

BUSINESS SOCIAL RESPONSIBILITY IN COMBATING CORRUPTION

OFFICE OF THE COMPTROLLER GENERAL – CGU

ETHOS INSTITUTE FOR BUSINESS AND SOCIAL RESPONSIBILITY

WORKING GROUP OF THE BUSINESS PACT FOR INTEGRITY AND AGAINST CORRUPTION

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1. Preface

Contrary to popular belief, corruption does not only affect governments. It impacts citizens, public entities and private institutions indiscriminately, generating unfair competition, jeopardizing economic growth and driving away new investments. All of society pays the price.

To control corruption, it is necessary to marshal the efforts of citizens, enterprises and government to a single cause: to promote an environment of integrity in the public and private sectors.

Private sector participation in confronting this challenge assumes, in this context, special significance. For in offering enterprises apparent gains in the short term corruption serves only to create the illusion of advantage when, in fact, it distorts competition, leading to unfair practices and undermining free-market mechanisms. This engenders uncertainty in the business sector, discouraging new investments, raising the costs of goods and services and eroding ethics in business. Ultimately, corruption jeopardizes sustainable market development and effectively precludes the possibility for consistent profitability over the long term.

In response to this challenge, the commitment of enterprises to fight for integrity and against corruption has been integrated in recent years to the concept of business social responsibility through implementation of the principles of good corporate governance and a sustained effort against illegal and unethical competitive practices.

Additionally, the introduction of Principle 10 of the United Nations Global Compact Summit served to draw the business community's attention to its fundamental responsibility to combat corruption, mandating that "businesses should work against all forms of corruption, including extortion and bribery."

Enterprises of all sizes, economic and financial scale or influence have a vested interest in preventing and combating corruption, as well as the capacity to play a decisive role in this struggle.

By voluntarily adopting a set of principles to ensure integrity in their relations with the public sphere, stakeholders and other market sectors, enterprises engaged in the fight against corruption have the power to become a model for all of society.

Measures private sector organizations can take to promote ethics and prevent the commission of corrupt acts by their employees include applying best corporate practices, developing internal controls, formulating procedures to disseminate information on issues related to corruption, implementing internal mechanisms to report acts of corruption, ensuring transparency in the support to and financing of political campaigns and parties, among others. In addition, it is imperative that enterprises bar all persons or organizations within their ranks from offering or promising bribe payments.

In a recently published study by the consulting firm M&M Management & Excellence on the implementation of governance measures in Latin American firms, six of the ten highest performing enterprises were Brazilian. The finding reflects the commitment of many Brazilian enterprises to good practices in corporate governance and the interest and engagement of Brazil's business sector in preventing and combating corruption throughout the country.

To be sure, combating corruption is no easy task. Indeed, it poses an array of challenges. However, while a long road remains to confront the problem effectively, the hard work has begun, and with everyone's commitment – government, the private sector and civil society – Brazil will emerge victorious from this struggle.

Office of the Comptroller General

Corruption is a social phenomenon with serious economic repercussions for society. When committed systematically and not steadfastly combated, corruption imposes an additional tax on entrepreneurs seeking to launch or secure approval for their business ventures. In addition, corruption adversely affects the competitiveness of domestic products in international trade by raising the costs of the associated investments and increasing uncertainty in the business environment.

With this in mind and to promote greater coordination between enterprises and improve and enhance private-public sector relations through efforts to combat corruption and impunity, in 2005 the Ethos Institute for Business and Social Responsibility, in partnership with *Patri Relações Governamentais & Políticas Públicas*, the United Nations Development Programme (UNDP), the United Nations Office on Drugs and Crime (UNODC), the World Economic Forum and the Brazilian Committee of the Global Compact, launched the Business Pact for Integrity and Against Corruption.

The text of the Pact was based on the guidelines laid out in the Organisation for Co-operation and Development (OECD), the United Nations Convention against Corruption, Principle 10 of the Global Compact and the Business Principles of Transparency International. In short, the Pact represents the set of voluntary public commitments to assist enterprises engaged in this effort to implement integrity practices. In addition to contributing to the implementation of international guidelines and commitments, the Business Pact for Integrity and Against Corruption serves as an ideal platform to signal to the public and government the measures enterprises are willing to adopt to combat corruption and build renewed relationships with the public sector and other private sector entities.

By signing on to the Pact, enterprises undertake a commitment to disseminate Brazil's anticorruption legislation to their employees and stakeholders so as to ensure full compliance with the law. In addition, they pledge to prohibit any form of bribery, to work to assure the legality and transparency of all contributions to political campaigns and to strive for transparency in the information and cooperation provided to official investigations, as necessary.

To mobilize business leaders, corporate officers and directors and business entities to join the Business Pact, the Working Group of the Business Pact for Integrity and Against Corruption was established, with the Ethos Institute selected to serve as the body's Executive Secretariat. The objective of the Working Group is to develop strategies to provide support to signatories for the implementation of integrity and anticorruption policies.

Another objective of the Working Group is to develop an anticorruption database, with a view to applying the guidelines established by the Business Pact and ensuring sustained mobilization through fundraising strategies and direct cooperation between enterprises and other entities.

With these objectives and goals in mind, the WG of the Business Pact for Integrity and Against Corruption, in coordination with the Ethos Institute, and in partnership with the Office of the Comptroller General, offers in these pages an additional tool to combat corruption, in the belief that the secret to building a society undergirded by integrity and ethics depends far more on the combined efforts of its various segments than on isolated action.

Working Group of the Business Pact for Integrity and against Corruption
of the Ethos Institute for Corporate Social Responsibility

2. Introduction

Corruption represents one of the principal maladies of modern-day societies. The political, social and economic costs wrought by corruption are enormous. Corruption undermines political legitimacy, weakens democratic institutions and the moral values of society, in addition to generating uncertainty in the economic landscape.

In practice, corruption assumes various forms, ranging from the offer of small monetary amounts to expedite licensing procedures to massive fraud in public procurements. In view of this, what is the private sector's role and how can it contribute to promoting an environment of integrity? How can the incidence of private sector involvement in bribery and corruption be reduced? This handbook is intended to serve as a guide to enterprises committed to contributing toward integrity and anticorruption.

The Office of the Comptroller General and the Working Group of the Business Pact for Integrity and Against Corruption, affiliated to the Ethos Institute for Business and Social Responsibility, joined forces to set out a series of guidelines and formulate good practices with a view to reinforcing the role of private enterprises in promoting integrity and combating corruption.

Reducing corruption levels in Brazil is critical to strengthen democratic institutions and foster national economic development. With this in mind, it is imperative that the conduct of the nation's activities be driven by the values of ethics and integrity. This responsibility requires a continuous commitment from all enterprises.

Examples of the measures companies can implement to consolidate these values include the development and dissemination of internal codes of conduct, the establishment of ethics committees, the design of specific training programs and the implementation of internal control mechanisms. Additional measures are spelled out throughout this publication.

Integrity and ethical principles should guide all business actions, including relations with the public sector. By reflecting these principles, enterprises can effectively consolidate and convey, to their internal and external audiences alike, a steadfast commitment to ethics and integrity. The resulting positive impact can provide for more optimal use of public resources and more effective and equitable service delivery to the public, benefiting the country's economic and social development and sustainability.

Every act of corruption involves both a corruptor and the corrupted. To single enterprises out as the sole villains of this scourge is to limit their potential to contribute toward reducing corruption levels and remaining disparities between Brazilian citizens. In addition to promoting the country's sustainability and governance, enterprises that adopt integrity and ethics promotion measures become less susceptible to corruption. Indeed, between the adoption of these measures and their absence, the former is, without question, far preferable, both for enterprises and domestic and international society alike.

3. International Anticorruption Treaties: Guidelines for Governments and Companies

With globalization and the expansion of markets beyond national borders, acts of corruption in a particular country can affect the legitimacy of governments in other countries. Practical examples include the myriad cases of individuals involved in corruption in one country who “launder” the proceeds derived from those acts in other countries. Situations of this type clearly pose a risk for the financial systems and governance of countries.

Further, beginning in the 1980s investment risk management firms introduced a “corruption” category in their country analyses. Indicators on the political system and investment climate included a growing body of information on political interference in bureaucratic or judicial decisions, the existence of black markets, acts of corruption and nepotism or fraud in business transactions between the State and private sector. Therefore, for some time now it has been evident to global market actors that corruption indeed represents a potential investment risk, capable of adversely affecting the expansion of enterprises headquartered in countries saddled with high levels of graft and fraud and, by extension, restricting economic growth in those countries.

With this in mind, various international organizations have drafted treaties aimed at preventing and combating corruption. In approving an international treaty, a country’s legislative branch undertakes to refrain from passing laws in contravention of the ratified instrument. The practical effect of this is to prevent States Parties from subsequently invoking legal provisions as a justification for their failure to comply with a treaty. The mechanism serves to reinforce the importance attached at the international level to the principle of good faith, by which a State is bound to fulfill the provisions of the treaty commitments into which it has entered voluntarily.

Brazil has ratified three international anticorruption treaties: the United Nations Convention against Corruption (UNCC), approved by the United Nations (UN); the Inter-American Convention against Corruption, approved by the Organization of American States (OAS); and the Convention on Bribery of Foreign Public Officials in International Commercial Transactions, approved by the Organisation for Economic Co-operation and Development (OECD). The promulgation of these international commitments substantiates the argument that corruption is not merely a local phenomenon, but a global one.

The United Nations Convention against Corruption was signed 9 December 2003 in Mérida, Mexico. The instrument provides for the implementation of measures by States Parties to prevent and combat corruption. The document is based on four principal themes: corruption prevention, legal classification of acts of corruption, asset recovery and international cooperation.

Some of the measures signatory parties to the Convention are required to implement are directed at the private sector, including strengthening of accounting and audit standards and the application of effective civil, administrative or criminal sanctions, proportionate and dissuasive, to those engaged in corruption. The measures may consist of, among others:

- Developing standards and procedures to safeguard the integrity of major private entities, including through implementation of codes of conduct for the proper, honest and adequate performance of corporate activities and all relevant professional activities; preventing conflicts of interest; and promoting the use of good commercial practices among companies and in the context of the contractual relationship between private enterprises and the State;

- Preventing the improper use of the regulatoru procedures governing enterprises, including those related to subsidies and licenses granted by public officials for commercial activities;
- Preventing conflicts of interest through the application of restrictions, where necessary and for reasonable time periods, on the professional activities of a former public official or the of a hiring of public official by the public sector, following resignation or retirement, in the event the pertinent activities or office are directly related to functions performed or supervised by the public official in the execution of his or her duties;
- Adopting the necessary measures to ensure private companies possess adequate internal audit controls, in accordance with their particular organization structure and size, capable of contributing to the prevention and detection of acts of corruption, and submitting their accounts and financial statements to certified audit procedures.

Additionally, each signatory party to the Convention undertakes to prohibit the establishment of off-book accounts; unregistered transactions with inaccurate identification as to their objective; use of fraudulent documents; the intentional destruction of book-keeping records prior to the time periods prescribed by law; and tax deductions for expenditure related to bribe payments and corrupt practices.

The Convention inspired the inclusion of Principle 10 in the United Nations Global Compact, through which organizations undertake to “work against all forms of corruption, including extortion and bribery.” The Global Compact is discussed in greater detail in Chapter 5.

In the effort to ensure conformity with the terms of the United Nations Convention against Corruption, Brazil has endeavored to adapt the country’s legislation. To this end the following initiatives have been adopted:

Addressing conflicts of interest – Addressing conflicts between public and private interests in the performance of public functions is a key element of in corruption prevention. There is an overriding need to formulate clear legal standards on this matter to educate public officials and assure proper conduct of the federal public administration. With a view to securing progress in confronting situations of conflict between public and private interests, the Council on Transparency and Combating Corruption (Conselho da Transparência e Combate à Corrupção) drafted Bill 7528/2006, currently under consideration in the National Congress.

Criminalization of illicit enrichment – Another vital initiative in the effort to ensure Brazilian law more closely adheres to the terms of the United Nations Convention against Corruption is Bill 5586/2005, also currently pending in the National Congress, which classifies the offense of illicit enrichment. The federal executive branch submitted the draft law to the National Congress to adapt Brazilian legislation to article 20 of the UNCAC, which calls on States Parties to adopt “such legislative and other measures as may be necessary to establish as a criminal offence, when committed intentionally, illicit enrichment, that is, a significant increase in the assets of a public official that he or she cannot reasonably explain in relation to his or her lawful income.”

According to the bill, the offense of illicit enrichment, which carries a penalty of three to eight years imprisonment and a fine, occurs when the public official unduly possesses, maintains or acquires, for him or herself or a third party, assets or amounts of any nature that are inconsistent with his or her lawful income or assets.

Autonomy of the offense of money laundering – The Chamber of Deputies is currently considering Bill 3443/2008, which is intended to amend Law 9613/98 (http://www.planalto.gov.br/ccivil_03/Leis/L9613.htm). Under the draft law, the list of predicate offenses to the offense of money laundering will be revoked. Specifically, the laundering of assets, rights and amounts arising from any criminal infraction will henceforth be regarded as a criminal offense, regardless of the occurrence of a predicate offense.

Therefore, if the law is amended as set out in the bill, Brazilian legislation in the area of money laundering will rank among the most progressive in the world.

National and international coordination – In the field of international cooperation, a partnership was forged with the United Nations Office on Drugs and Crime for the implementation of cooperation projects to prevent and combat corruption. In addition, the Brazilian government signed an agreement with the British Embassy, through the CGU, to develop the “Combating Corruption in Brazil” project, the objective of which is to build capacity among Brazilian auditors to identify fraud and the misappropriation of public resources.

Within the framework of the OAS, Brazil signed the Inter-American Convention against Corruption on 29 March 1996 in Caracas, Venezuela. The Convention was approved by Legislative Decree 152 of 25 June 2002 and enacted into law by Presidential Decree 4410 of 7 October 2002. As with the UN Convention, the instrument centers on four key themes: preventive measure, classification of the offense of corruption; transnational bribery and illicit enrichment; and technical assistance and cooperation. Similar in substance and content to the UN Convention, the document encompasses general themes related to preventing and combating corruption at the national and transnational levels alike.

In respect to the measures aimed at the private sector, the OAS Convention provides that each State Party will prohibit and punish the offering or granting, directly or indirectly, by its nationals, persons having their habitual residence in its territory, and businesses domiciled there, to a government official of another State, of any article of monetary value, or other benefit, such as a gift, favor, promise or advantage, in connection with any economic or commercial transaction in exchange for any act or omission in the performance of that official's public functions.

On many fronts, Brazil is today in conformity with the terms of the OAS Convention. To ensure additional compliance, the Brazilian government has worked diligently to consolidate the measures to prevent and combat corruption, with special emphasis on the investigation of irregularities, fighting impunity, initiatives on behalf of public transparency and the promotion of public oversight. Some of the measures adopted include:

Confronting transnational bribery – To adapt Brazilian legislation to good international practices, Law 10467 was drafted on 11 June 2002. The statute added Chapter II-A, governing offenses committed by individuals against a foreign public administration, to Title XI of the Brazilian Penal Code (article 337-B), formerly classifying, among other provisions, the offense of “active corruption in international commercial transaction”:

Article 337-B – Promising, offering or granting, directly or indirectly, any undue advantage to a foreign public official or third party to influence the official to act, refrain from acting or delay action in relation to an international commercial transaction.

Establishment of the Council on Public Transparency and Combating Corruption – Created by Decree 4923/2003, the Council is composed of representatives of ten public entities, including the Public Prosecutor's Office and the Federal Court of Accounts, and ten civil society organizations, among them the Brazilian Bar Association (Ordem dos Advogados do Brasil – OAB), the Brazilian Press Association (Associação Brasileira de Imprensa – ABI), the National Conference of Brazilian Bishops (Conferência Nacional dos Bispos do Brasil – CNBB), Transparency Brazil, and the Ethos Institute. The objective of the council is to recommend and discuss measures to enhance internal control methods and systems and augment transparency in the public management process, as well as strategies to combat corruption and impunity.

Promoting public transparency – The CGU is the agency with primary responsibility for promoting

public transparency in the federal government. To accomplish this mission, the Transparency Portal and Public Transparency Web Pages were developed.

Established in 2004, the Transparency Portal enables individual citizens to track federal government spending programs, without the need to register a password. The Portal includes information on:

- Resource transfers to the states, Federal District, municipalities and individual citizens;
- Expenditure executed by the federal government through agencies of the direct public administration, independent bodies and public foundations;
- Expenses paid with the Federal Government Payment Card.

Enacted by Decree 5482 of 30 June 2005 and regulated by Inter-Ministerial Administrative Order 140 of 16 March 2006, the Public Transparency Web Pages provide information on budget and financial execution, procurement procedures and contracting, agreements and per diems and travel allowances.

