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MEMORANDUM OF UNDERSTANDING
BETWEEN
COAL INDIA LIMITED, INDIA (CIL)
AND
TRANSPARENCY INTERNATIONAL INDIA (TII)



1. *Considering* that bribery and corruption is widespread Social and Economic crime, which undermines good governance and economic development in India and corrodes the moral fiber of our society.
2. *Considering* that all companies and major organizations within India share a common responsibility to combat bribery and corruption in all forms and manifestations.
3. *Recognizing* that achieving progress in this area requires sustained efforts not only at national level but also on individual Company or Government department level.
4. *Welcoming* the efforts of *Transparency International-India (TII)* and other non-governmental organizations as well as business organization such as *Coal India Limited, India (CIL)*.
5. *CIL* is a premier Public Sector Organization engaged in various activities in Coal Sector in India. *CIL* 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). *CIL* is committed to fostering the most ethical and corruption free business environment. *CIL* values its relationships with all Counterparties and deals with them in a fair and transparent manner.
6. *Integrity Pact* is a tool developed by Transparency International, which ensures that all activities and transactions between a Company or Government Departments and their Suppliers are handled in a Fair, Transparent and Corruption Free manner.
7. *CIL* and *TII* have developed attached Integrity Pact Program in consultation with Central Vigilance Commission (CVC) and *CIL* is implementing this Program within its Organization. Based on the experience gained in implementing the Integrity Pact Program in *CIL* and other organizations this Program may be further refined to improve its effectiveness.
8. *CIL* is committed to implement the Integrity Pact Program whole-heartedly both in letter and in spirit.
9. *TII* pledges to support *CIL* in this regard and provide it with advice and resources within its means to ensure successful implementation of Integrity Pact Program and achievement of its objectives.
10. In case *CIL* and *TII* have differences concerning the implementation of the Integrity Pact Program they undertake to resolve them through dialogue and discussion. In case such differences cannot be resolved either party can terminate this Memorandum of Understanding by giving thirty days notice in writing to the other party and make such termination public only after it has taken effect. This Memorandum of Understanding will remain in effect unless terminated according to the above provision.

Coal India Limited, India

15/09/2007

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INTEGRITY PACT PROGRAM

I. INTRODUCTION:

Coal India Limited (CIL), India is a premier Public Sector Organization engaged in various activities in Coal sector in India. CIL 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). CIL is committed to fostering the most ethical and corruption free business environment. CIL values its relationships with all Counterparts and deals with them in fair and transparent manner.

In order to achieve these goals, CIL is implementing the Integrity PACT program in cooperation with Central Vigilance Commission (CVC) and Transparency International (TI). As part of this initiative CIL will, in consultation with CVC and TI appoint external Independent Monitors who will help CIL implement the INTEGRITY pact Program.

Following are the details of CIL's Integrity Pact Program:

- Commitments and Obligation of CIL
- Commitments and Obligations of Counterparties.
- Violation and Consequences
- Independent Monitor
- Implementation Guidelines
- Periodic Review and Evaluation.

II COMMITMENTS AND OBLIGATION OF CIL :

- (a) CIL is committed to have most ethical and corruption-free business dealings with counterparties.
- (b) CIL values its relationship with all counterparties and will deal with them in a fair and transparent manner.
- (c) CIL 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, CIL will deal counterparties with equity, reason, and fairness.
- (e) CIL will exclude all Associates who may be prejudiced or have a conflict of interest in dealing with counterparties.
- (f) CIL will honour its commitments and make due payments to Counterparties in timely manner.
- (g) CIL will initiate action and peruse it vigorously whenever corruption or unethical behavior occurs.

III. COMMITMENTS AND OBLIGATIONS OF THE "COUNTERPARTY"

- (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 CIL.
- (b) The Counterparty will not engage in collusion, price fixing, etc with other Counterparts unless authorized by CIL.
- (c) The Counterparty will not pass CIL's confidential information to any third party unless authorized by CIL.
- (d) The Counterparty will promote and observe best ethical practices within its Organization.
- (e) The Counterparty will inform the Independent Monitor:
 - i) If he receives demand for a bribe or illegal payment / benefit.
 - ii) If he comes to know of any unethical or illegal payment / benefit
 - iii) If he makes any payment to any CIL Associate.
- (f) The Counterparty will not make any false or misleading allegations against the CIL or its associates.

