



## MINUTES

### Meeting of the Russian Members of B20 Taskforce On Transparency and Anti-Corruption Activity December 20, 2012

The meeting of the Russian members of the B20 Taskforce on Transparency and Anti-Corruption Activity was held in *Interros* offices of December 20, 2012.

The meeting was attended by:

1. Aleksandr Astapovich, *Interros*
2. Sergey Papin, *Sinara Group*
3. Georgiy Polyakov, *Sinara Group*
4. Igor Khmelevsky, *Sinara Group*
5. Aleksey Barsegyan, *Systema JSFC*
6. Alexander Dolgopolov, *SUEK*
7. Natalia Krykanova, *United Metallurgical Company*
8. Sergey Krilov, *Siemens*
9. Aleksey Grigoriev, *Siemens*
10. Dias Assanov, *Siemens*
11. Dmitry Zanchev, *General Electric*
12. Ivan Tyagun, *KPMG*
13. Denis Kamishev, *Ernst & Young*
14. Alina Popadyuk, *Deloitte*
15. Mikhail Pryadilnikov, *Moscow Government*
16. Boris Tkachenko, *International Business Leaders Forum (IBLF)*
17. Elena Abramova, *International Business Leaders Forum (IBLF)*

The meeting was chaired by Aleksandr Astapovich.

In his opening remarks, Mr. Astapovich briefed the participants on the first meeting of the Task Force on December 12, 2012, and outlined possible focus areas of the Task Force.

Mr. Astapovich stressed that the Russian B20 Transparency and Anticorruption Taskforce should draw on the results of the previous taskforces and develop their initiatives. In particular, it is necessary to monitor the implementation of the initiatives which were recommended to the G20 leaders in the preceding period.

Mr. Astapovich outlined the aims of the meeting:

- to identify the most important areas among those which were previously worked out;
- to define new topical issues for the Taskforce;
- to allocate the responsibilities in handling the said issues.

Mr. Grigoriev stressed the importance of drawing on what had been previously done. He suggested the following directions:

- building up corporate procedures in order to reduce corruption risk and enhance transparency;
- cooperating with SMEs in elaboration of their anticorruption programs;
- public procurement – bring to the notice of the government leaders the point of business community stating that governments have to ensure transparency of public procurement processes.

Mr. Grigoriev explained that Siemens, together with the Russian-German Chamber of Industry and Commerce, had produced an exciting pilot project in the field of generating intolerance of corruption in the supply chain. Their Joint Venture partner, OOO Ural Locomotives, provided an excellent case study.

Denis Kamishev suggested that the agenda should touch upon the problem of the national and supranational regulation.

Aleksey Grigoriev suggested considering mechanisms of interaction between business and government in the sphere of public procurement.

Ms Abramova presented the IBLF experience of creating the Industrial Companies Working Group uniting 17 organizations: major companies, non-government entities and the Moscow Government. They joined their efforts in making analysis of the public procurement procedures in Moscow municipality and of the draft law on Federal Purchasing System and prepared recommendations for their improvement. As a result, the Moscow Government invited the business community to continue their dialogue and take part in putting the elaborated recommendations into practice.

Next, Aleksey Barsegyan suggested another topic that the Taskforce should consider: domestic corruption.

Mr. Barsegyan also raised the question of resources required for supporting the work of the Taskforce.

The participants raised such questions as the main aim of the Taskforce in Russia, what should be their recommendations and whom those should be addressed. Mr. Grigoriev proposed the following actions:

- Public procurement: formulate a list of principles and make appraisal of their efficiency by efforts of the business community. Describe the experience of the Moscow Government and IBLF to be replicated in other countries.
- Collective action: work out mechanisms of investigating suspected misconduct of public officials; request the respective information from Columbia colleagues.
- Intolerance of corruption in SME: basing on the experience gained by Siemens and Russian-German Chamber of Industry and Commerce, formulate a minimum set of requirements to the SME procedures, describe the existing mechanism of assistance provided by big business to SMEs.

