VIGEO.EIRIS

Preventing Corruption

The State of Play

Short Read by Vigeo Eiris
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FOREWORD

The United Nations' International Anti-Corruption Day provides us with an opportunity to assess the efforts being made by the private sector to tackle corruption. The negative impacts of corruption are well recognized though perhaps, overshadowed today by climate change and the social impacts of the COVID-19 pandemic. In short, corrupt practices result in reduced economic efficiency, undermine the effectiveness of public policy and typically lead to a redirection of value away from vulnerables communities. Over the last two decades, a normative framework to support private sector action has emerged. Anti-corruption is enshrined in the United Nations Sustainable Development Goal 16, 'Peace Justice and Strong Institutions' (2015) as well as in the United Nations Global Compact, Principle 10 'Anti-Corruption' (2000). In 2019, the United Nations launched the Responsible Banking Principles (RBP). Given the high exposure of this sector to corruption allegations, such developments are positive. These principles are further supported by a wide range of national legislative frameworks as well as other sector specific initiatives. One might say there is no shortage of commitments. However, a clear view on the concrete actions taken to tackle corruption is harder to determine. That is a key takeaway from this research piece.

As we head towards a decade of change, improving company disclosures on anti-corruption measures will be vital to ensuring that we build healthier, more transparent and more sustainable economies and societies.

KEY FINDINGS

This study provides an overview on the performances of 4,771 global corporates[1] on their efforts to prevent corruption. All scores and performances are based on V.E's ESG Assessment research as of September 2020[2].

- The average score of the panel on the ESG criterion 'Prevention of Corruption' is 41/100 which V.E qualifies as *limited* on its ESG Assessment scale.
- The panel is impacted by a total of 725 corruption controversies impacting 428 companies.
- The financials, telecommunications, mining & metals and pharmaceuticals & biotechnology sectors are the most exposed to allegations of corruption.
- While most of the panel (78%) disclose anti-corruption commitments and strategies, only about half (48%) have visibly adopted formal training programmes for employees.
- North American companies lead in terms of the visibility of the policies adopted, with 96% of companies having visibly issued a formalised commitment to preventing corruption (compared to 76% of European companies).
- Commitments still appear quite general, with just under half of the panel (48%) providing detailed information on the different forms of corruption (fraud, embezzlement, political donations etc) that their policies and systems seek to address.
- 48% of the panel indicate that their respective anti-corruption strategies are overseen by senior management. Only 35% disclosed information on a decentralised management system, with dedicated structures such as an ethics and compliance department, or compliance officers.
- 51% of companies do not disclose any information on the provision of programmes on corruption prevention for employees. Only 6% appear to actively support a culture of responsible business conduct through measures such as formalised training programmes or business ethics metrics.

In summary, our research indicates that at a global level there is still considerable work to be done to move beyond policy disclosure and towards providing clearer information on practices such as anti-corruption training and management systems.

Table 1: Top 25 Performers in Corruption Prevention

Company	Sector	Country	Score (scale 0-100)
IEnova	Electric & Gas Utilities	Mexico	90
CGG	Oil Equipment & Services	France	85
Indorama Ventures	Chemicals	Thailand	85
Gold Fields	Mining & Metals	South Africa	84
Red Electrica	Electric & Gas Utilities	Spain	83
SNCF	Travel & Tourism	France	83

