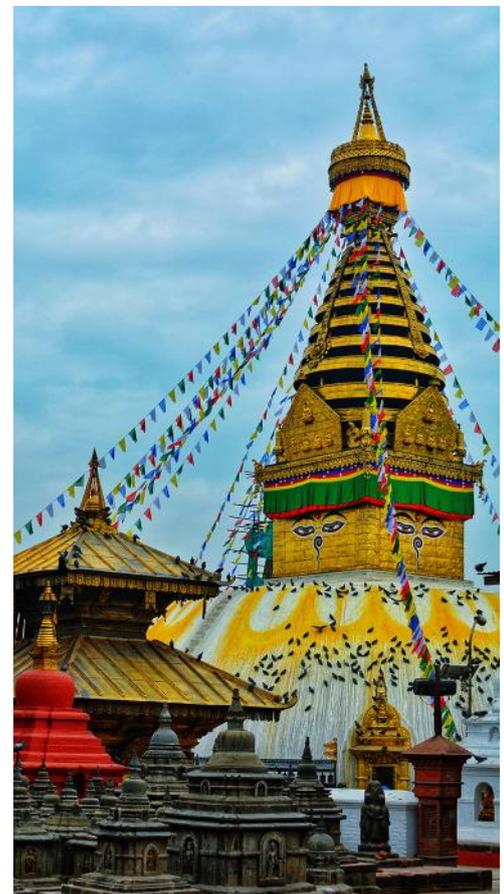
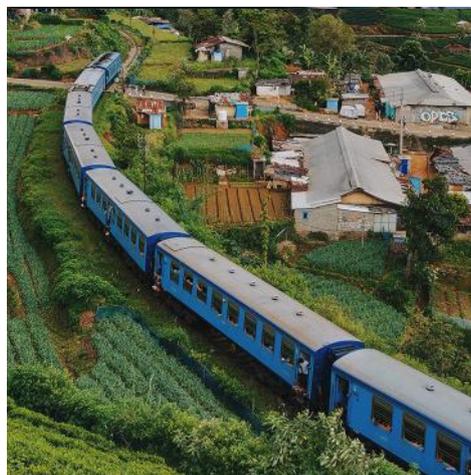
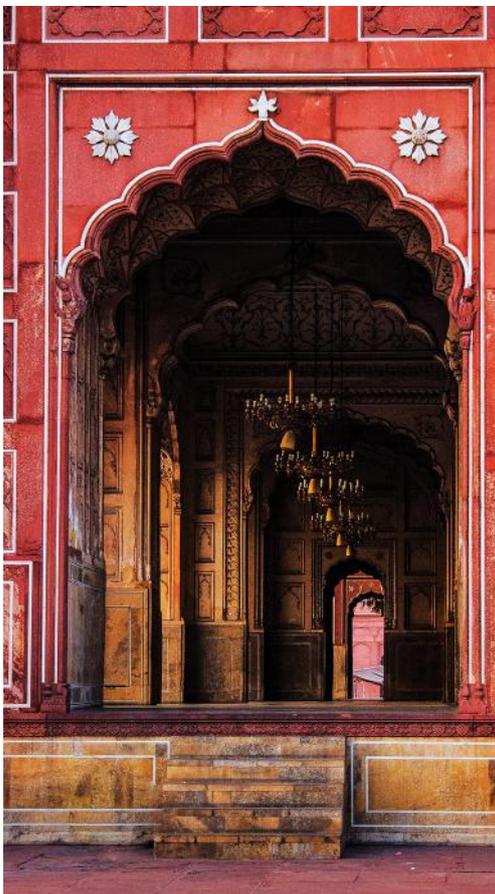


