

Industry Agenda in collaboration with Deloitte

Building Foundations Against Corruption Recommendations on Anti-Corruption in the Infrastructure & Urban Development Industries

Prepared by the Project Task Force of the Infrastructure & Urban Development Industries in collaboration with the Partnering Against Corruption Initiative (PACI)

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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
Email: contact@weforum.org
www.weforum.org

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Foreword

by the World Economic Forum

In many countries, corruption is among the greatest barriers to economic and social development. Although bribery and other forms of corruption are risks in almost every industry sector, companies operating in the engineering, construction and real estate industries face unique challenges due to the nature of their business. Among others, factors such as operations in countries that lack transparent business practices; the enormous amounts of money at stake in large-scale projects; the complex procurement processes; and difficult-to-control supply chains make transparency a key business risk for the industry. The Trace International *Global Enforcement Report 2012* estimates that 10% of all global enforcement activity since the introduction of the US Foreign Corrupt Practices Act in 1977 has related to the engineering, construction and real estate industries.

Given the growing worldwide demand for infrastructure and real estate projects and the economic value generated by such projects, the engagement of the engineering, construction and real estate industries in the fight against corruption is clearly of the highest importance.

This collaborative project between the Infrastructure & Urban Development community and the Partnering Against Corruption Initiative (PACI) of the World Economic Forum seeks to further industry-wide engagement on anti-corruption solutions in a way that will mutually benefit both businesses and public organizations. The overall goal is to level the playing field. Commenced in 2014 at the World Economic Forum Annual Meeting, the project brings together leading infrastructure, real estate, construction and service business. It aims to achieve chief executive officer level commitment to collaborate with interested governments in developing a framework for open and more transparent practices. It endeavours to develop industry recommendations that support anti-corruption strategies to increase customer and shareholder value. It also seeks to foster dialogue with governments, including authorities on a local level, as many infrastructure projects are related to local administrations.

To date, this project has generated three key outcomes:

- An industry survey on corruption risks was completed by 50 of the world's leading real estate, construction, engineering, consulting and service providers.
- Stakeholders at risk and the key corruption risks during the life cycle of an industry capital project were identified.
- Industry cases on corruption were collected, to illustrate what actually happens in the field.

The insights generated in the projects were condensed into recommendations to the industry and distributed among the members of the Project Task Force.

All outcomes are available on the Forum's online collaboration tool TopLink, and a summary can be found on the homepage of the Forum's Infrastructure & Urban Development Industries website (<http://www.weforum.org/industry-partners/groups/iu-infrastructure-urban-development>). The Task Force has decided to continue this collective action project in 2015 and has identified corruption in permitting and licensing as a key risk area. The project will identify concrete corruption issues in permitting and licensing and come up with solid mitigation strategies.

This project would not have been possible without the collaboration of various stakeholders. The contributions and support of the Project Champions and their companies are gratefully acknowledged. Many thanks are expressed to the Advisory Expert Committee and the Project Sponsor, Deloitte. Finally, grateful recognition is extended to the Forum for enabling this project.

Pedro Rodrigues de Almeida
Director
Head of Infrastructure
and Urban Development Industries

Elaine Dezenski
Senior Director
Head of Partnering Against
Corruption Initiative

Foreword

by the Project Champions

Our Commitment to Action on Corruption

In today's global and local economies, the Infrastructure & Urban Development (IU) industries are key drivers for growth but are also challenged by transparency issues. The IU industries have a key opportunity and the responsibility to jointly address these issues across the entire IU value chain, to create a level playing field and improve the state of the world.

As leaders of companies in the engineering, construction and real estate sectors, we recognise that corruption is a strategic business risk and a risk to society and that these risks need to be addressed through a multistakeholder approach and collective action.

Hence, we agree on the need to:

- Build on the achievements of the World Economic Forum's Partnering Against Corruption Initiative (PACI) to raise business standards and to contribute to a more competitive, transparent, accountable and ethical business society.
- Accelerate collective action to eliminate corruption from our value chains, to preserve our sectors' competitiveness, and to strengthen our sectors' role in sustainable economic and social development worldwide.

Therefore, as Partners in the World Economic Forum's Infrastructure & Urban Development community and as representatives of the companies we lead, we are committed to collective action to fight corruption. We aspire to corruption-free engineering, construction and real estate value chains. Building on the recommendations in this report, we will:

- Continue the collective action project and collaborate in building cross-industry and public-private coalitions to address corruption issues in areas such as permitting and licensing in key regions, thereby contributing to the creation of a level playing field and ultimately to the improvement of our sectors' competitiveness.
- Promote increased interaction with government in key countries to address industry concerns in areas such as public procurement and tendering, permitting and licensing, and reporting mechanisms, as well as to leverage opportunities for improvement, such as generating support for technical solutions to transparency problems and promoting the mutual knowledge exchange of public and private institutions.

