WORLD ECONOMIC FORUM

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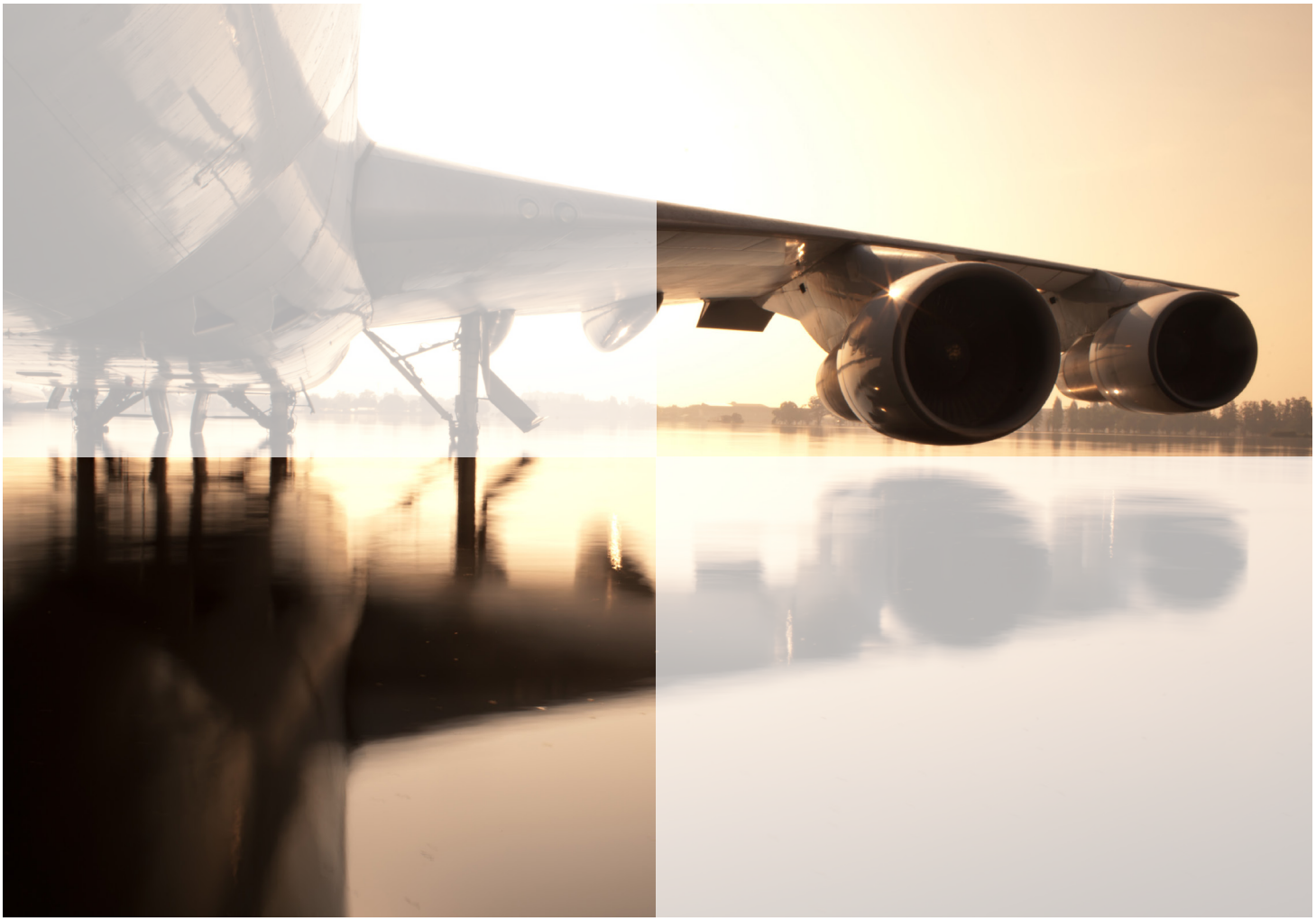
Industry Agenda

Safeguarding Aviation and Travel Value Chains Against Corruption

A World Economic Forum Report in collaboration with Deloitte

January 2014



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Preface

Our Commitment to Action on Corruption

As leaders of the aerospace, aviation and hospitality industries, we recognize that corruption is a strategic business risk and that it is a collective imperative to fight corruption in all its forms across travel and tourism value chains.

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, and preserve our sectors' competitiveness and its role in sustainable economic and social development worldwide.

Therefore, as members of the World Economic Forum's Aviation & Travel Industry Partners community and as representatives of the companies we lead, we are committed to a collective action agenda to fight corruption. We aspire to corruption-free aviation and travel value chains. Building on the recommendations in this report, we will:

- Collaborate in building cross-industry and public-private coalitions to address aviation facilitation payments and customs and border administration corruption globally and in key regions
- Collaborate in building cross-industry and public-private coalitions with the real estate and construction industries to address real estate and licensing process issues globally and in key regions
- Collaborate in building cross-industry and public-private coalitions to foster standardization and integrity in aerospace government procurement processes globally and in key regions
- Seek dialogue with governments in key countries and regions to address specific local corruption challenges, contribute to creating a level playing field and ultimately improve our sectors' competitiveness through increased investment
- Enhance and evolve our internal compliance programmes, practices and benchmarking and seek sectoral alignment to prevent and manage corruption risks.

We call on all aviation and travel stakeholders to join 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 become PACI signatories and engaged members
- Contributing to the PACI global transparency and anti-corruption agenda to advance a level playing field across industry sectors and communities
- Adopting an anti-corruption policy that addresses corruption in all its forms.

Our efforts and commitment to a collective action agenda with governments, other industries and representative of civil society will provide meaningful benefits in tackling corruption in our value chains and ensure that the aviation and travel industries remain competitive and inclusive, and continue to grow worldwide.

We strongly encourage others to join us in this endeavour.

Frederico Curado, President and Chief Executive Officer, Embraer SA; Co-Chair of the Safeguarding Aviation and Travel Value Chains Against Corruption Project; 2013 Chair of the World Economic Forum Aviation & Travel Industry Partners Community

Frits van Paasschen, President and Chief Executive Officer, Starwood Hotels & Resorts Worldwide; Co-Chair of the Safeguarding Aviation and Travel Value Chains Against Corruption Project

Arne Sorenson, President and Chief Executive Officer, Marriott International; 2014 Chair of the World Economic Forum Aviation & Travel Industry Partners Community

Executive Summary

The imperative for action

Corruption is recognized as one of the most significant obstacles to economic and social development. It is identified in the World Economic Forum's *Global Competitiveness Report* as one of the top five impediments to doing business in 58% of the 144 countries analysed.

In the aviation and travel industry, the complexity of the corruption problem is unparalleled given the global reach of value chains in this industry and the countless third parties involved. As aviation and travel companies' operations in emerging markets grow, so do the risks and complexity of corruption for the industry. Corruption is now seen as a key impediment to investment in some emerging regions, which may partially explain why there is a significant relationship between perceived corruption and travel and tourism sector competitiveness.

Leading aircraft manufacturers, airlines, hotels and others in the value chains often face similar issues. Promoting best practices to guard against corruption, however, remains challenging in an industry that relies heavily on business reputation.

A unique opportunity to level the playing field

Given this context, the Aviation & Travel Industry Partners of the World Economic Forum initiated the Safeguarding Aviation and Travel Value Chains Project.

Leveraging the Forum's Partnering Against Corruption Initiative (PACI), the project has created a safe space for leading aviation and travel companies to review and analyse the transparency and corruption challenges they face in order to create a level playing field globally that attracts investment and ultimately improves the competitiveness of global and regional aviation and travel value chains.

The risks of corruption throughout aviation and travel value chains, not unlike other industries, are many and varied.

Through the project work, the project working team identified the risks associated with principal-agent relationships leading to moral hazard as the most important issue at hand. Relationship with third parties, joint ventures and bribery of government officials are deemed the most critical areas for the industry.

The analysis undertaken focused on the impact of five prioritized corruption risk areas (third parties, collaborative or joint ventures/managed partners/franchises, bribery (commercial, public), operational risks, and loyalty programmes/gifts, entertainment and hospitality) on the different sectors that are part of aviation and travel value chains (aerospace, aviation, hospitality).

For each risk, recommendations have been put forward for additional safeguards to strengthen corporate' compliance programmes.

CEO commitment to a collective action agenda

The project has achieved something unique: a CEO-level commitment to a mutually developed agenda of collective action to fight corruption, calling for open, accountable and responsible practices at the global and regional level.

The industry has the opportunity to lead collective action among the appropriate stakeholders to address the market dynamics of corruption inherent to aviation and travel operations that have cross-industry and cross-region implications. Through issue-based coalitions and scoped collective action, the aviation and travel industry has the credibility to create incentives for stakeholders to change policies and behaviours and minimize or even eradicate corruption by individuals within companies and governments.

The Aviation and Travel Collective Action Agenda

1. Seek sectoral alignment on compliance

Through various industry associations and PACI, the industry has the opportunity to foster sectoral alignment to level the playing field on compliance throughout each sector with smaller or more regional players in the value chains.

2. Build cross-industry and public-private coalitions to address global strategic risks

The industry can take the lead and engage with the appropriate stakeholders to address the market dynamics of corruption inherent to aviation and travel operations that have cross-industry and cross-region implications:

- Hospitality: Licensing and permits
  Build a coalition between the hospitality, real estate, and construction sectors to promote transparent and streamlined license and permit processes for hospitality real estate development and operations in emerging markets.
- Aerospace: Government procurement
  Engage industry associations and sectoral coalitions in a long-term initiative to promote integrity within the aerospace procurement process with governments in key regions.
- Aviation: Facilitation payments
  Create a work programme to facilitate global collaboration among organizations such as the World Customs Organization (WCO), the International Air Cargo Association (TIACA) and the International Air Transport Association (IATA), among others, as well as governments, and connect ongoing initiatives that have the potential to eliminate facilitation payments at a regional and global level.

3. Collaborate with responsive governments to design corruption out of local value chains

Through PACI, the aviation and travel industry has the opportunity to focus on working with engaged governments on the development of local collective action to improve regional aviation and travel industry competitiveness by fighting corruption. In addition, through these dialogues, the industry could foster a greater understanding of the regulatory environment and work on practical solutions with local stakeholders to mitigate risks for the industry.

4. Position the industry as part of the global fight against corruption

Leading industry CEOs and senior executives have the opportunity to seek to communicate the collective action agenda defined and position the aviation and travel industry as part of the global fight against corruption. In addition, the industry can leverage this agenda to influence global, regional and other industry agendas, whether through PACI, the B20 Task Force on Transparency and Anti-corruption or other cross-industry, multistakeholder forums.

1. Introduction

Addressing Corruption: An Imperative for the Aviation & Travel Industry Partners

Corruption is recognized as one of the most significant obstacles to economic and social development. It is identified in the World Economic Forum's *Global Competitiveness Report* as one of the top five impediments to doing business in 58% of the 144 countries analysed.

This *Safeguarding Aviation and Travel Value Chains Against Corruption* report synthesizes the insights of industry leaders and technical experts to provide executives with a means to prioritize their risks and focus leadership attention and investment to influence and reduce the risks of corruption in their industry environment.

The World Economic Forum has engaged key industry and thought leaders since 2004, through its Partnering Against Corruption Initiative (PACI) and its Global Agenda Council on Anti-Corruption, to maximize the private sector's collective impact on the fight against corruption. Historically focused on improving compliance practices, PACI has been devoting increasing efforts to addressing corruption as a key strategic business risk.

Because of the global reach of operations and value chains involving countless third parties, the aviation and travel industry faces considerable exposure to corruption risk.

Corruption is ultimately a barrier to investment in emerging countries plagued by bribery. Fast-growing investments by the three sectors in such countries are facing increased scrutiny from regulators, which requires stronger compliance programmes for companies and ultimately increases costs for the sectors. In addition, new global players from emerging and developing markets are increasingly competing with Western-based firms.

As the industry's operations grow, so does the risk and complexity of corruption. Consequently, many firms are seeking to address corruption in emerging and developing markets in order to create a level playing field that attracts investment and ultimately improves competitiveness.

Given this context, the Aviation & Travel Industry Partners decided during the Aviation & Travel Industry Partners Governors meeting at the World Economic Forum Annual Meeting 2013 to leverage the PACI global platform to undertake an in-depth review of specific corruption and transparency challenges in the aerospace, aviation and hospitality sectors.

The resulting project, Safeguarding Aviation and Travel Value Chains Against Corruption, is the first industry-specific initiative conducted under PACI. The project created a safe space for the industry to engage at a senior level with peers in and outside the industry to achieve something unique: a CEO-level commitment across the industry to a mutually developed framework for open, accountable and responsible practices at the global and regional levels.

The following pages provide an initial set of recommendations and a practical work plan on the issues the sectors should prioritize. The report also proposes an agenda for collective action on the strategic risks inherent in aviation and travel operations that have cross-industry implications and for which the sectors should take on responsibilities and engage with the appropriate stakeholders to address the market dynamics of corruption surrounding them.


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Air Asia
5613
6369

2. Focus and Scope

This report has been informed by a wide range of sources, including published studies, surveys and interviews with executives from the World Economic Forum's Aviation & Travel Industry Partners participating in the project. The World Economic Forum-Deloitte project team conducted more than 20 interviews and held bimonthly conference calls with project task force members: general counsels, compliance officers and export control executives. Insights from these interactions were supplemented with input collected during workshops hosting other senior executives from the Aviation & Travel Industry Partners in the following locations:

- World Economic Forum, Aviation & Travel Industry Partners Governors Meeting, 25 January 2013
- World Economic Forum, private session in Nay Pyi Taw, Myanmar, 7 June 2013
- World Economic Forum, private session in New York, USA, 2 October 2013
- World Economic Forum, Partnership Against Corruption Initiative Task Force Meeting in Geneva, Switzerland, 14-15 October 2013.

This effort also benefited from the invaluable time spent and content developed with a number of experts from Deloitte and its member firms.

This project has been divided into three main phases:

- Scoping
- Deep diving
- Collective action agenda-setting

The scoping phase included activities aimed at:

- Understanding at a macro level how corruption affects each of the aviation and travel industry sectors: aerospace, hospitality and aviation
- Assessing the general perception of corruption risks within the industry, understanding components of compliance programmes aimed at preventing and minimizing corruption risks, and identifying the top 10 corruption risks for the sectors
- Defining common corruption risks and areas of interest across the sectors, identifying priorities that should fall within the scope of the project – mainly third parties, collaborative or joint ventures/alliance/managed hotel owners/franchises, bribery (commercial, public), operational risks and loyalty programmes/gifts, entertainment and hospitality – and aligning the sectors with cross-sector and/or sector-specific risks.

The deep diving phase focused on:

- Gathering a common understanding of the top corruption risks selected for the deep dive
- Collating current safeguards and compliance practices to prevent and detect corrupt activities in the sectors and understand the ways organizations have been protecting themselves
- Benchmarking against best compliance practices from other industries
- Prioritizing risks and illustrating some of the key problematic situations for the sectors
- Identifying issues in dealing with corruption in emerging markets and prioritizing a regional focus.