1 This universe of 4771 companies is subsequently referred to as the panel.

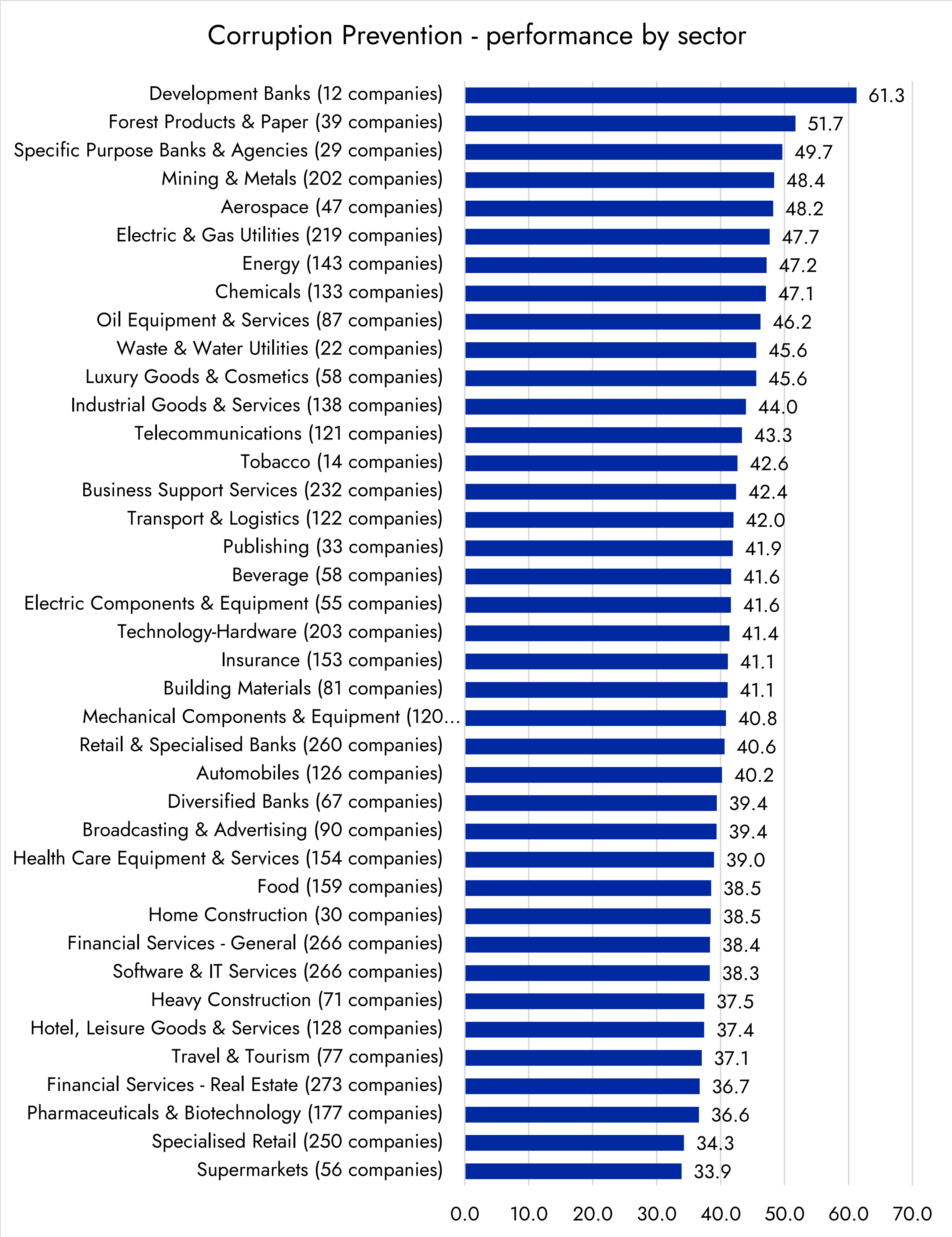
2 Summary details on these methodologies are provided in the appendix to this document. Further details are available upon request to V.E.

Mondi	Forest Products & Paper	United Kingdom	83
L'Oréal	Luxury Goods & Cosmetics	France	82
Cascades	Forest Products & Paper	Canada	81
RWE	Electric & Gas Utilities	Germany	81
Covivio	Financial Services - Real Estate	France	81
ContourGlobal	Electric & Gas Utilities	United Kingdom	81
Albemarle Corporation	Chemicals	United States of America	81
La Française des Jeux	Hotel, Leisure Goods & Services	France	81
Atlantia	Transport & Logistics	Italy	80
SMI	Mining & Metals	Morocco	80
La Poste	Transport & Logistics	France	80
Électricité de France	Electric & Gas Utilities	France	80
BHP Group (Australia)	Mining & Metals	Australia	79
Yamana Gold	Mining & Metals	Canada	79
Iberdrola	Electric & Gas Utilities	Spain	79
Grifols	Pharmaceuticals & Biotechnology	Spain	79
Axa	Insurance	France	79
ALD	Business Support Services	France	79
BHP Group (UK)	Mining & Metals	United Kingdom	79

Whilst majority of leading performers are European companies, several companies from emerging economies are also present in this top 25 ranking. Many of these leading companies refer in their reporting to internationally recognised standards such as the United Nations Convention against Corruption, the Financial Action Task Force (FATF)'s 40 Recommendations on Money Laundering and the Special Recommendations on Terrorist Financing for financial institutions. Typically, they have outlined clear policies, disclose substantive information on systems (trainings, audits etc) and face low exposure to corruption controversies. In many cases, the results of internal monitoring systems are also disclosed.

