

INTEGRITY PACT PROGRAM

1. INTRODUCTION:

National Aluminium Company Limited (NALCO) is a Navratna Public Sector Undertaking of Government of India engaged in manufacturing Aluminium Metal and Alumina Powder as well as generation of electricity for its own consumption. NALCO conducts its business in highest ethical standards.

It does business with a number of Domestic and International Bidders, Contractors and Vendors of Goods and services (counterparties). NALCO is committed to fostering the most ethical and corruption-free business environment. NALCO values its relationships with all counterparts and deals with them in fair and transparent manner.

In order to achieve these goals, NALCO is implementing the Integrity Pact Program in co-operation with Central Vigilance Commission (CVC) and Transparency International (TI). As part of this initiative, NALCO will, in consultation with CVC and TI appoint External Independent Monitors who will help NALCO implement the Integrity Pact Program.



Following are details of NALCO's Integrity Pact Program:

- i. Standard Operating Procedures (SOP) at Annexure-A issued by CVC, vide Circular No. 10/5/09 dtd. 18.05.2009 will form its integral part.
- ii. Commitments and obligations of NALCO.
- iii. Commitments and obligation of counterparties
- iv. Violation and Consequences.
- v. Periodic Review & Evaluation

2. COMMITMENTS AND OBLIGATIONS OF NALCO:

- (a) NALCO is committed to have most ethical and corruption free business dealings with counterparties.
- (b) NALCO Values its relation with all counterparties and will deal with them in a fair and transparent manner.
- (c) NALCO and/or its associates (employees, agents, consultants, advisors etc..) will not seek or take bribes/undue benefits directly or indirectly for themselves or for third parties.
- (d) In competitive tender as well as in general procurement, NALCO will deal with counterparties with equity, reason and fairness.
- (e) NALCO will exclude all associates who may be prejudiced or have a conflict of interest in dealing with counterparties.
- (f) NALCO will honour its commitments and make due payments to counterparties in timely manner.
- (g) NALCO will initiate action and peruse it vigorously whenever corruption or unethical behavior occurs.

3. COMMITMENTS AND OBLIGATION OF COUNTERPARTIES

- (a) The counterparty directly or indirectly (through agent, consultant, advisor etc..) will not pay any bribes or give illegal benefit to anyone to gain undue advantage in dealing with the NALCO.
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- (b) The counterparty will not engage in collusion, price fixing, etc.. with other counterparties.
- (c) The counterparties will not pass NALCO's confidential information to any third party unless authorized by NALCO.
- (d) The counterparties will promote and observe best ethical practices within its organization.
- (e) The counterparty will inform the Independent External Monitor (IEM) :
 - if he receives demand for a bribe or illegal payment/benefit
 - If he comes to know of any unethical or illegal payment/benefit.
 - If he makes any payment to any NALCO Associate.
- (f) The counterparty will not make any false or misleading allegations against the NALCO or its associates.

4. VIOLATION AND CONSEQUENCES:

- (a) If NALCO has disqualified the counterparty from the tender process prior to the award according to section 3 of Integrity Pact (submitted by counterparty), NALCO is entitled to demand and recover the damages equivalent to earnest money deposit/Bid Security.
- (b) If NALCO has terminated the contract according the section 3 of Integrity Pact (submitted by counterparty), or if NALCO is entitled to terminate the contract according to section-3 of Integrity Pact (submitted by counterparty), NALCO shall be entitled to demand and recover from the counterparty, liquidated damages of the Contract value or the amount equivalent to Performance Bank Guarantee.
- (c) NALCO may ban and exclude the counterparty from future dealings until the IEM is satisfied that the counterparty will not commit any future violation.
- (d) NALCO may initiate criminal proceedings against the violating counterparty.
- (e) The counterparty will be liable to pay damages as determined by the IEM.

5. PERIODIC REVIEW & EVALUATION:

NALCO will periodically review the effectiveness of the Integrity Pact Program by all or some of the following:

- (a) The IEMs and management of NALCO do an annual self-assessment of effectiveness of the Program and identify areas/ways to improve effectiveness.
- (b) IEMs to submit an annual report on the progress/effectiveness of Integrity Pact Program to the Board of Directors of NALCO.
- (c) NALCO may conduct an annual 360 degree review (by an outside agency) with senior executives, junior executives, suppliers and counterparties of effectiveness of Integrity Pact Program in reducing corruption.
- (d) NALCO meet with CVC and TI on an annual basis to review the effectiveness of the Integrity Pact Program.



No. 008/CRD/013
Government of India
Central Vigilance Commission

Satarkta Bhawan, Block-A,
GPO Complex, INA,
New Delhi-110023.
Dated: 18/5/09

Circular No. 10/5/09

Subject:- Adoption of Integrity Pact-Standard Operating Procedure-reg.

