



FIGHTING CORRUPTION IN THE SUPPLY CHAIN:

A GUIDE FOR CUSTOMERS AND SUPPLIERS



United Nations Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption and to catalyze actions in support of broader UN goals. With over 7,000 signatories in more than 135 countries, it is the world's largest voluntary corporate responsibility initiative. www.unglobalcompact.org

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Fortunately, there is a way to fight back. **The United Nations Convention against Corruption is the world's strongest legal instrument to build integrity and fight corruption.** A new mechanism decided on at the recent Conference of States Parties in Doha means that, from now on, States will be judged by the actions they take to fight corruption, not just the promises they make.

The private sector should not lag behind Governments. **Businesses must also prevent corruption within their ranks, and keep bribery out of tendering and procurement processes.** I urge the private sector to adopt anti-corruption measures in line with the UN Convention. Companies – particularly those that subscribe to the tenth principle of the Global Compact, to work against corruption – should pledge not to cheat.

– H.E. Mr. Ban Ki-Moon, United Nations Secretary-General

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Foreword

Businesses all over the world are exposed daily to corruption risks in the supply chain, and increasingly recognize the associated costs and risks. The challenge of fighting corruption is compounded by the significant gap in resources and capacities that exists between large companies and small- and medium-sized enterprises (SMEs).

While larger companies are often better positioned to establish monitoring frameworks for their supply chain and sub-contracting arrangements, SMEs typically have fewer practical means to do so. SMEs generally lack the leverage to fight back. While many companies, small and large are ready to act, there is a dearth of guidance to assist them.

The UN Global Compact's *Fighting Corruption in the Supply Chain: A Guide for Customers and Suppliers* will help fill this gap. It is an essential resource to help companies reduce corruption risks in their supply chains. In plain terms, it outlines why businesses must join the fight against corruption and provides pragmatic advice on addressing this complex challenge.

We are proud to work on this important mission to fight corruption in all its forms.

Georg Kell
Executive Director
UN Global Compact Office

Executive Summary

Global business is accomplished through the elaborate networks of the supply chain — the persons, entities and infrastructure that transform materials and human capital into intermediate and finished products and services for customers and consumers. The problem of corruption affects every business in the supply chain. However, it can be tackled when all actors work together.

This guide for reducing corruption risk in the supply chain has been created by the United Nations Global Compact 10th Principle Working Group. The guide is intended for both customers and suppliers. Businesses of all sizes should find helpful guidance and practical tools, although multinational companies (MNCs) may find more information that is of immediate use.

The guide contains an introduction, followed by three sections and addenda. The introduction and first two sections outline the business case for fighting corruption in the supply chain, and provide a framework for customer-supplier engagement on these issues. These sections will be of interest to both strategic executives and to programme administrators and technical personnel. The final section and addenda offer detailed guidance on common supply chain corruption scenarios and a set of tools for fighting corruption. These sections are directed toward programme administrators and technical personnel.

The Business Case

The very significant corruption risks in the supply chain include procurement fraud perpetrated by suppliers, often in league with the customer's own employees, and suppliers who engage in corrupt practices involving governments and other public actors. The direct costs of this corruption are considerable, but are often dwarfed by the indirect costs related to management time and resources dealing with the issues, such as legal liability and damage to a company's reputation. Firms that engage their supply chain through meaningful anti-corruption programmes can:

- Improve product quality
- Reduce fraud and related costs

- Enhance their reputations for honest business
- Improve the environment for business
- Create a more sustainable platform for future growth

Suppliers will see parallel advantages from the fight against corruption. Those who engage honestly with their customers and with public actors benefit their own reputations, which is to their ultimate advantage.

Customer-Supplier Engagement

ASSESSING RISKS

Fighting corruption in the supply chain, like any business decision, requires an assessment of risks, a balancing of costs and benefits and tailoring the programme to fit the risk profile. To help with an assessment of these risks, the guide offers a series of questions with accompanying commentary and links to tools and resources. These questions concern the customer's own business and the steps it has taken to fight corruption; the supplier and the nature of its business and reputation; the nature of the engagement, including location and other risk factors; and the cost of corruption in the engagement.

COOPERATION AND EDUCATION

In attempting to prevent corruption in the supply chain, it is important for customers to go beyond simply trying to dictate compliance and move toward comprehension and capacity building. Ideally, suppliers will adopt their own programmes and systems for preventing corruption. Suppliers should come to understand, if they do not already, why preventing corruption and doing business with integrity is in their interest. Customers should look for continuous improvement from suppliers. They should also try to educate suppliers and help them fix problems. At the same time, customers must be ready to terminate a relationship where necessary. When dealing with suppliers who are unsophisticated on these issues, customers should consider training supplier personnel in much the same way that they train their own employees.

DEALING WITH OBJECTIONS

Customers can expect a variety of responses from suppliers when confronted with customer expectations concerning control measures and education. Some suppliers may see these efforts as too costly. Customers must understand the true risks of corruption in each situation in order to determine the costs to impose on suppliers and themselves.

Many suppliers who provide goods and services to multiple large customers will have genuine difficulty with multiple standards and practices that may be inconsistent or, at a minimum, disruptive and redundant. However, efficiencies can be achieved if customers are willing to accept training or auditing conducted by other customers, and if there is a standard code of conduct to which all customers agree. The path to this efficiency is collective action, particularly industry-specific and regional anti-corruption organizations.

SYNERGY: INTEGRATING CORRUPTION CONTROLS WITH EXISTING SUPPLY CHAIN CONTROLS

MNCs typically are quite sophisticated about supply chain management. Unfortunately, in most organizations these efforts are poorly coordinated. A coordinated supply chain management effort can provide a clearer and more comprehensive understanding of the strengths and weaknesses of the supply chain. Information sharing across the organization will help ensure that each supplier is in compliance with all applicable standards. It is important to ensure supply chain integrity at every level, across departments and geographical borders. Supply chain integrity should be monitored through all aspects of a company's supply chain relationship. Ultimately, companies need to see supply chain management as a unified process with a com-

mon set of policies and practices that include corruption prevention as well as the more traditional elements of cost control, quality monitoring and logistics management.

PRACTICAL GUIDANCE

This section of the guide addresses common supply chain corruption scenarios. The guidance is organized around a series of good practices. The discussion begins with general guidance then moves to a series of specific scenarios. In each section, guidance is organized into two major themes: how to prevent corruption and how to respond to corruption demands or acts of corruption when they occur.

ADDENDA

The addenda contain a series of tools for fighting corruption in the supply chain:

- Code of Conduct for Suppliers
- Anti-Corruption Contract Language
- Due Diligence Protocol
- Supplier Questionnaire
- Anti-Corruption Education and Communication for Suppliers
- Anti-Corruption Resources

Introduction

Through the 10th Principle of the United Nations Global Compact, businesses around the world have committed themselves to “work against corruption in all its forms, including extortion and bribery.” (See accompanying side note — “The UN Global Compact 10th Principle.”) This guide is one such anti-corruption effort. It presents a framework for reducing corruption risk in the supply chain — the interaction between customers (the purchasers of goods and services) and suppliers (those who provide goods and services). To provide practical assistance, the guide contains a set of tools and case studies, as well as guidance for preventing and dealing with common supply chain corruption scenarios.

The global public is increasingly demanding transparency, accountability and integrity in business. This includes the supply chain. Purchasers — particularly large MNCs — are being held responsible, both legally and in the court of public opinion, for the activities of their suppliers. As the news media regularly reports, the misdeeds of suppliers can directly affect a customer’s product and service quality. At the same time, suppliers — who may themselves be large MNCs, but in many instances are small and medium size enterprises — must attune themselves to the problems of corruption in order to protect their own products, services and reputations.

Global business is vastly more complex than the simple act of selling a product or service to a consumer. Business is accomplished through the elaborate networks of the supply chain — the persons, entities and infrastructure that transform materials and human capital to intermediate and finished products and services for customers and consumers. The problem of corruption affects every business in the supply chain, so all must work together to tackle this problem.

This guide to fighting corruption is intended for customers and suppliers. Indeed, virtually all businesses are both. Businesses of all sizes and scope should find helpful guidance and practical tools for dealing with corruption both among its suppliers, and as a supplier. MNCs — with large, interconnected supply chains, and greater resources—likely will find more here than is immediately of use.

For both customers and suppliers, this guide offers resources to:

- Reduce costs associated with corruption
- Reduce legal liability and risks to reputation
- Improve product and service quality
- Promote stable and long-term customer-supplier relations
- Promote free and open competition
- Promote economic development.

It is important to place this guide in context. For all companies, fighting corruption in the supply chain must be part of a larger anti-cor-

UN GLOBAL COMPACT SUSTAINABLE SUPPLY CHAIN RESOURCES

Supply Chain Sustainability: A Practical Guide for Continuous Improvement

Sets out how Global Compact signatories can implement the 10 principles throughout their supply chains and integrate sustainability into procurement strategies. Includes examples of good corporate practices. Produced in collaboration with BSR (Business for Social Responsibility).

Supply Chain Sustainability: An Online Assessment and Learning Tool

Interactive tool for customers to measure progress in implementing a holistic sustainable supply chain approach, assess gaps and share challenges and successes. Produced in collaboration with BSR (Business for Social Responsibility).

Supply Chain Sustainability Website

Provides information on initiatives, resources and tools to assist companies in developing more sustainable supply chains, as well as case examples of company practices.

Partnering with Civil Society to Promote Human Rights in Corporate Supply Chains

A Good Practice Note on how companies can partner with suppliers, governments and civil society to promote human rights.

Environmental Stewardship Resource

A strategic policy framework for environmental management and sustainability, including strategies and guidance for supply chain implementation.

All resources can be accessed at: www.unglobalcompact.org/Issues/supply_chain

THE UN GLOBAL COMPACT 10TH PRINCIPLE

On 24 June 2004, the first UN Global Compact Leaders' Summit announced that the UN Global Compact, the world's largest corporate sustainability initiative, had adopted a 10th Principle against corruption: "Businesses should work against corruption in all its forms, including extortion and bribery." The adoption of the 10th Principle sent a strong worldwide signal that the private sector and other non-state-actors share responsibility for eliminating corruption and stand ready to play their part. The 10th Principle commits UN Global Compact participants not only to avoid bribery, extortion and other forms of corruption, but also to develop policies and concrete programmes to address it. Companies are challenged to join governments, UN agencies and civil society to realize a more transparent global economy.

The 10th Principle was the response of the business community and other non-state actors to the adoption of the United Nations Convention against Corruption. The UN General Assembly adopted the Convention in October 2003, and it entered into force on 14 December 2005. As of March 2010, more than 140 States have ratified the Convention. As the sole global, legally binding anti-corruption instrument, the Convention provides a unique opportunity to prevent and fight corruption in both public and private sectors.

With this in mind, the UN Global Compact Leaders' Summit in 2004 designated the UN Convention against Corruption as the underlying legal instrument for the new 10th Principle. Although the Convention is legally binding only on countries that have ratified it, its values and principles are applicable to the widest spectrum of society, including the business community. The principles enshrined in the Convention can serve as an inspirational tool for companies adopting or reviewing internal anti-corruption policies, strategies and measures.

Following adoption of the 10th Principle, the UN Global Compact established a multi-stakeholder working group to provide strategic input to the UN Global Compact's work on anti-corruption and to define the needs of the business community in implementing the principle. The Working Group on the Implementation of the UN Global Compact's 10th Principle also aims to contribute to greater coherence by supporting the alignment of existing initiatives and avoiding the duplication of efforts.

The Working Group has established several task forces to develop various tools and resources to help businesses achieve the goals of the 10th Principle. This guide is the result of one such effort.

ruption programme that addresses corruption risks throughout the firm. This includes assessing corruption risks, establishing policies and procedures to control corruption, educating the workforce and business partners on the risks of corruption and monitoring and auditing for compliance. Ultimately, it means promoting a culture where corruption is simply unacceptable. (The UN Global Compact Anti-Corruption Tools Inventory, accessible at: http://unglobalcompact.org/Issues/transparency_anticorruption/Anti-Corruption_Guidance_Material.html. It contains reference and links to several excellent sources of guidance on developing and implementing a complete anti-corruption programme.) Businesses should see this guide as one set of tools among a broader arsenal aligned against the corruption problem.

AGENTS AND CONSULTANTS

The focus of this guide is on the relationship between customers and traditional suppliers of goods and services, not on the use of agents or consultants who may be hired specifically to deal with governments to, for example, help secure government business or legislation. There are brief references to these relationships in this guide, but they raise very particular and serious risks of corruption beyond the scope of this document.



Section 1

The Business Case for Fighting Corruption in the Supply Chain

Corruption, broadly defined, is the single greatest obstacle to economic and social development around the world. Corruption distorts markets, stifles economic growth, debases democracy and undermines the rule of law. It has been estimated, for example, that the cost of corruption equals more than 5 per cent of global GDP, with more than US\$1.5 trillion paid in bribes each year.

Understandably, the pervasiveness and staggering impact of corruption have been the increasing focus of national governments and international institutions. Enforcement of anti-corruption laws has risen sharply, with improved cooperation among various governments, and, in some cases, the imposition of massive fines against companies and prison sentences for offending corporate executives. In addition, international financial institutions and export credit agencies increasingly are barring or penalizing companies involved in corruption.

Corruption makes business far more costly by imposing extraordinary obstacles to growth. The financial hardships that corruption imposes, the threat of serious legal sanctions and the growing pressure of public opinion give businesses ample reason to engage in the fight against corruption.

For a more complete discussion of these issues, see *Clean Business Is Good Business*, at www.unglobalcompact.org/docs/news_events/8.1/clean_business_is_good_business.pdf

The Costs of Corruption in the Supply Chain

Businesses face particularly great corruption risks in their supply chains. One significant category of this risk — resulting in billions of dollars in direct loss to firms each year — is procurement fraud perpetrated by suppliers, often in league with the customer's own employees. This includes kickbacks,

fraudulent billing and various purchasing and sales schemes. A 2009 survey of 729 senior executives from a variety of companies around the world found an average loss due to fraud of \$8.8 million over three years, with 20 per cent reporting losses due to vendor and procurement fraud and 19 per cent with losses due to corruption and bribery. (Kroll 2009/2010 *Global Fraud Report*, p.5-6.)