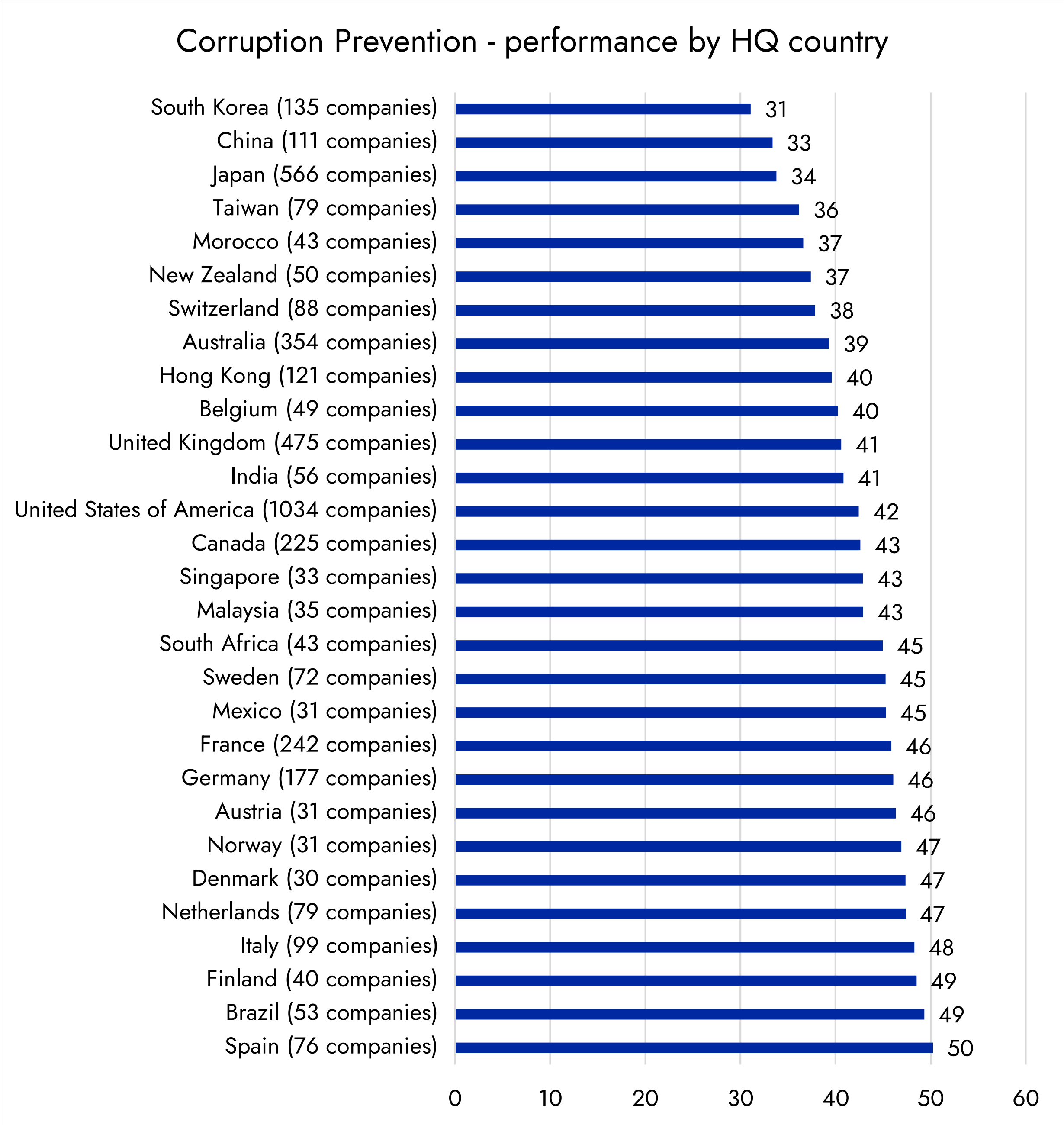
SECTOR PERFORMANCE

The Development Banks sector, composed of twelve unlisted supranational financial institutions, is the only sector assessed to have an advanced performance on preventing corruption. These institutions are highly exposed to business-ethics risks in their projects and operations. The sector has a history of institutional cooperation on this topic, with a joint International Financial Institution Anti-Corruption Task Force being established in 2006. This type of cooperation was further strengthened in 2010 with the adoption among multilateral development banks (MDBs) of a joint sanctions agreement. This agreement leads to mutual recognition and enforcement of each participating institution's mechanisms and decisions regarding their sanctions towards individuals or entities. The lowest performing sectors are either highly exposed to corruption controversies (e.g. Pharmaceuticals & Biotechnology) or fail to report transparently on the managerial systems put in place to prevent corruption (e.g. Supermarkets, Specialised Retail). Taking the example of the Real Estate sector, almost one third of the companies in the sector do not visibly report on any measures to prevent corruption.


Corruption Prevention - performance by sector
Development Banks (12 companies) 61.3
Forest Products & Paper (39 companies) 51.7
Specific Purpose Banks & Agencies (29 companies) 49.7
Mining & Metals (202 companies) 48.4
Aerospace (47 companies) 48.2
Electric & Gas Utilities (219 companies) 47.7
Energy (143 companies) 47.2
Chemicals (133 companies) 47.1
Oil Equipment & Services (87 companies) 46.2
Waste & Water Utilities (22 companies) 45.6
Luxury Goods & Cosmetics (58 companies) 45.6
Industrial Goods & Services (138 companies) 44.0
Telecommunications (121 companies) 43.3
Tobacco (14 companies) 42.6
Business Support Services (232 companies) 42.4
Transport & Logistics (122 companies) 42.0
Publishing (33 companies) 41.9
Beverage (58 companies) 41.6
Electric Components & Equipment (55 companies) 41.6
Technology-Hardware (203 companies) 41.4
Insurance (153 companies) 41.1
Building Materials (81 companies) 41.1
Mechanical Components & Equipment (120… 40.8
Retail & Specialised Banks (260 companies) 40.6
Automobiles (126 companies) 40.2
Diversified Banks (67 companies) 39.4
Broadcasting & Advertising (90 companies) 39.4
Health Care Equipment & Services (154 companies) 39.0
Food (159 companies) 38.5
Home Construction (30 companies) 38.5
Financial Services - General (266 companies) 38.4
Software & IT Services (266 companies) 38.3
Heavy Construction (71 companies) 37.5
Hotel, Leisure Goods & Services (128 companies) 37.4
Travel & Tourism (77 companies) 37.1
Financial Services - Real Estate (273 companies) 36.7
Pharmaceuticals & Biotechnology (177 companies) 36.6
Specialised Retail (250 companies) 34.3
Supermarkets (56 companies) 33.9
0.0 10.0 20.0 30.0 40.0 50.0 60.0 70.0

COUNTRY PERFORMANCE

At country level, scores somewhat reflect the legislative context in which companies operate, with companies based in countries where anti-corruption legislation is considered stronger generally receiving higher scores. Somewhat in line with the sectoral analysis, no country[3] has recorded an average score of above 50/100. South Korean, Chinese and Japanese companies on the contrary generally demonstrate a weaker performance, scoring below 35/100 on average. This typically reflects a lack of substantive and transparent reporting on the measures put in place to tackle corruption.