The collective action agenda-setting phase focused on:

- Identifying a compliance agenda and recommendations to improve current practices and safeguards at the sector level
- Identifying key strategic business risks inherent to the industry on which industry leaders can take the initiative in shaping and promoting collective action.

All the phases of the project engaged the task force members, including input from Aviation & Travel Industry Partners as well as PACI Partners.


HOTEL
HOTEL

3. Aviation and Travel Risk Prioritization

Many forms of corruption exist, and the risks throughout aviation and travel value chains reflect a diverse range of commercial activities that may be prone to corrupt practices. Given the multitude of employees and stakeholders involved and, many times, the interactions with governments – whether as regulators, customers or business partners –each step of the value chain exposes the sectors to potential corruption risks.

Risks in aviation and travel value chains

Although the graphics depicting various stages of each sector's operations do not represent all operations, they highlight the areas discussed with task force members and the corruption risks they identified as of high importance for them.

Figure 1: Aerospace (manufacturing)

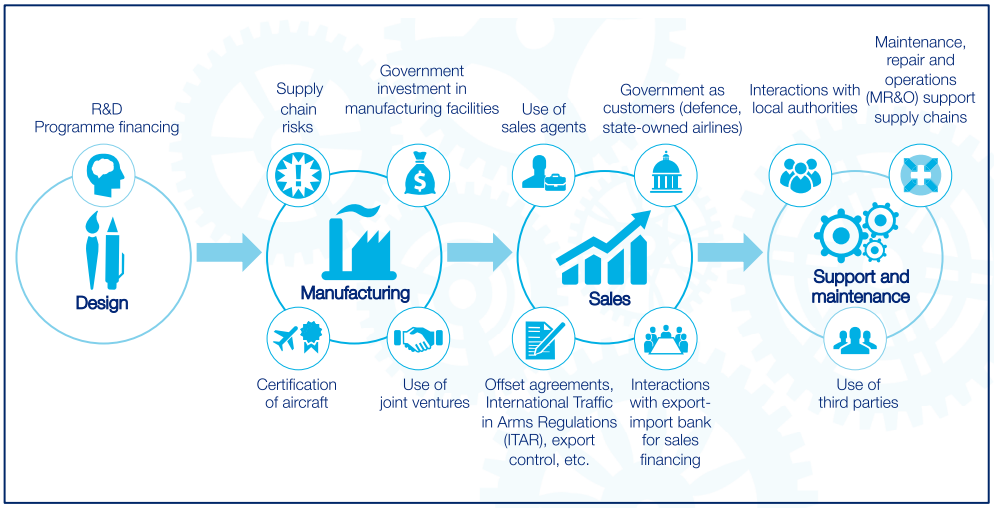


Figure 2: Aviation (airlines)

Figure 3: Hospitality (hotels)

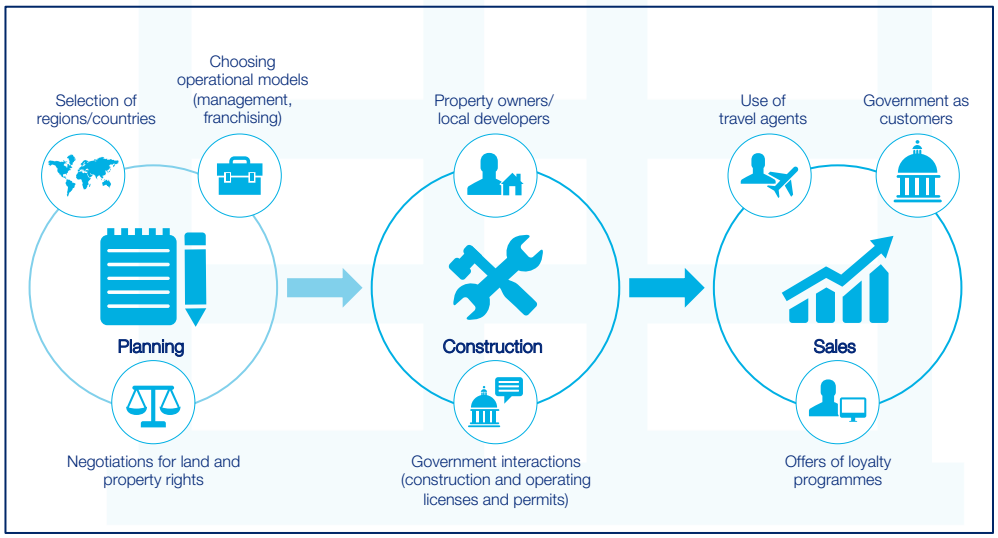
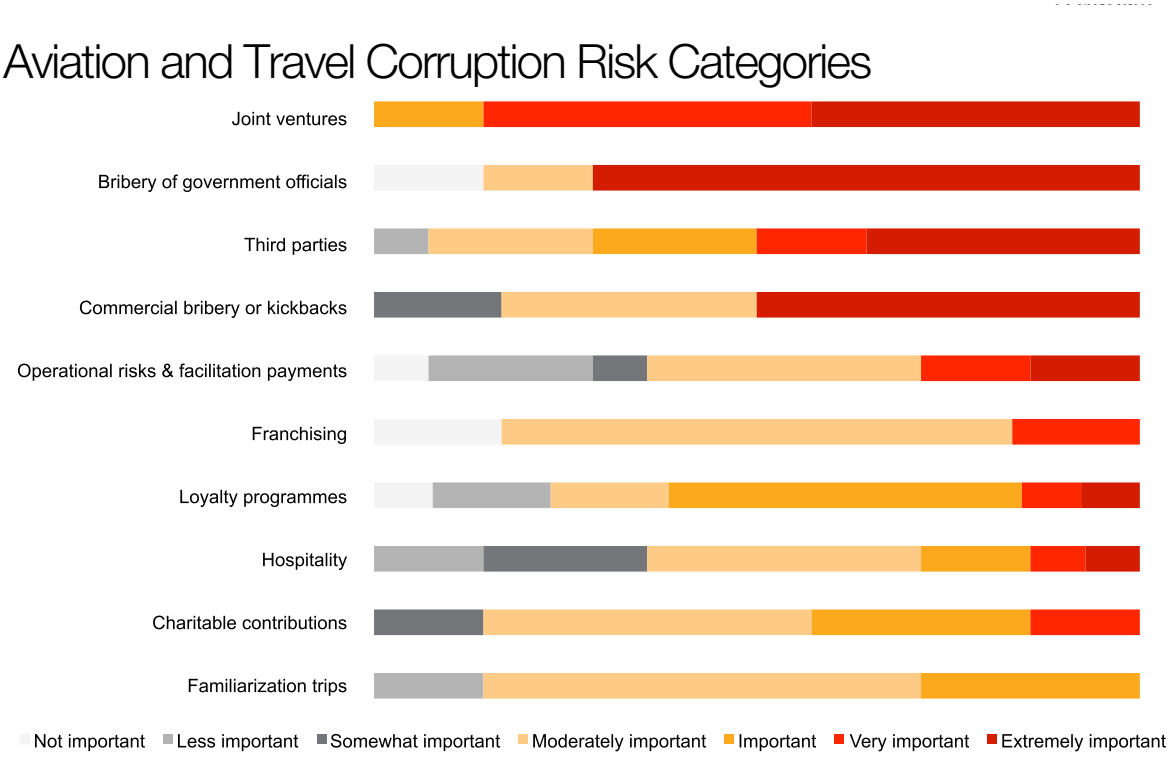


Figure 4: Heat Map of Corruption Risks

Source: Project survey conducted in July 2013 among chief compliance officers and general counsels engaged in the Forum's Aviation & Travel Industry Partners project.



Through the project work, these risk areas were further scoped and prioritized in a heat map[1] highlighting their degree of importance (Figure 4).

As in other industries, the survey identified the risks associated with principal-agent relationships leading to moral hazard as the most important, with third parties, joint ventures and bribery of government officials topping the list.

To highlight some sectoral differences in these identified areas of importance, an additional analysis was performed at the sub-sector level. Figure 5 highlights the most important manifestation of each risk in the sub-sector value chains.

Both the heat map and the manifestation of each risk category served as the framework for analysis of the priority risks for the aviation and travel value chains.

Figure 5: Specific Risks by Sector

Source: Project survey conducted in July 2013 among chief compliance officers and general counsels engaged in the Forum's Aviation & Travel Industry Partners project.

Aviation and Travel Specific Risks by Sector

Risk categories	Hospitality	Aerospace	Aviation
Joint ventures	▪ Joint ventures	▪ Joint ventures	▪ Partnerships and alliances
Bribery	▪ Government contracts	▪ Government procurement	▪ Commercial bribery
Third parties	▪ Local agents ▪ Managed hotel owners ▪ Franchises	▪ Sales agents	▪ Cargo agents
Operational risks	▪ Real estate licenses/ permits	▪ Government procurement	▪ Cargo and passenger facilitation payments
Loyalty programmes/ gifts/hospitality	▪ Reward points and upgrades	▪ Gifts/entertainment/ hospitality for government officials	▪ Airline miles/upgrades

Among these risks, bribery was a focal point of the battle against corruption in the industry; however bribery is a very broad form of corruption – including both commercial bribery and government bribery – comprising several complex underlying elements that are present throughout the value chain but also an element of all the other risks identified as important. Bribery was considered an inseparable component of each of the other risks identified as priorities.

4. Risk Analysis and Safeguard Recommendations

The analysis focused on four corruption risks – joint ventures, third parties, operational risks, and loyalty programmes, gifts, entertainment and hospitality – and their impact on the aviation and travel value chains. The fifth corruption risk – bribery – was analysed as part of each of the four other risks, not separately. The project team assessed and benchmarked the importance of addressing each risk, the effects on each sector individually or in combination with other sectors, and the current safeguards that companies employ to minimize the risks.

This report puts forth recommendations for additional safeguards that may be included in the company's compliance programme to prevent, deter and detect potential violations of anti-corruption laws and regulations. The following table provides a summary of the recommendations that are discussed in more detail through the risk analysis in the following pages.

Figure 6: Summary of Safeguard Recommendations for Individual Compliance Programmes

	Corruption risk	Recommendations
Summary of additional safeguards recommended for risks prioritized in this report	**Collaborative or joint venture, management or franchise arrangements**	– Appropriate due diligence on partners, hotel owners and franchisees is recommended. See PACI's *Good Practice guidelines on Conducting Third-Party Due Diligence.* – Additionally, consideration should be given to contract termination clauses for non-compliance with anti-corruption laws and regulations. – Appropriate monitoring.
	Third parties	The high level of concerns about third parties should be matched through the actions the companies take to minimize the risks associated with them. Although a full risk assessment has not been performed for each of the companies on an individual basis, a number of leading practices related to third parties and the overall compliance programme are recommended for consideration by the companies: – Proactive transaction testing for specific countries and regions should be done where corruption risks are high, to ensure the current policies and procedures and controls are effective in detecting and deterring potential corrupt activities. – A specific control measure should include limiting cash transactions for employees for items such as gifts, entertainment, miscellaneous expenses, meals, and other similar expense categories. Limiting the use of cash, especially without pre-approval, will minimize the risk of bribe payments in the form of cash. – A leading practice among some of the companies, not only in the aviation and travel industry but also other industries, has been the curtailment of the use of third parties in high-risk areas or sales processes, replacing them with company employees. A company has the ability to exercise more compliance control over its own sales force. This should be supplemented with regular training and monitoring. – An ethics hotline should also be established to facilitate the discovery of improper activities involving third parties.
	Operational risks	See Collective Action section for recommendations.
	Loyalty programmes	Developing adequate controls around hospitality and aviation loyalty/reward programmes requires implementing a number of steps: – Performing a risk assessment of the loyalty programme to identify all the potential points where opportunities could be used for corrupt activities – Educating employees on the risks associated with loyalty programmes and providing easy employee access to the policies and procedures – Understanding and employing tracking methods that are suitable for the company's operations – Periodically testing policies and procedures for loyalty programmes – Establishing reporting capabilities needed for monitoring, reviewing, and investigating anomalies, whether obtained through an electronic system or manually, in a timely fashion.
	Gifts, entertainment and hospitality	While prohibiting all types of gifts and entertainment is one way to minimize the risk of corruption in this area, other preventative measures that are legally permissible and equally effective can be added to the compliance programme, such as: – Having clear and standardized guidelines around gifts, entertainment and hospitality – Monitoring compliance with set policies – Employing an additional layer of review when automatic approvals are used by the company in order to ensure that employees are complying with the company's policies and procedures – Providing gifts that have the company logo on it to make the gifts promotional items – Keeping adequate books and records by ensuring all gifts, entertainment and other similar types of expenses are accurately recorded as such – Adopting policies to ensure "test" stays for government officials are neither lavish nor excessive.

4.1 Collaborative or Joint Venture, Management or Franchise Arrangements[2]

In many markets, regulatory and tax regimes influence foreign investors to seek joint ventures as the mode of entry. At one time, creating a joint venture with a foreign company was viewed as a way for an organization to mitigate the risk of dealing with corruption in other countries, possibly turning a blind eye to whether a local joint venture partner engaged in such activity. For many companies, however, including in the aviation and travel industry, it was also the best and the easiest way to tap into new and emerging markets. For example, of the world's largest enterprises that have established a presence in China, 80% have done so through joint ventures.

According to an analysis performed by Deloitte,[3] cross-border joint venture activities have been increasing recently in the aerospace and defence sectors, with a focus on exchange of resources, capital and technology across borders. Another key reason to enter into these agreements has been the ease of access of the specific market. India and China, for example, do not make it simple for foreign investors to operate in their countries. If an international organization wants to form a joint venture in China, the government has final approval of the contract. In fact, the government can demand changes to the contract terms up to the moment of sign-off. Even though India has recently relaxed its policies for foreign investors, such as the increase in the permitted investment percentage by foreign companies,[4] there are still many difficulties that do not allow some companies to freely create a presence in India. Clearly there are many strategic and economic reasons to use business partnerships such as joint ventures to enter new markets, but this decision may come at the cost of relinquishing some degree of compliance control if left unattended.

Aerospace and hospitality sector risks

As the aerospace and hospitality sectors seek to grow their operations, they see joint ventures as a way to accomplish growth goals and tap into the rising middle class in places such as India and China. India's middle class is forecast to exceed 600 million people and China's middle class will be even larger, so the scale of potential new customers and operations in these markets makes expansion there a strategic imperative. As members of the aerospace and hospitality sectors consider the advantages that come with joint ventures, they also should recognize the risks those relationships bring with them. The risk of exposure to corruption may increase when entering into a joint venture, management or franchise relationship.

While the Foreign Corrupt Practices Act (FCPA) Guidance[5] issued by the US Department of Justice (DOJ) does not directly address joint ventures, management or franchise agreements, it discusses the risks associated with mergers and acquisitions, and how insufficient due diligence before a transaction is completed can portend serious consequences for each party to these transactions. The risks and consequences are especially high in situations where violations of anti-corruption laws persist after the relationship starts and the party did not detect the issue before closing the transaction – or worse yet, where the partner or buyer begins participating in the illegal actions.

Many hospitality companies do not enter into joint ventures, preferring a management or franchise model. These structures also bring risks related to corruption, necessitating appropriate safeguards. Even though the direct regulatory risks may not be readily identifiable, the reputational risks related with such models are at first more apparent and therefore can create an impact on the hospitality companies.

