

By Re_Generation

Business Ethics

3.4 Corruption

Description

[Corruption, fraud, and other forms of malfeasance](#) are a major issue for all businesses, particularly among firms operating in jurisdictions with weak governance regimes where bribery and other forms of illicit payments are often considered a discreet cost of doing business. There are many types of corruption, which can include bribery, extortion, cronyism, kickbacks, fraud, nepotism, insider trading, money laundering, patronage, graft, and embezzlement. There is evidence that [corruption costs developing governments \\$1.26 trillion every year](#). Despite these risks, data by [Transparency International](#) has demonstrated that the state of corporate reporting on corruption risk [remains extremely weak](#), while half of the world's exports [originate from countries that fail to punish foreign bribery](#). Corruption is regulated by the [UN Convention Against Corruption](#) (UNCAC), which is overseen by the UN Office on Drugs and Crime. To learn more about what firms should be doing to eliminate corruption risk and adopt anti-corruption policies, continue reading this PDF guide.

Acknowledgements

Written by Gareth Gransauil, Associate Director of Re_Generation, with review by some of Canada and North America's most influential sustainability leaders.

About Re_Generation

[Re_Generation](#) is a Canadian youth movement that seeks to build a regenerative, sustainable, and just economy. We aim to reimagine our schools, repurpose our careers, and remodel our companies to be aligned with regenerative principles. In particular, we provide resources for individuals to launch impact-driven careers and advocate for change within their companies and schools. We also aim to advance public policies that promote regenerative and sustainable business practices.

Our successful 'Our Future, Our Business' Manifesto campaign received the support of 65 youth organizations, 130 high-level executives, and 100 civil society organizations recognizing the need for reform in business education on sustainability. After three years of existence as the Canadian Business Youth Council for Sustainable Development, we have changed our name to Re_Generation to become more inclusive of all youth, not just business youth.

We believe that the ideal society is a [regenerative](#) one. Regeneration to us means putting human and ecological [well-being](#) at the centre of every decision. It means restoring relationships, both within nature and within society, while helping all communities to thrive. Read more about our history and vision at our [About Us](#) page.

Issue Summary

Corruption, fraud, and other forms of malfeasance are a major issue for all businesses, particularly among firms operating in jurisdictions with weak governance regimes where bribery and other forms of illicit payments are often considered a discreet cost of doing business. Despite these risks, data by [Transparency International](#) has demonstrated that the state of corporate reporting on corruption risk **remains extremely weak**; out of 100 companies surveyed, the average transparency score was 3.4 out of 10. Moreover, only 19 companies declared a commitment to prohibiting facilitation payments, and only 34 companies indicated that they extend their anti-corruption policies to associated third parties. Half of the world's exports **originate from countries that fail to punish foreign bribery**, and 34 countries in the OECD demonstrate little or no enforcement of bribery laws despite comprising 46% of all global exports.

Key Considerations

There are many types of corruption, which can include bribery, extortion, cronyism, kickbacks, fraud, nepotism, insider trading, money laundering, patronage, graft, embezzlement, influence peddling, and lobbying that results in regulatory capture, among others. Corruption is regulated by the [UN Convention Against Corruption](#) (UNCAC), which is overseen by the UN Office on Drugs and Crime. Article 12 of UNCAC deals with **corruption in the private sector**, and aims to encourage transparency and robust auditing standards while preventing bribery, conflicts of interest, and off-the-books accounting. For more information about UNCAC, review [this briefing](#) by the Chr. Michelsen Institute.

The G20 has developed a series of [high-level principles on private sector transparency](#) and integrity, which cover a range of anti-corruption provisions. The OECD has also developed an [anti-corruption ethics and compliance handbook](#) for businesses, including recommendations related to policy development, internal controls, communications, and stakeholder relations. The UN Office on Drugs and Crime has published a detailed [anti-corruption ethics and compliance program](#) for businesses, which includes recommendations for businesses to develop an anti-corruption policy against the following violations, among others:

- Bribery of foreign public officials and officials of public international organizations;
- Bribery in the private sector;
- Embezzlement of property in the private sector;
- Trading in influence;
- Abuse of function;
- Illicit enrichment;
- Laundering of proceeds of crime;
- Concealment of proceeds of crime;
- Obstruction of justice.