[3] It is important to note that many companies are multinational corporations which also operate in countries other than where they are headquartered and are therefore subject to different national regulations. As a result, the average score at country level does not necessarily fully reflect individual company performance.

CONTROVERSIES

Data from V.E's Controversy Database[4] showed a total of 5,779 ESG controversies[5]. Of those, there were 725 corruption controversies impacting 428 companies.

Controversy Severity	Number of Controversies	Percentage Distribution
Critical	39	5%
High	354	49%
Significant	273	38%
Minor	59	8%
Total	**725**	**100%**

Controversy Responsiveness	Number of Controversies	Percentage Distribution
Non-Communicative	223	31%
Reactive	403	56%
Remediative	73	10%
Proactive	26	4%
Total	**725**	**100%**

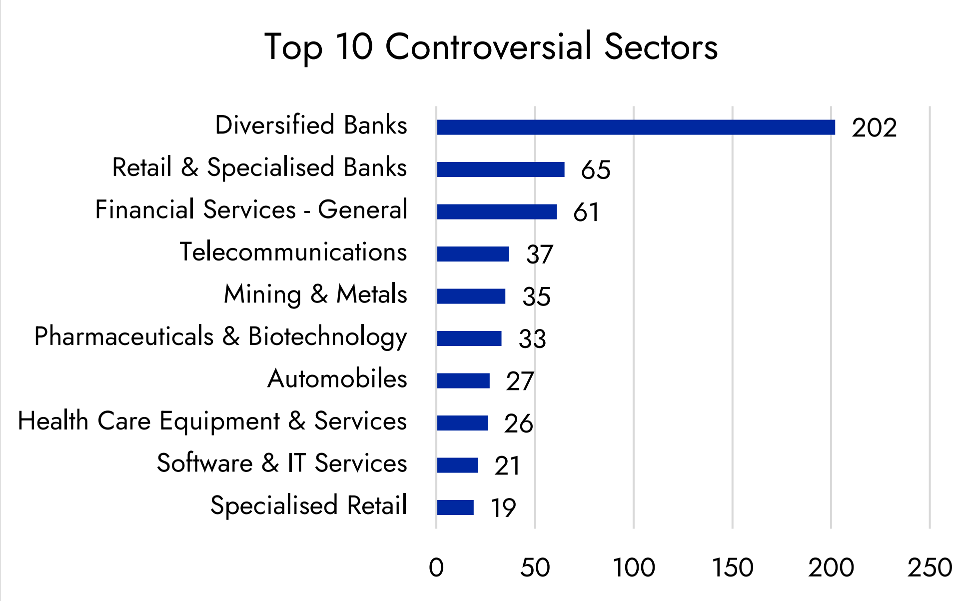
The data analysed shows that the most frequent types of malpractice detected concerned fraud, followed by bribery and then money laundering.

The tesults indicate that a clear disparity exists between sectors in terms of involvement in corruption-related allegations. As shown in the graph below, the financial sector (banks and financial services)

[4] The data took into account ESG controversies from September 2018 - September 2020.

[5] One controversy can be based on more than one event, impact more than one topic and affect several regions at once.

appears to be the most exposed, followed by the telecommunications, the mining & metals and the pharmaceuticals & biotechnology sectors.



Financials

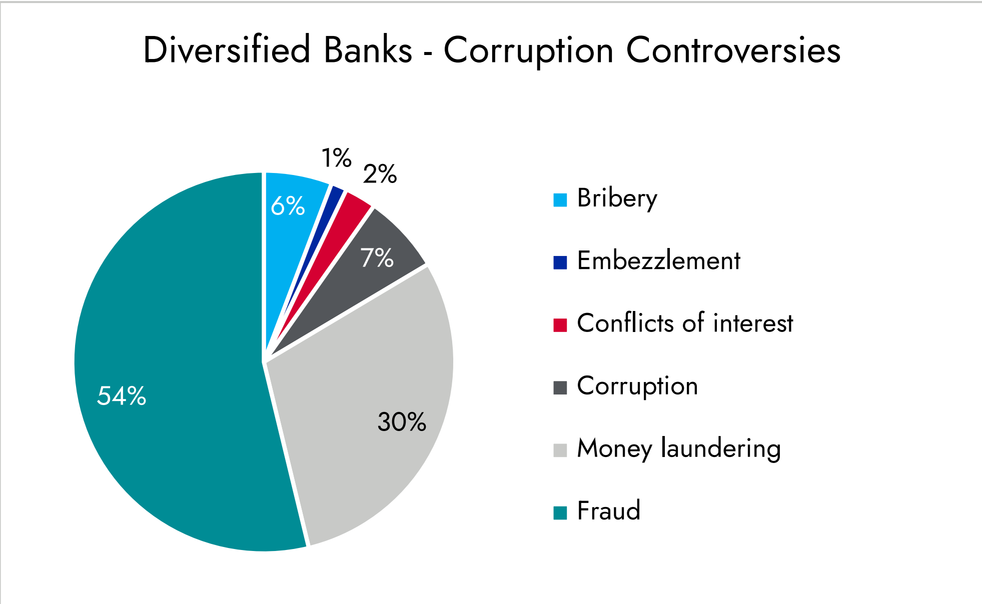
A focus on banks' conduct and culture were renewed following the 2008 financial crisis. As recognized by the Group of Thirty, an international body of leading financiers and academics, "poor cultural foundations and significant cultural failures were major drivers of the recent financial crisis, and continue to be factors in the scandals since then, exacerbated by staff with questionable conduct and values who move from bank to bank with impunity."[6] Promoting a sound risk culture is not only important for banks themselves but also for the stability of the whole financial system. The Financial Stability Board recommends boards and senior management set the tone from the top to inculcate the company culture.[7] Managing culture requires long-term thinking and overseeing conduct involves paying more attention not only to misconduct but also to the externalities of decisions made, or actions taken.[8]

