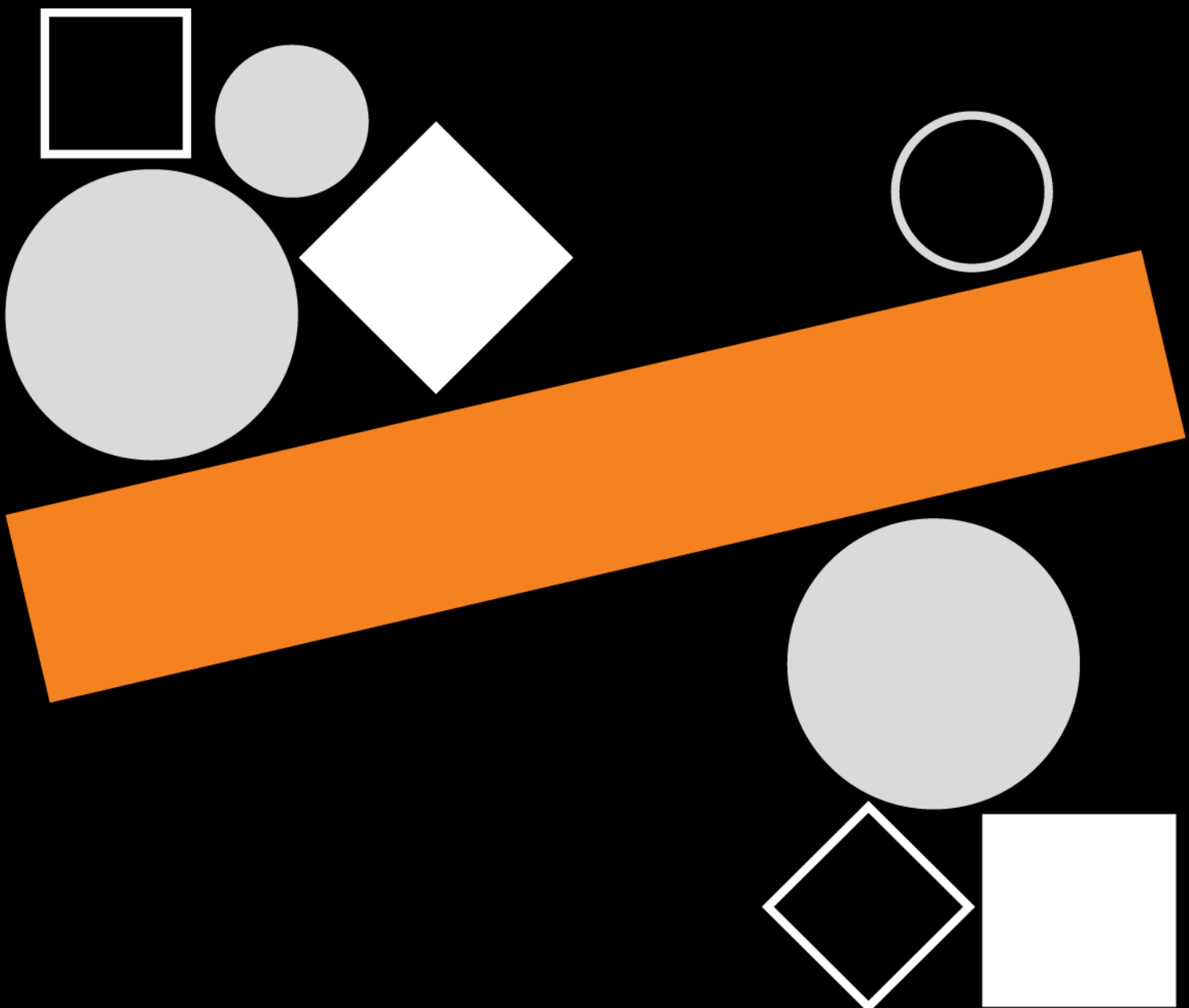


## Working Paper 34

# Local certification through Collective Action: an innovative approach to anti-corruption compliance and due diligence

Vanessa Hans, Scarlet Wannewetsch, Gemma Aiolfi | December 2020



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## Abbreviations

AHK	Argentinean Chamber of Industry and Commerce
BAAC	Business Action Against Corruption initiative (Nigeria)
CAC	Collective Action Against Corruption (Thailand)
CAD	Canadian dollars
CBi	Convention on Business Integrity
CGRS	Corporate Governance Rating System
DOJ	Department of Justice
EBRD	European Bank for Reconstruction and Development
FCPA	Foreign Corrupt Practices Act (US)
IOD	Institute of Directors (Thailand)
MNC	Multi-National Corporation
NSE	Nigerian Stock Exchange
OECD	Organisation for Economic Co-operation and Development
SEC	Securities and Exchange Commission (US)
SHINE	Strengthening High-level Commitment for Integrity Initiatives and Nurturing Collective Action of Enterprises Advocating for Fair Market Conditions
SME	Small- and Medium-sized Enterprise
SOE	State-Owned Enterprise
TEI	The Ethics Institute (South Africa)
UNIC	Ukrainian Network of Integrity and Compliance

# 1 Executive summary

How can local certification of small and mid-sized enterprises (SMEs) help to alleviate anti-corruption due diligence for SMEs as well as multinational corporations (MNC) seeking to work with them? This paper attempts to answer that question, which is of real practical relevance to businesses around the world.

## What is local certification?

*Local certification* in this context means the assessment of a company's anti-corruption compliance standards according to a method devised through a Collective Action and developed within a domestic (local) market. The local component also involves verification (certification) by a reputable organisation based in the same country as the entity that is being certified.

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As suppliers, on the one hand, SMEs undergo due diligence relating to corruption risks by their MNC customers. SMEs implement their anti-corruption compliance programmes with limited resources. Yet they are often confronted with multiple questionnaires and requests for documents from each of their MNC customers, which is burdensome and costly.

On the other hand, many MNCs employ a risk-based approach to identify the risks associated with their business partners, customers and others. Based on the outcome of that assessment, they conduct due diligence in relation to corruption risks. This often requires considerable compliance resources.

Local certification offers an opportunity to SMEs in particular to develop and demonstrate robust anti-corruption compliance procedures that address their risks and business operations.

A trusted certification programme may also enable MNCs to rely on the certification for due diligence purposes (applying a risk-based approach) when seeking reputable suppliers and partners in local markets. This in turn also benefits SMEs.

There are wider benefits too: with a critical mass, a certification scheme can help raise standards of compliance across the board in a sector or geographical area. This improves the reputation of a country's efforts to combat corruption.

A Collective Action approach boosts the potential of local certification to achieve these wins in three ways:

- Collaborative, multi-stakeholder development of the methodology and certification standards ensures relevance and buy-in for both SMEs and MNCs.
- Certification based on a Collective Action initiative provides a supportive framework and platform for companies to exchange experiences, build capacity and hold members accountable.
- Collective Action enables the perspectives of all relevant stakeholders, such as governments, investors and customers as well as the companies themselves, to be taken into account.

Analysing a selection of Collective Action initiatives with certification schemes (or the components of these tools) reveals the following key considerations:

- The need for business incentives and a tailored approach for SMEs, taking into account their limited capacities and resources for compliance.
- The potential risks of relying on a sole set of incentives, such as improved access to government tenders. This is because political changes sometimes result in the removal of such preferential treatment.
- The value of capacity building in compliance management systems and standards so that implementation is properly supported and ultimately achieved. This helps ensure that certification is not just a check-box audit with a pass or fail.
- The need to consider sustainability seriously, covering both private-sector engagement and funding structures.

