

**ANTI-CORRUPTION
BUSINESS INTEGRITY
COMPANION
GUIDE**



Brought to you by:



The United Nations Pacific Regional Anti-Corruption (UN-PRAC) Project is a joint initiative of UNDP and UNODC, supported by the New Zealand Government.

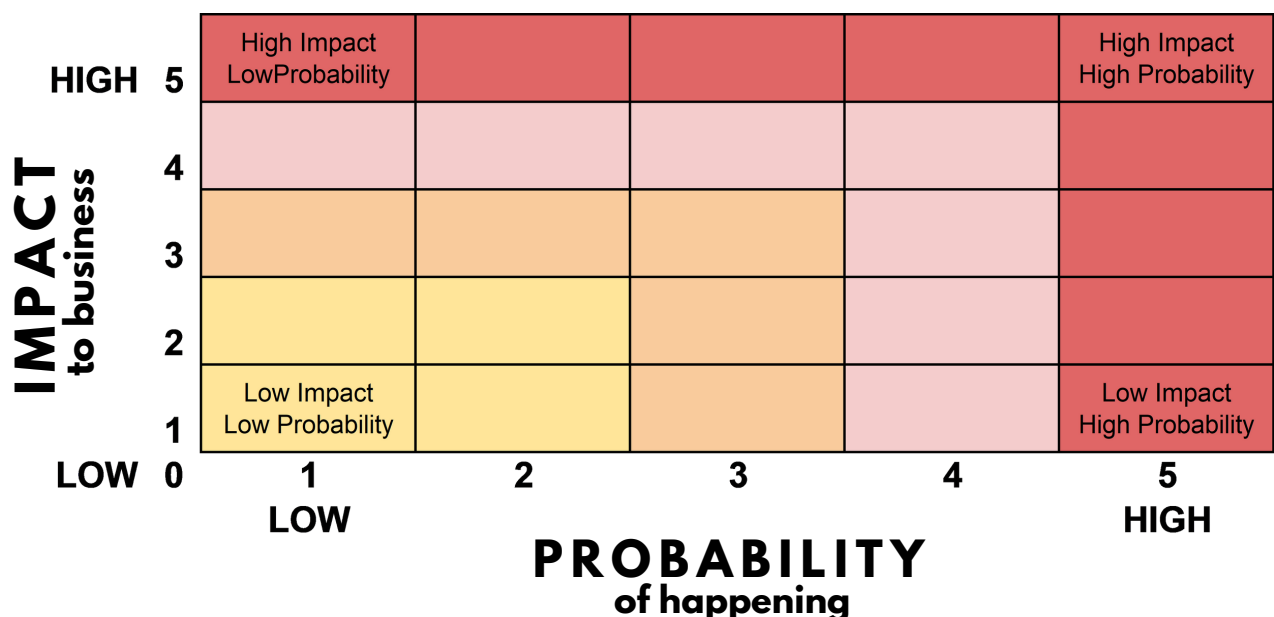


Identifying Corruption-Related Activities & Risks

This Anti-Corruption Business Integrity Companion Guide is intended to serve as a practical guide for businesses to learn the basics about corruption-related activities. This general knowledge would help businesses take a proactive approach against corruption by detecting, preventing, and responding appropriately. This Companion Guide has been made possible by a grant from the United Nations Office on Drugs and Crime (UNODC), United Nations Development Programme (UNDP) and Pacific Region Anti-Corruption Office (UN-PRAC) implemented by the Palau Chamber of Commerce.

Assessing Risk

When a business is assessing the risk of a corruption-related activity, it must look at how the activity **impacts** the business (financial, legal, operational, or reputational) against the **probability** (or frequency) of the activity happening. With limited resources, a business should prioritize the risks in the red zones first before addressing the activities of lesser risk.



CORRUPT ACTIVITY: **BRIBERY**

Definition

Bribery is the act of giving a gift or benefits, usually money, to improperly influence the outcome of an action or decision or to do something dishonest, illegal, or breach the trust in doing business.

Bribery is the most common form of corruption. It may be initiated by those seeking to solicit or those offering a bribe.