Moreover, businesses face extraordinary additional risks in many parts of the world where suppliers engage in corrupt practices involving governments and other public actors. Suppliers who corruptly bypass health and safety requirements, avoid necessary licensing, or otherwise evade legitimate law enforcement, create enormous risks to product quality. Recent years have seen numerous examples of widespread corruption-related health and safety scares from imported products. In addition, suppliers engaged to assist customers with government agencies create acute risks if they pay bribes on the customer's behalf to customs officials or licensing authorities.

The direct costs of this corruption in the supply chain, as significant as they are, often are dwarfed by the indirect costs of:

- Management time and resources dealing with the issues
- Legal liability
- Damage to reputation

The damage to a company's reputation in particular can dramatically affect the value of the brand, relationships with business partners and share price.

In a 2008 global survey of supply chain managers, 61 per cent rated corruption as the most significant risk to their business, second only to product safety. (PricewaterhouseCoopers, *From Vulnerable to Valuable: How Integrity Can Transform a Supply Chain*,

December 2008, p.27.) Of course, product safety is itself highly susceptible to supply chain corruption.

For MNCs doing business in the developing world, these risks are severe. In countries with a high degree of corruption, the supply chain for MNCs very often consists of small and medium size local businesses. These businesses typically have more contact with corruption because they face both more temptation and more opportunity. As local entities, they may lack a global perspective and have less discomfort in participating in corruption, especially in a culture where such activity is the norm. And as smaller businesses, they may lack the leverage to resist corruption and influence local institutions for change.

What Customers Can Do

Despite these obvious dangers, many companies are not prepared to deal with them. In the same survey of supply chain managers, only 36 per cent were very confident in their company's ability to deal with the supply chain corruption risk. Virtually all large MNCs have sophisticated supply chain management processes focused on supplier identification, cost control, logistics, and supply quality. Unfortunately, few concentrate on supply chain corruption with the same intensity, despite the extraordinary potential costs from corruption. Dealing with corruption should be part of good supply chain management generally. (See the discussion of "Synergy: Integrating Corruption Controls with Existing Supply Chain Controls" in Section 2 of this guide.)

There is much that businesses can do to reduce risks in their supply chain. Many MNCs engage their suppliers already in the areas of human rights, labour and the environment. These customers often have sophisticated programmes, involving supplier principles, contract enforcement, supplier education and auditing to ensure, among other things, that suppliers are not using child labour, abusing their employees or dumping toxic waste. Such programmes are a key element of good corporate citizenship and enhance the reputations of those companies that devote appropriate resources to these activities.

Engaging the supply chain about corruption can reap even greater benefits. Firms that engage their supply chain through meaningful anti-corruption programmes can:

- Improve product quality
- Reduce fraud and related costs
- Enhance their reputations for honest business
- Improve the environment for business
- Create a more sustainable platform for future growth

Moreover, companies that fail to address supplier corruption proactively run the risk of more harmful consequences later. Customers can, in certain instances, be held legally accountable for the corrupt actions of suppliers. When supply chain corruption affects consumers, all firms will suffer from the damage to their reputation.

The Supplier's Perspective

Suppliers will see parallel advantages from the fight against corruption. Suppliers that establish effective programmes to combat corruption in their organizations will improve product quality, reduce costs and avoid liability. These actions also will ease relationships with existing and new customers who will have more trust and feel less need to mandate their own standards and to insist on disrupt-

THE DEFINITION OF "CORRUPTION" AND THE UN GLOBAL COMPACT

Corruption often is defined as "the misuse of entrusted power for private gain." This convenient shorthand, encompassing myriad illegal and illicit acts, recognizes the breadth of the concept, but does not attempt to enumerate acts or precisely delimit their scope. During the negotiations of the UN Convention against Corruption, UN Member States carefully considered the opportunity for the global anti-corruption treaty to provide a legal definition of corruption. Concluding that any attempt at a comprehensive definition inevitably would fail to address some relevant forms of corrupt behavior, the international community reached global consensus on a large number of manifestations of corruption while leaving each State free to go beyond the minimum standards set forth in the Convention. The Convention calls for ratifying States to outlaw, at a minimum: bribery of public officials; embezzlement; trading in influence; abuse of function; illicit enrichment by public officials; bribery and embezzlement in the private sector; money laundering; and obstruction of justice. These corrupt actions are spelled out under the chapter of the Convention devoted to criminalization and law enforcement, which explains that corruption is a crime that is wider than bribery and extortion. In accordance with this approach, the 10th Principle of the UN Global Compact calls for companies to work against corruption in all its forms, including extortion and bribery.

tive monitoring and enforcement activities. Perhaps most important, suppliers who engage honestly with their customers and with public actors enhance their reputations.

The Value of Collective Action

Each firm's first priority in this area should be to prevent corruption in its own business and to engage suppliers directly on these issues. But there is also much that businesses can do through collective action. Appropriately structured cooperation among purchasers can level the playing field for all, and help provide the necessary conditions for honest business. By adopting common supplier standards and monitoring procedures, customers can improve efficiency because suppliers will not face conflicting requirements. By acting together, customers also can improve their leverage in the fight against corruption because suppliers will not be able to reject tough standards from any single customer.

Cooperation among suppliers will also make the playing field more fair and more efficient. By adopting common standards and practices and monitoring compliance, suppliers can minimize and restrain those who may be tempted to act corruptly for short-term gain or quick profit.

For a useful compendium and framework on fighting corruption through collective action, see World Bank Institute, *Business Fighting Corruption: A Resource Center for Business*, at <http://www.fightingcorruption.org>. See also the Supplier Ethical Data Exchange (<http://www.sedex.org.uk>), a non-profit membership organization that enables suppliers to share data on ethical and responsible conduct with their global customers. The Sedex on-line Self-Assessment Questionnaire includes a Business Integrity section, including significant content on corruption.

The UN Global Compact is a global multi-industry initiative that offers mutual assistance and support to businesses. Through the UN Global Compact 10 Principles, businesses commit to support human rights and labour fairness, maintain and improve the environment and fight corruption. This guide is one example of collective action from the UN Global Compact 10th Principle Working Group. We hope that businesses will find these resources useful in reducing their own risks, improving their supply chains and ultimately fostering economic and human development around the world.



Section 2

Customer-Supplier Engagement

Preventing corruption in the supply chain requires a clear-headed view of the hazards and a strategic approach to engaging suppliers. The task begins with an assessment of risks.

Assessing Risk – Questions to Ask

Customer-supplier relationships are critical to any business. These strategic engagements profoundly influence the cost and quality of the products and services offered, the company's reputation and, ultimately, the value of the business. Customer-supplier interaction comes in a myriad of forms and varies widely along numerous dimensions relevant to the risk of corruption. There is no simple formula to prevent corruption among suppliers.

At the same time, resources available to fight corruption are limited. Anti-corruption programmes will include many elements – codes of conduct, employee training and certain financial controls, for example – all of which will affect all customer-supplier relations. But no business can afford to employ gold-standard anti-corruption efforts with all its suppliers. Nor would such massive efforts be cost-effective. Buying office supplies from a large office supply chain in a developed country presents very different risks and necessitates a different level of controls than the purchase of key food ingredients from a medium-sized supplier in a developing country. Fighting corruption in the supply chain, like any business decision, requires an assessment of risks, a balancing of costs and benefits and tailoring the programme to fit the risk profile.

To assess these risks, a business must ask a series of questions about its own operations and about the nature of its suppliers. Although many companies address some of these issues in relation to their suppliers, few consider the full range of questions relevant to the risk of corruption. Moreover, an assessment of the risk of corruption in the supply chain should be part of a more general assessment of corruption risks and, indeed, part of a company's enterprise-wide risk management process. The answers will help direct anti-corruption resources to their most value-added objectives.

The tables on the next several pages organize these questions by topic, with accompanying comments and reference to relevant tools and resources.

Questions about the Customer's Business

An assessment of corruption risk should begin with an appraisal of what internal safeguards the business already has in place to fight corruption. A business that does not take adequate care to prevent corruption is in a poor position to make such demands of its suppliers.

Questions	Comments/Tools & Resources
<p>What controls do you have in place to prevent, detect, and respond to internal fraud?</p>	<p>Programme elements to consider here include the existence and effectiveness of such controls, including:</p> <ul style="list-style-type: none"> • Written standards of conduct • Employee training • Reporting mechanisms • Mechanisms to investigate and deter employee misconduct • Spending controls, including multiple levels of review, spending limits, and documentation requirements <p>For tools & resources:</p> <ul style="list-style-type: none"> • See the "General Guidance on Anti-Corruption Practice Related to the Supply Chain" in Section 3 of this guide, and the accompanying "Model Tools" in the Addenda, including the "Code of Conduct for Suppliers." • See the UN Global Compact 10th Principle Reporting Guidance for a description of anti-corruption programme elements that UN Global Compact participants should report on. • See the Transparency International Business Principles for Countering Bribery
<p>What controls do you have in place to prevent, detect and respond to supplier fraud?</p>	<p>Companies also must consider the controls they have in place in relation to their suppliers. These include:</p> <ul style="list-style-type: none"> • A supplier evaluation process • Supplier contract terms • Supplier education • The contract management process, including mechanisms for measuring and monitoring the quality of products or services provided <p>For tools & resources:</p> <ul style="list-style-type: none"> • See the "General Guidance on Anti-Corruption Practice Related to the Supply Chain Generally" in Section 3 of this guide, and the accompanying "Model Tools" in the Addenda, including the "Anti-Corruption Contract Language," "Anti-Corruption Education and Communication for Suppliers," and the "Supplier Questionnaire"
<p>What mechanisms do you have in place to monitor suppliers?</p> <ul style="list-style-type: none"> • Do you have contractual audit or inspection rights? • Do you exercise them? 	<p>For tools & resources:</p> <ul style="list-style-type: none"> • See the "Supplier Questionnaire" in the Addenda to this guide.
<p>Does the overall anti-corruption programme meet applicable standards?</p>	<p>In the United States, there are substantial advantages to meeting voluntary "effective compliance and ethics programme" standards.</p> <p>The UK Bribery Act 2010 provides a defense to bribery charges for organizations that have "adequate procedures" in place to fight bribery.</p> <p>In Italy, Italian Legislative Decree 231/01 provides exemption from liability for organizations that effectively implement certain management, organization and control models prior to an offense.</p> <p>For tools & resources:</p> <ul style="list-style-type: none"> • See United States Sentencing Commission, Organizational Guidelines, Section 8B2. (http://www.ussc.gov/2007guid/8b2_1.html); UK Bribery Act 2010 (http://www.justice.gov.uk/publications/bribery-bill.htm).

Questions about the Supplier

The need for, and benefit derived from, internal controls for a supplier will vary with the nature of the supplier engagement.

Questions	Comments/Tools & Resources
How large is the supplier?	Is this a large, sophisticated MNC, a small local business or something in between?
Where is the supplier located?	
Where are the goods or services to be produced/delivered?	
What are the corruption risks in these locations?	<p>Corruption control resources should focus on contracts performed in countries with a higher risk for corruption.</p> <p>Important indicators include whether or not a country has ratified the United Nations Convention against Corruption and whether it has national anti-corruption bodies to which suspected corruption can be reported.</p> <p>For tools & resources:</p> <ul style="list-style-type: none"> • See the Transparency International Corruption Perceptions Index for a rating of perceived corruption in various countries. <p>Additional information may be available from relevant embassies, export credit agencies, chambers of commerce and trade associations.</p> <ul style="list-style-type: none"> • See http://www.unodc.org/unodc/en/treaties/CAC/signatories.html for a listing of countries that have signed or ratified the United Nations Convention against Corruption. • See http://www.unodc.org/unodc/en/corruption/links.html for a listing of national anti-corruption bodies. • See also the country profiles available at http://www.business-anti-corruption.com.
What is the supplier's reputation for integrity and ethical conduct?	<p>Due diligence is key here. Inquiring about a supplier's background and reputation will be critical where there are other risk factors for corruption, such as the nature of the services provided and the location of the supplier. The greater the potential risk, the more due diligence required. See the "Due Diligence Protocol" in the Addenda to this guide.</p>
How was the supplier identified? <ul style="list-style-type: none"> • Through a trusted source? • Through use of a pre-qualification or certification service? • Is the supplier a friend or relative of an employee? 	<p>The answer here can cut both ways, as employee referrals can indicate trustworthiness, but also run the risk of conflicts of interest and kick-backs.</p>
What controls does the supplier have in place to prevent corruption?	<p>Does the supplier have:</p> <ul style="list-style-type: none"> • Standards of conduct • Employee training • Reporting mechanisms • Mechanisms to investigate and deter employee misconduct • Other controls, such as spending controls, multiple levels of review, spending limits, and documentation requirements <p>For tools & resources: See the "Supplier Questionnaire" in the Addenda to this guide.</p>

Questions about the Engagement

Questions	Comments/Tools & Resources
What is the nature of the goods or services to be supplied?	Corruption control resources should focus on contracts performed within industry sectors with a higher risk for corruption.
What is the size of the contract?	The more at stake, the greater the risk of kickbacks and other forms of procurement fraud.
Does the engagement require multiple invoices and payments over time, such as for construction work?	It is easier to hide illicit activity in the performance of such contracts.
What are the possible points of contact with government corruption? <ul style="list-style-type: none"> • Is the supplier subject to government inspection? • Does the supplier require government licensing? • Are the goods subject to VAT or other taxation? • Is the supplier responsible for dealing with customs officials? 	The more contact with government officials, the greater the risk for government-related corruption, particularly in high-risk countries.
Is the supplier being engaged as an agent specifically to deal with the government, for example, to obtain licenses or permits or to deal with customs or tariffs?	If so, the risks for corruption and principal liability may be particularly high.

The Costs of Corruption in the Engagement

In assessing the acceptability of risks, it will be important to understand not only the chances that corruption may occur, which many of the previous questions address, but also the cost of corruption if it does occur.

