



Corruption in the Real Estate Sector

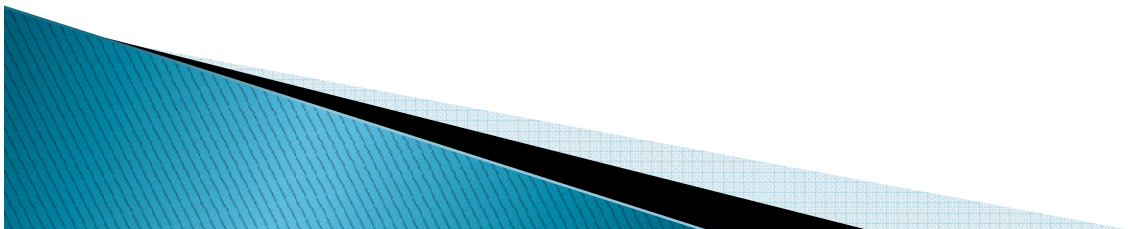
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Outline

This presentation is aimed at provoking a discussion on the following issues:

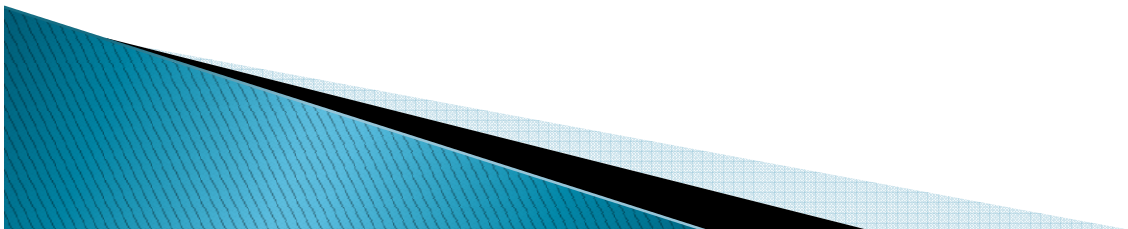
1. To what extent is real estate sector vulnerable to corruption?
2. What are the corruption risks for Public sector organizations related to real estates?
3. What are the corruption risks in the Private sector related to real estates?
4. What measures could be taken to strengthen the integrity of the real estate sector?





Real estate: where is corruption?

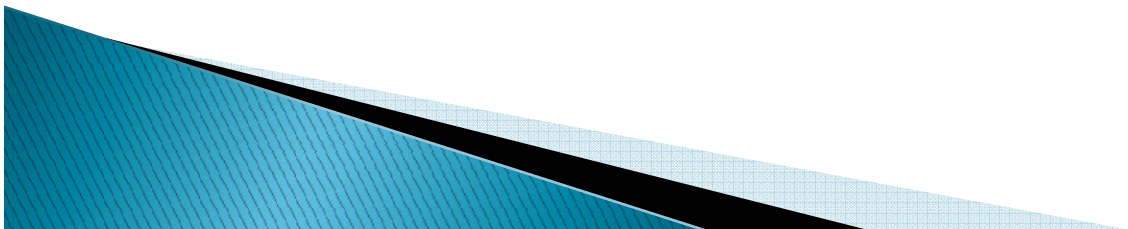
- ▶ Public sector corruption: “abuse of public power for private gain”.
- ▶ Private sector corruption and fraud: “abuse of entrusted power for private gain”





Public sector corruption risks

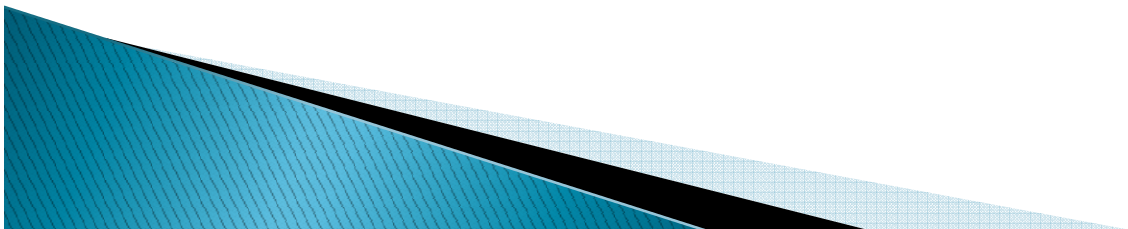
- ▶ Property registration issues
- ▶ Land swaps and land valuations
- ▶ Urban planning and construction permits
- ▶ Usage of public land, including change of designation and purchasing from state/municipality
- ▶ Bribery to avoid control or sanctions
- ▶ Control over quality of construction
- ▶ Public procurement (corruption and fraud in pre-solicitation, contracting and implementation)
- ▶ Money from criminal networks: laundering, expansion of criminal group' activities





