INVESTMENT MONITOR

Covid-19, corruption and the cybercrime backdrop

Covid-19 has forced companies and workers to work more remotely and rely more on digital channels, but with this has come an increased risk of criminal activity, particularly in countries with high corruption levels.

By Sofia Karadima 16 Oct 2020

The move online by many companies amid the Covid-19 pandemic has brought with it greater opportunities for cybercriminals. (Photo by Nicolas Asfouri/AFP via Getty Images)

The Covid-19 pandemic has caused havoc among the economic development community, with business owners struggling to secure their companies' futures amid the uncertainty. This, explains principal at Parker Poe Consulting Mark Simmons, has created a "perfect storm" as world economies shrink, supply chains are disrupted, border controls are tightened and financial hardships become more widespread to create a proliferation of fraud, corruption and money laundering.

Indeed, the supply chain disruption caused by the pandemic has also provided a more favourable environment for the establishment of new laundering channels, according to principal analyst within financial sector risk at Verisk Maplecroft Camilla Ogunbiyi.

Cases of corporate misconduct tend to rise when companies of all sizes are under significant pressure, such as when employees are having to meet performance targets agreed before a disruptive event such as a pandemic. As a result, there runs a risk that businesses move away from corporate social responsibility initiatives and opt for different modes of operation that do not guarantee best practices are being followed.

Implications for FDI

This perfect storm could have a significant impact on foreign direct investment (FDI). The UN Conference on Trade and Development expects FDI to drop by up to 40% during 2020, and a further 5–10% in 2021, as a result of the pandemic. This will have a negative impact upon many developing countries, whose economic growth and employment markets are heavily linked to investments coming from foreign companies.

However, this impact will be felt even more greatly in developing countries that suffer from high levels of corruption, as investors will be more likely to opt for neighbouring countries that have better levels of transparency when relocating their businesses to bolster their supply chains, particularly those from China.

John Boyd, founder of New Jersey-based location consultancy Boyd Company, explains that one of the major challenges for countries competing to be Asia alternatives is to demonstrate a safe and secure business climate.

“For example, when investment agencies from Singapore, Taiwan, South Korea, Australia and New Zealand call our offices now to pitch their countries as viable Asian alternatives to China, they uniformly lead their discussions with data security, transparency, political stability and lack of crime and corruption,” says Boyd. “These selling points are much more difficult to make [in countries such as] Thailand, Malaysia, Vietnam and the Philippines.”

This is bad news for developing countries that score highly in rankings such as Transparency International’s Corruption Perceptions Index, as they are missing out on the benefits that FDI can bring, such as an improvement in business standards, higher levels of expertise and the technological know-how, and, somewhat ironically, a reduction in corruption practices.

Simmons explains that countries that have high levels of corruption tend to exhibit an uneven distribution of wealth and resources, which subsequently leads to slow overall development and growth.

Indeed, corruption negatively impacts economic growth via multiple channels, according to Ogunbiyi.

“It deters investment and inhibits the reinvestment of profits by companies operating in corrupt jurisdictions,” she adds. “It stops national industries from becoming more competitive. It makes government spending on infrastructure and other public goods that businesses depend on less effective."

The Covid-19 shake-up

Boyd stresses that there are many independent and valuable resources that document corruption scores that companies and investors should look at before investing abroad. However, more useful is having experts spend time on the ground in candidate locations and doing the necessary fieldwork to reduce the possibility of becoming a victim of corruption. Boyd highlights that making necessary relationships and developing local street smarts is more important today than ever.

However, with the Covid-19 pandemic imposing myriad restrictions upon investors across the world, digital tools have emerged as key components to allow companies to keep on operating. Digital transformations have changed business procedures, audits and working conditions, while also replacing face-to-face meetings or spending time in a prospective investment destination due to travel restrictions.

However, this reliance on the online world comes with rising risks of spikes in cybercrime.

Nevertheless, the most disruptive fraud incidences tend to differ per sector, according to PwC's Global Economic Crime and Fraud Survey. The 2020 survey finds that customer fraud, cybercrime and accounting/financial statement fraud are most disruptive within financial services.

Asset misappropriation is the most disruptive event for industrial products and manufacturing, followed by cybercrime, and bribery and corruption. However, bribery and corruption is the dominant fraud event for the energy, utilities and resources sector. As for technology, media and telecommunications, cybercrime is the leading disruptive event, followed by accounting/financial statement fraud and customer fraud.

Investors put focus on vigilance

With the pandemic creating a glut of new opportunities for fraudsters, companies and individual investors are having to closely monitor their budgets, invest in cybersecurity measures, and gather real-time intelligence before executing a deal abroad.

"The shifts prompted by the pandemic have required even more vigilance from companies and investors in due diligence processes," says Ogunbiyi. "Particularly in sectors where disruption or demand has been high due to the pandemic – for example, investors in medical equipment. Public procurement has been of particular concern as the pandemic forced countries to speed up their procurement processes, leaving less room for scrutiny."

Thus, investors need to be hyper-vigilant regarding their own investment due diligence and sensitive to troubling signs related to the temporary ‘flexibility’ of governmental regulations as a result of Covid-19 disruptions. Avoiding countries that exhibit a high level of corruption will be a key consideration for foreign investors, given the myriad challenges with regards to crime and security they will already have to contend with as a result of the pandemic.