- Share insights on corruption risks and good practices more broadly, collaborate in building cross-industry and public-private coalitions within the engineering, construction and real estate sectors, and enhance and evolve our internal compliance programmes, practices and benchmarking to prevent and manage corruption risks.

We call on all engineering, construction and real estate stakeholders to join these efforts by:

- Supporting collective action and dialogue in key regions and seeking collaboration and partnerships to drive corruption out of the system.
- Supporting the PACI principles and becoming PACI signatories and engaged community members, and participating in global and local initiatives.
- Contributing to the PACI global transparency and anti-corruption agenda to advance a level playing field across industry sectors and across communities.

We have the opportunity to open the project in 2015 to a broader industry base, giving more organizations the possibility of joining PACI and supporting the Project Task Force. Thus, we also call on other leading organizations committed to a level playing field and to improving the state of the world.

Our efforts and our commitment to a collective action agenda with governments, other industries and representatives of civil society will provide meaningful benefits in tackling corruption in our value chains and ensure that the engineering, construction and real estate sectors remain competitive and inclusive and continue to create growth worldwide.

We strongly encourage others to join us in this endeavour.

Doug Frye
Global President
and Chief Executive Officer
Colliers International
Project Champion

Robert G. Card
President and Chief Executive Officer
SNC-Lavalin Group
Project Champion

Contributors

Project Team

Philipp Mayrl, Project Manager, Partnering Against Corruption Initiative

Michael Max Buehler, Associate Director, Head of Real Estate

Editors

Elaine Dezenski, Senior Director, Head of Partnering Against Corruption Initiative

Pedro Rodrigues de Almeida, Director, Head of Infrastructure & Urban Development Industries

Alex Wong, Senior Director, Head of the Centre for Global Industries

Deloitte (Adviser and Knowledge Partner)

James H. Cottrell, Partner, Deloitte Financial Advisory Services

Project Champions

Robert G. Card, President and Chief Executive Officer, SNC-Lavalin

Doug Frye, President and Chief Executive Officer, Colliers International

Governors supporting the project

Robert G. Card, President and Chief Executive Officer, SNC-Lavalin

Doug Frye, President and Chief Executive Officer, Colliers International

Yoshiaki Fujimori, President and Chief Executive Officer, LIXIL Group Corporation

Ayman Asfari, Group Chief Executive, Petrofac

Niels B. Christiansen, President and Chief Executive Officer, Danfoss

Herbert Bodner, Chairman of the Executive Board, Bilfinger SE

Mouhtaz El Sawaf, Chief Executive Officer, Construction Products Holding Company (CPC)

Jacqueline Hinman, Chief Executive Officer, CH2M HILL Companies

Colin Dyer, President and Chief Executive Officer, Jones Lang LaSalle

Uwe Krüger, Chief Executive Officer, WS Atkins

Klaus Kleinfeld, Chairman and Chief Executive Officer, Alcoa

Ulrich Spiesshofer, Chief Executive Officer, ABB

Samir Brikho, Chief Executive Officer, Amec Foster Wheeler

Project Task Force

Alexander Baehr, Vice-President and General Counsel, Colliers International

Laurence Bates, Senior Managing Director and Chief Legal Officer, LIXIL Group Corporation

Marcelo Cardoso, Group Head, Compliance, Petrofac

Ken B. Graversen, Group Risk and Compliance Officer, Danfoss

Alexander Juengling, Chief Compliance Officer, Bilfinger SE

Raja Nahas, Construction Products Holding Company (CPC)

Greg Nixon, Senior Vice-President and Chief Legal Officer, CH2M HILL

Mark Ohringer, Executive Vice-President, Global General Counsel and Corporate Secretary, Jones Lang LaSalle

Anne Randall, Group Legal Director, WS Atkins

Susan Ringler, Vice-President and Chief Ethics and Compliance Officer, Alcoa

Hanna Van der Put, Chief Integrity Officer, ABB

David Wilkins, Chief Compliance Officer, SNC-Lavalin

Alison Yapp, General Counsel and Company Secretary, Amec Foster Wheeler

Expert Advisory Committee

Gretta Fenner, Managing Director, Basel Institute on Governance

Bill Laufer, Professor of Legal Studies and Business Ethics, Sociology and Criminology, Wharton School

Galina Mikhlin, Director, World Bank

Neville Tiffen, Principal, Neville Tiffen & Associates

Jacqui Beckett, Principal, Beckett Ethics & Compliance International

Susan Cote-Freeman, Programme Manager, Transparency International

George Ofori, Vice-Chairman of the Board, CoST

Recommendations of the Task Force

“

Bribery and corruption exist across all industries but, in the sectors of engineering, construction and real-estate, they pose a particular set of challenges. A group of leading companies is committed to improving industry transparency by collective action, bringing businesses and governments together to achieve a level playing field.