Identify Examples:

- **Bribes:** Attempting to build favor with permitting officials, an individual improperly entertaining or providing gifts.
- **Charitable Donations:** Bribes may be disguised as charitable contributions or sponsorships, while actually intended to make or win a business deal or benefit a contract.
- **Conflict of Interest:** Occurs when a personal interest or relationships is put first before the business interest.
- **Facilitation Payments:** A company makes a payment to a customs official to avoid unnecessary delays on clearing a shipment of goods
- **Gifts, Hospitality, & Travel Expense:** An expensive gift or lavish entertainment to providers of service,
- **Political Contributions:** Bribes may be disguised as political contributions.
- **Kickbacks** - A contractor gets three contracts per year and renovates the project manager's house for free.

Risk Assessment

IMPACT to business	5	High Impact Low Probability					High Impact High Probability
	4						
	3						
	2						
	1	Low Impact Low Probability					Low Impact High Probability
	0						
		1	2	3	4	5	
		PROBABILITY of happening					
		LOW HIGH					

Signs (Flags)

- Using or receiving cash as gifts
- Motivation of gifts or benefits
- Timing of gifts or benefits
- Excessive gifting by a individuals on gift registry
- Procurement process not follow or waived
- Undocumented or "Off Record" Accounts

PREVENT

- Develop & Implement company-wide **Anti-bribery policy**
- Develop & Implement **Code of Conduct**
- Communication and Training of policies and code of conduct
- Establish a reporting mechanism
- Include articles on anti-bribery and anti-collusion in contracts.

DETECT

- Develop & Implement a registry for **gifts, donations, and sponsorships**.
- Ensure all sponsorship are communicated in promotional and marketing materials
- Follow up on donations
- Maintain accurate recordkeeping and accounting records that follow proper procedures.
- Disclose political contributions

RESPOND

- Provide tools for all persons of the business to respond to bribery.
- Report and document all activities internally. Follow-up and discuss with people within the organization.
- Write letter to person soliciting or offering a bribe on company policy & position.
- Report to the right authorities.

CORRUPT ACTIVITY: FAVORITISM, NEPOTISM, CRONYISM

Definition

Favoritism involves abuse of discretion.

Nepotism is a form of favoritism based on relationships and acquaintances, between persons in authority (or official) with an individual who he or she is affiliated as members of a family, political association, community association, or other groups.

Cronyism is a the appointment of friends and associates to positions of authority, without proper regard to their qualifications.

Identify Examples:

- **Favoritism:** Awarding contracts to persons based on acquaintance and not on qualification or through bidding
- **Nepotism:** A business owner hires his or her daughter-in-law as a marketing manager even though the daughter-in-law may not be qualified or deserves the job; or by-passing a competent marketing rep. with credentials.
- **Cronyism:** When a CEO appoints friends or colleagues to positions of authority within the organization without proper regard to their qualifications.
- **Patronage:** A person is selected, regardless of qualifications or entitlement, for a job, contract, or government benefit because of affiliations or connections.

Risk Assessment

IMPACT to business	5	High Impact Low Probability				High Impact High Probability
	4					
	3					
	2					
	1	Low Impact Low Probability				Low Impact High Probability
	0					
		1	2	3	4	5
		PROBABILITY of happening				
		LOW HIGH				

Signs (Flags)

- Jobs or Positions filled without vacancy announcement or need
- Weak or lack of hiring procedures
- Missing documentation for bids, procurement process
- Service or production levels decrease or cost of service/production increases, or both.

PREVENT

- Develop & Implement clear employment procedures.
- Develop & Implement a clear procurement process that is aligned to Palau's laws.
- Develop and adopt a conflict of interest reporting form that is regularly updated.

DETECT

- Annual audit of operational costs and functions.
- Regular employee reviews and actions
- Regular review of conflict of interests in employee records.
- Establish a process for declaration of conflict of interest and a transparent system for actions taken.

RESPOND

- Publish recruitment, selection, hiring, and training procedures taken for any possible activities of nepotism, cronyism, or patronage.
- Investigate any reports on favoritism, nepotism, or cronyism within the business
Re-open hiring process, then delegate and empower a third party person to complete the hiring process.

CORRUPT ACTIVITY: **EMBEZZLEMENT, THEFT, FRAUD**

Definition

Embezzlement and theft involve the taking or conversion of money, property or valuable items by those who are not entitled to them but, by virtue of their position or employment, have access to them.

Fraud involves the use of false or misleading information to induce the owner of the property to relinquish it voluntarily.