# Corruption Risk Overview

## South Asia





## Due Diligence | Investigations | Advisory

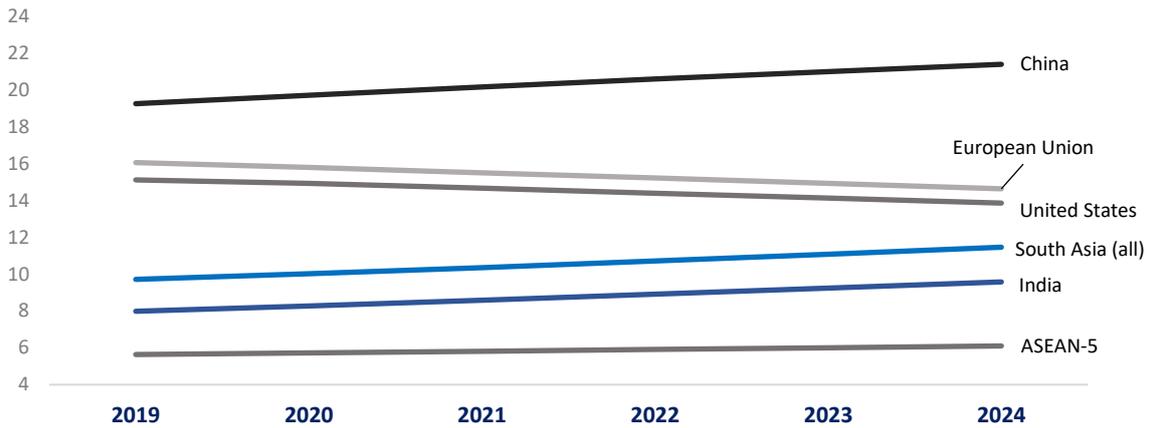
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Pacific Strategies & Assessments (PSA) is a global specialist risk consultancy, delivering critical information to our clients through our three core service lines: Due Diligence, Investigations, and Advisory services. We operate where our clients do business, with regional offices staffed by investigators and responders who have extensive in-region experience gained from professional backgrounds in corporate investigations, government intelligence and law enforcement.

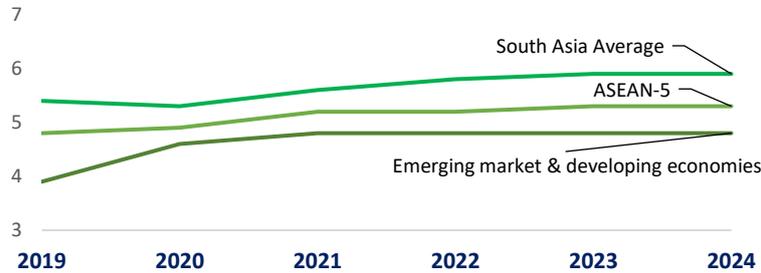
# Corruption Risk Overview: South Asia

South Asia presents a mix of positive economic prospects and governance-related risks. The region contains approximately one quarter of the world’s population and all of the countries in this group meet or exceed growth rates typical of developing economies. As such, the region is expected to comprise a growing share of global GDP in the next five years, converging toward that of the United States. Most notable is the region’s economic giant, India, which alone is projected to make up nearly a tenth of global GDP by 2024. However, governance problems—particularly corruption—are pervasive throughout the region, tempering this positive outlook with significant risks.

**Projected share of world economy, percentage GDP (PPP)**

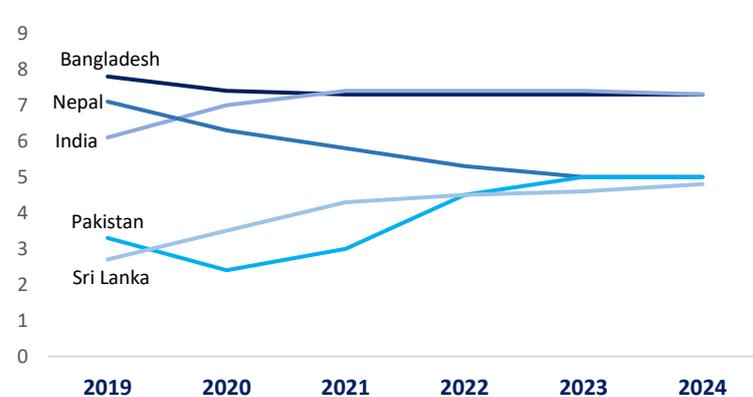


**Compared Projected Growth Rates, (nominal GDP)**



GDP growth in South Asia as a whole is forecast to continue outpacing that of the ASEAN-5 and emerging market & developing economies as a whole. The regional average for 2019 is projected to be 5.3% to the ASEAN-5’s 4.8% nominal GDP growth.