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IU PACI Project Task Force

Creating the Environment for Change

In many countries, corruption is among the greatest barriers to the stability, growth and competitiveness of their economies. The engineering, construction and real estate sectors are at considerable risk of bribery and corruption, within governments, suppliers, contractors and other third parties who deliver infrastructure and urban services. Organizations need to understand the importance of addressing corruption as a strategic business and societal risk.

Several initiatives supported by organizations such as the United Nations Global Compact and the Organisation for Economic Co-operation and Development successfully address corruption risks with various initiatives. To create a level playing field by industry engagement, the Infrastructure & Urban Development Industries community of the World Economic Forum and its Partner Companies from the engineering, construction and real estate industries launched a collective action project, Building Foundations Against Corruption, in collaboration with the Forum's Partnering Against Corruption Initiative (PACI).

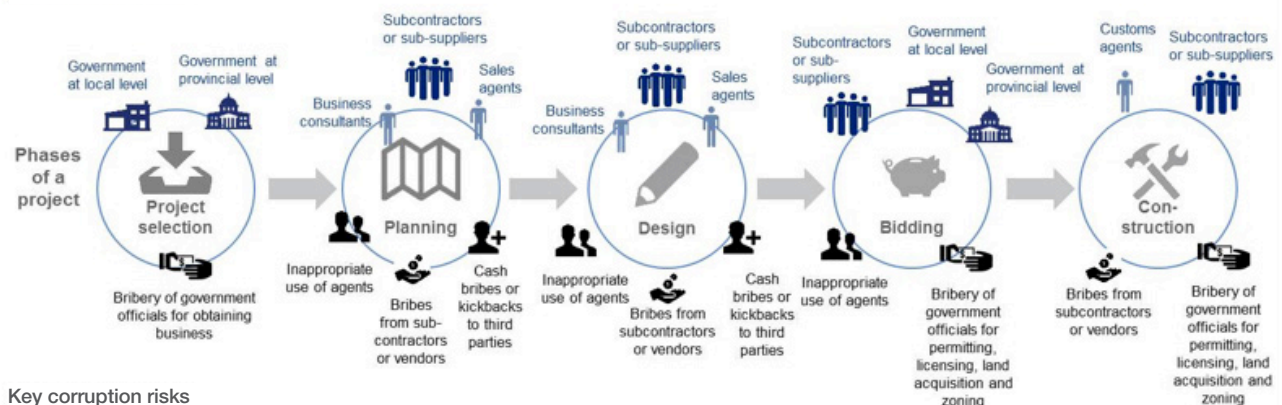
Industry-Specific Recommendations

Based on the responses to a broad industry survey, the Project Task Force identified several industry-specific corruption risks pertaining to selected phases of a typical industry capital project's life cycle and to involved stakeholders, as illustrated in the following corruption risks heat map.

92% of survey respondents agree that corruption is a significant reputational risk for a company

Key corruption risks in selected phases of an industry-specific capital project

Stakeholder at risk





Key corruption risks are primarily associated with acts of bribery that often take place between public and private actors. Other substantial corruption risks include inappropriate information sharing (for example in the bidding process), facilitation payments to accelerate customs clearance or the transport of goods, conflicts of interests in procurement or contracting, and collusion (bid-rigging, price-fixing, cost-inflating).

Based on the risks heat map, the Task Force developed industry-specific recommendations to provide practical guidance to organizations committed to creating a level playing field. They include **promoting collective action on transparency in permitting and licensing processes, increasing government interaction, and sharing insights on corruption risks and good practices more broadly.**

Recommendation 1: Promoting Collective Action on Transparency in Permitting and Licensing Processes

- Permitting and licensing has been identified as a key corruption risk area in Infrastructure & Urban Development industries. Thus, the Task Force has decided to engage in a collective action project against corruption in permitting and licensing, based on this year's achievements. The project will include targeted discussions with local and national governments, using the Forum as a convening platform. The Task Force recommends selecting one or more pilot countries and focusing on a small number of risk countries.
- The Task Force plans to announce the project at the World Economic Forum Annual Meeting 2015 in Davos-Klosters in January. It will leverage existing knowledge and formal and informal networks. It plans to engage with already successful initiatives where possible. As corruption risks in permitting and licensing are an issue for many industries, consideration will be given to opening up the discussion on the actions required to address this topic to other industries. In this way, greater traction and efficiency will be gained to develop collective action in a local or regional context.
- The project aims at identifying concrete corruption issues in permitting and licensing, and solid mitigation strategies. To achieve that goal, collaboration with local government is crucial. Initially, the Task Force recommends focusing on one or two pilot countries. Additional insights can be gathered through a survey on country risks, distributed among the wider PACI community. This can provide an

overview on corruption risks for different countries and stakeholders. To increase the scope of impact, project findings and good practices will be extended to supply-chain partners at a later stage. For implementation, the Task Force will consider working with partners who have demonstrated experience and can provide adequate support. The collective industry action can be repeated for a project on public procurement.