Money laundering constitutes a particular risk for financial companies. It represents about a third of cases (36%) affecting the financial sectors. Recent scandals, which involved banks and financial intermediaries across multiple countries, include the so-called Troika Laundromat fraud[9] and the FinCEN Files investigation[10]. The United Nations Office on Drugs and Crime (UNODC) estimated that USD 800 billion to USD 2 trillion, equivalent to 2 to 5 % of global GDP, is laundered every year[11], while Moody's[12]

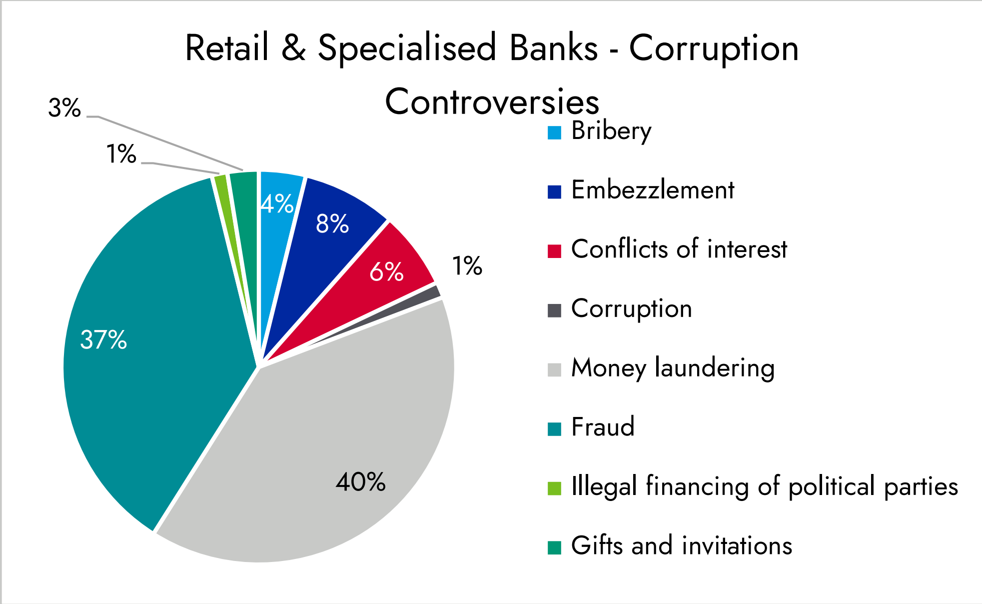
[6] Group of Thirty (2015) – *Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform* – p.5
[7] Financial Stability Board (2014) – *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture* – p.3
[8] Group of Thirty (2018) – *Banking Conduct and Culture: A Permanent Mindset Change* –pp.xii, xiii
[9] BCL – *The "Troika Laundromat Fraud": Exposing the weaknesses in UK's Anti-Money Laundering regime"* – 02/04/2019
[10] ICIJ – *Global banks stocks plunge following FinCEN Files revelations* – 21/09/2020
[11] UNODC – *Money-Laundering and Globalization* – https://www.unodc.org/unodc/en/money-laundering/globalization.html [accessed 15/10/2019]
[12] Moody's – *European banks pay high price for money laundering and trade sanction breaches* – 02/04/2019