External factors that exacerbate problem:

- ▶ Construction boom (tourist places, major foreign/diaspora investments)
- ▶ Weak institutions
- ▶ Reconstruction after natural or man-made disasters





Private sector corruption risks:

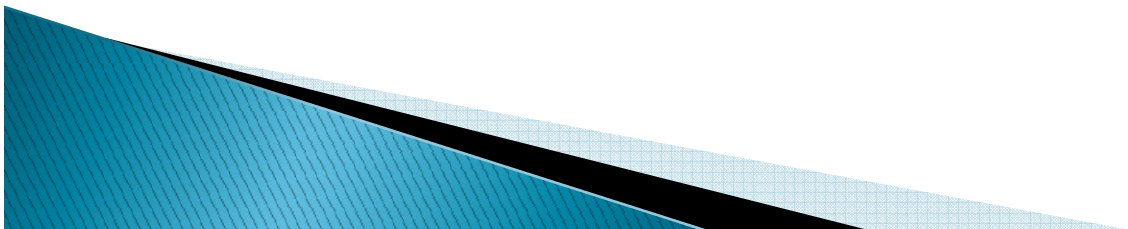
- ▶ Private-to-private corruption
 - Bribery between companies (to acquire a contract, to refrain from bidding, etc.)
 - Kickbacks for concluding deals (for example lawyer/notary)
- ▶ Internal fraud
 - Embezzlements
 - Cash larceny
- ▶ Material mischarging: use of low-quality materials or less materials to increase profit by reducing quality of construction





External factors that exacerbate problem

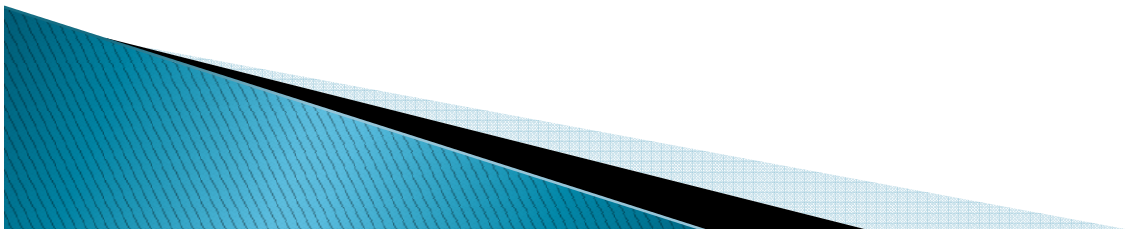
- ▶ Culture of corruption and systemic corruption (bribery commonly used as a business tool)
- ▶ Lack of respect for rules and procedures
- ▶ No control or weak control by government bodies
 - Because of capacity issues
 - Because of legislative issues
 - Because of other (mainly political) considerations





Note: money laundering

- ▶ Two simultaneous effects : money are laundered and a new, cash intensive business is started
- ▶ ML (and corruption) becomes possible through networks of property management companies, real estate investors and realty companies.
- ▶ Construction companies, mortgage brokers or real estate agents may also be involved.
- ▶ Real-estate surveyors or evaluators may be active participants in real-estate fraud schemes.
- ▶ Notaries may also be involved by assisting ML transactions and shielding criminal activities and proceeds.
- ▶ Notaries (or lawyers) could act as front men to criminals and assisting in hiding their identity.

