



Corruption risk at a global scale: Dissecting the Corruption Perceptions Index

ESG voices podcast series

Musical intro

Host:

Hello, and welcome to another episode of ESG Voices. This podcast series addresses the opportunities and challenges within ESG through interviews with ESG specialists from KPMG and beyond.

Throughout this series, we will discuss a broad range of environmental, social, and governance issues, aiming to support governments, businesses, and communities in creating an equitable and prosperous future.

In today's podcast episode, we will be speaking with three colleagues from the Financial Services Forensic Team at KPMG in the UK: Senior Manager Michael Pollitt, Director Simon Stiggear, and Assistant Manager Gina Burley-Staffieri. With them, we will explore Transparency International's latest Corruption Perceptions Index, a global ranking which scores 180 countries and territories according to their perceived levels of corruption in the public sector.

With a lot to discuss, we're hoping to jump right into it... Michael, Simon, Gina, thank you for joining us.

To start, Michael, can you give a brief overview of the Corruption Perceptions Index and why it is of interest for private sector organizations around the world?

Michael Pollitt:

Absolutely. I think that's a great place to start. So, the Corruption Perceptions Index is the most widely used global corruption ranking in the world. In simple terms, what it does is it measures how corrupt each country's public sector is perceived to be. It's released on an annual basis by Transparency International, or TI, as they're often known, and they are one of the world's leading and most widely recognized institutions working in the field of anti-bribery and corruption.

So every year what TI do is to inform that Corruption Perceptions Index, they gather data from a variety of different institutions, including the World Bank and the World Economic Forum on the levels of perceived corruption in the public sector of 180 different countries and territories. Now that data is vetted and analyzed to provide a measure of perceived public sector corruption in each country according to the views expressed by these institutions. So importantly, it's not a measure of corruption itself.

It's not even a measure of the views expressed on corruption by general populations in each of these countries. It's a measure of perceived corruption, according to relevant experts and business people within a small group of very carefully selected global institutions. Now, what are we talking about here, in terms of definitions the way that TI defines corruption is as the abuse of entrusted power for private gain. So the index, therefore has to assess a range of different issues, including bribery, officials who might be misusing that public office for personal benefit, nepotism in civil service appointments and state capture, for example. Now, once the country's level of perceived public sector corruption has been calculated in this way, using institutional perspectives and the prevalence of these issues, a score can be allocated on a scale of 0 to 100, where zero indicates a highly corrupt environment.

And 100 would indicate a very clean one from the perspective of corruption. So the resulting countries' specific scores can then be used to rank all 180 countries and territories, showing us in a very general sense, which countries have the highest and the lowest levels of perceived corruption in that public sector. Now, in terms of the second half of your question, and the reason this data is important for our clients, really this is because sadly many bribery and corruption cases can still be boiled down to that inappropriate relationship, that transaction that exists between a global private sector organization, a multinational corporation, for example, or a bank and a foreign public official.

So in as much as the index provides us with a perspective on how likely it is that a bribe will be requested by a representative of the public sector in a certain jurisdiction, our clients can use that as a way of allocating perhaps additional controls to that jurisdiction so that they can take a more proportionate approach to preventing a bribe from being paid for them or on their behalf.

Host:

Great, thank you Michael. And Simon, according to this year's results, two-thirds of countries score below 50 out of 100, indicating strong corruption issues. In your opinion, what are some of the most surprising results this year?

Simon Stiggear:

Well, if we first take a step back overall, we can see that most countries had made little to no progress in tackling

public sector corruption, with the average score remaining unchanged at 43 for the 12th consecutive year. Perhaps not surprising, but disappointing. What was surprising, however, was to see the average score in Western Europe and the European Union drop for the first time in a decade to 65 out of 100, with the CPI itself attributing the slump to weak accountability in the public sector.

Now, on a country by country level, whilst the likes of Denmark, Finland and New Zealand continue to stay at the top of the table, several high ranking democracies, including Sweden, Netherlands, Iceland and the United Kingdom, have recorded their lowest ever scores. Now, notably, the UK has experienced a big decline over the past few years.