Identify Examples:

- **Embezzlement:** A cashier taking and converting \$50 from the cash register (till) for personal gain. A bartender gives complimentary drinks to his or her friends without approval or recording the transaction.
- **Theft:** A waitstaff taking bottled drinks from the storage area to a party he or she is attending after work. A housekeeping attendant bringing home unused toiletries without consent.
- **Fraud:** Providing false or misleading information, such as hours worked on timecards, employment application, or employee benefits application (leave, unemployment)

Risk Assessment

IMPACT to business	HIGH 5	High Impact Low Probability					High Impact High Probability
	4						
	3						
	2						
	1	Low Impact Low Probability					Low Impact High Probability
	LOW 0		1	2	3	4	5 HIGH
		PROBABILITY of happening					

Signs (Flags)

- **Weak or lack of** consistent, accurate recordkeeping or accounting system
- **Frequent inconsistencies** in reconciliation of bank accounts, bank statements, inventory reports
- **Employees with excessive credit or debt** are high risk for position involved in cash handling.

PREVENT

- Develop & Implement company-wide policy on theft, fraud, and embezzlement
- **Code of Conduct** may have specific articles addressing problems
- Communication and Training of policies and code of conduct
- Establish a reporting mechanism

DETECT

- Establish and maintain accurate, up-to-date recordkeeping and accounting records that follow proper procedures.
- Conduct regular internal auditing of financial records.
- Enforce a four-eye policy on cash handling, meaning more than one person verifies deposits and cash handling.
- Use technology to monitor cash transactions (cctv, electronic timecards, etc..)

RESPOND

- Be consistent with policy implementation in regards to employees committing such activities
- Regularly promote and highlight employees that champion properly demonstrate good practice to prevent, detect, or respond to activities of embezzlement, theft, and/or fraud.

CORRUPT ACTIVITY: **TAX EVASION**

Definition

Tax Evasion is the act of illegal non-payment or underpayment of taxes by deliberately making false declaration or no declaration to the Bureau of Revenue & Taxation.

Identify Examples:

- **Non-payment** is when businesses or business operations fail to pay taxes due to the national government, including wages & salaries withholding tax, gross receipts tax, social security tax, MSA payments, room tax, import tax, etc...
- **Underpayment** is when businesses or business operations declare less revenues than actually earned, which leads to less taxes payable or paid.

Risk Assessment

IMPACT to business	5	High Impact Low Probability				High Impact High Probability
	4					
	3					
	2					
	1	Low Impact Low Probability				Low Impact High Probability
	0					
		1	2	3	4	5
		PROBABILITY of happening				
		LOW HIGH				

Signs (Flags)

- **Weak or lack of consistent recordkeeping or accounting system**
- **Inconsistency in financial statements and tax records**
- **Increase or frequent penalties, interest, and/or fines paid**

PREVENT

- Business owner are responsible to learn and to understand Palau's taxes and regulations.
- Business owner needs to know bookkeeping, hire a *competent* bookkeeper, outsource accounting services, or invest in an accounting system.

DETECT

- Maintain accurate recordkeeping and accounting records that follow proper procedures.
- Regular internal auditing of recordkeeping systems to ensure consistency and accuracy.

RESPOND

- Demonstrate honesty by reporting and paying any underpaid or unreported taxes.
- Report to right authority.
- Hire an accountant, outsource accounting service, or purchase software.

CORRUPT ACTIVITY: **ABUSE OF DISCRETION/FUNCTION/OFFICE**

Definition

Abuse of Discretion Some cases of corruption involve an abuse of discretion, vested in an individual, for personal gain.

Abuse of Function, is the performance of or failure to perform an act, in violation of laws, by a public official in the discharge of his or her functions, for the purpose of obtaining an undue advantage for himself or herself or for another person or entity

Identify Examples:

- **Abuse of Discretion:** A government employee involved in contracting may exercise the discretion to purchase goods or services from a company in which he or she holds a personal interest.
- **Abuse of Function:** A public official using his office to obtain information about a political rival's confidential tax information.
- **Abuse of Office:** A person who, being a public official does any illegal acts under the color of office, or who wilfully neglects to perform the duties of his or her office as provided by law, shall be guilty of misconduct in public office.

