

RISK ATLAS CORRUPTION

Dodgy dealings

Corruption is rife around the world, but larger companies are no longer turning a blind eye

CRIME AND CORRUPTION IS STILL A HUGE PROBLEM IN many parts of the world, and corruption remains an obstacle to progress, claims Transparency International (TI), a leading anti-bribery lobby group. According to TI's latest corruption perception index nearly three-quarters of the world has a serious corruption problem.

"These results signal that significantly greater efforts must go into strengthening governance across the globe," said TI chair Huguette Labelle.

Despite this, most risk managers recently surveyed by StrategicRISK in the Risk Report 2011 said that corruption is becoming rarer in large companies because of the need to comply with legislation, coupled with fears of the damage to reputation and potential penalties that would almost certainly result from being found out.

The USA's Foreign Corrupt Practices Act has been ensnaring miscreant companies far beyond American shores for years. And now, with the UK's even tougher new anti-bribery regime being enforced, companies have even fewer places to hide (for detailed information on the Bribery Act go to strategic-risk.eu).

No international trading operation is immune from America's main agent, the Securities and Exchange Commission (SEC), which is now much more powerful and better-funded than it was before the Madoff scandal of 2008 revealed its weaknesses. The SEC is also involving similar international authorities, such as the UK's FSA, in its pursuit of offenders much more than it has done previously – as Italy's energy giant ENI and Germany's Daimler discovered.

ENI and its former Dutch subsidiary Snamprogetti were fined \$365m (€258m) last year for violations of the act after bribing Nigerian officials. "This elaborate bribery scheme featured sham intermediaries, Swiss bank accounts and carloads of cash as everyone involved made a concerted effort to cover their tracks," says SEC Division of Enforcement director Robert Khuzami. "But the billion-plus dollars in sanctions paid by these companies show that ultimately there is no hiding or profiting from bribery." (The unseemly scramble for Nigeria's oil and other assets has netted the SEC no less than \$1.28bn in sanctions.)

ENI, which used a UK solicitor among other go-betweens to pay Nigerian officials through secret bank accounts, did not respond to StrategicRISK's request to explain how it had reformed its governance procedures in light of the fines. As for Daimler, its \$91.4m disgorgement penalty – not counting \$93.6m in fines on related charges – was for 'a repeated and systematic practice' of bribing government officials across half the world.

NB: The CPI is a composite index, drawing on 13 different expert and business surveys. Source surveys for the 2010 CPI were conducted between January 2009 and September 2010. **SR**

Spain

30 Europe's biggest money laundering operation was found in Spain, where an international network was accused in 2005 of laundering €250m through real estate investments in the Costa del Sol. The money had been illegally obtained from drug trafficking, prostitution rings, international arms trading, kidnapping, blackmail and tax evasion.

USA

22 One member of Lockheed Martin's board of directors earned his position shortly after retiring from the US government, where he served as under-secretary of defence for acquisition, technology, and logistics. During his time in this position, he approved the contract to purchase Lockheed Martin's controversial F-22 fighter jets.

Philippines

134 A 2005 survey of 701 companies in the Philippines asked managers if they had solicited a bribe in the past year. One-fifth of respondents had when dealing with government agencies, either to request a local government permit (36%), pay income taxes (30%), petition for a national government permit or licence (28%) or import goods (21%).

