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**Business Ethics for APEC SMEs Initiative -
Recommendations for Enterprise Integrity in Public
Procurement**

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BUSINESS ETHICS FOR APEC SMES INITIATIVE RECOMMENDATIONS FOR ENTERPRISE INTEGRITY IN PUBLIC PROCUREMENT

Government bodies are often the largest procurers of goods, services, and works from the private sector, averaging 13% to 20% of an economy's Gross Domestic Product.¹ Such purchases can be substantial in many industrial sectors and greatly influence business conduct, including for small and medium-sized enterprises (SMEs) seeking to access public tender opportunities.

With 10% to 25% of public contract value lost due to corruption according to the United Nations, governments are increasingly leveraging their purchasing power to reward ethical conduct and business integrity.² Such efforts not only seek to strengthen the procurement process and prevent public resource loss but also boost shared prosperity for citizens and SMEs through enhanced competitiveness, investment, and innovation.

APEC Putrajaya Vision 2040 notes Leaders' commitment to promote seamless connectivity, resilient supply chains and responsible business conduct.³ The Aotearoa Plan of Action captures Leaders' commitment to implement APEC Putrajaya Vision 2040 by calling for strengthened multi-stakeholder cooperation to promote responsible business conduct, particularly with the private sector.⁴ The APEC SME Working Group's Strategic Plan 2021-2024 also has prioritized transparency and ethical business conduct in government to business interaction.⁵

In alignment with these commitments, the *Business Ethics for APEC SMEs Initiative* released a Resource Guide in August 2020 on current government strategies to encourage ethical business conduct, highlighting examples from several APEC members that incentivize ethical conduct and enterprise integrity in public procurement.⁶ In November 2021, the *Business Ethics for APEC SMEs Initiative* released "The Value of Business Ethics for APEC SMEs" presenting novel research demonstrating the correlation of economic gain to ethics program maturity among SMEs in health-related sectors which often heavily depend on public procurement.⁷

The findings from these APEC publications, together with other international resources, provide an opportunity for the *Business Ethics for APEC SMEs Initiative* to advance Vision 2025 goals by offering these Recommendations for SMEs and Economies to foster enterprise integrity in public procurement.⁸

¹ World Bank Global Public Procurement Database: <https://www.worldbank.org/en/news/feature/2020/03/23/global-public-procurement-database-share-compare-improve>

² United Nations Office on Drugs and Crime Guidebook on Anti-Corruption in Public Procurement and the Management of Public Finances: https://www.unodc.org/documents/corruption/Publications/2013/Guidebook_on_anti-corruption_in_public_procurement_and_the_management_of_public_finances.pdf

³ APEC Putrajaya Vision 2040: https://www.apec.org/Meeting-Papers/Leaders-Declarations/2020/2020_aelm/Annex-A

⁴ Aotearoa Plan of Action: <https://www.apec.org/meeting-papers/leaders-declarations/2021/2021-leaders-declaration/annex-aotearoa-plan-of-action>

⁵ APEC SME Working Group Strategic Plan 2021-2024: https://www.apec.org/docs/default-source/Groups/SMEWG/20_smewg50_030_r.pdf

⁶ Government Strategies to Encourage Ethical Business Conduct: A Resource Guide for Economies from the Business Ethics for APEC SMEs Initiative: <https://www.apec.org/Publications/2020/08/Government-Strategies-To-Encourage-Ethical-Business-Conduct>

⁷ The Value of Business Ethics for APEC SMEs: <https://www.apec.org/publications/2021/11/the-value-of-business-ethics-for-apec-smes>

⁸ Business Ethics for APEC SMEs Initiative Vision 2025: <https://www.apec.org/Publications/2020/12/Business-Ethics-for-APEC-SMEs-Initiative>

Recommendations for Enterprises:

- Establish and sustain an effective ethics program that embraces the maturity indicators detailed in the Value of Business Ethics for APEC SMEs research, such as cross-functional employee representation in program implementation and third party intermediary due diligence and risk management, and reflects APEC Principles for Voluntary Codes of Ethics.^{9 10}
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- Engage with peer enterprises through industry associations to identify, adopt, implement, and sustain a shared commitment to high-standard practices of ethical conduct and business integrity, including through a published code of ethics that applies to firms in the same sector.
- Engage with relevant procurement authorities to identify integrity requirements or incentives before, during, and/or after a public tender is awarded. Encourage the alignment of integrity requirements or incentives with high-standard practices committed to by enterprises across the sector.

Recommendations For Economies:

- Identify enterprise integrity provisions within your public procurement system that incentivize ethical business conduct before, during, and/or after a public tender is awarded. One example of this provision can include demonstration by enterprises of adherence to a code of ethics, either as a qualification to participate or as an incentive in the tender process.
- If absent or limited, consider adopting enterprise integrity provisions that incentivize ethical business conduct throughout the procurement cycle.
- Consider incentivizing enterprises to demonstrate evidence of anti-corruption policies and procedures, a culture of integrity, an independent compliance function, and established risk management practices for their sector, including third-party intermediary due diligence and risk management. Such evidence may include a demonstratable code of ethics, routine integrity training for their employees, implemented procedures, internal controls, and certification/audits by a respected independent party.
- Demonstrations by enterprises of such evidence should coincide with efficient and effective verification or declaration, such as public accession to a leading industry code of ethics.
- Embrace high-standard, voluntary self-regulation by enterprises through their sectoral industry associations while routinely engaging these associations on established practices and market developments to remain current and reduce information asymmetry.

⁹ APEC Kuala Lumpur Principles: <https://klprinciples.apec.org/initiatives/setting-best-practices/kuala-lumpur-principles/>

¹⁰ APEC Mexico City Principles: <https://mcprinciples.apec.org/initiatives/setting-best-practices/mexico-city-principles/>

¹¹ APEC Hanoi Principles: <https://aimp2.apec.org/sites/PDB/Supporting%20Docs/766/Completion%20Report/SME%2001%2011%20Hanoi%20Principles%20for%20Construction%20and%20Engineering.pdf>