Case Study: Impact on Acquisitions

In 2004, Lockheed Martin decided to abandon its deal to acquire Titan due to Titan's inability to resolve a federal bribery investigation. During pre-closing due diligence, Lockheed Martin reviewed Titan's books and discovered payments that raised questions. The companies have disclosed the information to the regulators, who then opened an investigation into the payments made by Titan. The allegations against Titan included a violation of the anti-bribery, internal controls and books and records provisions of the Foreign Corrupt Practices Act. As the investigation into the allegations continued, Lockheed first lowered the purchase price for Titan by about US$ 200 million and asked Titan to work with regulators to resolve the investigation before the closing, which became a condition to the closing. Later, as Titan was not able to meet the deadline for resolution, Lockheed assessed the risks related to purchasing Titan before the issue was resolved and dropped out of the deal.

Source: *Washington Post*. Available at http://www.washingtonpost.com/wp-dyn/articles/A8745-2004Jun26.html.

Safeguards and leading practices for joint venture, management and franchise arrangements in the aerospace and hospitality sectors

Aerospace and hospitality organizations demonstrating leading practices in mitigating bribery risks that arise with joint ventures ensure that a thorough due diligence is completed before entering into an agreement with partners. This due diligence process may include a detailed analysis of policies, practices and history with business areas prone to abuse. This may include licensing and permits, gifts and entertainment and charitable contributions, among others. Furthermore, it is critical to understand any links of key local stakeholders, employees and third parties with government officials or other politically exposed persons. While carrying out due diligence, it is also optimal to begin educating local partners on expectations regarding anti-corruption policies and procedures.

Some aerospace companies also include specific terms in the contract that allow them to audit their partners. These aerospace companies also periodically exercise these audit rights and inspect partners' books, records and transactions to ensure compliance with the various policies and procedures. These "health checks" may also involve questionnaires and discussions with key personnel to reveal red flags for potential corrupt activity.

Aviation risks and safeguards

Very often, the aviation sector interacts with partners by forming alliances.[6] Similar to joint ventures, alliances also require mutual agreements between parties, even though the terms and conditions may vary. The risks related to alliances are especially high in relationships where the organizations act as agents for each other, such as in the case of Star Alliance or Oneworld Alliance. In those circumstances, the companies should be aware of who is acting on their behalf, similar to the relationships with other third parties.

For example, an agent hired by one of the member airlines can act as an agent for another airline. This cost-efficient approach to reaching a broader geography inherently makes monitoring compliance more difficult.

When considering the corruption risks that are specific to aviation, the touch points with government bodies are again a good place to start. Imagine scenarios where an aviation company secures speedier departure or landing treatment by government air traffic controllers through bribery. This is but one example of the myriad intersections of aviation with government. The challenge is to identify methods to prevent, detect or deter the activity that might be used to circumvent government regulations or practices.

To address the high level of risk involved with partners in collaborative ventures, the organizations in the aviation sector have taken a number of mitigation steps. One observed practice in this arena is a focus on mutual understanding of each other's compliance practices, especially anti-corruption policies and procedures. The company undertakes to share its policies and procedures related to anti-corruption with the partner, and sometimes integrates the partner's best practices into its own compliance programme. The company even goes as far as assisting the partner(s) with risk assessments if they need the support. In addition, the company still requires the partners to certify that they comply with all the required policies and procedures and to ensure compliance through annual recertification.

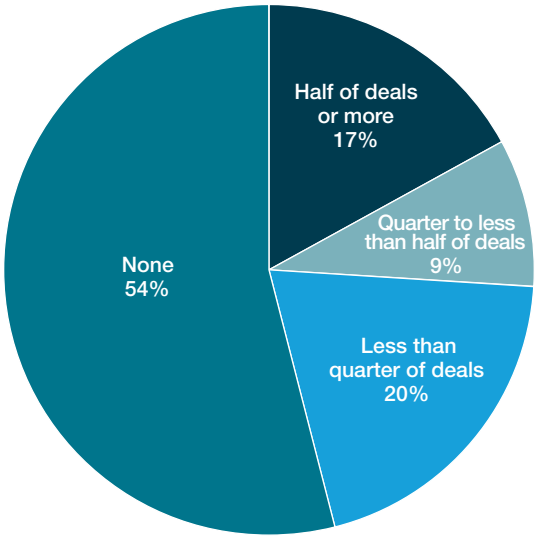
Recommendations

Even when companies understand the risks that come with dealing with collaborative or joint ventures, and perform an initial due diligence, the thoroughness of this due diligence may need to be coupled with continuous monitoring. In addition, even if continuous monitoring is performed after the initial due diligence, some companies question whether the new information obtained would or should change the relationship with the partner.

In the 2012 edition of its annual *Look Before You Leap* survey,[7] Deloitte solicited the views of 126 business executives on the approaches their companies are taking to address compliance and integrity-related risks in emerging markets. Some of the questions that related to due diligence before investing put into perspective a number of issues relevant for the aviation and travel industry as a whole.

Figure 7: *Look Before You Leap - Navigating Risks in Emerging Markets* Survey Results

Source: Deloitte "Look before you leap" survey. Navigating risks in emerging markets.



Potential M&A transactions in emerging markets halted over last two years due to compliance and integrity-related findings during due diligence

Base = Respondents at companies that considered potential M&A transactions

Figure 8: Additional Safeguard Recommendations for Collaborative or Joint Venture, Management or Franchise Arrangements

	Activity	Tasks
Additional recommendations for collaborative or joint venture, management or franchise arrangements	**Understand who your partner is**	The leading practice to mitigate risks in collaborative or joint venture, management or franchise arrangements is to ensure the company knows who the partner is through thorough initial due diligence as well as continuous monitoring. An excellent resource to start with is the 2013 World Economic Forum *Good Practice guidelines on Conducting Third-Party Due Diligence*.
	Include termination clauses in the contracts	After the initial due diligence, if the partner proves to be a viable candidate, there are certain steps to take before signing a contract. Consideration should be given to key terms that should be included in the agreement. Contract termination clauses for non-compliance with anti-corruption laws and regulations should be the norm. These termination clauses specify that if a party breaches any of the representations and warranties stated in the contract, including a breach of representation in relation to the company's compliance with anti-corruption laws and regulations, the agreement can be terminated without any penalties or consequences to the non-breaching party.
	Engage in continuous monitoring of partner actions	Once the contract is signed, to ensure the partner has not breached the terms of the contract or agreement, appropriate monitoring of the partner's actions and compliance with anti-corruption laws and regulations could be implemented. Following are some steps an organization may wish to consider monitor its relationship with a partner:[8] – Exercise audit rights (if included in the contract) – Check whether new relationships were formed by the partner, either business or personal, and if there is any potential effect on the collaborative or joint venture – Determine whether new investigations, litigations or other criminal cases have been brought against the partner – Determine whether the business partner participates in or is associated with organized crime, terrorist groups or bribery – Obtain information by sending a questionnaire to the partner or by doing an independent check; some companies engage an outside vendor to conduct background research for them – Consider performing periodic health checks to ensure any new and potentially risky information is discovered in a timely fashion – Streamline monitoring to be more consistent and easier, for example, by implementing an automated tool that would assist in keeping on top of all the partners (and third parties), storing the information and assisting with risk rating and mitigation activities.

Case Study: Impact on Contract Terms

In drafting the contract terms, companies should be aware of any restrictive language related to the right to terminate a joint venture or partnership contract when evidence of anti-corruption violation are involved. The FCPA Opinion Procedure Release 2001-01 by the US Department of Justice dated 24 May 2001 describes the following case:

"The Department has reviewed the FCPA Opinion request by a US company ("Requestor"), which plans to enter into a joint venture with a French company. The Requestor and the French company will each own 50% of the joint venture and will share the profits and losses of the joint venture equally. Both companies plan to contribute pre-existing contracts and transactions to the joint venture, including contracts procured by the French company prior to the effective date of the French Law No. 2000-595 Against Corrupt Practices ("FLAC").

The Requestor represents that it has taken a number of precautions to avoid a knowing violation of the Foreign Corrupt Practices Act ("FCPA"). The Requestor has asked whether, given the nature of these precautions, it will be deemed to have violated the FCPA by entering into the joint venture should it later become apparent that one or more of the contacts contributed by the French company were obtained or maintained through bribery.

With respect to the proposed joint venture, the Requestor has made the following representations:

1. In the event that the Requestor learns that the French company has breached the foregoing representation, the Requestor may, under the joint venture agreement, terminate the joint venture or refuse to satisfy obligations under the agreement in the following circumstances: (i) the French company is convicted of violating the FLAC; (ii) the French company enters into a settlement with an admission of liability under the FLAC; or (iii) the Requestor learns of evidence that the French company violated anti-bribery laws and that violation, even without a conviction or settlement, has a material adverse effect upon the joint venture.

The opinion of the Department of Justice included several important caveats, including:

1. The Department is concerned that the "materially adverse effect" standard for terminating the joint venture agreement may be unduly restrictive. Should the Requestor's inability to extricate itself result in the Requestor taking, in the future, acts in furtherance of original acts of bribery by the French company, the Requestor may face liability under the FCPA. Thus, the Department specifically declines to endorse the "materially adverse effect" standard."

Source: FCPA Opinion Procedure Release 2001-01, No. 2001-01

4.2 Use of Third Parties[9]

It is no surprise that third parties are rated as a top corruption risk, not only for companies in the aviation and travel industry, but for companies across all industries. The US DOJ and the Securities and Exchange Commission (SEC) report that the use of third parties and concealment of bribes to foreign officials through those parties is found in almost all the cases recently resolved through settlement or conviction and those under investigation. One example of a risk area in the aerospace sector is the use of third-party consultants or agents to pursue new business. In most FCPA enforcement actions, third parties such as consultants and agents were uncovered as a conduit for channelling bribes to decision-makers. These trends in corruption cases have led the regulators to consider whether a company's compliance programme includes risk-based due diligence on third parties if the regulators undertake an an investigation.

As aviation and travel companies' operations move across borders to enter new markets, encountering new cultures and traditions as well as new rules and regulations, the use of third parties may increase for many of them. The risks associated with the use of third parties are therefore becoming a higher compliance priority for many organizations. For example, hospitality companies and their land-owner partners may use contractors to build a hotel or hire agents to help them obtain the correct permits and licenses for real estate. Aerospace companies may use sales agents to assist them with sales contracts or freight forwarders to transport goods. The aviation sector may deal with third parties such as cargo agents. Each of these third parties will have interactions with government bodies in the performance of their work, thus creating opportunities for bribery to gain a business advantage or remove a business obstacle. Instituting robust controls and diligence on sales and procurement of third parties is a necessity and should be bolstered with the deterrent power of auditing to determine whether a payment to the third party is entirely for legitimate business purposes and not to channel a corruption payment.

The use of third parties in the aerospace sector

In today's manufacturing environment, aircraft are built in locations around the globe. To remain cost-competitive, aerospace companies need to leverage the talent and price point of a wider variety of countries than ever before. But the value from geographically diversifying the manufacturing process could be significantly damaged if the right compliance platform is not put in place. Consider a manufacturing process set up in a special economic zone in India with special tax breaks. Components and raw materials are imported into India, used in the manufacturing process and then exported as part of an aircraft. The tax breaks are put in place to encourage foreign investment and create jobs in export-oriented operations – they are not set up for sales in the local market and thus there are tight government controls on the import-export processes and on how scrap materials are handled. Government inspections

ensure compliance with these controls. There could be significant incentives for improper payments, favours, gifts or other things of value to cause a government inspector to overlook infractions or insufficient record-keeping by the aerospace company.

Therefore, despite having mature compliance programmes, aerospace compliance officers are still putting third parties at the top of their watch lists. Even though due diligence is performed before companies retain third parties and continuous monitoring is conducted throughout the relationship, organizations must always sharpen their focus anytime a third party is used, especially for interactions with government officials.

Compliance with governmental rules and regulations is also very important and can cost a company a lot of money in fees and penalties if the regulators find that violations have occurred.

Even though the example includes a number of other violations, it illustrates the risks associated with the use of third parties in the industry and how not having an effective compliance programme can have serious repercussions.

The aerospace sector is concerned with third-party interactions in the commercial space as well as the public space. While most organizations make both public and private sales within their business models and different governmental and private touch points exist, the sales agents and intermediaries used to facilitate sales contracts and freight forwarders are usually top risks for the aerospace companies.

Freight forwarders provide the useful service of moving goods across borders but, with the aim of meeting customer deadlines, there have been instances of freight forwarders engaging in bribery with customs officials. Astute due diligence and monitoring of freight forwarders and other similar service providers is essential. During the monitoring process, companies need to be on the lookout for how bribery payments may be disguised. Line items such as “special handling” or ambiguous surcharges on the standard shipping costs calculated by weight and/or size should raise red flags about potential violations of the company’s compliance programme.

Even though the corruption risks related to the use of freight forwarders may not be obvious right away, after the Panalpina case (see case study), more and more companies see these third parties as a risk.

Case Study: Use of Freight Forwarders

A global freight forwarding and logistics services provider was charged by the SEC with violating the FCPA by bribing government officials in several countries on behalf of its customers. The customers often authorized the freight forwarding company to bribe government officials whenever their products had difficulty passing through the borders for various reasons, such as insufficient or incorrect documentation, the nature of the goods being shipped and imported, the refusal of local government officials to provide services without unofficial payments, or avoiding local customs duties or inspection requirements, among other circumventions of local law. According to the SEC, the freight forwarding company invoiced its customers for the additional fees under various line items on its invoices, such as “local processing”, “special handling” and “special intervention”.

Using sales agents and intermediaries is a necessity to reach an increasingly global customer base. Aerospace companies use sales agents and intermediaries in countries and regions in which they have never operated because they do not have the right level of understanding about how the culture or public procurement works. Despite the need for local partners to navigate new markets, regulators will not be lenient based on this layer of separation – there is an expectation that companies know what their third parties are doing.

Aerospace sector safeguards and leading practices

The aerospace industry is a mature industry and the level of confidence in compliance programmes is relatively high. However, that comes with a price, as the processes and monitoring to prevent corruption are costly.

On a macro scale, after reviewing and familiarizing themselves with the various anti-bribery and anti-corruption laws around the world, many aerospace companies decide that universal compliance with all of them, not only the local requirements, is the safest way to operate the business. Having a compliance programme that adheres to the FCPA, the UK Bribery Act, Brazilian law and others helps avoid confusion as to what is allowed or not allowed in specific jurisdictions. Companies have updated their policies and clearly spelled out the universal norms to be followed. For most of the companies, these rules apply equally to government and non-government officials.

The risk of reputational damage and other consequences related to corruption allegations cause investors and other stakeholders to require companies to be more transparent. As a result, a lot of money, time and effort go into designing and implementing a strong and effective compliance programme. But how does one really know if the compliance programme is effective and can protect the company? An emerging trend among aerospace companies is to test the company's compliance programme and its application by engaging an outside organization, sometimes called a "verification consultant". The verification consultant will perform an audit and assessment of the compliance programme and the anti-corruption policies and procedures to test its effectiveness. The verification consultant can also provide support and assistance with the implementation of the anti-corruption compliance programme, filling in identified gaps, and providing recommendations to strengthen the compliance programme. Many times, to ensure meaningful confidence in the audit results, companies are required to pass compliance audits at the business unit level, rather than at the corporate level. The benefit of engaging an outside company is the independence and objectivity of the evaluation.

