with other companies to further address corruption risks.

Suggestions for Collective Action initiatives

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Suggestions for Collective Action

Government collaboration

- Forum meeting with governments to discuss corruption topics
- Encouraging the creation of an international tribunal against corruption

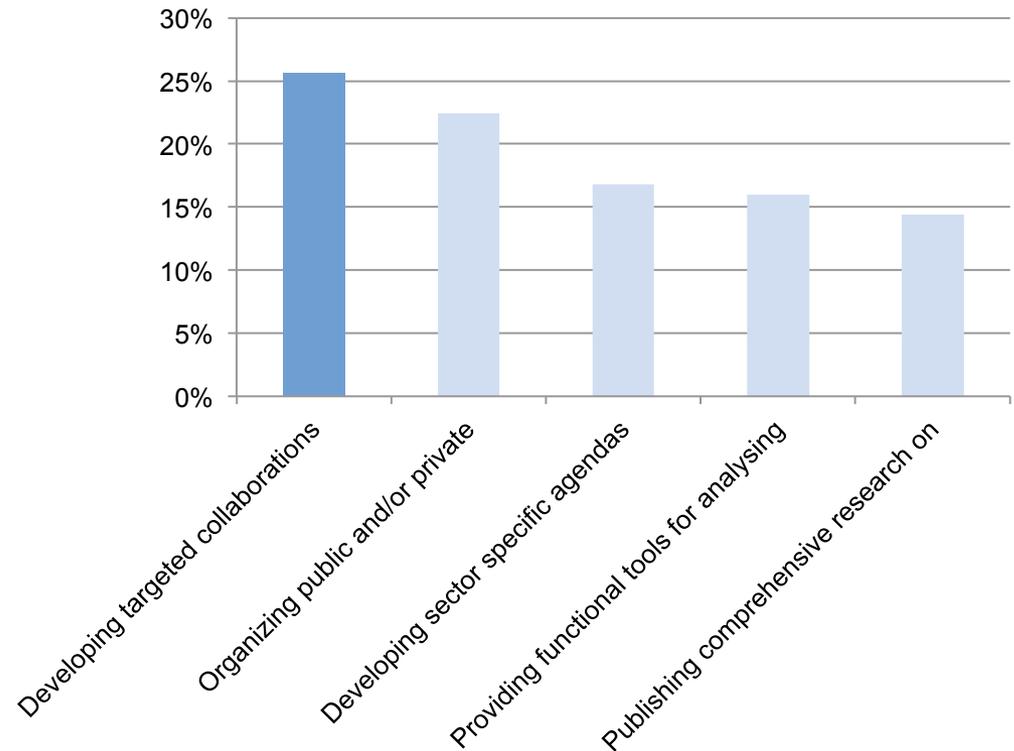
Collective industry action

- Bring companies together to jointly say no to corruption (a prerequisite for Davos)
- Collective industry action on public procurement

Education and research

- Publishing case histories of programmes which have reduced corruption
- Funding independent research on mechanisms for fighting corruption

Suggestions where the World Economic Forum can further support Collective Action initiatives



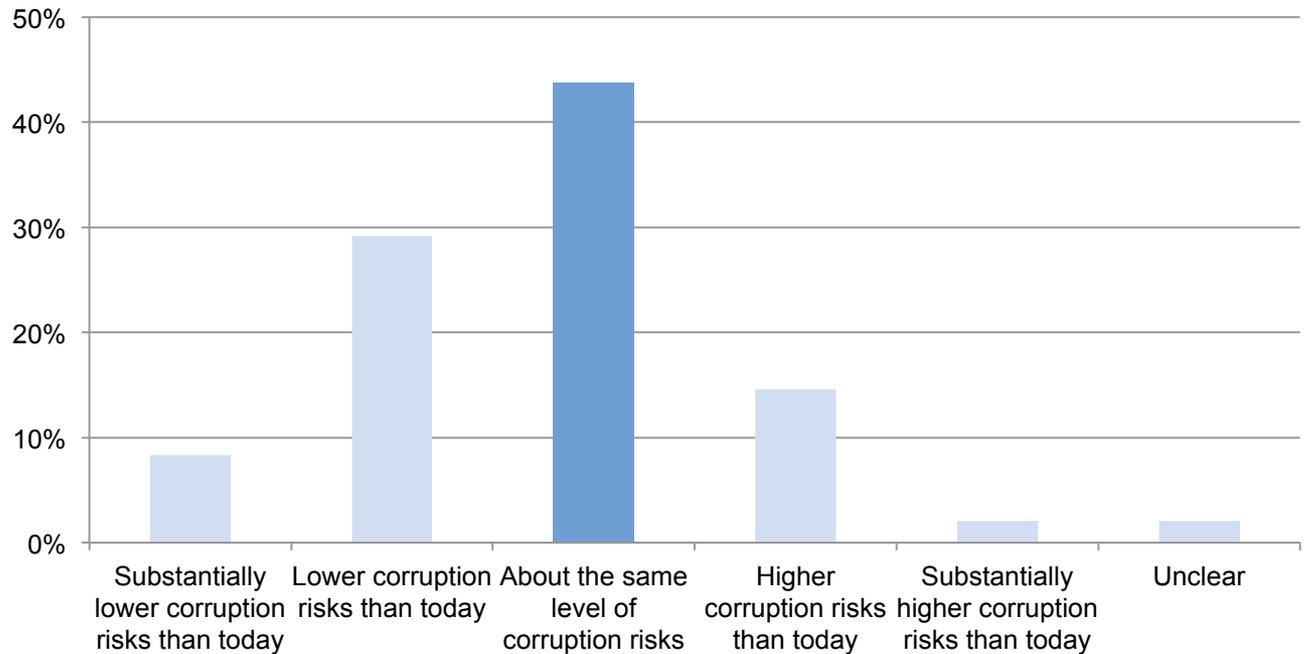
Proposed Collective Action initiatives encompass government collaboration, industry initiatives, and education and research; with the Forum being able to support and catalyse all forms of Collective Action.

Outlook on trends of corruption risks

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38%

of respondents believe that over the next five years, corruption risks will be lower or substantially lower than today



Corruption risks in the infrastructure industry are broadly expected to either remain constant or to be reduced.

Additional inputs of the Task Force

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- **Facilitation payments are seen very often.** Companies often do not want to know that facilitation payments are made, they can be small and routine business, and very often handled by third-party agents.
- **Agents act often on their own,** for one company 80% of corruption cases of the past two to three years were linked to agents.
- **Political corruption risk** in the juridical system (e.g. China, Russia) is another risk. Companies do not know what happens behind the scenes. It is unlikely that the situation will improve in the mid-term.
- **Collusion and sharing of information** is often related to antitrust issues. However, if a supplier buys information to make a lower bid, it would fall into the corruption space.
- Infrastructure projects sometimes require mobilizing a work force in a short amount of time and **requesting work permits and visas.** This is a corruption risk area, which is reflected in the survey but might deserve further attention.
- The role of globalization and **legal frameworks**, e.g. US and UK anti-corruption laws vs emerging market practices