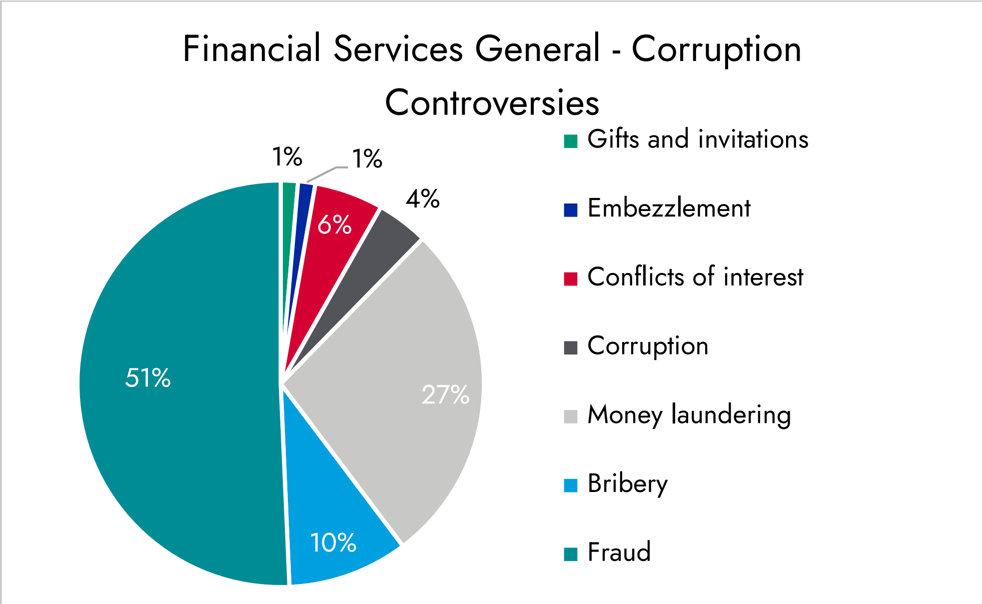
highlighted that European banks were fined over USD 16 billion from 2012 to 2018 in relation to money laundering and trade sanction breaches. As in the Financial Action Task Force (FATF) recommendations, it is critical for financial institutions to perform adequate due diligence on customers. The FATF also states that financial institutions need to pay more attention when transactions involve countries that do not, or do not sufficiently, comply with the FATF principles.

Money laundering is a clear threat to economic stability and contributes to the creation of asset bubbles. To address the issue, the Wolfsberg Group, a non-governmental association of thirteen global banks, was established in 2000 with the aim of developing "frameworks and guidance for the management of financial crime risks."[13] The Wolfsberg Anti-Money Laundering (AML) Principles for Private Banking were elaborated together with representatives from Transparency International as well as prominent academics, and subsequently published in October 2000, revised in May 2002, and then updated again more recently in June 2012.



[13] Wolfsberg Principles – https://www.wolfsberg-principles.com/about/mission [accessed 15/10/2019]



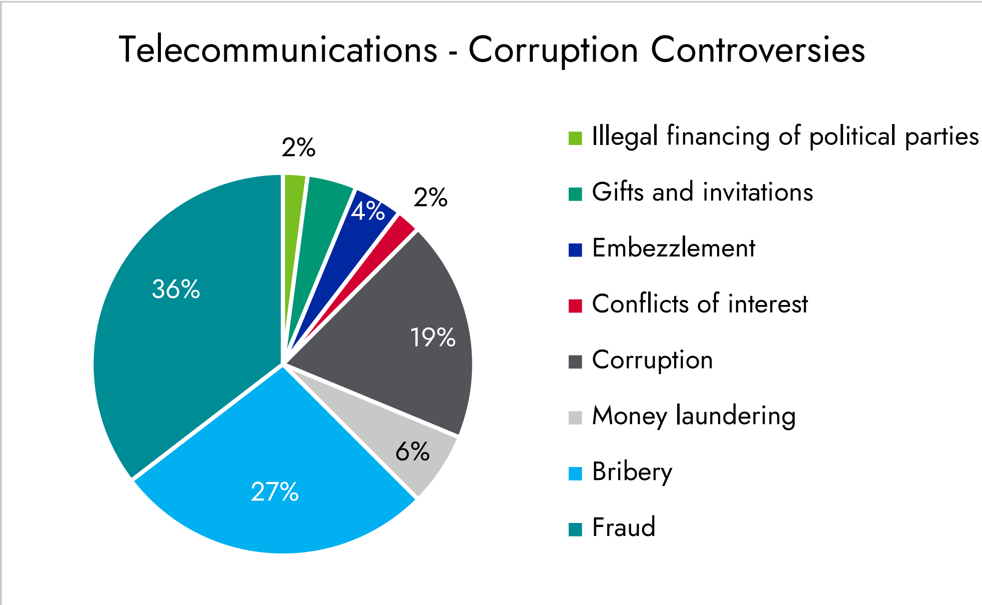


Telecommunications

The telecommunications sector is vulnerable to corruption due to the level of interaction between public and private actors. Corruption may occur in the allocation of government contracts, licenses and concessions. As highlighted by Transparency International, corruption in the telecommunications industry "can obstruct people's access to these sorts of services by hampering fair competition and the proper regulation of prices. [...] Moreover, given the level of power and influence that the industry and technology has reached, corruption in the sector can significantly contribute to the control of access to information as well as to censorship and limitation of freedoms."[14]

[14] "Overview of corruption in the telecommunications sector" - U4 Helpdesk (operated by Transparency International) – 2014 – p4

Corruption in the telecommunications sector mainly takes the form of bribery as well as gifts and entertainment to win contracts. Another form of corruption observed consists of buying political influence through donations to political parties and individuals in influential positions. Several political corruption scandals in the past decades involved telecommunications companies using political influence to win contracts in the roll out of mobile phone infrastructure or services.[15]



Mining & Metals

The OECD warns that every stage of the extractive value chain is exposed to corruption risks.[16] Mining approvals obtained through corrupt means could lead to the destruction of the environment and the violation of human rights.[17] Many of the countries dependent on resources are in politically vulnerable regions and systemic corruption is rife in resource-rich countries. Corruption in the extractive industry further erodes the rule of law and democracy in emerging economies and prevents people in the most need from receiving basic services due to money being misappropriated. Given the overall vulnerability of this sector to corruption, it is imperative to eliminate corruption in such countries and stop any illicit financial flows.