Host:

Thanks Simon. Now, moving onto trends... Gina, what trends are you seeing globally that contribute to low corruption ratings?

Gina Burley-Staffieri:

Sure. So starting with the overall global picture, the CPI has highlighted some real weaknesses in justice systems all around the world. So they've continuously called out under-resourcing of the judiciary and of the police. So what this means that it's really difficult to detect, investigate it, prosecute and then adjudicate corruption cases, so that's the global picture. If we then zoom in on the particular regions around the world, you can see the slightly different trend depending on which region you're looking at.

So if I was a weather person, I'd bring up my map. I'm not a weather person so you're going to have to just listen for the regions that you care about for everyone at home. So in the EU, we're talking about political integrity threats. So whilst the EU has strong anti-corruption measures, these are being undermined by weak checks and balances around these measures.

Then moving slightly south, we're looking at the Middle East and North Africa. Here we're talking about a lack of momentum in the anti-corruption efforts. So they're adopting more of a reactive rather than proactive approach. And the lack of proactivity is what's really hindering the progress in anti-corruption in these areas. Now, if we're going back into Europe and also in Central Asia, here we're talking about weak justice systems and an inability to hold leadership to account.

Unfortunately, this is often fed by things such as war, authoritarian regimes and increased poverty levels in these countries as well. Then moving along again, we're looking at Asia Pacific. So here it's very varied. You got a mixed bag. We're looking at very high scores such as New Zealand or Singapore and some of the lowest scorers as such is North Korea.

So getting an overall picture in this area can be a bit tricky. But what we are seeing is the inadequate delivery of anti-corruption commitments in quite a few of these countries and larger issues such as a general lack of integrity infrastructure. On those last ones, we're looking towards the lowest scoring countries in the Asia Pacific region. And finally, moving over to the Americas, we're looking at a lack of independent judiciary.

So an inability to guarantee fair trials, diminishing public trust and a lack of transparency in the judicial systems in these

countries. So what we're seeing overall is that more often than not, those abusing power are escaping accountability because judicial systems in place to stop them are either unable or unwilling to do anything about it.

Host:

Thank you, Gina, and what about global trends for countries that are highly rated?

Gina Burley-Staffieri:

So more positive. We're looking at the high scoring regions being Western Europe and the EU. Here we're seeing the high scoring countries such as Denmark, Finland, Norway, Sweden, but then other high scoring countries are in, like I said, the Asia-Pacific region, so New Zealand and Singapore. There's a couple of things that all of these countries have in common. So firstly, we're looking at well-functioning justice systems.

You're looking at a strong rule of law and political stability. These countries have strong democracies and they're perceived to have high levels of transparency in their judicial systems. Then the second thing they all have in common is a proactive approach to fighting corruption. They're making sure that they have the infrastructure in place to effectively hold those in powers, in power to account.

Now, we're not saying that any country is perfect. No one scores 100 out of 100 in the Corruption Perceptions Index. But the key message is that the public can see they're perceiving that their country's trying to counter corruption and they trust the systems in that country to carry out the job properly.

Host:

That was great insight, thank you Gina. Simon, what next steps can justice systems and large private-sector organisations take to contribute to a less corrupt public sector within their jurisdiction?

Simon Stiggear:

Well, this year's CPI results do emphasize, unfortunately, some worrying trends, not least across Europe. And we hope that it will act as a catalyst for legislative and industry change. Now, with regards to justice, countries with strong rule of law and well-functioning democratic institutions often sit at the top of the index. Democratic countries tend to greatly outperform authoritarian regimes when controlling corruption.

Now full democracies have a CPI average of 73. Flawed democracies have one of 48, and you guessed it, non-democratic regimes just 32. We can therefore expect to see the improvements to a nation's laws and the Justice system will likely result, therefore, in a correlating improvement in a country's corruption perception score. Such things, however, often do take time. Now you, you also mentioned large private sector organizations and what next steps they can take to contribute to a less corrupt public sector.