The Commission has formulated "Standard Operating Procedure" for adoption of Integrity Pact in major Govt. Department/organisations. A copy of the same is enclosed for information and necessary action.

Sd/-

(Shalini Darbari)
Director

All Chief Vigilance Officers

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1.0 Background

1.01 The Central Vigilance Commission has been promoting Integrity, transparency, equity and competitiveness in Government/PSU transactions and as a part of vigilance administration and superintendence. Public procurement is a major area of concern for the Central Vigilance Commission and various steps have been taken to put proper systems in place. Leveraging technology, especially wider use of the web sites for disseminating information on tenders, clearly defining the pre qualification criteria and other terms and conditions of the tender are some of the steps recently taken at the instance of the Commission. In this context, Integrity Pact (IP), a vigilance tool conceptualized and promoted by the Transparency International, has been found to be useful. The Commission has, through its Office Orders No. 41/12/07 dated 04.12.07 and 43/12/07 dated 28.12.07 and Circulars No. 18/05/08 dated 19.05.08 and 24.08.08 dated 05.08.2008 (copies appended), recommended adoption of Integrity Pact and provided basic guidelines for its implementation in respect of major procurements in the Government Organizations.

2.0 Integrity Pact

2.01 The pact essentially envisages an agreement between the prospective vendors/bidders and the buyer, committing the persons/officials of both sides, not to resort to any corrupt practices in any aspect/stage of the contract. Only those vendors/bidders, who commit themselves to such a Pact with the buyer, would be considered competent to participate in the bidding process. In other words, entering into this Pact would be a preliminary qualification. The essential ingredients of the Pact include:

- o Promise on the part of the principal not to seek or accept any benefit, which is not legally available;
 - o Principal to treat all bidders with equity and reason;
 - o Promise on the part of bidders not to offer any benefit to the employees of the Principal not available legally;
 - o Bidders not to enter into any undisclosed agreement or understanding with other bidders with respect to prices, specifications, certifications, subsidiary contracts, etc.
 - o Bidders not to pass any information provided by Principal as part of business relationship to others and not to commit any offence under PC/ IPC Act;
 - o Foreign bidders to disclose the name and address of agents and representatives in India and Indian Bidders to disclose their foreign principals or associates;
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- Bidders to disclose the payments to be made by them to agents / brokers or any other intermediary.
 - Bidders to disclose any transgressions with any other company that may impinge on the anti corruption principle.

2.02 Integrity Pact, in respect of a particular contract, would be operative from the stage of invitation of bids till the final completion of the contract. Any violation of the same would entail disqualification of the bidders and exclusion from future business dealings.

3.0 Implementation procedure:

3.01 Adoption of IP is voluntary for any organization, but once adopted, it should cover all tenders / procurements above a specified threshold value.

3.02 The threshold value for the contracts to be covered through IP should be decided after conducting proper ABC analysis and should be fixed so as to cover 90-95% of the total procurements of the organization in monetary terms.

3.03 Apart from all high value contracts, any contract involving complicated or serious issues could be brought within the ambit of IP, after a considered decision of the management

3.04 The Purchase / procurement wing of the organization would be the focal point for the implementation of IP.

3.05 The Vigilance Department would be responsible for review, enforcement, and reporting on all related vigilance issues.

3.06 It has to be ensured, through an appropriate provision in the contract, that IP is deemed as part of the contract so that the parties concerned are bound by its provisions.

3.07 IP should cover all phases of the contract, i.e. from the stage of Notice Inviting Tender (NIT)/pre-bid stage till the conclusion of the contract, i.e. the final payment or the duration of warranty/guarantee.

3.08 IP would be implemented through a panel of Independent External Monitors (IEMs), appointed by the organization. The IEM would review independently and objectively, whether and to what extent parties have complied with their obligations under the Pact.

3.09 Periodical Vendors' meets, as a familiarization and confidence building measure, would be desirable for a wider and realistic compliance of the principles of IP.

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3.10 Information relating to tenders in progress and under finalization would need to be shared with the IEMs on monthly basis.

• 4.0 Role /Functions of IEMs :

4.01 IEM would have access to all Contract documents, whenever required. Ideally, all IEMs of an organization should meet in two months to take stock of the ongoing tendering processes.

4.02. It would be desirable to have structured meeting of the IEMs with the Chief Executive of the organization on a monthly basis to discuss/review the information on tenders awarded in the previous month.

4.03 The IEMs would examine all complaints received by them and give their recommendations/views to the Chief Executive of the organization, at the earliest. They may also send their report directly to the CVO and the Commission, in case of suspicion of serious irregularities requiring legal/administrative action.