The paper ends with six recommendations for practitioners seeking to raise levels of anti-corruption compliance through a local certification scheme:

1. Take a Collective Action approach – for trust, incentives and a supportive environment.
2. Embed agility – to respond to changing legal, political and economic contexts and to be sensitive to different member needs and resources.
3. Aim for 360-degree visibility – to gain the attention of stakeholders across the board, plus targeted companies.
4. Communicate success – because positive publicity will provide the necessary oxygen to enable local certification schemes to grow and prosper.
5. Diversify funding sources – perhaps from membership fees, certification fees, training courses, events, “extras” and sponsorship.
6. Remember: Power to SMEs! – SMEs are the critical mass that can help to drive positive change in a business environment, but they need careful handling.

## 2 Introduction

### 2.1 Companies face more than one dilemma

Certification of anti-corruption compliance programmes has become increasingly popular in the last decade as companies seek to demonstrate their efforts and commitment to doing business with integrity. This generally involves paying a consulting organisation to review and endorse the company's corporate ethics and practices. The ISO 37001 Anti-Bribery Management Systems standard has contributed to the growth of the certification business. Catering for the public and private sectors and offered by a wide range of certifying consultants around the world, it re-ignited discussion around the pros and cons of certifying compliance programmes (or parts thereof, as is possible under the ISO standard).

This paper does not address these types of certification approaches. Rather, it seeks to illuminate a different form of certification that can help to address several dilemmas.

In today's globalised economy, many mid-sized and large companies that export around the world are faced with compliance risks in their business operations. These arise not only in their third-party representative risks, but also in relation to finding local partners and identifying their integrity and compliance risks in countries where the exporter does not have a presence on the ground, but needs a local supplier or representative to support their business. Finding an apparently reliable and sound partner is sometimes the start of an uncertain journey. The reputation and business reliability of the potential partner must be verified through risk-based due diligence. Conducting assurance checks and due diligence from afar can be cumbersome, time consuming and in some instances doubts may arise as to the veracity of documents.

When entering new markets and conducting due diligence on new partners and suppliers, MNCs often start off by having to rely on information and documentation provided by the third parties themselves. In some contexts, verifying the validity of the information these documents contain and whether they are even genuine can be difficult. Sometimes it is almost impossible. The questionnaire stage may therefore need to be followed up by remote interviews and in-country visits involving meetings with the management, financial institutions and other guarantors of the entity. This can be a resource-intensive process. It is probably unavoidable for high-risk third parties and partners, but for less risky relationships, reliance on a certification could ease this burden.

While a wide variety of off-the-shelf due diligence products exist, companies still have to gather the information and assess it internally. Companies are faced with a choice. On the one hand there are costly, slow but thorough processes that can delay business transactions and have an additional cost through less business. On the other hand, there



is a more light-touch approach that can mean an increased risk exposure and which may turn out to be a false economy if the relationship goes wrong.

The pressure for globally operating companies to ensure that their compliance and integrity standards are maintained throughout their supply chain is steadily growing. This has led to a transfer of pressure all the way down to the weakest link, SMEs. As a result, many SMEs supplying large international companies are faced with onerous demands when it comes to their compliance programmes. Often, these demands neither reflect their business environment nor their risk profile. Even producing an ISO 37001 certificate may not be good enough: it can be obtained for just part of the business, which may render it of little value in the MNC customer's opinion. The MNC may also mistrust the reputation of the certifying agency.

The end result: whether it is time-consuming due diligence questionnaires or an array of different standards, SMEs are often inundated with demands from potential customers or investors.

How can global players move from demanding the impossible, to supporting SMEs in their supply chains in developing a sustainable compliance programme that fits their needs and risks? This paper examines the alternatives to ISO 37001 and focuses on local certification solutions that could provide inspiration for MNCs and SMEs to work together.

## 2.2 Concept

The dilemmas outlined above are an opportunity for Collective Action to bridge the gap between the expectations of multinationals and standards that reflect local contexts and risks. Collective Action initiatives provide a platform for companies to come together to exchange on common problems and work towards collaborative solutions. As such, they are uniquely positioned to develop certification models that take account of local requirements while still being acceptable to MNCs' global standards, which have to meet international norms.

Bringing together MNCs with local SMEs and civil society not only lifts the level of compliance for SMEs and alleviates compliance-related risks for MNCs. It also works towards a more transparent, robust and reliable business environment overall. This is a win-win for all parties involved.

Several Collective Action initiatives have been at the forefront of developing context-sensitive certification programmes that respond effectively to a business need. Some mature initiatives in Nigeria and Thailand have been operating local certification schemes for over a decade now. Others are in the process of developing such schemes. Their experiences reveal common challenges, from getting the ball rolling to gaining political

support and sustainable funding. Sometimes, they trigger questions as to whether certification is an appropriate and realistic way to effect change in certain environments.

This report sets out lessons learned from established, emerging and in one case failed certification programmes. It examines their impact in challenging business environments, identifies commonalities and explores their applicability to the still under-served stakeholder group of SMEs.

## **2.3 Methodology**

This report is based on desk research about Collective Action initiatives with a certification component, supplemented by semi-structured interviews. Representatives of selected initiatives were then invited to join a practitioner-oriented virtual roundtable discussion on best practices and challenges based on their experiences. This enabled the theories around what effectiveness and sustainability mean in practice.

The initiatives chosen for this review do not comprise a complete or even representative overview of all anti-corruption certification schemes around the world. The focus is on certification in business environments where corruption is regarded as a serious risk. The scope covers the role they play in closing existing compliance implementation gaps in the countries or regions where they operate, in ways that can strengthen integrity and reduce risk in global supply chains.

A list of all initiatives analysed for this report is included in the Appendix.

# **3 Well-established certification schemes**

The three initiatives described and analysed in the following section are Collective Action initiatives that have successfully implemented a compliance certification programme for companies in their local contexts. How are they structured, how do they work and how have they been able to flourish?

## **3.1 Nigeria: Corporate Governance Rating System**

The Nigerian Corporate Governance Rating System (CGRS) is a certification scheme initiated and developed by a local business organisation, the Convention on Business

Integrity (CBI)<sup>1</sup> that operates as a joint initiative with the Nigerian Stock Exchange (NSE). It rates all companies listed on the NSE on their corporate governance and integrity practices. The certification scheme supports the CBI's efforts to bring together companies interested in improving the transparency of their governance and integrity practices.

The CBI initiative, which started as a voluntary standard-setting initiative, now has its principles incorporated into the NSE's requirements to promote corporate governance through certification and rate listed companies' corporate governance practices.

The CGRS was developed from 2010–2013 and launched in 2014 following the global financial crisis, when a window of opportunity opened in Nigeria to rebuild investor confidence in the Stock Exchange with strong corporate governance and compliance standards. The aim was also to support a faster recovery of the national economy. Before the financial crisis, anti-corruption initiatives were generally perceived as anti-government movements, making it difficult to mobilise companies in the fight against corruption.

### **3.1.1 Business case and evolution**

According to the CBI, benefits include:

- improving anti-corruption compliance at the local level;
- helping compliant companies to access global markets;
- providing easier access to funding, including from foreign investors;
- boosting companies' reputations in local and international markets, which in turn also benefits the NSE;
- contributing to fairer market conditions.

The initial aim of the CGRS was to list "premium" entrants to the NSE based on a corporate governance rating/certification that identified companies that were committed to "doing the right thing" and to encourage the rest of the market to aim for higher governance standards through a tradeable corporate governance index. Over time, the GGRS developed into a standard applicable to both listed companies and potential new entrants. This development was facilitated through a Collective Action approach, which ensured close collaboration between private-sector entrants, the NSE and CBI.