And there are many ways that we can think about this, but perhaps we could do so first at an industry level and then an individual organizational level. So firstly, an industry wide level, it is key that large private sector organizations collaborate and act as, as a united voice. We've already seen this in one example in the banking sector with the

2023 update to the Wolfsberg Anti-Bribery and Corruption Guidance.

Now, this is an example of a clear statement from a collection of 12 global banks, which is seeking to uplift standards with regards to establishing an effective anti-bribery corruption compliance program. Finally, at an individual organizational level, for me it comes down to an organization's values and whether that organization has a framework in that place to uphold those values. We've seen in recent years a real focus by organizations on uplifting their ABC frameworks.

Now, if this can be done effectively, it provides benefits not only to an organization's customers and its clients, but also its colleagues and importantly, its wider communities.

Host:

Thanks Simon, and before we wrap up, Michael, what kind of changes do you think will result from this year's Corruption Perceptions Index?

Michael Pollitt:

So as we said in our recent blog on this, just get a plug for the blog in there. We're hoping that the Corruption Perceptions Index could be a new beginning for the various states who have been called out in its results for their underperformance in the area of corruption. So firstly, speaking from a UK perspective, we obviously have our ear to the ground over here from a jurisdictional perspective, and there are several ways in which we think the current UK government or an incoming successor government could act on the results in the latest Corruption Perceptions Index.

We're expecting, for example, a new anti-corruption strategy to be issued by the UK very soon, and it's highly likely that those who are holding the pen on that strategy right now at the time of recording will want to pay attention to some of the recommendations targeting the UK in this latest Corruption Perceptions index. However, secondly, the ramification of this index could be felt on a more regional level as well.

Gina's absolutely, absolutely right when she says that Western Europe and the EU, that's often the region which is the highest scoring in the whole of the Corruption Perceptions index. However, it's also worth reflecting on what Simon said about how as a region, the score retained by Western Europe in the European Union dropped in this latest index for the first time in a decade.

That is big news. And so, as we heard, the researchers behind the data are attributing this slump to what they call a lack of accountability in the public sector. So all this feedback

is being levelled at Europe at a very interesting moment in the history of its relationship with corruption. Recently, we've seen serious allegations of corruption targeted against the highest institutions of political power in Europe through the Qatar gate scandal.

However, we've also seen the emergence of the European Directive on combating corruption as a way perhaps, to address some of these concerns. So the comments on Europe in the Corruption Perceptions Index they're coming at a time when Europe is trying to re-establish itself as a force for good in the area of corruption. And again, those holding the pen, those holding the pen on the European directive may well be looking to the Corruption Perceptions Index as a reason to implement more serious reforms in Europe than they might otherwise have done.

A third and final change that we hope will result from this latest Corruption Perceptions Index is in the private sector. So many firms listening to this podcast when they've got the impression by now hopefully that it might be a good time for them to start reconsidering their own perceptions of global bribery and corruption risk. And we hope these organizations won't simply skip to the next podcast now without taking a moment to ensure that the jurisdictional data in their bribery corruption risk assessments is up to date and reflects all the new risk considerations that we've been discussing today.

As I mentioned at the beginning, it's only by recognizing these jurisdictional risks that commercial organizations can take a targeted, risk based, proportionate approach to their implementation of anti-bribery and corruption controls on a global scale. This will help many commercial organizations to make effective use of their resources and could also go a long way towards improving the results in next year's Corruption Perceptions Index.

Host:

Thanks for that, Michael. That wraps up today's podcast, but Michael, Simon and Gina, thank you for joining us for today's episode. The insight you've provided leaves much food for thought for our listeners.

Join us again next time for more insights from ESG leaders and innovators. You can also find our latest insights covering a range of ESG topics by visiting kpmg.com/ESG.

Thanks for listening.

Musical exit

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