



At a Glance: Anti-Corruption Good Practice

A PRACTICAL GUIDE TO ANTI-CORRUPTION IN THE GULF REGION

WHAT IS CORRUPTION?

Definitions

Corruption - /kəˈrʌp(j)əni/: Dishonest or fraudulent conduct by those in power, typically involving bribery.

Oxford Dictionary

Corruption involves behaviour on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed.¹

Corporate corruption generally takes two forms: engaging in bribe-making, usually as a supplier of bribes, and violations of ethical and professional standards with the intent to deceive or defraud investors.²

Bribe - /brīb/: Dishonestly persuade (someone) to act in one's favour by a gift of money or other inducement.

Oxford Dictionary

Bribery, the most commonly perceived aspect of corrupt behaviour, occurs when somebody offers money to persuade another to do something that is wrong or, if not wrong, inappropriate in the circumstances.³

DIFFERENT FORMS OF CORRUPTION

- ◆ Bribery ◆ Kickbacks ◆ Conflict of Interest ◆ Facilitation Payments
- ◆ Extortion ◆ Collusion ◆ Bid Rigging ◆ Cartels ◆ Price Fixing
- ◆ Patronage ◆ Revolving Door ◆ Illegal Information Brokering
- ◆ Insider Trading ◆ Tax Evasion

“Corruption is the misuse of entrusted power for personal gain”

Transparency International

THE BUSINESS CASE FOR FIGHTING CORRUPTION



Access to Deals
with Multinationals



International
Expansion



Job
Creation



Increasing
Profits

BRIBERY AND CORRUPTION IN THE WORLD A FEW FACTS



If corruption were an industry, it would be the world's third largest, worth more than **\$3 trillion** and **5%** of global GDP⁴



39 countries have **criminalized bribery** in international business⁴



Corruption adds up to **10%** to the **cost of doing business** and up to **25%** to the cost of public procurement⁶



US\$ 1 trillion is paid in bribes each year⁵



More than **1 in 10** executives said their company has experienced significant **fraud in the past two years**⁵



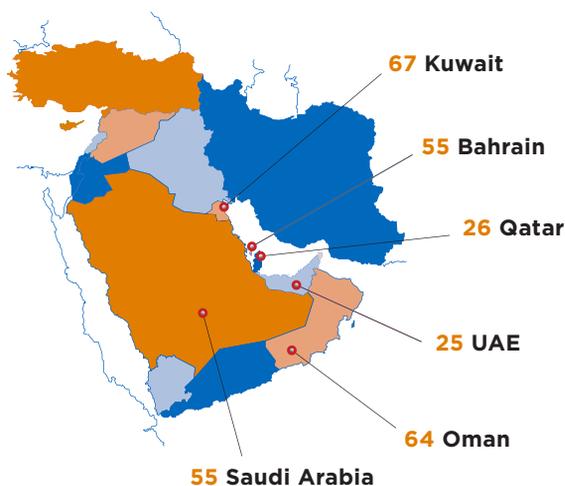
74% of businesses' breaches are not publicly disclosed⁵



€ 1.24 billion The combined **fine** a single company had to pay for engaging in bribery⁷

BRIBERY AND CORRUPTION IN THE GULF REGION

GCC Country Rankings in the Transparency International Corruption Perceptions Index 2014 (out of 177 countries)



According to a study by PwC⁹:

- ◆ **21%** of companies in the Gulf region have been the victim of some form of economic crime.
- ◆ **12%** of this group has suffered losses of at least **\$5m** due to corporate corruption over the past two years, half of which have experienced over **\$100m** in losses.
- ◆ **18%** of respondents of the same study say their organisation has been asked to pay a bribe in the past.
- ◆ **24%** believe their organisation lost out to a competitor who paid a bribe.

⁴ B20 Anti-Corruption Working Group Report, 2014 ⁵The Costs of Corruption, World Bank, 2004 ⁶The Business Case Against Corruption, ICC, TI, UN, PACI ⁷Boosting Integrity & Fighting Corruption, OECD, 2012 ⁸Overcoming Compliance Fatigue, EY, 13th Global Fraud Survey, 2014 ⁹Global Economic Crime Survey - Economic Crime in the Arab World, PwC, 2014

HOW WELL ARE COMPANIES RESPONDING TO BRIBERY AND CORRUPTION THREATS?

Globally

A study by EY shows that⁸:

- ◆ **One in five** businesses still does not have an **anti-bribery and corruption policy**.

- ◆ **Less than half** of respondents have attended **anti-bribery and corruption training**.

- ◆ **Only 38%** of C-suite executives have attended **anti-bribery and corruption training**.

