

An aerial night view of a city, likely Shanghai, featuring a prominent skyscraper (the Oriental Pearl Tower) and a yellow text box. The city lights are visible, and a network of white lines is overlaid on the image.

Integrity in the spotlight

The future of compliance

15th Global Fraud Survey

**Emerging markets
perspective**

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font, with a yellow triangle pointing upwards to the right of the 'Y'.

EY

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1 Introduction



Emerging markets have experienced significant change and burgeoning development over the last five years, becoming economic powerhouses and stimulating global growth. However, changing regulations and increased enforcement are altering the risk landscape. Organizations must face these challenges head-on: while emerging markets offer immense promise and abundant opportunities, the ever-present risks of fraud, bribery and corruption present potential obstacles to growth.

Between October 2017 and February 2018, we interviewed 1,450 executives from 33 emerging market countries and territories as part of a global study on fraud bribery and corruption trends. The interviews conducted found that fraud and bribery are perceived by respondents to be among the greatest threats to their businesses. Despite greater awareness of legal, financial and reputational risks, the adoption of sophisticated anti-fraud and anti-corruption frameworks and tools to aid compliance, these risks still need to be managed with continual vigilance.

There is also broad consensus that the risk of bribery and corruption is higher in emerging rather than developed markets. Over 43% of survey respondents from these markets feel that the macroeconomic environment, changing regulation, and fraud and corruption pose the greatest risks to their business; significantly higher than their peers in developed markets.

In trying times, management needs to boost the ethical agenda, redefine compliance programs and adopt a technology-centric approach driven by data analytics to minimize integrity lapses.

Fraud and corruption risks in emerging markets present a challenge for global multinationals operating in these regions. They may primarily be constrained by the extraterritorial reach of regulations and legislation of their home countries. In recent years, however, governments in emerging markets have begun to introduce more robust enforcement of strengthened anti-corruption laws. Many companies are faced with the stark choice: divest from certain markets, or operate in an environment where the normal rules of fair competition are undermined.

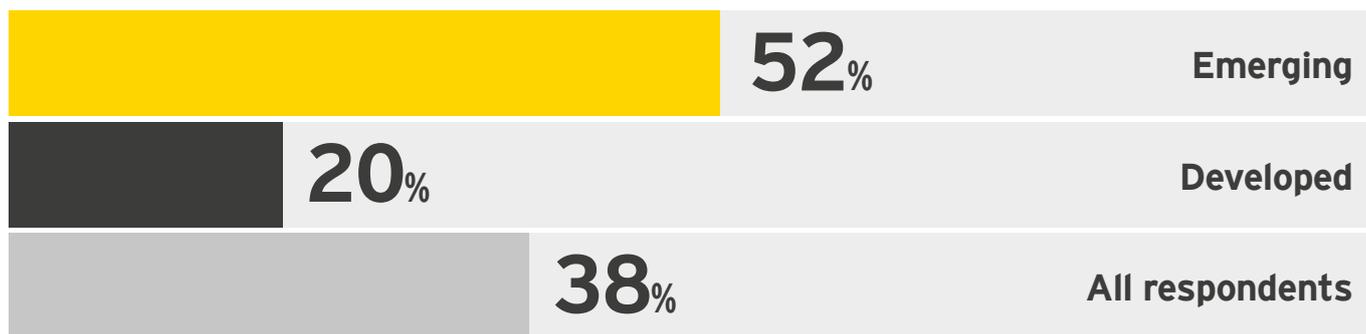
In this report, we consider how companies can operate competitively in markets where corruption is widespread and in which corrupt practices may be perceived as a common way of gaining a competitive advantage.

Arpinder Singh
EY India and Emerging Markets Leader
Forensic & Integrity Services

2 Fraud, bribery and corruption in emerging markets

Forty-two percent of respondents in emerging markets¹ believe that fraud and corruption pose one of the greatest risks to their business. This is significantly more than the 29% of respondents in developed markets. Unsurprisingly, corrupt practices are believed to be more prevalent in emerging markets, with 52% of respondents stating these occur widely, compared with 20% in developed markets. Since our 2012 report, perceived levels of bribery and corruption in emerging markets have doubled those in developed markets. With increased regulation, enforcement and compliance efforts across emerging markets, it is disappointing that this gap has not reduced.