Corruption risk analysis in the public administration – In 2006, the CGU forged a partnership with Transparency Brazil to develop a methodology to map corruption risk. As with all prevention measures, the objective is to identify the potential for corruption in the public administration and take the necessary steps to head off its occurrence. The methodology was applied on an experimental basis in 2006.

In contrast to the UN and OAS Conventions against corruption, the OECD Convention on bribery of foreign public officials in international commercial transactions addresses a specific issue: the integrity of international commercial relations. Because of the significance of the Convention in promoting integrity and combating corruption in the private sector, Chapter 5 offers an in-depth analysis of the instrument.

4. Corruption and Acts against Integrity in the Private Sector

Over the last decade, the issue of corruption has gained increasing prominence in the media and drawn growing interest in academic circles. For the most part, the discussion has centered on identifying the causes of the phenomenon, pondering its possible historical and cultural roots, measuring its economic costs and social repercussions and recommending measures to reduce its occurrence.

But what exactly is corruption? In clear and succinct terms, Transparency International (TI) defines corruption as “the abuse of entrusted power for private gain.” TI draws a distinction between corruption “according to rule” and corruption “against the rule.” The first involves, for example, facilitation payments, where a bribe is paid to receive preferential treatment to facilitate or expedite a routine government action or accelerate the execution of essentially administrative activities that are not discretionary in nature, in other words, that the public official is required to accomplish by law. The latter, by contrast, is a bribe paid to obtain services the public official is prohibited from providing. In Brazil, no such distinction is made between these two types of corruption. All facilitation payments are considered acts of bribery and, as such, criminal offenses.

According to the Brazilian Penal Code, corruption may take two forms: active corruption and passive corruption. The former is characterized by the “offering or promising of an undue advantage to a public official to influence the official to act, refrain from acting or delay action in the performance of a public function.” The person committing the offense of corruption, that is, the individual offering or promising the undue advantage, is referred to as the corruptor. In this case, a criminal offense is committed even if the public official refuses the offer. For its part, passive corruption is “committed where a public official solicits or receives, for him or herself or a third party, either directly or indirectly, including subsequently or prior to performing a public function, any undue advantage or, further, where any person accepts such undue advantage.” With a view to exploiting his or her public function, the official solicits or accepts a bribe or offer for private gain to perform acts under his or her responsibility.

In addition, article 337-B of the Penal Code classifies the offense of active corruption in international commercial transactions, an issue discussed further in section 4.2.1.

Although the offense of corruption is classified under the Penal Code, there are other violations that while not designated “corruption” are considered as such. Examples include:

Fraud in Procurement Procedures: Fraud in procurement procedures is a form of administrative misconduct resulting in losses to the public treasury (article 10 of Law 8429/92), primarily through nonobservance of the principles of impersonality and publicity. In this light, any conduct capable of violating these principles and favoring a particular bidder at any stage of the process is considered an act of fraud in a procurement procedure.

An example would include signing a contract on terms and conditions not specified in the procurement procedure and which would serve to constrain and limit the participation of other bidders. As a further example, procurement procedures must be annulled any time it is shown the winning bidder failed to observe the applicable requirements governing eligibility and proposal submissions, regardless of whether the object of the procurement procedure was approved or adjudicated and irrespective of the urgency of the service or product provided for under the associated contract.

The following acts constitute fraud in procurement procedures:

- Overcharging – This consists of charging above prevailing market prices for goods and services. For example, the government pays R\$ 18 for medication that is sold for R\$ 7 in pharmacies. Overcharging is usually accompanied by corruption – manipulation or waiver of the procurement procedure – and may be the product of improper prior arrangements between bidders.
- Manipulation of the procurement procedure – The most common strategy used to manipulate procurement procedures is to require excessively stringent technical qualifications for the contracting of a particular service or product to the benefit of a single bidder. Another tactic involves failing to publish an invitation to tender in the Government Gazette. In the case of smaller procurements, the public official may consistently award the contract to the same company or select two competing bidders without the means or capacity to effectively compete with the beneficiary of the prior agreement.
- Prior agreement – Prior agreements may be concluded between the public official responsible for the procurement procedure or directly among bidders. In the first case, one of the participating companies is provided access to confidential information so as to ensure its success in the process. Another avenue consists of prior agreements among participants to tender specific proposals – a strategy known as “cover bidding” – or withdraw their proposals at the submission deadline in order to ensure one of them emerges victorious in the process, for purposes, in most cases, of securing the public contract at overcharged prices.
- Bidder collusion – Article 90 of Law 8666/93 defines bidder collusion as any act aimed at “thwarting or defrauding, by means of agreement, price fixing or any other instrument, the competitive character of the procurement procedure with a view to obtaining, for itself or a third party, an advantage arising from the awarding of a public contract.” An example of this practice occurs when a group of bidders obtains prior information regarding the tender submissions of other bidders and acts, based on that information and for purposes of defrauding the procurement procedure, to manipulate the process through agreements on the submission of above market price proposals.

Offense of administrative misconduct: Law 8429/92 defines the offense as improper administrative conduct arising from acts leading to the illicit enrichment of public officials or loss to the treasury or, further, a violation of the guiding principles of the public administration. Acts resulting in illicit enrichment include accepting for oneself or a third party money, movable or fixed assets, or any other financial advantage, directly or indirectly, received as a commission, percentage, bonus or gift from interested parties, directly or indirectly, committed or aided through actions or omissions of the public official in the performance of his or her duties. Similarly, acts resulting in loss to the treasury encompass permitting or endeavoring to ensure a natural or legal person has access to the use of assets, income, budget resources, or monetary amounts held by public entities. Finally, acts constituting violations of the guiding principles of the public administration would include disclosing or allowing third parties to gain knowledge, prior to official disclosure, as to the substance of political or economic policies affecting the price of merchandise, goods or services.

Note that the act of corruption is not confined to the public official, but includes the private agent as well. In certain situations, the improper offer may involve the private agent or the public official exclusively. For instance, the private agent may offer the bribe or other advantage to the public official, who then declines the offer. By the same token, the public official may solicit the bribe or other advantage, whereupon the private agent refuses payment. However, in general, corruption covers both actors: the corruptor and the corrupted, where both parties act unethically for purposes of obtaining undue gain.

Identifying every situation encompassed under the definition of corruption is, nonetheless, a difficult task. Bribe payment within Brazil or in international commercial transaction, trafficking in influence, abuse of the public trust, illicit enrichment, bribery in the private sector, money laundering and obstruction of justice are all acts subject to prevailing anticorruption legislation in various countries. And the more the public and private sectors engage in confronting the related offense, the easier it becomes to prevent them.

4.1. Corruption in the Private Sector: Figures and Lessons Learned

A 2003 survey by Transparency Brazil of private sector perceptions regarding corruption and fraud in Brazil found that 96% of all companies viewed corruption as a very significant or significant obstacle to business development in Brazil. Kroll's 2008 Global Fraud Report revealed that an average of 20% of a sample survey of 890 enterprises had suffered adverse effects from acts of corruption/bribery in the past three years. In this case, suffering adverse effects as a consequence of corruption does not necessarily mean the enterprise was a victim of corruption or that it committed an act of corruption. Rather, the respective damage may have resulted from acts of corruption commissioned by other enterprises in procurement procedures. In this light, preventing corruption is of interest to all enterprises.

Reports of enterprises engaging in corruption are widely published throughout the world. The 4th Biennial Global Economic Crime Survey released by PriceWaterhouseCoopers in 2007 found that corruption committed by companies was most prevalent in Africa (28%), Central and Eastern Europe (18%), the Asia-Pacific Region (14%) and Central and South America (11%).

In Brazil, as in other countries, particular episodes have been the subject of prominent media attention. Some of these warrant mention, as do the anticorruption measures adopted in response to these scandals.

Enron Corporation was an American energy company based in Houston, Texas. At its peak, the firm employed nearly 21,000 people and was a global leader in energy distribution (electric power, natural gas) and communications. Annual revenues topped US\$ 101 billion in 2000, shortly before the financial tsunami that brought about its demise. The target of innumerable charges of accounting and tax fraud, and saddled with a US\$ 13 billion debt obligation, Enron filed for bankruptcy in 2001, triggering, in the process, the collapse of Arthur Andersen, responsible for the company's financial audits. At the time, the investigations revealed that Enron had doctored its books with the aid and assistance of other companies and financial institutions, and concealed debt obligations of US\$ 25 billion incurred over a two-year period, thereby artificially inflating its profit margins. The American government filed a number of criminal suits against Enron and Andersen executives. Similarly, investors directly affected by the scandal filed claims against the company. Executive officers, accountants, financial institutions and law firms employed by the corporation were held liable for its collapse. In response to a series of scandals, including the Enron episode, the US Congress passed the Sarbanes-Oxley Act in 2002, with a view to preventing the potential for depletion in financial investments and investor flight sparked by mass uncertainty regarding corporate governance practices.

Corruption cases in Brazil have similarly prompted the federal executive branch, through the Office of the Comptroller General, to step up the measures to identify corrupt practices, promote public transparency policies and develop and disseminate policies to promote integrity in the public and private sectors, a prime example of which is this publication.

Other tools employed to promote public transparency include the implementation of the National Registry of Ineligible and Suspended Companies (Cadastro Nacional de Empresas Inidôneas e Suspensas - CEIS). Operated by the CGU, CEIS lists those companies subject to sanction by agencies and entities of the public administration at the various levels of government. The database serves as a reference for public administrators with responsibility for conducting public procurement procedures. The objective is to ensure all interested parties have direct and ready access to the pertinent data on a single link provided on the Transparency Portal (www.portaltransparencia.gov.br/ceis).

The companies listed on CEIS are ineligible to sign contracts with the government by virtue of irregularities committed in prior contracting or procurement procedures. In addition, the consolidated list prohibits a federal unit from contracting any company sanctioned in another federal unit.

A number of federal units operate their own registries on the issue. Some can be viewed by corporate taxpayer number (CNPJ) or as a list of enterprises. The objective of the CEIS system is to consolidate the enterprises entered in the disparate sources, providing their CNPJ, company name (corporate or trade name), start and end dates of the sanctions, in addition to the sanctioning body and information source.

In this way, the full range of suspended and ineligible companies is made available, facilitating the process by providing for searches by company name or information source. By consolidating the data maintained separately by the individual sources and streamline complex technical language, CEIS serves to augment transparency in this area.

In addition, to ensuring the accuracy of the information, the reporting body is indicated, enabling users to extend their inquiry by directly contacting the sanctioning agency.

4.2. Acts to be avoided by enterprises committed to business integrity and the public interest

Private and public enterprises intersect at various points. This is most evident in public procurement and license application procedures. However, even where the relationship is not as clearly delineated, all companies retain some connection to the public administration – such as the obligation to comply with government norms and enforcement procedures, pay taxes and so forth.

With this in mind, the present publication divides the acts companies committed to business integrity and the public interest should avoid into two categories: acts of corruption and acts against business integrity. However, it is important to underscore that acts of corruption and acts against business integrity are both classified as offenses.

4.2.1. Acts of Corruption

An act of corruption may be defined as a transaction or exchange between the individual who corrupts and the individual who allows him or herself to be corrupted. Acts of corruption correspond, in this context, to a promise or to compensation in exchange for conduct that favors the interests of the corruptor. It represents a specific form of illicit, illegal and illegitimate influence that undermines the single most important resource of the political system: its legitimacy.

There are sub-categories to corruption. One of these draws a distinction between minor corruption and major corruption. The former, according to Samuel Alves de Melo Junior in *A reforma política* (Political Reform) involves situations in which the public official makes use of his or her office to solicit bribes in exchange for the performance of a particular action. In this case, the private interest is represented by the public official who receives the bribe payment and the private agent who pays the bribe. This type of corruption occurs in the performance of the day-to-day activities of public officials, particularly those who interact directly with the public on a regular basis – a police officer, for instance, who someone attempts to bribe to avoid a traffic ticket. The resulting financial costs are, in general, less severe and the attendant repercussions reflected in reduced public confidence in government institutions.

By contrast, major corruption, according to Cláudio Weber Abramo in “O setor privado e a corrupção” (“The Private Sector and Corruption”), occurs during financial inspections and audits of large corporations, procurement and contracting procedures or the privatization of State sectors. In this case, the private interest is represented by companies or business groups. To combat major

corruption, it is imperative to promote educational initiatives and adopt policies and practices that foster or strive for integrity in the public and private sectors.

With this in mind, the following acts are defined as acts of corruption:

Bribery

A private agent engages in bribery when he or she offers a public official an undue advantage, whether monetary compensation or any other advantage, to perform a dishonest or illegal act, or, further to refrain from performing a required duty. When a company commits an act of bribery, it seeks to influence the public official to take decisions in favor of the company and against the public interest. This occurs, for example, where an advantage is offered to influence a public official for purposes of securing benefits, as in the following cases:

- the selection of a tender proposal in a procurement procedure, through payment of a bribe, in which the bribing enterprise's tender proposal is not the most advantageous for the public administration;
- the obtainment, through payment of a bribe, of a license to execute a specific activity, although the company does not comply with the minimum licensing requirements;
- the improper waiver of tax obligations and fines;
- the improper exemption from compliance with obligations.

Under Brazilian law, the acts described above are addressed in specific sections of the Brazilian Penal Code:

Extortion:

Article 316 – Demanding, for oneself or a third party, directly or indirectly, including subsequently or prior to the performance of a public function, any undue advantage:

Penalty – 1 to 8 years imprisonment and fine.

Passive Corruption:

Article 317 – Soliciting or receiving, for oneself or a third party, directly or indirectly, including subsequently and prior to the performance of a public function, any undue advantage, or accepting the promise of such advantage:

Penalty – 2 to 12 years imprisonment and fine.

Active Corruption:

Article 333 – Offering or promising any undue advantage to a public official to influence that public official to perform, refrain from performing or delay performance a function related to his or her official duties:

Penalty – 2 to 12 years imprisonment and fine.

The offense of corruption is also classified under other provisions of Brazilian law:

Offenses against the fiscal and economic order and consumer relations (Law 8137/90):

Article 3 – Active offenses against the fiscal order, in addition to those provided for under Decree-Law 2848 of 7 December 1940, Penal Code (Title XI, Chapter I), shall include:

(...)

II – demanding, soliciting or receiving, for oneself or a third party, directly or indirectly, including

subsequently or prior to the performance of a public function, any undue advantage, or accepting the promise of such advantage, to refrain from collecting or assessing tax obligations or social contributions, or collecting or assessing such obligations or contributions only partially.

Penalty – 3 to 8 years imprisonment and fine.

III – representing, directly or indirectly, private interests before financial authorities in the capacity as a public official.

Penalty – 1 to 4 years imprisonment and fine.

Offenses of Administrative Misconduct (Law 8429/92):

Article 9 – Administrative misconduct for illicit enrichment shall include obtainment of any undue financial or other advantage through the performance of a post, office, function, position or activity in the entities set forth in article I of this law, and specifically include:

I – receiving, for oneself or a third party, money, movable or fixed assets or any other financial advantage, directly or indirectly, as a commission, percentage, bonus or gift from a direct or indirect interested party potentially affected or benefited by the performance or non-performance of a public function;

II – obtaining a direct or indirect financial advantage to facilitate the acquisition, exchange or lease of a movable fixed asset, or the contracting of services by the entities referred to in article I, for an amount above market value;

III – obtaining any direct or indirect financial advantage to facilitate the transfer, exchange or lease of a public asset, or the delivery of a service by a State entity for an amount below market value;

(...)

V – receiving a direct or indirect financial advantage of any nature to enable the exploitation or practice of gambling, prostitution, trafficking in illegal narcotics, contraband, usury or any other illegal activity, or accepting or receiving the promise of such advantage;

VI – receiving a direct or indirect financial advantage of any nature to submit a fraudulent declaration on the measurement or evaluation of public works or any other service, or regarding the quantity, weight, measurement, quality or characteristics of merchandise or goods delivered to any of the entities referred to in article I of this Law;

(...)

VIII – accepting a position or appointment or exercising consulting or advisory activities for a natural or legal person with interests which could be affected or advanced by the performance or non-performance of functions arising in the course of the related activities;

IX – obtaining a financial advantage to secure the release or application of public budget resources of any nature;

X – receiving a direct or indirect financial advantage of any nature to refrain from performing a function in connection with an official duty, measure or declaration arising from the public official's duties.

Article 10 – Administrative misconduct shall constitute any act resulting in loss or damage to the treasury or intentional or unintentional omission leading to financial loss, misappropriation, misuse or waste of the assets or property of the entities referred to in article I of this Law, specifically:

I – facilitating or endeavoring in any way to incorporate assets, income, budget resources or amounts of the entities referred to in article I of this Law to the private asset holdings of a natural or legal person;

II – permitting or endeavoring to enable the use of assets, revenues, budget resources or amounts of the entities referred to in article I by a natural or legal person, in noncompliance with the applicable legal and regulatory norms;

(...)

