

## Center for Business Ethics and Corporate Governance ~

191186, Saint Petersburg, Shvedski str. building 2, office 22 Tel: +7 (812) 324-67-06, Fax + 7 (812) 327-31-25  
www.ethicsrussia.org

Integrity Pledges: Russian Experience.

*Presented by Anna Ossipova*

### Introduction:

I am representing the Center for Business Ethics and Corporate Governance. We are an NGO located in Saint Petersburg, Russia, our mission is to institutionalize ethical and transparent business operations in St. Petersburg. We believe the private sector in Russia is in the best position to effect change around the issues of transparency and anti-corruption, as well as the rule of law and good governance.

### Declaration of Integrity in Business Conduct

We launched our first initiative called the Declaration of Integrity in Business Conduct in 1998 as a part of private consulting company Sovereign Venture, Inc. By adopting the Declaration, a company promises to repudiate corruption and to implement a code of business ethics as part of its internal policy. For companies that do not have a code of conduct, we developed a Model Code of Business Conduct incorporating the best practices of leading international companies.

There are now more than 150 voluntary signatories to the Declaration of Integrity. These companies, the majority of which are Russian owned, represent a cross section of the St. Petersburg economy, including small, medium and large firms in the service, manufacturing and retail sectors. The Association of St. Petersburg Contractors, the Commercial Bankers Association, the St. Petersburg Chamber of Commerce and Industry, the St. Petersburg International Business Association and the St. Petersburg Rotary Club, which together represent more than 1,200 members, have endorsed the Declaration and presented it to their memberships. The Governor of St. Petersburg's Council on Investment, an institution represented by both local government and private sector leaders, has endorsed the Declaration.

Prior to the Declaration of Integrity, the reduction of corruption in St. Petersburg was generally treated as the responsibility of government. The growing support for the Declaration of Integrity shows that the private sector is prepared to accept responsibility to eliminate bribery on the supply-side. This project has exacted a stronger, more unified commitment to legal and ethical business practices by Russian businesses, business associations and foreign investors operating in St. Petersburg. Bribery is a two-way street; it takes one party to offer the bribe and another to demand it. As a voluntary, private sector initiative, the Declaration of Integrity is designed to curb bribery on the supply-side and strengthen the rule of law for all businesses operating in St. Petersburg.

We think that one of the main outcomes of the Declaration is that it was one of the tools to set the stage for public debates on transparency and business ethics issues. Through numerous conferences and seminars that we organized on the subject of business ethics corruption was always the hottest issue that provoked a lot of claims and debates. We would like to acknowledge, that since 1998, a lot of positive changes happened in our country. More and more companies want to operate by transparent standards now. More and more companies know, that corruption is not something tolerated by their partners.

This work on the Declaration was institutionalized in November 2000, when Sovereign Ventures, with the support from the Ethics Resource Center in Washington, D.C., created the Center for Business Ethics and Corporate Governance in St. Petersburg.

### Islands of Integrity in construction sector

The Island of Integrity project evolved from the desire of local construction companies, who are also signatories of the Declaration, to design and implement a local initiative to create an open and transparent tender process in the St. Petersburg construction industry.

This project became possible with the support of Transparency International-Berlin, Russian National TI Chapter. The concept of an Island of Integrity was created by TI in 1993. Since that time, it has been implemented in many countries throughout the world, such as Argentina, Columbia, Paraguay, Panama and others. The Island of Integrity for the construction industry in St. Petersburg is the first project of its kind in Russia. The initial stages of the project were supported by the Open Society Institute (Soros Foundation).

The Island's purpose is to promote transparency in government and private tenders and thereby, demonstrate new possibilities for effective economic development and the stimulation of investment in St. Petersburg. St. Petersburg features a great number of profitable construction projects, but it is difficult to find investors for their implementation. The main objective of tenders, to establish a proper balance between price and quality, has been discredited. More than two-thirds of construction companies surveyed by CBE have confessed their negative experiences in local and investment tenders.

A major problem in the tender process for the St. Petersburg construction industry is the lack of trust and information in the market: for example, it still occurs that one firm may win a contract, and then take the money and disappear. To avoid this, private companies and the state have a prejudice against younger and less well-known companies. The private sector and the government avoid working with them even when they offer lower bids. The result of this is that tenders are based on previous experience and the relationship between the construction company with the Principal, and not the price. In this case, credibility is more important than price. This situation creates a large barrier for new and small businesses in the construction industry.