4.04 At least one IEM should be invariably cited in the NIT. However, for ensuring the desired transparency and objectivity in dealing with the complaints arising out of any tendering process, the matter should be examined by the full panel of IEMs, who would look into the records, conduct an investigation, and submit their joint recommendations to the Management


4.05 The recommendations of IEMs would be in the nature of advice and would not be legally binding. At the same time, it must be understood that IEMs are not consultants to the Management. Their role is independent in nature and the advice once tendered would not be subject to review at the request of the organization.

4.06 The role of the CVO of the organization shall remain unaffected by the presence of IEMs. A matter being examined by the IEMs can be separately investigated by the CVO in terms of the provisions of the CVC Act or Vigilance Manual, if a complaint is received by him or directed to him by the Commission.

5.0 Appointment of IEMs

5.01 The IEMs appointed should be eminent personalities of high integrity and reputation. The Commission would approve the names of IEMs out of the panel of names, initiated by the organization concerned, in association/consultation with the CVO.

5.02 While forwarding the panel, the organization would enclose detailed bio-data in respect of all names proposed. The details would include



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postings before superannuation, special achievements, experience, etc., in Government sector. It is desirable that the persons proposed possess domain experience of the PSU activities or the relevant field with which they may be required to deal.

5.03 A maximum of three IEMs would be appointed for Navratna PSUs and up to two IEMs for others.

5.04 Organizations could propose a panel of more than three names for the consideration of the Commission.

5.05 Persons appointed as IEMs in two organizations would not be considered for a third organization.

5.06 For PSUs having a large territorial spread or those having several subsidiaries, there could be more IEMs, but not more than two IEMs would be assigned to one subsidiary.

5.07 Remuneration payable to the IEMs would be equivalent to that admissible to an Independent Director in the organization. This remuneration would be paid by the organization concerned.

5.08 The terms and conditions of appointment, including the remuneration payable to the IEMs, should not be included in the Integrity Pact or the NIT. They could be communicated individually to the IEMs concerned.

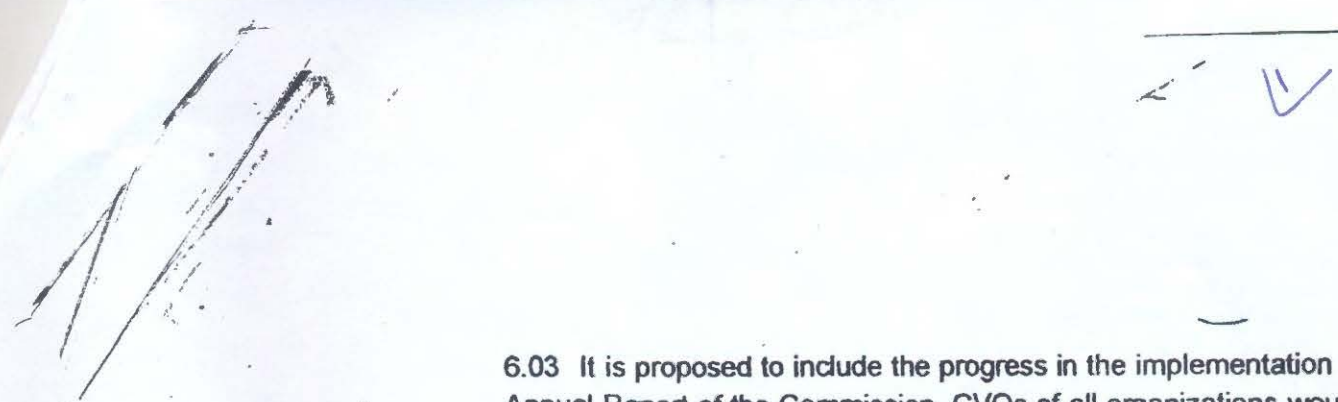
5.09 The normal term of appointment for an IEM would be 3 years, and it would be subject to renewal by the Commission thereafter.

6.0 Review System :

6.01 An internal assessment of the impact of IP shall be carried out periodically by the CVOs of the organizations and reported to the Commission.

6.02 Two additional reviews are envisaged for each organization in due course.

- (i) Financial impact review, which could be conducted through an independent agency like auditors, and
 - (ii) Physical review, which could be done through an NGO of tested credibility in the particular field.
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6.03 It is proposed to include the progress in the implementation of IP in the Annual Report of the Commission. CVOs of all organizations would keep the Commission posted with the implementation status through their monthly reports or special reports, wherever necessary.

7.0 All organizations are called upon to make sincere and sustained efforts to imbibe the spirit and principles of the Integrity Pact and carry it to its effective implementation.