Questions	Comments/Tools & Resources
How costly would supply chain disruption be if the supplier engaged in corruption?	A customer should look closely at the nature of goods and services being supplied and the nature of its end product or service, and consider the possible consequences of corrupt supplier behavior, including worst-case scenarios. For example, if a food supplier bribes a government inspector to ignore health code violations, the various risks are far more serious than if a supplier bribes a local police officer to allow parking of trucks in no parking zones.
What are the operational risks of such disruption?	Is this a critical good or service?
What are the risks to a company's reputation if such disruption occurs?	Could supply chain corruption affect product quality or the company's reputation for honest business?
What are the possible remedies if there is a problem with the supplier?	Some remedies, such as bringing a lawsuit against a distant supplier in its home jurisdiction, may not be practical or cost-effective.
How will you control the damage in each case?	The greater the potential damage from an act of corruption, the more important it is to take additional precautions upfront.
Do you have alternative sources of supply? • How many alternative suppliers are there? • Is this a "strategic supplier"? Who has the leverage in the relationship?	
If commercial claims, regulatory investigations or charges are brought against the customer because of its supplier's corrupt activities, are there additional consequences?	Each customer's facts and circumstances will govern whether any notices to third parties such as commercial partners, lenders or regulators or other actions, are required.

There is no fixed formula for processing the answers to these questions, but performing this exercise will give the customer a far better sense of risk and help inform decisions about the level of control necessary in each case.

What Customers Can Expect

THE IMPORTANCE OF COOPERATION

There is no single model for customer-supplier interaction. As with any business relationship, the leverage that either side holds will vary from party to party and over time. In some cases, a customer is looking for a one-off purchase and does not contemplate a continuing relationship, but in many customer-supplier situations, the parties will anticipate a long-term repeat transactions.

These are strategic relationships and must be viewed as such. Cooperation and communication are key for maintaining such relationships. Taking advantage of your customer or supplier is not in either party's long-term interest, even if the immediate deal is attractive.

In many instances, suppliers are as large as or larger than their customers, and equally or more sophisticated. In other cases, particularly in the developing world, suppliers will be small and medium-size local businesses that may either be unsophisticated about the expectations of MNC customers. They may be operating with few resources and thin margins or under various pressures or cultural norms that increase the risk of corruption.

In attempting to prevent corruption in the supply chain, it is important for customers to go beyond simply trying to dictate conformity, and move toward comprehension and capacity building. In many instances, the customer will not have the leverage to mandate compliance in any event. The key is to build trust and a common vision.

In any business relationship, the parties do not have the same incentives, but must find a way to work together toward common goals. Customers and suppliers, for example, will view the issues of cost and efficiency differently. The best business relationships get past these tensions by collecting, managing and sharing information to maximize mutual business interests. This includes information about the costs of corruption and the actions necessary to prevent it.

Ideally, suppliers will adopt their own programmes and systems for preventing corruption. Suppliers should come to understand, if they do not already, why preventing corruption and doing business with integrity is in their interest. Clean business is good business for the supplier — which is looking for other customers and who likely is itself a customer — not just a contract term that a particular customer is demanding.

Customers should look for continuous improvement from suppliers; they should educate them and work together to fix problems. At the same time, customers must be ready to terminate a relationship where necessary. It is worth noting again, to minimize the potential disruption from a termination decision, customers must evaluate their suppliers to the extent possible prior to entering into a relationship.

To be meaningful and effective, anti-corruption measures must be credible, and not simply boilerplate in a contract. Where there is significant risk of corruption, doing business with integrity must be emphasized as critical to the engagement from the outset.

SUPPLIER EDUCATION

When dealing with suppliers who are unsophisticated on these issues, customers should consider training supplier personnel in much the same way that they train their own employees. Many MNCs have sophisticated programmes for preventing human rights and labour abuses in the supply chain and train suppliers on programme requirements. Most of these same companies have written policies against corruption in the supply chain and may have a supplier code of conduct, but few train their suppliers on corruption issues.

Supplier education can come in many forms and will be dependent upon the risks and costs involved. Face-to-face interaction, which provides opportunity for supplier personnel to ask questions and provide feedback, is preferable, but when in-person training is not cost-effective or practical, web-based training is a useful alternative. Additionally, leaflets and handouts may be useful in many cases. However it is done, it is important to help suppliers understand the consequences of corruption.

To maximize efficiency when dealing with many suppliers who may need such training, and to help level the playing field, customers may consider bringing key personnel from multiple suppliers together for joint education sessions. Ultimately, suppliers should run their own education programmes for their employees.

See “Anti-Corruption Education and Communication for Suppliers” in the Addenda to this guide for a framework for supplier education.

DEALING WITH SUPPLIER OBJECTIONS

Customers can expect a variety of responses from suppliers when confronted with customer expectations concerning control measures and education.

Some suppliers may see these efforts as too costly. This should be the easiest objection to deal with, given the cost of non-compliance in this area. This does not mean, however, that any cost imposed on suppliers to prevent corruption is reasonable. Customers must understand the true risks of corruption in each situation in determining the costs to impose on suppliers and themselves.

Some suppliers may claim that such efforts are unnecessary, or even offensive. In some cases there will be some merit to these objections, especially with large sophisticated suppliers where fewer controls will be necessary. In other cases, the customer will have to explain that these efforts are not meant as an insult, but that they are in place with other suppliers and, like any contractual provision, are intended for the protection of the parties. It may be helpful in these situations to explain the relevant legal and other risks applicable to the customer, so that the supplier is better able to appreciate the customer's position. Customers also must be sensitive to cultural differences, but must still establish baseline standards consistent with law and the customer's own values.

Many suppliers who provide goods and services to multiple large customers will have genuine difficulty with multiple standards and practices that may be inconsistent or, at a minimum, disruptive and redundant. They may object to having to sign on to several standards of conduct. They may be asked to attend training from multiple customers, or may face audits and other monitoring activities from many customers. These are legitimate concerns to which customers must be sensitive and willing to engage. Efficiencies can be achieved, for example, if customers are willing to accept training or auditing conducted by other customers, and if there is a standard code of conduct to which all customers agree. The path to this efficiency is "collective action" and is particularly effective for industry-specific and regional anti-corruption organizations. (See World Bank Institute, *Business Fighting Corruption: A Resource Center for Business*, at <http://www.fightingcorruption.org> for listings of various such organizations)

Supplier requests to modify, or be excused from, contractual terms and codes of conduct are among the most difficult decisions a customer will face. There is great value to standard contract language for all suppliers, and it is generally inadvisable to negotiate over issues like corruption with each supplier. In addition, objection to anti-corruption contractual provisions may be a red flag that the supplier is a particularly high risk for corruption. Nonetheless, many suppliers will have their own codes, and it may be possible to allow their language to stand in for the customer's if the customer is otherwise confident about the supplier. One indication that a supplier takes fighting corruption seriously is if it is a signatory to the UN Global Compact.

In general, the extent to which a customer can accede to supplier demands to relax anti-corruption controls will depend on the outcome of the risk assessment described earlier. Large, sophisticated suppliers may be treated differently than small local businesses, particularly in high-risk countries. Where there are greater risks for corruption, either because of the nature of the business, the reputation of the supplier or the geographic location, it will be necessary to address supplier objections more forcefully and insist on full compliance with the customer's programme.

SYNERGY: INTEGRATING CORRUPTION CONTROLS WITH EXISTING SUPPLY CHAIN CONTROLS

MNCs typically are quite sophisticated about supply chain management. This includes complex systems and programmes for supplier selection, cost control/oversight, logistics management, inventory control and quality assurance. Many MNCs also have robust programmes for dealing with human rights, labour and environmental issues among suppliers. Many companies have undertaken efforts to prevent corruption in the supply chain, but such efforts are often inadequate in light of the risks.

Unfortunately, in most organizations these supply chain management efforts are poorly coordinated. Rather, separate groups within the organization, with little connection to one another, manage what should be a unified and integrated endeavor. For example, Procurement typically deals with sourcing and vendor selection, and may handle contract management. Quality Assurance generally is a separate department. "Social

compliance,” involving human rights and labour issues, may reside in Human Resources, Legal or External Affairs. Environmental compliance may be handled in yet a different department. And corruption prevention, or various aspects of the risk, may belong to Legal, Audit or a separate Ethics & Compliance function.

This division of labour leads to inefficiency, loss of critical information and ultimately, inferior supplier performance and cost to the business. A coordinated supply chain management effort, by contrast, can provide a clearer and more comprehensive understanding of the strengths and weaknesses of the supply chain, reduce control redundancies and support unified compliance reporting. Assessing suppliers outside of, or across, departments enables the organization to better identify those suppliers who might excel in some areas but fail to meet minimum standards in others. Information sharing across the organization will ensure that each supplier is more efficiently managed for compliance against all applicable standards. MNCs that free themselves from the segregated management framework will realize the synergies of cost savings and improved supply chain performance as a result. Most organizations can become more efficient in their supply chain management by implementing common risk assessment processes, common information systems and the increasing use of automation.

Ensuring supply chain integrity is a commitment that must be undertaken at

every level, across departments and borders. Supply chain integrity should be monitored through all aspects of a company’s supply chain relationship. In a typical MNC, supply chain professionals engage in evaluation and control at each stage of the supply chain process from initial sourcing through post-performance supplier evaluation, but often do not attend to the corruption risk inherent in various mileposts. Corruption risks, including kickbacks and other forms of procurement fraud, as well as bribery and other forms of government-related corruption, are particularly great:

- When companies are evaluating suppliers and offers
- When creating and managing contracts
- When approving contract performance.

Suppliers will face heightened temptation and pressure to act corruptly:

- When responding to a tender
- When sourcing materials
- When in production

A commitment to ensure the ethical practices of the supply chain requires a company-wide effort to root out corruption at all stages.

Ultimately, companies need to see supply chain management as a unified process with a common set of policies and practices that include corruption prevention as well as the more traditional elements of cost control, quality monitoring and logistics management.

Section 3

Practical Guidance on Preventing and Responding to Corruption in the Supply Chain

In this section of the guide, we present practical guidance on confronting common supply chain corruption scenarios. The guidance is organized around a series of good practices, some general to any anti-corruption programme, and many specific to supply chain corruption and to particular corruption scenarios. Not all practices will be applicable to all companies.

We begin with general guidance, and then move to a series of specific scenarios. In each section, guidance is organized into two major themes: how to prevent corruption, and how to respond to corruption demands or acts of corruption when they occur. In several scenarios, separate guidance is provided for customers and suppliers, but in general the guidance should be applicable to both.

This entire section is designed to parallel RESIST (Resisting Extortion and Solicitation in International Transactions), a tool jointly developed by the International Chamber of Commerce, Transparency International, the UN Global Compact, and the World Economic Forum, available at http://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/RESIST.pdf. We have copied directly much of the general guidance available in RESIST, modifying and adding guidance related to the supply chain, and making reference to the model tools that accompany this guide. As with RESIST, the guidance in this section may be used as a training tool for employees who are exposed to the relevant risks.

General Guidance on Anti-Corruption Practice Related to the Supply Chain

CORRUPTION PREVENTION: HOW TO REDUCE THE PROBABILITY OF CORRUPTION OCCURRING

General Company Anti-Corruption Policies

- Implement and enforce a publicly-available company-wide code of conduct, including a zero tolerance anti-corruption policy
 - › The code of conduct should address the corruption issue as a whole using specific examples so that employees can learn how to respond to common corruption scenarios
- Require employees to acknowledge understanding of and compliance with the code of conduct
- Set up clear company anti-corruption directives and related sanctions for non-compliance
- Establish and promote reporting mechanisms and encourage reporting of suspected bribery and other unethical business practices by the company and its suppliers and other business partners
- Establish a reputation for zero tolerance for bribes by publicizing anti-corruption efforts
- Provide training to all relevant personnel on anti-corruption laws and policies, the consequences of bribery and corruption for the company and employee, how to respond to such demands and how to report such demands
 - › Emphasize the possibility of criminal prosecution and the damage to reputation, for both the company and exposed employees
- Send regular reminders to exposed employees

- Provide competitive remuneration for employees at risk to reduce incentive to demand or accept kickbacks

Specific Policies for Company Representatives Involved in Purchasing and Bidding Processes

- Establish clear rules and procedures for choosing a supplier. General selection criteria should include objective requirements on costs, performance, transparency and integrity of the supplier such as:
 - › Opening the tender to more than one supplier
 - › Guidelines for the assessment of supplier bids, including: pricing, quality, logistics and financial standing of the supplier
 - › Rules for establishing “preferred supplier” relationships that award large quantities to one supplier
 - › Open bidding whenever possible
 - › Compulsory review of supplier bids by a team of customer employees
 - › Multiple levels of authorization, depending on the value of the contract
- Train and discuss anti-corruption policies with personnel involved in purchasing and bidding processes before the start of the project (if possible):
 - › Identify and openly address incentives to accept kickbacks or pay bribes
 - › Train employees on the consequences of corruption (legal, financial, damage to reputation, etc.)
 - › Train employees on standard bidding procedures and rules of interaction with suppliers and customers
 - › Prepare employee guidance on how to respond to corruption demands, incorporating cultural, industry and function specific advice
 - › Consider providing employees with appropriate incentives for reporting corruption demands
- Perform background checks on personnel involved in purchasing and bidding, including potential conflicts of interest, while respecting legal considerations and privacy rights
- Before, during and after the bidding process, prohibit or strictly regulate gifts, entertainment, sponsorship and donation activity
 - › Establish thresholds appropriate to the local environment

- › Make it known that there is zero tolerance for parties directly or indirectly involved in the purchasing or bidding process
- Establish clear rules and procedures for acceptance of goods
 - › Goods must strictly conform with contract specifications, with deviations accepted only through a written confirmation from customer employees
 - › Acceptance of goods should require sign off from more than one customer employee, and should include an employee who was not involved in placing the order
 - › Contract managers must maintain a professional relationship with supplier employees and avoid excessive familiarity
- Train relevant employees on rules and procedures for acceptance of goods
- Always operate as a team consisting of at least two employees, and do not meet with suppliers alone at key contract milestones

Risk Assessment and Due Diligence

- Implement a process to evaluate corruption risk prior to entering into a customer-supplier relationship (See “Assessing Risk – Questions to Ask” in Section 2 of this guide)
 - › Assess the risk that your potential business partner will engage in corruption
 - › Assess the corruption risks of the particular purchase or sale, including cultural, industry and geography risks, as well as points of contact with possible government corruption
 - › Gather relevant information from major enterprises, embassies, export credit agencies, banks and trade associations in order to make an informed decision and understand the business practices of the country in question
 - › Consider the legal framework and implementation of existing anti-corruption policies and laws, as well as whether the country has signed and/or ratified the United Nations Convention against Corruption
 - › Consult country profiles found on online tools such as www.business-anti-corruption.com
 - › Consider the worst case scenario and various strategies that could potentially be deployed
- Perform due diligence on suppliers,

customers and intermediaries involved in bids (See "Due Diligence Protocol" in the Addenda to this guide)