Companies should conduct due diligence on their corruption risk, and report on the elements contained in their anti-corruption programs by listing the areas of potential risk and describing procedures to attenuate that risk. The UNODC specifically recommends that businesses make specific policy commitments to eliminate facilitation payments, which are defined as "unofficial, improper, small payments made to a low level official to secure or expedite the performance of a routine or necessary action." Moreover, businesses should aim to extend their anti-corruption policies across all business relationships, including those with subsidiaries, affiliates, joint ventures, agents and intermediaries, and contractors and suppli-

ers. Elements of a robust anti-corruption program will include that:

- The anti-corruption programme is consistent with all applicable laws;
- The anti-corruption programme is adapted to specific requirements of the company;
- The implementation and ongoing improvement of anti-corruption policies and procedures is based on a participatory approach, involving employees and external stakeholders;
- Compliance with the anti-corruption programme is mandatory to all levels, functions and areas of the company;
- Information on the anti-corruption programme and supporting material is easily accessible;
- The policies and procedures of the anti-corruption programme are easy to understand (e.g. avoidance of acronyms and technical terms);
- The anti-corruption programme aims to promote a trust-based and inclusive internal culture;
- The anti-corruption programme is directed at employees as well as relevant business partners;
- The anti-corruption programme is continuously adapted to changing business environments and internal learning;
- The company publicly reports on its anti-corruption programme to counter corruption.

Tools

To ensure maximum alignment with international best practices, firms should follow the [due diligence guidelines](#) from the OECD, and specifically the [guidelines on responsible business conduct in the financial sector](#). The OECD also hosts a [due diligence policy hub](#) for further information.

Key [self-assessment questions](#) related to corruption policies from the International Corporate Governance Network include:

- Is there a zero-tolerance regime in place?
- Does the policy cover payments of gifts or services to public officials as well as commercial counterparties? Does the company engage in open contracting?
- Does the policy address facilitation payments and detail the safeguards the company has taken to avoid abuses in this area?
- Does the policy address potential associated conflicts of interest, including related party transactions and political lobbying or donations?
- Does the policy extend to third parties, such as agents of the company?
- Does it extend to the supply chain of the company and to other affiliated parties or partners, such as joint ventures?
- To what extent is “anti-corruption” embedded within the culture of the company? What sort of actions will prove “counter cultural”?
- Is the anti-corruption policy part of the selection process for new contractors?

To evaluate the corruption risk of particular jurisdictions, Transparency International hosts a regularly updated [Corruption Perception Index](#) as well as its [Global Corruption Barometer](#). The UNODC has also published a [list of country profiles](#) which detail corruption risk in every nation. To perform your own assessment of corruption risk in different jurisdictions, review the methodology outlined by Transparency International in its [National Integrity System Assessments](#), as well as its [Business Integrity Country Agendas](#) which outlines its own indicators and assessment processes. Transparency International has developed a variety of other [toolkits for businesses](#), and hosts a [knowledge hub](#) on anti-corruption efforts as well as a [help desk](#) for people wanting to learn more.

All businesses should disclose their corruption risk, as well as the extent of their employee training related to anti-corruption policies and procedures, according to [this standard](#) developed by the Global Reporting Initiative. Best [practices for disclosure](#) developed by Transparency International include the need to publish exhaustive lists of subsidiaries, affiliates, joint ventures and other related entities, and also publish financial accounts for every country of operation, including all payments to governments and public officials on a country-by-country basis. Similar to the procedures for fair tax disclosure, disclosure of corruption risk benefits from beneficial ownership registration; for more information, see [this resource](#) from the Basel Institute on Governance, and [this report](#) from Transparency International. For anti-corruption training programs available to employees and other partners, see [these courses and resources](#) available from the UN Global Compact and Global Affairs Canada. To better understand the role of organizational culture in anti-corruption policy, see [this article](#) by Ethical Systems.

Bribery is a particularly common form of corruption in business dealings, one which is covered by a specific [anti-bribery convention](#) developed by the OECD. The OECD recommends in its [good practice guidance](#) that businesses develop anti-corruption programs which apply to all the following areas that could be abused for the purposes of bribery: gifts, hospitality, entertainment and expenses, customer travel, political contributions, charitable donations and sponsorships, facilitation payments, and solicitation and extortion. To help organizations evaluate bribery risk around the world, Trace International has developed its own [Bribery Risk Matrix](#) covering 194 jurisdictions. Transparency International has also developed a list of [business principles for countering bribery](#) that should be reflected in all corporate anti-corruption policies. Transparency International also recommends that program reviews of the anti-bribery and anti-corruption programs be regularly delivered to the organization's Audit Committee, and they have developed an [assurance framework](#) to support this effort.