IV – permitting or facilitating the transfer, exchange or lease of assets of any of the entities referred to in article I of this Law, or the delivery of services by such entities, for an amount below market value;

V – permitting or facilitating the acquisition, exchange or lease of an asset or service for an amount above

market value;

VI – executing a financial transaction in noncompliance with legal or regulatory norms or accepting insufficient or improper guarantees;

VIII – undermining the legality of procurement procedures or improperly waiving such procedures;

(...)

XII – permitting, facilitating or endeavoring to secure the illicit enrichment of a third party.

Transnational Bribery

The act by which a natural or legal person of a particular country, for instance, Brazil, bribes a public official of another country or of an international organization, to influence the public official to perform, refrain from performing or delay the performance of a public function in connection with an international commercial transaction. Bribery in international commercial transactions occurs, for example, when a company offers an advantage to influence a foreign public official with a view to obtaining benefit in the following cases:

- Payment of a bribe to an official of another country's health surveillance authority to influence the public official to authorize the export of a particular Brazilian food product to that country;
- Payment of a bribe to a public official to influence the public official to offer advantages to Brazilian enterprises in international procurement procedures;
- Payment of a bribe to an official of an international organization to influence the official to alter an evaluation report on a Brazilian enterprise.

The offense of active corruption in international commercial transactions is classified in article 337-B of the Brazilian Penal Code:

Article 337-B – Promising, offering or giving, whether directly or indirectly, an undue advantage to a foreign public official or third party to influence the public official to perform, refrain from performing or delaying performance of a function related to an international commercial transaction:

Penalty – 1 to 8 years imprisonment and fine.

Facilitation Payments

Payments made to national or international public officials to facilitate or accelerate a routine government action or, further, to expedite the execution of non-discretionary administrative activities, that is, any activity the public official is required to perform.

As set out in the beginning of this chapter, facilitation payments are prohibited in Brazil and considered acts of bribery. However, because certain countries, other than Brazil, allow for facilitation payments under very specific circumstances, an effective strategy to prevent bribe payments of any kind is to bar enterprises from offering facilitation payments in all countries with which they maintain commercial or financial transactions.

Examples of facilitation payments as forms of corruption include:

- Payment of an undue advantage to a public official to influence the official to expedite the preparation of an export authorization report;
- Payment of an undue advantage to a custom's official of another sovereign State to expedite the release of merchandise at a port or airport.

4.2.2. Acts against Business Integrity

There are certain acts which, while not covered under the definition of corruption, facilitate its occurrence and, as such, are considered criminal offenses and may not be practiced by enterprises in their day-to-day operations and public relations.

Payments of gifts, hospitality and travel in noncompliance with the applicable laws

In general, the incorporation and distribution of hospitality by companies is a normal feature of commercial relations. However, the offer of hospitality and gifts in relations with the public sector should be treated with caution. When a private institution or any individual offers a gift to a public official to influence the official's decisions, it engages in an act that undermines business integrity and ethics.

Examples of this are gifts offered by an enterprise to:

- a public agency with regulatory or enforcement responsibilities over the enterprise, with a view to influencing public officials to feel “obligated” to the company;
- advance a private interest through a decision taken by a public official;
- a public agency to which the company supplies goods or services or with which it maintains any type of commercial contract.

Although hospitality is viewed as a mere courtesy, form of publicity or regular advertising, or, further, as part of events or commemorative, historical or cultural occasions, public officials of the federal administration are prohibited from receiving hospitality of a value greater than R\$ 100.00 distributed at intervals of less than 12 months, or hospitality of any value offered by companies or persons with a vested interest in the decisions of a public official.

As with gifts, the offer of travel advantages involving fare discounts and seating upgrades, the use of private aircraft or payment for lodging and accommodations can also raise questions regarding business integrity and ethics, particularly when provided to a select number of public officials as a way of influencing government decisions.

Off-Book Accounts

The term “off-book” refers to unauthorized financial accounting – amounts transacted on the market but not officially registered – used to conceal illicit acts. Major corruption cases involving private institutions invariably include unauthorized financial resources not properly declared to the competent tax authorities.

Off-book accounts are often employed in money-laundering or tax evasions activities.

Examples of acts against business integrity involving off-book accounts include:

- issuing an invoice reflecting an amount below that of the actual transaction;
- issuing an invoice reflecting a product other than the one effectively delivered;
- failing to adequately record financial resource inflows;
- using a parallel accounting system to the official system.

Tax Evasion

Tax evasion is the act of failing to report total tax obligations owed or only partially reporting total tax obligations, altering documents and invoices, with a view to reducing the company's tax burden. In sum,

tax evasion occurs when the taxpayer, whether a natural person or legal person, ignores the obligation to provide information on taxes owed in order to deceive the National Tax System.

Acts of tax evasion include:

- selling a product at a lower price in exchange for waiver of the respective invoice;
- refusing to provide an invoice to a consumer;
- using false invoices;
- making false declarations or failing to submit declarations on income, assets or facts, or employing any other form of fraud to avoid the total or partial payment of tax obligations;
- defrauding the tax system by declaring inaccurate or failing to declare operational elements of any nature in a document or form required under the applicable tax and fiscal laws;
- falsifying or altering an invoice, receipt, copy or bill of sale or any other document related to taxable transactions.

Money Laundering

Money Laundering is the set of commercial or financial transactions aimed at creating the appearance that illicitly obtained proceeds incorporated to the financial system were, in fact, legally obtained. In less generic terms, money laundering may be defined as financial or commercial transactions through which one or more actors conceal or hide the origin of assets, rights and amounts derived from illicit activities to enable their use and prevent the application of State enforcement actions.

Examples of money laundering include:

- the purchase of a winning ticket in a game of chance from the ticket's legitimate owner through payment of an amount above the winning prize;
- the fraudulent purchase of real-estate in which the property is officially acquired at below market value – with the difference paid unofficially – and then officially sold at market value.
- the reporting by the proprietor of a hotel or similar business of proceeds derived from criminal activity as part of the business' official revenue flow, which is variable and difficult to measure.
- the use of rural property as a nutriment to the launder illicitly acquired financial resources by simulating the operation of livestock transactions, including where these do not, in practice, occur or occur only partially. The property owner declares “x” heads of livestock, registers the total with the competent body, obtains the respective invoices, purchases vaccine, simulates the sale and pays the applicable tax obligations.

Indirect Corruption through Support and Sponsorship Policies

To prevent the improper use of contributions and sponsorships for purposes of benefiting philanthropic, sport and charitable “shell” organizations (including entities used to finance terrorism or involved in money laundering, fraud or other criminal activities), policies and assessment tools should be implemented to regulate the grant of benefits and subsequent monitoring of the activities of organizations performed to ensure proper application of the authorized benefits.

Charitable contributions and sponsorships should not be undertaken by an enterprise nor solicited by personnel, suppliers or other business partners of an enterprise as a condition of or to influence decision-making, or to benefit any individual. The officials charged with authorizing contributions should examine the corresponding requests with a view to ensuring they do not pose a risk of potential conflicts or improper acts. Contributions from individuals in these organizations should be transparent, purely voluntary, exercise no effect on the enterprise's business decisions and comply with all integrity policies.

Examples of acts against integrity through the improper payment of contributions and sponsorships include:

- Payment to a government body to sponsor an official event in exchange for confidential information on a public procurement procedure;
- Contributions by a philanthropic shell institution in exchange for fiscal benefits.

4.3. Summary of corruption acts prohibited under Brazilian Law

Acts of Corruption	
Prohibited Acts	Examples of Irregular Acts
1. Bribery	
<p>Active corruption or bribery consist of offering or promising any undue advantage to a public official to influence the public official to perform, refrain from performing or delay performance of a function related to his or her official duties.</p> <p>The act of bribery occurs irrespective of whether the public official accepts the offer or promise. The offense takes place the moment the offer or promise is made, regardless of whether it is accepted or refused.</p> <p>The offense of active corruption is classified under article 333 of the Brazilian Penal Code.</p>	<ul style="list-style-type: none"> - Soliciting an attorney or accountant to offer “perks” to tax authorities to “soften” their oversight and enforcement activities. - Donating a vehicle to a member of the legislative branch to influence the member to advocate one’s interests before the chamber. - A bar owner in a residential neighborhood who pays a municipal agent (or his or her department head or, further, the mayor) to allow the establishment to continue operating in violation of the law. - A business owner who reaches an agreement with law enforcement officers on monthly protection payments for his or her business.
2. Transnational Bribery	
<p>The act by which a natural person of country A, Brazil, for instance, bribes a public official of country B, or of an International Organization, to influence that official to perform, refrain from performing or delay performance of a function related a an international commercial transaction.</p> <p>The offense of active corruption in international commercial transactions is classified under article 337-B of the Brazilian Penal Code.</p>	<ul style="list-style-type: none"> - Payment of a bribe to a health surveillance official of another country for purposes of securing authorization to export a particular Brazilian food product. - Payment of an amount to a lawmaker of another country to influence him or her to advocate the interests of an enterprise or business before the legislature of that country. - Payment of a bribe to the an official of an International Organization to alter an evaluation report on a Brazilian enterprise.
3. Facilitation Payments	
<p>Brazilian law classifies facilitation payments as active corruption, equivalent to bribery. A facilitation payment is any undue advantage aimed at expediting a process/procedure of the national and international Public Administration.</p> <p>In Brazil, facilitation payments are considered bribe payments. That is, they fall under the definition of active corruption, passive corruption and bribery of foreign public officials.</p>	<ul style="list-style-type: none"> - Payment of an undue advantage to a public official to expedite the preparation of an export authorization. - An individual urgently requiring a document (passport or driver’s license, for example) who pays a public official to expedite its issuance.

Acts against Business Integrity

Prohibited Acts	Examples of Irregular Acts
1. Money Laundering	
<p>Acts and procedures aimed at concealing or disguising the origin of illicitly obtained assets, rights and securities arising from specific criminal offenses.</p> <p>The offense of money laundering is provided for in Law 9616 of 3 March 1998.</p>	<ul style="list-style-type: none"> - Fraud in the purchase of real-estate, whereby offenders pay for a property at below market value, with the difference paid unofficially (under the table). The property is then sold at market value. - Opening a ghost company to simulate financial and commercial transactions.
2. Payment of Gifts, Hospitality and Travel in Noncompliance with the Applicable Laws	
<p>Institutions or individuals that offer gifts to public officials to influence their decisions engage in acts prejudicial to business integrity and ethics.</p>	<ul style="list-style-type: none"> - Offering travel discounts or upgrades in exchange for expediting an administrative procedure. - Offering hospitality with a value above R\$ 100.00 distribute in intervals of less than 12 months.
3. Off-Book Accounting	
<p>Off-book accounting is the practice by which an enterprise fails to report financial resources it is legally required to report. Another term sometimes employed is “unreported funds,” referring to financial resources that flow through the enterprise but are either not reported or inaccurately reported.</p> <p>The law governing the offense of tax evasion is Law 8137/90.</p>	<ul style="list-style-type: none"> - Issuing an invoice reflecting an amount below that of the transaction; - Issuing an invoice reflecting a product other than the one delivered; - Doctoring the enterprise’s financial statements to conceal unreported funds. - Employing parallel accounting systems.
4. Tax Evasion	
<p>Tax evasions consists of illicit acts perpetrated by enterprises seeking to reduce or avoid payment of tax obligations.</p> <p>Tax evasion is a fiscal offense provided for under Law 8137/90, which classifies offenses against the Tax and Economic Order and Consumer Relations.</p>	<ul style="list-style-type: none"> - Refusing to provide an invoice to a consumer; - Using false invoices; - Making false declarations or failing to declare income, assets or other facts, or resorting to other forms of fraud, to avoid payment, in whole or in part, of tax obligations; - Defrauding tax enforcement and oversight authorities by including inaccurate information or omitting transactions of any nature in a document, book or log required under the applicable tax laws; - Falsifying or altering an invoice, receipt, duplicata, bill of sale or any other document related to a taxable event.
5. Charitable Grants and Contributions	
<p>Care should be taken to ensure contributions and grants are not used as a form of indirect corruption to favor philanthropic, sport and charitable shell organizations through the implementation of policies and procedures, background investigations and evaluations of the beneficiary institutions and subsequent monitoring of their activities.</p>	<ul style="list-style-type: none"> - Sponsorship payments to an event in exchange for privileged information on a public procurement procedure. - Payment of a contribution to a philanthropic shell institution in exchange for tax benefits.

5. Initiatives of International and Non-Governmental Organizations for Business Integrity

Corruption undermines competition, raises costs, erodes the confidence of suppliers and customers and damages the reputation of enterprises. However, promoting business integrity requires far more than combating isolated acts of corruption as they arise. It is imperative, above all, to build the values of integrity in a sustainable manner. This, in turn, presupposes the development of rules and institutions to define standards of ethics and conduct.

Ethical values must serve as a pillar of any system of business integrity. Yet, it is not enough for these values to be incorporated in the strategies and attitudes of employees. They must be conveyed to suppliers and clients as well.

It was just over a decade ago that the international call for enterprises to adopt integrity as a component of business social responsibility began to take hold across the business community. A number of firms took steps to adopt codes of conduct and disseminate them both internally and throughout their networks of relationships. At the same time, non-governmental and international organizations developed strategies and studies to promote standards of integrity within private enterprises.

Some of the initiatives formulated to promote and publicize the principles and values of integrity at the national and international levels are described below.

5.1. Global Compact

Launched in 2000, the Global Compact (GC) was an initiative of former United Nations Secretary-General Kofi Anan designed to influence the actions of private companies through application of a set of values and principles. In eight years, the effort attracted over 6,200 social actors, including private enterprises, government and non-governmental organizations. The role of the United Nations is to convene and facilitate the activities of the GP. Current UN Secretary-General Ban Ki Moon has reaffirmed his support for the initiative.

Directed at the business community, the GC strives to incorporate values and principles that promote social responsibility in the business activities of private enterprises.

Initially, the Compact introduced nine principles of business social responsibility connected to the fields of human rights, labor rights and the environment. In June 2004, GC Principle 10, aimed explicitly at the effort to combat corruption, was added to the core body of principles:

“Businesses should work against all forms of corruption, including extortion and bribery.”

The principle not only requires GC participants to combat corruption, but to prevent corruption as well. In other words, it influences the actions of companies toward preventing bribery, extrusion and other forms of corruption, while stimulating the development and implementation of concrete policies and programs to incorporate the principle. These measures involve three elements:

- Internal – incorporate anticorruption policies and programs in the organization’s procedures;
- External – disseminate the efforts undertaken against corruption in the Annual Progress Report and

share experiences and best practices through examples and case studies to ensure awareness of business integrity is disseminated to other organizations;

- Collective Actions – join forces with partners and other stakeholders, with a view to enhancing results at reduced costs.

Though 2008, the Global Compact had drawn 6,662 participants, 286 from Brazil, including business firms, governments and non-governmental organizations. Of the total, 208 were private enterprises and a full 55 signatories to the Business Pact for Integrity and against Corruption discussed in 5.2 below.

Further information on the Global Compact is available at <http://www.unglobalcompact.org/> or <http://www.pactoglobal.org.br/>

5.2. Business Pact for Integrity and Against Corruption

The Business Pact for Integrity and against Corruption, or the Pact against Corruption, as it is often referred to, was launched on June 22, 2006 at the International Conference of the Ethos Institute.

The Pact grew out of an initiative of the Ethos Institute for Business and Social Responsibility *Patri Relações Governamentais & Políticas Públicas*, the United Nations Development Programme (UNDP), the United Nations Office on Drugs and Crime (UNODC), the Brazilian Committee of the Global Compact and the World Economic Forum (WEF), with the support of International Transparency.

Development of the Pact included contributions from private enterprises and civil society organizations put forth at seminars and collected through public consultations. Founded on the Charter of Social Responsibility Principles, the United Nations Convention against Corruption, Principle 10 of the Global Compact, OECD Guidelines for Multinational Enterprises and the Business Principles of Transparency International, the Pact sets out guidelines and procedures signatory companies and entities should adopt in their relations with government.

By signing on to the Pact, enterprises take a clear stand on behalf of integrity and against corruption in Brazil, undertaking to implement mechanisms to strengthen controls and transparency in the public-private relationship and enhance management in private sector interaction. In this way, the Pact promotes socially responsible relations with the different spheres of government and contributes to consolidating the principles of ethics and integrity in the political and corporate arena.

There are currently over 600 signatories to the Pact, including business firms and not-for-profit entities. Organizations may join the Pact at www.empresalimpa.org.br.

