

TI BUSINESS ADVISORY BOARD NEWSLETTER 2015

Greetings to the members and supporters of Transparency International's Business Advisory Board (TI BAB) and best wishes for a healthy and successful 2015.

This newsletter brings TI BAB members up to date with what is happening in the world of anti-corruption, including of course Transparency International's (TI) role. At the same time it is an opportunity to look forward to the new year and the specific challenges for the business world in confronting corruption risks.

SOME STARTING THOUGHTS: HOW CAN BUSINESS RESPOND TO CORRUPT GOVERNMENTS?

TI runs a number of surveys which give us insight into whether the level of corruption has changed over the last year or years. The Corruption Perceptions Index 2014 (www.transparency.org/cpi) shows in fact very little major movement in the ratings of countries, with small improvements registered in Jordan and Egypt but a deterioration in China and Turkey. In fact, none of the BRICS, which are so important for world trade, do well in confronting corruption. More meaningful information on corruption trends is provided by the Global Corruption Barometer (www.transparency.org/gcb), the world's largest public opinion survey on corruption, which measures the different sectors of society and the amount of change reported. Foundation elements to uphold the rule of law, namely the police and the judiciary, are regarded as extremely corrupt in the majority of countries, while an essential democratic pillar of society, political parties, are also viewed as highly corrupt. It is therefore no surprise that governments are seen as ineffective in fighting corruption and that 53% of respondents believe that corruption in their countries is increasing.

With these bleak results the major question remains, what can business do to improve the situation? Everywhere we in TI go, business is looking for a level playing field with a predictable environment which allows them to plan and therefore to invest, but there is often little interest in the public sector to support the necessary reforms. The answer in many countries is for business, working with business associations and civil society, to establish initiatives to create corruption-free zones along their supply chains and to join mutual anti-corruption pledges. Examples include the work of Tüsiad in Turkey, which ran a survey of business and is following up with individual companies and TI in Turkey, a particularly important initiative in this year with the chairmanship of the G20 moving to Turkey. Another example is Vietnam, where Chambers of Commerce in Hanoi and Saigon are supporting businesses to join an anti-corruption initiative, together with the managements of industrial parks and civil society. Nigeria has realised the importance for its stock exchange of gaining credibility against a background of high corruption and has introduced in its listing requirements a commitment to good governance, including anti-corruption standards and the need for relevant training of boards of directors. In Egypt an initiative is underway to gain commitment between MNCs and large domestic

companies working with SMEs, whereby if SMEs commit to adopt anti-corruption standards they will receive incentives, such as preferred supplier status with the larger companies.

In all of these cases it is business which is taking anti-corruption initiatives because they see that support cannot be expected from government but that there are nevertheless positive steps which business can take to improve the situation on a case by case basis. Such examples motivate TI to work even more with business to achieve improvements in the operating environment wherever possible.

TI TOOLS AND PROJECTS

TI believes that public disclosure of information has a twofold benefit: It makes companies accountable to interested stakeholders resulting in increased trust but from an internal perspective the need to develop accurate information for public reports drives management systems which improve the implementation of the standards on which the company is reporting. For this reason TI sees value in tracking what companies report in respect of their anti-corruption programmes.

Transparency in Corporate Reporting

For some years now TI has been reviewing the level of disclosures by companies of their anti-corruption policies and relevant levels of transparency. In 2013 we published the first report covering the largest companies in emerging markets.¹ Apart from the reluctance of most companies to comply with high levels of disclosure it was noted that listed companies achieve better results than privately held enterprises. Chinese companies are particularly reluctant to public reporting in this area and the survey ends with an appeal to all the BRIC countries, because of their importance, to improve their level of disclosures. Importantly, however their performance was not much below that of the 124 largest companies in the world which were assessed again in 2014 following a similar review of the 105 largest companies in 2012.²

Results from the 2014 review showed some improvement in disclosures over 2012 but the performance of Japanese and Chinese companies remains worst and the finance sector performs below the standard of other business sectors – of concern against the background of the financial crisis. Telecommunications companies generally provide higher levels of information than technology companies which fall short of that sector's commitment to transparency. TI calls for more information on how companies treat facilitation payments and on political donations paid. More information is recommended on the location and names of subsidiaries and on country by country reporting, which is now being introduced for the financial sector by the EU.

Whistleblowing

We can all recognise the value of whistleblowers in bringing to light poor compliance with established standards, whether this relates to environmental standards, safety issues or ethical concerns. The biggest problem inhibiting many people from blowing the whistle is poor protection from recrimination and other negative consequences.

In this context TI conducted a survey for EU countries to what extent these countries have in place legal frameworks for whistleblower protection. In fact only Luxembourg, Romania, Slovenia and the UK provide a

¹ See:

http://www.transparency.org/whatwedo/publication/transparency_in_corporate_reporting_assessing_emerging_market_multinational

² See:

http://www.transparency.org/whatwedo/publication/transparency_in_corporate_reporting_assessing_worlds_largest_companies_2014

and

http://www.transparency.org/whatwedo/publication/transparency_in_corporate_reporting_assessing_the_worlds_largest_companies

high standard of legal protection, the majority provide only partial protection but seven countries have no legal framework at all.

TI is now working with the European Commission and the European Parliament advocating a legislative proposal for an effective and comprehensive whistleblower protection programme in the public and private sectors.