Bribery and corrupt practices are perceived to be more prevalent in emerging markets



Q. Do bribery/corrupt practices happen widely in business in your country?
 Base: 15th Global Fraud Survey (2,550); Developed (1,100), Emerging (1,450)

Regional snapshot

Middle East



Geopolitical instability and volatile oil prices in a number of countries have complicated the regional business climate. However, regional governments have continued to look for innovative ways to develop and diversify their economies. The ongoing challenge for most organizations in the Middle East continues to be striking a balance between seizing the commercial opportunity the region provides and the risks associated with transacting business.

42%

believe bribery and corrupt practices occur widely in business.

14%

of companies have experienced a significant fraud over the last two years.

35%

would justify cash payments to help a business survive.

Base: 15th Global Fraud Survey (2,550); Middle East (125)
 Q. Do bribery and corrupt practices happen widely in business in your country?
 Q. Has your company experienced a significant fraud in the last two years?
 Q. Which of the following can be justified if they help a business survive an economic downturn?

¹ In the survey, the following countries/regions are classified as "emerging markets": Argentina, Brazil, Bulgaria, Chile, China (mainland), Colombia, Cyprus, Czech Republic, Hong Kong SAR, Hungary, India, Indonesia, Israel, Jordan, Kenya, Korea, Lithuania, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Romania, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, Taiwan, Turkey, UAE, Ukraine.

Sixteen percent of respondents from emerging markets acknowledged “it is common practice to use bribery to win contracts.”

In this context, the survey also finds that there are many situations in which organizations, its employees or representatives may feel that some form of incentive to a third-party is necessary to guarantee their company’s survival. High-risk activities include licensing, procurement, invoicing, payments, materials and supplies.

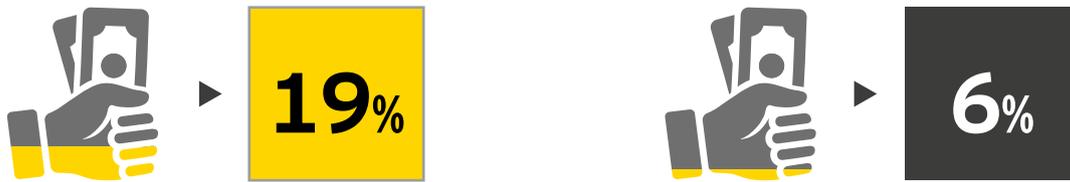
A bribe can range from a small facilitating payment to clear goods through customs, to hundreds of thousands of dollars

to win a public tender for a major infrastructure project. The risk to the company of prosecution extends beyond its own employees’ activities to the corrupt actions of third-party representatives, such as distributors, agents or joint venture partners.

More critically, the EY report also shows that still too many executives believe that it is acceptable to give cash payments in exchange for commercial advantage. Nineteen percent of emerging markets² respondents felt this could be justified compared with just 6% in developed markets.

Which of the following can be justified if they help a business survive an economic downturn? ■ Emerging ■ Developed

Cash payments



Base: 15th Global Fraud Survey (2,550); emerging (1,450); developed (1,100)
² Global Fraud Survey 2018: *Integrity in the spotlight – The future of compliance*, EY, 2018.

Regional snapshot

Africa



Arguably, the current business climate shows some signs of positivity in Africa, much of which is attributable to political changes in Angola, Botswana, South Africa and Zimbabwe. These have brought hope of improved governance on the continent, but progress in some markets is slow.

The theme of the African Union’s summit this year was “Winning the Fight Against Corruption: A Sustainable Path to Africa’s Transformation,” bringing some much-needed impetus to the complex issue of tackling corruption. Companies should remain focused on the importance of following stringent due diligence procedures with regard to mergers and acquisitions, and third-party/partner/supplier vetting to maintain appropriate proactive anti-fraud and corruption measures.

86%
 believe bribery and corrupt practices occur widely in business.

18%
 of companies have experienced a significant fraud over the last two years.

11%
 would justify cash payments to help a business survive.

Base: 15th Global Fraud Survey (2,550); Africa (150)
 Q. Do bribery and corrupt practices happen widely in business in your country?
 Q. Has your company experienced a significant fraud in the last two years?
 Q. Which of the following can be justified if they help a business survive an economic downturn?

In many countries, cultural traditions such as wining and dining and the provision of high-value gifts and entertainment are considered integral to doing business. However, such practices have become much less commonplace in recent years, particularly in developed markets. More pertinently, in emerging markets, seeking to gain a commercial advantage through offering prospects or clients lavish corporate hospitality ahead of an important deal or contract makes a

company – and its executives – potentially liable under anti-corruption legislation.

Finally, there are economic factors to consider. In most emerging markets, there is a significant difference between the incomes of employees in the private and public sectors – and the urge to seek personal gain at the expense of the public can be difficult to resist.