Many Russian companies do not like competition. They believe it to be a waste of time and resources. Additionally, the price for contracts is unstable due to dollar fluctuations and the unpredictability of many factors, such as tax regulations, etc. The price of these contracts is calculated based on 1984 price indexes, which results in different methods of price calculation by individual companies. Corruption is itself regarded by some members of the construction industry as a competitive process and a way of efficiently allocating resources: the company who really wants the project pays more.

Many companies have admitted that their knowledge of the tendering process is not very deep. Additionally, many of them have expressed their interest in participating in training programs if such programs were made available.

The Island is more of a symbol for fair business practices and transparent bidding procedures rather than a formal institution. The Island of Integrity is formed by both the Honest Builder's Business Club and the Integrity Working Group.

The Integrity Working Group is composed of experts from construction companies and members from the local administration, with specific backgrounds and expertise in the tendering process in St. Petersburg, and is headed by the Director of Saint Petersburg Construction Association "Soyuzpetrostroy". The Working Group was initially formed at a meeting organized by CBE in July 2000 of nine senior managers of leading St. Petersburg construction companies, the majority of whom were signatories of the previously-mentioned Declaration. This working group is meeting approximately every 2 months. The Integrity Working Group has identified problems zones with the current tendering process and brought this issue directly with the Construction Committee of Saint Petersburg. In response, the local administration has created its own working group with the goal of improving the integrity of the tender process for construction projects.

#### The Honest Builder's Business Club

The Club has formed the agenda and has required a long-term commitment from all of its members, namely.

- . To encourage fair business practices and partnership relations between the Club members
- . To provide the opinion of the Club members on construction-related issues to the local administration and stimulate the transparency of its tendering policies
- . To create a positive image for city investments, including establishing relations with international partners and financial institutions
- . To settle construction-related disputes efficiently through its Commission on Ethics

The Honest Builder's Business Club has been formed as a non-profit partnership, and each member of the Club is a full partner. The Club has a Board of Directors, consisting of 5 members and a President. The Board is responsible for setting the policies of the Club and establishing the main direction of its work. The Club has a Committee on Ethics consisting of 51 members who will act as an arbitration committee: the Club will settle disputes arising from construction-related issues. In the absence of a strong tradition of the enforcement of legislation and the common practice of solving disputes through bribes, this Committee represents a local initiative to settle these disputes in a transparent manner. To achieve the goals listed in the Charter, the members of the Club will pay dues of \$100 per month for their participation in the Club.

#### Future plans

In 2003, St. Petersburg will celebrate its 300th anniversary. In relation to this event, the government of St. Petersburg has created a list of construction projects, including new projects and renovations, for the anniversary. The list has been approved with the Russian federal government. The Center has proposed an agenda for the October meeting of the Honest Builder's Business Club to discuss a formal proposal to the administration of St. Petersburg to establish a model tender from one of the construction projects named in the list.

The Center is currently in the middle of negotiations with a private company, who is developing a chain of the middle-class hotels in St. Petersburg and is interested in holding transparent tenders at each stage of construction. .

Model of Integrity Pledge that works in Russian conditions.

Typically, Integrity pledge is an agreement (a statement) between the bidders (companies) and the organizer of the bid (state), by which all parties oblige to restrain from bribery and other dirty practices in order to obtain the bid. If this agreement is violated, the company has to pay a huge fine indicated at the agreement apart from the sanctions stated in the legislation.

In Russia we have modified this conception so that it suits local needs and realities. The Declaration can be regarded as a unilateral voluntary anti-pledge. This unilateral pledge was supported by the Russian enterprises primarily because it was simple to use and it appeals to self-executing mechanism. In many countries "Integrity pledges" are boundary. Russia has chosen voluntary pledges for a number of reasons:

1. Boundary pledges need to be enforced. Russian system does not have a strong judicial system that could have been this enforcement mechanism.
2. Russians believe that integrity in a true sense is when not only you act fairly, but you also do it for the right reason. So if the company does not engage in bribery because it is afraid of financial losses is a wrong motivation and can not be regarded as integrity. So only volunteer behavior in contest of the Russian culture can be considered as truly demonstrating integrity.
3. Russia has gone through a hole chain of social experiments, when certain social values were literally enforced within the Russian society, or obligatory. We enjoy democracy now first of all because now we can choose our values ourselves and decides for our selves what is moral and what is not. In this regard public discussion of ethical principles of business is a tool to better understand ourselves and our core values that are not enforced anymore. Sometimes they say that Russia does not have clear rules of the game, but such rules can only be formulated through the opened discussion and learning the cultural barriers.

Integrity pledges in the Russian context are aimed primarily to create a positive climate of trust, or social capital. Russian culture dictates that such Integrity Pledges take a form of voluntary, unilateral pledges and are enforce through fostering ethical climate.