- › Identify "red flags," such as a reputation for corruption, family relationship with government officials, no registered office and refusal to reveal owners
- › Gather information from relevant embassies, chambers of commerce and trade associations, national anti-corruption bodies, third-party information providers and other companies
- › Do not establish business relationships with suppliers and customers that do not meet your standards
- Consider the presence of competing suppliers before entering a market or establishing a geographic supply chain
 - › Where there is only one acceptable supplier in a region, or suppliers have reputation for corruption, explore alternative suppliers in other regions

Additional Controls for Purchasing and Bidding

- Audit purchasing and bidding processes
 - › Define an audit plan specific for the purchasing and bidding processes
 - › Analyze contracts and contract process documents for gaps, inconsistencies and unusual transactions
- Review payments involving heightened risk
 - › Pay special attention to agents, consultants and advisers used in the bidding process
 - › Carefully review payments to bank accounts with financial institutions outside the project location and to tax havens or to countries maintaining banking secrecy above average standards
 - › Scrutinize expenses of purchasing and bidding employees
- Implement a regular, independent internal monitoring function
 - › Make sure a senior executive reviews high risk payments to agents, consultants or financial institutions outside of the project location
 - › Designate responsibility for regular, timely and detailed review of purchasing and bidding process documentation
- Use anti-corruption technology to increase monitoring effectiveness
- Use continuous control monitoring to identify higher risk transactions such as a large concentration of orders to the same sup-

plier, large variations in item contract price within the same industry or with contracts prepared by other procurement managers

- Implement automated segregation of duties in the purchasing and bidding processes
- Limit authority for purchasing decisions
- Regularly rotate procurement manager assignments
- Regularly review the control matrix in the purchasing and bidding processes

Supplier Management and Control Processes

- Customers should establish a code of conduct for suppliers, including expectations about corruption (See "Code of Conduct for Suppliers" in the Addenda to this guide)
 - › Include provisions about bribery, kickbacks, conflicts of interest, gifts and entertainment and accuracy of business records
 - › Require suppliers to agree in writing to abide by the code of conduct or to an equivalent code of its own
- Ensure that supplier personnel receive training on anti-corruption laws and policies, the consequences of bribery and corruption for the supplier and employees, how to respond to corruption demands and how to report such demands (See "Anti-Corruption Education and Communication for Suppliers" in the Addenda to this guide)
 - › Emphasize the risk of criminal prosecution and damage to reputation for the supplier and for the exposed employees
 - › Training may be provided by the supplier to its employees, by the customer or by a third-party such as an industry organization
- Monitor supplier anti-corruption efforts through questionnaires and audits (See "Supplier Questionnaire" in the Addenda to this guide)
 - › Include questions about the state of the supplier's anti-corruption policies, training and oversight
 - › Conduct regular on-site anti-corruption audits, perhaps in conjunction with quality audit visits
 - › Prioritize audits based on questionnaire results and other risk factors
 - › Third-party auditors may conduct audits, perhaps in conjunction with audits related to human rights, labour policy, environment and other UN Global Compact principles



- › Ensure corrective action/remediation of risks discovered through questionnaires and audits
- Monitor supplier performance throughout the duration of the contract and look for signs of corrupt behaviour

Contractual Precautions

- Include anti-corruption provisions in contracts with suppliers (See “Anti-Corruption Contract Language” in the Addenda to this guide)
 - › Supplier agrees to abide by all applicable anti-corruption laws
 - › Supplier agrees to abide by the customer’s code of conduct for suppliers or its equivalent
 - › Supplier agrees to audits of its anti-corruption efforts and to submitting additional documents if necessary
- Supplier contracts should specify who is accountable for corruption-related liabilities
- If the supply contract includes requirements and penalties related to timely performance, the contract should exclude liability delays resulting from bribery demands from relevant government (e.g., customs) officials and require immediate reporting of such demands to customer

Collective Action

- Work with other customers, suppliers, non-governmental organizations (NGOs), industry organizations, high ranking competent government officials and trade unions to build an empowered legal system that will enforce anti-corruption laws
- Work with industry associations and NGOs to establish
 - › Mechanisms for common supplier anti-corruption training
 - › Common supplier anti-corruption audit standards and mechanisms for common supplier anti-corruption auditing
 - › The exchange of information about supplier anti-corruption practices and acts of corruption

Consult World Bank Institute, Business Fighting Corruption: A Resource Center for Business, at www.fightingcorruption.org for collective action strategies and tools

CORRUPTION RESPONSE: HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

Immediate Response

- Take time to think about the situation
- Seek guidance from responsible personnel before responding if possible
- Politely refuse the first request and emphasize the company’s business principles. If the request is repeated, explain that accepting such a payment would violate the company’s business principles and may violate applicable laws and could lead to the dismissal and criminal prosecution of the employee concerned
- Explain that the solicitation (direct or indirect) must be made in writing and needs to be reported to management

Document and Report Internally

- Make a record of the relevant interaction
- Immediately report to management or the appropriate officer responsible for matters involving the code of conduct (e.g., compliance officer) and define an appropriate strategy

Investigate and Take Corrective Action

- Establish a process to investigate potential issues of corruption, including a disciplinary body with authority to eliminate a supplier or customer relationship and take corrective action against employees who engage in corruption
- Investigate, perhaps in conjunction with supplier or customer management, whether the solicitation or act of corruption was an isolated incident or indicative of a systemic practice
- Develop a strategy to promptly assess possible legal, operational and reputational risks arising from the act of corruption
 - › Conduct an independent audit to assess any actual risks to product or consumer health and safety that may result
 - › Ensure that product recall and other contingency plans are up-to-date
- Investigate the entire engagement as well as past deals with the same supplier or customer
- Include legal, operational and risk management specialists
- Discipline all employees involved in acts of corruption, which in some cases may mean terminating employment

- Retrain relevant employees on policies against corruption, and the possible sanctions for non-compliance
- Critique due diligence and supplier auditing frameworks to determine whether any red flags may have been overlooked. Identify opportunities for improvement in various controls and implement
- Review and improve supplier training
- Retain investigation results and document corrective action for both legal implications and future risk assessment
- Upon conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)

Discuss with Legitimate Representative of Supplier or Customer

- Report the solicitation to the appropriate level of the supplier or customer's organization
- Convene a meeting of all parties and discuss potential challenges to a successful contract without specifying too many details, which should serve as a deterrent to the guilty party

If Suspicions are Substantiated, Consider External Disclosure to:

- Government agencies charged with fighting corruption
 - Trade associations and other industry initiatives:
 - › Report solicitation in a collective manner to relevant authorities
 - › Expose corrupt organizations to other companies
 - Embassy or consulate representing home country to seek guidance and support
 - Financing institutions, if any export credit financing or coverage is proposed
 - Regulators
- There may be a legal obligation to report corruption to a regulatory agency in the home or host country, but even if there is no legal obligation, disclosure may be the best course to minimize adverse effects
- Media/NGOs

Eliminate Supplier from Consideration / Terminate Contract

- In a bidding process, eliminate from consideration any supplier who attempts to bribe or offer kickbacks, and increase scrutiny of the bidding process

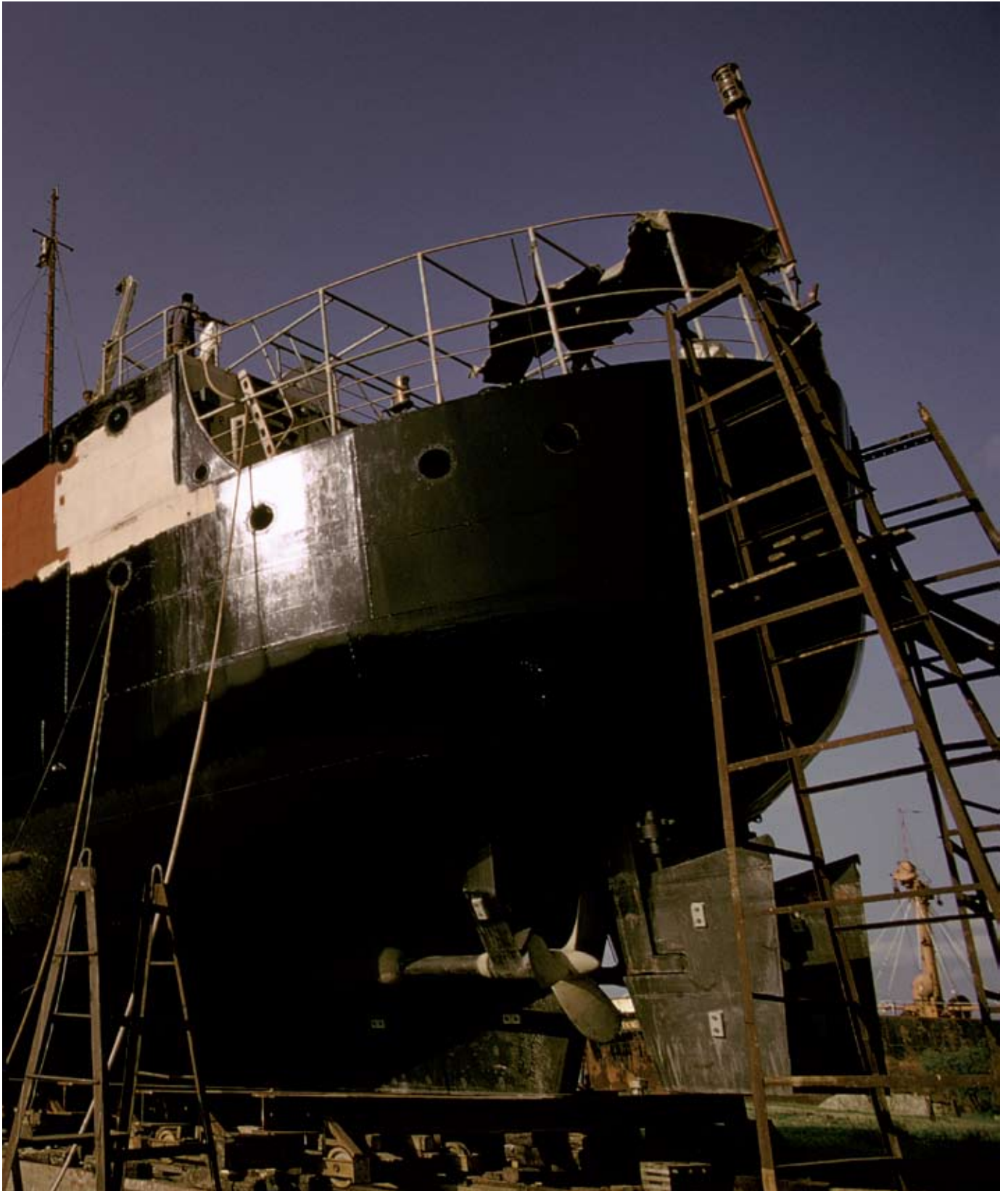
- If corruption is detected in an ongoing contract, calculate the costs associated with exercising the termination clause in the supplier agreement
 - › Consider sourcing and screening alternative suppliers to minimize interruptions to the supply chain in the event a supplier relationship is terminated

Guidance on Anti-Corruption Practice Related to Specific Supply Chain Corruption Scenarios

Below is a series of 11 supply chain corruption scenarios with guidance on how to prevent and respond to corruption in each case. This is not an exhaustive list and is not meant as definitive guidance, but it addresses some of the most common supply chain corruption scenarios. It is intended to provide suggestions and stimulate thought. To avoid redundancy, we have not repeated here all the general guidance on dealing with supply chain corruption discussed in the first part of this section, although there is some repetition for purposes of clarity. Accordingly, this section should be read in conjunction with previous provisions on dealing with supply chain corruption generally.

The scenarios are organized into three groupings, reflecting categories of supply chain activity:

- Corruption During the Vendor Selection Process
- Corruption During Contract Performance
- Corruption Involving Bribery of Government Officials or Other Third Parties



Corruption During the Vendor Selection Process

Scenario 1: Procurement manager demands kickback from supplier to secure contract or provide inside information on bidding process.

Description: During a solicitation for bids, a procurement manager approaches one of the potential suppliers and offers to secure the contract in exchange for a payment (“kickback”).

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

- Train and discuss anti-corruption policies with all personnel involved in purchasing and bidding processes before the start of the project (if possible)
 - › Identify and openly address incentives to accept kickbacks or pay bribes
 - › Train employees on the consequences of corruption (legal, financial, damage to reputation, etc.)
 - › Train employees on standard bidding procedures and rules of interaction with suppliers and customers
 - › Provide competitive remuneration for employees to reduce incentive to demand or accept kickbacks
- Establish and promote reporting mechanisms and encourage reporting of suspected bribery and other unethical business practices by the company, its suppliers and other business partners
- Audit purchasing and bidding processes
- Analyze contracts and contract process documents for gaps, inconsistencies, and unusual transactions
- Use anti-corruption technology to increase monitoring effectiveness
 - › Use continuous control monitoring to identify higher risk transactions such as large concentration of orders to the same supplier, or large variations in item contract price within the same industry or with contracts prepared by other procurement managers

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Supplier

- Refuse to make the corrupt payment on the grounds that such payment violates the business principles of the company and may violate applicable laws, and could lead to the dismissal and criminal prosecution
- Make a record of the relevant interaction
- Immediately report offers of kickbacks to supplier management or the officer responsible for matters concerning the code of conduct as well as to appropriate level of the customer’s organization
- Work through industry initiatives to communicate bribery demands and other corruption, and expose known corrupt organizations to national anti-corruption bodies

Customer

Investigate reported acts of corruption, perhaps in conjunction with supplier

- Discipline all employees involved in acts of corruption and if necessary, terminate employment
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation, and the possible sanctions for non-compliance

Scenario 2: Supplier offers kickback to procurement manager to secure contract or provide inside information on bidding process.