CBI is extending the governance certification approach to include and target the supply chains of larger listed corporations with standards applicable to SMEs. As a result, the

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<sup>1</sup> The CBI was established in 1997 with the mission of promoting ethical business practices, transparency and fair competition in the private and public sectors. Signatories of the Convention undertake to observe the values of the Code of Business Integrity, both within their own organizations and their dealings with customers and partners. See [cbinigeria.com](http://cbinigeria.com)

ratings effort now extends beyond the stock exchange and also includes companies from other high-risk industries that are not listed, such as law, accounting and construction firms as well as healthcare companies.

Participation in the CGRS is mandatory for all companies listed on the NSE, which at the time of writing is around 150 companies. In order to become CGRS-certified, companies must score over 70 percent on the CGRS criteria.

In addition, if a qualified company also meets certain market capitalisation and liquidity requirements, it can apply for the Premium Board at the NSE, which again strengthens their position in the market for local and foreign investors.

The CGRS not only enables companies to favourably position themselves to investors and potentially access new markets. Another major benefit is the Collective Action initiative itself and the related approach behind the rating system. The Collective Action methodology enables companies to build their corporate governance structures organically by learning from the experiences of other companies. They can also tap into an established platform, through the CBI, that mediates between the government and private sector on corruption matters.

In late 2019, in order to demonstrate the tangible business benefits of the CGRS and to maintain the interest of companies, the CBI under the leadership of Soji Apampa started working towards launching a National Integrity Barometer for Nigeria.<sup>2</sup> The aim is to identify how integrity has been built in specific sectors and to offer an alternative indicator to the perception of corruption (as per the standard Transparency International Corruption Perceptions Index) that aims to be more practical and relevant to business.

Another important business benefit is the access of participating companies to platforms that bring together regulators and other government agencies. Historically, companies in Nigeria have struggled with bribe solicitation from their government counterparts and the potential repercussions faced when denying such demands. In order to strengthen communication, roundtables known as Regulatory Conversations were set up to bring together the private sector, civil society and government institutions in order to discuss the effects of corruption and work towards collective solutions. This movement was ultimately spun off into what is now the Business Action Against Corruption (BAAC)<sup>3</sup> initiative. The BAAC focuses on developing a broader strategy on public procurement, by rating the quality of the process of public procurement in order to identify the likelihood

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<sup>2</sup> Proshare (2019). CBI's National Integrity Barometer Will Change Nigeria's Corruption Perception - Soji Apampa. Proshare. Available at: <https://www.proshareng.com/news/Business-Regulations,-Law---Practice/CBI-s-National-Integrity-Barometer-Will-/48368>

<sup>3</sup> Business Action Against Corruption. Available at: <https://integritynigeria.org/baac/>

of corruption, and on trade facilitation by building integrity systems in the maritime sector in collaboration with the Maritime Anti-Corruption Network (MACN).

### 3.1.2 Methodology

The CGRS methodology and assessment tools are publicly available on its website, [www.cgrsng.com](http://www.cgrsng.com), and the certification process is explained in great detail to the listed companies, government institutions and potential investors. This transparency enables companies to understand the rating process governance structure and what it will entail before they sign up. To ensure a transparent process, CGRS also publishes and outlines the three components outlined below and specifies the transparent public reporting of the results.

The certification process starts with self-assessment, continues with training and ends with a stakeholder questionnaire and expert multi-stakeholder group evaluation.

**Component 1 – Corporate Compliance:** The CGRS derives the indicators for the self-evaluation tool from a number of sources, including:

- rules that are already binding for listed companies, such as the NSE listing rules and material needed to establish their bona fides from the Nigerian Corporate Affairs Commission;
- the voluntary 2012 SEC Nigerian Corporate Governance Code;
- as a global best practice benchmark, the United Nations Global Compact reporting guidance on the 10th Principle Against Corruption.

These criteria offer an opportunity for companies to distinguish themselves since they extend beyond mandatory listing rules. Given the Nigerian business context, they appropriately focus on anti-corruption factors. These criteria are reassessed at least once every three years to ensure they are in line with new relevant international standards, such as the Resource Guide to the U.S. Foreign Corrupt Practices Act published by the U.S. Department of Justice and U.S. Securities and Exchange Commission.

Assessment method: **self-assessment**

**Component 2 - Fiduciary Awareness:** The training course for company directors covers five modules and is followed by a test based on the course material. The content is largely derived from the same sources as the self-evaluation tool for corporate compliance. The 40 test questions are randomly drawn for a larger pool of questions, so that each director receives a different set of questions. Once certified, a director does not have to repeat the assessment. If a company changes its directors between evaluation cycles, new directors have to go through the certification process if they are not already certified.

Assessment method: **certified training module**

**Component 3 – Corporate Integrity:** This has two elements: a stakeholder survey (interviews) of staff and suppliers of the company under evaluation, plus an expert multi-stakeholder group assessment. The survey questions are intended to highlight elements of corporate governance that are perceptible to those stakeholders. They were developed by NSE and CBI and reviewed in partnership with the Humboldt-Viadrina School of Governance, which acted as an international observer in the design and pilot phase of the CGRS. Both the survey and expert group assessment follow a more qualitative format than Components 1 and 2.

Assessment method: **stakeholder questionnaire and an expert multi-stakeholder group assessment**

### 3.1.3 Funding

CGRS is currently financed through a tripartite funding structure.

- The initiative received seed funding from the Siemens Integrity Initiative, which paid for the design and piloting of the initiative.
- The running costs are largely covered through optional "convenience fees" paid by companies. For instance, training is not included and CBI provides an optional eLearning course as well as a more expensive in-person, intensive half-day course for boards. Proceeds go towards running the CGRS. The Director test is invigilated and this is free if taken at the Stock Exchange, but if Directors opt to have this in the comfort of their Board rooms, there is an invigilation fee attached.
- For the CBI, signatories pay a membership fee that is set relatively low to attract more businesses to join the initiative. Larger member companies pay approximately USD 1,000 per year, whereas SMEs pay far less. Such surpluses have also been used to keep the CGRS going.
- Companies also pay optional convenience fees for enhanced access to the Fiduciary Awareness course training (such as an offline or flash drive version), and fees charged for administering the tests at sites other than the designated test centres at the NSE.

## 3.2 Thailand: Private Sector Collective Action Against Corruption (CAC)

Thailand's Private Sector Collective Action against Corruption (CAC) is an initiative driven by the private sector in Thailand that aims to tackle corruption issues through the Collective Action methodology. The CAC supports companies in the implementation of anti-corruption policies and mechanisms in order to effect positive change on the business environment and establish a "clean" business community in the country.

The CAC was co-founded in 2010 by the country's eight leading private-sector organisations; the Thai Chamber of Commerce, the Joint Foreign Chambers of Commerce in Thailand, the Thai Listed Companies Association, the Federation of Thai Industries, the Federation of Thai Capital Market Organizations, the Thai Bankers' Association, the Tourism Council of Thailand, and the Thai Institute of Directors Association (IOD). The IOD also serves as its Secretariat and takes a key role in driving the programme.

The CAC operates a two-tier certification scheme. Certification is a mandatory requirement for all members within an 18-month period after signing the intent to become a member. The certification process is an essential element of the CAC initiative, which ensures that CAC members actually make real efforts to fulfil their pledges and implement clean business practices.

Signatory companies commit to act as a role model and publicly announce that they are implementing a policy against all forms of corruption in their company. They commit to creating relevant internal controls to prevent bribery, as well as undergoing CAC certification within 18 months of signing up.

Signatories must support and encourage trading partners and agents in the supply chain as well as industry peers to adopt CAC's anti-corruption policies and consider signing up. Companies are also expected to participate in the underlying Collective Action initiative. This means cooperating with other stakeholders such as the public sector, civil society, media, and international organisations to promote the implementation of anti-corruption measures and to establish clean business practices that emphasise transparency, especially in public services and fair market conditions.

