

Business Integrity Risk

**Q&A with Paul Kennedy, Global Head of Risk & Compliance,
New Forests**

1. Why is 'Business Integrity' a key factor when assessing risk in offshore investment opportunities?

Business integrity can impact legal, compliance, reputation and brand image, operational and financial risks, business relationships and partnerships, and ethical and ESG considerations. New Forests' approach is that we need to carefully evaluate the business integrity of potential investment targets to make informed decisions and mitigate risks associated with unethical practices. Our work covers a broad range of jurisdictions, environments, and laws, and it's critical to understand the context of the risks we're getting into.

2. Why is it an issue in emerging markets?

There are various challenges in emerging markets including lack of political will, weak legal frameworks, corruption, lack of awareness, poverty and inequality. Addressing these challenges requires sustained efforts and comprehensive strategies that involve multiple stakeholders, including governments, civil society, investors, and communities, to create an enabling environment for combating these issues effectively.

It is encouraging to see many countries in emerging markets are taking steps to strengthen their legal and regulatory frameworks, and there is growing awareness of the negative impact of corruption on economic growth and social welfare.

3. What are the key areas of business integrity that New Forests assesses and monitors as part of its operations in Sub-Saharan Africa?

We focus on areas such as anti-corruption, anti-money laundering, corporate governance, economic sanctions, whistleblowing policies, license approvals, procurement practices, and tax transparency. We also review what's in the media about the track record of a company and its interactions with communities.

More recently, we've been focusing on issues like modern slavery, supply chain due diligence, as well as the control of wood products along the chain of custody. We spend a lot of time doing due diligence on these issues.

4. What's top-of-mind for your investors when they consider issues of Business Integrity?

Essentially, our investors want to validate the robustness of our process, to check that their decision to appoint us as manager is justified, and that we have the processes in place to manage it. They're aware of the potential for financial and reputational risk, and they expect us to have processes in place that are broad and effective.

5. What are some of the key positive outcomes from assessing Business Integrity?

Managing issues like bribery and corruption, and putting in place good governance practices, can improve the financial performance of a company, as well as its reputation.

Companies with strong business integrity tend to have a competitive advantage over their peers. Customers, suppliers, and employees may prefer to do business with companies that are known to have a track record of integrity and transparency.

Such companies are often committed to sustainable practices and social responsibility, which aligns well with the values of our investors. These companies may have lower risks, better performance, a positive impact, and long-term growth potential.

6. Tell me about New Forests' 'Business Integrity Management Program', and how it's integrated into the various stages of the investment cycle?

The Business Integrity Management Program ("BIMS") establishes our commitments and approaches when managing business integrity topics across our activities.

At the due-diligence stage, we look at the following areas:

- *Anti-corruption*: Does the company have policies and procedures in place to prevent bribery and corruption?
- *Compliance with local laws*: Is the company operating in compliance with local laws and regulations? Are there any legal or regulatory issues that could pose a risk to the investment?
- *Ethical behaviour*: What is the company's track record of commitment and capacity towards business integrity?
- *Reputation*: What is the company's reputation in the industry and among its peers? Are there any concerns or red flags that we need to consider and monitor?

7. How do you apply the Business Integrity Management Program after you've bought the asset?

Once we're comfortable with the above initial assessments, we move on to the post-acquisition strategy for the asset, where the focus shifts towards regular monitoring and assessment of compliance with the Business Integrity policies and procedures to help ensure the asset is operating in an ethical and compliant manner. This monitoring involves regular audits, risk assessments, and reporting on business integrity metrics that have been put in place.

8. What lessons were learned from previous projects in Southeast Asia?

Previous experience taught us the importance of entering a new market with all the necessary frameworks and action plans in place from the outset, rather than waiting to assess risks and implement systems as they're needed.

Ideally, we aim to acquire an asset that has policies and procedures in place, but if not, our action plan includes implementing a strong governance program, risk management framework and whistleblowing policies.

The Business Integrity Management Program ensures that our approach is consistent across both Southeast Asia and Africa.

9. Are there global best-practice standards for due diligence and risk assessments?

Transparency International produces best-practice materials on anti-corruption and bribery, and the UN Global Compact also has principles around anti-corruption. From the forestry perspective, there's IFC Performance Standards and the FSC, the Forests Standards Council.

We also have our own high-level anti-corruption policy framework; we have leveraged best practice ESG frameworks that have been produced by several development finance institutions that are also clients of New Forests.

10. What are the positive flow-on effects, to local communities and economies, from this work?

Strong anti-corruption programs in emerging markets can have wide-ranging positive flow-on effects on local communities and economies including improved governance, enhanced economic growth, increased foreign investment, prevention of deforestation, enhanced social welfare, and strengthened rule of law. These effects can contribute to sustainable development, poverty reduction, and improved well-being for local communities, while creating a favourable environment for businesses and investors.