Regional snapshot

ASEAN



Numerous recent high-profile corruption related matters has arguably led to a greater focus on ASEAN with regards to compliance issues. The region has given rise to a large number of Foreign Corrupt Practices Act (FCPA) enforcement actions. Four of the nine companies that the U.S. Department of Justice (DOJ) Fraud Section includes on its list of 2017 FCPA Enforcement Actions are based or were operating in the region, as were 7 of the 15 individuals prosecuted in 2017.

However, ASEAN may be on the cusp of a sea change having made considerable progress over the last two years in anti-fraud and anti-corruption initiatives. For example, Singapore and Malaysia have adopted the ISO 37001 Standard on Anti-Bribery Management Systems, Thailand has introduced legislation to compel local enterprises to implement anti-corruption policies and Vietnam is rigorously enforcing the new Penal Code to underline criminal liability for corporations. In 2018 the Vietnamese Government is introducing amendments focusing on private sector compliance to the Anti-Corruption Law.

41%

believe bribery and corrupt practices occur widely in business.

7%

of companies have experienced a significant fraud over the last two years.

37%

would justify cash payments to help a business survive.

Base: 15th Global Fraud Survey (2,550); ASEAN (200)

Q. Do bribery and corrupt practices happen widely in business in your country?

Q. Has your company experienced a significant fraud in the last two years?

Q. Which of the following can be justified if they help a business survive an economic downturn?

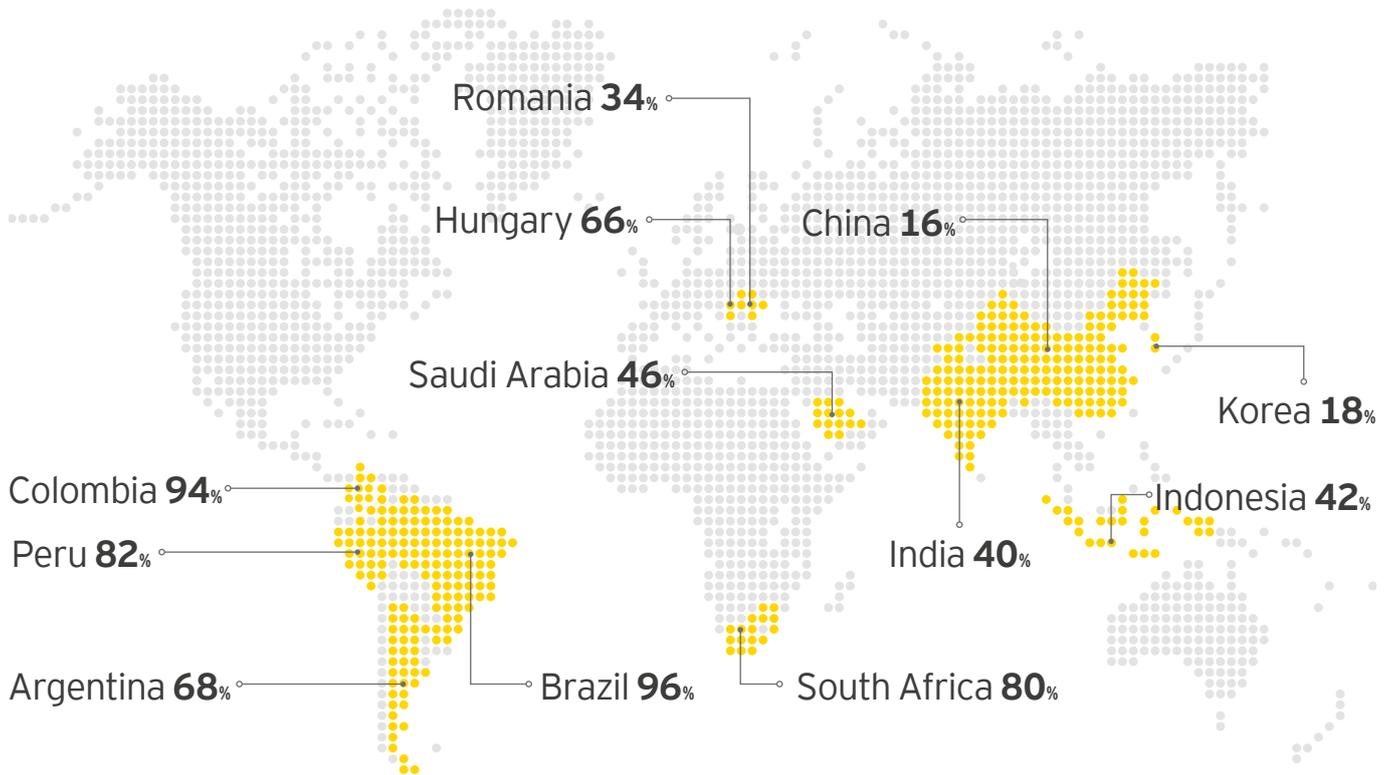
3

The impact of changing legislation in emerging markets

Overall, corporate executives in emerging markets have seen little significant improvement in the business environment from a fraud and corruption perspective over the last four years. In some countries there were significant changes in the