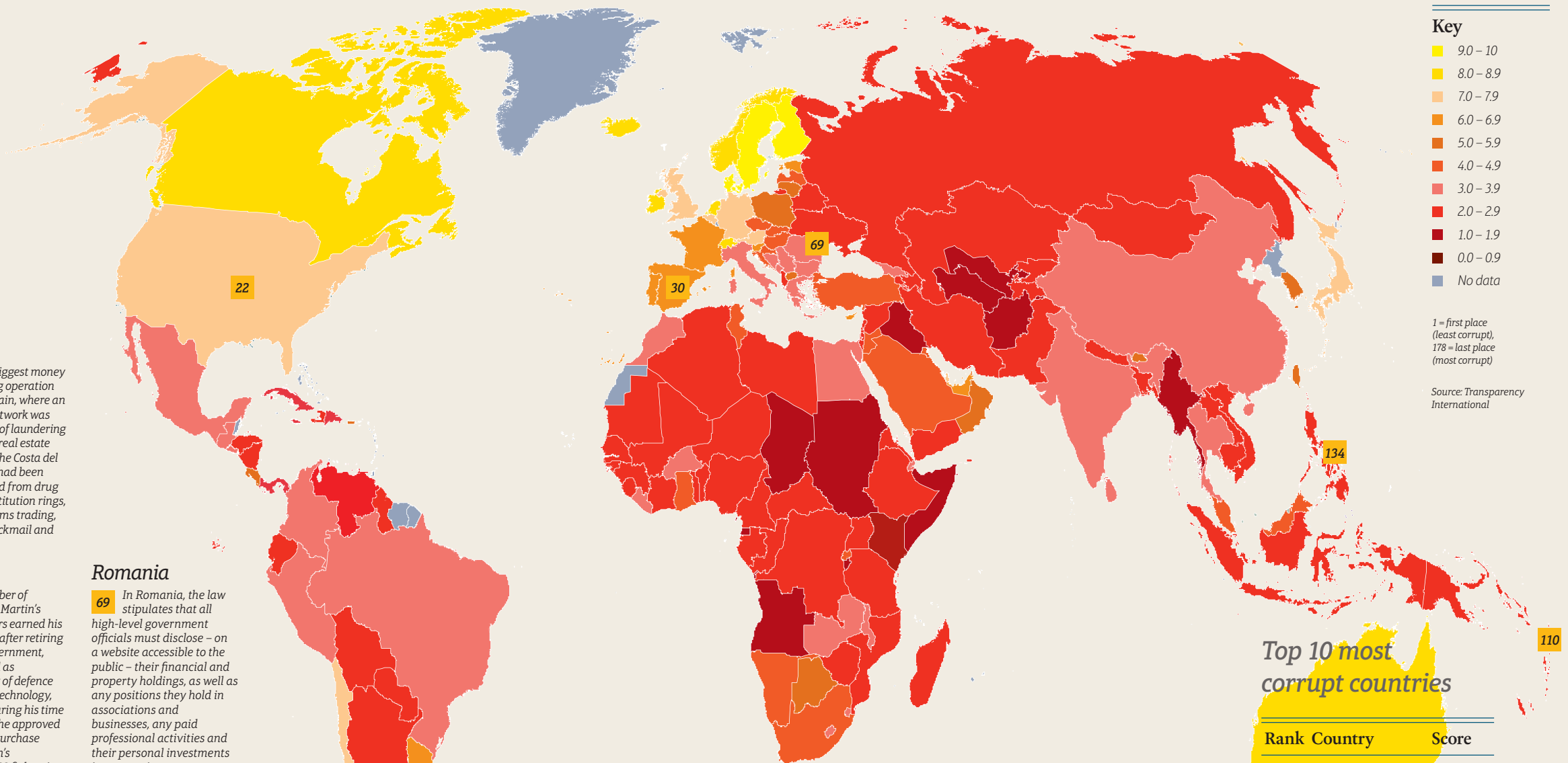
Romania

69 In Romania, the law stipulates that all high-level government officials must disclose – on a website accessible to the public – their financial and property holdings, as well as any positions they hold in associations and businesses, any paid professional activities and their personal investments in companies.

Solomon Islands

110 Since the 1990s, multinational corporations have allegedly bribed key politicians in the Solomon Islands to create a favourable operating environment for logging and to weaken national-level timber management. This provides advantages such as a decrease in export taxes and postponement of the logging export ban.

Source: Transparency International



Key

- 9.0 – 10
- 8.0 – 8.9
- 7.0 – 7.9
- 6.0 – 6.9
- 5.0 – 5.9
- 4.0 – 4.9
- 3.0 – 3.9
- 2.0 – 2.9
- 1.0 – 1.9
- 0.0 – 0.9
- No data

1 = first place (least corrupt), 178 = last place (most corrupt)

Source: Transparency International

Top 10 most corrupt countries

| Rank | Country | Score |
|------|-------------------|-------|
| 1 | Somalia | 1.1 |
| 2 | Myanmar | 1.4 |
| 3 | Afghanistan | 1.4 |
| 4 | Iraq | 1.5 |
| 5 | Uzbekistan | 1.6 |
| 6 | Turkmenistan | 1.6 |
| 7 | Sudan | 1.6 |
| 8 | Chad | 1.7 |
| 9 | Burundi | 1.8 |
| 10 | Equatorial Guinea | 1.9 |

Source: Transparency International

JARGON BUSTER

Clientelism

An unequal system of exchanging resources and favours based on an exploitative relationship between a wealthier and/or more powerful 'patron' and a less wealthy and weaker 'client'.

Debarment

Procedure where companies and individuals are excluded from participating or tendering projects. Governments and multilateral agencies use this process to publicly punish businesses, NGOs, countries or individuals found guilty of unethical or unlawful behaviour.

Facilitation payments

A small bribe – also called a 'facilitating', 'speed' or

'grease' payment – made to secure or expedite the performance of a routine or necessary action to which the payer has legal or other entitlement.

Grand corruption

Acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public.

State capture

A situation where powerful individuals, institutions, companies or groups within or outside a country use corruption to shape a nation's policies, legal environment and economy to benefit their own private interests.

Source: Transparency International