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TRANSPARENCY
INTERNATIONAL
Cambodia

CORPORATE INTEGRITY SYSTEM



A Corporate Integrity System (CIS) is an essential component in ensuring business integrity. The implementation of such a system has been shown to lead to cost savings and to reduce the possibility of nepotism, conflict of interest and corruption. TI Cambodia now offers companies assistance with the implementation of a CIS, free of charge.

Business integrity is often seen as the product of ethical leadership, strong compliance and regulations that prevent and sanction wrongdoing. While these ingredients are essential, each on their own is not sufficient to comprehensively and sustainably tackle the broad range of interrelated corruption risks that face companies. The implementation of a Corporate Integrity system (CIS) enables to address and prevent these risks holistically. TI Cambodia is pleased to support companies in their effort to implement a CIS. Bolstered by technical expertise from Transparency International's Secretariat and TI-Malaysia, TI Cambodia can provide support to companies at each of the six steps of the implementation process. A good CIS creates an effective internal governance structure that limits the possibilities for nepotism, conflict of interest and corruption. It also incites company employees to refrain from corruption by setting clear policies and procedures on how to act and respond when they face corruption. TI Cambodia now offers companies the possibility to implement the CIS free of charge. For the outline of the implementation process see the Corporate Integrity Section.

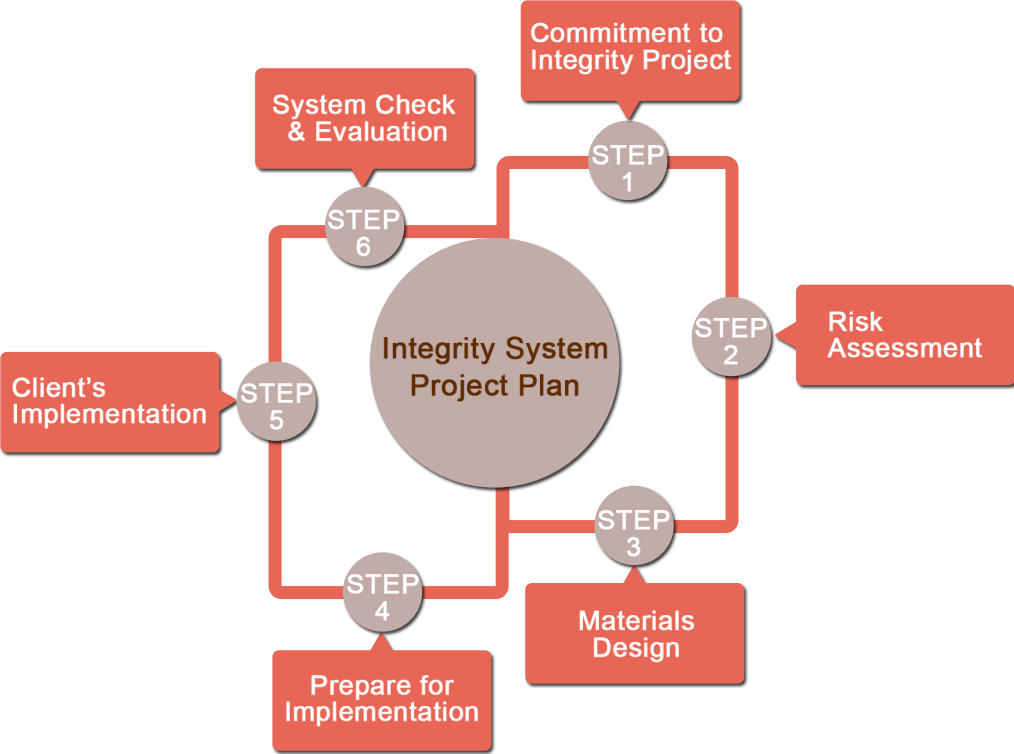
The Changing Cambodian Business Environment

The Cambodian business environment has changed a lot in 2015, some of the most significant changes have been the Ministry of Commerce (MoC) online systems for certificate of origin (COO) and business registration. In addition to this the General Department of Taxation (GDT) announced in November 2015 that they will drop the estimated tax regime and move all tax payers into the real tax regime. These changes are all a part of a push by the Royal Government of Cambodia in order to formalize the private sector. This will increase compliance demands on companies and force them to transform from informal to formal. Cambodia is moving towards becoming a lower middle-income country this will decrease the inflow of foreign aid, leading to increased need for the government to collect tax.