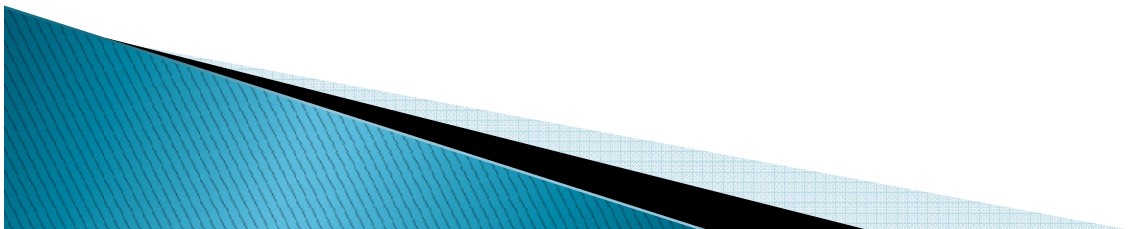




Some possible solutions

- ▶ Law enforcement
 - Intelligence led investigations

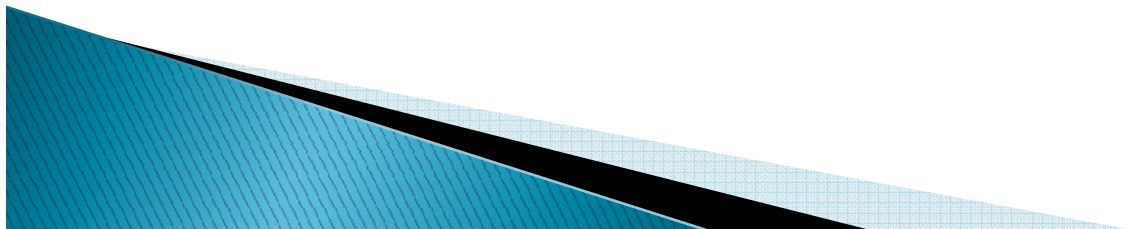
- ▶ Prevention:
 - In the public sector
 - In the private sector
 - Money laundering





Corruption prevention tools

- ▶ Risk assessment needed to identify specific corruption causes, patterns and scenarios, to identify:
 - External factors which affect integrity: business climate, the way business is done, traditions and culture, legislation, stakeholders and their interactions
 - Organizational factors which affect integrity: transparency and accountability mechanisms in the organization and its integrity system.





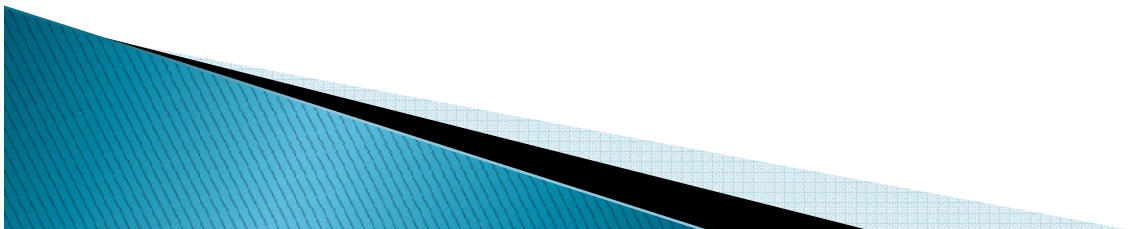
Environmental level

Culture and traditions: through systemic education and awareness raising

Business environment: effective compliance framework for companies

Overregulation: by improving the laws and regulations in the country to reduce overregulation and through better regulation impact assessment

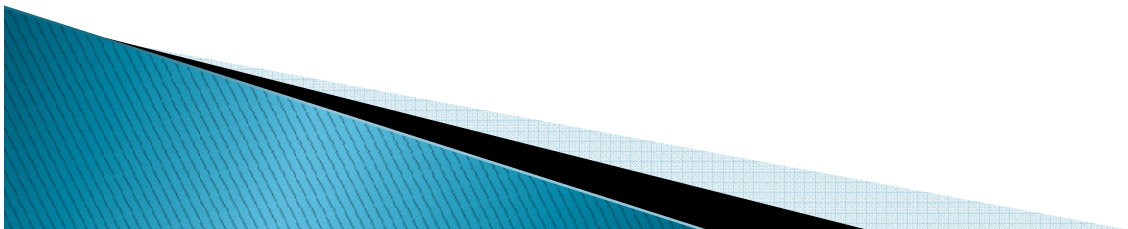
Weak institutions: through strengthening institutions, establishing new institutions if needed.