perceptions of fraud and corruption. Saudi Arabia for example increased from 26% to 46%. There were also some improvements in certain emerging markets with India reducing from 67% to 40% and Romania dropping from 46% to 34%.³

Bribery and corruption – a persistent issue across emerging markets



Q. Bribery/corrupt practices happen widely in business in this country?

Base: 15th Global Fraud Survey (2,550); Argentina (50); Brazil (50); China (50); Colombia (50); Hungary (50); Indonesia (50); India (50); Korea (50); Peru (50); Saudi Arabia (50); South Africa (50); Romania (50)

³ Global Fraud Survey 2018: *Integrity in the spotlight: the future of compliance*, EY, 2018.

An increasingly important factor that multinationals operating in emerging markets should be addressing is the introduction, and more rigorous enforcement, of local anti-corruption legislation.

From a legal perspective, most countries of the world, including many in emerging markets, have had anti-corruption embedded into their domestic legislation for many years. A number have signed the UN Convention against Corruption; many have also signed the Organization for Economic Co-operation and Development (OECD) Anti-Bribery Convention.

Many emerging markets have strengthened their enforcement regimes. China's all-embracing anti-corruption campaign has been well publicized, but there are other examples of governments making anti-corruption activities a priority. This includes Korea (the Kim Young-ran Law, 2016) and India

(Prevention of Corruption (Amendment) Act, 2018 and Fugitive Economic Offenders Bill, 2018), and the countries in Eastern Europe and Central Asia. More importantly, these nations have started to enforce these statutes with more rigor than ever before. This has led to some high-profile cases that have seen prominent business leaders prosecuted, and even heads of state impeached and removed from office.

While there continues to be a high volume of prosecutions from the U.S. Department of Justice under the FCPA, domestic efforts to combat bribery and corruption are also being reinforced by growing cross-border cooperation through bodies such as the SEC, G20 and the OECD. Other examples of cross-border initiatives include extraterritorial legislation, such as France's Sapin II.

Regional snapshot

India



India's business environment is buoyant, demonstrated by its improved rankings in the World Bank's *Ease of Doing Business Report* (up from 130 in 2017 to 100 in 2018). The market has seen a transformation on multiple fronts, including new domestic reforms, initiatives for smart cities, single window clearances for infrastructure and industrial projects and the ongoing battle against fraud and corruption.

There have been concerted efforts to enhance corporate governance and transparency through regulatory reform such as the Prevention of Corruption (Amendment) Act 2018 (penalizes bribe givers as well as commercial organizations, including foreign companies), Companies Act 2017 and Insolvency and Bankruptcy Code (Amendment) Bill 2017, as well as increased penalties for non-compliance. However, fraud and corruption are still a major obstacle to growth. In the media, the more frequent reporting of larger cases of corruption pose a greater reputational risk for companies doing business in the region.

40%

believe bribery and corrupt practices occur widely in business.

12%

of companies have experienced a significant fraud over the last two years.

20%

would justify cash payments to help a business survive.

Base: 15th Global Fraud Survey (2,550); India (50)

Q. Do bribery and corrupt practices happen widely in business in your country?

Q. Has your company experienced a significant fraud in the last two years?

Q. Which of the following can be justified if they help a business survive an economic downturn?

▶ Visit the fraud surveys website.

ey.com/fraudsurveys/emergingmarkets

4 Integrity in emerging markets

The declared intentions of an organization may be clear: policies and codes of conduct are in place, senior leaders demonstrate commitment via formal and informal communications. Yet, recent high-profile scandals at major corporations show that aberrational misconduct by executives has persisted and gone unnoticed for long periods of time. When the misconduct finally surfaced publicly, expensive investigations have ensued, fines have mounted and individuals have been prosecuted.

The Integrity Agenda has four foundational elements that align

an individual's actions with the organization's objectives: 1) governance, including policies that guide organizational behavior, 2) culture, 3) controls and procedures and 4) insights. The core challenge is to influence the behavior of diverse and dispersed employees and third parties amidst intense competitive pressures and rapid technological change.