IV. VIOLATIONS & CONSEQUENCES:

- (a) If a counterparty commits a violation of its Commitments and Obligations under the Integrity Pact Programme during bidding process, he shall be liable to compensate CIL by way of liquidated damages amounting to a sum equivalent to 3% of the value of the offer or the amount equivalent to Earnest Money Deposit / Bid Security, whichever is higher.
- (b) In case of violation of the Integrity Pact whereby after award of the Contract, the CIL terminates or is entitled to terminate the Contract, CIL shall be entitled to demand and recover from the Contractor liquidated damage equivalent to 5% of the contract value or the amount equivalent to Security Deposit / Performance Bank Guarantee, whichever is higher.
- (c) CIL may ban and exclude the Counterparty from future dealings until the Independent Monitor is satisfied that the Counterparty will not commit any future violation.
- (d) CIL may initiate criminal proceedings against the violating Counterparty.
- (e) The counterparty, will be liable to damages as determined by the Independent Monitor.

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V. INDEPENDENT MONITOR:

1. CMD, CIL is the authority to appoint Independent Monitor(s) to oversee Integrity Pact Program implementation and effectiveness. The process for their appointment shall be similar to Outside Expert Committee (OEC). For this purpose, a panel of Independent Monitors may be constituted by CIL in consultation with Transparency International (TI) and the same may be referred to CVC for clearance. It will be voluntary, non-salaried position of 3 year term. Independent Monitor will have status/benefits similar to those of Chairman of Audit Committee of Board/status of the Directors of CIL.
2. The Independent Monitors will be people of impeccable integrity, conversant of CIL's business and experienced in commercial activities.
3. The major goal of the Independent Monitors will be to oversee the implementation of the Integrity Pact Program to prevent corruption, bribes and any other unethical practices in the CIL.
4. The Independent Monitors will not have administrative or enforcement responsibilities. He will coordinate his efforts with other anti-corruption institutions such as CVC. He may engage services of outside agencies such as accounting firms, law firms etc. at CIL's expense, if required, in discharge of his responsibilities.
5. The Independent Monitors will have access to all officers and internal records of the CIL. He will also have access to Counterparty's records and information regarding its dealing with the CIL.
6. The Independent Monitors will have the right to attend any meetings between the CIL and the Counterparties.
7. If the Independent Monitors observe or suspect an irregularity, he will inform the Chairman of CIL and Chairman of the Audit Committee of its Board of Directors. Once the Independent Monitor is satisfied that an irregularity has taken place, he may inform the Board of CIL.
8. The independent Monitor can be removed from his office by CIL only by an open and transparent process and such decision will have to be ratified by the Board of CIL.

VI. IMPLEMENTATION GUIDELINES

To implement the Integrity Pact Program the following general Guidelines are suggested:

- (a) To select and appoint Independent Monitors in consultation with CVC and TI.
- (b) To get commitment from all Senior Level Executives/ officials of CIL to implement the program. It should be recognized that there may be the resistance to Integrity Pact program.
- (c) To develop detailed implementation plan and finalize the Integrity Pact document in consultation with the Independent Monitors.

- (d) To notify all senior staff members, Board of Directors, any other oversight body of the Organization and major suppliers of CIL's plan to implement the Integrity Pact program, which is to be included in CIL's website and disclosed to the media.

VII. PERIODIC REVIEW & EVALUATION

It is recommended that CIL periodically review the effectiveness of Integrity Pact Program by all or some of the following:

1. The Independent Monitors and senior leadership of CIL do an annual self-assessment of Integrity Pact Program effectiveness and identify areas / ways to improve.
2. The Independent Monitor to submit an annual report on the progress / effectiveness of Integrity Pact Program to the Board of Directors of CIL.
3. CIL may conduct an annual 360-degree review (by an outside agency) with senior executives, junior executives, suppliers and competitors of effectiveness of Integrity Pact Program in reducing corruption.
4. CIL meet with CVC and TI on an annual basis to review the effectiveness of program.