

# G20 Anti-Corruption Working Group

## Proposal for 2015-16 priorities

### Proposed priority

*Private Sector Transparency, Accountability and Integrity*

### Proposing country / organisation

*Civil 20. This paper was produced by the C20 Governance Group. Earlier drafts were made available for consultation with a number of civil society organisations and coalitions, including the Financial Transparency Coalition, the UNCAC Coalition, the Publish What You Pay Network and the Follow the Money Network.*

### What is the problem?

**Disappearance of revenues:** About 3.5 billion people live in countries rich in oil, gas and minerals. Revenue from these sectors is often one of the greatest sources of wealth generated within developing countries, but such wealth often provides little benefit to the people living in these countries, especially the poor. A lack of transparency in the payment and use of these revenues is a key barrier to removing this 'resource curse' and to tackling corruption which distorts markets and is an obstacle to the G20 objective of a sustainable, just and stable global economy. Company reporting on relationships and financial flows of their subsidiaries and partners, is a first step that allows for financial oversight by all stakeholders and improved governance. Yet deficits exist in companies' organisational disclosure, and these gaps pose corruption risks.

**Corruption in private sector supply chains:** The majority of business worldwide is conducted through Small and Medium Sized Enterprises (SME)s. These can be a weak link in the supply chain of large companies and therefore pose a risk for the larger companies. Kroll's 2011/2012 Global Fraud Report, a survey of 1,200 executives worldwide, estimated that companies lost an average of 2.1 per cent of their earnings due to fraud over only one year. Twenty per cent of these companies suffered from vendor, supplier and procurement fraud and 19 per cent suffered from corruption and bribery.<sup>1</sup> Corruption in the supply chain is becoming a major concern for companies, particularly in emerging markets.

### Why should this be a priority for the G20?

The G20 Anti-Corruption Working Group has identified a number of sectors vulnerable to corruption, including the natural resource sector. Mandatory disclosure of payments and operations on a project-by-project and country-by-country basis in this sector mitigate political, legal and reputational risks and enhances investment certainty. The EU, US, Norway and Canada have taken the lead in committing to mandatory reporting standards in this sector however it requires concerted political weight from a more globally representative body to achieve success.

Combating corruption in supply chains will assist the G20 in achieving its global growth priorities especially in light of added focus on large-scale infrastructure projects in the coming years.

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<sup>1</sup> See [http://www.unglobalcompact.org/docs/issues\\_doc/supply\\_chain/StandTogether.pdf](http://www.unglobalcompact.org/docs/issues_doc/supply_chain/StandTogether.pdf)

## What should the G20 do?

### Corporate Transparency

- G20 members should support the development of a global transparency standard for the extractive industries. Legislation that requires oil, gas and mining companies to publish payments made to governments on a country-by-country and project-by-project basis in open data formats and, equivalent to the EU Accounting and Transparency Directives, should be adopted by all G20 countries.
- The G20 should also look at the applicability of this standard to other sectors, drawing from progress within the EU that saw the adoption of the Capital Requirement Directive (CRD IV) that will require banks to disclose profits made, taxes paid, subsidies received, turnover and number of employees on a country-by-country basis.

### Corruption in private sector supply chains:

- G20 countries should encourage enterprises (whether they are State Owned Enterprises, listed or private) to adopt comprehensive anti-corruption programmes which are regularly monitored for effectiveness.
- G20 countries, to incentivise SMEs (large players in supply chains), should consider introducing, on a pilot basis, a white-list system for fast track access to finance through loan programmes or export-based support (in the context of G20 work on “financial inclusion”). To benefit from white-listing, SMEs would have to demonstrate that they have adequate anti-corruption systems in place.

## What is the deliverable?

### Corporate Transparency

- National level consultations with industry, investors and civil society on the introduction of reporting requirements for extractive companies to publish what they pay to foreign governments on a country-by-country and project-by-project basis. The results would contribute towards the establishment of a global transparency standard.
- The G20 together develops an action plan for the establishment of a global standard for extractive industry transparency - involving key stakeholders such as industry, investors and civil society.

### Corruption in private sector supply chains:

- A set of G20 criteria for SMES deemed to have adequate anti-corruption systems in place, followed by the drafting of a pilot G20 white-list of SMEs applying and meeting those standards.

## Who will lead this work?

**Revenue Transparency:** This needs close collaboration with a wide range of stakeholders including the International Council on Mining and Metals, International Association of Oil & Gas Producers (OGP), Publish What You Pay network, EITI Secretariat, World Bank etc.

The Development Working Group and the Finance Track should both be involved with respect to their mandates on domestic resource mobilisation, facilitating investment and tax reform.

**Corruption in private sector supply chains:** The G20 Anti-Corruption Working Group, Finance Track and Business 20, with consultation with independent monitors.

## What is the timeframe?

**Revenue Transparency:** Consultations take place during Turkey’s presidency and development of action plan to be completed by end of 2016.

### Corruption in private sector supply chains:

- 2015: Consultation phase on criteria for adoption at the B20 Summit
- 2016: Role out of pilot list