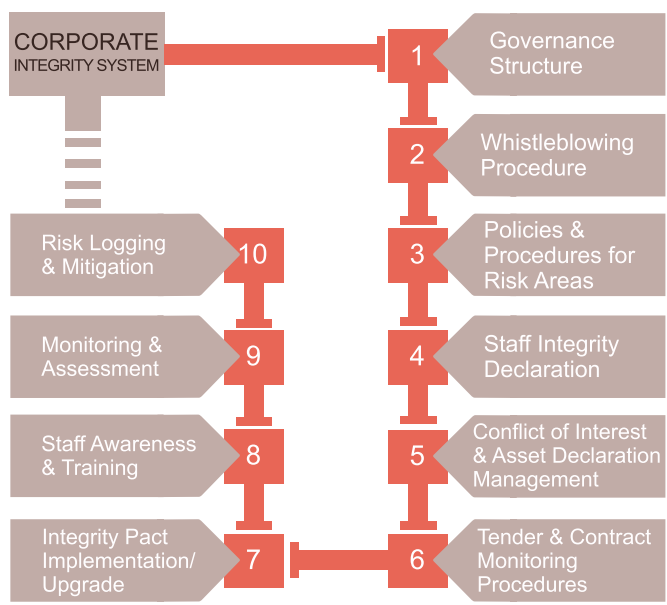
This in combination with global and regional free trade agreements like the Transpacific Trade Partnership (TTP) and the ASEAN Economic Community (AEC) will create a more competitive business environment with increased focus on compliance. The CIS is a good way for companies to get a head start and ensure that they are well positioned for the future.

The Corporate Integrity System

In implementing the CIS for companies, TI Cambodia will guide you through each step to ensure a smooth roll out of the plan. The CIS implementation process consists of the following 6 steps.



- 1. Companies sign an agreement where they commit to the implementation of an integrity system project.
- 2. A risk assessment is conducted for each company, evaluating the policies and procedures in place and where the company is most at risk. A risk matrix is designed to help visualising these risks.
- 3. Training materials and policies are designed in collaboration with key staff from the company, aiming at strengthening the company's policies, procedures and governance structure. This is often combined with training sessions to both management and general staff to enhance understanding of corporate integrity.
- 4. The company seeks approval from the board of directors for proposed changes and prepares staff for the implementation.
- 5. The company implements the policies and procedure that were agreed upon.
- 6. The company's policies and procedures are once again assessed, looking at the success of the implementation and ways to further improve the framework. TI Cambodia can continue to support the company after the CIS implementation and adapt to the company's needs. Companies are advised to appoint an integrity manager to serve as a liaison officer and follow up on the CIS once the implementation is completed. The implementation process usually takes between six to nine months, depending on the company's size and capacity.



Malaysian Success Story

The CIS was first introduced Malaysian by TI-Malaysia's Business Integrity Programme. Following the remarkable demand for the CIS, the licenses for the CIS has now been bought up by Trident Integrity who is delivering the CIS on a consultancy basis. Estimates from the World Bank shows that corruption adds up to 25% to the cost of procurement contracts in developing countries, this can be addressed through the CIS. One key example from Malaysia can showcase the potential, PKNS claimed it managed to save approximately USD125 million over four years by improving its tendering procedure and implementing integrity pacts. For companies operating in an even more corrupt environment like Cambodia, the gains to be made are all the more substantial.

The Benefits of implementing CIS

The CIS will serve as point of reference for staff and as a guideline on how to act when they face corruption issues. This will empower staff to deny demands for unofficial payments and build a culture of integrity within the company. For top management the CIS is a great way to send a message to their staff that integrity is a priority setting the tone from the top. Patterns and old habits are usually difficult for companies to break, for this reason the CIS can offer companies a fresh start. This can address problematic relationships especially in relation to gift giving and hospitality issues.

Cambodia has seen a strong growth in FDI from 1.2 billion USD in 2013 to 1.7 billion USD in 2014¹. 60 % of FDI inflows to Cambodia are from China and ASEAN member states, FDI inflows from the US and EU countries remain low². One of the key factors behind the low FDI inflow from the EU and the US is corruption, the corruption risk in Cambodia is perceived to be higher in comparing with other ASEAN member states³. To attract more investment from EU and the US compliance needs to improved and the CIS can serve as a guarantee for foreign investors that the corruption risk is being managed in a comprehensive manner.

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1 ASEAN Investment Report 2015, ASEAN Secretariat and UNCTAD, 2015

2 Ibid

3 ASEAN Business Outlook Survey 2015, AmCham Singapore in collaboration with U.S Chamber of Commerce, 2015

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