- ◆ **45%** of businesses do not have a **whistleblower reporting hotline**.

IN THE GULF REGION

Research by the Pearl Initiative shows that*:

Awareness among business leaders in the region is increasing:

- ◆ More than **80%** agree that bribery and corruption is a major problem in the Middle East.
- ◆ And almost **60%** believe that the business case for better standards and governance practices is not yet fully understood.
- ◆ **Half** of the respondents strongly agree that organizations in the region appear to have very specific definitions on acceptable levels of gifts and entertaining.
- ◆ **1/3** of the respondents agree that companies in the GCC insist that their agents and third party business partners comply with anti-bribery and corruption policies.

Implementation remains a challenge:

- ◆ **63%** of GCC family firms say they have a code of ethics, but **2/3** admit it's not fully implemented.
- ◆ **45%** of companies say they have an anti-bribery and corruption policy, but again only **1/3** say it's fully implemented.
- ◆ **70%** of respondents think that companies in the Gulf Region are not carrying out comprehensive, systematic and regular risk assessments.
- ◆ **Over 1/3** of the respondents agree that their organisation is carrying out regular internal training on compliance and anti-bribery and corruption.

⁸Overcoming Compliance Fatigue, EY, 13th Global Fraud Survey, 2014 *Data from participant voting at Pearl Initiative events in the Gulf Region from 2013 to 2015 (>500 responses)

“When public money is stolen for private gain, it means fewer resources to build schools, hospitals, roads and water treatment facilities. The vulnerable suffer first and worst.”

Ban Ki-moon
UN Secretary General, 2009

- ◆ **UK Ministry of Justice** - UK Bribery Act 2010 Guidance
- ◆ **World Bank** - Integrity Compliance Guidelines (2010)
- ◆ **UNGC & Deloitte** - UN Global Compact Management Model (2010)
- ◆ **UNGC** - A Guide for Anti-Corruption Risk Assessment (2013)
- ◆ **CIPE Manual** - A guide for mid-size companies in emerging markets (2014)

Selection of international regulations potentially impacting business in the Gulf Region

- ◆ **1977** - US Foreign Corrupt Practices Act (FCPA)
- ◆ **1999** - Canada's Corruption of Foreign Public Officials Act (CFPOA)
- ◆ **2010** - UK Bribery Act
- ◆ **2014** - Brazil Clean Company Act

Most relevant international principles

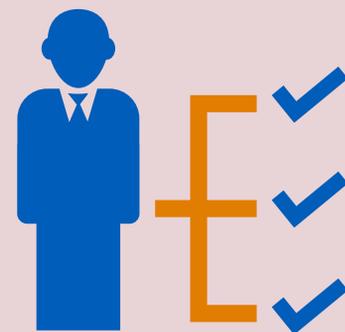
- ◆ **1996** - International Chamber of Commerce (ICC) Rules of Conduct to Combat Extortion and Bribery in International Business Transactions
- ◆ **2000** - United Nations Global Compact 10th principle on Anti-Corruption
- ◆ **2003** - Transparency International's Business Principles for Countering Bribery (Updated Edition-2013)
- ◆ **2004** - World Economic Forum Partnering Against Corruption Initiative (PACI) principles for countering bribery

Useful toolkits and guidelines

- ◆ **International Chamber of Commerce** - Fighting Corruption: A Corporate Practices Manual (2008)
- ◆ **Fighting Corruption through Collective Action** - A Guide for Business - developed by the World Bank Institute, CIPE and others such as Siemens, UNGC and Transparency International (2008)
- ◆ **OECD**
 - ◆ Recommendation of the Council for Further Combating Bribery of Foreign Public Officials in International Business Transactions (2009)
 - ◆ Good Practice Guidance on Internal Controls, Ethics and Compliance (2010)

Principle 10 - UN Global Compact:

“Businesses should work against corruption in all its forms, including extortion and bribery.”



KEY STEPS TO SET UP AN ANTI-CORRUPTION COMPLIANCE PROGRAMME (based on a framework by EY)

Step 1:

Know and understand the company's environment

- ◆ Understand the environment the company operates in
- ◆ Assess applicable laws (both local and international laws and regulations) as companies will conduct business abroad or with international headquarters

Step 2:

Become familiar with the accepted standards and guidance for designing an effective compliance programme

- ◆ Look at international principles and identify applicable local regulations (refer to the section "Major International Principles")
- ◆ Use available guidelines and toolkits (refer to section "International Guidelines and Toolkits")
- ◆ Assess which policies and procedures already are in place and identify what needs to be added

Step 3:

Conduct a corruption risk assessment

Corruption risk assessment is a diagnostic tool that seeks to identify weaknesses within a system which may present chances for corruption to occur.