Description: A customer regularly receives bids for raw materials from multiple overseas suppliers. Prior to submitting its bid, one of the suppliers offers a kickback to one of the customer’s procurement managers, asking for information on bids already submitted by other suppliers.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

- Implement a general security policy for handling confidential information
- Restrict access to the most important information in each phase of the purchasing and bidding processes to avoid leaks
- Train and discuss anti-corruption policies with all personnel involved in purchasing and bid processes before the start of the project (if possible)
- Provide competitive remuneration for staff to reduce incentive to accept kickbacks
- Audit purchasing and bidding processes
 - › Analyze contracts and contract process documents for gaps, inconsistencies, and unusual transactions
- Use anti-corruption technology to increase monitoring effectiveness
 - › Use continuous control monitoring to identify higher risk transactions such as a large concentration of orders to the same supplier, or large variations in item contract price within the same industry or with contracts prepared by other procurement managers

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Customer

- Refuse the corrupt payment on the grounds that it violates the business principles of the company, may violate applicable laws and could lead to the dismissal and criminal prosecution
- Make a record of the relevant interaction
- Immediately report to customer management or the appropriate officer responsible for matters concerning the company's code of conduct
- Report the attempted payment to the appropriate level of the supplier's organization and make it clear that unless the supplier investigates and takes corrective action, the supplier will not be eligible for future contracts
- Follow up on the corrective actions taken by the supplier
- Work through industry initiatives to communicate bribery demands and other corruption, and expose known corrupt organizations to national anti-corruption bodies

Supplier

- Investigate corrupt payment offers, perhaps in conjunction with the customer
- Discipline all employees involved in acts

of corruption and if necessary, terminate employment

- Notify the customer of corrective action taken
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation, and the possible sanctions for non-compliance

Scenario 3: Supplier offers gifts or entertainment to procurement manager.

Description: During a solicitation for bids, one of the potential suppliers offers the procurement manager a gift.

Corruption prevention: How to Reduce the Probability of Corruption Occurring

- Establish a reputation for zero tolerance for bribes by publicizing the company's anti-corruption efforts
- Provide training to all personnel on anti-corruption laws and policies
- Before, during and after the bidding process, prohibit or strictly regulate gifts, entertainment, sponsorship and donations
 - › Establish limits appropriate to the local environment and implement reporting requirements for all gifts
 - › Communicate that there is zero tolerance for parties directly or indirectly involved in the purchasing or bid process
- Provide competitive remuneration for employees to reduce incentive to accept kickbacks
- Always operate as a team consisting of at least two employees, and do not meet with suppliers alone at key contract milestones
- Establish a code of conduct for suppliers, including expectations about corruption (See "Code of Conduct for Suppliers" in the Addenda to this guide)
 - › Include provisions about bribery, kickbacks, conflicts of interest, gifts and entertainment and accuracy of business records

- › Require suppliers to agree in writing to abide by the code of conduct or to an equivalent code of its own

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Customer

- Politely refuse the gift and explain that such gifts violate the customer's code of conduct and could create the appearance of corrupt influence
- Make a record of the relevant interaction
- Immediately report to, and seek guidance from, customer management or the appropriate officer responsible for matters involving the code of conduct (Note: small gifts, if not offered as part of the procurement process, may be acceptable under some companies' policies)
- Report the offer to the appropriate level of the supplier's organization, indicating that such gifts violate customer's policies, and its code of conduct for suppliers. Explain that if it can be established that the gift was an attempt to corrupt customer's employee, it may render supplier ineligible for future contracts
- Follow up on the corrective actions taken by the supplier

Supplier

- Investigate, perhaps in conjunction with customer, whether there was intent to corruptly influence
- Discipline all employees involved, and if necessary, terminate employment
- Notify customer of corrective action taken
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation, and the possible sanctions for non-compliance

Scenario 4: Procurement manager selects supplier because of personal/family relationship.

Description: Following a review of supplier bids, a procurement manager awards the contract to a supplier owned by his brother-in-law, ignoring other bidders.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

- Implement and enforce a company-wide code of conduct, including a zero tolerance anti-corruption policy
 - › The code of conduct should include specific rules about conflicts of interest, including requirements to disclose family and other personal relationships with potential business partners
- Provide training to all relevant personnel on anti-corruption laws and policies, including examples of conflicts of interest and how to deal with them
- Perform background checks on personnel involved in purchasing and bidding, including potential conflicts of interest, while respecting legal considerations and privacy rights
- Establish clear rules and procedures for choosing a supplier. General selection criteria should include objective requirements on costs, performance, transparency and integrity of the supplier, such as:
 - › Opening the tender to more than one supplier
 - › Guidelines for the assessment of supplier bids, including pricing, quality, logistics and financial standing of the supplier
 - › Rules for establishing "preferred supplier" relationships that lead to large quantities being given to one supplier
 - › Open bidding whenever possible
 - › Compulsory review of supplier bids by a team of customer employees
 - › Multiple levels of authorization, depending on the value of the contract
- Regularly rotate procurement manager assignments

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

- Investigate whether contract award was based on legitimate criteria or influenced by a family relationship
 - › Assign investigators to review all bids and interview the procurement manager
- Review previous contracts approved by the procurement manager and previous contracts awarded to the supplier
- Discipline all employees involved in acts of corruption, and if necessary, terminate employment
- If there has been a selection for personal/family reasons:
 - › Terminate the contract and re-open the tender(s)
 - › Preclude the supplier from future contracts
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on conflict of interest rules, including any changes that may have been made as a result of the investigation, and the possible sanctions for non-compliance

Scenario 5: Monopoly supplier demands that purchaser pay bribe or kickback to secure goods or services.

Description: A company is sourcing a critical component in country X, and it appears that there is only one supplier in country that can provide the component with sufficient quality and reliability. Other companies purchase the same component from this supplier. As a result, the demand may exceed the supplier's ability to produce the component. During a meeting with a company procurement manager, the supplier's representative accompanies the manager to a local shopping mall and suggests that purchasing expensive watches for the supplier's representative and his wife would guarantee the company an adequate supply of the component.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

- Train and discuss anti-corruption policies with personnel involved in purchasing and

bidding processes before the start of the project (if possible)

- Maximize opportunities for corruption detection by establishing additional control procedures to detect bribes:
 - › Implement formal policies limiting the value of gifts
 - › Record and periodically review gifts and expenses
 - › Implement automated segregation of duties in the bidding processes to make it more difficult for single procurement manager to secure a contract
 - › Always operate as a team consisting of at least two employees, and do not meet with suppliers alone at key contract milestones
 - › Avoid, or place strict controls on, petty cash funds that would enable staff to respond to solicitations
- Consider the presence of competing suppliers before entering a market or establishing a geographic supply chain:
 - › Perform due diligence on suppliers (See “Due Diligence Checklist” in the Addenda to this guide)
 - › Where there is only one acceptable supplier in a region, or suppliers have a reputation for corruption, explore alternative suppliers in other regions
- Work with other purchasers to identify and cultivate alternative suppliers, consistent with applicable competition laws

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Customer

- Say no politely to the first request and emphasize the company's business principles. If the request is repeated, explain that any solicitation violates the company's business principles and may violate applicable laws and could lead to the dismissal and criminal prosecution of the employee concerned.
- Record the interaction and report it to company management or the appropriate officer responsible for matters involving the code of conduct
- Go back to the supplier representative with at least one witness and reaffirm willingness to sign a contract and ignore the solicitation
 - › If the solicitation is reiterated, inform the representative that this business practice is not acceptable and could



expose all the parties (individual or company) to prosecution not only in the country where the deal occurs but also in other countries with competent jurisdiction

- Report the solicitation to the appropriate level of the supplier's organization
- Source the component from another supplier outside the region
- Report the solicitation to the appropriate government agency, perhaps through an industry trade association
- Work through industry initiatives to communicate bribery demands and other corruption and expose known corrupt organizations to national anti-corruption bodies
- Consider reporting solicitation to media and NGOs

Supplier

- Investigate, perhaps in conjunction with the customer
- Discipline all employees involved in acts of corruption and if necessary, terminate employment
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation and the possible sanctions for non-compliance
- Notify customer of corrective action taken

Corruption During Contract Performance

Scenario 6: Customer employee demands that supplier purchase from a company owned by or related to customer employee.

Description: A supplier has been prequalified to provide widgets to a customer. A contract manager working for the customer calls a contact at the supplier and demands that the supplier purchase a component part for the widgets from a subcontractor owned by the contract manager's husband.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

Customer and Supplier

- Implement and enforce a company-wide code of conduct, including a zero tolerance anti-corruption policy
 - › The code of conduct should include specific rules about conflicts of interest, including requirements to disclose family and other personal relationships with potential business partners
- Perform background checks on personnel involved in purchasing and bidding, including potential conflicts of interest, while respecting legal considerations and privacy rights
- Train and discuss anti-corruption policies with personnel involved in purchasing and bidding processes before the start of the project (if possible)
- Establish and promote reporting mechanisms and encourage reporting of suspected bribery and other unethical business practices by the company, its suppliers and other business partners

Customer

- Establish clear rules and procedures for specification and substitution of component parts

Supplier

- Establish clear rules and procedures for choosing subcontractors. General selection criteria should include objective requirements on costs, performance, transparency and integrity of the supplier, such as:

- › Opening of the tender to more than one supplier
- › Open bidding whenever possible
- › Guidelines for the assessment of supplier bids, including pricing, quality, logistics and financial standing of the supplier
- › Compulsory review of supplier bids by a team of customer employees
- › Multiple levels of authorization, depending on the value of the contract

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Supplier

- Refuse the request, explaining that the supplier is required to base its subcontracting decisions on objective criteria of cost and quality
- Make a record of the relevant interaction
- Immediately report to supplier management or the appropriate officer responsible for matters involving the code of conduct
- Report the demand to the appropriate level of the customer's organization, explaining that the supplier must choose subcontractors based on objective criteria

Customer

- Investigate, perhaps in conjunction with supplier
- Discipline all employees involved in the act of corruption, and if necessary, terminate employment
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on conflict of interest rules, including changes that may have been made as a result of the investigation and the possible sanctions for non-compliance
- Notify supplier of corrective action taken

Scenario 7: Supplier offers bribe to contract manager to overlook inferior goods or services.

Description: A supplier makes a delivery of 10,000 widgets. Upon inspection of the goods, a customer contract manager notes that the fasteners on the widgets are inferior to those specified in the contract, and could cause the widgets to fail in use, posing a potential safety hazard to users. The contract manager phones his contact at the supplier and explains the discrepancy. The supplier employee offers the contract manager money to ignore the issue and pass the goods on, indicating in his paperwork that the goods are in conformity with the contract.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

- Perform due diligence on customers and intermediaries involved in bids (See "Due Diligence Checklist" in the Addenda to this guide):
 - › Identify "red flags" such as a reputation for corruption, a family relationship with government officials, no registered office, refusal to reveal owners
 - › Gather information from relevant embassies, chambers of commerce and trade associations, national anti-corruption bodies, third-party information providers and other companies
- Establish clear rules and procedures for acceptance of goods and incorporate the following into the contract:
 - › Goods must strictly conform with contract specifications and deviations may be accepted only through a written confirmation from customer employees
 - › Acceptance of goods requires sign off from more than one customer employee
 - › Contract managers must maintain professional relationship with supplier employees, avoiding excessive familiarity
- Train relevant employees on rules and procedures for acceptance of goods, emphasizing the risk to the company of accepting goods that do not meet the specified standards
- Ensure that suppliers are aware of the customer's rules for acceptance of goods

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Customer

- Refuse the corrupt payment on the grounds that it violates the business principles of the company, may violate applicable laws and could lead to the dismissal and criminal prosecution of the employee concerned
- Make a record of the relevant interaction
- Refuse the goods, explaining that they do not meet the standards in the contract
- Immediately report the offer of a bribe to customer management or the appropriate officer responsible for matters involving the code of conduct
- Report the offer to the appropriate level of the supplier's organization, indicating that the goods have been refused and that the bribe offer may lead to termination of the contract
- Follow up on corrective actions taken by the supplier
- Investigate the entire engagement as well as past deals with the same supplier and determine whether the customer has previously accepted nonconforming goods from this supplier
 - › Review relevant documents and interview contract managers and customers who have been in charge of previous deliveries from this supplier
 - › Include legal, operational and risk management specialists
- Determine whether the nonconformity of goods was inadvertent or deliberate; if deliberate, terminate contract
- Develop a strategy to promptly assess possible legal, operational and reputational risks and remedies
 - › Conduct an independent audit to assess any actual risks to product or consumer health and safety that may result
 - › Ensure that product recall and other contingency plans are up-to-date

Supplier

- Accept return of the goods, and remanufacture the goods in conformance with the contract
- Investigate, perhaps in conjunction with customer, both the attempted bribe and the nonconformity of the goods
- Discipline all employees involved in the bribe and if necessary, terminate employment

- Notify customer of corrective action taken
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation and the possible sanctions for non-compliance

Scenario 8: Supplier submits false invoice for work done or employee work hours.