Between 2010 and 2020, the initiative certified 430 companies, which makes up one third of companies listed on the Thai Stock Exchange. Over 1,000 companies have declared their intention to join the CAC and become a signatory. This makes the CAC one of the largest Collective Action initiatives with a certification component.

### **3.2.1 Business case**

The CAC provides a platform for the business sector to become an active part in tackling corruption. Engaging more business entities and helping them implement anti-corruption policies and mechanisms will directly mitigate overall bribery risks. The CAC is still working towards achieving a critical mass of companies to further create peer pressure for the remaining companies to level up, but momentum has been built and the numbers are steadily increasing.

Member companies share the belief that when the majority of key players of each industry adopt clean business practices, it will significantly change the overall business landscape. All forms of corruption will eventually become unacceptable practices. With more companies joining, the CAC has also set its sights on leveraging its business voice

with the government to help identify and co-develop solutions to mitigate major corruption risks.

Companies that have successfully been certified use the “CAC silver badge” as a marketing tool for clients and foreign investors to highlight the company’s compliance standards.

Certified companies can also apply for the CACs “change agent” status. This means that they aim to recruit their supply chain to join the SME programme.

To support companies through the certification process, the CAC offers its member signatories additional benefits:

- Discount on CAC training programmes;
- Free access to the CAC SME online anti-bribery e-learning portal;
- News and invitations to events such as the CAC National Conference and knowledge-sharing sessions.

### 3.2.2 Methodology and certification process

The certification process and related materials are available on the CAC website, [www.thai-cac.com](http://www.thai-cac.com).

The CAC has a three-tiered certification process that companies have to go through during the 18 months between becoming a signatory and a certified CAC member:

1. **Decide to become a CAC signatory:** The CAC recommends companies should get to know the initiative by joining free “Road to join CAC” sessions that outline the working principles, the roles and responsibilities for the companies, the Secretariat, and the overall process of joining the CAC.
2. **Declare and prepare for the certification process:** Companies can benefit from the voluntary “Road to certification” programme, which supports them in the process and explains the checklist companies need to follow and ultimately submit to become certified. It also helps companies to identify gaps early, and receive support in the remediation process.
3. **Undergo the certification process:** Companies submit a compliance checklist. If they are found to be inadequate, they have six months to correct the weakness and resubmit the checklist.

The certification indicators are derived from the Transparency International Self-Evaluation Tool on Business Principles for Countering Bribery, which can be found on the Transparency International website. In order to tailor them to the context and reflect compliance standards in Thailand at the time of developing the methodology, 71 of the 241 indicators were considered to be most relevant to the local context. The choice was



a collaborative effort of the eight founding members, of which seven were business associations.

At the beginning of the certification initiative, the level of anti-corruption compliance and understanding of the importance of the topic was quite low. In 2020, the CAC started to review and upgrade the controls in the checklist to include disclosure of political contributions and policies against facilitation payments/revolving door policies, which were originally not mandated. From 2021, companies will have to provide evidence that they have these in place.

There is a separate certification standard for SMEs with 17 items. To qualify as an SME, companies cannot be listed on the stock exchange or exceed the revenue threshold of USD 30 million per year.

Companies have to renew their certification every three years.

### **3.2.3 Funding and sustainability**

The CAC funding model involves diverse sources of income, including:

- Training fees
- Membership fee for certification (around USD 200 every three years)
- Sponsorship (which represents about 20 percent of the total income)
- Funding from donors

Diversifying the funding structure has been a goal for the CAC to strengthen the resilience of the initiative and make it sustainable.

The CAC has managed to stand the test of time, enabled in part through its diversified funding structure and a dynamic membership model that encourages members to communicate their commitment to the CAC publicly. The “change agents” component enables the CAC to reach more companies, including SMEs, that are less easy to reach through traditional channels such as industry associations.

Snowballing the membership can also help to organically develop a business case that is tailored to SMEs, in which *customers* encourage participation rather than other stakeholders such as the initiative, industry associations or the government.

## **3.3 South Africa: SafeLine certification by The Ethics Institute**

The SafeLine whistle-blowing certification process focuses on certifying internal and external whistle-blowing systems. It is offered across Southern Africa by The Ethics Institute (TEI). As such, it does not strictly fall within the definition of local certification as applied in this paper. It is included because it offers an alternative local approach that

offers support and a cooperative process within the certification model for a key element in addressing corruption risks.

Three versions of the certification are available:

- Safeline-EX: for independent service providers who host a hotline for clients.
- Safeline-IN: for internal whistle-blowing hotlines hosted for the use of employees and suppliers.
- Safeline-DIGex: For quality digital safe reporting system managed by and independent safe reporting service providers.

Details are available on TEI's website: [www.tei.org.za/safe-reporting-service-provider-certification](http://www.tei.org.za/safe-reporting-service-provider-certification).

### **3.3.1 Background and business case**

In many countries in Southern Africa, reporting mechanisms are met with scepticism for fear of repercussions for whistle-blowers. This is especially because many countries have not yet implemented the necessary legal frameworks to satisfactorily protect whistle-blowers.

TEI stepped into this vacuum and developed a standard that was met with great demand from companies in the region and has now established itself as the gold standard. Demand for certification is steadily increasing as many companies have included a requirement for SafeLine certification for their third-party providers in their tender documents.

The objectives of certifying company internal whistle-blowing standards are:

- strengthen internal safe reporting facilities by establishing a best practice standard;
- create conditions in which whistle-blowers or potential whistle-blowers are able to report misconduct with confidence;
- enable organisations to demonstrate their ability to consistently provide a quality service that protects whistle-blowers;
- provide reassurance to companies that their internal reporting lines and facilities are in line with local/regional best practice;
- function as a business management tool that organisations can use to improve whistle-blowing processes and to reduce operational and reputational risks.

### 3.3.2 Methodology

For organisations providing their own internal safe reporting facility, the standard is based on five guiding norms that balance stakeholder needs, whistle-blower interests and operational requirements:

1. **Integrity:** (1) being honest, (2) ensuring that safe reporting staff are of a high ethical standing, and (3) ensuring complete, accurate and truthful reporting, and delivery of reports.
2. **Efficiency:** (1) performing services in a timely manner, (2) ensuring that safe reporting facility staff are professionally trained to produce high-quality reports, (3) creating awareness of the internal safe reporting facility, and (4) continually improving service.
3. **Independence:** (1) identifying, declaring and avoiding conflicts of interest, and (2) operating a self-contained safe reporting facility.
4. **Protection:** (1) ensuring the security of the safe reporting facility, (2) guaranteeing whistle-blowers' anonymity, and (3) assuring the confidentiality of communications received and reports delivered.
5. **Availability:** (1) guaranteeing the sustainability of the service, and (2) providing a choice of user-friendly communication channels 24 hours a day, 365 days a year.

Each principle is accompanied by a norm description and a detailed list of criteria that outsourced hotlines must satisfy to meet it.

### 3.3.3 Certification process

1. TEI will provide assurance on the Safeline-IN standard to any eligible internal service provider that wishes to submit to an assurance audit.
2. On submission of a completed application form, which entails a self-assessment against the Standard, TEI conducts a preliminary assessment of the information. Additional information may be requested from the service provider.
3. TEI conducts a site visit to the internal service provider's facility and any other relevant site(s). During this visit, the assessor interviews staff, observes operations and reviews and inspects documentation to determine if the internal service provider complies with the Standard.
4. The assessor submits the final report for the internal service provider's attention. Recommendations for improvements are included where necessary.
5. Successful internal service providers receive an assurance statement as well as the relevant logo banner from TEI.

