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**BnEI safeguarding the banknote procurement**

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# Outline

- 1 Issues in banknote procurement
- 2 Introduction to the Banknote Ethics Initiative (BnEI)
- 3 BnEI Ethics Code, Audit and Accreditation
- 4 Central bank support
- 5 Integrity pacts to safeguard banknote procurement

# 1 Issues in banknote procurement

- ✓ The global nature of the industry
- ✓ Industry structure: relatively high level of concentration; companies competing for public contracts; central banks involved on both demand and supply side
- ✓ High fixed costs imply scale economies (competitive pressures on supply side); adding to standard risk of bribery/corruption in public procurement (demand side)
- ✓ Significant use of intermediaries
- ✓ Industry scandals (corruption cases)

## 2 Introduction to the Banknote Ethics Initiative (BnEI)

- ✓ Reputational risks underline the importance of ethical business practices
- ✓ A number of industry members came together in 2012 to address these issues through Collective Action, and agreed on implementation of mutually set audited standards to protect companies and to create a 'level playing field'
- ✓ The Banknote Ethics Initiative (BnEI) and its Governance structure was established in 2013: BnEI AISBL (not-for-profit association under Belgian law)
- ✓ BnEI provides code of ethical business practices to the banknote industry: Focus is on preventing corruption and compliance with antitrust law
- ✓ Eligible companies are banknote manufacturers and suppliers of components, equipment or services for use in the production of banknotes issued by central banks
- ✓ Recently, BnEI has teamed up with the Basel Institute on Governance to develop new preventive approaches to safeguard banknote procurement e.g via so-called integrity pacts

## Code of Ethical Business Practice



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2. Code of Ethical Business Practice
  - a. Compliance with the law
  - b. Prevention of corruption
  - c. Gifts & hospitality
  - d. Anti-trust
3. Eight Principles of Ethical Business Practice

### 1. PREAMBLE

Trust in business relationships has to be earned, and the first step is to treat others with integrity, honesty and fairness. This will enhance personal and corporate reputations, as well as the shared reputation we all have as contributors to the banknote industry.

In today's environment of 24/7 global communications none of us can afford to ignore poor business practice where we come across it.

Members of our industry have come together to form the Banknote Ethics Initiative (BnEI), which aims to promote a shared vision of ethical business practice. The focus is on the prevention of corruption and compliance with anti-trust law. Other topics of relevance to the industry may be considered in the future.

Members may have in place their own internal codes. These, at a minimum, should address the matters in this Code. Members are expected to abide by, demonstrate their commitment to and be assessed against the eight Principles of Ethical Business Practice as detailed in this document.

Each and every member of the BnEI is expected to have zero tolerance to those who do not adhere to the principles set out in this Code.

The first step to become a BnEI member is to sign the Code of Ethical Business Practice covering

- ✓ Compliance with the law
- ✓ Prevention of corruption
- ✓ Gifts and hospitality
- ✓ Anti-trust;

and demonstrate commitment to and be assessed against eight Principles of Ethical Business Practice:

- ✓ Leadership
- ✓ Responsibility
- ✓ Policies and procedures
- ✓ Due diligence
- ✓ Training
- ✓ Compliance declaration
- ✓ Internal monitoring
- ✓ External assessment

## The BnEI Audit Framework



The BnEI Audit Framework is a set of principles for responsible business, which acts as a tool to improve the robustness of management practices in relation to the risks of bribery, corruption and breaches of anti-trust legislation in an organisation. Organisations with strong anti-trust and anti-bribery and corruption systems in place are recognised through accreditation, providing a differentiating factor from competitors and peace of mind for stakeholders. The BnEI Audit Framework follows the methodology used by the GoodCorporation Standard of responsible business management, whereby an independent audit process looks at four levels of evidence for each individual practice and grades them against a five-point scale. The four possible audit outcomes are outlined below. Accreditation is ultimately decided by the Accreditation Council.

The assessor checks:	The assessor awards a grade:
<ul style="list-style-type: none"> <li>that a policy exists</li> <li>policy documents are reviewed</li> <li>that a system is in place to implement the policy</li> <li>systems are examined</li> <li>that records exist which show that the system works in practice</li> <li>a sample of records is reviewed</li> <li>the stakeholders agree that the system works in practice</li> <li>interviews are held with employees, agents, suppliers and other relevant stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>commendation</li> <li>the policy and system work well and are examples of best practice</li> <li>no action required</li> <li>the policy and system work well</li> <li>improvement recommended</li> <li>there is a policy and system that work but potential improvements have been identified</li> <li>action required</li> <li>there is a policy and system but they do not always work and require corrective action to reduce risk</li> <li>significant action required</li> <li>there is no policy or system, or it has largely broken down, and significant action is required to reduce risk</li> </ul>