Description: A company outsources certain production to a supplier. The unit price the customer pays is based on a combination of production cost and a predetermined margin for the supplier. Because production cost is dependent on the hours worked by the relevant supplier operators, the contract requires that the supplier inform the customer of actual work hours. The customer receives an invoice from the supplier that contains inconsistencies in reported work hours. A thorough examination of the invoice reveals that the supplier may have inflated work hours.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

Customer

- Establish a Code of Conduct for suppliers, including expectations about corruption (See “Code of Conduct for Suppliers” in the Addenda to this guide)
 - › Include provisions about bribery, kickbacks, conflicts of interest, gifts and entertainment and accuracy of business records
- Ensure that supplier personnel receive training on anti-corruption laws and policies (See “Anti-Corruption Education and Communication for Suppliers” in the Addenda to this guide)
- Include anti-corruption provisions in contracts with suppliers (See “Anti-Corruption Contract Language” in the Addenda to this guide)
- Include provisions in relevant supplier contracts reserving the right to conduct on-site inspections and demand submission of additional documents if necessary

- Oblige the supplier to submit proof of work such as copies of pay slip, ledgers, etc.
- Conduct regular on-site inspections. To save time and cost for both parties, this can be done in conjunction with quality audit visits
- On major contracts, encourage the supplier to use an Enterprise Resource Planning (ERP) system to make the accounting system transparent. An internationally standardized ERP will also help the supplier measure and improve their management cost
- Alternatively, eliminate time measurement as a contractual variable and base suppliers' labor cost not on the actual hours worked but on the average number of hours required and budgeted for the production
- If the supplier intentionally overbilled and the incident was isolated, the customer should warn the supplier that any future incident will result in contract termination
- If the supplier intentionally overbilled and the practice is systemic, the customer should terminate contract and bar supplier from future contracts
- Work through industry initiatives to communicate incidents of corruption, and expose known corrupt organizations to national anti-corruption bodies

Supplier

Supplier

- Investigate, perhaps in conjunction with the customer
- Discipline all employees involved in acts of corruption and if necessary, terminate employment
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation, and the possible sanctions for non-compliance
- Notify supplier of corrective action taken
- Implement and enforce a company-wide code of conduct, including a zero tolerance anti-corruption policy
 - › The code of conduct should address the corruption issue as a whole and specific examples, including the importance of accurate invoicing
- Set up clear company directives and related sanctions for non-compliance
- Regularly audit invoices and work reports submitted to customers
- Provide training to all personnel on anti-corruption laws and policies

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Customer

- Investigate, perhaps in conjunction with supplier management, whether inaccuracies in the invoice were inadvertent or intentional, and if intentional, whether an isolated incident or a systemic practice:
 - › Review pay slips, ledgers, etc.
 - › Interview supplier managers or supervisors to verify work hours. (Note that operator work hours can be calculated differently from country to country. It is also possible that extra work hours have resulted from necessary arrangements made after a shutdown of manufacturing equipment due to nation-wide holidays.)
 - › Review all prior invoices from supplier for similar inaccuracies



Corruption Involving Bribery of Government Officials or Other Third Parties

Scenario 9: Customs official demands bribe from supplier to speed goods through customs or to pass nonconforming goods through customs.

Description: A supplier produces widgets for a customer. The contract specifies certain deadlines by which the widgets must be delivered, and imposes substantial penalties for late delivery. The supplier orders certain component parts for the widgets from outside the country. These parts arrive in port, but are held up in customs, where a local customs official demands a payment from the supplier before he will release the goods. The supplier will incur significant penalties under the contract with its customer if the parts are not received immediately for the production of widgets.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

Customer

- Implement a process to evaluate corruption risk prior to entering into a customer-supplier relationship (See *Assessing Risk – Questions to Ask* in Section 2 of this guide):
 - › Assess the corruption risks of the particular purchase or sale, including cultural, industry and geographical risks and points of contact with government corruption
- Perform due diligence on suppliers involved in bids (See “Due Diligence Checklist” in the Addenda to this guide)
- Establish a code of conduct for suppliers, including expectations about corruption (See “Code of Conduct for Suppliers” in the Addenda to this guide)
- Include provisions about bribery, kickbacks, conflicts of interest, gifts and entertainment and accuracy of business records
 - › Include anti-corruption provisions in contracts with suppliers (See “Anti-Corruption Contract Language” in the Addenda to this guide)

- The contract should exclude liability for delays resulting from bribery demands from relevant government officials, and require immediate reporting of such demands to the customer

Supplier

- Implement and enforce a company-wide code of conduct, including a zero tolerance anti-corruption policy
 - › The code of conduct should address the corruption issue as a whole as well as specific examples, including bribery of customs officials
- Set up clear company anti-corruption directives and sanctions for non-compliance
- Provide training to all personnel on anti-corruption laws and policies
- Stay in contact with customer to react quickly to any corruption demand and work together to report to responsible authorities and find solutions

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs.

Supplier

- Refuse to pay the bribe, explaining that it violates the business principles of the company
- Make a record of the relevant interaction
- Immediately report to supplier management or the appropriate officer responsible for matters involving the code of conduct
- Return to the customs official with at least one witness and explain that the supplier would like the goods released if they are in compliance with customs regulations, otherwise the official should indicate specifically what is not in compliance and the supplier will correct the problem
 - › If the bribery demand is reiterated, inform the customs official that this practice is not acceptable
- Notify the customer that delivery may be delayed as a result of the bribery demand from the customs official, and work with the customer to find a solution
- Try to determine whether the demand for the bribe is endemic to the customs office, or merely the conduct of a rogue official
 - › If it is a rogue official, report the incident to the official’s superiors
 - › If it is systemic corruption, report the incident to a national anti-corruption body

- Consider external reporting, perhaps in conjunction with the customer, to:
 - › www.bribeline.com
 - › The relevant embassy or consulate to seek guidance and support
 - › Industry and trade associations to discuss what strategies others used to combat such corruption, and to discuss collective action
 - › Media and NGOs to leverage public scrutiny of corruption-related activities

Scenario 10: Supplier bribes government official to pass health and safety inspections.

Description: A manufacturer of food products receives ingredients from a supplier. The supplier is subject to inspection by the local health department. During the inspection the local health official informs the supplier that some of its perishable items are beyond their expiration date and may not be used as ingredients in food products for public consumption. A supplier employee pays the inspector a bribe to ignore the problem, and the supplier ships the ingredients to the customer. A supplier employee who witnessed the bribe calls the customer’s reporting hotline and informs the customer of the bribe and the shipment of the ingredients.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

Customer

- Implement a process to evaluate corruption risk prior to entering into a customer-supplier relationship (See “Assessing Risk – Questions to Ask” in Section 2 of this guide)
 - › Assess the corruption risks of the particular purchase or sale, including cultural, industry and geography risks, and touch points with government corruption
- Perform due diligence on potential suppliers (See “Due Diligence Checklist” in the Addenda to this guide)
- Establish a code of conduct for suppliers, including expectations about corruption (See “Code of Conduct for Suppliers” in the Addenda to this guide)
 - › Ensure that supplier personnel receive

training on anti-corruption laws and policies, the consequences of bribery and corruption for the supplier and employees, how to respond to corruption demands and how to report such demands (See “Anti-Corruption Education and Communication for Suppliers” in the Addenda to this guide)

- Monitor existing suppliers to ensure they continue to meet ethical and performance standards
- Establish and promote reporting mechanisms and encourage reporting of suspected bribery and other unethical business practices by the company, its suppliers and other business partners

Supplier

- Implement and enforce a company-wide code of conduct, including a zero tolerance anti-corruption policy
 - › The code of conduct should address the corruption issue as a whole as well as specific examples, including bribery of government officials
- Set up clear company directives and related sanctions for non-compliance
- Provide training to all personnel on anti-corruption laws and policies

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Customer

- Stop use of the ingredients and promptly assess all legal, operational, and reputational risks and remedies
 - › Conduct an independent audit to assess any actual risks to product or consumer health and safety
 - › Ensure that the product recall and other contingency plans are up-to-date
- Notify the supplier that the customer is not accepting the ingredients because of the bribe and that the supplier must cooperate in a complete investigation of the matter, and if necessary, assist in notifying the authorities
- Investigate, in conjunction with supplier management, whether the bribe was an isolated incident or indicative of a systemic practice
 - › Carefully review records of all prior shipments from the supplier
 - › Interview the supplier personnel and review supplier records

- › If an isolated incident, inform the supplier that any additional incidents will result in termination of the contract
- › If a systematic practice, terminate the contract and bar the supplier from further contracts
- Inform the health inspector's supervisor of the incident
- Report the incident to a national anti-corruption body. Consider also that there may be an obligation to disclose to various other authorities, including the customer's home country's anti-corruption authority and health/safety authorities of countries where non-compliant products may have been distributed or sold
- Report the government official's acceptance of the bribe through www.bribe.com.

Supplier

- Discipline all employees involved in the bribe and if necessary, terminate employment
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation and the possible sanctions for non-compliance
- Notify the customer of corrective action taken

Scenario 11: Supplier offers bribe to auditor to pass audit for quality, labor standards, environment, etc.

Description: A company has established a code of conduct for its suppliers that includes rules about the use of child labour, working conditions, environmental waste and corruption. As part of its supplier management programme, the company sends third-party auditors to supplier facilities to review adherence to the code. During the audit, a supplier employee offers the lead auditor money to ignore certain working conditions and treatment of environmental waste.

Corruption Prevention: How to Reduce the Probability of Corruption Occurring

Customer

- Perform due diligence on suppliers (See "Due Diligence Checklist" in the Addenda to this guide)
- Monitor existing suppliers to ensure they continue to meet ethical and performance standards
- Establish and promote reporting mechanisms and encourage reporting of suspected bribery and other unethical business practices by the company, its suppliers and other business partners
- Include anti-corruption clauses in agreements with auditors
- Ensure that auditors have been trained on how to identify, reject and report bribes during audits, as well as the potential harm to the company and its customers that can result, including:
 - › Harm to product quality, environment, occupational safety, reputation, etc.
 - › Potential sanctions for accepting bribes, including termination of employment and possible criminal charges
- In particularly high risk situations, request the presence of a lawyer or other company personnel during the audit

Supplier

- Implement and enforce a company-wide code of conduct, including a zero tolerance anti-corruption policy
 - › The code of conduct should address the corruption issue as a whole as well as specific examples, including conduct during audits
- Set up clear company anti-corruption directives and related sanctions for non-compliance
- Establish and promote reporting mechanisms that encourage reporting of suspected bribery and other unethical business practices by the company, its suppliers and other business partners
- Provide training to all relevant personnel on anti-corruption laws and policies and the consequences of bribery and corruption for the company and the involved employees

Corruption Response: How to React if a Corrupt Demand is Made or Corruption Occurs

Auditor

- Refuse the bribe and explain that the offer will be reported to customer management

- Document the bribery demand and promptly report to appropriate customer personnel

Customer

- Report the offer to the appropriate level of the supplier's organization, indicating that the bribery attempt may cause the supplier to fail the audit and may result in termination of the contract and ineligibility for future contracts
- Investigate, perhaps in conjunction with supplier management, whether the bribe was an isolated incident or indicative of a systemic practice
 - › If systematic, terminate the contract and ban the supplier from future contracts
 - › If isolated, warn the supplier that any future incident will result in contract termination
- Demand supplemental audits by customer-selected auditors at the supplier's expense to evaluate the integrity of prior audit results
- Develop a strategy to promptly assess possible legal, operational and damage to the company's reputation, and explore remedies
 - › Conduct an independent audit to assess

any actual risks to product or consumer health and safety that may result

- › Ensure that product recall and other contingency plans are up-to-date
- Work through industry initiatives to communicate bribery demands and other corruption, and expose known corrupt organizations to national anti-corruption bodies

Supplier:

- Discipline all employees involved in the bribe and if necessary, terminate employment
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)
- Retrain relevant employees on policies against corruption, including changes that may have been made as a result of the investigation and the possible sanctions for non-compliance
- Notify the customer of corrective action taken



Addenda: Tools and Resources

Code of Conduct for Suppliers

This model supplier code is intended for customers to consider as a condition for its suppliers. It is not meant to serve as an internal code for suppliers, however, it could be modified for that purpose. This code addresses corruption, broadly defined, but does not address human rights, labour, environment or other issues customers may wish to address with suppliers. Accordingly, customers may want to consider expanding this code or integrating it with existing codes that address a broader range of issues. For information on developing a code of conduct for suppliers that addresses the ten principles of the Global Compact. (See “Supply Chain Sustainability: A Practical Guide to Continuous Improvement,” a joint publication of the UNGC and Business for Social Responsibility, available on the UNGC website).

Every supplier contract should provide for compliance with the code or its equivalent. Here is some possible contract language:

[Supplier] agrees to furnish each of its agents, employees, and subcontractors performing services under this Agreement with a copy of [Customer’s] then-current Code of Conduct for Suppliers, a copy of which will be provided by [Customer] to [Supplier] upon [Supplier’s] request, and also is set forth on [Customer’s] website at _____. [Supplier] will ensure compliance with the Code of Conduct for Suppliers by each of [Supplier’s] agents, employees, and subcontractors.

Suppliers who provide goods and services to multiple large customers may object to having to sign on to several supplier codes of conduct that may be inconsistent or, at a minimum, disruptive and redundant. Supplier requests to modify, or be excused from, contractual terms and codes of conduct are among the most difficult decisions a customer will face. There is great value to standard contract language for all suppliers, and it is generally inadvisable to negotiate over issues like corruption with each supplier. In addition, objection to anti-corruption contractual provisions may be a red flag that the supplier is a high risk for corruption. Nonetheless, many suppliers will have their own codes,

and it may be possible to allow their language to stand in for the customer’s if the customer can otherwise be sufficiently confident in the supplier. That a supplier is a signatory to the UN Global Compact is one indication that it takes fighting corruption seriously. In these cases, a customer may wish to establish a process to review and possibly agree to similar language in the supplier’s code.

Many supplier contracts will cover some of the topics in the supplier code in greater detail. For example, protection of information typically will be covered in great detail in contracts in which a supplier will be given regular access to a customer’s confidential information. Similarly, we recommend that where there is a substantial risk of government-related bribery, supplier contracts contain more detailed anti-corruption contractual provisions (See “Anti-Corruption Contract Language” in Section 4 of this guide). Accordingly, the contract should specify that the language in the supplier code does not supersede more specific provisions in the contract.

I. INTRODUCTION

[Customer] sets high standards for conducting business ethically and in accordance with the law. We expect the same commitment from our suppliers. This Code of Conduct for Suppliers presents basic principles for supplier conduct in dealings with [Customer]. We will consider these principles in supplier selection, and will monitor suppliers for compliance. Our suppliers also should apply these or similar principles to the suppliers they work with in providing goods and services to [Customer].

II. EXPECTATIONS AND OBLIGATIONS

Conflicts of Interest

[Customers may wish to be more precise in their definition of family, or in prohibiting certain types of investments, than we have been in this model language.]

Suppliers should avoid any interaction with any [Customer] employee that may conflict, or appear to conflict, with that employee

acting in the best interests of [Customer]. For example, suppliers should not employ or otherwise make payments to any [Customer] employee during the course of any transaction between the supplier and [Customer] (other than pursuant to the [Customer] contract). If a supplier employee is a family relation to any [Customer] employee, or if a supplier has any other relationship with a [Customer] employee that might represent a conflict of interest, the supplier should disclose this fact to [Customer] or ensure that the [Customer] employee does so.

