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By Standard Chartered Bank

Introduction

History contains lessons for Financial Institutions (FI) – whether it be the response to Ebola, MERS or the 2008 Financial Crisis – seeking to understand how disasters such as the COVID-19 pandemic can affect the Financial Crime risk profile. This bulletin covers three areas of increased Bribery and Corruption risks presenting to an FI during times of social, economic or political unrest and suggested best practices to address them.

SUMMARY

- **Government Stimulus and Charitable Donation Risks:** Governments across the world are creating stimulus packages to support their local economies. Billions of private and public funds are also being donated to COVID-19 relief efforts. Corrupt officials or individuals may misappropriate these funds and then launder them through the global financial system.
- **Procurement Risks:** Government-related procurement work poses particularly heightened risk of corruption because of the opportunity for receipt of funds illegitimately siphoned from government accounts into the pockets of corrupt actors. As governments seek to provide sufficient medical equipment Personal Protective Equipment, COVID-19 prevention aids such as masks and hand sanitisers, and assorted other public safety requirements this increased demand fuels requests for proposals to suppliers.
- **Employee Risks:** More opportunity for employees to engage in misconduct if revenues are falling and companies are focusing more on the bottom line and less on employee conduct. Individuals in revenue/sales generating roles are under pressure to deliver revenue targets to support year-end performance targets, which may lead to misconduct including bribing for business.

Case Study: Corruption in the time of Ebola

The International Red Cross estimated over USD 6 million of assistance was lost to corruption during the 2014 Ebola outbreak. Much of this corruption directly involved PEPs or government accounts. A recent internal investigation conducted by a global FI of a PEP account revealed the following:

- Payments were made from a government account to an entity which had reportedly been unlawfully awarded a contract to build an Ebola treatment centre.
- Significant cash withdrawals and deposits from the account of a Deputy Minister at Ministry of Health and Sanitation were made without proper documentation. This Minister had been identified in the media as an individual of concern in connection with a broader Sierra Leone government corruption scheme and for involvement in procurement fraud.
- The Director at the Ministry of Finance was involved in a corrupt procurement procedure to purchase ambulances that costs the Government of Sierra Leone USD 1.05 million during 2014 Ebola outbreak

Politically Exposed Persons (PEPs)

- The global response to the pandemic is a windfall for kleptocrats; corrupt individuals in positions of power are able to exploit disaster incidents or times of social and political unrest for illicit personal gain. The former health minister of the Democratic Republic of the Congo, Oly Ilunga Kalenga, was recently convicted of misuse of USD 4.3 million in funds allocated by the US to fight Ebola. In 2015, Saudi Arabia suspended contracts worth USD 266 million for the prevention of infection by the MERS virus because the required was not being done yet USD 176 million had already been spent.
- To tackle the pandemic and provide medical and financial relief to needy citizens, governments across the globe are poised to provide trillions of dollars and often without the safeguards to deter corruption. We must continue to ask: Where will the money end up?
- To combat the risks posed by PEP accounts or accounts receiving funding from government coffers the following should be considered:
- Review your PEP book to Identify PEPs holding positions of influence when responding to a public health crisis thus posing higher risks for abuse. Positions include Public Health Ministry, Finance Ministers, Disease Control Agencies, Customs and Border Patrol, Health and Human Services, Food and Drug Administration, Preparedness and response agencies. Where you have accounts with an associated PEP place under heightened monitoring for review of incoming funds.
- Work with the Financial Information Sharing Partnerships (FISPs) in the jurisdictions in which you operate to identify intelligence sharing opportunities and conduct analysis on reported COVID-19 bribery and corruption matters.

“The systematic endemic corruption and the stealing of state coffers is likely to continue as state budgets are redirected to the health, public infrastructure and pharmaceutical sectors. What is a huge concern is the fact that all of the state looting that has taken place, particularly for funds that were supposed to be allocated to building hospitals, buying medication, medical supplies, etc. is likely to result in greater human loss and misery as countries struggle to build capacity.”

Denisse Rudich, Senior Advisor in the UK | The Sentry

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Does a pandemic = boon to offshore tax havens?