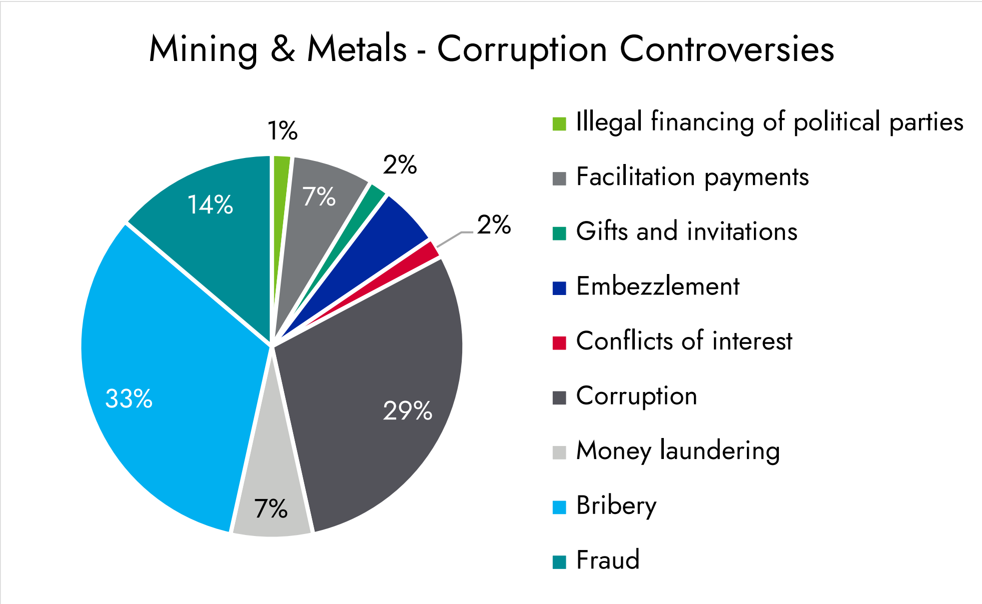
Law enforcement at national level and multi-stakeholder cooperation at global level are undertaken to hold the extractive industries accountable. Section 1504 of the 2010 Dodd-Frank Act sets rules obliging oil, gas and mining companies listed on US stock exchanges to disclose payments made to the US government or foreign governments for commercial development. The EU also adopted a similar regulatory framework

[15] "Overview of corruption in the telecommunications sector" - U4 Helpdesk (operated by Transparency International) – 2014 – p6

[16] OECD (2016) – *Corruption in the Extractive Value Chain* – p.10

[17] Transparency International (2017) – *Combatting Corruption in Mining Approvals* – pp.5, 73

in 2013, requiring oil, gas, mineral and logging companies to disclose payments to governments.[18] On a global level, the Extractive Industries Transparency Initiative (EITI) was established to promote transparency and responsible management of oil, gas and mineral resources. As of September 2019, the EITI reports that 52 countries implement the EITI Standard.[19] Despite the existence of various initiatives, in 2019 an IMF study called for greater transparency from extractive-industry companies on the grounds of continuing misconduct.