There is a strong focus on addressing compliance gaps. Companies receive the official documents from TEI and do their self-assessment against the SafeLine standard. The certification process only kicks off once the company feels confident of passing the certification. If the company does not pass, the TEI provides information about where the gaps are that still need to be addressed in a constructive format and companies are free to re-apply for certification in the future.

The SafeLine whistle-blowing certification is valid for one year and subsequently needs to be renewed on an annual basis. SafeLine certification costs around USD 1,500 per company for each certification cycle.

### 3.4 Taking stock

Despite the different contexts and methodologies, some common themes emerge. Let us look first at the more established Nigerian (CGRS) and Thai (CAC) initiatives, which both focus on certifying member companies' compliance and corporate governance.

For both initiatives, a window of opportunity arose due to a shift in their respective political and economic environments. In Thailand, the political turbulence around its inception saw a surge in support for corruption prevention measures with a special focus on the role of the private sector. This set the scene for the development of the initiative. In Nigeria, the external shock of the financial crisis, and the collapse of the Nigerian Stock Market in 2009 meant the country reached a critical point that facilitated changing the status quo and a need to regain trust in the market, especially among foreign investors.

What also becomes clear is the importance of the Collective Action component in both contexts. Collective Action was the basis for two crucial elements:

- development of the certification methodology, including identifying the business case;
- providing the necessary support for companies going through, or working towards, the certification process.

In Thailand, the Collective Action initiative was the framework that enabled the certification methodology to develop. The process was largely driven by the founding members, which are mainly local business associations.

In Nigeria, the structure is slightly different: the CBI represents a more traditional Collective Action initiative and the CGRS developed out of this as a separate entity. Many companies rated on the CGRS are also members of the CBI, which focuses more on collective discussion and bringing together the private and public sectors in constructive dialogue. As noted above, this enables companies to strengthen their corporate governance by learning from the experiences of other companies while also participating

in an established platform that mediates between the government and private sector on corruption matters.

The connection between the Collective Action initiative and certification scheme, as well as the success of both, is considered to be down to the leadership of Soji Apampa, a respected figure in the fight against corruption in Nigeria. At the same time, the funding models and governance structures are designed not to be dependent on a single individual, helping to ensure sustainability.

The Collective Action discussion forums also enable collaborative development of the governance structures and the methodology to ensure that the certification scheme remains relevant.

In both cases, the development of the respective initiatives and their certification models were relatively slow but ultimately saw a steady take-up and support by the private sector. In Nigeria, originally the idea was to certify only a selected group in the Stock Exchange but it ended up becoming a new standard requirement for all listed companies.

Both initiatives promote and enable companies to receive support to level up before they embark on certification. For the most part, this includes providing training to build capacity and improve implementation and to prepare them for successful certification. At the same time, clear guidelines on timelines are set to ensure companies are putting the required effort and commitment into obtaining certification and are not misusing the process to white-wash their programmes and undermine the common aims of the initiatives.

One of the unique benefits of developing a certification model out of a Collective Action initiative is that the standard is not imposed but rather co-developed by the companies themselves. This contributes to balance and relevance, as well as a supportive system that also holds the companies accountable.

One factor that, according to the initiatives themselves, has been vital for the longevity of both certification processes is their diverse funding models, from seed funding to sponsorship to membership fees and certification fees. This enables both initiatives to keep their certification cost as low as possible to ensure it is a viable and attractive option for companies to join.

Both initiatives are also continuously working to extend their membership. The CAC focuses on introducing the supply chain of its members to the certification scheme, with a particular focus on SMEs. The CBI has extended its reach beyond the CGRS initiative with the Nigerian Stock Exchange and set its sights on certifying companies working in high-risk sectors.

### 3.4.1 An alternative model: whistle-blowing certification

The SafeLine certification represents a more traditional service-based certification model designed to meet a specific need in the local context. Although it is not embedded in a Collective Action initiative, it is driven by TEI, which facilitates various Collective Action initiatives and is a leading voice in the fight against corruption in the region. As a result, TEI has a constructive working relationship and good understanding of the private sector. It has deployed a consultative approach in the certification process, drawing on elements of Collective Action.

This understanding has allowed TEI to develop a clear business case relevant for each stakeholder group, which supports the simple funding structure based on payments for certification.

The durability and success of the SafeLine model throughout the Southern African region seem to be attributable to the narrowly defined scope of what is being certified. Rather than certifying a whole compliance programme, the certification focuses on the whistle-blowing system alone. The issues around lack of trust in whistle-blowing in the Southern African region and the corresponding need to build trust in such systems has been notoriously difficult. TEI has been able to overcome this challenge as a trusted third party acting as the certifying body. Its constructive approach to helping companies to develop and strengthen their internal whistle-blowing programmes has been a key feature of the certification process. As a result, trust in whistle-blowing systems and ultimately their use is improved.

The TEI model demonstrates that certification doesn't have to be an all or nothing approach. Especially during the setting-up phase, it can be easier to attract a critical mass of members to sign up when the commitments are limited to a specific risk category. Initiatives can always work towards organically expanding their certification process down the line.

## 4 Other local certification schemes and similar approaches

Setting up a local certification scheme can be difficult, especially when it comes to asking businesses to commit to activities that will enable them to be certified within a particular timeframe.

The local schemes described and analysed below reveal that identifying the right time and business needs are crucial considerations. Not all of them are only focused on

certification. They may have other aims or use the techniques associated with local certification to arrive at a similar result for SMEs.

Developing a local certification scheme can take time. Sometimes, taking a step back is what is needed to be able to move forward, in order to ensure that the membership is ready for certification. Other initiatives have chosen to take an initial light-touch approach that focuses on training and self-assessment.

#### **4.1 Canada: ACQ Integrity Certification**

Led by the Association de la Construction du Québec (ACQ), this certification initiative has been specifically designed for construction companies in Quebec, Canada.

As a first step towards certification, an Integrity Program was developed taking into account existing models of Collective Action around the world, the specificities of ACQ member construction companies and multi-stakeholder dialogue.

The implementation of the Integrity Program extends over a period of six months, but requires only 26 hours of commitment for companies interested in joining. The six-month period allows companies to take ownership of the newly implemented processes and include them in their daily activities. Implementation includes several material and easy-to-use tools, including templates relating to policies and procedures that can be customised, explanatory sheets and communication strategies for disseminating the initiative. The ACQ also provides coaching services throughout the implementation process.

The Integrity Program has three levels: bronze, silver and gold. The gold level, which signifies the highest level of commitment to integrity, includes:

- Formal commitment of senior management
- Company survey
- Definition of company values
- Implementation of a code of conduct
- Identification of risks using a risk matrix
- Training for the most at-risk positions
- Appointment of an Integrity Officer
- Risk prevention and control
- Ethical complaints management

The cost of registering for the Integrity Program varies according to the size of the company and the number of employees. The gold level fee ranges from CAD 525 to CAD 2,325 (around USD 410 to USD 1825) for ACQ member companies and from CAD 2,100 to CAD 5,700 (USD 1650 to USD 4,475) for non-members.

Only companies that reach the gold level of the Integrity Program will be considered for certification, although it still has to undergo the process set out below. The simple steps can be completed in a few months:

1. Receipt of the request
2. Verification of the company's eligibility
3. Supervision and execution of the implementation schedule
4. Self-assessment and development of an action plan
5. Visit by ethics experts and writing of their report
6. Report of the decision-making committee
7. Follow-up on continued compliance with requirements

One of the key incentives for joining the programme is for companies to strengthen their bids to the Quebec Public Procurement Authority. It also allows companies to demonstrate their commitment to sound business practices, as well as to attract and retain a skilled workforce.