Business Integrity Country Analysis

In working with the business sector TI has for some time tried via its surveys to describe the challenges facing companies on a country by country basis. While the Global Corruption Barometer and studies of countries' national integrity systems provide a wide range of information, further evidence is required to answer the important question for business of how the laws and regulations are applied in practice.

This was the starting point for the Business Integrity Country Analysis (BICA) begun with corporate funding in 2014 and to be continued in 2015 with a first pilot in Mozambique. It will be critical to see how even more valuable information can be provided to the business sector via this revised methodology and how far this can make a contribution to investment in developing regions.

Financial Integrity Initiative

Ever since the financial crisis of 2008 broke onto the business scene with far reaching consequences, TI has been looking for solutions which could support an avoidance of a recurrence of crises in future. Of course the major actors are the regulators but recent events – the rigging of Libor, the fixing of foreign exchange and interest rates, the poor monitoring of massive scale money laundering – have shown that corruption has played and continues to play an unacceptable role in the activities of many bankers. The challenge, now voiced by many inside and outside the industry, is to change the behaviour of bankers so that they are more aware of their position in providing services to society in addition to operating profitably.

TI has worked for some 20 years on anti-corruption standards and their detailed implementation in business. Using this experience and applying anti-corruption standards to the banking industry has led to the development of a Financial Integrity Standard, based on seven key elements of behaviour in banks. This standard is being tested with a number of banks, including the European Central Bank, and is based on the belief that incentives in the banking world must be changed if the current orientation on short-term maximisation of profits is to be changed.

Depending on the level of acceptance of the Financial Integrity Standard by the banking community it may be possible to develop an integrity index which would measure performance against the standard and perhaps encourage competition to improve performance.

INTERNATIONAL DEVELOPMENTS

G20

Through the C20 grouping of civil society organisations, led by TI, we manage to influence the agenda and outcome of the G20 deliberations with respect to corruption related issues. A breakthrough was achieved in relation to the decision for all G20 countries to support the clear identification of beneficial owners of companies via the establishment of public registries. This work will continue with the presidency moving in 2015 from Australia to Turkey.

UNCAC Coalition

TI acts as the secretariat for a coalition of some 300 civil society organisations worldwide which are committed to fight corruption and monitor the implementation of the UN Convention Against Corruption (UNCAC) in their countries. The outcome at international level by the UNCAC Coalition is an independent evaluation of the review process led by the UNODC in Vienna to monitor progress in putting the UNCAC into effect.

UN Global Compact

The commitment to the Global Compact by some 7,000 companies is the largest voluntary initiative of its kind and is supported by TI, which works both on studies brought out by the UNGC, such as on risk management and sports sponsorship, and by taking on a leading role in the working group focused on the 10th UNGC anti-corruption principle.

DEVELOPMENTS WITHIN TI

Leadership Changes

TI has been extraordinarily fortunate in having over the last nine years continuity in the Chair and Vice-Chair of its international Board in the persons of **Huguette Labelle** and **Akere Muna**. Huguette has been tireless in travelling the world and representing TI at the highest level, between the United Nations and World Bank, to the OECD and Asian and South American regional organisations. She has also managed to visit nearly all of TI's 100 national chapters during her time in office. Akere is one of the most prominent lawyers from the African continent and whether with the African Development Bank or supporting Mbeki's study of capital flows in Africa, no major initiative relating to development or dealing with improved governance and anti-corruption matters in Africa was undertaken without his participation. Both will be sorely missed although they will continue as active members of TI.

I also stepped down after a second term on the international Board in 2014 but continue to support all business facing initiatives of TI as well as chairing the Business Advisory Board.

José Ugaz was elected at our AMM in October 2014 as our new Chair. Jose is from Peru, has chaired TI's chapter there, acted as state attorney during the key corruption cases against Fujimori-Montesinos, achieving success in recovering substantial stolen funds back for Peru. He has subsequently served on missions for the UN and for the World Bank's integrity office and since 2011 has been a member of TI's international Board.

Elena Panfilova, Founder and Chair of TI's presence in Russia, was elected at the same meeting as TI's Vice-Chair. In addition to her work as an anti-corruption activist for over 15 years she also teaches at the Higher School of Economics in Moscow. Her deep understanding of the situation in Russia has made her a valuable point of information for senior politicians and business people visiting Russia and she is an acclaimed speaker at the many conferences across the world where she addresses anti-corruption issues and provides insight into her country.

Business Integrity Team and Leader

After several changes of leadership over the last years TI is lucky to have the services of Susan Cote-Freeman, who is resident in Ottawa but will spend about half her time in Berlin, to lead the Business Integrity team of TI globally. Susan has led the Steering Committee of the Business Principles for Countering Bribery for many years, is the liaison to important anti-corruption programmes of the UN Global Compact and the World Economic Forum and has wide experience of TI from her earlier periods of work for us in Berlin, London, Washington DC and now in Canada. With our BIP team she will also lead the significant assignment with Siemens funding to develop business related anti-corruption work across the TI Chapters.

16th IACC in Malaysia

Every two years TI, acting as the international secretariat, organises the International Anti-Corruption Conference (IACC). The 16th IACC will be held in Putrajaya, Malaysia, from 2 to 4 September 2015. It is our hope that as many members and supporters from the TI BAB will be able to be present as possible, as speakers but also as participants to enjoy the wide range of issues to be discussed. More precise details will be sent out shortly with formal invitations to this event.



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Chair, Business Advisory Board

Cc. Deputy Board Members and Supporters of Transparency International's Business Integrity Programme

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