Audit Outcomes
<p>Pass: The applicant passes if no 'significant action required' grades are awarded and up to 5 'action required' grades are awarded. There are 2 levels:</p> <ul style="list-style-type: none"> <li>Level 1: The organisation has no 'significant action required' and up to 2 'action required' grades</li> <li>Level 2: The organisation has no 'significant action required' grades and between 3 and 5 'action required' grades</li> </ul> <p>Fail: The applicant has any 'significant action required' grades or more than 5 'action required' grades. There are 2 levels:</p> <ul style="list-style-type: none"> <li>Level 3: Borderline: There are up to 4 'significant action required' grades and/or more than 5 'action required' grades</li> <li>Level 4: Clear failure: There are 5 or more 'significant action required' grades and/or clear illegal/unethical behaviour</li> </ul>



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- ✓ BnEI audit tests the compliance with the Audit Framework i.e. that
  - relevant policies exist;
  - systems are in place to implement the policies;
  - records show that the system works in practice; and
  - stakeholders agree that the system works in practice
- ✓ Audit framework is highly prescriptive in the detailed tests which are needed
- ✓ Audits are carried out by an independent third party assessor, either GoodCorporation or KPMG Brussels

### 3 BnEI Accreditation

- ✓ Audit reports are evaluated and successful candidates are accredited by an independent Accreditation Council (AC)
- ✓ AC consists of Philippa Foster Back CBE (Chair of the AC), Director of the Institute of Business Ethics; Lorna Thomas, Formerly Deputy Chief of Currency for the Bank of Canada; and Josef Wieland, Director of Leadership Excellence at Zeppelin University

### 3 BnEI Accredited Member Companies

- ✓ Canadian Bank Note Company
- ✓ CCL Secure
- ✓ Crane Currency
- ✓ De La Rue
- ✓ G+D Currency Technology
- ✓ KBA-NotaSys SA
- ✓ Note Printing Australia
- ✓ Orell Füssli Security Printing
- ✓ Portals Paper
- ✓ SICPA SA Security Inks & Solutions Division
- ✓ South African Bank Note Company
- ✓ SURYS
- Companies in process: Fábrica Nacional de Moneda y Timbre – Real Casa de la Moneda and Gleitsmann Security Inks have signed the Code

## 4 Central bank support for the BnEI

- ✓ Central banks can indicate their support on the BnEI website:
  - ✓ 38 central banks so far; <http://www.bnei.com/industry-support/>
  - ✓ Currently “signed” by the following central banks: Bank of Canada, Bank of England, Reserve Bank of Australia, Banco de Mexico, Reserve Bank of New Zealand, Reserve Bank of South Africa, Norges Bank, Sveriges Riksbank, European Central Bank, Nationale Bank van België/Banque Nationale de Belgique, Deutsche Bundesbank, Eesti Pank, Central Bank of Ireland, Bank of Greece, Banco de España, Banque de France, Banca d’Italia, Central Bank of Cyprus, Latvijas Banka, Lietuvos bankas, Banque centrale du Luxembourg, Central Bank of Malta, De Nederlandsche Bank, Oesterreichische Nationalbank, Banco de Portugal, Banka Slovenije, Narodna banka Slovenska, Suomen Pankki – Finlands Bank, Reserve Bank of Fiji, Schweizerische Nationalbank, Narodowy Bank Polski, Bank of Namibia, Central Bank of Jordan, State Bank of Pakistan, Bangko Sentral ng Pilipinas, Central Bank of Seychelles, Bank of Ghana and Banco Central de Reserva del Peru
- ✓ Signed also by Currency Research (conference organiser), Ugra (Swiss Center of Competence for Media and Printing Technology), Reconnaissance International (conference organizer) and Secura Monde (consultancy)

## 4 Central bank support for the BnEI

- ✓ Central banks can indicate their support on the BnEI website:
  - ✓ 38 central banks so far; <http://www.bnei.com/industry-support/>
  - ✓ BnEI Audit Guidance Manual is available to central banks to better understand the rigour of BnEI accreditation
- ✓ Central banks can apply ethical criteria in their tendering:
  - ✓ For example, require that bidders are BnEI accredited or equivalent
- ✓ Central banks and public printing works can adopt integrity pacts covering all activities related to the procurement (pre-selection of bidders, bidding and contracting)

## 5 Integrity Pacts to safeguard the procurement of banknotes

- ✓ An Integrity Pact (IP) is an agreement between bidders to abstain from bribery in a specific tender process - such as banknote procurement
- ✓ Effective IPs call upon an external monitor to oversee the tender to increase transparency, level the playing field, and ensure a fair process for all bidders
- ✓ Terms usually include: Methods to raise issues; disclose specified information; disclose and address potential conflicts of interest; sanctions to be agreed
- ✓ Tailoring to the specific tender is essential, the monitor needs to be empowered and plays a crucial role
- ✓ The Integrity Pact can be developed together with the central bank/public printing works interested in safeguarding the process
- ✓ Basel Institute on Governance is supporting BnEI in pursuing the use of IPs

# Conclusions

- ✓ Customers and suppliers working together can be a powerful tool in advancing ethical business practices
- ✓ BnEI provides a forum to develop the best practice in line with the new requirements from the society
- ✓ Central banks should consider, that tenderers should be BnEI accredited or equivalent
- ✓ BnEI has developed an integrity pact template for banknote tenders (an agreement between the central bank and the companies bidding) to safeguard the procurement
- ✓ Banknote community could provide a positive message: an industry-wide code of ethical conduct



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