Risk Assessment

IMPACT to business	5	High Impact Low Probability					High Impact High Probability
	4						
	3						
	2						
	1	Low Impact Low Probability					Low Impact High Probability
	0						
		1	2	3	4	5	
		PROBABILITY of happening					
		LOW HIGH					

Signs (Flags)

- Vague description of roles, responsibilities, or job descriptions.
- Vague or lack of company Code of Conduct. Excessive use of the phrase "at the discretion of".
- Appearance of (or perception) of wrongful gain.

PREVENT

- Clear, concise job descriptions for all positions within a company.
- Defined standards of procedures for all employees at all levels to follow.
- Establish a code of conduct or conflict of interest policy that is accessible, readable, and applicable.

DETECT

- Provide an impartial method or channel for reporting within the organization or proper authorities.
- Review and update job descriptions as roles and responsibilities change.
- Maintain good records of all employees' conflict of interest statements.
- Update regularly.

RESPOND

- Review and respond (appropriately) any and all claims/reports of abuse of power.
- Apply appropriate punishment for the misconduct.
- Periodically (i.e., annually) update code of conducts and conflict of interest policies to remain relevant.
- Provide training for employees, especially for positions of greater authority/function.

CORRUPT ACTIVITY: **CONFLICT OF INTEREST**

Definition

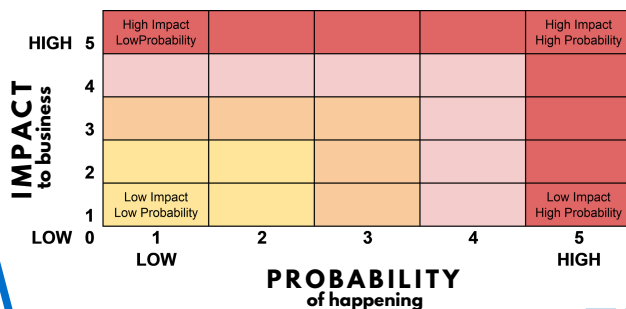
Conflict of Interest

occurs when a personal interest or relationships is put ahead of business interest. Conflict of interest can distort judgment and lead to actions which are not honest and open.

Identify Examples:

- **Personal Interest Conflict with Business Interest:** For instance, a marketing manager of a beverage distributor who is responsible for sponsorships of sports events may face a conflict of interest by holding the position of a Board Member in a sports club that is being considered for sponsorship.
- **Transparency:** Conflict of interest could also pose a risk when a company's representative actually does make the best business decision (because it offers better value, better exposure, etc.), but it is not made in a transparent manner demonstrating that objective criteria were applied.
- **Outside Appointments** can lead to conflicts of interest if a company representative has to make a decision which results in a trade-off between advantages for the involved organization.
- **Employment of relatives** can lead to conflicts of interest when employees may favor family members over qualified applicants.
- **Financial Investments** can lead to conflict of interest. For instance, employees may favor a particular supplier in which they own a substantial number of shares over more qualified suppliers during procurement tenders.

Risk Assessment



More Examples

Parallel Internal Positions
having both executive and control duties creates **COI**

Engagement of Public Officials
may be perceived as having insider knowledge

PREVENT

- Develop & Implement **Code of Conduct** that has specific articles addressing conflict of interest.
- Communicate and Train employees on code of conduct
- Establish a reporting mechanism
- Publish or disclose conflict of interest policy

DETECT

- Incorporate the review of Code of Conduct or Conflict of Interest Policy to the business on-boarding practice and/or during your periodic personnel evaluations.
- Establish a registry for quick look up of any existing or potential conflict of interest
- Incorporate into procurement process

RESPOND

- Practice the policy and procedures consistently
- Discuss at periodic staff meetings about real examples, such as a supervisor declining an outside appointment, why it was a conflict of interest, and the risks avoided.
- Take appropriate action such as remove employee from situation.

CORRUPT ACTIVITY: FRONT BUSINESS IN PALAU

Definition

Front Businesses are real companies that operate legally with a business license, but hide or disguise illegal activities such as money laundering, tax evasion, and/or fraud.

Identify Examples:

- **Front Retail Store:** In the Republic of Palau, retail and wholesale business are exclusive to the citizens of Palau (FIB regulations; 28 PNCA Section 105). A front retail store will have a legitimate license, with a Palauan owner in name only because the Palauan acts or is treated as an employee. The foreigner that invested funds into the business plays the role of owner.
- **Front Tour Operations:** *Similar to the case above*, Tour operations and transportation are reserved for Palauan citizens. A licensed tour operates in a Palauan's name, but the foreigner is actually the investor or owner disguised as the manager or employee.
- **Other Front Businesses:** Front Businesses may also be disguised as non-profit organizations disguised to provide support to the community, but are actually laundering funds from crimes or bribes.