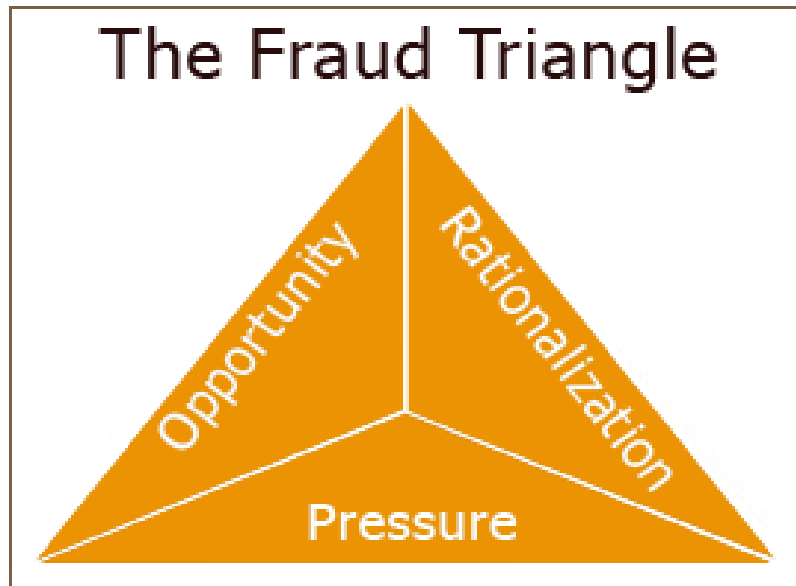


Organizational level

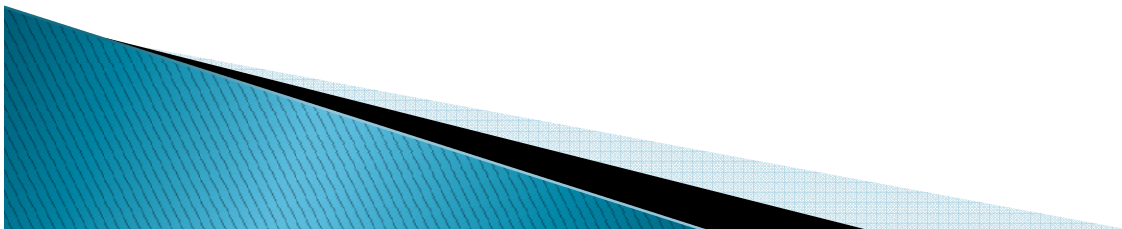
- ▶ By addressing the issues of monopoly and discretionary decision-making powers and introducing mechanisms of accountability in the organization.
- ▶ By introducing more transparency at all levels and strengthening internal controls.
- ▶ By addressing corruption risks in the organization individually at the level of structures and business processes.
- ▶ By introducing adequate complaints handling mechanism and by protecting whistleblowers
- ▶ By building the capacity of organizations to perform: every capacity building effort is in fact anti-corruption effort.



Individual level



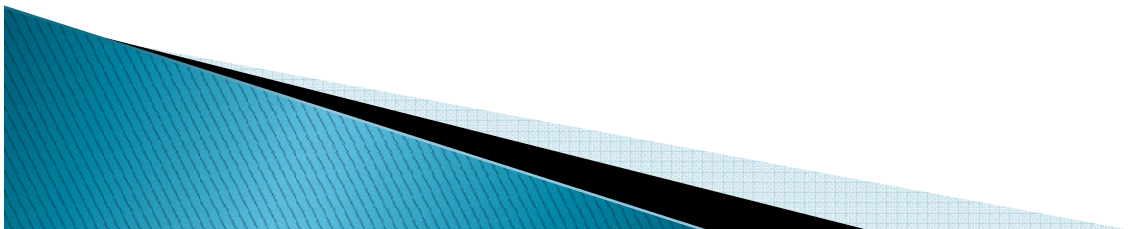
- ▶ Removing opportunities: by addressing specific problems
- ▶ Reducing pressure for corruption and creating organizational culture of integrity
- ▶ Removing rationalization from the equation: tone from the top, leading by example and systemic training on professional ethics.





Relation to ethics

- ▶ Corruption tends to appear where there is opportunity (without control or risk) and in the absence of standards of personal behaviour/professional ethics (Howard Whitton, 2005)





Thank you for your attention!

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