It ensures that a company's limited resources are adequately allocated to the most pressing risks.

- ◆ Focus on actual risks posed by the nature of the company
- ◆ Assess these risks and evaluate their potential impact on the business ("using a 'Basic Risk Matrix' as shown on the next page)
- ◆ Identify which policies and controls need to be put in place to mitigate these risks; identify which controls are already in place; analyse their effectiveness and potential gaps
- ◆ Produce a plan to build an effective and efficient anti-corruption compliance programme addressing these risks (risk management plan)

Leading practices

(OECD Good Practice Guidelines)

- ◆ Strong tone at the top
- ◆ A clearly articulated and visible corporate policy prohibiting foreign bribery
- ◆ Emphasis on individual employee responsibility for compliance
- ◆ Board of directors and senior management oversight of the programme
- ◆ Specific guidance on areas that should be covered including gifts; hospitality, entertainment and expenses; customer travel; political contributions; charitable donations and sponsorships; facilitating payments; and solicitation and extortion
- ◆ Specific guidance related to retaining agents, consultants and other risky intermediaries
- ◆ Strong internal controls in place to ensure accurate recordkeeping and prevention of concealment of bribery
- ◆ Communication and anti-corruption training
- ◆ Support for whistle-blowing activity
- ◆ Appropriate disciplinary measures
- ◆ A confidential process for seeking compliance guidance and whistle blowing
- ◆ Periodic reviews and action to update and improve the programme

Basic Risk Matrix

LIKELIHOOD OF CORRUPTION →	MEDIUM	HIGH	HIGH
	LOW	MEDIUM	HIGH
	LOW	LOW	MEDIUM
	IMPACT OF CORRUPTION →		

Source: CIPE¹⁰

Step 4: Design and implement the anti-corruption compliance programme

The anti-corruption ("AC") policy usually is a stand-alone and detailed policy that is distributed and signed by every employee. The AC policy should be referenced in the Code of Conduct. The responsibility for the AC policy lies with the compliance department and the risk committee of the board of directors.

- ◆ Design anti-corruption policy; this policy should include:
 - ✦ Employee travel, gifts and entertainment rules
 - ✦ Ban of facilitation payments
 - ✦ Guidance on charitable giving and offset commitments
 - ✦ Policies on dealing with third parties
- ◆ Commit resources and appoint oversight committee
- ◆ Conduct anti-corruption compliance training
- ◆ Implement anti-corruption controls
 - ✦ Financial and non-financial controls
 - ✦ Reporting mechanisms (whistleblowing)
- ◆ Define enforcement measures

Step 5: Monitor and audit the programme

To be effective the compliance programme has to be monitored. Therefore it is crucial to build an anti-corruption compliance monitoring programme:

- ◆ Put an audit structure in place – regular audits identify potential red flags and also act as

ongoing risk assessment as they can uncover new risks

- ◆ Build the right team
- ◆ Schedule audits regularly and in the different business units in different locations
- *Positive side effect of audits: it has a proven deterrent effect*

A meaningful compliance programme is about more than box checking. Your compliance programme should help a corporation you work with – or aspire to work with – reach the following conclusion:

“I am confident that this agent/reseller/supplier/partner does not make corrupt payments and our business relationship is a legitimate one. I can demonstrate to others why my confidence is justified.”

Source: CIPE¹⁰

Step 6: Periodically re-assess risk and modify the programme

As risks change over time, comprehensive corruption risk assessments should be conducted periodically to ensure that the anti-corruption programme is evolving to meet new risks posed by the changing business and external environment.

NB: *It should be noted, however, that the elements of an effective anti-corruption compliance program will vary by company. Not all leading practices may be necessary for your company, and the intensity of the individual elements may vary.*

It's all about creating a culture of anti-corruption

WHAT DO CEOs IN THE GULF REGION SAY?



“For SABIC, we believe that our commitment to transparency and ethics gives us a competitive advantage. To maintain this commitment, we make sure that our employees have the right tools to operate in a principled manner.

In 2013, we created a policy on Anti-Corruption in our corporate Code of Ethics. While SABIC has long taken a strong stand against corruption, the time was right to highlight this fact with clear, public expectations for our employees, customers and other stakeholders. To give this policy more impact, our Legal team trains our business units across the world and our compliance reporting system allows any of our stakeholders to anonymously report any suspected instance of corruption.