Risk Assessment

IMPACT to business	PROBABILITY of happening				
	1 LOW	2	3	4	5 HIGH
HIGH 5	High Impact Low Probability				High Impact High Probability
4					
3					
2					
1	Low Impact Low Probability				Low Impact High Probability
LOW 0					

Signs (Flags)

- Businesses that have strong foreign presence and limited or absence of Palauan owners in the operations.
- Cash only transactions
- No bank accounts

FIB Permits

Corporations Partly-Owned by Palauans

Corporations Wholly-Owned by non-Palauans

PREVENT

- Persons in Ownership role or management should learn all laws and requirements prior to entering into *partnership deals*.
- Understand the roles & responsibilities of an owner/partner/employee
- Implement good recordkeeping.
- Make sure to have proper business bank accounts.

DETECT

- For retail and tour operations, it could mean verifying the level and source of initial investments made at the start up.
- For other types of businesses, detection is in the flow of cash.
- Monitoring bank accounts is another way for owners to detect any suspicious activities.

RESPOND

- Take ownership and responsibility of your business.
- Seek expert advice or help.



TIME TO GET ORGANIZED!

Take a look at some of following tips on
how to build business integrity and
defend your business from corruption.

Register Your Business Operations



Republic of Palau
SOCIAL SECURITY ADMINISTRATION
P.O. Box 679 Koror, PW 96940
Phone: (680) 488-2457 / Fax: (680) 488-1470
Email: administration@ropssa.org / Website: www.ropssa.org

Application for Employer Identification Number (EIN)
For use by Employers for ☐ NEW EIN/SUB EIN
☐ Request for change of Business record

EIN

1 Name of Business/Legal name of entity for whom the EIN is being requested

2 Names and social security numbers (if any) of all owners/officers

1. _____ SSN ▶

2. _____ SSN ▶

3. _____ SSN ▶

4. _____ SSN ▶

5. _____

3a Mailing address (room, apt., _____)

3b City, state, and Zip Code _____



Bureau of Revenue and Taxation
P.O. Box 6069 Koror, Palau 96940
Tel: (680) 488-2465/2580/3303 | Fax: (680) 488-3844
URL: www.palau.gov.pw/brt

TAX-001

APPLICATION/REGISTRATION FOR LICENSE
TYPE OR PRINT AND CHECK APPROPRIATE BOXES

1	Applicant(s) Name		
2	Type of Ownership		
	☐ FIAC #: _____	☐ Sole Proprietor (present valid ID) SSN: _____	
	Exp. Date: _____	☐ Partnership (attach ORIGINAL agreement)	
		☐ Corporation (attach ORIGINAL charter, by-laws, articles of incorporation)	
3	Type of License	☐ Wholesaler \$ 300	☐ Massage Parlor \$ 500
		☐ Professional \$ 300	☐ Solicitor \$ 600
		☐ Importer \$ 200	☐ Peddler (per day) \$ 20
		☐ _____	☐ _____
		Tot _____	
4	Doing Business As (dba)	Phy _____	
5	Physical & Mailing Address	Ma _____	
		Bus _____	
6	Contact Numbers	Oth _____	



FOREIGN INVESTMENT BOARD
P.O. BOX 1733
KOROR, PALAU PW 96940
PHONE NO: (680) 488-1135 / 2073
FAX NO: (680) 488-3722
E-Mail: fipalau@palaunet.com

Application No. _____

Date Received _____

MUST BE TYPED

FOREIGN INVESTMENT APPROVAL CERTIFICATE APPLICATION FORM

Please file this Foreign Investment Approval Certificate Application Form and fifteen (15) copies with the Foreign Investment Board, P.O. Box 1733, Koror, Palau 96940. Please attach a check in the amount of \$500.00 made payable to the National Treasury as payment of the requisite filing fee.