When the World Bank disperses aid to a low-income country, the amount of cash in offshore accounts controlled by the country's elites has increased by about 7.5 percent. This finding suggests that some share of the aid is being diverted or stolen.. "Our key estimate suggests that aid corresponding to 1% of GDP increases deposits in havens by around 3.4%. While there is considerable variation over time and across the highly aid dependent countries in our main sample, the stock of deposits in havens stands at around 2.2% of GDP at the sample mean; hence a 3.4% increase in haven deposits corresponds to around 0.075% of GDP (i.e. $2.2\% \times 3.4\%$) and the implied average leakage rate is approximately 7.5% (i.e. $0.075\%/1\%$). A simple simulation that weighs countries by their historical share of aid disbursements and accounts for cross country differences in the ratio of haven deposits to GDP, implies a leakage rate of around 5% in aggregate disbursements. These modest leakage rates represent a lower bound in the sense that they only include aid diverted to foreign accounts and not money spent on real estate, luxury goods etcetera." [Source: World Bank Group]

Procurement

As COVID-19 continues and governments roll out massive spending projects the risks of mismanagement, fraud and abuse increase by both the agencies charged (and rogue actors therein) with identifying and paying suppliers and by suppliers seeking quick paydays who may be acting complicity with rogue state actors. Mitigating controls:

- Identify accounts with Source of Wealth and Source of Funding historically derived from government procurement work and historically receiving direct transfers from government agencies. These accounts pose a higher risk for procurement fraud or receipt of secreted government funds.
- Consider implementing controls to review incoming funds from government agencies to confirm legitimacy of transfer such as those supported by duly executed contracts.

Employees

Economic downturns generally spur increased bribery and corruption. The COVID-19 financial crisis will put pressure on individuals worldwide to take whatever measures necessary to make ends meet and may cause otherwise law-abiding individuals to pay bribes out of desperation – including paying bribes for basic essentials that are now scarce or engaging in bribery to gain access to the overwhelmed healthcare systems

Employees or Associated Persons (APs) may venture into uncharted territory for new business opportunities and face increased bribery and corruption risks due to inexperience and the pressure to maintain business. This may lead to crossing ethical boundaries by committing bribery or other similar misconduct to win new or retain existing business. Mitigating controls can include:

- Review of performance revenue targets ensuring that they are realistic and achievable.
- Encourage staff to report any wrongdoing to their managers, compliance officers, or through anonymous reporting lines (if available).
- Engage in horizon scanning on bribery and corruption adverse media relating to COVID-19 and take action to mitigate any risks that may impact your organization.

- Consider tailored Anti-Bribery and Corruption (ABC) training or communications for any staff members engaged in areas that are heightened risk for bribery and corruption (e.g., donations, vendor management).
- Consider prior global crises and the impact those had on similar industries and organizations, and proactively take steps to mitigate risk (e.g., provide staff with "red flag" communications or institute additional approval requirements around higher risk areas to ensure additional transparency).
- Financial Institutions should consider enhanced ABC due diligence on complex and higher risk transactions relating to state aid or central banking stimulus packages including but not limited to use of proceeds, procurement transparency and engagement of third parties.

Spotlight on Legal Risks

Companies that may fall within the jurisdiction of the U.S. Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act should be vigilant in their anti-corruption efforts. Indeed, the financial crisis of 2008 increased FCPA enforcement. As companies faced pressure to obtain business and even maintain operational status during the crisis, their focus on compliance decreased and companies decided to quickly merge and consolidate. The speed of these consolidations resulted in the discovery by some acquiring companies of questionable payments and accounting practices both pre- and post-merger, resulting in increased compliance risks. The U.S. Department of Justice and Securities Exchange Commission brought FCPA enforcement actions with significant fines. Enforcement of the FCPA has become increasingly international, with one record-breaking fine after another.

AML Regulations require adequate controls to mitigate money laundering risks.

Here for Good

SC is committed to protecting the financial system from financial criminals exploiting the COVID-19 crisis proactively. In addition to investigating and reporting suspicious activity, we focus on building strong partnerships across the industry. We encourage our peers to champion collaboration and work with law enforcement to share intelligence and best practices that can help disrupt the corrupt actors seeking to profit at the expense of society.