Although some companies are designing their compliance programmes and anti-corruption policies and procedures to cover all the different rules and regulations in various regions of the world, this can only guide the actions of employees or third parties, and may still leave room for unethical individuals to perpetrate fraud and corruption. Therefore, whenever a company uses third parties to do business, a risk will always exist that the agents acting on behalf of the company may not comply with the company's policies and procedures. As a result, some companies are choosing to decrease the use of third parties.

A company does not necessarily need to eliminate all third-party relationships immediately, but rather this process could start with assessing where the risk is highest – perhaps by focusing on specific regions, specific third parties or transaction types, and then evaluating whether using the company's internal personnel makes sense strategically and operationally. Some of the world's leading aerospace and defence companies are already adopting this way of operating.

The use of third parties in the hospitality sector

Hospitality companies, specifically large, international hotel chains, deal with many types of third parties, but the concerns and risks usually revolve around three common types of external third parties: local owners of properties, third parties the owners hire to build hotels, and intermediaries used for selling hotel rooms.

Premier hotel locations in emerging markets, like India and China, are scarce and very expensive. Wealthy land owners with property suitable for new hotels may on occasion have extensive relationships with local or regional governments. It is well-recognized that there are potential risks centred on the land owners' use of relationships to improperly secure land rights, construction permits and environmental approvals, among other permissions. This issue is particularly acute in locations where owners may be state-owned entities (e.g. China), royal families (e.g. Gulf States) or other government officials.

Another area of concern related to land owners arises during the time period after the contract is signed. Hospitality companies need to ensure that third parties are continuously acting in good faith and not engaging in corrupt activities. Appropriate monitoring, therefore, is top of mind for many hotel brands. What is the right level of due diligence and how often should follow-up reviews be performed after the contract has been signed? How do companies monitor the activities of those parties? Weighing the risks, costs and benefits to answer these critical questions can be a complex undertaking. These questions are asked especially because owners have a financial incentive to overcome governmental hurdles to drive business to the hotel as quickly as possible.

Even though the hotel brands may not be directly involved with the construction of a hotel, there are reasons for them to worry about corruption. According to Deloitte's 2011 white paper, "Hospitality 2015: Tourism, Hospitality, and Leisure Trends", in India, 110 licenses or other types of approvals are needed from the government to construct a hotel. The licenses and permits are mostly obtained through third parties. In most cases, those third parties are retained by the owners of the properties and the hotel managers have little or no visibility and control over them, especially because the hotel brands are not on the ground during the construction phase on a full-time basis. The complexity of the process and the vulnerability of the system to corruption

make all parties involved in the construction of the hotel a potential risk for the hotel brands. Another impediment is that during the construction phase, the hotel brands only have contractual relationships with the owners, and even though there are anti-corruption clauses in the contracts, the hotels may not know whether the property owners or their third parties are in compliance. However, the construction phase is only one of the areas where there are risks related to licenses and permits. Another area is related to obtaining operational licenses, and during this process, the hotel brands may be more directly involved.

Travel agents and intermediaries used for selling rooms are the third key intermediary in the hospitality sector. Understanding the background of the parties and intermediaries involved with selling a company's product is a crucial step in protecting a company against corruption. However, in the hospitality sector, because of the large number of agents used, due diligence is not done comprehensively and contracts are not signed with all partners. Contracts may be signed with significant third parties only. The risks therefore need to be mitigated from an internal standpoint, such as ensuring that travel and entertainment policies are being followed by company personnel, contracts where travel is included are monitored to ensure compliance with the terms of the contract, and training is provided to company personnel regarding the risks associated with the use of travel agents.

Hospitality sector safeguards and leading practices

Most hospitality companies have a risk-based due diligence approach. The more risky the country, process and relationship, the more due diligence is done on those third parties. The hospitality companies also usually engage an external organization to perform their due diligence. If there are higher-risk third parties, additional data is obtained and additional due diligence is performed.

Another very important step taken by some of the companies is to ensure that continuous due diligence is done on third parties, especially property owners. The follow-up due diligence is done on a periodic basis and looks for any updates on the third party on sanctions lists, and through various databases and media searches, among others. The continuous due diligence and monitoring ensures that the parties comply with the hotel brands' anti-corruption policies and procedures. It also enables the companies to detect any issues before they may become serious. As in the aerospace sector, the hospitality companies also ask their third parties to certify that they comply with the companies' anti-corruption policies and procedures.

The use of third parties in the aviation sector

The aviation sector has also been expanding its global reach by flying to new destinations with new cultures. While new destinations may be a business imperative in aviation, they also mean new challenges. Factors such as cultural differences, "customary" payments, and new regulatory policies and procedures that differ from one country and region to another have a great effect on the operations of the airlines. Cargo agents represent a key third party risk. Anytime a package entrusted to a cargo agent is held up in customs, that delay affects the speed, costs and reputation of the organization. Short-circuiting the customs clearance process with corrupt payments or other forms of bribery is a tremendous risk, given the daily clearance volumes around the globe. Billing anomalies from cargo agents may be associated with such corrupt payments. Cargo agent transactions should certainly be part of any transaction testing that aviation companies undertake as part of ongoing compliance monitoring.

Aviation sector safeguards and best practices

Like other sectors, the aviation sector recognizes that third parties present significant regulatory and reputational risk. As minimizing the use of third parties in business operations becomes a trend in other sectors, the aviation sector has also been introducing this approach where possible. Given the broad geographic reach of aviation companies, the need to use third parties is typically a necessity despite best efforts to streamline their use.

Recommendations

Although no one compliance programme can be used as a gold standard to completely eliminate the risk of corruption, some specific items should be part of any effective programme. A survey conducted during the initial phase of this project indicates which specific elements of the corporate compliance programme organizations currently have in place; a few are noticeably missing.

As indicated in the FCPA Guidance, continuous improvement of the compliance programme indicates that the organization is adapting to the constant changes in its operations, whether it is a new country or adapting new sets of rules or leading practices. Testing of the compliance programme by randomly reviewing transactions in a region that the company considers high-risk is one way of checking whether the compliance programme and the various policies and procedures are being followed by the employees.

This type of testing shows whether the organization's compliance programme is effective in early detection or prevention of corrupt activities, especially when the transactions involve the use of third parties.

Case Study: Anti-corruption Training and Awareness in the Oil and Gas Industry

An interesting trend from another industry, oil and gas, in Indonesia shows just how important anti-corruption training and awareness of third parties and/or vendors are for some companies. "The oil and gas companies in Indonesia have implemented an annual compliance day where all the local vendors and/or third parties are asked to participate in a training related to the companies' compliance programme, including anti-corruption policies and procedures. The meeting is mandatory for all the third parties the companies are dealing with and at the end of each meeting, each third party representative is asked to certify that he or she understands the rules and are in compliance. This type of training accomplishes a number of goals. First, it ensures that third parties are not only acknowledging that they read the policies and procedures, but they are more likely to comprehend the substance of the policies and procedures. Second, with almost 99% acknowledgment from third parties and/or vendors, companies can easily identify which vendors or third parties take this issue seriously and which relationships should be re-evaluated. Last but not least, if the regulators start an investigation into alleged corrupt activities by the third parties and/or vendors, the companies can clearly demonstrate the extra effort that is implemented in keeping the vendors and/or third parties informed about the companies' compliance programmes. This kind of action can be implemented by a company in any sector that deals with a great number of third parties and wants to ensure the ethical message gets across in a clear manner."

Peter Coleman, Executive Director; Head, Forensic, South-East Asia, Deloitte, Indonesia

Figure 9: World Economic Forum *Safeguarding Aviation and Travel Value Chains Against Corruption* Survey Results

Components of corporate compliance programme	Response rate	Is this a common component?
Written anti-corruption policies	86%	Yes
Whistle-blower hotline	86%	Yes
Independent anti-corruption compliance programme assessment	86%	Yes
Periodic risk assessments that evaluate country risk, business partner risk, internal control weaknesses and other factors that may indicate vulnerability to corruption	86%	Yes
Proactive transaction testing for specific countries or locations where corruption risks are high	0%	Yes
Due diligence reviews of third parties/agents/consultants/partners (joint ventures)	100%	Yes
Regular company-wide anti-corruption training for employees	100%	Yes
Engaged internal audit in monitoring compliance with anti-corruption policies and procedures	100%	Most of the time
Limits or controls around cash-based transactions	57%	Yes

Figure 10: Additional Safeguard Recommendations for the Use of Third Parties

	Activity	Tasks
Additional safeguards recommended related to the use of third parties	**Proactive transaction testing**	Companies should consider adding proactive transaction testing for high-risk countries and locations. The following steps can be a part of the proactive transaction testing: – Perform a risk assessment to identify which countries or regions are at high-risk of corruption. This assessment may involve looking at historical compliance problems and considering Transparency International's Corruption Perception Index results, among other factors – Select random transactions from processes/departments that are at a high risk of facilitating corruption. Some examples may include transactions associated with consultants, cargo agents, gifts, entertainment, permits and charitable donations – Review transactions for compliance with company policies and procedures; for example, proper pre-approvals and approvals, appropriate supporting documentation, reason for the expense, and other applicable checks – Evaluate the business purpose of the transaction and identify corroborating evidence that the product or service associated with the transaction was provided – Evaluate whether any discrepancies and anomalies were observed – If yes, compare to the company's policies and procedures to identify the possible reasons for the irregularities – If the policies and procedures allowed for the missing or inconsistent documentation or approvals, consider revisiting and updating the policies and testing other transactions to evaluate the impact – If the policies and procedures were clear and adequate and the irregularity came from not following the procedures, conduct an investigation to identify whether the transaction was a true anomaly or if the circumvention of policies was intentional and poses a greater risk for the company.
	Limit the value of cash transactions	Another control that should be considered as part of an organization's compliance programme is limiting the value of cash transactions for employees, especially if those employees are interacting with third parties on a regular basis. Cash transactions should be monitored very closely because the audit trail ends abruptly. Limiting the amounts and use of cash may close down one key channel for corrupt payments. Companies should: – Update their policies and procedures related to employee expenses and set specific limits on the use of cash, whether pre-approved or not – Take into account different markets the company operates in as the difference in currency values may be significant – Inform employees of the new or updated policy through formal communication, and perform reviews and checks to ensure the policies are followed.
	Evaluate whether third parties can be replaced with the company's own sales force	While the following steps may not represent a comprehensive approach to evaluating the use of third parties, they provide recommendations and questions a company may consider to implement that process and evaluate whether third parties can be replaced with the company's own sales force: – Perform a risk assessment of the company's operations to evaluate which processes, operations, regions, etc., present the highest risk of corruption – Obtain an understanding of the current costs related to the use of third parties in that region – Consider whether the company has established offices in the high-risk region. If not, would the change require establishing one? What are the potential costs of establishing and maintaining an office in that area? – Consider whether the company has to hire and train new employees or use its current sales force. If new employees, consider the one-time costs associated with the hiring process and future costs related to salaries, benefits, training, etc. – Be aware that while the replacement of third parties with internal resources may minimize the risk of corruption, that change may not completely eliminate that risk.
	Establish an ethics hotline	In addition to these leading practices, establishing an ethics hotline is another important safeguard to discover improper activity involving third parties. A hotline allows individuals to report suspicious observations with anonymity. To be highly effective, ethics hotlines should: – Be offered in the relevant local languages to facilitate their use – Be promoted as a safe way of reporting observations – Be taken seriously by those charged with receiving and acting upon ethics hotline reports.

4.3 Operational Risks

The risks discussed in this section present specific operational issues for the three sectors within the aviation and travel industry. Although these risks relate to the risks associated with third parties dealt with in a prior section, these risks have intentionally been carved out and included in a separate section to highlight their importance in the operational models of aviation and travel organizations.

Operational risks in the aviation sector

While legal in many countries around the world, facilitation payments create the wrong tone for any organization that is serious about compliance. Additionally, the pervasiveness of facilitation payments, especially in emerging markets like India, China and countries in South-East Asia, affects not only the aviation sector, but also other sectors that rely on speedy delivery of cargo. Although facilitation payments are legal in some countries, there are many reasons to establish programmes to minimize and eliminate these payments.

First, while the compliance officers and general counsels may have a clear understanding of the distinction between a facilitation payment and a bribe, the line between the two may not be so clear for aviation professionals in the field. Many times a bribe may be presented as a facilitation payment by the requestor so that the unaware payer interprets the payment as an innocuous cost of doing business, or the payer may knowingly classify it as a facilitation payment and subject the organization to bribery enforcement actions. Monitoring the distinction of facilitation payments and bribery is a difficult or sometimes impossible task that cannot be left to real-time interpretation in the field.

Second, the various anti-corruption laws and regulations around the world do not establish a universal norm for facilitation payments. Given the broad geographic reach of the aviation sector, analysing each country's stance on facilitation payments to create a compliance programme that varies by country is an inefficient approach. The burden of monitoring regulatory changes across countries over time makes the approach even more imprudent.

Third, facilitation payments can become expensive. If companies do allow for facilitation payments to accelerate the movement of cargo and passengers, their costs of service become inflated and airlines moving tonnes of packages and thousands of passengers each day bleed cash from the bottom line.

Fourth, facilitation payments pose a risk with regard to the payment act itself as well as the proper recording of the payment. It is doubtful that many (any) individual on the front line making a facilitation payment would be studious in ensuring the expense was recorded properly as a facilitation payment in the company's books. The more likely scenario is that the expense is disguised as something else, thus subjecting the aviation company to a violation of the books and records provision of the FCPA or other similar requirements in other bribery statutes.

Fifth, providing pre-approvals and ex post reviews of facilitation payments to ensure that the transactions meet the definition of a facilitation payment and are properly recorded in the books and records is a costly exercise. In combination with the other challenges related to facilitation payments, the additional resource requirements for running and monitoring a facilitation payment regime are not a valuable deployment of the company's human resources.

While the long list of issues does not stop there, the message is clear – allowing for facilitation payments creates substantial risk and ultimately affects the company's operations in a negative way. It is also fair to ask how ethical a company really is if facilitation payments are part of its business model.

Another very important point is the issue of facilitation payments in relation to passengers. Intentional holding of passenger and requests for payments to ensure "quick" processing actually delays the entire process of transporting people from one place to another, having an effect on the airlines and creating a chain reaction effect for ground transportation, hotels, places of business and others.

For the companies that prohibit facilitation payments, dealing with countries that allow for these payments is very time consuming and costly. The cost component comes with the delays the organizations face and the extra time they need to spend with the airport personnel to ensure things get processed and completed. Yet for other organizations, the additional operational cost comes with monitoring, approvals and reviews.