1. Name of applicant: _____

2. Principal place of business of applicant

In Home Country	In Palau
_____	_____
(phone) _____	(phone) _____
(fax) _____	(fax) _____
(e-mail) _____	(e-mail) _____

Consider Implementing a Code of Conduct Policy for your business

APPENDIX B: SAMPLE CODE OF CONDUCT



Code of Conduct

for Palau Chamber of Commerce

based on the UN-PRAC – PIPSO Code for National Private Sector Organisations

1. A commitment to ethical behavior and preventing corruption will be at the core of our Palau Chamber of Commerce.
2. We will not engage in unethical behaviour when dealing with members, government officials, stakeholders, political parties, our own employees and employees of other organisations and businesses.
3. We will report to the appropriate authority any bribery, extortion or solicitation and embezzlement in contravention of the relevant laws and legislations of our countries.
4. Occurrences of gift-giving and receiving will be dealt with transparently through a publicly available register.
5. Conflicts of interest must be disclosed, and perceptions of conflicts will be dealt with transparently.
6. Relationships between board members, staff and members will be based on fairness with a commitment to transparent recruiting, merit and training, which avoids any corruption or favouritism.
7. We will protect any data collected against mishandling and fraud, collect personal information only as needed, and respect the preferences of stakeholders, members and staff regarding the use of their information.
8. Embracing free enterprise and mutual support in the spirit of the Sustainable Development Goals, we will operate so that everyone can benefit from vibrant business activity and the ensuing economic growth and stability.

Get Help

As a owner of a start-up company or a small business, you can get overwhelmed with managing your business, maintaining cash flow, and complying with all the rules and regulations for your business or industry. It is important to know your limitations and plan to overcome them. It is okay to ask for help, from the right people or sources.

In Palau, there are many places to ask for help or get information to help yourself. Here are a few recommendations:

Join the Palau Chamber of Commerce

The Palau Chamber of Commerce (PCOC) is chartered as a non-government, non-profit association. The PCOC member have many benefit including the monthly meetings where they can learn, hear, and discuss current business matters. Business development trainings are also offered to members and the general public. PCOC members are provided copies of proposed legislations that may have impact to business, as well as copies of signed legislation and business regulations.

The Chamber also host networking events for businesses to learn more about other businesses. During these networking events, members can learn from each other by sharing lessons learned or just know that they are not suffering alone. As a small business owner, you could meet and connect with role models businesses to learn from. To learn more, contact the Palau Chamber of Commerce at (680) 775-3400 or via email to palauchamberofcommerce@gmail.com.

Palau's National Government's Official Website (Palaugov.pw)

Since the improvement of Palau's internet speed and accessibility, businesses should visit the National Government's website for official documents, regulations, and reports. Many of the forms for business licensing, tax forms, business regulations, and other important links are at the website. Visit www.palaugov.pw to check it out.

Palau Small Business Development Center

The Palau Small Business Development Center (SBDC) is located in Ngetkib, Airai, next to the National Development Bank of Palau. Palau SBDC offers one-on-one, free and confidential counseling to help business owners or entrepreneurs planning to start their business. The counseling sessions are aimed to build knowledge and skills in entrepreneurship. Palau SBDC offers high-quality, low cost trainings that are open to the general business community. To learn more about counseling and training opportunities visit www.pacificsbdc.com or call (680) 587-6004.

Office of the Special Prosecutor (OSP Palau)

Under 2 PNC § 503, the Special Prosecutor is authorized to (1) receive complaints of, investigate, and prosecute any and all allegations of violations of the Constitution and laws of the Republic of Palau; and (2) investigate and act as the prosecutor for the national government in any other case in which the Ministry of Justice or the Office of the Attorney General is unable to investigate or prosecute because of an actual or potential conflict of interest or other ethical considerations.

The Office of the Special Prosecutor (OSP) is located at the Capitol Complex in Ngerulmud, Melekeok. The OSP's website has links to relevant laws and regulations that impact businesses in Palau. To learn more about the OSP visit www.palauosp.org or call (680) 767-3291.

Office of the Public Auditor (OPA)

The Office of the Public Auditor is established pursuant to Article XII, Section 2, of the Constitution of the Republic of Palau and the Public Auditing Act of 1985. Article XII, Section 2 (b) states: "The Public Auditor shall inspect and audit accounts in every branch, department, agency, or statutory authority of the national government and in all other public legal entities or nonprofit organizations receiving public funds from the national government..."

The Office of the Public Auditor (OPA) is located in the Orakiruu Building in Medalaai, Koror. The OPA's website has links to relevant laws and regulations that impact businesses in Palau. To learn more visit www.palauopa.org or call (680) 488-2889.