Some of the results achieved through the end of 2008 include:

- creation of the permanent Working Group (WG), composed of signatories and invited observers and aimed at assessing and proposing effective measures to fulfill the Pact; bolstering the mobilization and engagement of companies and not-for-profit entities; generating information and references to assist in promoting integrity and combating corruption; and integrating anticorruption networks. The following organizations make up the WG: AES Eletropaulo, BMF Bovespa, CPFL Energia, the Office of the Comptroller General (Controladoria-Geral da União – CGU), Creditar Contabilidade, Dudalina, EDP Energias do Brasil, Embaré Alimentos, Envolverde, E-stratégica, Fersol, Fiemg, Great Place to Work, Infraero, PNBE, Sadia, Samarco, Shell, Siemens, Suzano Holding, Suzano Papel e Celulose, Terra Sistemas, Unimed do Brasil, Votorantim Celulose e Papel (VCP) and Wal-Mart;
- establishment of the Working Group (WG) of pipe and pipe connector manufacturers in the basic sanitation industry, headed by Amanco do Brasil and supported by Transparency for Colombia, to develop

an industry-wide agreement on preventing and combating corruption;

- partnership with the Partnering Against Corruption Initiative of the World Economic Forum (PACI-WEF) to mobilize and expand the participation of companies in the related initiatives;
- participation in the creation of the Brazilian Coordination against Corruption and Impunity initiative with the support of Transparency International, in order to “contribute to a culture against corruption and impunity in Brazil by promoting and coordinating the actions of institutions, citizens and initiatives with a view to building a society founded on justice, democracy and solidarity.”

5.3. Partnering Against Corruption Initiative (PACI)

In the effort to combat global corruption, the Partnering Against Corruption Initiative of the World Economic Forum (PACI-WEF) was formally launched by CEOs in the engineering and construction and energy and mining industries in January 2004. Despite its narrow origins, the initiative is multisectoral and inclusive. That is, it is open to all enterprises, regardless of size, country of origin or membership in the World Economic Forum.

PACI is founded on the commitment of CEOs to a zero tolerance approach to corruption and the implementation of a practical and effective anticorruption program within enterprises. The initiative focuses special attention on the private sector by providing guidance on the anticorruption policies of governments and international organizations, in addition to building strong ties with important actors and institutions on the global stage with shared principles. An example of PACI's is the Business Principles against Bribery, which creates a common language for all industries, enterprises and entities that firmly believe corruption must be combated through the leadership and commitment of individuals at the highest levels.

PACI is an initiative of multiple stakeholders that works with a number of organizations, including:

- Basel Institute on Governance;
- International Chamber of Commerce (ICC);
- Organisation for Economic Co-operation and Development (OECD);
- Transparency International (TI);
- United Nations Global Compact (PG);
- Selected multilateral development banks and international financial institutions.

5.4. OECD Convention

The Convention on Combating Bribery of Foreign Public Officials in International Commercial Transactions (OECD Convention) represents a milestone in international cooperation to prevent and repress bribery of foreign public officials in the commercial transactions between countries.

The instrument requires States Parties to make bribery of foreign public officials a criminal offense, to which end it sets forth the respective obligations of governments, enterprises, public accountants, attorneys and civil society. In short, under the Convention any enterprise engaged in bribery in another country is subject to administrative, civil and criminal liability in its country of origin.

The OECD Convention served to stimulate several of the countries with the largest shares of global trade and investment flows to undertake joint action to counter corrupt activities by adapting their legislation and implementing effective control mechanisms. Further, in an age of advancing globalization the Convention guarantees a level playing field among enterprises in the international trade arena.

Following ratification of the Convention in Brazil, the instrument was enacted into law, becoming fully applicable and enforceable throughout the country.

To learn more about the Convention and the respective obligations of enterprises and their employees, and government, under the instrument, go to www.cgu.gov.br/ocde.

BRIBERY OF FOREIGN PUBLIC OFFICIALS

The Brazilian Penal Code makes it a criminal offense to promise, offer or give, directly or indirectly, any improper advantage to a foreign public official, or a third party, to perform, refrain from performing or delay performance of a function related to an international commercial transaction. It is also a criminal offense for a public official to solicit, demand, charge or obtain, for him or herself or a third party, either directly or indirectly, any advantage or promise of an advantage in exchange for influencing, in the performance of a function, international business.

The Penal Code defines a foreign public official as any person holding a public office, post or function in a State agency or diplomatic representation of a foreign country. The offense of bribery of a public foreign official is therefore applicable irrespective of the value of the advantage, its results, perceptions of local custom, the tolerance of such payments by local authorities or the alleged necessity of the payment in order to obtain or retain business or other improper advantage. The applicable sanctions include fine and/or imprisonment.

In addition, article 337-B provides that criminal offenses may be committed “directly or indirectly.” The term “indirectly” encompasses commission of the offense “through an intermediary.” In other words, the criminal liability of the intellectual author persists, irrespective of whether the intermediary has knowledge as to the illegality of the act or not. The criminal liability of the intermediary is contingent on a subjective element: he or she must have knowledge that the act serves the commission of a criminal offense and, having that knowledge, choose to commit the act anyway.

Despite the unambiguousness of the statute in respect to the classification of the offense of bribery of foreign public officials and the applicable sanctions, a key question remains: what channels are available to share information and report offenses? Do local government offer any mechanisms for the employees of private enterprises to report illicit acts? Can enterprises make use of Ombudsmen or other reporting channels provided by local governments or international organizations? Can they turn to diplomatic channels?

There is a temptation, on occasion, to criticize the laws, customs and traditions of countries which seem odd or inconsistent with ours. In certain cases, what is an illicit practice in one country is perfectly within the law in another. A good example is facilitation payments, deemed legal in some countries yet classified as an act of corruption in Brazil.

Familiarity with local rules and customs is therefore essential to the operations of multinational firms and their employees, given their overriding responsibility to ensure compliance with the applicable laws of their countries of operation. To this end, enterprises and their employees should consider a number of principles that can serve as a basis for harmonious coexistence in other countries:

- Full compliance with all domestic laws and those of their countries of operation;
- Exemplary conduct by corporate officers, who should serve as a models for their employees and partners;
- Proper relationships with suppliers and clients, prohibiting passive corruption with the former and active corruption with the latter through the receipt or offer of gifts;
- Clear separation between business expenses and personal expenses;
- Prohibition on relationships with commercial partners for private ends;
- Special attention to areas susceptible to conflicts of interest;
- Ensure fulfillment of all transparency requirements in contributing to political parties or candidates.

To ensure compliance with these principles, enterprises should implement measures with a view to preventing conflicts of interest arising from differences in custom and law:

- Training of employees and ongoing education and awareness-raising;
- Personnel rotation in sensitive areas;
- Efficient internal controls, division of responsibilities and comprehensive and complete documentation of the activities of the enterprise;
- Contractor rotation at regular intervals.

Enterprises can adopt these measures and observe the principles laid out above, and yet their employees may still become aware of acts of corruption or encounter requests to commit acts of corruption. In these cases, employees should report the respective violations. Some countries have specific bodies charged and empowered to investigate, combat and receive complaints of bribery of foreign public officials. An example is Korea's Independent Commission against Corruption (KICAC), an agency authorized to receive complaints and protect and offer rewards to individuals who furnish information on bribery of foreign public officials.

Another example is the World Bank (IBRD), which investigates allegations of fraud and corruption perpetrated by employees of the institution. The IBRD accepts internal and external complaints through telephone contacts, email or correspondence. Additionally, companies victimized by acts corruption or solicited for bribes can file a complaint with the US Department of Commerce's Trade Compliance Center.

In Brazil, the Office of the Comptroller General (CGU) receives reports on matters related to safeguarding public property, controlling the application of federal resources, administrative discipline, preventing and combating corruption, Ombudsman activities and increasing management transparency in the federal public administration. Reports of bribery of foreign public officials by businesses operating in Brazil may be entered through completion and submission of the electronic complaint form available at <http://www.cgu.gov.br/Denuncias/formDenuncia.asp> or written correspondence.

5.5. EITI – Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative – EITI is a voluntary coalition of governments, enterprises, investors and civil society organizations. It provides support to the efforts of oil, gas and mining enterprises in developed countries to strengthen governance through the full publication and verification of business payments and government income in oil, gas and other mineral resources.

Ensuring the transparency of what governments take in and what companies pay out is an important step toward assuring the accountability of officials responsible for managing public resources. In implementing EITI, countries accrue the benefits of a more propitious investment setting. The commitment of government to transparency and accountability in regard to the income derived from natural resources represents a clear signal of commitment and seriousness for investors and international financial institutions.

In sum, introducing EITI as a component of the program to strengthen the public administration can contribute to assuring that the income generated from oil, gas and other mineral resources are applied toward sustainable development and poverty reduction.

5.6. World Bank – Handbook for Small Business

The objective of the Handbook for Small Business is to address the legal, competitive, economic and ethical hurdles imposed by corruption on the segment across the world. Although developed for small firms, the handbook is equally useful for governments and other organizations concerned with reducing corruption.

The handbook sets out the benefits of “collective action,” a sustainable and collaborative process between interested parties, and its uses. It offers incentives to enterprises to become actively involved, clearly demonstrating, in this way, that the private sector can be part of the solution to preventing and combating corruption. In addition, the handbook describes how collective action can serve to assist small- and medium-sized enterprises in the fight against corruption by forging a broad alliance to support smaller participants.

The World Bank publication discusses the following ideas in respect to the participation of small- and medium-sized enterprises in preventing and combating corruption.

- Small- and medium-sized enterprises are disproportionately affected by corruption and often face a shortage of financial and human resources to establish systems to prevent its occurrence;
- With the exception of the normal risks of doing business, corruption is the leading cause of bankruptcy in small- and medium-sized enterprises – particularly in developing and emerging markets;
- Collective action can serve as a solution to leverage the power of small- and medium-sized enterprises to resist corruption;
- Professional and business associations are often a first line of support for small- and medium-sized enterprises in the development of improved anticorruption systems, while similarly providing a platform to for collectively preventing and combating corruption;
- A number of professional and business associations that work with small- and medium-sized enterprises have developed basic and efficient anticorruption tools for a variety of risk scenarios.

WHAT IS COLLECTIVE ACTION?

- A sustainable and collaborative process between interested parties;
- A channel for enhancing the impact and credibility of individual actions;
- An avenue to transform vulnerable individual players into an alliance of organizations with common objectives;
- A solution to level the playing field among enterprises;
- A strategy to supplement, or temporarily substitute, weak local anticorruption laws.

HOWEVER: Collective action is not fashioned quickly or easily. Above all, it requires patience, hard work and diligence.

6. Good Practices for High Integrity Enterprises

To prevent and combat poor governance practices, the private sector must assume proactive positions in adopting ethical and integrity values and principles in their businesses by rejecting out of hand illegal, illegitimate or corrupt acts.

Enterprises have a duty to implement specific programs to consolidate these values and principles and, in this way, convey an unambiguous commitment to ethics, integrity and anticorruption to various segments, including employees, suppliers, shareholders, competitors and so forth.

These programs should center on prevention, that is, on averting unethical and corrupt practices. They should also provide for corrective measures in the event of conduct within the organizational environment in contravention of the principles of the enterprise. To this end, awareness-raising, guidance and capacity-building are critical to ensure ethical and integrity decision-making and attitudes.

CASE 1: EDP ENERGIAS DO BRASIL AND THE UNITED NATIONS GLOBAL COMPACT

In 2006, EDP Energias do Brasil joined the United Nations Global Compact, an initiative aimed at addressing fundamental issues tied to human rights, labor rights, the environment and anticorruption in the business community.

The decision served to reaffirm the company's intention to pursue sustainability and the commitment to support the Global Compact's principles, by not merely adhering to them but publicizing their application. The company renewed this commitment in 2007 through submission of Communication on Progress (COP), a report ratifying its determination to join the challenge.

In that same year, EDP Energias do Brasil unveiled new policies in support of its positions on Sustainability; Discrimination and Harassment; Child and Slave Labor; Corruption; Bribery and Kickbacks; the Environment; Health and Safety; Labor Relations; Diversity Promotion; Communications; and Intangible Assets. The new policies were distributed to all associates and collaborators and posted on the Internet and the company's Intranet site.

In January 2007, EDP-Energias joined the World Business Council for Sustainable Development (WBCSD) and in May of the same year signed a partnership with the Akatu Institute, a non-governmental organization engaged in raising awareness and mobilizing the Brazilian public on conscientious consumption. The WBCSD is part of the World Business Council for Sustainable Development network, a coalition of corporate executives representing 200 leading global enterprises aimed at environmental excellence and the principles of sustainable development. In 2007, the company also signed the Business Pact for Integrity and Against Corruption, a voluntary commitment by enterprises to work for ethics and business.

This section lays out a range of preventive measures and a number of corrective measures enterprises committed to adopting and disseminating ethical and integrity values, principles and attitudes should institute.

6.1. Implementing Integrity and Anticorruption Programs

As described above, the objective of integrity programs is to ensure the overlap of institutional arrangements, management, controls and regulations to promote transparency and reduce the risk of conduct that violates integrity principles. The implementation of these programs is related to the adoption of tools to prevent the occurrence of corruption cases.

CASE 2: FERSOL – ANTICORRUPTION PACT AS A TOOL FOR A NEW BUSINESS CULTURE

Fersol S/A, a chemical firm based in Mairinque (SP), was one of the first enterprises to sign on to the Business Pact for Integrity and Against Corruption, an initiative of the Ethos Institute for Business and Social Responsibility.

The Pact was officially launched on June 22, 2006, at the International Conference of the Ethos Institute in São Paulo. Yet, prior to the Pact's official adoption, Ferson had been actively engaged in incorporating its key recommendations in the work environment. On June 14, the firm convened a meeting with the participation of employees to officially announce adherence to the Pact. The Dona Catarina neighborhood, where the company is based, and the Mairinque municipal government signed the document as well, publicly undertaking to boost direct consultations with the local population through periodic government activities. More than 150 signatures were collected.

The company's gesture revealed that the organization was not satisfied with simply waving the flag of business and social responsibility. It was imperative that all parties be involved and understand the importance of the anticorruption pact.

Since that time, Fersol has hued to the same philosophy, notwithstanding the challenging environment its business segment (agriculture) has faced in recent years. The firm continues to promote actions on behalf of citizenship, relying strictly on in-house resources for its initiatives. Fersol, it should be noted, is not part of an oligopoly or monopoly, nor does it accept financing from public financial institutions or tax deductions for its projects and commercial activities.

"We believe values such as transparency and ethics should be part of the DNA of any organization and that combating corruption requires adopting a new business posture," says the company's president, Michael Haradom. In Haradom's view, "It serves no purpose to criticize corrupt politician when many members of the business community indulge in under the table dealings for private gain." Guided by the principle that critical consciousness serves to promote citizenship, Fersol has sponsored training programs in politics, philosophy and the culture of peace since 2004, while encouraging its employees and the local community to take active part in social movements, labor unions and political parties.

Further information can be obtained from Michael Haradom, (11) 3038-1700. Site: www.fersol.com.br.

One of the objectives of any integrity program is to keep employees and staff informed on the rules and procedures of the enterprise, in addition to potential disciplinary sanctions for violations. To this end, the full commitment of corporate officers to ethics and integrity and the strategies to promote the related principles is essential both in terms of the applicable rules and procedures and decisions taken by staff, irrespective of their position or place on the pecking order.

Any integrity program should encompass:

- Development of codes of conduct;
- Implementation of a permanent communications policy;
- Creation of an ethics committee;
- Establishment of an ethical hiring system;
- Implementation of an internal control system.

6.1.1. Development of Codes of Conduct

Codes of conduct set out the ethical values of the enterprise, taking into account specific problems arising from the challenges faced within the organization, in addition to the standards of conduct for personnel in a range of circumstances and scenarios.

Every enterprise should develop a code of conduct directed to its specificities. The code serves to provide all agents operating on behalf or in name of the enterprise and other stakeholders with full knowledge of the principles, values, standards and types of permissible activities and expected conduct in the enterprise.

CASE 3 – SAMARCO CODE OF CONDUCT

In June 2002, on the occasion of its 25th anniversary, Samarco published its first Code of Conduct – a set of standards and ethical principles to be adopted by company professionals in their relations with different stakeholders.

In essence, the document lays out policies and practices already pursued by management: the spirit of collaboration and a long-term vision, both centered on sustainable development.

The document not only reflects Samarco's corporate strategy, but Principle 10 of the United Nations Global Compact, emphasizing issues related to the respect for human rights and based on concepts provided for in the legislation, treaties, regulations and principles adopted by society.

In developing the Code of Conduct, Samarco organized debates and discussions with employees and established a commission to coordinate the work. The firm also turned to other codes of ethics and received the support of specialized consulting services in human resources.