While the leading practice is to prohibit facilitation payments in any way, shape or form, companies are growing more impatient with the constant requests and demands for payments to process and move cargo or delays associated with keeping passengers at border crossings. The magnitude and complexity of the issue at airports is enormous and may not be tackled by the sector itself. Central government engagement in the issue is needed to change local mind sets. Organizations feel that to do their jobs efficiently this issue needs to be addressed more from the demand side, rather than from the supply side. The recommendation for addressing the issue of facilitation and customs payments is addressed in the next section of the report, Collective Action.

Operational risks in the hospitality sector

The operational risks related to the hospitality sector refer to the real estate the hotel brands are asked to manage and include mainly the construction and operating stages of the hotels. As mentioned previously, to construct a hotel in India, approximately 110 licenses and permits are needed throughout the construction phase alone, not to mention the multitude of licenses and permits needed to commence operations. Even though the hotels may not always be directly involved in overseeing the construction or asked to obtain the building and operational licenses, their business partners or other third parties involved in the construction of the hotel will need to obtain them. These types of governmental requirements create delays and roadblocks and serve as opportunities for corruption to take place.

A conceivable scenario that would lead to a possible violation of anti-corruption laws would be when a hotel developer needs to obtain an operating permit, or safety and health permits. There may be a temptation to offer cash, gifts, donations or free hotel stays if certain criteria needed for these permits are overlooked and the issuance of the permit or license expedited. Usually, the more complex and time-consuming a process is, the greater the opportunities for parties to engage in illegal activities.

A report by the World Bank called Doing Business – Measuring Business Regulations contains a section entitled "Dealing with Construction Permits". It tracks the procedures, time and costs to build a warehouse – including obtaining the necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections, and then ranks the economies, taking into account all the collected information. The information presented in the table includes the most recent round of data collection completed in June 2013, with the exception of transparency data, which was last updated in June 2012. Figure 11 presents 24 economies that ranked the lowest in relation to obtaining construction permits, including Albania, Eritrea, Libya and the Syrian Arab Republic, for which some of the data was labelled as "no practice".[10]

Another operational risk relates to ensuring that employees, including general managers, conduct business ethically in high-risk regions. Hotel brands are especially worried about the extra hospitality and gifts that their employees or the employees of the hotel developer may promise and provide to guarantee business with specific customers, including sponsors of conferences and various meetings. Renting out venues and meeting places is a significant component of the hotel industry, and many employees go to great lengths to obtain that business. High levels of employee attrition exacerbate the issue because such attrition triggers a recurring need for compliance education in regions where compliance norms may historically be misaligned with current international standards.

Figure 11: Dealing with Construction Permits

Source: World Bank, Doing Business – Measuring Business Regulations. Available at http://www.doingbusiness.org.

economyName	Rank	Time (days)
Albania	189	no practice
Eritrea	189	no practice
Libya	189	no practice
Syrian Arab Republic	189	no practice
China	185	270
Tajikistan	184	228
Serbia	182	269
India	182	168
Argentina	181	365
Azerbaijan	180	212
Lebanon	179	246
Russian Federation	178	297
Tanzania	177	206
Sierra Leone	176	258
Bosnia and Herzegovina	175	179
Moldova	174	291
Malawi	173	183
Puerto Rico (U.S.)	172	189
South Sudan	171	124
Zimbabwe	170	496
Iran, Islamic Rep.	169	319.5
Afghanistan	167	330
Sudan	167	270
Senegal	165	245

Companies have been stepping up their rigor in the area of employee training, ranging from a risk-based approach, (e.g. more training in the higher risk regions or specific training related to corruption) to ensuring that anti-corruption training is consistently up to date with new laws and regulations. Organizations have also been increasing the number of online training sessions available to employees in all regions, as well as doing in-person training to highlight the importance of the companies' ethical standards and anti-corruption policies and procedures. The central part of most of the organizations' messaging, however, not only in the hospitality sector but throughout the aviation and travel industry, is stressing ethical behaviour, which helps to ensure the right level of responsiveness from employees.

There is no panacea, no training or compliance programme that can completely deter or prevent corruption. Organizations must rely on their own understanding of their operations, risk assessment, gap analysis and safeguards to understand whether the current level of training is adequate. Leading practices suggest that all the current safeguards that the organizations have in place should help reduce the risk of corruption within an organization. Employee training, whether in-person workshops or online, building awareness among employees about the risks and issues with corruption, annual training certification, and frequent communication from the top all play an important role. In addition, providing employees with resources to

anonymously report any unethical behaviour and having the right process in place to deal with unethical employees should also be part of an effective compliance programme.

As companies explore new ways to deal with these operational risks, it becomes clear that action taken by one company may not make a difference for others. Until now, companies have kept a close watch on their operations and the operations of the third parties involved in the construction and pre-operational phases of hotels in high-risk countries. Those organizations' actions, however, do not eliminate a large number of opportunities for improper activity. Therefore, a recommendation for cross-sectoral action is suggested and described in the latter part of this report.

Operational risks in the aerospace sector

The global footprint of the aerospace sector has been expanding at a rapid pace. As aerospace companies embark on entering new countries, they sometimes find themselves dealing with new compliance issues. Exploring new emerging markets involves dealing with different cultural norms, customs and traditions, new governmental rules and regulations, and new competitors and demands. Some of these factors may be troubling – for example, a government may have its own anti-corruption rules and regulations but weak enforcement. Or the processes involved with procurement in a specific country may be opaque. An ethical company pursuing legitimate business faces an uphill battle in a jurisdiction with ambiguous procurement rules and competitors that exploit weak anti-corruption enforcement.

Many emerging markets specifically present higher corruption risks as weak government compliance infrastructure presents many opportunities for corruption. In many countries, anti-corruption statutes may be in place without an effective means of enforcement, thus negating any deterrent power of the statute.

Overall, the aerospace sector has gone to great lengths to encourage fairness in government dealings. Since agents and third parties present a greater risk to the companies than their own sales force, some companies are beginning to minimize using agents. The organizations also do their homework on the new countries and familiarize themselves with the specific compliance requirements of the markets they are trying to enter. They perform due diligence on the rules and regulations, culture, traditions and competition, among other things. Unfortunately, all those efforts are often not enough because the local governments and certain competitors are not interested in a fair game.

The aerospace sector experience in different markets around the world indicates that the procurement process in certain jurisdictions may be a lengthy and complex negotiation process. When selling to a new government, navigating these business and compliance complexities puts the company's reputation at risk. Because each country may have its own process in place at the national and local government level, the research and work that goes into understanding the requirements is a tremendous task. As the companies grow more frustrated with the complexity of the sales process and public contracting, a possible sectoral solution to this problem is recommended.

In addition to the current safeguarding and risk mitigating processes that aerospace companies have in place, additional recommendations are made in the latter part of the report, describing a call to collective action for the aviation and travel industry to engage regional and local governments in discussions about how to address and standardize the processes described above.

Case Study: Transparency in China

As described in an article that appeared in *China Business Review*, while the central and large state-owned entities have improved their transparency in procurement processes, issues are still prevalent at the local and provincial level.

"…Transparency issues can take many forms. Multiple firms stated that under-the-table deals occur between certain end-users and suppliers that come from both China and other countries with more relaxed anti-corruption laws than the United States. …"

Source: *China Business Review*.[11]

4.4 Loyalty Programmes/Gifts/ Entertainment and Hospitality

4.4.1 Loyalty programmes

Hospitality and aviation sector risks

Hotel brand and airline loyalty or reward programmes are a way to maximize the lifetime value of a customer. However, these same reward points that customers collect while they stay at their favourite hotel or fly with their favourite airline also present a risk. Reward points have become a currency with which individuals can purchase airline tickets, hotel rooms, merchandise, or sporting and entertainment events. This is effectively a digital currency that, if not monitored correctly and closely, can be transferred from one person to another in an abusive manner.

Case Study: Using Reward Points as Bribes

A hotel employee promises to award extra points to an agent or third party working with a government official on behalf of the hotel. The agent or third party then uses the points to offer free nights, gifts, upgrades and other types of benefits to the government official in order to secure specific benefits for the hotel. It is even possible that the hotel employee may give the points or upgrades to the government official directly.

A hotel employee promises extra reward points or upgrades to an individual who is negotiating for a conference to be held at the hotel. The meeting is related to government functions and attendees will be mostly government officials. The hotel employee is also promising to provide extra care and hospitality related to the event in order to secure the business.

In 2012 Philippine Airlines (PAL) came under fire for giving platinum cards and free trips to Congressman and Chief Justice Renato Corona, who was the judge presiding in a litigation case against PAL. It was established that the Chief Justice went on four overseas trips and his wife took 12 trips. Even though there was no investigation into the gifting of the platinum cards to the individuals, one of which was a government official, in the Senate's mind that was bribery. "….All we are saying is this is the motivation. We wanted to show the motive why the Chief Justice was partial for Philippine Airlines. In our minds, that was the inducement."

Source: http://www.abs-cbnnews.com.[12]

Understanding this is an important concern; companies are stepping up their controls on reward programmes, loyalty programmes and other types of customer rewards. Most of the companies ensure there are written policies and procedures around their loyalty programmes for customers as well as employees. These controls include restrictions on who earns points for a member's account, who cannot be part of the rewards programme or participate in special programmes.

While the distribution of the reward points is authorized by the general manager in most organizations, monitoring whether the rewards were distributed in compliance with the company's policies and procedures is not the same across all companies. Some companies have a centralized monitoring unit that ensures the distribution of points is done in accordance with policies and procedures and that rewards/points are given out only for specific and valid reasons. Other organizations use a very robust electronic monitoring system that can provide various detailed reports that are later reviewed manually, especially if any anomalies are found in the reports.

Recommendations

While the topic of corruption risks related to loyalty programmes is still quite new, there are a number of controls organizations can put into place to start monitoring their loyalty programme activities. The following recommendations should be considered to minimize the corruption risk around an organization's loyalty programmes.

Figure 12: Additional Safeguard Recommendations for Loyalty Programmes

	Activity	Tasks
Additional safeguards recommended for loyalty programmes	**Perform a risk assessment**	– Perform a risk assessment of the loyalty programme to identify all the potential points where opportunities could be used for corrupt activities – Have an understanding of which countries, regions and operations present a risk as an important step to effective monitoring. For example, a property owner in India may be struggling to obtain an occupancy permit from the government. He therefore negotiates with the government official that if the official issues the permit, the owner will ensure the government official will receive enough reward points once the hotel opens for business to offer him a free stay for a week. The government employee then issues the permit based on the quid pro quo arrangement.
	Educate employees on the risks associated with loyalty programmes	– Tailor the training and provide specific case studies or examples that would help with a clear understanding of the issues and consequences involved – Provide easy access for employees to the policies and procedures.
	Understand different ways of tracking programme activities	– Understand different ways of tracking programme activities, e.g. robust, electronic tracking, manual approvals by local general managers, a centralized team for reviews, and combinations of different approaches to keep the reviews effective – Employ tracking methods that are suitable for the company's operations. Reviewing reports generated by the system could be used as acheck to ensure policies and procedures are followed by employees.
	Periodically test policies and procedures set around the loyalty programmes	Similar to the testing of the compliance programme to understand whether it is effective, periodically test the policies and procedures for the loyalty programmes. The frequency and thoroughness of the testing should be based on the company's assessment of this specific risk.
	Investigate anomalies in reports	– Investigate anomalies in reports, whether obtained through an electronic system or manually, in a timely fashion. For example, if a threshold is set for the accumulation of points and a member receives more than the allowed threshold, this irregularity should be reported and reviewed by an authorized person.

While these steps may not represent a comprehensive way of safeguarding against the use of an organization's loyalty programmes for corruption, companies should consider adding these to their current safeguards to mitigate the risks.

4.4.2 Gifts, entertainment and hospitality

Gifts, entertainment, hospitality and other expenses of this type are appropriate transactions and are common among all businesses. However, if not monitored adequately, these expense categories can prove to be one of the best conduits for fraud and corruption. And the grey line between what is allowed and not allowed keeps many compliance officers up at night.

The hospitality sector understands that this area is an important issue to monitor, especially because hospitality provides opportunities for abuse with respect to interactions with government officials. For example, putting a government official in a resort with his family to gain or retain business is a common scenario in corruption enforcement reports.

Another important issue for hotels associated with entertainment and hospitality is related to securing business with government officials who are seeking to book the hotel for an event or a meeting. Usually, before the event is booked, the government officials want to "test" the hotel to ensure the right service, amenities and food are offered. As hotels allow for these types of services to be provided to the government officials, they need to ensure their employees are sensitized to the issues of corruption and monitor the "tests" closely so as not to provide excessive entertainment and hospitality for the government official to win his/her business.

As hospitality organizations enter new regions and countries, the complexities of different traditions and customs for gift giving is a challenge. Gifts are common in some countries

and may even be seen as an important part of doing business. Understanding the culture while ensuring that the company's policies are followed is sometimes a very delicate balance.

For the aerospace sector, gifts, entertainment and hospitality are also a concern, especially during the certification process or the sale process to a government entity, including state-owned airlines.

A certification process for aircraft is a key hurdle in going to market. The certification is done by a government regulatory body and it ensures that all the required manufacturing specifications and regulations have been met. The gifts and entertainment risks are related to the types of expenses, if any, that should be covered by the company during the government official's visit to the manufacturing plants, both domestically and internationally. Types of expenses that may or may not be covered are meals, hotel stays, or any entertainment expenses. On numerous occasions aerospace organizations receive specific requests from visiting regulators asking for the company to pay for every expense related to the trip, such as flights, hotels, ground transportation, meals and incidentals, even though the company has shared its policies and procedures with the regulator and they do not allow for these expenses to be reimbursed.

The same concerns are present in the sale process to government entities or state-owned airlines.

Recommendations

One company's detailed components of the compliance programme may differ from another company. Some companies will allow for some gifts and entertainment and others will strictly prohibit them to minimize the risk of corruption. Giving gifts, or providing entertainment and hospitality to government officials or others, is generally not prohibited by various laws and regulations. However, if companies do allow for these, then a company should closely evaluate the types, values and motives behind gift giving and entertaining. For example, the FCPA Guidance addresses gifts, entertainment and hospitality. While it notes that these expenses are allowed, it also says that the DOJ and the SEC would likely take enforcement action against a company if the gifts, entertainment and hospitality include large sums of money, whether in cash or in kind and/or have been given with a corrupt intent to gain or retain a business with the government agency. Valuable gifts, entertainment or hospitality could be corruptly provided to a regulator or a government official regarding the inspection of plants, equipment or manufacturing with the intent of influencing an inspection decision. If the trips related to the inspection of equipment or processes, training or other reasons are truly legitimate, the DOJ and the SEC also warn companies to be aware of "side trips" that would include sightseeing, extravagant entertaining or payments for family members' trips.

Figure 13: Examples of Improper Travel and Entertainment Expenses Provided by the FCPA Guidance

Source: FCPA Guidance.

Examples of Improper Travel and Entertainment

- a $12,000 birthday trip for a government decision-maker from Mexico that included visits to wineries and dinners
- $10,000 spent on dinners, drinks, and entertainment for a government official
- a trip to Italy for eight Iraqi government officials that consisted primarily of sightseeing and included $1,000 in "pocket money" for each official
- a trip to Paris for a government official and his wife that consisted primarily of touring activities via a chauffeur-driven vehicle

Scrutiny of gifts, entertainment and hospitality expenses should be robust in order to mitigate the risks of corruption. Below are examples of components of an effective compliance programme that organizations should consider having for gift giving, entertaining and hospitality.