**Projected growth rate, South Asian Economies (nominal GDP)**



Within the region, growth is projected to remain high but follows differing trendlines. Bangladesh and Nepal, currently among the world’s fastest growing economies, will slow, while Pakistan and Sri Lanka are expected to converge with average rates for emerging markets/developing economies. India is expected to hold steady.

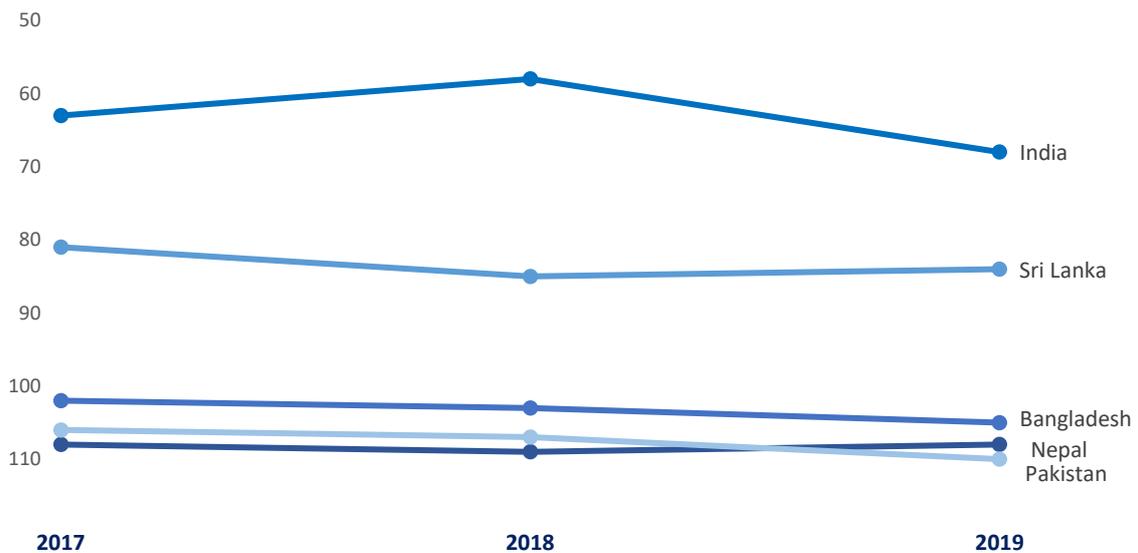
Source: IMF

## Business Environments in South Asia: Room to Improve

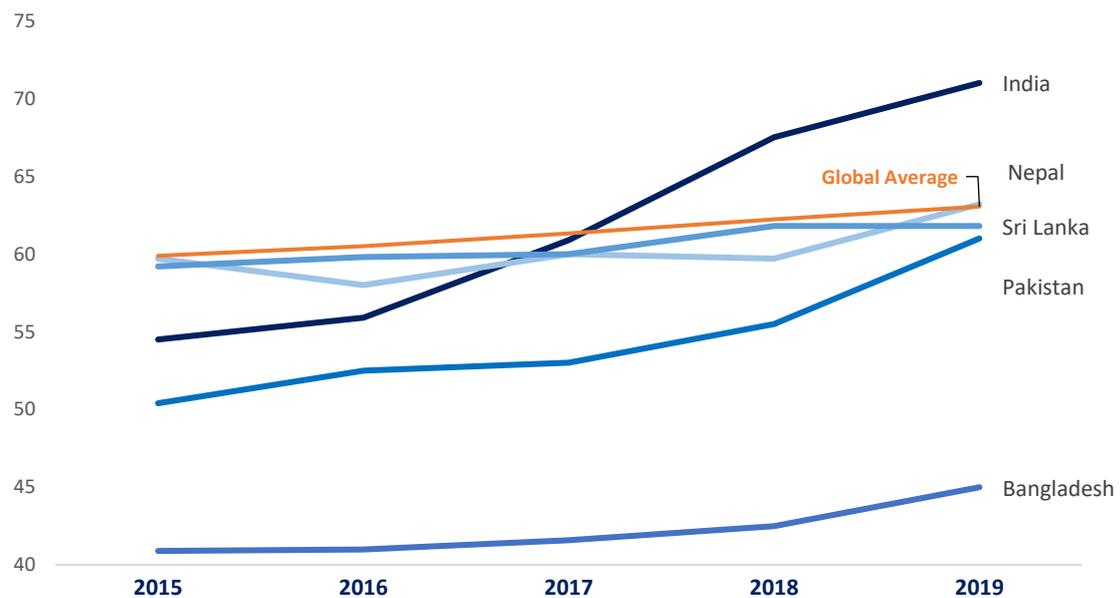
The growth potential of the region is negatively impacted by policy and governance factors on the ground. South Asian economies perform poorly in both of the major assessments of business climate worldwide. In both the World Bank and the World Economic Forum’s assessments, only India surpasses the global median. Much of the region is limited by poor infrastructure, inefficient tax collection, weak contract enforcement and red tape regarding property transactions—all hindering the competitiveness scores of the region’s economies.