In 2006, the document was revised and reformulated, including greater detail in particular sections and an online site to facilitate consultation. However, the essence of the document was preserved to the extent the company's commitment to ethical conduct in its relationships remained unwavering.

The code is delivered to employees, contractors, clients and suppliers, who, in turn, sign a term of commitment to adhere to the provisions set forth in the code. At the same time, the company's performance is monitored by an Ombudsman department tasked with providing an accessible channel through which individuals can address sensitive matters, including reports of misconduct or abuse of power. The Ombudsman is the officer with primary responsibility for receiving and investigating complaints.

In 2008, Samarco's Code of Conduct was submitted to a third review, similar to the previous two, with the direct participation of staff. This particular governance strategy conferred greater transparency to the document, while serving to renew the feeling of belonging within the organization.

For further information, contact Rosângela Ferreira, General Manager for Sustainable Development. (27) 3361-9114. rosangela@samarco.com. Site: www.samarco.com

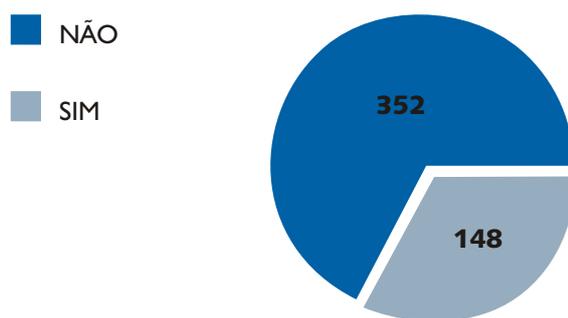
An important aspect of the code of conduct involves the position the organization adopts in relation to corruption and acts capable of undermining ethics and integrity in general. The document should stress the rejection to conduct such as bribe offers, facilitation payments, lack of transparency and accountability in political financing, tax evasion, overbilling, among other acts prejudicial to the public interest.

The code of conduct should encompass practical and concrete situations faced in the course of day-to-day activities which could generate ethical conflicts, as well as the standards expected of employees in addressing these conflicts. In addition, the code should spell out the sanctions for violating the applicable rules.

To ensure the enterprise’s code of conduct is implemented effectively, the participation of employees representing the various sectors and hierarchical levels within the organization is vital during the development process. Further, the code of conduct should be updated as necessary.

It is important to pay particular attention to the language used in the development process to ensure the related content is understood throughout the organization. Ideas should be expressed in a straightforward and clear manner, while expressions capable of complicating full understanding of the text should be excised.

In February 2008, the Brazilian Institute for Ethics in Business (www.eticanosnegocios.org.br) conducted a survey of 500 of Brazil’s leading enterprises on its website. The study found that a majority of participants apply a code of conduct to resolve ethical questions arising in the course of day-to-day operations and disseminate the respective policies and principles to stakeholders.



Graph I: Of the 500 leading enterprises in Brazil, 29.6% have or publish a code of ethics on their national corporate website



Graph II: Of the 352 enterprises operating in Brazil that do not have or publish a code of ethics, 29.8% (105), representing foreign multinational firms, provide a code of ethics on their global websites.

The Minas Gerais State Manufacturers’ Association (Federação das Indústrias do Estado de Minas Gerais – FIEMG) prepared a guide to assist enterprises in the development and dissemination of their codes of conduct. The information provided in the publications includes the following guidelines:

STEP BY STEP DEVELOPMENT OF A CODE OF CONDUCT:

1° The decision to prepare a Code of Conduct should emanate from a well-considered and prudent decision by shareholders and corporate leadership;

2° The draft should be prepared by a group of individuals – preferably representatives of various sectors of within the organization – who have demonstrated a capacity to understand, accept and practice the beliefs, values, meanings and premises underlying the organization’s culture;

3° After review by corporate directors, the draft should be submitted to company managers and department heads, with a view to elaborating, improving and adjusting it to the requirements and specific characteristics of the organization’s different sectors;

4° Initial dissemination and preliminary training in the code’s day-to-day application should be conducted by the leaders and heads of each individual department tasked with educating personnel in the various sectors;

5° Observations and questions raised in this stage should be submitted to the Drafting Committee to analyze the possibility of their incorporation in the final draft;

6° On conclusion of the participatory drafting stage, the final version of the Code of Conduct should be printed, preferably in pocket book format to enable immediate consultation by organization members in their day-to-day activities.

7° Distribution of the Code of Conduct to employees should be undertaken in an official and formal manner (jointly with other sectors of the organization, at which time members should sign a statement of commitment to the rules and principles set forth in the Code.

Source: FIEMG, available: www.fiemg.com.br/cidadania

Additionally, the code of conduct should include several other significant topics. In their absence, the enterprise would face the risk of abrogating its legal requirements or, further, missing an opportunity to boost results. With this in mind, the code should address:

- The organization’s core values, including the commitment to ethics and integrity;
- A commitment to fulfill all applicable laws and regulations;
- Conflicts of interest and insider trading;
- Gifts and hospitality;
- The appropriate use of company assets and information;
- Fair and dignified treatment in external and internal business transactions;
- Transparency, timeliness and accuracy in all disclosures to the public and the provision of legally required information;
- Substance abuse and violence in the workplace;
- Political contributions and activities;
- Contracting with the government (where applicable).

6.1.2. Implementing a Permanent Communication Policy

Beyond drafting the code of conduct, it is important that enterprises establish mechanisms to publicize and fulfill the code, to the extent its mere publication does not guarantee effective application. In this

regard, efforts should be made to notify stakeholders, particularly organization members, of the document's implementation.

Stakeholders should receive the proper guidance through course programs and seminars aimed at training and motivating employees and a permanent communication channel to clarify questions involving the application of the pertinent rules.

Other activities to disseminate the ethical principles and values of enterprises include the publication of internal newsletters for employees; a separate space on the Intranet devoted to ethics; dissemination of examples of good practices of ethical conduct; posting of pamphlets and announcements on bulletin boards; presentation of positive results obtained from the implementation of the code of conduct; and incorporation of the ethical and integrity principles and values in the organization's mission and vision statements.

CASE 4 – “OPEN-DOOR POLICY” – WAL-MART BRASIL

Since its arrival to Brazil in 1995, Wal-Mart Brasil has endeavored to build a business based on three central principles: respect for the individual, customer service and the pursuit of excellence. The second of these three pillars provided the foundation for the company's “Open Door Policy,” an internal procedure that ensures direct communication between employees and leaders. The policy serves to encourage all associates to report potential violations of internal company policy and the Code of Ethics to managers and the Human Resources department.

In the event the “Open Door Policy” cannot be applied for any reason, employees have alternative channels available to them through which they can communicate directly with leaders in a secure and effective manner without fear of reprisal, an essential ingredient given the firm's commitment to guarantee the confidentiality and anonymity of all contacts.

The various communication channels are critical to meet the needs of the different audiences with which Wal-Mart Brasil interacts. The first of these is the Customer Relations Center (Central de Relacionamento com o Cliente – CRC). It is aimed at external audiences. Internally Wal-Mart Brasil established an Ethics and Conformity Department, which has primary responsibility for the channels directed specifically to employees, suppliers and service providers. Reports and communications may be entered over a dedicated telephone line (0800) or by email.

The objective of these communication channels is to identify situations capable of undermining the company's workplace environment and, more importantly, the overall integrity of the business.

Faced with an allegation from any of these groups, the Ethics and Conformity Department is authorized to issue an alert, which automatically mobilizes field teams to conduct an investigation. The entire process is entered in a secure internal system set up to map each stage of the process, thereby guaranteeing transparency and certainty.

The tool enables the company to combat the full range of violations of conduct and integrity, in addition to preventing fraud and other practices that could pose a risk to Wal-Mart's reputation in Brazil and globally.

For more information, contact the Ethics and Conformity Department of Wal-Mart Brasil at e-mail etica@wal-mart.com or visit: www.walmartbrasil.com.br

The code of conduct should be disseminated to other groups with which enterprises maintain relationships, including suppliers, shareholders and government authorities. Moreover, ensuring an ethical position vis-à-vis competitors is critical to combat unfair competitive practices.

Any enterprise that strives to ensure integrity must build a system to publicize its values in the workplace, so as to effectively apply them in their relationships with stakeholders. This enables the enterprise to convey the principles and values undergirding its activities to third parties in a clear and objective manner.

CASE 5 – FIEMG: IMPLEMENTATION OF A PERMANENT COMMUNICATION POLICY

After joining the Business Pact for Integrity and Against Corruption in 2006, the Minas Gerais State Manufacturers' Association (Federação das Indústrias do Estado de Minas Gerais – FIEMG) took on the responsibility to disseminate the adoption of ethical business principles by members and to instruct them to extend the initiative to their respective supply chains. To this end, the entity has produced information on the topic and implemented communication strategies to distribute that information to members.

Examples include the FIEMG Methodological Guide for the Preparation of Codes of Ethics in Enterprises, released in late 2007. In addition to providing step-by-step instructions on preparing codes of ethics, the guide discusses concepts connected to business integrity, such as “social capital,” “reputation and brand,” and “confidence and prosperity.” The publication also offers a chapter on giving publicity to codes of ethics to strategic audiences, in line with FIEMG’s goal of disseminating ethical principles throughout the industrial supply chain.

The idea is to create a permanent multiplier network among industrial firms in Minas Gerais rooted in high integrity standards and aimed at promoting continuing discussion on ethics. To this end, communications have played a fundamental role in mobilizing industrial enterprises in Minas Gerais. The related efforts have been pursued within the framework of the FIEMG Movement for Ethics and Integrity in Business, an initiative launched in 2006. Through the program, FIEMG gives publicity to the ethics guidelines and procedures set out in the Pact Against Corruption.

In 2007, the Movement’s primary partnerships were forged, with the principal initiatives centered on structuring the new program. Today, the Strategic Committee of the FIEMG Movement for Ethics and Integrity in Business is composed of the Ethos Institute; the United Nations Development Programme (UNDP); the Avina Foundation, the Public Prosecutor’s Office; the Minas Gerais State Government; the Dom Cabral Foundation; Samarco; Belgo Arcelor; the Office of Comptroller General; the Comunitas NGO; the Internal Revenue Service; Servas and the Brazilian Committee of the Global Compact.

A milestone in the program’s theoretical development took place in April 2007 with the organization of the Social Responsibility Seminar – III International Meeting in Belo Horizonte. It was agreed at the time that the FIEMG Movement for Ethics and Integrity in Business should not be confined to raising awareness among representatives of business, but should endeavor to teach the values of and produce information on ethics and integrity in business. In response, FIEMG developed the Integrity and Confidence in Business training program to prepare multipliers and form a critical mass of entrepreneurs on the topic. The Diga Não à Corrupção (Say No to Corruption) campaign is another tool employed by FIEMG to disseminate the Pact Against Corruption in Minas Gerais. The association has also promoted a series of internal and external events to this end. A further effort involves capacity-building for educators in SESI (Industrial Social Service) and SENAI (National Service for Vocational Training in Industry) institutions to administer classes on ethics and produce educational support materials.

6.1.3. Creation of an Ethics Committee

The implementation of standards on ethical rules does not by itself guarantee ethical conduct. The standards must be disseminated and monitored within enterprises so that all employees and associates have full knowledge of and understand them.

To this end, enterprises should set up ethic committees to educate personnel and monitor ethics in the workplace.

The committees should be charged with developing strategies and policies to promote, as well as ensure, publicity, build capacity, provide training and offer guidance on ethics for purposes of applying the rules of conduct governing the performance of day-to-day activities by employees.

The committees also have responsibility for monitoring compliance with the applicable standards of conduct through the investigation of irregularities and application of corrective sanctions aimed at punishing offending employees.

Therefore, ethics committees are tasked with promoting preventive activities and applying penalties, where necessary.

CASE 6: CPFL ENERGIA ETHICS COMMITTEE

In 2001, CPFL Energia implemented an Ethics Management System and prepared a preliminary version of a Code of Business Ethics and Conduct. In 2002 and 2003, a series of seminars administered by philosophers and educators were organized to disseminate the code among collaborators and draw contributions for the new draft of the document, released in 2006.

To address the changes in the company's organizational structure and ensure the representativeness of public interests, the Management System was restructured in 2006 through incorporation of the following provisions:

- Access Channels: tied to the Ombudsman and available to internal and external audiences to clarify questions and receive complaints of unethical conduct, while ensuring the necessary secrecy and confidentiality;
- Program for the Dissemination and Assimilation of the Code: implemented by the CPFL Energia Group for purposes of organizing seminars for collaborators, suppliers and partners to reflect and draw input on potential vulnerabilities of the company and enhance the Code;
- Ethics Network: established by a group of fully trained and network integrated collaborators in different areas of the organization, in the light of the scope of the company's activities, to support and facilitate fulfillment of the commitments undertaken in the Code;
- Ethics Advising Corner: a virtual space available to the internal audience to foster discussion on ethical questions raised by collaborators and serve as a channel to provide advice and guidance on ethical questions and conflicts;
- Ethics Committee.

The Ethics Committee is the principal instrument of the Management System, ensuring the legitimacy, respect and continuous enhancement of the Code. The committee is composed of six members designated to two-year terms representing areas ranging from vice-presidencies, corporate communications office, human resources, the legal office of the internal audit unit (which reports directly to the board of directors) and the employee committee. The committee

also includes the participation of a representative of civil society, with a view to ensuring the practical implementation of CPFL Energia's commitment to transparency in its relations with external audiences. Members receive specific training in ethics management within the enterprise. The objective of the capacity-building effort is to refine the Code – in respect particularly to “moral personnel” and the responsibility of committee members to develop ethics within CPFL Energia – and elaborate on issues such as sustainability, moral harassment, conflicts of interest and quality of life.

The goal of the committee's work is to safeguard the firm's culture of ethics and review suggestions, complaints and reports of transgressions against the Code of Ethics by individuals within the organization's network of relationships. In regard to reports of wrongdoing, the board of directors may be prompted to action if the alleged offender is a statutory board member. The committee is further charged with arbitrating disputes, giving publicity to its decisions, updating the board on a regular basis concerning ongoing actions and submitting information and recommendation annually in the area of corporate governance to ensure the compliance of internal controls with the Lei Sarbanes-Oxley Act.

The activities of the Ethics Committee are performed on a monthly basis and are regulated by the Internal Rules of Procedure. Gaps in the Code, such as specific types of personal conduct not provided for, are filled through guidance notices. For their part, the notices are publicized over internal communication channels, including the Intranet, news bulletins and postings on bulletin boards. The Online Ethics Portal (www.cpf.com.br/etica) is an important tool to clarify questions, exchange information and draw suggestions to improve the Management System.

For more information, go to sustentabilidade@cpf.com.br

Finally, the members of the Ethics Committee should have in-depth knowledge of the policies of the enterprise – standards, rules, objectives and goals – and be conscious of the seriousness of their work, in addition to maintaining a spotless reputation.

6.1.4. Instituting an Ethical Hiring System

The commitment of enterprises to ethical values and principles depends overwhelmingly on the conduct of its employees and other agents acting on their behalf. Therefore, the efforts to disseminate ethical values and principles are important to effect changes in conduct.

In conjunction with the actions directed to employees of the organization, it is of fundamental relevance to develop criteria for job applicants and prospective agents. Effectively reorienting the behavior of agents with no sense of commitment to ethics and integrity can often prove difficult. In certain cases, they may not be willing to forego particular perks and benefits in exchange for adhering to ethical principles. In view of this, the enterprise should adopt an ethically based approach to the selection of employees and agents by incorporating aspects connected to the values and conduct of candidates during the hiring process as a complement to traditional criteria such as qualification and experience.

In addition, specific training is recommended for new hires to inculcate the enterprise's anticorruption stance and commitment to ethical principles in the daily conduct of activities by employees.

6.1.5. Implementation of Internal Control and Audit Systems

In organizations with weak control mechanisms, the probability of errors, waste and fraud, including those arising from acts of corruption, rises. To prevent schemes, collusion, doctored statements, corruption and fraud – ranging from the most basic to the most elaborate schemes – the enterprise should implement or review internal control principles.

Internal control is the set of actions, methods, procedures and routines enterprises apply to their actions in order to preserve the integrity of their assets and verify the compatibility of ongoing operations to pre-established parameters and approved principles and goals. The objective is to reduce the susceptibility of enterprises to existing risks by identifying and correcting deviations from established parameters and guidelines, including accounting and financial procedure.