Gifts, Meals, Entertainment

[Customers may wish to prohibit gifts, meals, and entertainment from suppliers altogether, but this may be difficult in environments where there is a strong culture of gift giving.]

Suppliers should not provide any gift, meal or entertainment to a [Customer] employee in any situation in which it might influence, or appear to influence, any employee decision in relation to the supplier. In other situations, suppliers may provide modest gifts, meals or entertainment to [Customer] employees if they are:

- not cash or cash equivalents
- consistent with customary business practice and supplier company policy
- not frequent or expensive
- do not violate any law

Bribery and Kickbacks

Suppliers should not engage in any form of commercial bribery or kickback scheme or otherwise offer any incentive to any [Customer] employee or [Customer] employee's family or friends in order to obtain or retain [Customer] business.

Suppliers acting on behalf of [Customer] must comply with [anti-bribery laws applicable to Customer], as well as all local laws dealing with bribery of government officials. In connection with any transaction related to the manufacture, distribution or delivery of goods or services to [Customer], or that otherwise involves [Customer], the supplier must not transfer anything of value, directly or indirectly, to any government official, employee of a government-controlled company, or political party, in order to obtain any improper benefit or advantage (e.g., in connection with regulatory permits, taxation, customs, or judicial and legislative proceedings). Suppliers must keep a current and accurate written

accounting of all payments (including any gifts, meals, entertainment or anything else of value) made on behalf of [Customer], or out of funds provided by [Customer]. Suppliers must furnish a copy of this accounting to [Customer] upon request.

Accounting and Business Records

Accurate, reliable information and records are critical to meeting [Customer's] financial, legal, and management obligations and they are necessary to fairly reflect [Customer's] transactions. Both the supplier and [Customer] must keep accurate records of all matters related to the supplier's business with [Customer.] Suppliers are expected to promptly, completely, and accurately prepare applicable reports, vouchers, time records, reimbursement requests, and bills. Suppliers should never delay sending an invoice or otherwise enable the shifting of a [Customer] expense to a different accounting period or cost category.

Protecting Information

Suppliers should protect the confidential information of [Customer], and act to prevent its misuse, theft, fraud, or improper disclosure. Suppliers must take all due care in handling, discussing, or transmitting sensitive or confidential information that could affect [Customer], its employees, its customers, the business community, or the general public. Disclosure of financial information could influence the actions of shareholders and potential investors and possibly violate securities laws. Suppliers' responsibility to hold [Customer's] confidential information as confidential is a continuing obligation even after their assignment or contract with [Customer]. If a supplier believes it has been given access to [Customer's] confidential information in error, the supplier should immediately notify its contact at [Customer] and refrain from further distribution. To protect others' confidential information, a supplier similarly should not disclose to anyone at [Customer] information related to any other company if the supplier is under a contractual or legal obligation not to share the information.

Reporting Misconduct

Suppliers who believe that a [Customer] employee, or anyone acting on behalf of [Customer], has engaged in illegal or otherwise improper conduct, should report the matter to [Customer]. Suppliers similarly should

report any potential violation of this Code. Reports may be made through:

- [Hotline number or web address]
- [Email and mailing address]

A supplier's relationship with [Customer] will not be affected by an honest report of potential misconduct.

Anti-Corruption Contract Language

The following contract provisions are intended as models, and should be modified consistent with the nature of the supplier agreement and the relationship of the parties. We provide three model provisions.

1.) Code of Conduct for Suppliers: Some version of this provision should appear in every supplier agreement with customers that have a supplier code, unless other arrangements are made with the supplier (See "Code of Conduct for Suppliers" in this guide).

2) Anti-Corruption: Some version of this provision should appear in every supplier agreement with customers that do not have a separate supplier code containing anti-corruption provisions. For customers with such a supplier code, this provision may be simplified or even eliminated for contracts with low corruption risk (See "Assessing Risk – Questions to Ask" in Section 2 of this guide for guidance in assessing corruption risk). Some version of this provision should appear in all supplier agreements with high risks of corruption, even if a separate supplier code exists, particularly if the supplier is being engaged to deal with the government on the customer's behalf.

3.) Delays Resulting from Demands for Illegal Payments: This provision may be eliminated if the supplier agreement does not contain strict time requirements, but we recommend using it in all contracts where the supplier will be responsible for dealing with customs, licensing or other key government contacts.

Code of Conduct for Suppliers

[Supplier] agrees to furnish each of its agents, employees, and subcontractors performing services under this Agreement with a copy of [Customer's] then-current Code of Conduct for

Suppliers, a copy of which will be provided by [Customer] to [Supplier] upon [Supplier's] request, and also is set forth on [Customer's] website at _____. [Supplier] will ensure compliance with the Code of Conduct for Suppliers by each of [Supplier's] agents, employees, and subcontractors.

The terms of the Code of Conduct for suppliers shall not be deemed to supersede any more specific provision on the same subject in this Agreement.

Anti-Corruption

[Supplier] and each of its agents, employees, and subcontractors will comply with all applicable anti-corruption laws, including [anti-corruption laws applicable to Customer], as well as the laws of [the countr(ies) in which goods are produced and delivered and services are to be performed by Supplier]. As such, [Supplier] agrees that it will not, in connection with transactions contemplated in this Agreement, or in connection with any other business transactions involving [Customer], transfer anything of value, directly or indirectly, to any government official, employee of a government-controlled company, or political party in order to obtain any improper benefit or advantage. [Supplier] further warrants that no money paid to [Supplier] as compensation or otherwise has been or will be used to pay any bribe or kickback in violation of applicable law.

All agents, employees or subcontractors of [Supplier] who will be involved in representing [Customer] must be identified in writing to [Customer] and approved before they perform any actions on behalf of [Customer]. [Supplier] warrants that no payments will be made by [Supplier], its agents, employees, or subcontractors on behalf of [Customer] without obtaining prior approval from [Customer]. A current and accurate written accounting must be kept of all payments made by [Supplier], its agents, employees, or subcontractors on behalf of [Customer], or out of funds provided by [Customer]. A copy of this accounting must be provided to [Customer] upon request. At no time shall any such payment be made by [Supplier], its agents, employees, or subcontractors to any undisclosed third party.

[Supplier] warrants that its owners, employees, agents and subcontractors are not agents, employees or otherwise affiliated with any government or instrumentality of any

government, and that [Supplier] will inform [Customer] of any change in such status.

[Supplier] agrees to answer promptly, fully, and truthfully any questions from [Customer] related to [Supplier]’s anti-corruption programme and other controls related to corruption, and to cooperate fully in any [Customer] investigation of a breach of this anti-corruption provision. [Customer] reserves the right to audit [Supplier]’s compliance with the terms of this anti-corruption provision.

Delays Resulting from Demands for Illegal Payments

If [Supplier] believes that production or delivery of goods or services under this Agreement has been or may be delayed because of demands for illegal payments from government officials or other third parties (related to, for example, clearance of goods through customs or safe passage of delivery vehicles), [Supplier] shall notify [Customer] immediately of any such demands. [Supplier], its agents, employees, and subcontractors will make no such payments unless personal safety is at risk. [Supplier] will take all reasonable steps to complete production and delivery as quickly as possible without making illegal payments. [Supplier] will not be deemed to be in breach of timeliness requirements or be subject to penalties for delay under this Agreement for the length of any reasonable delay caused by [Supplier]’s refusal to make illegal payments.

Due Diligence Protocol

Conducting due diligence is one of the most important steps a customer can take to ensure that it forms business relationships only with reputable and qualified suppliers. Due diligence can be costly and time consuming, but the benefits in reduced corruption risk, limitations on liability, and improved product and service quality generally justify the effort.

Nonetheless, from a business perspective, the costs must be weighed against the benefits, and the same level of due diligence is not necessary in all supplier evaluations. Some inquiries may not be applicable to a particular type of supplier. More importantly, the nature and context of the proposed business relationship will determine the appropriate level of diligence.

The risk assessment described earlier in this guide (See “Assessing Risk — Questions to Ask” in Section 2) is a tool to determine

which engagements present potentially higher corruption risk and therefore need more levels of review, and which are low risk and may not require a detailed inquiry. Regardless of the level of review, it is critical that companies use a rational, risk-based and well-documented approach to due diligence.

One common and sensible approach is a methodology based on risk levels. Using pre-set criteria such as the size of the supplier contract, the geographic corruption risk, and the importance of the contract to the customer’s business, customers can set the level of review required for each supplier engagement. For higher risk engagements, complete review like that described in this protocol will be necessary, including sign off by senior company personnel. In lower risk situations, a less costly and lengthy process will suffice, involving perhaps only a basic reputational check at the local level. Intermediate risk will call for intermediate review. (See the sample due diligence process flow charts at www.business-anti-corruption.com/due-diligence-tools/ for some useful examples.)

The following protocol provides guidance and a due diligence form describing a high level of detailed due diligence review. Companies should modify the protocol for particular cases or tiers of review as necessary to ensure the most appropriate level of review. We have marked with an asterisk (*) those questions in the form that we believe to be most important.

BACKGROUND ASSESSMENT

The initial step in assessing the qualifications and reputation of any prospective supplier is a background assessment. Most background information can be obtained directly from the prospective supplier, commonly through a written or on-line questionnaire. Alternatively, a customer employee may gather this information by conducting interviews with supplier representatives. Either way, the following information about the supplier needs to be collected:

- Company contact information
- Company history and description of business
- Commercial and financial references
- Organizational structure (e.g., corporation, partnership)
- Beneficial ownership
- Qualification and experience of owners and

- principals (Curriculum Vitae)
- Relationships with government entities and officials
- Disclosures of prior civil or criminal investigations, litigation and convictions
- Description of the supplier's anti-corruption programme

A sample due diligence form is attached.

INTERNAL REVIEW

It is very important to review the information provided by the prospective supplier. The purpose of this review is to evaluate the information and to uncover any potentially adverse information that the supplier may have concealed during the background assessment.

Review the Completed Due Diligence Form/Questionnaire. Were any red flags identified by the answers provided by the supplier? If so, investigate them thoroughly before entering into any relationship. Red flags include any indicators that the supplier has in the past, currently is, or will in the future conduct its business in a disreputable, unethical or illegal manner. Red flags also may provide an indication that the prospective supplier lacks the requisite resources or expertise.

Talk to the Commercial References. Interview business references about the supplier's capabilities, commitment to quality, business ethics, government relations, and compliance with applicable laws and regulations.

Talk to the Financial References. If available, review audited financial records from recent years. Inquire about the length of the relationship the supplier has had with the financial institution, and whether the supplier is considered a sound customer.

Conduct Media, Web and Database

Searches. Many professional due diligence firms provide services that search global sources including web and print publications, criminal records, sanctioned party and politically exposed persons lists, among others. These searches are often provided on a tiered basis, depending on the depth of review requested and the particular risk profile attributed to the third party by the client.

Even if an outside firm is engaged, conduct an internal review using web search engines,

Dun & Bradstreet, sanctioned party lists, and Lexis/Nexis or similar platforms. All such searches, whether conducted internally or by an external firm, should be conducted not only on the supplier, but also on the names of its verified owners, directors, officers and partners. Also obtain references from the in-country embassy or local chamber of commerce.

Other Inquiries. Consider the following in the execution of the internal review:

- The business justification for hiring the supplier
- The availability of other suppliers in the relevant market
- The proposed financial terms, including whether such terms are reasonable and justified given the scarcity and complexity of the goods and services provided, market conditions, etc.
- Whether the supplier was referred to the company, and if so by whom
- Any other indications that the supplier will act unethically or illegally

Any issues raised during due diligence must be addressed and documented to the customer's satisfaction prior to entering the relationship. The amount of time and effort required for due diligence will depend, in part, on the number and complexity of issues raised during the assessment.

Supplier Due Diligence Form

Instructions: This form should be used to establish the background, qualification and reputation of the prospective Supplier. If the space provided for each question is insufficient, you may create additional space electronically or attach additional pages. Where questions are not applicable, please do not leave them blank, instead mark them "n/a" or "not applicable." Please refer all questions related to due diligence to _____.

A. Supplier Information

*A1.) Name:

Address:

Telephone:

Fax:

Email:

Business Website:

A2.) Other names, if any (d/b/a, previous names, etc...):
.....

A3.) Jurisdiction of incorporation and year established:
.....

*A4.) Type of business organization (sole proprietorship, partnership, corporation, limited liability company, etc...):
.....

A5.) Number of employees:

*A6.) Primary Contact Information:

Contact Person:

Contact's Title:

Contact's Phone:

Contact's E-mail:

A7.) List the following information about the Supplier's Officers, Partners, Directors and Owners:

Name	Position (e.g., Owner, Director)	Ownership Percentage (if any)	Title	Nationality

A8.) Facility locations:

*A9.) In what geographic territories does the Supplier do business (provide goods or services)?

A10.) For all wholly owned subsidiaries and other affiliated entities (greater than 25 per cent supplier ownership or more than two supplier key personnel or related persons within entity management or Board), please supply information per A1 – A9, above.

A11.) Names of business associations and interest groups to which subsidiary belongs, and approximate length of membership.

B. Educational and Professional Qualifications

B1.) Please provide a Curriculum Vita for each Officer, Partner, Director and Owner listed in Part A, Question 7 above. Please attach these additional pages to this completed form.

B2.) Professional Qualifications, Licenses or Certifications

Issuing Authority	Address / Location	Phone Number	Type of License or Certificate	Expiration Date

*B3.) Listing of commercial references

Company Name	Contact Information	Description of Services Performed	Dates

B4.) Banking/Credit References

Name of Institution	Contact Information	Length of Relationship

C. Relationships with Government Entities and Officials

*C1.) Do any Owners, Partners, Directors, Officers or Employees of the Supplier currently hold (or did they previously hold) any position of employment with any government or governmental entity (including agencies and sub-agencies, as well as wholly or partially state-owned enterprises) or any Public International Organization (e.g., World Bank, United Nations)? Yes No

If yes, please provide the following details below:

Name	Name of Entity / Department	Position(s)	Dates

C2.) Are any Owners, Partners, Directors, Officers or Employees of the Supplier currently (or have they ever been) officials or candidates of a political party, or been elected into any political office?

Yes No

If yes, please provide the following details below:

Name of Organization	Position(s) /Candidate For	Dates

C3.) Is any immediate family member (spouse, child, parent, sibling, or spouse's parent or sibling) of any of the Owners, Partners, Directors, Officers or Employees of the Supplier:

a). Currently employed by, or act on behalf of any government or government entity?