Boris Tkachenko suggested contacting the colleagues from Los Cabos on January 17, 2013, asking them to describe what they had managed to introduce and how recommendations should be prepared in order to achieve the most effective implementation.

Elena Abramova suggested strengthening the feedback from G20 leaders to B20 leaders. Without this, any dialogue, monitoring and practical implementation would be impossible. Mr. Grigoriev noted that, having formulated their recommendations to G20, the Taskforce should be prepared for a dialogue and monitoring actions. Business community is interested in creating a well-defined market environment.

Denis Kamishev put forward a number of suggestions for practical implementation of the Los Cabos recommendations in Russia:

- formation of a social council
- mechanism of handling conflicts of interest
- disclosing public officials' interest.

Ivan Tyagun asked whether the Taskforce was going to deal with problems of B2B corruption and kickbacks.

Mr. Astapovich called the audience to advance their proposals focusing on the topics where they could actually contribute positive input.

Mr. Tkachenko summarized the proposals of the Taskforce with regard to the cases on public procurement in Moscow (IBLF) and intolerance of corruption in SME (Siemens) which could serve as a basis for further development. The Taskforce could prepare recommendations on the existing experience, carry out monitoring of their implementation and work on formulating a feedback mechanism in relations with governments.

In response to Mr. Grigoriev's comment, the attendees discussed the need of creating a special permanent body and having certain resources to support its work. Mr. Barsegyan suggested taking a closer look at the experience of the previous groups. Mr. Grigoriev said that in each country the business community delegated the role of such body to the leading business association, which, in our case, would be the Russian Union of Industrialists and Entrepreneurs. Mr. Tkachenko suggested reviewing the experience of formation and operation of anticorruption groups within UN, OECD, WEF and B20.

**Summary:**

The participants of the meeting agreed as follows:

The main directions of the Work stream "Russia Implementation" shall be:

- enhancing transparency of public procurement – Elena Abramova, IBLF (Addendum 1)
- promoting intolerance of corruption in SMEs – Aleksey Grigoriev, Siemens (Addendum 2)
- development of a feedback mechanism between G20 and B20 - Mikhail Pryadilnikov, Moscow Government (Addendum 3)
- B2B corruption – Ivan Tyagun, KPMG

The group agreed to present their ideas at the Task Force meeting scheduled for 17<sup>th</sup> January 2013.

## **B20 TASK FORCE ON IMPROVING TRANSPARENCY AND ANTI-CORRUPTION**

### **TOPIC: Improvement of Public Procurement Procedures in Moscow**

<b><u>Current Situation:</u></b>	<b><u>Reason for Action:</u></b>	<b><u>Proposed Action:</u></b>
<p>Los Cabos B20 recommendations:</p> <ul style="list-style-type: none"> <li>• The G20 should streamline their public procurement processes to address the demand-side of bribery and to encourage and further incentivize business against corruption.</li> <li>• Ensure Transparency in Public Procurement</li> </ul> <p>In March 2012, the Industrial Companies Working Group (ICWG) was set up by Moscow Government and 17 multinational companies that are corporate partners of the International Business Leaders Forum in Russia (IBLF Russia).</p> <p>The aim was to identify ways in which public procurement procedures could be made more transparent.</p> <p>The results of the first phase of work of ICWG included:</p> <ul style="list-style-type: none"> <li>• Analysis of the draft law “On Federal Purchasing System in Procurement of Goods, Works and Services” and recommendations of amendments;</li> <li>• Sharing of private sector experience of procurement in mitigating corruption risk;</li> <li>• Study of procedures and organizational processes in Moscow public tenders and recommendations of how to mitigate corruption risk;</li> <li>• Publication and distribution to key stakeholders of results of ICWG’s phase 1</li> </ul> <p>A phase 2 started in August 2012 and includes the creation of a Public Council for the Development of Competition in Moscow; continuing standardisation of contract templates and procedures; clarification of procedures for the expert evaluation of technical specifications in the prequalification phase of public tenders and work on the draft law “On Federal Purchasing System in Procurement of Goods, Works and Services” at the State Duma.</p>	<p><u>Government</u></p> <p>To raise the cost effectiveness of products and services purchased by the state</p> <p>To build confidence in fairness and professionalism of state authorities amongst business partners</p> <p><u>Business</u></p> <p>To prevent unfair competition and create a level playing field</p> <p>To remove barriers to innovation</p> <p><u>Civil Society</u></p> <p>To protect the rights, safety and interests of Russian citizens against abuse and unfair practices</p>	<p>Share best practices amongst public procurement authorities of G20 member states</p> <p>Improve legislation governing public procurement based on the best practices of corporate purchasing departments</p> <p>Share lessons from ICWG with purchasing departments of State Owned Enterprises (SOEs) in G20 countries</p> <p>Engage business, consumer groups, civil society and other stakeholders in providing feedback to authorities about public procurement processes</p> <p>Heighten business’s role in the development and implementation of competition policy</p> <p>Raise the accountability of government by holding officials personally responsible for wrongdoing</p>