### World Economic Forum Global Competitiveness Index, Global Rankings

Rank out of 141 Economies | Median=70



### World Bank Ease of Doing Business Scores

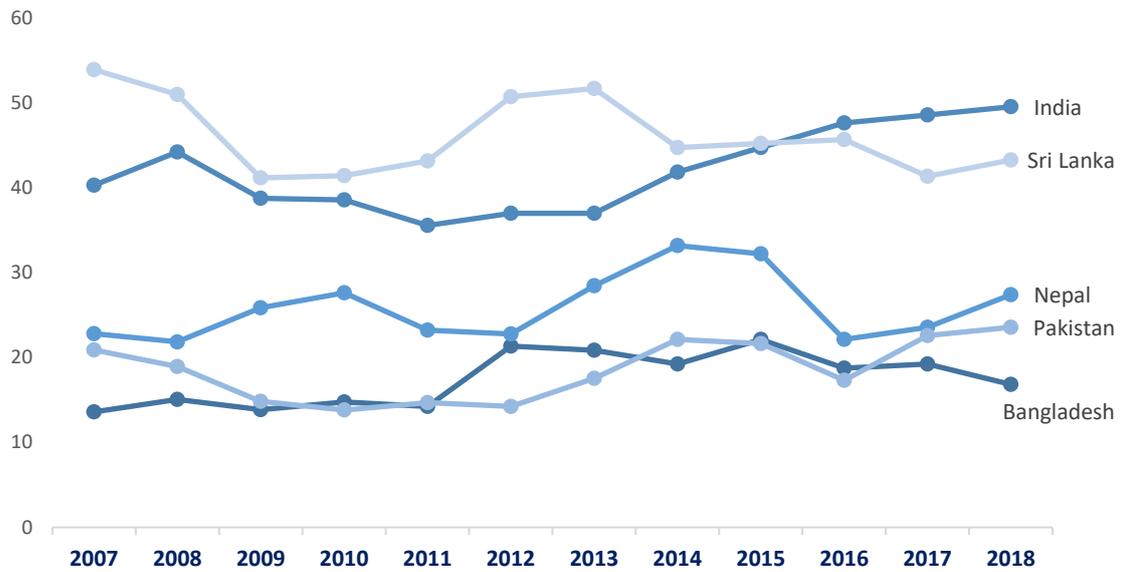


## Elevated Levels of Corruption are Pervasive in South Asia

Corruption levels are a still more concerning governance factor. The World Bank and Transparency International measures of corruption are in close agreement and show high levels of corruption throughout the region. Only India appears at the global median of 50 in the World Bank score and two points above the 2019 CPI median score of 39. Bangladesh, Pakistan, and Nepal all fall into the bottom third of performers worldwide. Most notable is that there is little evidence of significant year-over-year improvement in any of the five countries.