Yes No

b). Currently employed by, or act on behalf of the any Public International Organization (e.g., World Bank, United Nations)? Yes No

c). Currently an official or candidate of a political party or elected into any political office? Yes No

If you answered "Yes" to any of these questions, then please identify all such individuals, their positions, and the corresponding governments, agencies, organizations and/or parties below.

Name of Relative	Position & Entity	Name of Related Wwner, Partner, Director, Officer or Employee	Relationship to Family Member (e.g., Husband, Wife, Child)	Dates

D. Background Information

D1.) Has the Supplier or any Owner, Partner, Director, Officer or Employee of the Supplier ever been accused, subject to investigation, or convicted of bribery or fraud? Yes No

If yes, please explain:

.....

.....

D2.) Has the Supplier or any Owner, Partner, Director, Officer or Employee of the Supplier ever paid money or given anything of value to a government official in order to retain business or obtain an improper advantage? Yes No

If yes, please describe the circumstances of the payment:

.....

.....

D3.) Has the Supplier or any Owner, Partner, Director, Officer or Employee of the Supplier currently or ever been the subject of any criminal investigation or disciplinary procedure in relation to the Company's professional activities? Yes No

If yes, please explain:

.....

.....

D4.) Has the Supplier or any Owner, Partner, Director, Officer or Employee of the Supplier ever been disciplined by any professional organization or body in relation to the Company's professional activities or any other conduct? Yes No

If yes, please explain:

.....
.....

D5.) Has the Supplier ever been denied membership in any professional association or body, or had its membership revoked? Yes No

If yes, please explain:

.....
.....

D6.) Does the Supplier have an employee Code of Ethics/Conduct outlining the expectations of behavior for all employees? Yes No

If so, please attach a copy of the document to this form or alternatively provide a link below to the company website containing the Code.

.....

D7.) Does the Supplier have a compliance programme related to the prevention of corruption? Yes No

If so, does this programme include written policies and procedures and employee training? Yes No

***E. Business Arrangement**

E1.) Description of the nature of goods or services to be provided by the Supplier.

.....
.....

E2.) Anticipated country(ies) or territory(ies) where such goods and services will be provided.

.....
.....

E3.) Description of proposed compensation structure. Provide an explanation of why this compensation is reasonable and justified, taking into account such relevant factors as the scope and complexity of activities to be performed as well as local market conditions.

.....
.....

E4.) List of third parties (names and addresses) anticipated to be materially involved in supplying goods or services to Supplier for purposes of the proposed contract.

.....
.....

E5.) Has the Supplier reviewed and agreed to abide by both the Company's Supplier Code of Business Conduct and the Company's standard anti-corruption contract provisions? Yes No

If no, please explain why not:

.....
.....

Certification of Information Accuracy

I, _____, hereby certify, on behalf of _____, that to the best of our knowledge, after due inquiry, the information provided on this Form, including any attached documents, is accurate, complete and up-to-date. I also certify that if we learn of any additional information that is relevant to this review, we will promptly report that information to the Company.

Signature:

Printed Name:

Title:

Date:

Supplier Questionnaire

The following is a comprehensive list of questions that may be directed at suppliers to help assess their efforts to prevent corruption. Depending on the nature of the corruption risks involved and the nature of the customer-supplier relationship (See "Assessing Risk – Questions to Ask" in Section 2 of this guide), customers can use all or only some of these questions, and can edit the questions to request more or less detailed information. We have marked with an asterisk (*) those questions we believe to be most important.

The questions may be administered in several ways:

- In written inquiry to suppliers and potential suppliers
- As the basis of an anti-corruption audit by the customer or a third party

- In some combination of written inquiry and audit

Most questions ask for supporting documentation, to provide additional detail and to demonstrate the veracity of answers. This documentation, and other evidence of supplier anti-corruption efforts (such as training rosters, communication materials, investigative files), may be most appropriately gathered during the course of an audit.

For each question below, "corruption" is defined to include bribery of government officials, commercial bribery, falsification of documents and accounts, theft and embezzlement and conflicts of interest.



A. Company Name

.....

B. Company Website

.....

C. Contact Information

Address

.....

Telephone (including Country Code)

.....

Fax (including Country Code)

.....

D. Company Contacts

Name

.....

Telephone Number (including Country Code)

.....

E-mail Address

.....

E. Anti-Corruption Policy/Code of Conduct

- * Do you have a written policy that focuses on corruption, either stand-alone or part of a broader code of conduct for employees? If so, please provide a copy.
- Is the policy disclosed on your external website?
- Does your anti-corruption policy include:
 - Prohibition of the bribery of government officials?
 - Prohibition of commercial bribery?
 - Prohibition on the falsification of the company books and records?
 - Prohibition on conflicts of interest related to investments?
 - Prohibition on conflicts of interest related to dealing with family members?
 - Prohibition or restrictions on accepting gifts

and entertainment from customers, suppliers and other business partners?

- Prohibition or restrictions on the giving of gifts or entertainment to customers, suppliers and other business partners?
- Prohibition or restrictions on travel and hospitality costs associated with the hosting of foreign government officials?
- If the policy exists, does it apply to all employees (including executives and board members)? If not, to whom does it apply?
- *If the policy exists, is the policy communicated to all employees? If so, how and how often? If not, to whom is it communicated and how often is the distribution list reviewed?
- Do your employees certify or otherwise acknowledge understanding of and compliance with your anti-corruption policy? If so, which employees and how often?
- Do your executive directors and board members certify or otherwise acknowledge understanding of and compliance with your anti-corruption policy? If so, how often?
- Anti-Corruption Training
- *Do you provide training to your employees on issues of corruption?
- *If yes, what employees receive such training and how often is the training repeated?
- How are employees trained on the content of the policy?
- How often are the training materials reviewed and updated?
- Please describe the content or provide a copy of the anti-corruption training materials.
- Anti-Corruption Oversight and Reporting
- Do you have a mechanism in place for employees and others to report suspected instances of corruption? If so, please describe and include a copy of any relevant policy or procedural documentation.
- Does the mechanism used for the reporting of suspected corrupt activities allow for confidential reporting? Can suspected allegations be raised without fear of reprisal?
- *Do you have mechanisms in place to moni-

tor possible corruption in your organization and to discipline employees who engage in corruption? If so, please describe these mechanisms and include a copy of any relevant policy or procedure documents.

- Does your organization have a senior level employee who is assigned responsibility for oversight of the company's anti-corruption programme? If so please identify the individual, including his or her title and qualifications.
- Does your organization have a compliance committee that receives periodic updates on anti-corruption initiatives? Is this committee involved in oversight of transactions that are addressed in the corporation's anti-corruption policy?
- Do you perform background checks on new hires? If so, please describe the nature of those checks and to which new hires they apply.
- Do you have mechanisms in place to assess the risks of corruption in your various operating locations? If so, provide details as to how these assessments are performed.
- Do you have financial controls in place (e.g., dual signature requirements, limits on delegation of authority) to prevent corruption? If so, please describe the controls and include a copy of any relevant policy or procedure documents.
- Does your internal audit function or a similar function review payments addressed in your anti-corruption policy? If so, please describe.
- *Has your organization been subject to an external review or assessment regarding corruption by a public agency (domestic or international) or external auditors or consultants in the past 12 months? If so, please describe and include a copy of any relevant documents.
- Has your organization been subject to any investigation, prosecution, or judgment, fines or penalties related to corrupt activities within the past five years? If so, please describe and provide relevant documentation.

F. Anti-Corruption Initiatives

- Are you a member of, or have you publicly disclosed adherence to, any of the following internationally recognized anti-corruption initiatives:
 - International Chamber of Commerce — Rules of Conduct to Combat Extortion and Bribery
 - U N Global Compact
 - World Economic Forum — Partnering Against Corruption Initiative
 - EITI - Extractive Industries Transparency Initiative
 - Other Initiative (please indicate)
- Do you provide a regular disclosure of your anti-corruption activities – as part of a corporate social responsibility report or otherwise? If so, please provide a copy of the latest disclosure.

G. Suppliers and Contractors

For each question under this Suppliers and Contractors section, if the answer is yes, please describe and include a copy of relevant documents.

- Do you require new suppliers or contractors to comply with your standards for business conduct and anti-corruption policies?
- Do you provide anti-corruption training to suppliers and contractors?
- What other mechanisms do you have in place to prevent corrupt activities from occurring within your supply chain?
- Do you perform, or hire a third party to perform audits on key contracts with suppliers? What other procedures do you undertake to monitor potentially corrupt activities of suppliers and contractors?
- Do you perform, or hire a third party to perform, due diligence on potential new suppliers, contractors, agents or dealers?

Anti-Corruption Education and Communication for Suppliers

In an ideal world, every supplier would have its own anti-corruption programme that would include education for their employees. In this world, many suppliers do not, and it is advisable in many cases for customers to educate suppliers and supplier personnel about the customer's expectations regarding corruption and the general business case for avoiding corruption in business transactions. Ultimately, this should be part of supplier capacity building. Rather than a one-way transfer of knowledge from customer to supplier, it should be a cooperative effort that prepares suppliers to deal with these issues internally.

This addendum presents general guidance on supplier education and communication in this area, including a discussion of subject areas to cover, audiences to address, and the various methods of communication. It does not present a model training programme, as content and mode of presentation will vary significantly from customer to customer and supplier to supplier, depending on risk profiles, the nature of the audience and available technology. Content should, however, align with the reality of the risks and temptations for corruption that supplier personnel may face.

CONTENT

As with other elements of a supplier anti-corruption programme, the content of education and communication to suppliers must begin with an assessment of relevant risks. The most effective education will include an overview of relevant concepts and principles, but must also include an examination of real scenarios that supplier personnel may face. These will differ across industries, regions, and contracts. For example, where risk of corruption in government inspections is high, the education should focus on government inspections. Similarly, where kickbacks, false billing and reporting, or customs concerns predominate, the education should concentrate on these issues. Section 3 of this guide contains a series of common scenarios that provide a good starting point for building education content.

At a minimum, education should address the various types of corruption, why corruption is an issue (including the consequences for the supplier's business and for society), how to respond to corruption demands, and where to go to report corruption demands.

In each case, training should present real-life situations and allow the employees to consider how best to respond to the demands and temptations to corruption. Training should be interactive and engaging. It should not merely present the "right answer," but build a sense of understanding as to why it is the right answer.

AUDIENCE

This also must be informed by an understanding of relevant risks, as well as the practical realities of cost, and supplier receptiveness to education delivery. Supplier management should always receive training. If management is able to convey what was taught in the training to other relevant personnel, management training may be all that is needed. In other instances, customers will want to engage other supplier personnel directly. High risk audiences may include the supplier sales force, production managers, as well as others performing under the contract.

Content should vary according to the audience, addressing the particular corruption risks they may face. The sales force may receive instruction concentrating on kickback issues, while production managers would receive more instruction on dealing with government inspections. The level of detail necessary for training should vary with the audience, with management and others facing the most significant risks receiving the greatest amount of content.

A significant part of the education for supplier management should include mechanisms for management to disseminate training to their own employee population. This may include train-the-trainer sessions, where the customer provides training materials to supplier management and assists them in determining the best method to deliver the training to their own population.

METHODS

The goal of any supplier education and communication programme is to build awareness and understanding among supplier personnel of the harm that corruption causes and the right way to behave in the face of corruption demands and temptations. There are multiple mechanisms for getting these messages across, each of which has its advantages and disadvantages. The following table attempts to capture these across four primary education and communication methods.

Method	Advantages	Disadvantages
In-person training	<ul style="list-style-type: none"> • Highest impact • Allows for real-time interaction and discussion of difficult issues • Allows for role-play and other highly engaging approaches 	<ul style="list-style-type: none"> • Resource intensive • Difficult to schedule and ensure attendance of all relevant personnel • May require live translators
Web-based training (WBT)	<ul style="list-style-type: none"> • The best WBT is highly engaging and interactive • Allows learners to take training according to their schedule • Can ensure education delivery through computer tracking of completions • Cost-effective across a large audience • Easily translated into multiple languages 	<ul style="list-style-type: none"> • Does not allow for live discussion and interaction • Limited by technology available to supplier personnel • Can be expensive if delivered to only a small audience
Interactive web experiences (e.g., webinars, blogs)	<ul style="list-style-type: none"> • Allows for interaction and discussion of difficult issues • Cost-effective 	<ul style="list-style-type: none"> • Limited by technology available to supplier personnel • Interactivity is limited by time constraints and absence of face-to-face interaction • Translation issues
One-way communication (e.g., e-mail, fliers, websites)	<ul style="list-style-type: none"> • Cost-effective • Can be effective at conveying basic messaging and as reinforcement for other education • Easily translated 	<ul style="list-style-type: none"> • No opportunity for interaction or discussion • Limited ability to ensure delivery

The most effective supplier education and communication programmes will use a mix of modalities, delivered at different times and to a variety of audiences to reinforce messaging in the most cost-effective manner possible. This is true also of a customer's own internal anti-corruption education and communication programme. The best supplier programmes will be modeled after, and draw resources from the best in-house programmes. Thus, for example, web-based training for a customer's own employees can readily be adapted for use with suppliers.

As with supplier anti-corruption programmes in general, customers can achieve significant efficiencies in supplier anti-corruption education through collective action. Customers with common suppliers, whether or

not in the same industry, can develop and share education materials, and conduct joint training sessions, or establish a programme that allows various customers to share costs and resources for education delivery. Industry organizations also can conduct supplier training.

Anti-Corruption Resources

Customers and suppliers can find descriptions and links to a wide variety of anti-corruption resources, including conventions, guidelines, tools, and industry and country specific anti-corruption information, at the UNGC Anti-Corruption Tools Inventory, accessible at http://unglobalcompact.org/Issues/transparency_anticorruption/Anti-Corruption_Guidance_Material.html.

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The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2 make sure that they are not complicit in human rights abuses.

LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4 the elimination of all forms of forced and compulsory labour;
Principle 5 the effective abolition of child labour; and
Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7 Businesses are asked to support a precautionary approach to environmental challenges;
Principle 8 undertake initiatives to promote greater environmental responsibility; and
Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