**B20 TASK FORCE ON IMPROVING TRANSPARENCY AND ANTI-CORRUPTION**

**TOPIC: Support of small and medium-sized enterprises (SMEs) in Anti-corruption**

(Based on best practice of the German-Russian Chamber of Commerce)

<b><u>Current Situation:</u></b>	<b><u>Reason for Action:</u></b>	<b><u>Proposed Action:</u></b>
<p>Los Cabos B20 recommendations encourage the adoption of business codes of conduct with a specific focus on small and medium-sized enterprises.</p> <p>April 2010, members of German-Russian Chamber of Commerce (AHK), with strong support by the Administration of the Russian President, started a Russian Corporate Ethics Initiative (RCEI) for implementation of PACI principles in Russia, with many SME as signatories. Thus, under the RCEI, the AHK established a mechanism of regular meetings of a special Working Group on Compliance, supported by compliance professionals from several companies including Siemens, Salans, Daimler, Rödl &amp; Partners. The goal of the Working Group was to come up with clear and practical recommendations to companies including SMEs on how to develop own Compliance programs and, as a first step, own business codes of conduct. The Group meets on monthly basis for discussing particular items of corporate business codes, e.g. basics of due diligence of external partners, dealing with suppliers, compliance trainings for personnel, whistleblower hotlines, internal investigation processes, IT-Compliance, etc. The results of the Group’s work were latest presented at the AHK Open Door Day, November 21, 2012. All participants were encouraged to attend future meetings of the Working Group to receive in-person consultations and support from compliance professionals</p>	<p>The majority of business is conducted worldwide via SME meanwhile they often lack sufficient expertise, experience and, most importantly, resources in building up own corporate anti-corruption mechanisms and implementing international standards in Transparency and Anti-corruption.</p> <p>Mechanisms for supporting SME involving governments and big companies must be installed in G20 nations</p> <p>A standardized/unified platform for support mechanisms would enable harmonization of anti-corruption rules and procedures within the G20.</p>	<ol style="list-style-type: none"> <li>1. To recommend G20 governments to actively support the adoption / promote the implementation of national anti-corruption initiatives/collective actions involving governments and business based on universal PACI principles.</li> <li>2. To recommend Governments and business communities to nominate their leading bodies for installing practical working mechanisms for supervising the implementation of national anti-corruption initiatives/collective actions.</li> <li>3. To recommend that the installed working mechanisms, based on their respective national anti-corruption initiatives/collective actions, introduce instruments for practical assistance to SMEs in terms of: <ul style="list-style-type: none"> <li>– elaborating clear and practical recommendations to SMEs on how to develop own Compliance programs and, as a first step, own business codes of conduct, comprising, inter alia, basics of due diligence of external partners, dealing with suppliers, compliance trainings for personnel, whistleblower hotlines, internal investigation processes, IT-Compliance, etc.</li> <li>– providing basic case-specific consulting support by compliance professionals from national Governments and/or big companies.</li> </ul> </li> </ol>