The certification is done through the Canadian Integrity Certification Bureau, which also provides the company with self-assessment materials and additional support services. The certification process is based on the 10 ethical risks that are internationally recognised in the Transparency International Business Principles for Countering Bribery.

The cost related to the certification is currently CAD 7,000 (around USD 5,500) and the certification remains valid for three years. Additional fees related to the ACQ coaching service apply and are determined according to the size of the company and its membership status.

## **4.2 Ukraine: Ukrainian Network of Integrity and Compliance (UNIC)**

UNIC is a private sector-driven Collective Action initiative with a significant focus on certification for member companies.

The initiative received support and expertise from donors and international partners (the Organisation for Economic Co-operation and Development (OECD), European Bank for Reconstruction and Development (EBRD) and Ukraine's Business Ombudsman Council) to set up the governance structure. The initial seed funding was contributed by the international partners, but UNIC was required as part of the process to become self-sustainable. UNIC currently has 56 members, which contribute to the project through various levels of membership fees.

All new members first go through a self-assessment. An ethical committee checks the information provided and raises potential red flags. The committee has the right to limit membership access based on the results of the assessment and members can also vote against new members if they have an objection.



Companies use the self-assessment to develop a yearly plan on what to improve, which is followed by a yearly progress report benchmarked against the initial plan.

As a next step, a certification offer was developed in 2018, but at the time of writing no member has met the standards for certification. To help address this, UNIC launched a pre-certification process whereby auditors provide tailored advice to companies. Depending on the company's starting point, it may take six months to a year to implement all the recommendations.

A specific offer has also been developed for SMEs taking into account their limited resources and special characteristics. For instance, UNIC offers hands-on assistance with templates and training materials. In the first four months, more than 20 SMEs enrolled.

### **4.3 Argentina: Alliance for Integrity – Passport to Integrity**

The Passport to Integrity: Good Business for your Company programme was conceived to help companies develop the capacity to implement compliance systems, by providing material, training, practical tools and mentoring from experts in compliance. The programme is tailored to SMEs and state-owned enterprises (SOEs).

The programme was developed in 2019 in Argentina and was then launched in Brazil. In 2020, the project expanded to India. It started as a co-creation process with the Argentinean arm of the Alliance for Integrity, an international Collective Action initiative. It was implemented in Argentina by the German-Argentinean Chamber of Industry and Commerce (AHK Argentina) in cooperation with the Global Compact Network Argentina. The project was supported by the German Federal Ministry of Economic Cooperation and Development (BMZ), which provided seed funding for the pilot. Additional financial support was provided by the UN Global Compact Network in Argentina as well as the amfori business association. There is no cost for participating companies.

For companies to qualify for this programme, they have to successfully complete the prior training and mentoring delivered by compliance experts from large multinational companies operating in the region. Companies then identify their main goal among the following objectives:

- Participate in a tendering process;
- Receive investments;
- Supply goods and services to large businesses;
- Interact with public servants

So far, the main reason for taking part in the programme has been the third objective, access to global markets and large customers. In Argentina, working with the government has also been an important driver.

The activities of the programme are then tailored to match the objectives set by the company and include specific support in implementing the basic elements of a compliance management system. These include risk assessment; code of ethics; specific procedures for relationships with public servants, transparency of purchases and sales, gifts and hospitality; reporting channel and due diligence for third parties.

In the final stage of the programme, companies carry out a self-assessment on the digital tool TheIntegrityApp which allows them to measure their progress throughout the year.

The entire programme lasts 12 months. Companies cannot renew their participation but are encouraged to share their experience with others and contribute testimonials. The first cycle ended in December 2019 and the second one is still ongoing. For 2021, the programme will run once more in Argentina. Alliance for Integrity is exploring partnerships in Africa.

#### **4.4 Ivory Coast: African Certification of Corporate Governance**

The African Certification of Corporate Governance is a new local certification project targeting SMEs in Ivory Coast. Eurocham Ivory Coast, the European Chamber of Commerce in the country, launched the project in 2019 with seed funding from the Siemens Integrity Initiative.

The certification programme aims to offer a competitive advantage to the participating SMEs. Taking a Collective Action approach, it also offers capacity building on good governance as well as networking opportunities with other companies and experts in good governance.

SMEs wanting to join the programme need to register by submitting certain documents, such as proof of their legal structure, and need to have a minimum of 10 employees. A turnover minimum can also be applied. The certification and training sessions are led by external good governance experts recruited through a tender process.

Participating SMEs are assessed through an individual test before the start of the training sessions in order to evaluate their knowledge of governance. A second test takes place after two training sessions out of the four sessions which are part of the programme. A final test takes place after all training sessions have been completed. This process allows tracking of progress as well as the identification of compliance gaps in addition to the assessment, which is conducted by the external experts.

Since this project is externally funded over five years, participants currently do not need to pay for the certification process and only a targeted number of SMEs can participate. The certification timeline runs as follows:

1. Completion of 4 training sessions on good governance (year 1) - Target: 100 SMEs.

2. The best 60 companies out of the 100 are selected for more individual training (selected through test scores).
3. Implementation of 3 out of 10 measures of good governance in their company (1 per year for 3 years).

The 10 possible measures of good governance are tailored for SMEs specifically as well as the local context. They are defined by the expert based on the inputs of a baseline survey among participants.

The experts carry out personalised training and audits to ensure the proper implementation of good governance measures. If three good governance measures are successfully implemented, the enterprise will be allowed to receive the good governance certification. While this appears to be a rather modest ambition level, it needs to be acknowledged that the target group is local SMEs and knowledge and capacity levels will take time to develop.

#### **4.5 Philippines: SHINE project**

The Strengthening High-level Commitment for Integrity Initiatives and Nurturing Collective Action of Enterprises Advocating for Fair Market Conditions (SHINE) project was funded by the First Funding Round of the Siemens Integrity Initiative. The Integrity Initiative Inc. was incorporated to support SHINE as its Secretariat. It was jointly founded by the four of the major business associations in the Philippines: the Makati Business Club, Management Association of the Philippines, European Chamber of Commerce in the Philippines and American Chamber in the Philippines.

The first phase of the project was to create awareness through a pledge to the Integrity Initiative. 3,000 signatures were gathered, mostly from the private sector. The Integrity Initiative organised several events to promote the project, which was supported by the then President Noynoy Aquino.

The second phase of the project was to implement a government-supported certification programme. The incentive for the private sector to join the certification programme was to gain access to a “green lane” with faster processing for certain government agencies, including the Bureau of International Revenues as well as Customs.

A certification assessment questionnaire was developed with 80 questions and tested. The companies which volunteered to test the questionnaire reported that the questionnaire was too complex and too lengthy.

Moreover, changes in government led to a lack of political support, which brought the project to a halt as the SHINE project was unable to provide the expected incentives to the private sector. Due to the lack of government support and the end of the funding, the project ended in 2017.

## 4.6 Taking stock

Despite the fact that each of the initiatives listed above is at a different stage in its development (and one has ended), similar lessons can be learned.

One interesting element is the two-tiered approach that emerges as a common theme. This comprises a phase that focuses on building capacity in order to achieve the agreed standards by the members, followed by a phase that involves a more thorough certification process. In the case of UNIC, ACQ, Alliance for Integrity and EuroCham, knowledge gaps have been identified as a challenge for capacity building and ultimately the implementation of a certification process. As such, the two-tiered approach allows not only the screening of companies interested in the certification, but also supporting them when they are still in the early stages of their compliance journey, which is often the case for SMEs.