Figure 14: Additional Safeguard Recommendations for Gifts, Entertainment and Hospitality

	Activity	Tasks
Additional safeguards recommended for gifts, entertainment and hospitality	**Have clear and standardized guidelines around gifts, entertainment and hospitality**	An effective compliance programme should have clear and standardized guidelines on gifts, entertainment, hospitality and other similar expenses with specific limits on the value. These policies and procedures should be made available to everyone with adequate monitoring.
	Monitor compliance with set policies	A company may employ different types of monitoring, and the type will depend on the size of the company, its internal policies on gift giving, and other factors. Some examples of monitoring may include: – Manually pre-approving every gift, entertainment, hospitality or other expense by the supervisor that could qualify as a gift – Establishing value limits on gifts – Automatically approving gifts within a certain value range and manual pre-approval or approval if the value is above the specified limit.
	If automatic approvals are used by the company, the company should consider an additional layer of review to ensure that employees are complying with the company's policies and procedures	If automatic approvals are used by the company, an additional layer of review should be employed to ensure that employees comply with the company's policies and procedures. Reviews could include randomly testing transactions in a high-risk region, searching for duplicate amounts, round amounts, unusual types of expenses submitted as gifts, or submissions by individuals who are not related to sales. However, no matter how small or big the gift is, the intent and motive behind it is what should drive the approval of the gift, entertainment or hospitality expense.
	Provide gifts that have the company logo on it	A common practice seen throughout the different industries that could be considered by companies that allow gift giving is providing gifts that have the company logo on it. Putting a company logo on a pen, writing pad and other types of items is considered promotional.
	Keep adequate books and records	As the list of the various gifts, entertainment and hospitality expenses grows, the differentiation between bribery and gifts may rest in the value and the intent. In addition to the considerations that need to be applied before the gifts are made, companies should also ensure that any type of payment made to a government official is also properly recorded in the company's books. Not recording the payment or recording it as something other than what it actually is may qualify as failure to keep adequate books and records in relation to its operations.
	Monitor "test" stays for government officials	While many companies allow the government officials to "test" the amenities, services and catering provided by the hotels, those "tests" should be strictly controlled by the companies in order not to allow for excessive or lavish entertainment of those individuals in order to win their business. Companies should consider: – Having specific policies and procedures related to those "tests" and ensure employees are trained and aware of them – Maintaining proof of services provided during the "tests" for auditing.

If a company decides to not allow any gift giving, entertaining or payments for hospitality, then those policies should be readily available. In some instances, presenting the company policy to a government official soliciting improper reimbursement of any travel and other expenses may be an effective deterrent.

5. Collective Action Agenda for the Aviation and Travel Industry

In addition to strengthening corporate safeguards and compliance programmes, the aviation and travel industry is also in a unique position to foster and lead collective action to address the market dynamics of corruption that affect the aviation and travel value chains by collaborating engaging key stakeholders in designing corruption out of these value chains.

As stated in 2001 by the World Bank Institute, as corporate compliance activities alone will not be enough to bring about significant ethical changes, collective action increases the impact and credibility of individual action, brings vulnerable individual players into an alliance of like-minded organizations, and levels the playing field for competitors. Collective action can complement or temporarily substitute for and strengthen weak local laws and anti-corruption practices.

Strategically, collective action is a tangible demonstration of a company's commitment to many of the principles underlying corporate social responsibility and effective compliance programme activities. Ancillary corporate benefits may develop from these practices as investors, non-governmental organizations and regulators recognize a company's emphasis on positive, sustainable business behaviour.

Operationally, collective action can be incorporated into a company's project management, corporate risk management, and compliance activities.

Through the project work, a Collective Action Agenda has been defined for the aviation and travel industry. The following pages detail the rationale and potential implementation roadmap for each of the actions on the agenda.

The Aviation and Travel Collective Action Agenda

1. *Seek sectoral alignment on compliance*

   The industry has the opportunity, through various industry associations and PACI, to foster sectoral alignment to level the playing field on compliance throughout each sector, with smaller or more-regional players in value chains.

2. *Build cross-industry and public-private coalitions to address global strategic risks*

   The industry can take the lead and engage with the appropriate stakeholders to address the market dynamics of corruption inherent to aviation and travel operations that have cross-industry and cross-region implications:

   Hospitality: licensing and permits
   Build a coalition between the hospitality, real estate and construction sectors to promote transparent and streamlined license and permit processes for hospitality real estate development and operations in emerging markets

   Aerospace: government procurement
   Engage industry associations and sectoral coalitions in a long-term initiative to promote integrity within the aerospace procurement process with governments in key regions

   Aviation: facilitation payments
   Create a work programme to facilitate global collaboration among organizations, such as WCO, TIACA and IATA, among others, as well as governments, and connect ongoing initiatives that have the potential to eliminate facilitation payments at a regional and global scale.

3. *Collaborate with responsive governments to design corruption out of local value chains*

   Through PACI, the aviation and travel industry has the opportunity to focus on working with engaged governments on the development of local collective actions to improve regional aviation and travel industry competitiveness by fighting corruption. In addition, through these dialogues, the industry could foster a greater understanding of the regulatory environment and work on practical solutions with local stakeholders to mitigate risks for the industry.

4. *Position the industry as part of the global fight against corruption*

   Industry leaders, CEOs and senior executives have the opportunity to seek to communicate the collective actions agenda and position the aviation and travel industry as part of the global fight against corruption. In addition, the industry can leverage this agenda to influence the global, regional and other industry agenda, whether through PACI, the B20 Task Force on Transparency and Anti-corruption, or other cross-industry, multistakeholder forums.

5.1 Foster Alignment on Compliance at the Sector Level

Through associations and PACI, the aviation and travel industry can foster an alignment to level the playing field for compliance throughout each sector especially with small and medium-sized enterprises (SMEs). Some key areas:

Standardization and inclusion of termination clauses in agreements with third parties

– A leading practice has been to include a termination clause stating that upon violation of any representations and warranties, including anti-corruption, the agreement can be terminated with no penalties or consequences for the party not in breach.

Standardization of the due diligence process for third parties in the aerospace sector

– Due diligence on third parties before engaging them is exceptionally important. Some companies rely on internal resources to perform the due diligence, ask questions, complete background checks and the like. The process differs by country and company, depending on the risk associated with the regions and a given third party. To streamline efforts, the process could be standardized for countries or regions for specific industry sectors.

"Certification" of third parties in the aeropsace sector

– A certification process could allow companies to access the same information another company has through the use of an independent "verification consultant." The verification consultant would conduct due diligence using standard procedures for the sector, and make the information available to others for a fee.

5.2 Address Global Strategic Risks through Cross-Industry and Public-Private Coalitions

The industry has the opportunity to take the lead and engage with appropriate stakeholders to address the market dynamics of corruption for strategic risks that have cross-industry and cross-region implications.

While these issues may not be the most pressing for companies in other industries or even countries aspiring to improve their travel and tourism competitiveness, the cross-industry effects and scope affecting value chains and processes beyond the aerospace, aviation and hospitality sectors are significant enough to bring all parties to the table to strengthen anti-corruption commitments. Three specific issues are:

1. Licenses and permits for hospitality providers
2. The aerospace procurement process
3. Facilitation payments in aviation

Through issue-based coalitions and scoped actions, the industry can build the credibility to create incentives for stakeholders to change policies and behaviours and to minimize or even eradicate corruption by individuals within companies and governments by addressing these specific issues.

There is no magic solution. These issues involve deep-rooted practices that are common, acceptable behaviours in many regions. However, through a common, neutral platform for dialogue, governments may be more inclined to respond and engage under global industry leaders to foster wide changes in their countries.

Hospitality: Licenses and permits

Most hospitality companies manage or own their flagship properties, airport properties, and largest resorts. Yet international hotel groups have been reluctant to invest directly in emerging markets, preferring to enter into management or franchise arrangements so as to share the risks.

A main risk relates to local legislation and land ownership, especially licenses and permits. To mitigate this risk and gain help in manoeuvring with local lending institutions and through the local licenses and permits process, it has become common practice for hospitality companies to partner with local developers.

But even such indirect involvement in the local licenses and permits process creates a moral hazard situation and an indirect risk of corruption through local developers' actions because the hospitality companies have their brand attached to the project.

Obtaining the licenses and permits to build and operate hotels is a complex, lengthy process full of opportunities for bribery and abuse in the face of minimal accountability, transparency and coordination. Addressing the corruption dynamics in the licenses and permits process for hotels requires looking beyond the usual anti-corruption policies and regulations and analysing the incentives the process offers to address the heart of the issue:

– In many countries the complexity of the licenses and permits process is amplified by the lack of transparency caused by the absence of centralized accountability and the proliferation of discretionary powers among officials of many jurisdictions (municipal, regional, national) and functions (environmental, building, land use).

– In some jurisdictions, companies are required to use local partners for investment and are highly encouraged to use "preferred" local developers, which exacerbates the third-party moral hazard risk.

– Negotiations concerning additions to specifications and cost overruns of construction investment are critical to the profitability of a project with local developers – and offer opportunities for consultants or clients to attempt to leverage payments or other benefits.

– In many countries, public, state-owned real estate funds or developers take part in building the industry, requiring a substantial degree of involvement by the government and increasing the opportunities for corruption.

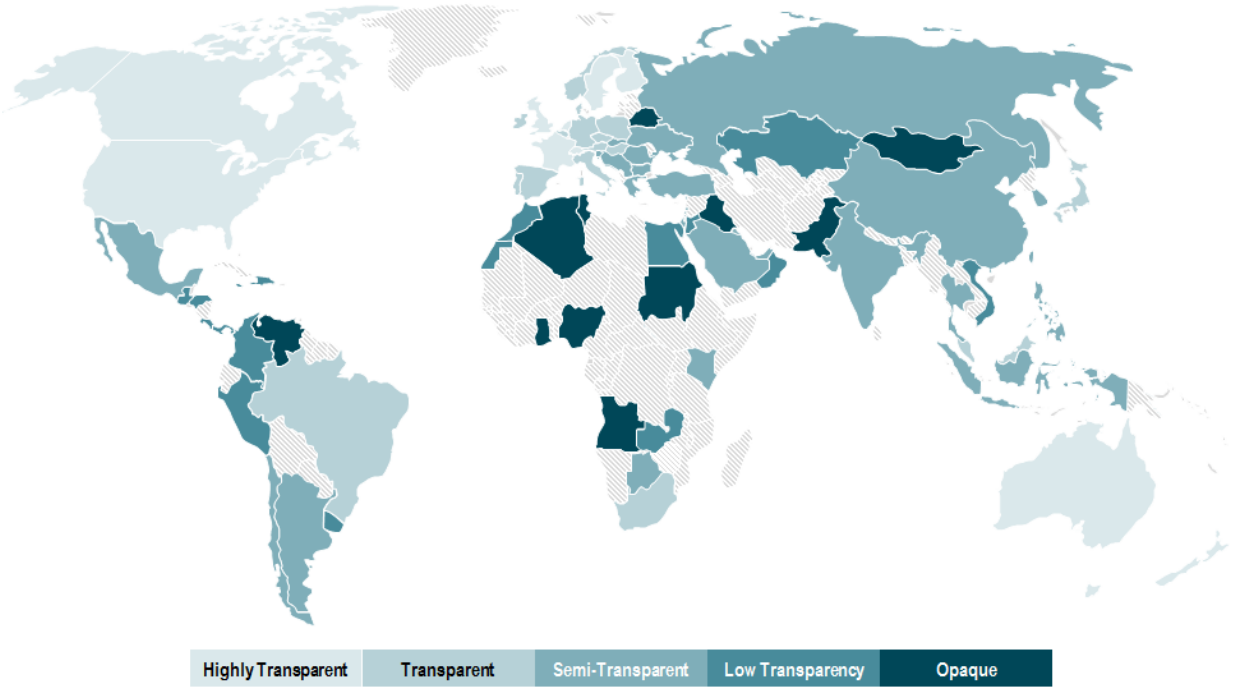
Companies can enhance their compliance programmes and due diligence processes for third parties and joint venture partners. But there is an opportunity to reduce corruption incentives by building a common understanding of local rules and regulations and seeking to reform and streamline regulatory processes, where appropriate, with relevant jurisdictions and agencies in specific countries.

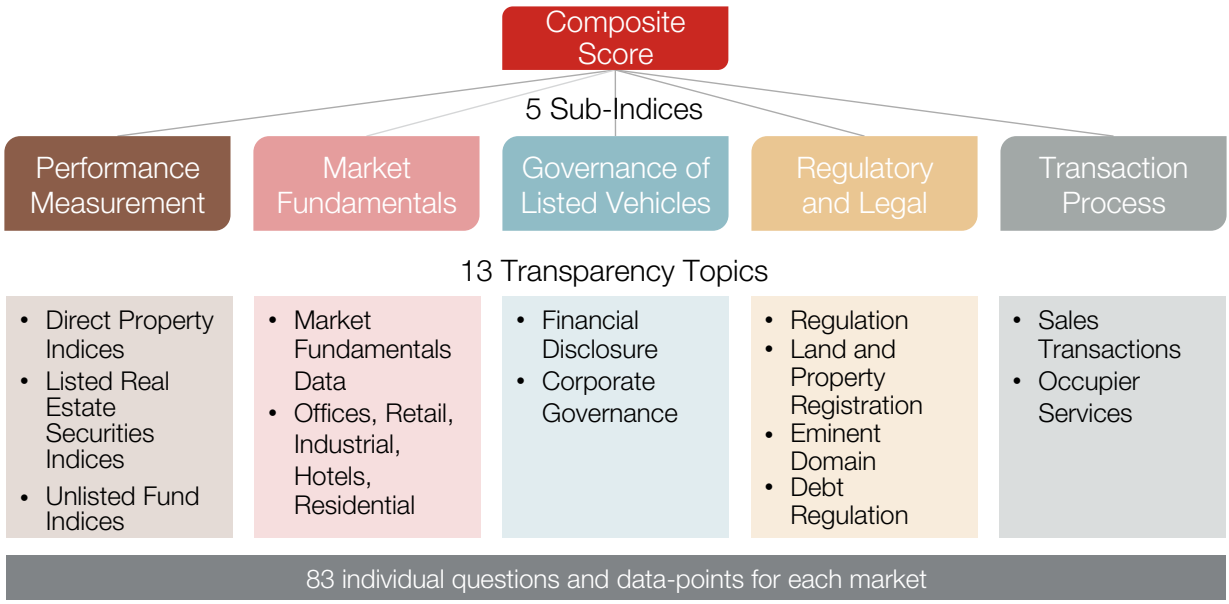
With broad public brand recognition and worldwide credibility in fostering economic development through tourism and cooperation with various governments, the hospitality sector is well placed to take the lead in addressing this issue. Yet hotels represent only a small percentage – less than 10% – of the real estate and construction market. The real estate and construction sectors face the same challenges. They should be engaged to foster collective action to address corruption in obtaining licenses and permits for construction and operations in key regions.