CASE 7: AT AES ELETROPAULO THE COMMITMENT TO INTEGRITY EXTENDS TO THE OUR BUSINESS PARTNERS

At AES Eletropaulo, ethics go far beyond the boundaries of a particular program, code or department. They are a daily and continuous practice that permeates the entire organization, measured through an array of metrics broadly disseminated internally, audited, integrally bound to the company's strategic map and widely recognized. Since 2008, employees who stand out for their commitment to the Values of the Company receive an award directly from the organization's president and are publicly recognized and honored, in addition to having their stories published in the group's in-house magazine, 10,000 copies of which are distributed every month.

These practices extend to the AES's other affiliate firms in Brazil and are part of the global Ethics and Compliance program adopted by AES, an energy company with operations in 26 countries on 5 continents, net earnings of US\$ 16.1 billion in 2008 and 30,000 direct employees serving 100 million persons worldwide. In Brazil, AES Eletropaulo provides services to 5.7 million users and AES Sul another 1.1 million. In 2008, the two companies combined for net earnings of over R\$ 11.4 billion and consolidated profits of R\$ 1.7 billion.

AES's commitment to integrity is broadly disseminated through training programs in Ethics and Values for employees and suppliers. Every month, leaders meet with their staff for a "Lecture on Ethics" to flesh out concepts regarding the adequate use of the Internet and email accounts, questions regarding how to address gift and hospitality offers, anticorruption and other subjects.

A pillar of the culture involves due diligence for compliance related to potential suppliers and business partners of the AES group. With the assistance of a range of research tools, a group of professionals exclusively devoted to the task verify whether potential suppliers and business partners have a history of "fraud," "corruption," "bribery," "money laundering" and related transgressions capable of posing a potential risk to the operations and image of AES both in Brazil and globally. If a "Compliance Alert" is identified, a more in-depth investigation is launched and the necessary clarifications and statements requested from the parties involved.

The reviews are not limited to legal persons under consideration for contracts, but extend to their directors, shareholders and pertinent corporate officers. As the complexity of the operations and corresponding exposure rise, so too do the depth and thoroughness of the reviews.

On conclusion of the review, risk analyses are performed to provide support to final decisions. Operations considered high risk (such as those involving interaction with public officials, government bodies, representatives, agents and so forth) are submitted for further analysis and

final approval by the company's corporate headquarters in the United States.

Additionally, potential suppliers fill out a Compliance Questionnaire that includes inquiries regarding the business partner's property, management structure, potential transactions, in addition to express statements related to laws and regulations on corruption, money laundering and financing of terrorism.

All contracts and purchase orders must contain Compliance language requiring business partners to fulfill the laws and regulations on corruption and other offenses, including those related to the Convention of the Organisation for Economic Co-operation and Development – OECD against bribery of foreign public officials, the Foreign Corrupt Practices Act (FCPA) and other applicable legislation governing bribery, money laundering, terrorism and economic offenses.

Since 2008, operations subject to Compliance reviews have been monitored by SAP. The effect of this is to build a lock into the system to ensure no eligible operations or transactions proceed without prior Compliance approval. This prevents any attempt to secure a contract with a view to fulfilling the applicable compliance standards subsequently. In 2008, a Compliance "Portal" was launched to provide users and operators with a more expedited and transparent review process.

In 2008, a total of 1,356 operations were analyzed, corresponding to US\$ 2.480 million. Of the 21,027 persons trained in 2008 by the Ethics and Compliance Department, 271 received training in "Contractual Compliance." In addition, training programs were offered to 150 suppliers, covering 217 individuals, including directors and managers responsible for corporate purchases. Through April 2009, 1,143 collaborators in the respective supply companies were trained on the importance of ethics and integrity in their day-to-day activities and their impact on commercial relationships.

AES is committed to conducting its business operations with integrity and to ensuring the highest standards of ethics in all of its business transactions. To this end, AES implemented a detailed Institutional Compliance Program aimed at assuring AES only enters relationships with partners that share a corresponding commitment to high ethical standards in all of the organization's business operations and relationships.

For further information, contact Izilda Capeletto, Director of Ethics and Compliance, at izilda.capeletto@aes.com or (011) 2195-2517.

To ensure the effectiveness of internal controls, the following measures are recommended:

- Expand the dissemination of information on the administrative structure and operation of the organization's internal control department;
- Stimulate corporate directors to set forth the mechanisms of internal control in annual reports, including those aimed at preventing bribery;
- Promote the creation of independent departments, such as audit committees within management and supervisory boards, to oversee the activities of individuals with management responsibilities;
- Spur companies to offer communication channels and protection for individuals who do not want to violate ethical or professional standards of conduct as instructed or pressured by superiors.

Priority should be given to preventive internal control measures, with a view to identifying critical points in the flow of activities within enterprises and preventing potential deviations. However, this strategy does not exclude verification procedures during or following the performance of activities to ensure compliance and determine responsibility in the event of improprieties or errors.

CASE 8: SHELL ANTICORRUPTION HANDBOOK

Shell¹ believes that combating bribery and corruption is fundamental to assure adherence to the company's values of honesty, integrity and respect for individuals, as set forth in the Shell Group Business Principles.

As part of a broad program to bolster internal awareness and compliance with anti-bribery laws, Shell strengthened the controls applied to operations and transaction involving government officials capable of generating legal exposure for the company. The program also extends to transactions with non-governmental organizations and private entities.

To this end, the company issues a specific handbook on the subject ("Anti-Corruption Handbook for Government Relations"), which enhances the procedures related to:

1. Charitable contributions: Shell is committed to contributing to the welfare of the communities in which it maintains operations. The initiative enables companies affiliated to the Shell Group to contribute to charitable actions in local communities through, for example, investments in social programs. To ensure none of the contributions violate the applicable anti-bribery laws, a full description of the proposal and charitable organization, in addition to other information, must be submitted for approval before any donation (irrespective of the amount) can be made. Moreover, in high-risk countries, the recipient must complete and sign a certificate guaranteeing that no government official will act as the depository, executor or beneficiary of the charitable contribution.
2. Gifts, hospitality and travel for government officials: Shell's code of conduct lays out specific requirements for gifts and hospitality; the Anti-Corruption Handbook for government relations includes additional provisions for actions involving company employees. Expenditures in excess of specified limits must be approved by a senior executive. Further, each department must maintain a log of payments for gifts, travel and accommodations and hospitality granted to government officials.
3. Contractors and suppliers: Shell requires establishment of tender procedures to ensure transparency and compliance with the applicable internal controls. All contracts signed as of September 1, 2008, must contain clauses mandating that contractors and suppliers fulfill all applicable laws and adhere to the Shell Group Business Principles. Failure to comply can result in termination of the contract. In high-risk countries, in which the value of one or more contracts in a one-year period is expected to exceed a certain level, the contractor or suppliers must disclose its affiliations with government officials as part of the pre-selection process. Shell's anticorruption program includes, moreover, specific anti-bribery training programs and audits.

The program is in the process of being implemented throughout the Shell Group.

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Prime examples of preventive measures include personnel rotation and separation of responsibilities in activities deemed susceptible to corruption. Another strategy consists in risk management to identify, analyze, assess, monitor, review and communicate risks related to the occurrence of fraud, bribery and other acts of corruption.

¹ The companies in which Royal Dutch Shell plc has direct or indirect investment are separate entities. For purposes of this publication, the expression "Shell" is employed generically to refer to firms within the Shell Group in general. The term is also used where the intent is to withhold identification of specific companies.

Enterprises should ensure the security and reliability of the financial information concerning maintenance of books and records, financial status disclosures and accounting and audit standards. It is imperative to strive for the conformity of the documentation utilized in accounting entries.

It is equally important to strengthen internal audit procedures to provide the means for effective actions, whether in regard to trained and well-remunerated human resources or material resources sufficient for the performance of all necessary functions. Moreover, internal audits must be independent and impartial, free of restriction, to enable the detection of corrupt acts.

6.2. Transparency Measures and Relations with Stakeholders

Enterprises committed to forging relationships based on ethical principles are guided by values and concerned equally with disseminating and receiving feedback from society, government and the private sector concerning those principles. Therefore, giving transparency to their actions, accounting to society and invoking transparency as a basis for sustainable development are attitudes that reflect and affirm the commitment to management driven by integrity and the interests of society. In this light, the following section lays out a number of practices related to transparency and the relationships established with collaborators and stakeholders that enterprises can adopt to ensure the practical application of ethical and integrity principles in their fields of activity.

6.2.1. Integrity and Transparency of Accounting and Financial Information

The financial information of enterprises should adequately reflect their operations, particularly in the case of enterprises committed to ethics and integrity. To this end, organizations should ensure the maximum level of transparency and accuracy in their financial statements and records, preventing the entry of inadequate records or, further, the concealment of information. The aim is to avoid the commission of illicit acts, including the establishment of off-book accounts, tax evasion, money laundering, among others. To assure all financial practices reflect the true nature of the operations and transactions undertaken, the following measures are recommended:

- Implement mechanisms to guarantee the quality of the financial information;
- Employ processes that promote the participation of and communication between management boards and that provide for the adequate dissemination of information to shareholders;
- Prepare and publicize information in conformity with the applicable accounting standards and financial and non-financial reporting requirements.

Additionally, external/independent audits on the conformity of financial statements are recommended. Enterprises should submit themselves, on a periodic basis, to external/independent audits, even in the absence of explicit legal obligations.

6.2.2. Transparency of Rules and Procedures Related to the Public Sector

Enterprises that adopt clear and defined work procedures ensure the transparency of their activities and contribute to building confidence among different segments, including employees, the government, clients, shareholders and other stakeholders.

By simplifying and documenting their internal rules and procedures, thereby making them more accessible, enterprises prevent acts of corruption, particularly in their interaction with the public administration – participation in public procurement procedures, the file and disclosure of financial and

fiscal information, contributions to political campaigns and candidates, obtainment of operating licenses, applications for public financing and so forth. When these rules are clear and expressly set out in handbooks, the risk of an employee responsible for a public procurement procedure engaging, for example, in fraud prejudicial to the public interest and the company's reputation is reduced. According to Public Ethics Commission Resolution 8 of 25 September 2008, conflicts of interest arise in the performance of activities that:

- are incompatible, due to their nature, with the duties of the public official's position or function, including, to this end, activities carried out in areas or matters related to that official's functions;
- violate the principle of full dedication to the commissioned or appointed position, which requires giving precedence to the duties of the position or function over any other activities;
- results in the delivery of services to a natural or legal person or the maintenance of a business relationship with a natural or legal person having a vested interest in the individual or collective decision of the public official;
- may result, due to its nature, in the use of information not available to the public to which the official may have access by virtue of his or her position;
- may generate uncertainty among the public regarding the integrity, morality, clarity of the public official's positions and conduct.

In this light, conflicts of interest can occur in the absence of any advantage or retribution from the public official.

In order to strengthen the prevention of conflicts of interest between the public and private sectors, a number of transparency measures have been created and refined to resolve potential breaches within the public sector².

Additionally, practices adopted by the public sector have been disseminated to the private sector. The moral public official bases his or her conduct on shared values, must decide between what is right and wrong; legal and illegal, just and unjust; proper and improper – guided at all times by the common good. For their part, employees and managers in the private sector must have full knowledge of what is permitted and prohibited in the public sector so as to mitigate the potential for conflicts between the two spheres.

6.2.3. Relations with Stakeholders

The integrity of enterprises in the eyes of stakeholders is a fundamental requirement for the competent exercise of professional activities and an earmark of excellence in business.

Enterprises should strive to prevent their employees from using their positions, posts or functions to obtain any perk capable of generating conflicts of interest, whether gifts and hospitality or financial compensation, irrespective of their place in the hierarchy. Accepting, respecting and treating all individuals as equals is a sine qua non for achieving the established goals. To this end, all activities connected to the relationships with suppliers, service providers and business partners should be

² Bill 7528/06 increases the period, from four months to one year, in which officials leaving their positions or posts in the federal administration are subject to a range of restrictions on the exercise of activities in the private sector.

The bill specifies the requirement and restrictions of public officeholders in the federal government with access to confidential information, with a view to preventing those officials from disseminating or using the information at any time. Further, the draft legislation sets out the competencies for the oversight, evaluation and prevention of conflicts in the public sector. It is important to underscore the relevance of the changes to the "Revolving Door Act" ("Lei de Quarentena"), to the extent the current rule imposes a four-month ban. In addition, under the current law only individuals holding the offices of minister of State, special appointments and Senior Management and Advisory (Direção e Assessoramento Superiores - DAS), level 6 and equivalent, are subject to the revolving-door ban on leaving government service. The new statute will cover the offices of chairmen, vice-chairmen and directors of independent agencies, public foundations or state-controlled enterprises and Senior Management and Advisory (DAS) positions, level 5 or equivalent.

conducted with honesty, transparency and integrity. The decisions of employees should be driven by technical and product and service quality criteria grounded in ethical principles.

With respect to publicly traded companies, the establishment and operation of an investor relations department specialized in serving shareholders and market analysts has become a vital ingredient to ensure transparency on the capital markets. In addition to contributing to integrity in the business environment, the implementation of disclosure policies regarding corporate information can serve to benefit the company's image and, by extension, boost its market value.

In regard to suppliers and service providers, a critical measure consists in adopting a policy to bar the contracting entities involved in corruption and unethical acts in general. At the end of the day, the only criterion for selecting suppliers should be competitiveness, that is, the price and quality of the product or service. Any attempt by the service provider to influence the decision of the agent or representative of a company through the offer of gifts above acceptable business standards should be vigorously punished, including through exclusion, where appropriate, of the supplier from the enterprise's supplier list. By the same token, any agent or representative of an enterprise who attempts to influence clients and other stakeholders through unethical practices should be subject to consequences of equal severity.

CASE 9: DUDALINA S.A. "HEALTHY SUPPLY CHAIN PROGRAM"

In 2007, Dudalina S.A launched a program aimed at the company's supply chain. The primary objective is to disseminate the organization's values and consolidate a supply network based on responsible conduct and the construction of a better society.

That same year the company organized the first Forum of Suppliers, an annual event designed to strengthen management capacity through a focus on sustainable development. To accomplish this goal, a number of tools and actions adopted by the company are applied and disseminated, including the Ethos Indicators, the Global Compact, Social Accounting, the Ethics Code, incentives to membership in industry associations and volunteerism.

In 2012, Dudalina plans to implement the Dudalina Statement of Commitment (Termo de Adesão Dudalina - TAD), a pledge all contracted suppliers will be required to sign. In 2008, the draft proposal and information on the measure was submitted to suppliers. By 2012, training and adaptation, certification and, finally, audit procedures – to verify compliance with the Statement of Commitment – will be implemented and administered by company staff.

"It is a slow process that requires changes in the culture, both in regard to how we select our partners and how our suppliers develop the services and/or products that are delivered to use. That is why we need time to enable everyone to adapt and conform to the new criteria. This isn't simply an obligation imposed by Dudalina; consumers are now demanding that companies adopt responsible economic, social and environmental positions. Passing on the example down the supply chain is the best way to stimulate a shift in attitudes," says Rui Souza, director for Exports and Social Responsibility.

For further information, contact Rui Leopoldo Hess de Souza, Director for Exports, Retail Sales and social Responsibility, at (47) 3331-9001 or Jerusa Soares Lopes at (47) 3331-9106. Site: www.dudalina.com.br/*

The conduct expected of company agents and representatives faced with the offer of gifts or any form of remuneration from any of the organization's stakeholders, should be set out explicitly in any number of documents including codes of conduct. The prohibition on receiving gifts and other favors from companies with which the enterprise maintains relationships must be made clear to employees and their

relatives. Company directors should establish limits on the acceptance of gifts, as well as the means to clarify questions as they arise. One approach is to maintain immediate superiors or the ethics committee informed about the receipt of gifts. In the relationship with the public sector, the limits on gifts to public officials should be observed to ensure the company conducts itself in an ethical manner and safeguards its reputation before stakeholders and society at large.

In respect to suppliers and service providers, companies can adopt mechanisms to stimulate the implementation of ethics and integrity programs. For example, they can contribute to the development of strategies and tools to promote a culture of integrity within their suppliers' organizations and include contractual provisions that assure the right to terminate contracts in the event suppliers engage in corrupt practices.

Application of the rules of conduct is essential to ensure fair play in the relationships between enterprises and between enterprises and government. On the internal front, enterprises should provide continuous and rotating educational training programs, particularly for employees engaged in areas susceptible to conflicts of interest such as those engaged in purchase and sales departments. For purely financial reasons, companies should ideally rotate suppliers to avoid undue dependence on a single or small number of contractors and the consolidation of an environment conducive to the offer of advantages capable of triggering conflicts of interest.

CASE 10: SADIA INTEGRATED MANAGEMENT PAMPHLET FOR SUPPLIERS

Sadia has over 60,000 direct employees and another 180,000 indirect associates and an extensive supply chain encompassing nearly 12,500 corn and soy farmers, 10,000 chicken, pork and turkey producers, 1,000 cattle ranchers, in addition to thousands of raw material suppliers and service providers.

