

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

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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.

## Multiple dilemmas...

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.

### ... multiple benefits

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.

### How Collective Action helps

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.

### Special considerations

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.

## Practical recommendations

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.

View full Working Paper at: <https://baselgovernance.org/publications/working-paper-34-local-certification-through-collective-action-innovative-approach>

View more resources on local certification on the B20 Collective Action Hub: <https://baselgovernance.org/b20-collective-action-hub/certification>