One initiative has already been undertaken by Jones Lang Lasalle: the Global Real Estate Transparency Index. The Index is a biennial survey covering 97 real estate markets worldwide. It aims to help real estate players understand important differences in transacting, owning and operating in foreign markets.

Figure 15: Global Real Estate Index 2012, Jones Lang LaSalle

Source: Jones Lang LaSalle, LaSalle Investment Management





In its analysis of the 2012 index, Jones Lang Lasalle highlighted that "corruption scandals (often involving the permit process for commercial real estate development) have drawn attention to the need for robust regulatory and legal frameworks and fair real estate transaction processes". They also mentioned that "governments will pay closer attention to the circumstances that engender under-the-table payments". Hence, the timing is right for collective action.

A recommendation to create a coalition

Establishing a global coalition among hospitality sector leaders, real estate developers, and private and institutional investors in real estate could be an effective means of coordinating efforts to embed transparency in licensing and permit processes. A global coalition would also provide incentives for governments to address drawbacks and loopholes in their license and permit processes and collaborate on solutions to current problems. Possible solutions could include strengthening controls over people and processes, ensuring regulations and policies are enforced, incorporating technology and building automated processes, as well as ensuring enforcement, incentives or rewards for "clean" processes.

Although such reforms will reduce opportunities for corruption, they will require close attention to the capacity of governments to build and enact reforms adapted to their situations. Where government lacks such capacity, policy reforms may increase the risk of corruption, especially in areas that become ripe for collusion among local developers, as in real estate. The coalition should work towards considering and helping to strengthen institutional capacity in tandem with achieving policy reforms.

The coalition's first task should be to leverage previous efforts, such as the Global Transparency Index, to foster a common understanding among stakeholders and sectors. It should identify industry standards and practices related to investment and the licenses and permits processes, and establish rules of engagement throughout the sectors.

Obtaining an understanding of standards to align how real estate, construction and hospitality companies are willing to approach the issues of permits and licenses in key regions would enable the sectors to establish a much stronger business case and provide guidance on how to move forward. It would also generate momentum to engage and incentivize governments in promoting the agenda.

Such coalitions have been established in other industries to tackle specific challenges. For example, the Wolfsberg Group addressed money laundering in private banking and the International Forum for Business Ethical Conduct (IFBEC) focused on fostering ethical standards in the aerospace sector. The best practices from these two examples can be leveraged to build a successful coalition.

The strength of such initiatives lies in the participants' voluntary commitment to apply such standards in all jurisdictions, thereby creating a level playing field and incentivizing stakeholders to raise standards on the "supply side" to attract investment from the major players in specific sectors. The members of these coalitions included a critical mass of leading companies, giving the coalitions credibility and attracting new members as momentum built. Although risks related to strict compliance with the principles depend on specific "auto-enforcement" from the signatory, an external facilitator such as the PACI or Transparency International can also boost an initiative's credibility.

Case Study: The Wolfsberg Group

The Wolfsberg Group is an association of 11 global banks that aims to develop financial services industry standards and related products for policies related to knowing your customer, anti-money laundering and countering terrorist financing. Founded in 2000 with the collaboration of representatives from Transparency International, it is chaired by Professor Mark Pieth of the University of Basel and chairman of the OECD Working Group on Bribery in International Business Transactions. It came together to work on drafting anti-money laundering guidelines for private banking. The Wolfsberg Anti-Money Laundering Principles for Private Banking were published in October 2000, and revised in May 2002 and again most recently in June 2012. The Group is also providing guidance on a number of areas of banking activity where standards have yet to be fully articulated by lawmakers or regulators.

Case Study: The Aerospace Industry International Forum for Business Ethical Conduct (IFBEC)

In 2010, the International Forum for Business Ethical Conduct (IFBEC) was launched through a joint effort from the Aerospace Industries Association and the Aerospace and Defence Industries Association of Europe. IFBEC developed the Global Principles of Business Ethics for the Aerospace and Defence Industry to provide guidance to the sector on issues that may affect ethical business conduct. It is also a platform for the exchange of information and best practices concerning ethical business challenges, practices and opportunities among the sector's stakeholders worldwide.

IFBEC's 25 members include both large manufacturers and members of the supply chain. Early this year, IFBEC welcomed its first member outside the United States and Europe. By extending the initiative geographically, IFBEC aspires to become a truly international coalition of aerospace and defence companies that share a commitment to the highest ethical standards.

Goal of the initiative

To promote transparent, streamlined processes for licenses and permits for development and operations of hospitality real estate in emerging markets

Coalition members

- Hospitality companies
- Real estate companies
- Private investors

Implementation

Pending leadership and interest, the initiative could be facilitated by the World Economic Forum - PACI:

- Communicate with PACI members from the real estate and construction sectors at the next PACI meeting at the World Economic Forum Annual Meeting 2014 and build consensus on project goals
- Establish a working group of active PACI members from the hospitality, real estate and construction sectors to refine the coalition concept and initiate work on industry standards
- Open a dialogue at the 2014 World Economic Forum on East Asia in Manila and the World Economic Forum India Summit 2014 to foster government buy-in for this private sector initiative, conduct potential gap analysis, and refine the agenda with interested governments
- Establish a steering committee to take over the initiative by January 2015.

Aerospace: Engaging governments to standardize procurement processes

In many countries, the aerospace procurement process (for both defence and commercial purposes) is prone to bribery and corruption, putting additional pressure on the private sector beyond legal and regulatory compliance requirements such as the Foreign Corrupt Practices Act and the UK Bribery Act.

Transparency International describes the aerospace and defence sector as one of the most secretive and one in which it is difficult to openly discuss corruption issues. This largely relates to the intense competition, high financial stakes and secrecy surrounding aerospace procurement. In 2010 alone, Transparency International estimates that at least US$ 20 billion was lost to corruption in aerospace and defence procurement efforts.

Many aerospace companies offer commercial aviation products in addition to defence products. Because of the decline in military budgets worldwide, the main manufacturers are looking for growth opportunities in commercial aviation in emerging markets in countries where many airlines are state owned. Sales and maintenance contracts for state-owned airlines are naturally part of the aerospace procurement process, with officials of foreign state-owned airlines considered “foreign government officials” under anti-corruption laws and regulations. The corruption risks inherent in doing business with foreign state-owned airlines are as great as those of doing business with foreign ministries of defence.

Some common issues in the aerospace procurement process:

- In many countries, the complexity of the process is amplified by a lack of transparency caused by the absence of centralized accountability for officials, heightened by the political appointment of key executives and officials engaged in the process (including at state-owned airlines).
- In some jurisdictions, companies must use local partners for investment and are encouraged to use “preferred” local developers, which exacerbates the third-party moral hazard risk.
- In many countries, procurement arrangements include offset contracts, which include non-monetary compensation for goods or services delivered.
- In some jurisdictions, certain procurement requests are tailored to the current product and service offerings of a specific contractor. Often, these situations lead to sole source contracting without due process.
- The export licensing process, which involves many stakeholders dealing with sensitive information, can provide opportunities for corruption and other security risks.

Given the increasing focus on issues of reputation and license to operate, companies exposed to the industry’s civilian and defence segments are paying extra attention to both local and international regulatory and ethical issues.

A recommendation to extend aerospace private sector integrity principles to government

To further mitigate the risks associated with the aerospace procurement process and build on the industry principles and efforts led by IFBEC, the aerospace sector should engage governments in adopting similar principles and developing joint public-private “integrity guidelines”. The guidelines should bind both industry and government to ethical conduct and address the risks embedded in the current procurement processes in key regions.

This type of action would give companies the assurance that procurement, privatization or licensing agencies will try to prevent corruption, including extortion, by their officials and to follow transparent procedures and screening of parties involved in these transactions.

For governments, “integrity agreements” would reduce the high cost and distorting impact of corruption on public procurement, privatization and licensing. Strengthening anti-corruption measures and enforcing them appropriately will keep foreign organizations’ interests in a country’s development and investment opportunities, adding to economic growth in that country.

Such integrity guidelines could involve:

- Commitment from governments that
  - No official will demand or accept any illicit payments to give any of the parties an advantage at any stage of a project
  - No officials will make confidential information available to a bidder or contractor to give unfair advantage
  - All third parties involved in the process (especially for export licensing) will be thoroughly screened and a monitoring mechanism will be implemented
- Coverage of all phases and activities related to investment projects, from needs assessment and justification to pre-selection of bidders, bidding and contract award, implementation, completion and operation
- Building of governments' institutional capacity to enact policy reforms to close loopholes in their current aerospace procurement processes:
  - Re-engineering processes with embedded control mechanisms
  - Reviewing discretionary power of officials throughout the process
  - Strengthening and building more efficient enforcement and incentive/reward systems for a "clean" process
  - Benchmarking best practices for adaption to the local context.

Effective implementation and the will to address issues beyond compliance and disclosure are the keys to making such an integrity agreement powerful, and not merely another voluntary standard with no effect. Hence, timing to enact these with governments is quintessential and should be adapted to local context.

Goal of the initiative

To promote integrity in the aerospace procurement process in key regions

Coalition members

- Aerospace original equipment manufacturers
- International Forum for Business Ethical Conduct (IFBEC)
- Relevant governmental agencies (defence, export licensing)
- State-owned airlines

Implementation

The initiative could be facilitated by IFBEC, with the support of the World Economic Forum – PACI to:

- Communicate with IFBEC and build consensus about goal
- Establish a working group composed of active IFBEC and PACI members to refine the integrity agreement concept
- Establish a dialogue at the 2014 World Economic Forum on East Asia in Manila, Philippines and 2014 World Economic Forum India Summit to foster government buy-in and initiate discussion among coalition members
- Establish task forces in key countries to take over the initiative by January 2015.

Aviation: Facilitation payments

Facilitation payments are one of the few policy issues that stretch across the entire aviation community. Addressing them systemically would benefit every stakeholder, not only in this sector but also in others.

For legal purposes, facilitation payments are distinguished from bribery, though the distinction is often blurred (see section 4.3). Small, unofficial payments that are customary and even legal in some countries may present a liability risk according to the laws of a host country. Even where they are legal, facilitation payments are still considered questionable business ethics. Many companies therefore restrict or severely limit facilitation payments; however, this practice is not yet widespread.

For the aviation sector, the issue with facilitation payments lies in a set of obligatory interactions and administrative processes involving officials as part of aviation value chains for both passenger and cargo operations.

Passenger processing:

- Obtaining and processing visas
- Processing and clearing customs
- Processing and clearing immigration services
- Processing through security

Airline operations:

- Obtaining permits, licenses and other official documents
- Training and licensing pilots
- Handling ground operations
- Obtaining flight clearances

Cargo operations:

- Obtaining permits, licenses or similar documents for exports and imports
- Processing and clearing export and import customs
- Loading and unloading cargo
- Handling cargo

Most government agencies manage multiple roles and responsibilities (such as security and trade/travel facilitation). Their diligent efforts to achieve transparent processes are frequently hindered by the unethical behaviour of officials in many countries. Corruption attempts, such as requests for facilitation payments, can cause delays and inflate the cost of an already cumbersome process; open up opportunities for damage, loss and pilferage; inflate insurance charges;

reduce customer confidence and satisfaction; and disrupt supply chains.

For cargo operators, the customs agents who directly control major revenue collection operations and wield discretionary powers to approve the foreign currency value of export consignments are in an ideal position, in many countries, to demand bribes.

With travellers, security and custom agents can find themselves under immense, often irresistible, pressure to connive in and channel facilitation payments, extorting, at the arrival gate, people who are willing to generate economic activities in their countries through business or tourism.

In some countries, officials throughout value chains have become unwilling scapegoats, facing a constant threat of exposure as international anti-corruption sentiment and action gain in scope and momentum.

The issue of facilitation payments should not be treated in a vacuum. Solutions and potential areas for action should link to current efforts on trade and travel facilitation as, most of the time, facilitation payments are a symptom of inefficient institutions, trade and travel regimes.

The bulk of the effort has focused on customs policy and oversight reforms, though other solutions are also worthy of attention. For example: embedding technology in travel and trade facilitation to foster automated check-ins, border processes and e-commerce and logistics.

Case Study: World Customs Organization Effort on Custom Reform

With national customs administration agency members from 179 countries, the World Customs Organization (WCO) is taking an active role in addressing the complex problem of corruption in customs. Integrity in customs was first placed on the WCO agenda in the late 1980s; work then culminated in 1993 with the adoption of the WCO Arusha Declaration on Integrity in Customs. This Declaration shows the willingness of the WCO to encourage its members to comply with rules governing integrity and to carry out their activities effectively. It is the focal point for the WCO's anti-corruption and integrity development effort.

Since the adoption of the Declaration, the WCO's integrity strategy and programme has progressed. Institutional mechanisms, such as an integrity working group (currently called the Integrity Sub-Committee), have been established. Supporting instruments, such as the *WCO Integrity Self-Assessment Guide*, the Model Code of Ethics and Conduct, and the WCO Integrity Action Plan, have been developed.

The WCO adopted the Revised Arusha Declaration in its Council Sessions in 2003. In June 2005, in response to the recommendation made at the 3rd Global Forum on Fighting Corruption and Safeguarding Integrity, the WCO produced the first version of the *WCO Compendium of Integrity Best Practices* in collaboration with its member administrations. A database of best practices was also developed.

Since 1 January 2006 the WCO has initiated a number of capacity-building programmes and activities. The most significant is the Columbus Programme, Aid for SAFE Trade. There have been many undertakings to improve integrity in customs at national and regional levels in addition to the global efforts. The key examples are the Maputo Declaration, adopted in March 2002 by the heads of customs across the African continent; the Almaty Integrity Resolution (Kazakhstan, January 2007); and the Nairobi Resolution on Integrity (Kenya, February 2007) and national initiatives in Morocco and Cameroon.

Source: World Customs Organization, http://www.wcoomd.org/

Case Study: Connected World

Through its Connected World initiative, the World Economic Forum is working with partner companies to design solutions for efficient, seamless and secure travel, without queuing at consular services, security check points or borders. Travellers will benefit from a host of solutions, including e-passports, smart visas and automated kiosks for biometric identification that use face, fingerprint, iris or voice identification to enable faster processing than the current traditional travel documents.

Although not defined as anti-corruption efforts, solutions such as electronic visa, passport and security procedures and automated check-in and control will reduce opportunities for facilitation payments. Automation will also lead to lower costs in border control services.

Source: World Economic Forum, http://www.weforum.org/issues/connected-world-transforming-travel-transportation-and-supply-chains

Case Study: IATA Checkpoint of the Future

The IATA Checkpoint of the Future programme lays out a road map to evolve airport passenger security screening into a more sustainable, efficient and effective process. Although not directly related to tackling facilitation payments, technological solutions such as this could deeply affect market dynamics and reduce opportunities for discretionary facilitation payments.

The Checkpoint of the Future initiative is being developed jointly by governments, airlines, airports, law enforcement entities and technology providers. It aims to leverage new technologies to foster an automated risk-based approach. The initiative received official endorsement during the International Civil Aviation Organization (ICAO) High-Level Conference on Aviation Security in September 2012.