Two areas of the Integrity Agenda that could deliver significant benefit in emerging markets are Culture and Insights. These are highlighted on page 9.

The EY survey results show a mismatch between the 97% of respondents in emerging markets that believe it is important to demonstrate their organization acts with integrity and 19% who would still justify making a cash payment to win a contract.

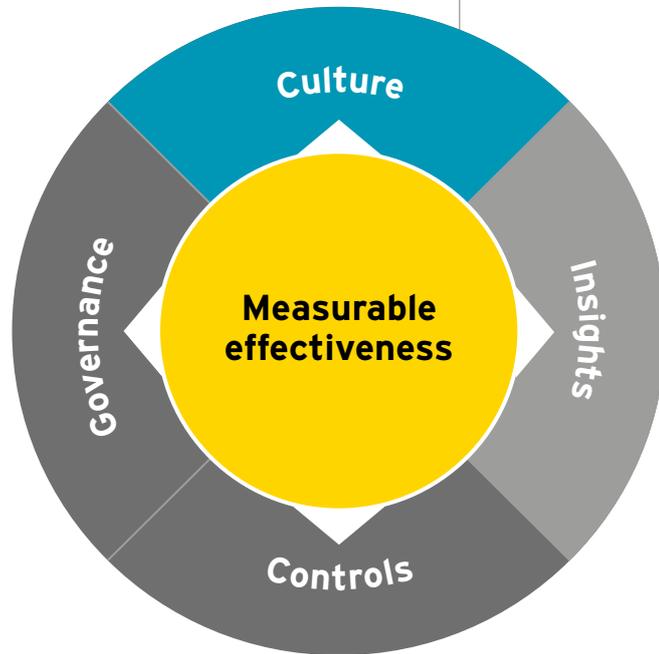
Closing the gap between intentions and behavior – the Integrity Agenda

Intentions	 Mission and values statement	 Code of conduct	 Standards, policies and practices	 Management communications
Actual behavior	 Defined principles and behavioral standards	 Verifiable data about organizational behavior and culture	 Improved metrics and enhanced accountability	

Culture

In emerging markets, it is particularly challenging to create a raft of integrity across the company, not to mention in third-party agents and distributors in the supply chain. It is imperative to enhance the effectiveness of compliance procedures and technology and build a sound corporate culture to promote integrity at all levels.

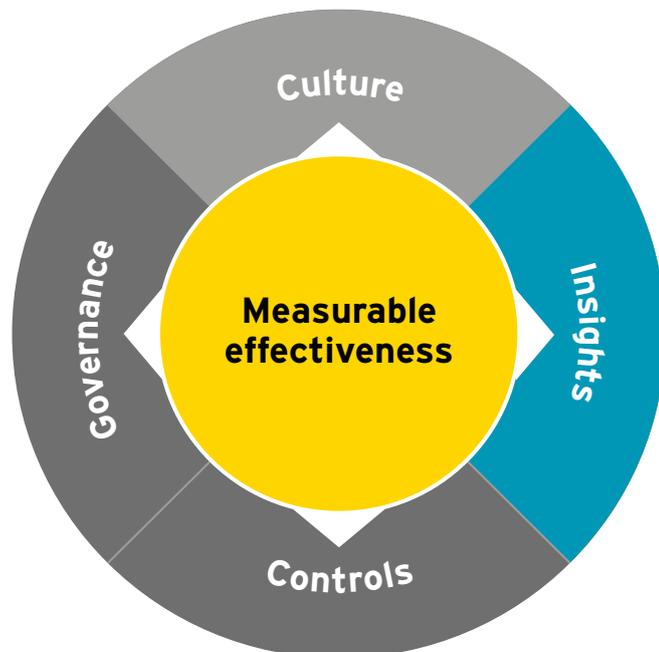
Corporate culture plays a crucial role in building a system that truly safeguards a company's reputation. But for executives in some emerging markets, creating a culture that achieves this goal may be a relatively new concept.



Insights

Forensic data analytics (FDA)

The EY Global Forensic Data Analytics Survey 2018 shows the extent to which companies are introducing data analytics in their compliance systems. This technology provides insights into specific compliance risks at the market, country, regional and customer level. It also delivers real-time business information at the point of an employee's interaction with customers or third parties in a high-risk territory. To achieve the full potential of FDA, companies should aim for better integration; leverage the right technologies, data and people; and secure strong leadership support. When integrated correctly data analytics can both detect and prevent wrongdoing.



Talk to us

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