

Anticorruption leads investors' ESG agenda



This article is part of a new series based on the results of the 2020 RBC Global Asset Management Responsible Investment Survey. The survey, entitled '[Responsible Investing: Global Adoption – Regional Divide](#),' revealed meaningful insights on the considerations of environmental, social and governance (ESG) factors by global institutional investors.

The RBC Global Asset Management 2020 Responsible Investment Survey found that corruption is one of the top ESG issues on institutional investors' minds.¹ Some ESG concerns – such as climate change and cybersecurity – are relatively new. Corruption, by contrast, is an issue that has been with us since ancient times, but remains a material issue for investors.

The *Oxford English Dictionary* defines corruption as the “destruction of integrity in the discharge of public duties by bribery or favour; the use or existence of corrupt practices, especially in a state, public corporation, etc.” In some cases, corruption may take the form of government officials accepting bribes. In other cases, corruption may be found in an environment of loose controls within which improper agreements between private actors subvert the cause of plain dealing. In either case, corrupt deeds are those which, while seeming to be upright, cannot withstand public scrutiny. Corruption erodes trust, both public and private. It is a milieu lacking in controls (or in extremis a state where the governmental officials are themselves corrupt) that most serves to permit corruption's growth.

What is the scale of the corruption problem today? PwC has estimated that US\$1 trillion is paid out in bribes each year and that US\$2.6 trillion is lost to corruption.² The Principles for Responsible Investment (PRI) estimates that, on a global basis, corruption may raise the cost of doing business by 10 percent. Further, the PRI adds that corruption causes procurement contracts in developing countries to cost as much as 25 percent more than they otherwise would.³ Hence, corruption can have a negative impact on economic growth.

Transparency International, an anticorruption nonprofit, publishes an annual Corruption Perceptions Index. In the most recent listing, New Zealand and Denmark

came in tied for first place as the least corrupt nations. Wealthy countries dominated most of the top spots, yet non-OECD states such as Bhutan and Uruguay also ranked among the top 25.

Transparency International does make clear in a rundown of scandals among their top 25 that no country can claim it is free from corruption.⁴ In 2020, for instance, European aircraft manufacturer Airbus paid fines of nearly \$4 billion to settle charges brought by authorities in France, the United Kingdom and the United States that it had engaged in bribery operations in a number of countries. And in 2019 retailer Walmart paid \$282 million to settle U.S. federal charges that it bribed officials in Mexico and other emerging market nations to facilitate store openings. In the words of the SEC, “Walmart valued international growth and cost-cutting over compliance.”⁵

Like many governance issues, corruption can impact other ESG factors material to an issuer. Consider the case of climate change, for instance. Many of the leading recipients of climate-related aid and investment are developing countries with weak records on corruption. A recent paper from U4, an anticorruption research group, foretells disappointment for those “who see anti-corruption and governance issues as peripheral to the technical challenges of reducing emissions, yet do not fully realize how corruption can negate their goals.”⁶

The COVID-19 crisis is also fertile ground for corruption. As the UN noted in a report on corruption and the COVID-19 pandemic prepared for the 2020 G20 meeting, “Corruption risks in the context of the COVID-19 crisis have and continue to be a major threat to mitigation efforts worldwide.”⁷ No doubt this is partly a function of the crisis situation itself: “It is generally accepted,” say the authors of the same report, “that corruption thrives in times of crisis.” This is especially a cause for concern at a time such as the present, when massive procurement efforts are underway.

Of course, not all present-day corruption will stem from the pandemic. German payments processor Wirecard, for instance, became insolvent last year after it came to light that billions of euros were missing. Some blamed loose oversight from the firm’s board. The incident prompted Peter Dehnen, chairperson of the Association of Supervisory Boards in Germany, to call for “drastic change” to corporate governance in Germany.⁸

Corruption is not a problem that can be solved unilaterally. By its very nature, anticorruption requires the support that goes beyond the interests of one side alone. The logic of international finance and trade requires that corruption, if it is to be solved, be a matter of importance to both parties.

“Because national economies are integrated through trade,” argues the anticorruption group U4, “corruption within a given state cannot be resolved only through anti-corruption efforts located in that state.”⁹

Thankfully, there are organizations working to develop protocols to prevent corruption – both at singular moments like the present COVID-19 crisis and under more ordinary circumstances as well. International institutions such as the UN, the G20, and the OECD are articulating ways to address the problem as are a number of nonprofits. Also, the UN’s Convention against Corruption is a binding treaty signed by the vast majority of UN members. There are, therefore, tools in place to address corruption – even if the problem remains substantial in its scope.

At RBC Global Asset Management, we believe that good governance practices are important for all of our investments across all industries and markets. Issuers with strong policies and practices on corruption, fraud, and business ethics are better positioned to manage and mitigate these challenging issues. We believe that being an active, engaged and responsible owner empowers us to enhance the long-term, risk-adjusted performance of our portfolios.

¹ RBC GAM, <https://global.rbcgam.com/esg/default.fs#1>

² PwC, Five forces that will reshape the global landscape of anti-bribery and anti-corruption, April 7, 2021. <https://www.pwc.com/gx/en/services/forensics/five-forces-that-will-reshape-the-global-landscape-of-anti-bribery-anti-corruption.html>

³ PRI, Engaging on Anti-Bribery and Corruption, 2016. <https://www.unpri.org/download?ac=1826>

⁴ Transparency International, CPI 2020: Trouble in the top 25 countries, January 28, 2021. <https://www.transparency.org/en/news/cpi-2020-trouble-in-the-top-25-countries>

⁵ Reuters, Walmart to pay \$282 million to settle seven-year global corruption probe, June 20, 2019. <https://www.reuters.com/article/us-walmart-fcpa-idUSKCN1TL27J>

⁶ U4, Corruption and climate finance, 2020. <https://www.u4.no/publications/corruption-and-climate-finance>

⁷ United Nations Office on Drugs and Crime, Good Practices Compendium on Combating Corruption in the Response to COVID-19, October 16, 2020. https://www.unodc.org/documents/corruption/COVID-19/G20_Compndium_COVID-19.pdf

⁸ CNBC, ‘The Enron of Germany’: Wirecard scandal casts a shadow on corporate governance, April 7, 2021. <https://www.cnbc.com/2020/06/29/enron-of-germany-wirecard-scandal-casts-a-shadow-on-governance.html>

⁹ U4, How change happens in anticorruption, 2020. <https://www.u4.no/publications/how-anti-corruption-change-happens>

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