**B20 TASK FORCE ON IMPROVING TRANSPARENCY AND ANTI-CORRUPTION**

**TOPIC: Development of G20toB20 feedback mechanisms**

<b><u>Current Situation:</u></b>	<b><u>Reason for Action:</u></b>	<b><u>Proposed Action:</u></b>
<p>Los Cabos B20 recommendations include public-private partnerships in developing and implementing initiatives that engage the private sector in the global fight against corruption.</p> <p>A myriad of mechanisms currently exist to offer feedback on government actions. Traditionally, business community provides feedback on key transparency and anti-corruption initiatives either directly or indirectly through business and sectoral associations.</p> <p>Recent initiatives to introduce RIA (regulatory impact assessment) in a number of G20 countries, including Russia institutionalizes the important aspect of measuring the potential regulatory burdens. RIA is necessary but not sufficient institutional innovation, but there is a need for deepening the G20/B20 dialogue as explicitly expressed in the Los Cabos recommendations. Neither governments nor the private sector is capable of bringing transparent regulations and good policy on their own.</p>	<p><u>Government</u></p> <p>To enhance the effectiveness of policy-making process, mechanisms that establish a permanent platform for G20/B20 dialogue will lead to sufficient budget savings due to diminishing the risk of corruption.</p> <p>To enhance the trust in the state due to development effective feedback mechanisms.</p> <p>To get a necessary information on business environment or branches of industry from business which act as market-supporting or market-supplementing institutions</p> <p><u>Business</u></p> <p>To protect the interests of the private sector in an open and transparent manner.</p> <p>To establish an equal level playing field for companies joining in sectoral initiatives and integrity pacts.</p> <p>To decrease administrative costs for doing business (take the example of the UK and the US, where “one in one out” principle to regulation is applied)</p> <p><u>Civil Society</u></p> <p>To protect the interest of consumers</p>	<ol style="list-style-type: none"> <li>4. To establish permanent platform for dialogue for both G20 and B20 can track and develop transparency and good regulation initiatives.</li> <li>5. To recommend G20 governments to actively support the adoption / promote further implementation of better regulation and smart regulation practices, including RIA, on all levels of power</li> <li>6. To deepen the ongoing initiatives to set up integrity pacts and other joint sectoral initiatives such as eligibility requirements to participate in public tenders.</li> <li>7. To recommend Governments to develop and support the institute of self-regulation and self-reporting by companies</li> <li>8. To recommend G20 to promote an open discussion on all existing and proposed legislation and bylaws including specific rule-making (banking)</li> <li>9. To recommend G20 to support the adoption a Law on Lobbying</li> </ol>

**B20 TASK FORCE ON IMPROVING TRANSPARENCY AND ANTI-CORRUPTION**

**TOPIC: Compliance program realization for corporate fraud prevention**

(Based on best practice of the BCG)

<b><u>Current Situation:</u></b>	<b><u>Reason for Action:</u></b>	<b><u>Proposed Action:</u></b>
<p>Today corruption is the main focus of compliance programs in both public and private sectors. As revealed by Certified Fraud Examiners (CFEs) all industries in various forms are subject to fraud: mining with low frequency of fraud cases but highest loss potential, manufacturing and banking, on the opposite, with highest number of cases but lower loss potential. More than one fifth of all fraud cases in 2011 worldwide led to more than \$1m in losses, while the typical company lost 5% of its revenue to occupational fraud.</p> <p>To ensure compliance an organization has to change its business practices and launch a compliance program.</p> <p>Based on emerging markets' experience, compliance go hand in hand with value-driven functional professionalism:</p> <ul style="list-style-type: none"> <li>• Development of transparent business culture, built on fact-based decision making</li> <li>• Emphasis on value creation e.g. in procurement and production functions</li> <li>• Link of motivation systems to value creation</li> <li>• Clarity of rules of "what is allowed and what is not", and strict adherence to</li> </ul>	<p>Corporate incompliance and fraud have strong negative consequences for all involved stakeholders and that's why it is important to consider this problem on the government level:</p> <p><i>State:</i></p> <ul style="list-style-type: none"> <li>- Overall image deterioration of the nation and state</li> <li>- Decreasing competitiveness of the country, decrease of FDI</li> <li>- Decrease in taxes collection due to "grey" salaries, revenues</li> <li>- Increasing demand for corrupted "grey" governmental services</li> </ul> <p><i>Business:</i></p> <ul style="list-style-type: none"> <li>- IP infringement</li> <li>- Low cost "grey" market competition as key entry barrier</li> <li>- Shrinkage of "white" market and decrease of the future market potential</li> <li>- Suppliers and other business partners</li> </ul>	<ol style="list-style-type: none"> <li>1. To recommend G20 governments to actively support and promote corporate compliance program realization and change of business practices in both public and private sectors.</li> <li>2. To recommend governments to consult business on how to develop own codes of conduct, recommend the specific working mechanisms and instruments to prevent corruption, fraud and forgery. Specifically, to recommend G20 governments to force the manufacturers to develop and adhere the compliance control code, that provides checklists for processes, information system controls to ensure compliance and eliminate "grey" production</li> <li>3. G20 governments should enforce effectiveness of corporate compliance management systems, that today are often rather formal than truly effective.</li> </ol> <p>BCG currently sees four major success factors for corporate compliance programs:</p> <ul style="list-style-type: none"> <li>• Business integration: compliance is integrated into the organization—including decision-making responsibility</li> <li>• Risk-oriented solutions: compliance functions are aligned with the individual risk profile, value chain, and business environment</li> <li>• Efficiency and effectiveness: elimination of redundant rules, simplification, and continuous improvement processes</li> <li>• End-to-end approaches: a global supplier network and a critical public: compliance issues are associated with products rather than companies</li> </ul>

<p>defined compliance rule framework</p> <p>Based on BCG experience general compliance framework for the whole company should be based on 4 elements:</p> <ul style="list-style-type: none"> <li>• Strategy (Culture and attitude, Compliance goals, Communication/management reporting, Continuous Improvement/audit)</li> <li>• Prevention (Risk assessment/planning, Business conduct, Business process)</li> <li>• Reaction (Reporting channels, Detection audit, Case handling, Remediation)</li> <li>• Infrastructure (Compliance organization, Compliance HR, Compliance IT)</li> </ul>	<p>along the value chain with non-guaranteed quality</p> <p><u>Industry/employees:</u></p> <ul style="list-style-type: none"> <li>- "Grey market" goods are manufactured by unprotected labor without social benefits</li> <li>- Depreciation of ethical values and standards</li> <li>- Decrease in the number of honest and compliant employees</li> </ul> <p><u>Consumers:</u></p> <ul style="list-style-type: none"> <li>- Goods of lower, non-guaranteed quality and unknown origin, brands destruction, shrinking of the "white" market</li> <li>- Lack of protection of consumer rights in the "grey" market</li> </ul>	<ol style="list-style-type: none"> <li>4. To recommend G20 governments to force the manufacturers to accept and adhere safety standards and compliance certification, that should describe sets of standard control tools, "pain point" safety that should be introduced at the factory and make factories transparent and more competitive</li> <li>5. To recommend G20 to launch international industry-wide system of tracking the products (e.g. automotive spare parts, iPhones etc.) to the source along the supply chain like VIN for cars</li> <li>6. To recommend G20 governments to ensure local and international business associations (e.g. of Automotive spare parts manufacturers) provide internal control and arbitrage and issue the respective reports.</li> <li>7. G20 governments should further refine corruption regulation (e.g. strict criminalization of bribery, corporate liability for bribery)</li> </ol>
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