Session:

Good corporate governance
CEO roundtable

Susan Côté-Freeman
Transparency International

For more information: www.hydropower.org/congress
PROMOTING GOOD CORPORATE GOVERNANCE IN THE HYDROPOWER SECTOR:

TRANSPARENCY INTERNATIONAL

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World Hydropower Congress
Beijing, 21 May 2015
ANTI-CORRUPTION: WHAT’S AT STAKE?

73% of business people said they had lost business due to bribery in the last 12 months. *(TI, 2012)*

In 40 countries around the world, more than 50% of the people think the private sector is corrupt or extremely corrupt. *(TI, 2013)*

65% of business people surveyed believe a level playing field is crucial to their company’s future business activities. *(PwC, 2008)*

10% to 25% of the value of public contracts may end up in the hands of the corrupt. *(UNODC, 2013)*

The European Commission calculated that in the Member States around €120 billion or US$163 billion is lost to corruption.

About 2 in 3 adults worldwide believe corruption is widespread in the businesses in their countries. *(Gallup, 2012)*
WHAT’S AT STAKE IN THE HYDROPOWER SECTOR

Integrity challenges in the hydropower sector due to:

- Nature of projects (in particular, large civil works contracts);
- The ranking of countries where many contractors are based;
- Based on the BPI (perceptions of foreign bribery by sector), the hydropower sector involves poorly-performing sectors, including the construction sector (ranked 19th - the lowest), the utilities sector (ranked joint 17th) and power generation and transmission sector (ranked joint 13th)

Takeaway:

Shareholder pressure, legal/regulatory environmental and reputational risk require increased attention to integrity issues in the hydropower sector
THE CHANGING ENVIRONMENT

**Stakeholder pressure:** Enterprises are facing increasing pressure from stakeholders (e.g. customers, investors, export credit agencies, development banks) to do business honestly and adopt, implement and monitor programmes to counter corruption.

**Changes in** the legal & regulatory environment: Enterprises must adhere to foreign bribery laws. Otherwise, they risk fines, civil damages and even prison terms.

**Damage to Reputation:** Enterprises compete in a global marketplace. Corrupt practices can lead to negative publicity that can damage their reputation through media coverage, civil society campaigns, social networking...
BIZINESS INTEGRITY TOOLKIT

REPORT
- UNGC Anti-corruption Reporting Guidance
- Transparency in Corporate Reporting

ASSESS
- Anti-Bribery Checklist
- Corruption Perceptions Index
- Bribe Payers Index
- Global Corruption Barometer
- National Integrity System

PLAN
- The 2010 UK Bribery Act Adequate Procedures

COMMIT
- Business Principles for Countering Bribery
- Business Principles for Countering Bribery – SME

ACT
- Anti-Bribery Guidance for Transactions
- Resisting Extortion & Solicitation in International Transactions

MONITOR
- Self-Evaluation Tool
- Framework for Voluntary Independent Assurance of Corporate anti-corruption Programmes

6. REPORT
- Business Integrity Framework

5. MONITOR
- Business Integrity Framework

4. ACT
- Business Integrity Framework

3. PLAN
- Business Integrity Framework

2. ASSESS
- Business Integrity Framework

1. COMMIT
- Business Integrity Framework
BUSINESS INTEGRITY TOOLKIT

BUSINESS PRINCIPLES FOR COUNTERING BRIBERY

- First published in 2003, re-launched in 2013
- Anti-bribery framework for business promoting:
  - Good business practices
  - Risk management
- Developed by TI with a multi-stakeholder Steering Committee:
  - Companies (Shell, Norsk Hydro, PwC, Sanlam, Stora Enso (FIDIC, EBRD, UN Global Compact)
  - NGOs
  - Trade Union
  - Academia
- Scope
  - Bribery, not wider forms of corruption (but new CoI clause)
  - Bribery wherever it happens including private-to-private
  - International and domestic
  - For use by companies of all sizes

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BUSINESS INTEGRITY TOOLKIT

BUSINESS PRINCIPLES FOR COUNTERING BRIBERY

TWO BASIC PRINCIPLES

- Prohibition of bribery
- Implementing a Programme

Risk assessment

Scope of the Programme:

- Conflicts of Interest
- Bribes: cash, in-kind, kick-backs
- Political contributions: not to gain contracts; fully disclosed
- Philanthropic contributions and sponsorships: not used for bribery; fully disclosed
- Facilitation payments: they are bribes, zero tolerance
- Gifts, hospitality and expenses: clear guidelines for giving and receiving
BUSINESS INTEGRITY TOOLKIT

BUSINESS PRINCIPLES FOR COUNTERING BRIBERY

ORGANISATION AND RESPONSIBILITIES....

- Business Relationships
  - Subsidiaries,
  - Joint Ventures,
  - Agents, lobbyists and other intermediaries
- Human resources
- Training
- Raising concerns and seeking guidance (Whistleblowing)
- Communication and Reporting
- Internal controls and record keeping
- Monitoring and review
- Cooperation with authorities
- Independent assurance
RISK MANAGEMENT

Country Risk
Sectoral Risk
Transactional Risk
Business Opportunity Risk
Business Partnership Risk

Also legal/ regulatory framework risks
HOW TRANSPARENT ARE THE WORLD’S GLOBAL COMPANIES?