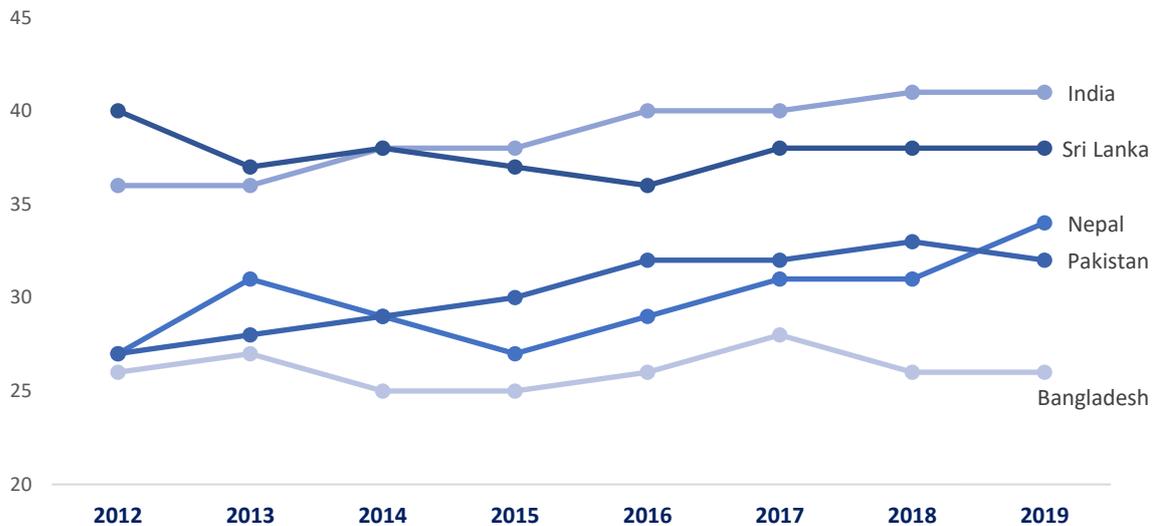
### Control of Corruption, World Bank Worldwide Governance Indicators

Best=100 | Global Median=50



### Transparency International Corruption Perceptions Index Score

Best=100 | 2019 Median=39



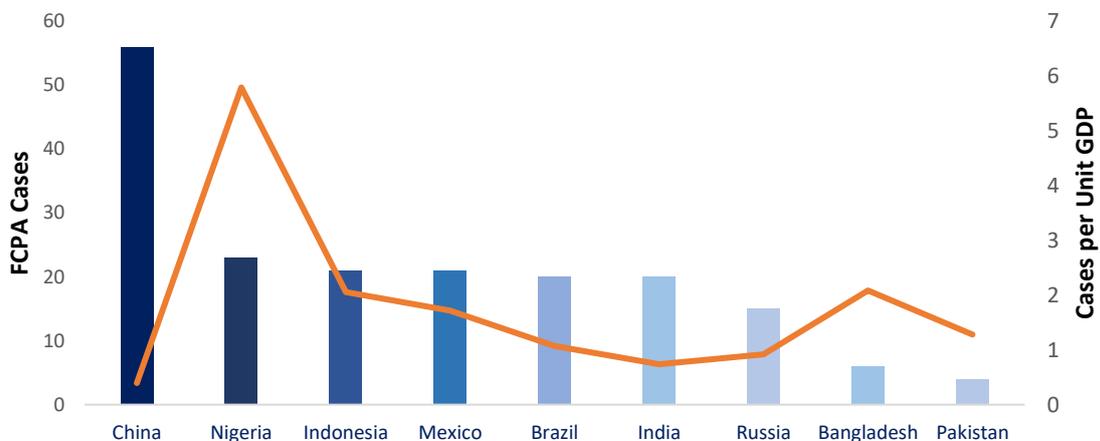
## FCPA Enforcement

Levels of Foreign Corrupt Practices Act enforcement in South Asia are not particularly high. While 21 FCPA cases have involved bribes paid to Indian officials, in comparison to the size of its economy, this reflects a moderate level of enforcement. Bangladesh’s six cases, however, do reflect an elevated number of enforcement actions in proportion to the size of its economy. Across all countries, bribes associated with infrastructure and building projects—involving both tendering and licensing processes—have been the most penalized types of transactions.