We also believe that it is important for SABIC to actively engage with major organisations around the world that promote a strong anti-corruption agenda. As a result, we participate in the B20 Anti-Corruption Task Force, the World Economic Forum’s Partnering Against Corruption Initiative, and here in the Gulf Region, the Pearl Initiative. One of the benefits of our participation is the ability to benchmark with other global companies and to bring best practices back to the GCC to help local companies enhance their own anti-corruption efforts. We continue to monitor international trends to ensure that SABIC will be on the forefront of additional improvements in the years to come.”

Yousef A. Al-Benyan

Vice Chairman & CEO, SABIC

PHILIPS

“Business ethics has been at the heart of how we do business at Philips for decades. In the 1940s, it was the founder of Philips who launched “We at Philips”, an initiative to teach employees about the duties and rights of employees. But the world and Philips have changed since 1940. Philips has evolved from a company selling light bulbs through local stores to selling complete lighting solutions and products along the health continuum on a global scale, including the Middle East. As Philips’ activities expanded, so has the focus on responsible business conduct and behaviour. Internally, we have initiatives focusing on increasing our employees’ awareness on business ethics and compliance. Best practices

include mandatory employee certification on key compliance topics (covering over 80,000 employees), campaigns on our recently modified General Business Principles and management stimulating a culture of openness and transparency within our company through team dialogues on business ethics. Externally, we ask that our partners share our values when it comes to doing business in a fair and ethical manner. To do this effectively, Philips has in place a uniform due diligence process, implemented globally, which allows us to make a conscious decision on whether or not we want to engage and do business with a partner. Moreover, we offer our partners business ethics trainings to educate them on the topic of compliance. Our ultimate goal is to promote - together with our partners - fair and ethical business conduct throughout the value chain: every time & everywhere!”

Arjen Radder

CEO Middle East & Turkey, Philips

Petrofac

“As part of Petrofac’s compliance programme, we have an independently managed global whistle blowing mechanism that allows employees and third parties to alert us to possible violations to our Code of Conduct. Concerns may be submitted, anonymously or not, via telephone, email or weblink. Although the programme has been in operation for a number of years, recently we expanded the dedicated telephone lines from three to nineteen and extended to eight the number of languages spoken by the operators.

Our aim is to ensure that we create the means for those who work with and for us to alert us to possible issues. The programme is in line with our ethical value, which states that we aspire to highest standards of behaviour and in doing the right thing for our customers, employees, communities and the environment. In 2014 we received 46 allegations, each one assessed and dealt with directly by our Group Head of Compliance or by individuals in the organisation with the required skill set to investigate the issue raised. The status of the cases raised through the whistleblowing programme is discussed at the Board level at least twice a year. I see the mechanism as giving me another means to ensure that we identify and mitigate risks across the Petrofac Group.”

Marwan Chedid

Chief Executive, Petrofac ECOM

UN GLOBAL COMPACT



“Corruption remains one of the greatest obstacles to economic and social development around the world. It adds up to 10% of the total cost of doing business globally. Private sector is both a perpetrator and victim of corruption. To avoid corruption cost, a company can engage in ethical business through implementing effective anti-corruption programmes; this includes detailed policies on company specific bribery issues, management systems and procedures outlining frameworks for risk assessment. The UN Global Compact publication 'A Guide for Anti Corruption Risk Assessment' is a useful tool for companies.

Benefits of implementing such anti-corruption programs are reducing the cost of doing business, attracting investors and ethically concerned consumers, improving employee morale and

avoiding legal risks of corruption. In the GCC in particular, the large number of family owned companies and SMEs are key to improve the standards of anti-corruption in the private sector.

By signing up to the UN Global Compact, companies not only engage in respecting the 10th principle (“Businesses should work against corruption in all its forms, including extortion and bribery.”) but also get access to many resources, tools and guidelines and get the opportunity to share their experiences by actively participating in the UN Global Compact local networks. As of today 104 GCC companies have signed up to the UNGC.”

Olajobi Makinwa

UN Global Compact, Chief, Transparency & Anti-Corruption

ABOUT THE PEARL INITIATIVE

The Pearl Initiative is the leading independent, not-for-profit, by-business for-business, organisation working across the Gulf Region of the Middle East to influence and improve corporate accountability and transparency.

Developed in cooperation with the United Nations Office for Partnerships, it is a regionally-focused growing network of business leaders committed to driving joint action, exhibiting positive leadership and sharing knowledge and experience - in order to

positively influence the entire regional business and student community towards implementing higher standards in areas such as corporate governance, anti-corruption, codes of conduct, integrity and reporting.

The Pearl Initiative and the United Nations Global Compact drive joint programmes, as part of their Strategic Partnership, in order to advance the adoption of the “Ten Principles” by the private sector within the Gulf region.

Pearl Initiative is supported by*



*As of November 2015