However, the worldwide deployment of automated security check-in at airports is years away. Dubai International Airport has one of the most advanced automated immigration check-in systems, with the first biometric iris recognition terminals launched at the end of 2012. But several components of the Checkpoint of the Future are being tried at selected airports, and the first integrated pilot projects are planned for 2014.

Source: Internation Air Transport Association, http://www.iata.org/whatwedo/security/Pages/smart-security.aspx/

A recommendation for a joint work programme on facilitation payments

Many international stakeholders are already pushing the agenda to address facilitation payments, whether through trade and travel facilitation (World Trade Organization (WTO), World Economic Forum), custom reform and capacity building (WCO, TIACA) or technology (IATA, World Economic Forum). Yet, these initiatives do not concentrate directly on the issue of facilitation payments as bribes and corruption.

The WCO and TIACA have already called for greater collaboration and work on petty corruption in aviation value chains. Engaging relevant stakeholders to build an effective and manageable work programme seems like a natural step to facilitate global discussions. This collaborative effort should also aim to connect the ongoing initiatives and how they relate to the issue of facilitation payments.

There is general agreement that sound partnerships between the public and private sectors are fundamental to improving integrity and addressing facilitation payments.

A few areas could require coordination:

- Automation and transparency through technology
- Process re-engineering activities, such as document verification, valuation and classification of goods; all of these should be performed by technical experts; revenue collection should be performed separately from border processing
- Education and licensing or screening of relevant third parties, such as brokers and freight forwarders
- Regional joint public-private integrity projects with relevant customs agencies.

Goal of the initiative

To develop a long-term coordinated joint work programme on facilitation payments by relevant industry stakeholders

Joint Work Programme Stakeholders

Recognizing the efforts and initiatives currently deployed by many aviation industry groups and stakeholders, the joint work programme should be built in collaboration with the following organisations:

- Airlines
- The International Air Cargo Association
- The International Air Transport Association (IATA)
- World Customs Organization
- Airports Council International
- International Civil Aviation Organization (ICAO)
- Associations of brokers and freight forwarders

Implementation

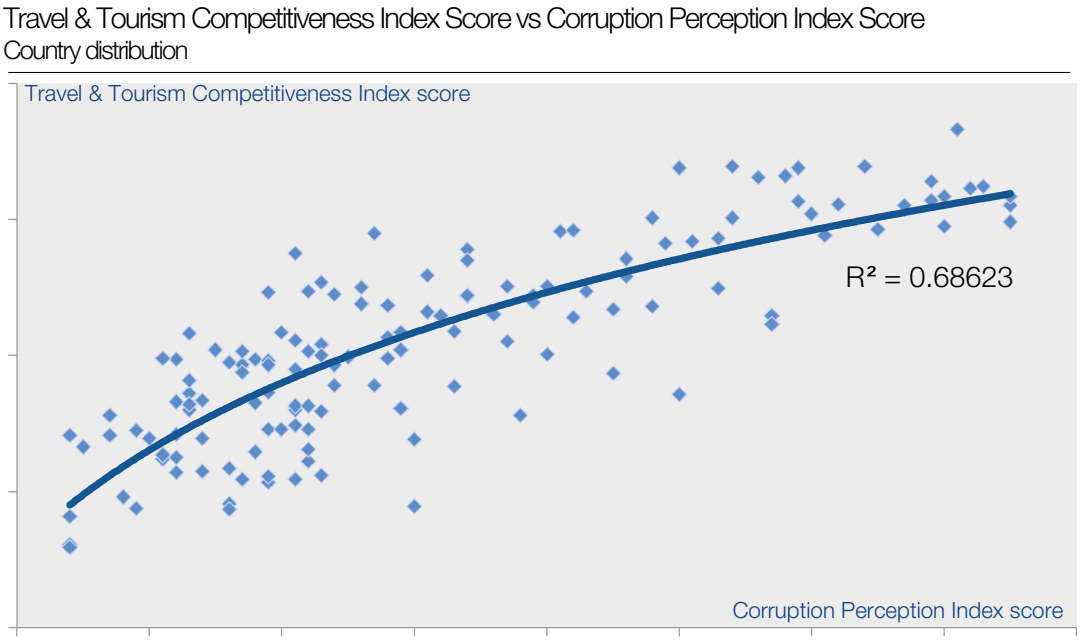
- Communicate about the initiative and its goals and build the engagement with relevant stakeholders
- Organize an event to bring to the table all relevant stakeholders to start a dialogue, facilitated by the World Economic Forum – PACI
- Establish a task force to take over the initiative by January 2015, and define a joint work programme.

5.3 Collaborate with Responsive Governments to Design Corruption Out of Local Value Chains

To understand the levels of corruption in emerging markets, companies perform research and due diligence before they start investing. Two resources they use are Transparency International's Corruption Perception Index (TI CPI) of 176 countries, which has been found to be an accurate indicator of corruption within a country, and the World Economic Forum's Travel and Tourism Competitiveness Index (TTCI),[13] which measures the factors and policies that make it attractive to develop the travel and tourism sector in 140 industrialized and emerging markets. An analysis of the two indices shows a positive correlation (Figure 16), which may indicate that improvement in a country's perceived corruption level resulting from successful measures to combat corruption may also affect the competitiveness of the travel and tourism sector of that country, as investment in the sector becomes more attractive with the removal of the barrier of corruption.

Figure 16: World Economic Forum Analysis of TI CPI and TTCI

Source: World Economic Forum Travel & Tourism Competitiveness Index 2013, Transparency International Corruption Perception Index 2012



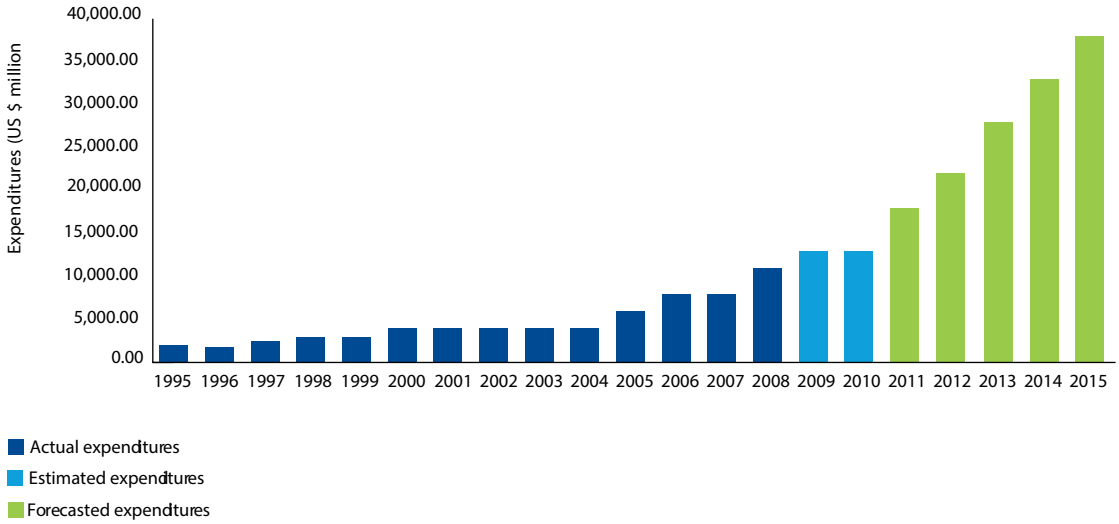
Through the Safeguarding Aviation and Travel Value Chains Against Corruption project, India, South-East Asia, China, the Russian Federation and Africa/South Africa were identified as key places to engage with governments about changing the dynamics of corruption in the aviation and travel industry, as corruption is a major impediment to conducting business and fostering investment in these countries.

Figure 17: World Economic Forum Illustration of Emerging Market Priorities for Engagement

Source: CPI 2012 Map from Transparency International

Figure 18: Total Tourism Expenditures in India

Source: Deloitte, "Hospitality 2015: Tourism, Hospitality, and Leisure Trends



India, for example, is a key market for the aviation and travel industry. Its growing middle class is the type of audience the industry will target and market to. Companies in many industries set up operations in the largely English-speaking country hoping to tap into its talent, take advantage of its lower cost of operations, and benefit from its large market of buyers (Figure 18).

India is the third most attractive destination for foreign direct investment (FDI), according to a report by the United Nations Conference on Trade and Development (UNCTAD).[14] But its complex bureaucracy and numerous real estate, land and construction issues present problems for hotel chains. Local government officials frequently request bribes.

South-East Asia has also been at the top of the list of investment regions. Showing resilience to negative external factors, the region is predicted to continue growing over the next four years, according to the OECD's Southeast Asian Economic Outlook 2014[15] (Figure 19). As in India, the growth of the middle class, their spending habits and their still untapped talent will continue to attract investors from all over the world and from various industries.

Although both regions have become prime markets for foreign development and investment, they both pose many challenges, including corruption.

Using PACI as a platform or through the broader activities of the World Economic Forum, the aviation and travel industry could focus on working with engaged governments to develop local collective actions on licenses and permits, facilitation payments and aerospace procurement that create a level playing field to attract investment and ultimately improve the competitiveness of the aviation and travel industry in the region. Through such dialogue, the sector could foster a better understanding of the regulatory and policy framework and work on practical solutions with local stakeholders to mitigate risks in key processes.

Figure 19: Real GDP growth of Southeast Asia, China and India (annual percentage change)

Source: OECD Development Centre, MPF-2014.

Note: The cut-off date for data is 6 September 2013. Emerging Asia includes ASEAN 10 countries plus China and India. * Excluding Myanmar, ** Excluding Brunei Darussalam and Myanmar.

	2012	2018	2014-18	2000-07
ASEAN-6 countries				
Brunei Darussalam	1.0	2.4	2.3	-
Indonesia	6.2	6.1	6.0	5.1
Malaysia	5.6	5.3	5.1	5.5
Philippines	6.8	5.9	5.8	4.9
Singapore	1.3	3.1	3.3	6.4
Thailand	6.5	5.3	4.9	5.1
CLMV countries				
Cambodia	7.2	7.1	6.8	6.9
Lao PDR	7.9	7.5	7.7	6.8
Myanmar	-	7.0	6.8	-
Viet Nam	5.2	6.0	5.4	7.6
Average of ASEAN 10	5.5(*)	5.6	5.4	5.5(**)
2 large economies in Emerging Asia				
China	7.7	7.5	7.7	10.5
India	3.7	6.1	5.9	7.1
Average of Emerging Asia	6.4	6.9	6.9	8.6

The industry should focus on initiating pilot projects with engaged governments. The development of global actions on licenses and permits, facilitation payments and the aerospace procurement process could be translated into local discussions to seek practical solutions.

Goal

To create a level playing field to attract investment and ultimately improve the competitiveness of the region's aviation and travel industry

Implementation

Get a better understanding of the regulatory and policy framework, and work with local stakeholders on practical solutions to mitigate risks in key processes:

- Local agent and content requirements
- Licensing and permits
- Government procurement processes
- Customs and border administration
- Aviation safety oversight.

2014 Suggestions

Leverage the following World Economic Forum events to initiate dialogue with appropriate government stakeholders in key regions:

- India: World Economic Forum on India, New Delhi, India, 11–13 November 2014
- East Asia: World Economic Forum on East Asia, Manila, Philippines, 21–23 May 2014

5.4 Position the Industry as Part of the Global Effort to Fight Corruption

Collective action, whether sectoral or regional, cannot happen without the involvement and engagement of company leaders. In almost all successful organizations, the tone at the top is highlighted as the driving force behind actions. That is the kind and level of engagement that the aviation and travel industry needs to spearhead the collective action agenda described here and achieve the goals set out for the community.

As a facilitator of the regional conversations and the overall collective action, PACI will serve as a platform for the community to come together on corruption issues. By joining PACI and the launch of the PACI Vanguard, CEOs have a unique opportunity to join forces to tackle corruption.

The Aviation & Travel Community can leverage the work that has been done through the Safeguarding Aviation & Travel Value Chains Against Corruption project and look into becoming PACI members work on the current collective action agenda defined in this report.

Goal

To leverage the World Economic Forum and PACI as the platform to bring the issues to governments and address them collectively with leading companies

Implementation

Internal leadership and support by CEOs and industry leaders may also be leveraged externally to contribute to the global, regional and industry agenda on new models for transparency and anti-corruption to:

- Build credibility for sectoral initiatives
- Diminish and deter the risk of companies being a target for corruption when entering a market
- Address corruption in a systemic fashion
- Work on harmonizing the legal and regulatory framework at the global scale.

2014 Suggestions

- Support the PACI principles and become PACI signatories and engaged members
- Take part in the B20-G20 Task Force on Transparency and Anti-corruption to inject sector input into recommendations to G20 governments
- Include the fight against corruption on the industry agenda through relevant, global, sector bodies, such as the World Travel & Tourism Council, IATA and ICAO.

Acknowledgements

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Endnotes

[1] In July 2013, a survey was conducted by the World Economic Forum and supported by Deloitte. It was carried out among chief compliance officers and general counsels of companies from the aerospace, aviation and hospitality sectors. All participants are part of the task force team. The goal of the survey was to obtain a better understanding of the top corruption risks for participants, current safeguards that are in place to detect and prevent corruption, and the overall perception of corruption.

[2] For the purpose of this report, collaborative venture partners include alliances formed in the aviation sector, whether they are operational, global or code sharing alliances.

[3] Florio, N.M. and P. Parik (2013). *Aerospace & Defence Cross-Border Joint Ventures: Managing high complexity, driving remarkable growth*. Deloitte.

[4] Deloitte (2011). *Hospitality 2015: Tourism, Hospitality, and Leisure Trends*.

[5] US Department of Justice, Criminal Division, US Securities and Exchange Commission, Enforcement Division (2012). *A Resource Guide to the US Foreign Corrupt Practices Act*.

[6] For the purpose of this report, the authors use "alliances" and "collaborative ventures" interchangeably.

[7] Deloitte (2012). *Look before you leap: Navigating risks in emerging markets*. Fifth annual survey.

[8] The steps do not represent a complete population of questions and types of monitoring activities a company could employ to adequately monitor its relationship with a business partner. Additional information may be requested depending on the risk associated with the partner, the organization's operational and business models, and other factors that may affect the thoroughness of the monitoring process.

[9] For the purposes of this report, a third party is any person or entity doing work for the company or on behalf of the company, including, but not limited to, sales agents, representatives, consultants, contractors, intermediaries, brokers, dealers and delegates.

[10] The World Bank. "Dealing with Construction Permits" In *Doing Business: Measuring Business Regulations*. http://www.doingbusiness.org.

[11] Lenhart, J. and K. Sullivan (2012). "Navigating China's Government Procurement Market". *China Business Review*. 1 October 2012. Available at http://www.chinabusinessreview.com.

[12] Dizon, D. (2012). "Cabinet, lawmakers also get free trips – Maceda". *ABS-CBN News*. 22 February 2012. Available at http://www.abs-cbnnews.com.

[13] World Economic Forum (2013). *Travel & Tourism Competitiveness Index (TTCI)*.

[14] See http://www.unescap.org/news/unctad-world-investment-report-2013.

[15] Organisation for Economic Co-operation (2013). *Southeast Asian Economic Outlook 2013: With Perspectives on China and India Narrowing Development Gaps*. Available at http://www.oecd.org.

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