## FCPA Case Concentration

This graph represents the seven countries worldwide that have been involved in at least 15 FCPA cases, a group which includes India. Bangladesh and Pakistan have been added for comparison. The blue bars represent the number of total cases per country while the orange line represents the number of cases in proportion to each country’s GDP—quantified here as cases per \$100BN of GDP. In this light, Bangladesh can be seen to represent higher risks than all of the countries in this subset aside from Nigeria, whereas India, despite its 21 cases, represents the lowest rate except for China.



FCPA data: Stanford University Law School FCPA Clearinghouse

## Country Overviews

### Bangladesh

With a Transparency International CPI rank of 149<sup>th</sup> and a 17<sup>th</sup> percentile score from the World Bank, Bangladesh is in the bottom fifth of countries for both of the major corruption indices surveyed here. Corruption is thought to be so endemic that it measurably limits Bangladesh's already strong rate of economic growth. A burdensome yet ineffective bureaucracy creates opportunities and incentives for corrupt transactions to "speed things up" while simultaneously limiting the reach of ABC initiatives. At the same time, a lopsided balance of power between political parties limits checks on the conduct of ruling party officials. Corrupt practices are pervasive in Bangladesh across all areas of public administration, from facilitation payments for basic services all the way to the highest levels of government—former Prime Minister Khaleda Zia is currently serving a 17-year sentence for corruption. Current Prime Minister Hasina has recently initiated a high-level anticorruption initiative targeting even members of her own party, although its impact at the systemic level remains to be seen.

Corruption and Governance Indicators	Bangladesh	G7 Average
Transparency International Corruption Perceptions Index	26	71
World Bank Control of Corruption Score	17	88
World Justice Project Rule of Law Score	41	77

\*All indicators are scores/100 or are percentile ranks, 100=best. Some scores have been modified accordingly.

1-33 34-66 67-100

World Bank Enterprise Survey Responses	Bangladesh	Top 10 Countries
Share of firms reporting at least one bribe request	48%	1.4%
Share of firms expected to give gifts to secure government contract	49%	1.9%
Share of firms expected to give gifts to officials to "get things done"	49%	1.5%
Share of businesses reporting corruption is a major constraint	50%	7.5%



## FCPA Cases

Total Reported Cases:

**06**

### Illustrative FCPA Cases

**General Cable Corporation**—Global subsidiaries of the supplier of specialty cable and wire products allegedly made improper payments to employees of state-owned enterprises in multiple countries, including Bangladesh, to secure contracts. GCC self-disclosed the subsidiary conduct and settled the case in 2016 with penalties of more than USD 20 million.

**Siemens Bangladesh**—As part of a larger enforcement effort against the German technology company, the DOJ alleged that Siemens Bangladesh had made more than USD 5 million in corrupt payments. The bribes allegedly went to government employees to secure favorable consideration in a mobile phone network project between 2001 and 2006. Siemens paid a USD 500,000 penalty in 2008.

**Smith & Wesson**—refer to page 7.

## India

Scoring near the global averages on most measures of governance, India tends to outperform its economic circumstances. Nonetheless, India presents moderate to high third-party corruption risks, with all sectors of public administration being subject to corrupt practices. India's 21 FCPA cases represents a moderate level of enforcement in relation its GDP. Corruption in India is exacerbated by high levels of government intrusion in the economy and pervasive red tape. Transparency International reports that 69% of Indians pay a bribe to access basic government services in a given year—by far the highest rate in Asia. India shows extremely high rates of bribery associated with educational, medical, utilities, police, and law enforcement services. We note that this high incidence of petty corruption does not necessarily indicate severe risks of bribery in larger business transactions. Nonetheless, overall risks are high. Specific areas of concern for third party risk include sales agents and other representatives acting as intermediaries to government licensing or procurement officials. Notable sectors for corruption risk include infrastructure and construction, and consumer products.