For the ACQ, participation in the Integrity Program is a prerequisite to the certification process. The participating companies therefore need incentives to undertake the extra steps leading to certification. ACQ's goal was to persuade the government to require certification for all public tenders. However, the initial interest from the government as a response to corruption scandals began to wane and it failed to implement this measure. As such, the initial strategy of a dual-step programme has been challenging, with the added difficulty of securing funding to pay the Canadian Integrity Certification Bureau.

Alliance for Integrity's Passport to Integrity programme provides an interesting model by involving MNCs as mentors and trainers of SMEs. This not only familiarises the SMEs with the expectations of their potential customers, but also actively engages MNCs in the process.

Another noteworthy angle is that the pragmatic approach of the Alliance for Integrity enables participating companies to set realistic goals and does not burden them with overwhelmingly high expectations on compliance. Companies themselves are asked to identify their business objectives and tailor their compliance focus accordingly.

For UNIC, even though the organisation is trying to position certification as its core product, companies in Ukraine are struggling to meet the ambition level. Eight companies have expressed interest and have been through the entire process, but to date none of them has successfully passed the certification audit. The feedback from the private sector was that the standards of the certification might be too high, and there needs to be a clearer incentive based upon a solid business case. For SMEs, the business case could be access to global markets, but additional awareness raising and capacity building are still needed to achieve the goals of the project.

Awareness raising has also been identified as a key element in Ivory Coast and the Philippines. The SHINE project focused on promoting the initiative to a wider audience in order to get private-sector buy-in. Events including a private-sector forum and even

sporting events were used as platforms to reach the general public and the media. Although the project ultimately failed due to lack of support from the government, this important marketing campaign enabled a high private-sector response including both MNCs and SMEs.

In Ivory Coast, EuroCham has been promoting the initiative to SMEs through its own membership and network of business associations. The certification process also remains free of charge to ensure a maximum number of participants and no sectors are prioritised. Even if the target number of participating SMEs is only set at 100, which can seem relatively low, the lack of awareness of local SMEs in relation to compliance and governance is seen as a major hurdle in reaching this target. This demonstrates the fact that getting the buy-in of SMEs can be challenging. Clear incentives are needed.

Beyond issues around awareness, capacity gaps and incentives, the initiatives and examples above highlight an important additional challenge: Changes in the political and economic landscape can stymie the efforts of the initiatives and make the certification programme less interesting for the private sector.

Collective Action initiatives are often subject to external drivers that influence the business environment in which they operate. In turn, the changing environment directly impacts the outcome of their certification programmes. In the case of the ACQ and SHINE, the initial support of the government was one of the building blocks for the creation of the programme. The eventual lack of government support in the implementation of mandatory certification to participate in public bids in Quebec has been a major hurdle. In a similar way, the ambitions of the SHINE project were halted by the change in government, which no longer supported the project and removed the facilitated access to some key government agencies. Relying on a specific government administration may prove to be a high-risk strategy.

## 5 Key considerations

As the analysis of the certification schemes above shows, initiating a local certification project and getting it off the ground can be a lengthy and challenging process. In sharing their experiences for the purposes of this paper, all the initiatives have consistently highlighted the essential element of having a context-sensitive approach. For certification to have an impact on the local risks, it also needs to reach a critical mass and be recognised as a standard that brings benefits and confers credibility.

With this in mind, the initiatives have all had to contend with three categories of considerations: incentives, delivery modes and sustainability.

## 5.1 Incentives

### 5.1.1 The business case for SMEs

In theory, it could be assumed that SMEs have the most to gain from local certification vis-à-vis their international customers and investors. Obvious advantages for SMEs are:

- meeting the compliance requirements of their business partners;
- boosting their compliance credentials as organisations that have implemented robust standards, policies and procedures that mitigate integrity risks.

Experience shows, however, that there are also significant hurdles to engaging with SMEs and finding incentives that will appeal to the diverse range of companies that operate in a particular market.

SMEs typically have limited capacity and resources, reducing their ability to engage in initiatives outside of their day-to-day business. As a result, many local certification initiatives have developed their certification standards based on the risks and standards that are relevant to large companies. In some cases, these are companies that themselves take part in the certification process. In others, they impose their compliance requirements on SMEs.

As the initiative from the Ivory Coast demonstrates, focusing only on SMEs is an alternative which acknowledges the real differences in bigger and smaller organisations. Being SME-centric can, however, bring its own challenges because SMEs are a particularly heterogeneous group. In many countries there are practical difficulties in accessing the stakeholders.

In addition, there is often a significant knowledge gap when it comes to compliance and governance. It can be difficult for initiatives that aim to certify SMEs to offer sufficient support. A similar observation has been noted in Ukraine.

As SMEs often have fewer compliance-related capacities and resources, both financial and in terms of personnel, the business case for engaging in a certification initiative needs to pass a more stringent cost-benefit analysis than for larger companies. The ability to identify how a relatively costly certification process is going to have tangible benefits and strengthen daily business for SMEs is crucial to garnering interest and sustainable engagement.

A business case that relies on reputational benefits that can potentially make SMEs a more viable local partner for larger and international companies in the future might not be concrete enough to convince SMEs to invest time and resources in the certification process.

The Thai CAC has managed to make the business case for SMEs tangible and attractive by enlisting its membership as “change agents”. This means that they actively encourage SMEs from their own supply chain to join the CAC and become certified members under their SME programme. This enables the CAC to reach more companies that are less easy to reach through traditional channels, such as industry associations.

### **5.1.2 Incentives from governments and investors**

In Quebec, the ACQ initiative provides an example of an attempt to create a strong incentive for its certification process by working and partnering with the government to enable companies to gain preferential access in public procurement. The initial aim was to facilitate access to public projects, with the certification being viewed positively by the procuring agencies when tendering for public works. When this did not materialise, the result was that many member companies decided not to transition from the first phase of the initiative to the second phase, which involved the more costly certification process. Companies already gained considerable reputational benefits by engaging in the initiative and undertaking the training and assessment phases. The additional benefits offered through the certification process did not convince a critical mass of members to seek certification.

Many of the initiatives analysed in this paper have also identified political will and support from the government as a prerequisite for establishing a local certification initiative. This is both for creating interest and a strong business case for companies to join and for encouraging companies to actually commit to the certification process itself. But a change in government can completely derail a certification initiative if the added value of the certification relies solely on government buy-in, as we saw in the Philippines.

The government is not the only stakeholder that can help strengthen the business case for local certification initiatives. International investors and customers have yet to play an active role in acknowledging or requiring certification from companies. As a result, the added value of having better access to funding and international business opportunities often remains hypothetical. This can hinder the momentum that is necessary to certify a critical mass of local companies.

Without a critical mass, it is impossible to achieve the wider aims of a level playing field and raised standards of integrity across the board. Arguably, a certification initiative that only manages to certify isolated players is of limited success. For this reason, the importance of a visible and convincing communication strategy by the certification scheme can make all the difference. Those schemes that need a critical mass to achieve their objectives need to take this into account when designing their approach.

Integrating the perspective of potential customers into the discussion and development of an initiative can help tailor the certification to reflect expectations. It can also help to build trust in the legitimacy of the initiative and the certification process. In Latin America

and Ivory Coast, the involvement of the SMEs themselves in the establishment of the compliance goals and objectives is an innovative approach which takes into consideration access to global markets as an incentive. The lack of preparedness when it comes to anti-corruption compliance programmes remains a common hurdle faced by SMEs in being accepted into the global supply chains of MNCs. Collective Action enables such dialogue to take place and therefore aligns expectations of both SMEs and MNCs.