Recommendation 2: Increasing Government Interaction

- The essential role of government in fighting corruption should lead to closer interaction between business and government. The World Economic Forum can be used as a facilitating platform for targeted discussions. A regional approach in two phases is suggested, starting with two to three pilot countries. PACI would then reach out to governments and arrange a facilitated meeting or workshop. The project will consider existing key actors and other initiatives to be leveraged, for example the Open Contracting Initiative or civil society initiatives. Broadly, the project will seek to include and share industry concerns.
- Suggested topics to be selected are permitting and licensing, establishing reporting mechanisms in governments in emerging countries where companies can seek assistance in case of systemic solicitations (if backed by satisfactory rule of law), supporting technical solutions such as electronic bid systems and standards to verify subcontractors, and establishing a dialogue for mutual learning (for example as in the case of the Canadian Charbonneau Commission). Public procurement is another area of interest to the industry. Project work should emphasize transparency in the process, suggesting for instance white and black lists for bidding companies. Since in the Infrastructure & Urban Development industries, government often acts as a client, the Task Force recommends separately examining the case of transparency related to state-owned enterprises.
- The Task Force suggests a review of governments' anti-corruption measures in countries where investments are difficult from an infrastructure, judicial and transparency perspective. While PACI can reach out to the governments to get the needed information and propose draft recommendations, PACI members can review the measures and finalize the recommendations on how to work in such environments.



Recommendation 3: Sharing Insights on Corruption Risks and Good Practices More Broadly

- Insights on corruption risks and good practices should be shared more broadly within companies and with business partners as well as with industry associations. The Forum can be leveraged to distribute leading practices, increase awareness and ignite discussions around transparency. The objective is to create awareness and suggest practices to ultimately create a level playing field for industry. For example, as conflict of interest was identified as a key risk for companies, the Task Force will consider inviting chief executive officers to illustrate what conflict of interest can mean in practice. Additionally, the development of best practices on how to address conflicts of interest and its relevance to bribery will be considered.
- Based on the project's insights, the Task Force created an industry mission statement on anti-corruption for further communication. Task Force chief executives are committed to conveying the mission statement to employees on 9 December, International Anti-Corruption Day. Chief executives are strongly encouraged to communicate the mission statement externally within and beyond the industry, for instance through a letter to chief executives and a blog, through a joint letter to the media, or through a joint press statement. The IU PACI project demonstrated the capabilities of PACI members and strengthened PACI membership. By opening the 2015 project to a broader base, more organizations can join PACI, which will be encouraged by Task Force chief executives and their companies.
- To develop project insights further and to advance collective action, a resource centre for compliance and transparency is envisioned in the midterm.
 - It should develop a database of countries to leverage free trade and multilateral agreements to increase standardization.
 - It should draft a policy paper on anti-corruption in the infrastructure industry, with a focus on levelling the playing field, and publish case histories of successful programmes that have reduced corruption.
 - It should identify how technology can advance the transparency agenda and develop and leverage analytical tools to analyse corruption cases (for example using the forensic tools of professional services firms, etc.).

Contact Information

The Infrastructure & Urban Development Industries aims to serve as a forward-thinking, valuable and internationally recognized partner for all stakeholders involved in infrastructure and urban development. In addition, it seeks to shape the sector's agenda, creating unparalleled opportunities to convene leaders, raise global awareness, conceive frameworks and prepare workable recommendations in the context of improving the state of the world.

Pedro Rodrigues de Almeida
Director
Head of Infrastructure & Urban Development Industries
World Economic Forum
Tel.: +41 (0)22 869 3613
Fax: +41 (0)22 786 2744
Email: pedro.rodriguesdealmeida@weforum.org

Elaine Dezenski
Senior Director
Head of Partnering Against Corruption Initiative
World Economic Forum
Tel.: +41 (0)22 869 1476
Fax: +41 (0)22 786 2744
Email: elaine.dezenski@weforum.org

Michael Max Bühler
Associate Director
Head of Real Estate
Infrastructure & Urban Development Industries
World Economic Forum
Tel.: +41 (0)22 869 1327
Fax: +41 (0)79 590 2744
Email: michael.buehler@weforum.org

Philipp Mayrl
Project Manager
Partnering Against Corruption Initiative
World Economic Forum
Tel.: +41 (0)22 869 3709
Fax: +41 (0)22 786 2744
Email: philipp.mayrl@weforum.org

Alex Wong
Senior Director
Head of Centre for Global Industries (Geneva)
World Economic Forum
Tel.: +41 (0)22 869 1460
Fax: +41 (0)22 786 2744
Email: alex.wong@weforum.org



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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