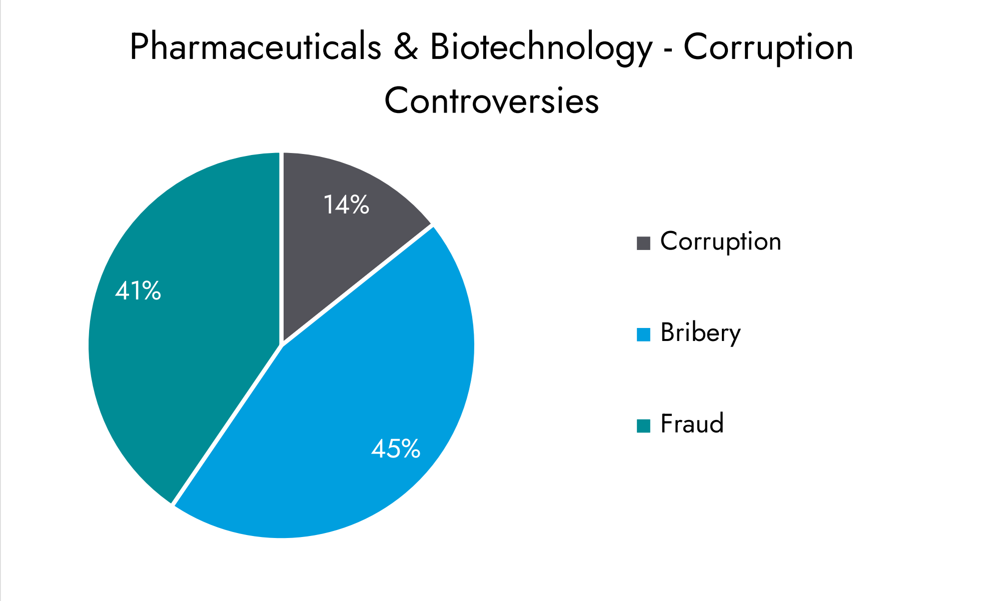
Pharmaceuticals & Biotechnology

Corruption is detrimental to global healthcare systems. Without ensuring ethical behaviours from pharmaceutical, biotechnology and other healthcare companies, the global achievement of United Nations Sustainable Development Goal 3 will not be possible. Against this context, pharmaceutical and biotechnology companies continue to face recurring controversies related to fraud and bribery. The value chain of the pharmaceutical industry is complex and covers various stakeholders involved in everything from R&D to manufacturing to distribution. Exposure to this wide range of stakeholders makes the pharmaceutical and healthcare industry more prone to corruption. Other critical issues for the sector are the transparency of clinical trials data and the accountability of pharmaceutical companies during the research & development process. For instance, ghost-writing is a practice where ghost-writers present clinical trial results in favour of the industry's needs and credits are then given to academics or doctors to increase the credibility and respectability of the results. This practice ultimately raises concerns about the

[18] European Parliament (2013) – *Oil, Gas, Mineral and Logging Firms Obliged to Disclose Payments to Governments* – 12/06/2013 – http://www.europarl.europa.eu/news/en/press-room/20130607IPR11387/oil-gas-mineral-and-logging-firms-obliged-to-disclose-payments-to-governments [accessed 21/10/2019]

[19] EITI (2019) – *EITI Factsheet* – https://eiti.org/sites/default/files/documents/eiti_factsheet_en_09.2019.pdf [accessed 21/10/2019]

integrity of information provided to patients and healthcare professionals.[20][21] Furthermore, intense competition when entering markets also incentivises pharmaceutical and medical equipment companies to gravitate towards more corrupt practices.[22] Bribing regulatory agencies to facilitate the registration process of medicines is also an unethical practice observed in the pharmaceutical industry.



CONCLUSIONS

Corruption remains a cross sector and global challenge. Through the work of regulators as well as specialist NGO the private sector faces rising expectations in terms of business conduct and culture. Our research suggests that whilst actions are being taken by a large number of companies, these still appear somewhat limited in nature. Only about a third of the panel analysed had visibly adopted accountability frameworks relying on specialist structures (e.g. ethics & compliance departments, compliance officers). In addition, more than half of the panel did not disclose any information on the provision of programmes on corruption prevention for employees. Only 25% of the panel provided information on their internal anti-corruption control systems. Only by *proactively* promoting business ethics and redesigning internal practices and systems will organisations be able to better prevent corruption. In the decade ahead, more work will be necessary in order to support SDG 16, Peace Justice and Strong Institutions.

[20] V.E (2019) – *Sector Report: Pharmaceutical & Biotechnology Sector* – p.23

[21] Transparency International (2016) – *Corruption in the Pharmaceutical Sector: Diagnosing the Challenges* – p.9

[22] Mackey TK, Liang BA (2012) – *Combating healthcare corruption and fraud with improved global health governance* – BMC International Health and Human Rights 12:23

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APPENDIX 1: METHODOLOGY SUMMARY FOR ESG ASSESSMENTS

V.E's ESG Assessment scores are derived from publicly accessible information. They measure the extent to which companies are visibly taking into account, the rights and expectations of their stakeholder (employees, the environment, customers, suppliers, communities etc). Our ESG criteria are derived from international standards and reference texts (conventions, recommendations, declarations, guidelines from the UN, ILO, Global Compact, OECD, etc.). For each ESG criterion, V.E uses the same approach to conduct assessments with three equally weighted pillars of questioning:

- The **Leadership** of the company on the criterion: *policies and management structures*
- The **Measures** implemented by the company on the criterion: *systems and processes*
- The **Results** achieved by the company on the criterion: *KPIs, metrics and controversy analysis*

The score of each criterion (0 to 100), such as the prevention of corruption, is established by consolidating the individual scores from each of these pillars. In addition to scores, qualifications are provided on a four point scale.

- O-29 = weak scores
- 30-49 = limited scores
- 50-59 = robust scores
- 60+/100 = advanced scores

APPENDIX 2: METHODOLOGY SUMMARY FOR CONTROVERSY RISK ASSESSMENTS

V.E provides Controversy Risk Assessments on companies that are updated on a daily basis. An ESG controversy is defined as "*public information from traceable and reliable sources that incriminates a company on ESG issues within the scope of our ESG Assessment framework. Such incriminations may relate to specific facts or events, to their conflicting interpretations, legal procedures or non-proven claims.*"

Following an event, controversies are systematically assessed in terms of:

- Their **severity** to companies and stakeholders
- The **frequency** with which they occur
- The **responsiveness** of the company to the controversy

By consolidating these three factors (severity, frequency and responsiveness), we provide a controversy risk mitigation opinion at event level, criterion level and overall level for companies. This is expressed on a four point scale (weak, limited, robust, advanced).

ABOUT

V.E is a global leader in ESG assessments, data, research, benchmarks and analytics. Leveraging our extensive proprietary database, we equip market players with the ESG insight they need to manage risks and better understand and address their social and environmental impact. V.E has an industry unique ISO 9001: 2015 quality certification for its processes relating to methodology, assessments, sale and delivery of its data to all types of investors and issuers. V.E is a Climate Bonds Initiative Verified Provider of Second Party Opinions. With a team of nearly 300 experts of 30 different nationalities, V.E is present in Paris, London, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago.

For more information: vigeo-eiris.com