Most initiatives identify the Collective Action component to certification as essential and especially critical for SMEs. Collective Action can legitimise the process externally, build trust, and provide a supportive environment while at the same time holding member companies accountable. As such, it lays the necessary foundations for developing a robust and sustainable local private sector-driven certification initiative.

There are limitations to local certification schemes, even when they take a Collective Action approach. Certification is not a silver bullet. High-risk third parties will require additional risk assessment from MNCs, for example. However, certification initiatives can help address context-specific risks, as seen with the whistle-blowing certification in Southern Africa. It does not have to be an all or nothing approach.

## 5.2 Mode of delivery

The most appropriate mode of delivery depends on the scope of the certification scheme, which varies considerably. Some initiatives are tailored towards the private sector in general, whereas some have a differentiated approach depending on the size of the companies. An SME-specific approach has its challenges but also appears to be an effective way of reaching the targeted companies. Having different membership tiers or levels of certification enables a targeted approach while offering all companies the opportunity for continuous improvement.

The focus on capacity building is important. It helps the initiative to promote the certification programme and also creates added value for the members.

Providing this capacity building through a Collective Action approach is also important. In order to bridge the gap with companies that lack maturity in terms of their compliance programme, Collective Action initiatives offer member companies a platform and opportunity to develop their capacities through training and exchanging with other companies on issues around governance and corruption. This is often seen as a first step, which then leads to self-assessment followed by external compliance assessment for members.

In the case of the Nigerian CGRS and the Alliance for Integrity Passport to Integrity project, a collaborative approach was also used to design the requirements. This creates greater buy-in from the various stakeholders and fosters ownership from companies taking part in the process.



There is also a reputational benefit of being a member of the Collective Action initiative.

### 5.3 Sustainability

The sustainability challenge of initiatives is two-fold:

- maintaining interest from the private sector
- making sure that the structure of the initiative is financially sound and can sustain the test of time.

Both challenges are heavily correlated, as a continued interest from the private sector can provide a steady flow of income. Of course, the financial aspect for initiatives that are focusing solely on SMEs is even more prominent.

Context- and stakeholder-sensitive local certification requires considerable funds. This is not only set up the structures and develop the standards but also to periodically re-certify members. For most initiatives described above, seed funding has been made available to get the initiatives off the ground but the running costs need to be covered externally and eventually without the support of the initial donors.

One option is the use of membership fees, which promotes active engagement of the members in contributing to the sustainability of the initiative and enables them to reap the benefit of undergoing certification in the long run.

The initiatives in Thailand and Nigeria, which have achieved maturity and longevity in their local certification programmes, have kept the certification fees (in the case of Thailand) and costs (in the case of Nigeria) low to ensure a critical mass of companies sign up. They also diversified their funding by offering additional paid services to their members such as training courses. These extra services, which make up a significant chunk of the budget, are generally more geared towards larger members that have more resources available for the development of their compliance function. Setting up an initiative that focuses only on SMEs with a funding model that relies on their financial capacity to cover the running costs can be difficult to realise in practice.

## 6 Recommendations

When it comes to local certification schemes, there is no one-size-fits-all model. Adapting to the local context and remaining flexible to take advantage of windows of opportunity are key. However, practitioners converge around the following recommendations:

### **6.1.1 A Collective Action approach**

Embedding the certification process within a Collective Action initiative can help to build trust with local companies and develop a convincing business case. Ultimately, it means the certification methodology is developed collaboratively and is trusted because it provides a relevant response by those who are involved in its implementation.

Collective Action can provide a supportive environment that enables member companies to strengthen their relative compliance and prepare for certification. It can also help open up diverse funding avenues.

### **6.1.2 Embed agility**

Corruption risks evolve, sometimes fast and without warning – as the Covid-19 pandemic has taught us. Certification therefore has to adapt and be responsive to the needs of the membership and any relevant changes in the law or applicable international standards.

A tiered certification model can help keep the process dynamic and encourage companies to pursue higher standards. It also takes into account the different needs and resources of members.

### **6.1.3 Aim for 360-degree visibility**

To achieve sustainability, the certification scheme needs to be strategically leveraged with key stakeholders across the board. This may include government departments, investors and consumers as well as the targeted companies themselves. Over-reliance on only one stakeholder, such as governments, can be a high-risk strategy.

This 360-degree visibility will help to strengthen the business case, keep members engaged and attract new ones.

### **6.1.4 Communicate success**

It is vital to communicate the successes and endorsements of local certification by MNCs, particularly in relation to their SME business partners and suppliers. Positive publicity will provide the necessary oxygen to enable local certification schemes to grow and prosper.

### **6.1.5 Diverse funding sources**

Developing a diversified funding structure with different streams of income is vital to ensure certification remains attractive and good value for money. Tapping into other revenue streams such as membership fees, offering training courses, events, and sponsorship packages can also contribute to making a certification programme more resilient and sustainable.

### **6.1.6 Power to SMEs!**

To effect real change in any business environment, a critical mass of companies needs to be engaged. That “mass” probably comes from SMEs, which can play a key role to help shift the needle in many local contexts.

SMEs need careful handling to both attract them and prevent them from being drowned out by larger companies. The certification should address meaningful risks without overburdening small companies with minimal resources. This may require developing a SME-specific certification process and training materials.

## 7 Appendix I: Initiatives included in the research

Country/ies	Collective Action initiative or organisation	Website
Angola	<a href="#">Capacitating African business networks to implement global anti-corruption initiatives and good practices</a>	<a href="https://baselgovernance.org/b20-collective-action-hub/initiatives-database/capacitating-african-business-networks-implement">https://baselgovernance.org/b20-collective-action-hub/initiatives-database/capacitating-african-business-networks-implement</a>
Argentina, India, Brazil	<a href="#">Alliance for Integrity</a> – Passport to Integrity	<a href="https://www.allianceforintegrity.org/en/">https://www.allianceforintegrity.org/en/</a>
Canada	<a href="#">Association de la Construction du Québec (ACQ) Integrity Program</a>	<a href="https://www.acq.org/entrepreneurs/services-aux-membres/programme-integrite/">https://www.acq.org/entrepreneurs/services-aux-membres/programme-integrite/</a>
Ivory Coast	<a href="#">African Certification of Corporate Governance</a>	<a href="https://www.accg-ci.com/">https://www.accg-ci.com/</a>
Lithuania	<a href="#">Clear Wave (Baltoji banga) initiative</a>	<a href="https://baltojibanga.lt/">https://baltojibanga.lt/</a>
Nigeria	<a href="#">Corporate Governance Rating System</a>	<a href="https://www.cgrsng.com">https://www.cgrsng.com</a>
Philippines	<a href="#">Integrity Initiative</a>	<a href="https://integrityinitiative.com">https://integrityinitiative.com</a>
Russia	<a href="#">Russian Compliance Alliance</a>	<a href="https://www.compliancealliance.ru/homepageenglish.html">https://www.compliancealliance.ru/homepageenglish.html</a>
South Africa	<a href="#">The Ethics Institute</a>	<a href="https://www.tei.org.za/">https://www.tei.org.za/</a>
Thailand	<a href="#">Thai Private Sector Collective Action against Corruption</a>	<a href="https://www.thai-cac.com/en/">https://www.thai-cac.com/en/</a>
Turkey	<a href="#">TEID (Ethics and Reputation Society)</a>	<a href="https://www.teid.org/">https://www.teid.org/</a>
Ukraine	<a href="#">Ukrainian Network of Integrity and Compliance</a>	<a href="https://unic.org.ua/en/about-us/about-the-network/">https://unic.org.ua/en/about-us/about-the-network/</a>
United Arab Emirates	<a href="#">Pearl Initiative</a>	<a href="https://www.pearlinitiative.org">https://www.pearlinitiative.org</a>