Ensuring this entire complex supply chain adheres to the principles of sustainability has been one of the organization's key challenges in recent years.

The company is a signatory to initiatives such as the Programa na Mão Certa (Right Hand Program), the National Pact for the Eradication of Slave Labor, the Business Pact for Integrity and Against Corruption, the Global Compact, the Soy Moratorium, the Food Lab – Call to Action and Carbon Disclosure Project, while pursuing, at the same time, the principles of the defense of children's rights as set forth by the Abrinq Foundation. To effectively meet all of its commitments, the company believes exchanging information with its suppliers is of critical importance to raise awareness within, mobilize and motivate those organizations.

With this in mind, Sadia created and developed the Sadia Integrated Management for Suppliers system. A key element of the effort is a pamphlet, prepared with the assistance of various sectors within the organization, laying out an inclusive vision designed to offer guidance and invite suppliers to join forces with Sadia in elevating the sustainability of the company's supply chain, in respect to both the internal and external markets.

The Sadia Integrated Management for Suppliers pamphlet is organized and based on five pillars: economic, social and environmental (the triad of sustainability); quality, fundamental for any food company; and ethics. In the area of ethics, Sadia tackles the question of corruption head on, among others, objectively and directly preaching and promoting ethical and transparent conduct throughout the supply chain. For each pillar, the central criteria for maintaining the relationship with suppliers are spelled out.

The pamphlet has been distributed in “waves.” The first wave was sent out in the second half of June 2008, mobilizing 276 suppliers, including the direct and indirect material supply segment, services, freight, civil construction, grains and partners. Suppliers receive a hard copy of the publication, and have the option to download the document directly from Sadia’s website. All business partners receiving the publication are required to sign a Statement of Commitment to “formalize” their adherence to the principles advocated and practiced by Sadia.

The pamphlet has served as a valuable mobilization and awareness-raising tool due its sheer reach. Combined with a series of other actions, the initiative constitutes a central component of Sadia’s overarching Integrated Management for Suppliers system, which is set to act on a variety of other fronts as well. To date, a number of events and meetings to mobilize and raise awareness among primary internal stakeholders have been held.

The entire effort is based on the premise that suppliers represent far more than mere business allies. Indeed, they are an indispensable link in the company’s supply chain, a true extension of its business. This makes consolidating relationships founded on the principles of ethics, quality and sustainability imperative.

For more information, please contact Ms. Ane Ramos, Sustainability, Sadia S/A, at (11) 2113-1742 or ane.ramos@sadia.com.br/*

6.3. Integrity Management

Integrity management has been a central item on the agenda of enterprises in a number of countries for the better part of a decade. In view of this trend, it is vital to recognize integrity as a cornerstone of good governance and an essential condition for the efficacy and effectiveness of other business activities.

The integrity management structure should not focus on individual instruments, but on the system as a whole. Its effectiveness depends far more on synergy between instruments than on their isolated application.

The combined implementation of measures including inspection, code of ethics or training programs in integrity can be far more effective than the adoption of any of these strategies individually.

In addition, integrity management should be considered an open system, to the extent that coordination should not only center on the instrument for application, but include other related actors and factors capable of exercising an impact on the integrity of the members of a given enterprise.

Despite the importance of integrity management in the business sector, there remain three obstacles to its successful implementation:

Obstacle 1: “We don’t have any significant issues with integrity in our company.” Any reasonable certainty regarding acts against integrity can only be ascertained through an adequate detection system incorporated within a viable integrity management structure.

Obstacle 2: “Implementing integrity management will only reinforce the lack of confidence in our company.” This statement takes the opposite view of the previous assertion. The presumption in this case is that acts in violation of integrity do in fact occur. Given this, the fear is that implementation of an

integrity management structure will bring these violations to light and erode confidence in the company. Yet, it is important to underscore that the primary objective of integrity management is to prevent future violations, not to identify past transgressions, including corruption (although this may indeed be necessary in certain cases). Moreover, even in the event of an uptick in the public disclosure of acts in violation of integrity in the near term, the statement above remains highly dubious and manifests a narrow and pessimistic vision in regard to the company's growth prospects moving forward.

Obstacle 3: “My team would consider the implementation of an integrity management structure an insult and a lack of trust.” Integrity management does not simply involve rules, but values as well. The first component stresses the importance of external controls on employee conduct, such as independent audit procedures. Yet, the second aspect is centered on providing guidance and internal controls, that is, control exercised by employees themselves. The aim here is to promote a clear understanding and the daily application of values and strengthen ethical decision-making. Specifically, modern integrity management strives to prevent corruption and promote integrity by fostering the commitment to ethics and ethical decision-making. As such, it combines both approaches. Therefore, the message to personnel and staff is not lack of trust, but, in fact, enhanced trust.

The integrity management structure rests on three pillars:

6.3.1. First Pillar of Integrity Management: Functions

Function 1: Determine and define integrity

The first function of an integrity management structure is to lay out the expected standards of conduct: which values are important to the company and which rules must be observed? The minimum standards of conduct expected of employees in a company should be clearly spelled out. In addition, employees should be held accountable for their actions. To specify these criteria, it is first important to determine and then define the standards of integrity expected of employees.

Function 2: Guidance toward integrity

Ideal conduct as a product of management – Through their own conduct, managers convey messages on what constitutes acceptable and unacceptable behavior that are as important as any official communication.

Training in integrity – There are a number of training methods for integrity, including:

- Rules-based training: the major objective is to ensure the trainer transmits the necessary knowledge and information on what is expected of company employees as provided for by law, rules and codes.
- Values-based training: this approach is based, in general, on discussion sessions in which trainees are tasked with thinking and talking about the issue, while the trainer serves as a facilitator, stimulating discussion.
- Dilemma-based training: this strategy combines elements of rules-based and values-based training. The primary goal is to recognize that dilemmas are an inevitable fact in enterprises, communicate to employees that they are not alone in facing the challenge, and teach and counsel them on techniques to confront these situations.

As with the selection of integrity management instruments, the selection of training strategies depends on local circumstances and the balance between values-based and rules-based instruments. Two general recommendations can serve to assist the selection process: do not confine integrity training to new employees and always ensure follow-up of the efforts.

Integrity associated to the company's pronouncements – A factor in ensuring the success of an integrity management structure consists of its impact on day-to-day activities at the operational level.

Function 3: Monitoring integrity

Passive monitoring

- Reporting policies: members of the organization report illegal, immoral or illegitimate practices of which they have knowledge to officers with responsibility for taking the appropriate corrective measures. The policies essentially consist of two components – a system for reporting violations and a system for protecting individuals who resort to the channel in good faith.
- External complaint system: distinct from reporting policies, which apply to individuals within the company who come forward to report violations committed by co-workers. External systems provide mechanisms for receiving external complaints from business partners and clients regarding transgressions by company employees.

Active Monitoring

- Investigations of individual integrity violations: consist of instruments to investigate individual violations. These can include daily management of supervisors, formal controls, systems designed to identify potential integrity violations and shareholder controls..
- Mapping of integrity violations at the organizational level: a valuable source of information on the prevalence of specific types of violations and dilemmas. There are three methods of mapping – systematic entry of complaints and investigations, evaluations on the scope of integrity violations and integrity dilemmas and studies on ethical dilemmas between employees.

Function 4: Mandatory application of integrity

If the rules are clear to members of the enterprise and yet the monitoring systems indicate continued transgressions, the application of sanctions becomes necessary in order to ensure the legitimacy of the management structure. In addition, to be effective sanctions must be fair and proportionate.

A number of instruments are available to this end:

- Informal sanctions arising from daily control and supervisory activities;
- Fair and appropriate procedures to investigate and sanction violations;
- Appropriate processes for internal and external notification of integrity sanctions.

6.3.2. Second Pillar of Integrity Management: Development Processes

The PDCA model (Plan, Do, Check, Adapt) can be used to help overcome a number of the problems faced in the course of introducing and improving integrity management in companies, such as shortfalls in implementation; adaptation and even substantive restructuring of the integrity management system; coordination of the various instruments and activities through the application of a consistent strategy.

6.3.3. Third Pillar: Responsibilities of the Participants in the Integrity System

The third pillar of the integrity management structure refers to the organizational and structural concept of “assignment of responsibilities.” Integrity is a responsibility of all members of the organization. However, some actors have a more important role than others.

Management:

Supervisors shape ethical and unethical conduct. Trevino et al. (2000) sets out two roles: “moral person” and “moral manager.” A “moral person” indicates a manager who conducts him or herself with integrity in all daily activities. The “moral manager,” however, fosters integrity among members of the organization, rewarding those who conduct themselves with integrity and punishing those who do not in order to underscore the importance of the principle.

Integrity Actors:

Notwithstanding the importance of managers in promoting integrity, it is essential that integrity be clearly positioned within the company’s structure and spelled out in its organization chart. There are several factors for this. Structural anchoring (that is, the visibility of integrity principles within the organization’s structure) enhances coordination of integrity management tools and their synergy; enables knowledge accumulation; ensures continued integrity following roll-out of the management structure; carries significant symbolic value by demonstrating that the company deems integrity a fundamental goal; and provides integrity with an identity of its own. An enterprise may, in addition, opt to create an “integrity department,” to which end, however, it should ensure the unit does not become isolated from the organization’s other sectors. One way to do this is to designate an individual in each sector of the company as a representative before the department.

Complementary Actors:

Although essential to the success of an integrity management structure, certain actors are not considered central to the extent integrity is not their sole or exclusive objective, including staff in the financial and personnel departments. However, they should be included in the integrity management structure.

General Coordination:

As important as the different integrity management actors described above, and their potential roles, are the knowledge and commitment they bring to bear to the coordination of the related efforts.

7. Transparency and Responsibility

Enterprises committed to ethics and preventing and combating corruption are not barred from contributing to political parties and candidates, as the practice is permitted under Brazilian law. However, in contributing to political parties and electoral campaigns, enterprises should act in accordance with their ethical principles.

Certain aspects of financing for political campaigns can undermine the ethics and integrity of enterprises and their role as a source of financing for political parties and electoral campaigns. These problems are surface, for example, in the case of contributions aimed at the obtainment of improper advantage or to political parties and candidates with a history of corruption. To avoid shedding light on these unethical practices, institutions or individuals engaged in improper political financing do not adequately disclose their contributions.

As underscored in *A Responsabilidade Social das Empresas no Processo Eleitoral – Edição 2008* (Business Social Responsibility in the Electoral Process – 2008 Edition), there are two sides to political financing. On the one hand, it stimulates more active and healthier political competition; on the other, it can distort the electoral process and undermine the integrity of future elected representatives and enterprises, if the funds are intended, for example, to influence the elected representatives to act directly on behalf of the contributor.

To assure the propriety of contributions, companies should disclose their financing procedures, comply with the applicable electoral laws and exercise prudence in the selection of candidates and parties. In the 2008 electoral cycle, the Ethos Institute and Transparency International developed a series of recommendations for political financing activities in their joint publication *Business Social Responsibility in the Electoral Process – 2008 Edition* (http://www.ethos.org.br/_Uniethos/Documents/eleitoral.pdf). The recommendations, laid out below, could be adopted as a roadmap by enterprises interested in financing electoral campaigns.

SUMMARY TABLE OF RECOMMENDATION FOR POLITICAL FINANCING BY SOCIALLY RESPONSIBLE ENTERPRISES

I. Comply fully with all applicable laws.

- Report to the Electoral Courts all donations to political parties and candidates;
- Disclose all donations to political parties and candidates on the enterprise's website;
- In the even disclosure of the donation is not in the company's interest, the best option is to withhold the donation;
- Ensure the parties and candidates adequately report the enterprise's donations;
- Give priority to financing for political parties and candidates committed to providing advance disclosure of their books and records;
- Refrain from seeking to obtain improper advantages from political financing.

II. Do not support political parties or candidates with a history of corruption.

- Review the background of candidates, both in terms of prior performance in public office and ethical conduct;
- Cooperate with initiatives to set up databases on candidates and elective offices.

III. Specify and publicize the company's position on political financing.

- Decide whether to contribute to political parties or campaigns;
- Decide whether to donate to political parties or candidates;
- Decide on mechanisms to regulate the amounts allocated to political financing.

IV. Identify susceptible areas within the company in regard to political financing and promote engagement in reform efforts.

- Identify susceptible areas;
- Determine whether to act immediately or collectively.

V. Demand a public commitment from candidates to lay out clear proposals and quantifiable goals, particularly in respect to social and environmental policy.

- Require a public commitment from candidates to fulfill their campaign pledges;
- The promises should be concrete, clearly described and include quantifiable goals;
- Demand that the elected candidates effectively fulfill those goals.

Source: A Responsabilidade Social das Empresas no Processo Eleitoral. São Paulo: Instituto Ethos/Transparency International, 2008.

8. Final Consideration

The term corruption is often used as if it were endemic or spread naturally through society. Brazil is not an intrinsically corrupt country. Brazil's genetic make-up does not predispose us to corruption. The solution to prevent and combat corruption extends from education through the adoption of policies and practices aimed at preserving integrity.

As laid out in this publication, promoting integrity is a fundamental ingredient of good governance and today represents a critical factor in preventing and controlling corruption in the public and private sectors alike.

Although the discussion on the strategies and mechanisms for preventing and combating corruption has been advanced and expanded in recent years, it was the UN Convention against Corruption that broke new ground by including anticorruption in the private sector among the range of potential preventive measures. This breakthrough carried enormous weight, for it recognized that the offense of corruption does not necessarily involve government actors.

Given this, the adoption of an integrity management system should be broad and unlimited, both essential factors to achieve good corporate governance.

The term integrity refers to the application of widely accepted values and standards to day-to-day activities. As discussed in chapter 6, identifying and defining those values and standards is the first of the four functions of integrity management. The others involve providing guidance on adhering to integrity, monitoring its application and mandating its adoption and use.

The objective of this management approach is to achieve the broadest possible prevention of corruption, in all of its forms, and other acts of any nature committed against the integrity of enterprises. In other words, an environment of integrity should not only be capable of combating corruption between the public and private spheres, but of preventing corruption within the private sector – among investors, consumers and workers. After all, there is no longer any question as to the damaging effects wrought, for example, by payments made to employees in the purchasing department to benefit a particular supplier.

To preserve the reputation and integrity of enterprises, every employee has a responsibility to avoid conflicts of interest or the appearance of a conflict of interest. The first step to this end is to define conflicts of interest in practical terms. One enterprise describes these as follows:

- To maintain business ties, provide a service or act on behalf of other companies that compete with the company in which the individual is employed;
- Serve as an administrator, director, partner, employee or consultant of companies where such activities could result in the disclosure of confidential information to which the employee has access by virtue of his or her position;
- Make or receive illegal indirect payments, or grant or receive bribes and grant or receive kickbacks;
- Execute unauthorized or illegal political contributions;
- Sign agreements with representatives which do not contain the clause “conflicts of interest.”

The second step is to identify, the areas susceptible to conflicts of interest and adopt the measures to prevent the occurrence of those conflicts.

These measures are essential to safeguard the integrity of the business environment and to prevent corruption among private agents. Corruption in the private sphere drains significant resources from key social policy initiatives, reinforces the culture of corruption in the country and undermines free competition and the rules of the market, generating a negative impact on the quality of product and service delivery, reducing the prospects for growth and diluting ethics and integrity in business.

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10 PRINCIPLES

The Global Compact advocates ten universal Principles drawn from the Universal Declaration of Human Rights, the Declaration of the International Labour Organization on the Fundamentals Principles and Rights at Work, the Rio Declaration on the Environment and Development and the United Nations Convention against Corruption:

<p>1 RESPECT</p> <p>the protection of internationally proclaimed human rights in their areas of influence</p>	<p>2 ENSURE</p> <p>businesses are not complicit in human rights abuses</p>	<p>3 SUPPORT</p> <p>the freedom of association and recognize the right to collective bargaining</p>	<p>4 ELIMINATE</p> <p>all forms of forced and compulsory labor</p>	<p>5 ABOLISH</p> <p>all forms of child labor from the supply chain</p>
<p>6 STIMULATE</p> <p>practices to eliminate all forms of discrimination in employment</p>	<p>7 ASSUME</p> <p>a preventive, precautionary and proactive approach to environmental challenges</p>	<p>8 UNDERTAKE</p> <p>initiatives to promote and disseminate greater environmental responsibility</p>	<p>9 ENCOURAGE</p> <p>the development and diffusion of environmentally friendly technologies</p>	<p>10 COMBAT</p> <p>all forms of corruption, including extortion and bribery</p>

OBJECTIVES

The objective of the Global Compact is to encourage the alignment of business policies and practices with the universally held values and objectives applied at the international level. These values were organized into ten key principles in the fields of human rights, labor rights, environmental protection and anticorruption.