Corruption and Governance Indicators	India	G7 Average
Transparency International Corruption Perceptions Index	41	71
World Bank Control of Corruption Score	50	88
World Justice Project Rule of Law Score	51	77

*\*All indicators are scores/100 or are percentile ranks, 100=best. Some scores have been modified accordingly.*

**1-33 34-66 67-100**

World Bank Enterprise Survey Responses	India	Top 10 Countries
Share of firms reporting at least one bribe request	23%	1.4%
Share of firms expected to give gifts to secure government contract	40%	1.9%
Share of firms expected to give gifts to officials to “get things done”	17%	1.5%
Share of businesses reporting corruption is a major constraint	36%	7.5%



## FCPA Cases

Total Reported Cases:

**21**

### Illustrative FCPA Cases

**Westinghouse Airbrake Technologies**—A fourth-tier Indian subsidiary allegedly made payments to government officials to facilitate bids and expedite product inspections. The company's practices were found to have failed to detect or prevent these payments.

**Oracle**—An Indian subsidiary allegedly structured transactions to keep revenues of USD 2.2M off Oracle's books. The funds were potentially used for unauthorized corrupt transactions. Oracle was held liable for violating the FCPA's books and records provisions.

**Anheuser-Busch InBev**— A joint venture company 49% controlled by the beverage company allegedly used third parties to bribe officials to increase brewery operating hours. These payments were allegedly invoiced to another AB InBev subsidiary. Notably, this is one of three similar cases involving alcoholic beverage companies, and one of five consumer products cases involving alleged bribes to facilitate regulatory issues.

## Nepal

According to the US Department of State’s 2019 Investment Climate Statement for Nepal, corruption is “rampant” throughout the country. Anecdotal evidence identifies it as pervasive in all areas of public administration. Transparency International identifies weak implementation of anticorruption legislation as a key problem. Nepalis report a very high rate of bribery solicitation in association with government projects: 65% of World Bank Enterprise Survey respondents said that a bribe was necessary to obtain a government contract in the most recent survey. This is the second highest rate in South Asia and one of the highest rates in the world. The most recent Global Corruption Barometer study conducted by Transparency International in Nepal identifies land services and the judiciary as the most problematic sectors for corruption.

Corruption and Governance Indicators	Nepal	G7 Average
Transparency International Corruption Perceptions Index	34	71
World Bank Control of Corruption Score	27	88
World Justice Project Rule of Law Score	53	77

*\*All indicators are scores/100 or are percentile ranks, 100=best. Some scores have been modified accordingly. 1-33 34-66 67-100*

World Bank Enterprise Survey Responses	Nepal	Top 10 Countries
Share of firms reporting at least one bribe request	14%	1.4%
Share of firms expected to give gifts to secure government contract	65%	1.9%
Share of firms expected to give gifts to officials to “get things done”	14%	1.5%
Share of businesses reporting corruption is a major constraint	45%	7.5%



### FCPA Cases

Total Reported  
Cases:

**01**

**Smith & Wesson**—The allegedly corrupt practices of the small arms manufacturer were brought to light in a 2010 sting operation. In the sting, executives of the company allegedly paid illicit “commissions” to FBI agents posing as foreign officials to secure sales of firearms. The company was subsequently found by the SEC to have “made, authorized, and offered to make improper payments and/or to provide gifts to foreign officials in an attempt to win contracts to sell firearm products to foreign military and law enforcement departments.” The alleged plans involved multiple countries, including Pakistan, Bangladesh, Nepal, Turkey, and Indonesia in the period of 2007-2009. Smith & Wesson was ultimately penalized largely for these alleged plans alone, as only one of these transactions, in Pakistan, came to fruition. The SEC’s administrative order notes that regarding the transaction in Nepal, “[a]lthough [the] contemplated deal in Nepal [was] never consummated[...], the company had obtained or attempted to obtain the contract by using third party agents as a conduit for improper payments to government officials. In 2014 Smith & Wesson reached an agreement with the SEC involving approximately USD 2 million in penalties. The criminal cases against the executives involved the sting were dismissed in court or dropped in 2012.