TRAC REPORTS

ASSESSING THE WORLD’S LARGEST COMPANIES
2014

ASSESSING EMERGING MARKET MULTINATIONALS
2013
TRANSPARENCY IN CORPORATE REPORTING

FOCUS ON PUBLIC REPORTING:

- reflects a company’s public commitment to countering corruption
- allows for equal and objective evaluation, regardless of company cooperation
- makes companies more accountable for shortcomings

METHODOLOGY:

- companies receive methodology in advance and invited to provide feedback on preliminary results

DATA COLLECTION:

- desk research - corporate websites and relevant embedded links
- data verification by companies

RANKINGS:

- three separate company rankings for each evaluated dimension
- an overall transparency index
### HOW TRANSPARENT ARE THE WORLD’S LARGEST COMPANIES?

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>% ACP GT CBG</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eni</td>
<td>7.3</td>
<td></td>
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<tr>
<td>Vodafone</td>
<td>6.7</td>
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<tr>
<td>Glencore</td>
<td>6.6</td>
<td></td>
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<tr>
<td>RWE</td>
<td>6.1</td>
<td></td>
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<td>BNP Paribas</td>
<td>6.0</td>
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<tr>
<td>Ansaldo</td>
<td>5.9</td>
<td></td>
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<tr>
<td>Deutsche Telekom</td>
<td>5.8</td>
<td></td>
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<tr>
<td>E.ON</td>
<td>5.7</td>
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<tr>
<td>Reliance Industries</td>
<td>5.6</td>
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<tr>
<td>Westpac Banking Group</td>
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<td>BAEF</td>
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<tr>
<td>ExxonMobil</td>
<td>5.5</td>
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<tr>
<td>Siemens</td>
<td>5.3</td>
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<tr>
<td>Volkswagen Group</td>
<td>5.2</td>
<td></td>
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<tr>
<td>Rio Tinto</td>
<td>5.4</td>
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<tr>
<td>Tecon</td>
<td>5.4</td>
<td></td>
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<tr>
<td>Bb Group</td>
<td>5.3</td>
<td></td>
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<tr>
<td>Bayer</td>
<td>5.3</td>
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<tr>
<td>GlassGmbH &amp; Stepfie</td>
<td>5.2</td>
<td></td>
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<tr>
<td>SAP</td>
<td>5.2</td>
<td></td>
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<tr>
<td>BP</td>
<td>5.1</td>
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<tr>
<td>HSBC Holdings</td>
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<td>ENEEL</td>
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<tr>
<td>Allianz</td>
<td>4.8</td>
<td></td>
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<tr>
<td>Oil &amp; Natural Gas Corporation LI</td>
<td>4.8</td>
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<td>British American Tobacco</td>
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<td>Diageo</td>
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<td>L’Oréal Group</td>
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<tr>
<td>Petrobras</td>
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<td><strong>Average</strong></td>
<td><strong>3.8/10</strong></td>
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**Note:** Eni provided financial support to the Transparency International’s Business Principles Steering Committees. Other companies covered in this report may also provide support to Transparency International chapters worldwide.

**Scale 0–10 where 0 is least transparent and 10 is most transparent. This index is based on the unweighted average of results in all three categories.”**
OVERALL FINDINGS

Overall index, average 3.8/10

• Increasing disclosure of anti-corruption programmes
• Disclosure of corporate holdings and key financial information in foreign countries still deficient

Country-by-country reporting is the dimension showing by far the weakest results
Findings

- 97% of companies state publicly that they are committed to complying with all laws, including anti-corruption laws
- Only 45% of companies prohibit facilitation payments
- **Political contributions** are not transparent enough
- The anti-corruption policy disclosures of UK companies are the most advanced
- Performance of financial sector companies is strikingly weak with respect to anti-corruption programmes (average: 58%).
SOME FINDINGS FOR THE HYDROPOWER SECTOR?

TRAC studies covered 8 corporations from 5 countries (Brazil, China, France, Germany and Italy) with some involvement in the hydropower sector (3 construction companies; 5 utilities). The results can be summarized as follows:

<table>
<thead>
<tr>
<th>DIMENSION</th>
<th>LOWER RANGE</th>
<th>HIGHER RANGE</th>
<th>BEST CROSS-SECTORAL SCORE</th>
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</thead>
<tbody>
<tr>
<td>ACP</td>
<td>0</td>
<td>85</td>
<td>100</td>
</tr>
<tr>
<td>OT</td>
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<td>75</td>
<td>100</td>
</tr>
<tr>
<td>CBCR</td>
<td>0</td>
<td>15</td>
<td>50</td>
</tr>
</tbody>
</table>

For this small sample of corporations: (a) most are making some effort on reporting on their Anticorruption Programmes; (b) Organisational Transparency is reasonably well covered by a number of corporations; and (c) Country-by Country reporting is generally weak.
THE HYDRO SUSTAINABILITY ASSESSMENT PROTOCOL AND GOOD CORPORATE GOVERNANCE

Governance included in Assessments at project preparation, implementation and Operation stages

E.g. this topic addresses corporate and external governance considerations for the project.

The intent of this topic is that the developer should:

• have sound corporate business structures, policies and practices;
• address transparency, integrity and accountability issues;
• can manage external governance issues (e.g. institutional capacity shortfalls; political risks including trans-boundary issues; public sector corruption risks);
• ensure compliance
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