The Secretary-General emphasized the role of enterprises in encouraging the continuous support to multilateral institutions and the implementation of global values in their fields of activity. To assist enterprises in this effort, Kofi Annan offered the support of Five United Nations agencies – the Office of the High Commissioner for Human Rights (OHCHR), the International Labour Organization (ILO), the United Nations Environmental Programme (UNEP) and the United Nations Industrial Development Organization, all coordinated by the United Nations Development Programme.

The issues of human rights, labor rights, environmental protection and anticorruption were selected for their potential to effectively influence and spur positive change.

Enterprises and other Signatories to this Pact:

Aware of the expectation of Brazilian civil society that economic agents declare their commitment to principles, attitudes and procedures capable of changing the political life of the country, as well as its desire to see those principles put into practice;

Desiring to offer the nation a response commensurate with its expectations;

Determined to spread good practices in business ethics to eradicate corruption from the list of strategies employed to achieve financial results;

Aware that the eradication of illegal, immoral and unethical practices depends on the efforts of socially responsible economic agents to engage a growing number of enterprises and civil organizations in such initiatives:

PUBLICLY UNDERTAKE TO:

1. Adopt or reinforce all measures as necessary to ensure persons within their organizations have knowledge as to the laws to which they are bound while acting on behalf of each of the Signatories or for their benefit, so as to ensure full compliance with such laws, particularly in the relations maintained with government officials (1):

§ in the exercise of citizenship;

§ in their capacity as members of the collective and, constitutionally, therefore, agents for sustainable development;

§ as taxpayers;

§ in their capacity as suppliers or purchasers of goods and services to and from the government;

§ as applicants or authorized holders of concessions, authorizations, permits or equivalent (2);

§ in any other capacity and for any other objective.

1.1 To achieve the objective above, the Signatories undertake to implement internal procedures for disseminating, providing guidance and responding to inquiries on established laws applicable to the relationships covered above, including, and without limitation to, the provisions governing:

§ active corruption of Brazilian and foreign activities;

§ passive corruption;

§ extortion;

§ administrative misconduct;

§ fraud in public procurement procedures;

§ offenses against the economic and fiscal order;

§ limits and means of contributions to electoral campaigns.

2. Prohibit or reinforce the prohibition of any persons or organizations acting on behalf of the Signatories or for their benefit from offering or granting bribes, understood as any direct or indirect financial or non-financial advantage, to any public official, including to obtain a favorable decision for their business.

2.1 To ensure effective fulfillment of the provisions agreed to in this paragraph, the Signatories undertake to:

§ prepare, approve and order the dissemination and fulfillment of internal normative standards (Code of Ethical Conduct and/or Integrity Policy) expressly setting forth the prohibition herein provided for;

§ implement a training program on the internal normative standards;

§ implement an ethical practices notification and verification system, (Ombudsman);

§ adopt a financial system that enables individual itemization of various revenues, expenditures and costs which, in addition to meeting the applicable legal requirements, is effective for preventing and detecting cash payments in violation of the internal normative standards.

3. Prohibit or reinforce the prohibition on any persons or organizations acting on behalf of the Signatories or for their benefit to contribute to electoral campaigns for purposes of obtaining advantage of any type or to avoid retribution or illegal omissions.

3.1 To ensure effective fulfillment of the provisions agreed to in this paragraph, the Signatories undertake to:

§ only contribute to electoral campaigns in compliance with the strict limits prescribed by law;

§ ensure, in granting contributions, the means, location and other criteria of legitimacy;

§ verify the accurate entry of the amounts contributed with the responsible political party and before the Electoral Courts, reporting any irregularities that are identified.

4. Prohibit or reinforce the prohibition on any persons or organizations acting on behalf of the Signatories, whether as representatives, agents, principals or in any other capacity, from employing immoral and unethical means in their relations with public officials

4.1 To ensure effective fulfillment of the provisions agreed to in this paragraph, the Signatories undertake to:

§ implement internal verification mechanisms to ascertain the proportionality and reasonableness of payments made to representatives, agents, principals and other persons or organizations with which they maintain business ties;

§ provide the internal mechanisms with tools to prevent and disclose efforts to circumvent this provision through any indirect device or means.

5. Disseminate the principles set forth in this Pact to other economic agents, entities and associations with which the Signatories maintain relations.

6. Support and collaborate with the government in all investigations into alleged irregularities or violations of the law or ethical principles as set forth in this Pact, providing, to this end, their books, records and files, even in the absence of a court order, in strict accordance with applicable law.

7. The Ethos Institute of Business and Social Responsibility, Patri Relações Governamentais & Políticas Públicas, the United Nations Development Programme (UNDP), the United Nations Office on Drugs and Crime (UNODC) and the Brazilian Committee of the Global Compact, in their capacity as sponsors of this Pact, assume the following additional responsibilities:

§ to create and make available on their websites the necessary tools for implementation of the Pact, including integrity and ethics policy models, implementation and management tools related

to the commitments herein set forth, cases of good practices and other recommendations;
§ to provide incentives to entities that support micro- and small-sized enterprises in the implementation of guidance systems on legal principles so as to enable adherence and fulfillment of this Pact.

8. The entities represented on the Mobilization Council and other professional entities under this Pact assume the following additional responsibility:

§ to undertake all initiatives to ensure an increasing number of affiliated enterprises and organizations commit to this Pact.

The Business Pact for Integrity and Against Corruption was publicly released on 22 June 2006. Clause 6 was amended on 1 August 2006 by decision of the Pact's Organizing Committee and the Mobilization Council.

(1) "Public Official": for purposes of this Pact, a public official is any individual in the exercise of a position in any of the three branches of government, at any level of the federation, or empowered to represent a public body, whether in the capacity of an employee, administrator, elected officeholder or elected representative.

(2) "Government": for purposes of this Pact, government refers to any body or agency of the direct or indirect public administration, including foundations and organizations funded primarily with public resources and linked to any of the three branches of government at any level of the federation.

ANNEX III

GLOSSARY OF ABBREVIATIONS

ABI: Brazilian Press Association

BOVESPA: São Paulo Stock Exchange

CEO: Chief Executive Officer

CGU: Office of the Comptroller General

CNBB: National Confederation of Brazilian Bishops

EITI: Extractive Industries Transparency Initiative

FIEMG: Minas Gerais State Manufacturers' Association

KICAC: Korea Independent Commission Against Corruption

OAB: Brazilian Bar Association

OAS: Organization of American States

OECD: Organisation for Economic Co-operation and Development

PACI: Partnership Against Corruption Initiative

TI: Transparency International

UN: United Nations

UNODC: United Nations Office on Drugs and Crime

A

Abuse of Power: an act committed by an official for ends other than those provided for or expressly or implicitly set forth in the applicable norm, namely, the law. According to article 11 of the Law on Administrative Misconduct (Law 8429/92), governing acts against the principles of the administration, a public official who performs any act for ends prohibited by law or regulations or in contravention of that provided for thereunder is deemed to engage in administrative misconduct.

Active Corruption: Improper offer or promise to a public official to influence the official to perform, refrain from performing or delay performance of a function.

B

Bribery: The act of promising, offering or paying a government authority, public official or member of the private sector a monetary sum or any other favor (from alcoholic beverages, jewelry, property to hotel accommodations and air travel) to influence the person to adopt unethical conduct in relation to his or her professional duties.

Business Pact for Integrity and Against Corruption: Launched in 2006 at the initiative of the Ethos Institute for Business and Social Responsibility, UniEthos – Formação e Desenvolvimento da Gestão Socialmente Responsável, Patri Relações Governamentais & Políticas Públicas, the United Nations Development Programme (UNDP), the United Nations Office on Drugs and Crime (UNODC) and the Brazilian Committee of the Global Compact, the Pact sets out a series of guidelines and procedures that signatory enterprises and entities undertake to adopt in their relationships with the public sector and widely disseminate as a market reference for business relations.

C

CEO: Chief Executive Officer, the highest post in a private enterprise. Also referred to as president, principal executive, general director, among others. In the case of enterprises with a president and a CEO, the former exercises the highest office.

Code of Conduct: Set of norms aimed at managing conflicts of interest involving an enterprise or collaborators and giving substance to the principles of transparency, equity, accountability and corporate responsibility within enterprises.

Conflicts of Interest: Situation arising from a conflict between public and private interests capable of undermining the collective interest or improperly influencing the performance of public functions.

Corporate Governance: Systems through which business enterprises are managed and monitored, including relations with shareholders/stockholders/board of directors, executive and management boards, independent audit procedures and audit committees. The objective of good corporate governance practices is to increase the value of the enterprise, facilitate the access to capital and contribute to the organization's sustainability.

Corruption: A social relationship (of a personal, non-market and illegal nature) established between two agents or groups of agents (corrupters and corrupted) to transfer income from society or the public sector for private ends. The relationship involves the exchange of favors between groups of agents and generally the remuneration offered by corrupters occurs through payment of kickbacks or any other type of pay-off, reward or compensation.

Critical Points: Critical points do not necessarily indicate weaknesses in the execution of controls. Rather, they represent the areas deemed most susceptible to the violation of integrity principles. Identifying the critical points and developing forecasts of deficiencies and risks are vital activities in the formulation and planning of control measures.



Effectiveness: Capacity to achieve the results established.

Ethics: Represents the values of human conduct aimed at the welfare of individuals and society, including morality, justice, transparency, rectitude, among others.

Ethics Committee: Committee charged with disseminating, building capacity, training and providing guidance in respect to the application of the standards of conduct to the day-to-day activities of employees.

Ethos: The Ethos Institute for Business and Social Responsibility is a non-governmental organization established to mobilize, raise awareness and assist enterprises manage their businesses in a socially responsible manner.



Figurehead: A person who appears on behalf of another person, organization or idea of which such person is not the moral or material author for purposes of engaging in illicit activities.

Foreign Public Official: Any person holding a legislative, administrative or judicial office of a foreign country or international organization, whether appointed or elected; any person in the performance of a public function for a foreign country, including a state-controlled enterprise or representation thereof; and any employee or representative of a public international organization.

G

Global Compact or “Compact”: Initiative developed by the UN to mobilize the international business community to adopt, in its business practices, the internationally accepted fundamental values applied in the fields of values of human rights, labor rights, the environment and anticorruption.

I

Illicit enrichment: Any unjustified, or illegitimate, increase in personal asset and property holdings.

Independent External Audit: Set of technical procedures aimed at the issuance of a report on the accuracy with which such procedures reflect the financial standing, operational results, variations in net assets and origin and application of the audited entity’s resources, in accordance with Brazilian Accounting Standards and other applicable laws, where pertinent.

Integrity: The quality of an individual or institution to act in an upstanding, ethical, educated, impartial and fair manner.

Internal Control: Set of policies and procedures developed and implemented to ensure a reasonable level of certainty as to the reliability of financial statements and the related processes, as well as their faithful presentation, ensuring these are prepared in accordance with generally accepted accounting standards, including, further, policies and procedures for maintaining financial records, securing approvals at appropriate levels and safeguarding assets.

International Organizations: Agreements between States established by Treaty to work on behalf of common interest through permanent cooperation among members.

International Treaties: The formal agreement between persons and entities under public international law intended to produce legal effects between signatory nations.

L

Legality: The Principle of Legality is a fundamental legal principle which states that nothing is a crime unless it is clearly forbidden by law and that no sanction not provided for by law may be applied.

Legitimacy: A notion that presupposes a value, the element on which legal systems base their authority and ensure their acceptance by society without resort to force.

Lobbying: Any verbal or written communication, including by electronic means, with public officials and elected representatives (direct lobbying) or any other activity involving the intermediation of interests (indirect lobbying) carried out through the exertion of pressure or for purposes of influencing administrative or legislative decisions to the benefit of the representative entity of a particular interest group or of an individual acting on behalf of his or her interests or those of third parties, or, further, against the interests of third parties.



M

Middle Man: Individual whose name is used by a third party to perpetrate any number of frauds, financial operations and commercial transactions, with a view to circumventing the applicable tax and fiscal laws and applying proceeds derived from illicit activities.

Money Laundering: Expression referring to financial practices aimed at disguising or concealing the illicit origin of specific financial assets or property to create the appearance of legality of such proceeds or render verification of their illicit origin difficult. It is the act of conferring legitimacy to proceeds of illegal origin.



O

Off-Book Accounting: Unauthorized accounting method employed to conceal illicit acts. Major corruption cases involving private institutions invariably involve financial resources not reported or declared to the competent authorities.

Organisation for Economic Co-operation and Development – OECD: International organization of developed countries committed to the principles of representative democracy and the free market. Based in Paris, France, the OECD was established on September 30, 1961 to replace the European Organisation Economic Co-operation, founded on April 16, 1948.

Organization of American States – OAS: Intergovernmental organization representing the nation-states of the Western Hemisphere and aimed at strengthening regional cooperation and the interests of its members. The mission of the OAS is to promote and consolidate democracy, marshal efforts to stimulate good governance, safeguard human rights, promote peace, foster free trade and combat poverty, narcotics trafficking and corruption.

Overbilling: Fraud characterized by the excess charge assessed to a product or service in relation to the prevailing market price.



P

Passive Corruption: Soliciting or receiving, for oneself or a third party, directly or indirectly, including subsequently or prior to assuming a public position, any undue advantage or accepting the promise of such advantage.

Private Agents: Entrepreneurs, investors, suppliers, corporate managers, in short, all persons engaged in private initiative.

Public Officials: All persons, in addition to civil servants, who exercise, even if on a temporary or non-remunerated basis, an office, post, position or function in entities of the direct or indirect administration or a public foundation within any branch of the federal, state, Federal District or municipal governments, a state-controlled enterprise or an entity in which the government, for purposes of the entity's creation or maintenance, accounted or accounts for more than 50% of the respective assets or annual revenues.

Partnering Against Corruption Initiative – PACI: Launched at the World Economic Forum in 2004, the objective of the initiative is to assist enterprises in their efforts to eliminate bribery, affirm their commitment to combating bribery and contribute to enhanced standards of business integrity, transparency and accountability, regardless of their location or segment of operation.

R

Rotation: Substitution of the functions exercised by employees. Where possible, the rotation of functions should be implemented as a way of providing opportunity to review the execution of tasks, improve efficiency and prevent errors.

S

Sarbanes-Oxley Act: A federal statute passed in 2002 in the United States co-authored by Senators Paul Sarbanes and Michel Oxley to eliminate financial fraud. SOX, as it is known, includes 11 sections and establishes rigorous corporate and disclosure criteria for the financial statements of publicly traded companies on the New York Stock Exchange. The objective of the law is to guarantee the creation of audit mechanisms and reliable safeguards in enterprises, including rules on the establishment of committees and commissions charged with supervising the respective activities and operations and mitigating business risks, preventing fraud and identifying fraud and ensuring transparency in corporate management.

Separation of Functions: Separate responsibilities regarding conflicting activities through development of an organization chart or the establishment of rules to prevent and detect problems in executed tasks.

Stakeholders: For purposes of this publication, stakeholders refer to all actors who maintain relationships with an enterprise (for example, clients, collaborators, investors, suppliers, the local community and so forth).

T

Tax Evasion: Use of proceeds in direct violation of fiscal and tax laws or regulations. It is a voluntary and conscious act through which the taxpayer withholds payment of obligations.

Trafficking in Influence: Soliciting, demanding, assessing or obtaining, for oneself or a third party, any advantage or promise of an advantage to influence a public official in the performance of a function.

Transparency: Act of providing citizens, taxpayers, shareholders, employees or competitors the means to examine and control tax revenues.

Transparency Brazil: An independent and autonomous organization founded in April 2000 by a group of individuals and non-governmental organizations committed to combating corruption. For further information on Transparency Brazil, visit: .

Transparency International: The leading civil society organization in the field of anticorruption worldwide with more than 90 branch offices on every continent and a secretariat based in Berlin, Germany, Transparency International strives to raise awareness on the prejudicial effects of corruption, partnering with governments, enterprises and civil society organizations to develop and implement effective measures to confront corruption. For further information on Transparency International, visit: .

Transparency Portal: An initiative of the Office of the Comptroller General (CGU), the Portal enables individual citizens to track the financial execution of federal spending programs. The Portal provides information on federal resource transfers to the states, municipalities and the Federal District – with a view to the decentralization of government actions – and to individual beneficiaries, in addition to information on direct federal spending related to procurements and contracting for public works and goods and services.



United Nations – UN: Founded on October 24, 1945, date on which the United Nations Charter was promulgated. Initially signed by 51 nations, the Charter serves as the organization's Constitution. Established in the aftermath of the Second World War, the United Nations' activities center primarily on maintaining the peace and fostering development around the world.

Sponsor:



Co-sponsors:



Realization:



Office of the Comptroller General

Support:

