

World Cup Gives Russia an Anti-Graft Goal

By Brook Horowitz

Awarding Russia the right to host the World Cup in 2018 was, in fact, the best outcome. FIFA's decision, reached amid claims and counter-claims of corruption, puts Russia on the spot once and for all to clean up its reputation.

However the decision was arrived at, the reality is that Russia's reputation as a "difficult" market has reached an all-time low. Official figures suggest that corruption in government tenders costs the government 1 trillion rubles (\$32 billion), or 20 percent of the money spent, every year. Many major corruption cases are ignored

Firms working in Russia are facing tougher local and foreign laws.

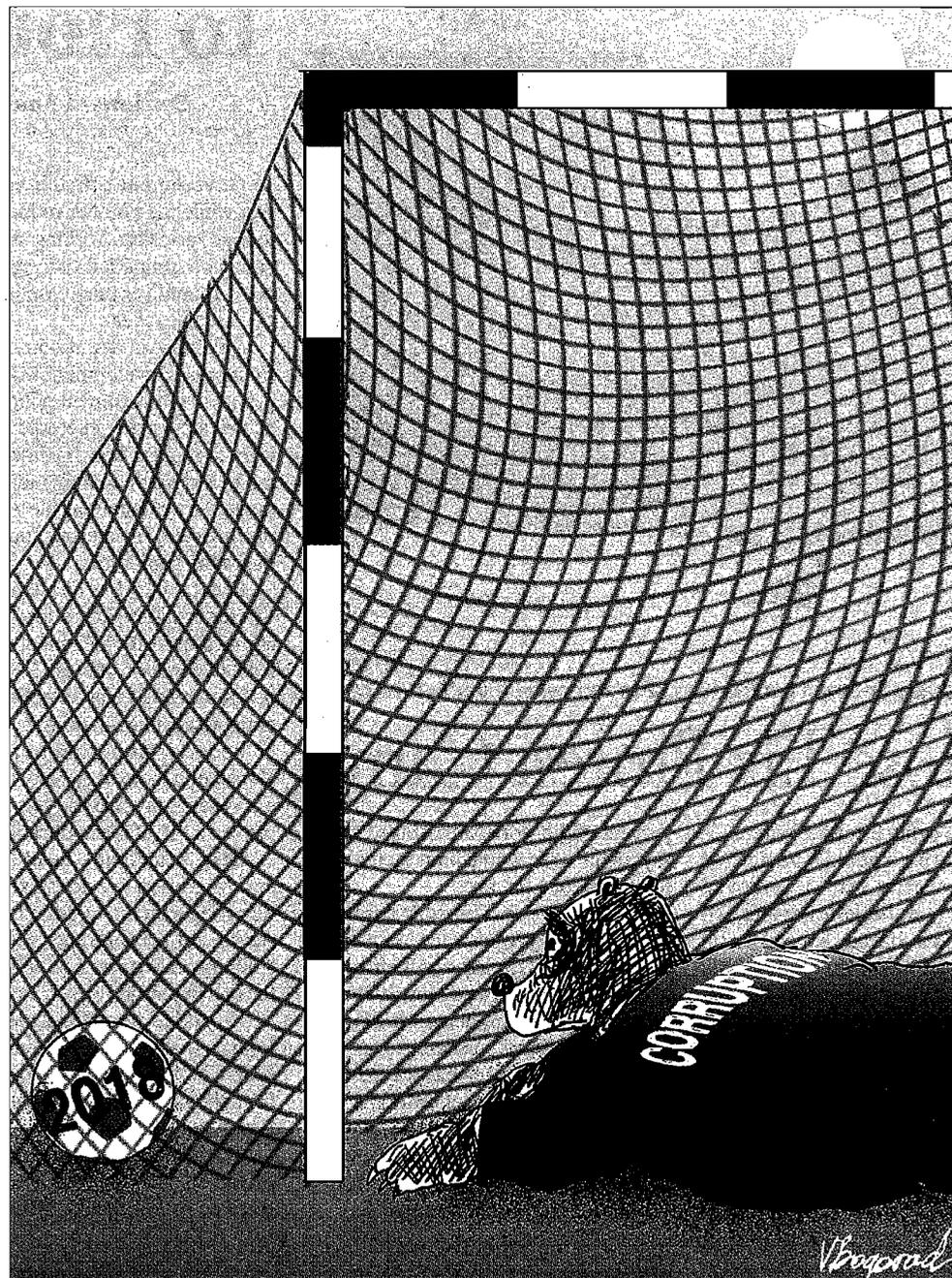
or remain unresolved, and variations of fraud, bribery and extortion are common in everyday life, suggesting that corruption remains prevalent throughout the economy. Russia recently slipped a few notches to 154th place, near the very bottom of Transparency International's Corruption Perceptions Index.

But there are forces at play that will shine sunlight onto the murky waters of the Russian business environment and government in the eight years leading to the World Cup.

Internationally, the willingness of governments to tolerate corruption is diminishing. Over the last few years, the United States has used the Foreign Corrupt Practices Act to prosecute several multinational companies operating in Russia. Getting it wrong has entailed huge fines for the companies, inestimable losses in reputation, business and legal expenses, and even the risk of prison sentences for the senior executives involved.

The international legislative environment for companies in Russia is likely to get tougher. The Dodd-Frank Wall Street Act, passed earlier this year in the United States, provides for increasing incentives for whistle-blowers — as much as 30 percent of amounts recovered. And in April 2011, the new British bribery act comes into force, making companies liable for "failure to prevent bribery." Precisely how the new law will be implemented will be decided following a consultation by the Serious Fraud Office with the business community. International companies operating in Russia, their Russian agents and distributors, and Russian companies operating abroad — all the most likely contractors for World Cup projects — will be the most exposed.

Domestically, Russian law is changing too.



President Dmitry Medvedev has spearheaded an anti-corruption drive, introducing a strategy and several new laws. Russia next year is likely to sign the Organization for Economic Cooperation and Development's Anti-Bribery Convention and join the OECD, in advance of its accession to the World Trade Organization. This commitment to global standards will in the longer-term entail the Russian government introducing more effective anti-corruption laws in the Russian legal code and reforming the law enforcement agencies to ensure effective implementation.

Apart from the impact of changes likely to be engendered by legal developments, a change of culture will likely occur that will begin to squeeze corruption. Obligated to adhering to the best international standards, the multinational companies bidding for contracts in the Russian World Cup will have an important role to play in setting the best example of resisting the temptations of corruption. Their willingness to step away from a deal if the conditions are not right will be an important part of the equation, as will their experience of devising effective compliance proce-

dures such as internal codes of conduct and employee training, and discovery procedures such as internal audit and whistle-blowing. Indeed, business has the ability to create "islands of integrity" within their own companies and among their agents and representatives in Russia.

After the suspicions of foul play in the selection process, the World Cup in Russia is an invitation to the world's media (especially the British, who are inconsolable at losing the bid) to investigate every hint of corruption during preparations for the championship. The awarding of media rights and sponsorship packages, the fairness of construction and infrastructure bids, the impact of social dislocation and environmental damage will all come under public scrutiny — if not in

The World Cup win is an invitation to the world's media to probe graft.

Russia, then abroad. With \$10 billion of government funds allocated for reconstruction projects in 13 cities from Kaliningrad on the border of the European Union to Yekaterinburg in the Urals, international contractors and suppliers will need to be involved on a scale never before known in Russia. It is hard to imagine how the traditional machinations of public contracts can be concealed from the onslaught of the world's investigative journalists. The World Cup will either make or break Russia's reputation as a business and investment destination for the next 20 years.

The World Cup provides a multitude of opportunities for Russia to accelerate its integration into the world economy. The financial and economic benefits for the country are clear. But the benefits go beyond that. The opportunity for Russian business to operate on the basis of the best international standards, and for the state to relax its stranglehold on small business and diversify the economy, will all contribute to reducing corruption — the main obstacle to Russia's modernization. As the world's football fans enter Russia in June 2018 without having had to apply for a visa, and descend on the sparkling new facilities of provincial cities like Podolsk, Saransk, Samara and Rostov, it is tempting to hope that Russia will by then have made its way to the top half of Transparency's corruption index. That would benefit not only Russia but the whole world. Now that's a goal worth aiming for.

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