## Pakistan

Pakistan sits in the bottom third of the world's economies on both of the corruption scores covered in this report. Anecdotal evidence indicates that with high levels of state interference in the economy and a tradition of political clientelism, corruption is prevalent in all sectors of public administration. Results from Pakistan in the World Bank Enterprise Survey show very high rates of perceived corruption, with 88% of respondents claiming that it is necessary to pay a bribe to obtain a government contract. We note that this is the second highest response rate in the world. In the past there have been high profile cases of MNCs leaving Pakistan, particularly in the textile industry, allegedly on account of corruption issues. According to Transparency International's 2017 Global Corruption Barometer, approximately 70% of Pakistanis who come into contact with the police or judiciary are expected to pay bribes. This rate of bribe solicitation is the highest of any sector in any country in Asia. Bribes paid to secure public utilities are also very common in Pakistan.

Corruption and Governance Indicators	Pakistan	G7 Average
Transparency International Corruption Perceptions Index	32	71
World Bank Control of Corruption Score	27	88
World Justice Project Rule of Law Score	39	77

*\*All indicators are scores/100 or are percentile ranks, 100=best. Some scores have been modified accordingly.*

1-33 34-66 67-100

World Bank Enterprise Survey Responses	Pakistan	Top 10 Countries
Share of firms reporting at least one bribe request	31%	1.4%
Share of firms expected to give gifts to secure government contract	88%	1.9%
Share of firms expected to give gifts to officials to "get things done"	46%	1.5%
Share of businesses reporting corruption is a major constraint	68%	7.5%



## FCPA Cases

Total Reported Cases:

**04**

**Wyeth**—Through 2007, the pharmaceutical company's Asian subsidiaries allegedly made illegal payments in cash, gifts, and travel incentives to government doctors in multiple countries to secure agreements to promote their products. Elsewhere, bribes were allegedly paid to overcome regulatory hurdles and facilitate customs clearance. These allegations were uncovered during Pfizer's acquisition of Wyeth in 2009 and self-reported to the SEC by Pfizer. Wyeth/Pfizer came to a settlement amounting to approximately USD 60M in 2012.

**Avery Corporation**—the office products company's subsidiaries, including the recently acquired Paxar Pakistan allegedly paid bribes to secure sales and facilitate regulatory issues. In Pakistan bribes were allegedly paid by Paxar to customs officials prior to Avery's acquisition of the company, between 2002 and 2005. Avery ultimately settled for more than USD 500,000 in 2009.

**UTC**—The diversified technology company settled with the SEC over alleged bribes paid by its Otis and Pratt & Whitney units in multiple countries. Local subsidiaries of both units allegedly made improper gifts in the form of travel and leisure benefits to officials in Pakistan to secure unspecified benefits. UTC had discovered the anomalies and self-reported them to the SEC ultimately settling the case for a total of approximately USD 14M.

**Smith & Wesson**—refer to page 7.

## Sri Lanka

Following closely behind India as the second highest performer in the region is Sri Lanka. In Transparency International's 2017 Global Corruption Barometer, only 23% of Sri Lankans reported that their country was doing poorly in the fight against corruption—the lowest rate in Asia. However, Sri Lanka still rates just below global averages for transparency and control of corruption. The World Bank Enterprise Surveys reveal concerning response rates, particularly the 30% of Sri Lankans surveyed who believed it was necessary to pay a bribe to secure a government contract. Other sources, including the US Department of State's Investment Climate Statement, also indicate that government procurement is an area of particular concern in the country.

There have been no FCPA cases associated with bribes paid to Sri Lankan officials.

Corruption and Governance Indicators	Sri Lanka	G7 Average
Transparency International Corruption Perceptions Index	38	71
World Bank Control of Corruption Score	43	88
World Justice Project Rule of Law Score	52	77

*\*All indicators are scores/100 or are percentile ranks, 100=best. Some scores have been modified accordingly. 1-33 34-66 67-100*

World Bank Enterprise Survey Responses	Sri Lanka	Top 10 Countries
Share of firms reporting at least one bribe request	10%	1.4%
Share of firms expected to give gifts to secure government contract	30%	1.9%
Share of firms expected to give gifts to officials to "get things done"	14%	1.5%
Share of businesses reporting corruption is a major constraint	16%	7.5%

## South Asia Governance Indicators in Comparison

Source:  
World Bank Worldwide  
Governance Indicators, 2018





## Better Intelligence

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