Money laundering is another major problem related to corruption, particularly the laundering of funds that are criminally acquired and associated with human rights violations or the theft of public assets. Financial firms in particular should be sure to abide by the [Wolfsberg Principles](#) against financial crime in all business dealings, and perform due diligence according to [these criteria](#) developed by the Bank for International Settlements. These criteria stipulate that banks must document and enforce policies for identification of customers, with special attention to customers from the following categories:

1. Trust, nominee and fiduciary accounts;
2. Corporate vehicles;
3. Introduced business;
4. Client accounts opened by professional intermediaries;
5. Politically exposed persons;
6. Non-face-to-face customers;
7. Correspondent banking.

For more information about money laundering risk, see resources from the [International Money Laundering Information Network](#), as well as their [policies against the criminal use of the banking system](#).

Fighting [corruption in relations with governments](#) is another important issue area, as the [awarding of public sector contracts](#) often comes with a high risk of bribery, kickbacks, or other forms of cronyism. The OECD has developed [guidelines for businesses related to public procurement](#), and specific recommendations for the [governance of infrastructure projects](#). The [privatization of public assets](#), and also the formation of public-private partnerships, are another area of concern where the needs of special interests can trump the welfare of the general public and override principles of democratic accountability. The G20 has released a list of [high-level principles for promoting integrity in privatization and private-public partnerships](#), which includes provisions to ensure clear governance, promote

transparency, and promote stakeholder involvement. For further information about operating in weak governance zones, see [this toolkit](#) developed by the OECD.

In order to implement strong anti-corruption programs, whistleblower protections are of vital importance. Employees need to feel comfortable to speak out against unethical actions without fear of retaliation, such that violations can be caught early and dealt with appropriately. Transparency International has [outlined the UNCAC provisions that deal with whistleblower protection](#), and Ethical Systems has emphasized the importance of creating a '[speak-up and call-out culture](#)'. For more information about whistleblowing, see [this discussion](#) by Workplace Fairness.

Corruption is an extremely complex topic, and as a result incidents of corruption can often go unrecognized for years at a time. To get a better understanding of corruption and how to identify it, the Basel Institute on Governance has developed a [suite of courses](#) that includes introductions to open-source intelligence, operational analysis of suspicious transactions, financial analysis using Excel, visualizing money flows, and other topics. Particularly relevant courses include resources on '[following the money](#)' and [tracing financial assets](#).

Case Studies

For more information about positive case studies and stories of change, see [this report](#) from Transparency International. A particularly inspiring story comes from the Indonesian state electricity provider, Perusahaan Listrik Negara, which had a deeply entrenched history of corruption that culminated in the jailing of several senior officers in 2011, including the organization's president. Since then, Transparency International has piloted an anti-corruption program by working with over 1,000 staff members across PLN to assess and mitigate corruption risks and implement whistleblower protections and appropriate channels of communication. As of 2017, PLN ranked as Indonesia's fifth most transparent state-owned enterprise according to the Central Information Commission.

Organizations/Initiatives

To review information about corporate malfeasance and ongoing cases of corruption and crime, see the following watchdog organizations:

- [CorpWatch](#)
- [CorporateWatch](#)
- [Corporate Crime Reporter](#)
- [Corporate Accountability](#)
- [Corporate Research Project](#)
- [ViolationTracker](#)
- [Transnational Corporate Observatory](#)
- [Corporate Europe Observatory](#)
- [Corporate Rap Sheets](#)
- [Dirt Diggers Digest](#)
- [Corporate Dirt Archives](#)
- [As You Sow](#)
- [OpenCorporates](#)

For information specific to corporate corruption, see the following organizations:

- [Transparency International](#)
- [Center for International Private Enterprise - Anti-Corruption and Governance Center](#)
- [Maritime Anti-Corruption Network](#)
- [Offshore Leaks](#) from the [International Consortium of Investigative Journalists](#)
- [Aleph Project](#) from the [Organized Crime and Corruption Reporting Project](#)
- [Basel Institute on Governance](#)
- [International Anti-Corruption Academy](#)
- [The International Corporate Accountability Roundtable](#)
- [UN Office on Drugs and Crime](#)
- [World Economic Forum Partnering against Corruption Initiative](#)
- [International Money Laundering Information Network](#)
- [Stolen Asset Recovery Initiative](#)
- [Extractive Industries Transparency Initiative](#)
- [Construction Sector Transparency Initiative](#)
- [Financial Action Task Force](#)
- [Caribbean Financial Action Task Force](#)
- [Basel Committee on Banking Supervision](#)

For watchdogs specific to the global financial sector, see the following organizations:

- [FinanceWatch](#)
- [Fair Finance Watch](#)
- [Fair Finance International](#)
- [Reclaim Finance](#)
- [Facing Finance](#)
- [BankTrack](#)
- [Global Financial Integrity](#)
- [Hedge Clippers](#)
- [Private Equity Stakeholder Project](#)