What next for commercial governance in Sub-Saharan Africa?

Steven King, Group Head of Corporate Compliance at Travelex, describes the latest project to tackle the widespread corruption that stifles economic growth and development in Sub-Saharan Africa. The only viable solution, he believes, lies in collaboration across the full governance eco-system and needs to happen at all levels

In 2015, a report from Transparency International suggested that around 75m people in Sub-Saharan Africa had paid a bribe in the preceding year. The report also suggested poor people in the region are twice as likely as the richest to have made a payment. The survey, of more than 43,000 people across 28 Sub-Saharan countries, revealed that at least half of those who paid bribes did so many times a year.

Some of the bribes are to escape punishment by the police or courts, but many are paying bribes to get access to basic services. Corruption in the region is nothing new, but many feel it's on the rise and that their governments are failing.

A new solution is now bringing together expertise from the public and private sectors to stamp out practices that are preventing many regions from achieving economically. The project, backed by the Business Council for Africa-Invest Africa, draws on input from various organisations including the UK's National Crime Agency.

It brings together people who can offer advice, training and mentoring on every part of the process and who have long experience in fighting corruption and tracing illegal assets in other countries; for example, the legal foundations of the UK's asset-recovery legislation come from Irish law, where the government has a history of efforts to confiscate terrorist funding.

There are good reasons for doing this. The 2016 Ibrahim Index of African Governance reported that the average score for corruption and bureaucracy had worsened by 8.7 points across the continent over the previous decade. Thirty-three countries had deteriorated, 24 of them falling to their worst ever level in 2015.

Kenya, for example, ranked 145th out of 176 countries in Transparency International's corruption listings. The Kenya National Police Service is rated as the most corrupt institution in the country and it's accepted that bribery is the only way to access the police and obtain a faster service.

The country's taxation system carries a high risk of corruption and there's a complete lack of transparency in customs administration. According to a survey from consulting group PwC, tendering fraud is the fastest-growing economic crime in Kenya.

Angola's oil and mining sectors are particularly prone to corruption, with the exchange of goods and services for political support being the norm in many business transactions. Moreover, many companies act as fronts for corrupt government officials.

Corruption is also high in Chad, one of the world's poorest countries, where nepotism is rife and many work outside the formal economy. In Mali, extortion at checkpoints is common, and armed groups and government security officers make demands.

Corruption across Sub-Saharan Africa is closely linked to cash payments, since these economies still rely heavily on cash to fund commerce of all sorts; in some cases, the US dollar has largely replaced local currencies for most activities.

Payments to corrupt ministers or government officials will often be made in cash, which will then have to be laundered through the banking system. This typically happens via a convoluted process by which the cash is paid into a domiciliary account (allowing foreign exchange payments instead of local currency) held with an indigenous bank.

Cash in the domiciliary account is then sold and the resulting payment paid into an account held with a branch of the indigenous bank in a foreign jurisdiction. The cash at this stage is effectively converted into electronic payments and can be moved onward. The electronic funds will normally be transferred to offshore companies, with opaque structures around their beneficial ownership.

These offshore companies are used to establish a pattern of trading to hide the source of the funds, which are eventually transferred to an offshore account in another part of the world. The funds can then be accessed and used to purchase assets such as property or securities.

Bribery and corruption in Sub-Saharan Africa is diverting vital resources that should be helping to fuel economic growth and development – building infrastructure and providing essential public services such as health and educational opportunities for growing populations.

As a result, nations that should be enjoying considerable wealth from natural resources are lagging far behind the level of development they could and should have achieved – and their inhabitants are being deprived of their opportunities to prosper. Corrupt practices threaten to destabilise the institutions they rely on to provide good governance.

The fight against corruption depends on having the right governance structure – based on robust legislation and regulation – with effective communication between all departments and the support of commercial organisations (who should be able to report suspicious activity such as large cash deposits, particularly from outside national borders).

However, in many parts of Africa this governance cycle is breaking down. This is for a number of reasons, ranging from poor controls to overlapping responsibilities and bureaucratic difficulties.

The corruption that holds back so many African economies is a problem that demands local solutions and while this all paints a troubling picture, there are effective remedies taking shape.

For example, the Mo Ibrahim Foundation was established in 2006 to focus on governance and leadership in Africa. Its annual Index of African Governance provides an assessment of the quality of governance in every African country.

It also provides a framework for citizens, governments, institutions and the private sector to accurately assess the delivery of public goods and services. At the Commonwealth's Tackling Corruption Together conference back in 2016, Mo Ibrahim talked about a "complacency in many developed countries in upholding the laws against corruption", and said it was time for international action on the issue.

The Extractive Industries Transparency Initiative (EITI) is a global coalition of governments, companies and civil society working together to improve openness and accountability in the management of revenues from natural resources. The Commonwealth Secretariat is assisting member countries to become EITI-compliant by helping to strengthen the rules around financial reporting with regard to oil or other natural-resource revenues.

The Business Council for Africa-Invest Africa's project provides training and mentoring for the officials across Sub-Saharan Africa who are in the front line of their countries' fight to stamp out corruption.

A partnership between its founders, the private sector and the authorities in Sub-Saharan nations, the project builds on some of the informal help and advice that Travelex has already offered to local officials, for example in Ghana. Its approach is highly collaborative and involves listening to the concerns of local officials and financial institutions, giving them access to experienced anti-corruption and compliance professionals to help develop skills and processes.

The new anti-corruption training and mentoring partnership will assist in getting each link in the governance chain working effectively. One specific goal is to foster collaboration between the different groups, both within the subject country and with their counterparts in other jurisdictions.

Ideally, in the case of financial corruption, suspicious activity reports should pass to the country's financial intelligence unit, which will assess and develop the information and forward it to the law-enforcement agencies to carry out the inquiry and make arrests. Individuals charged with corruption would then be passed to the relevant authorities for prosecution and trial.

If local banks have a robust system of controls in place, especially when supported by a national framework that effectively tackles money-laundering, the effects of corruption can be reduced. Staff experienced in spotting the signs of potentially corrupt activity can head it off and ask the right questions about the origin of unusual cash deposits into accounts held by offshore companies.

To do this successfully, officials within local banks and authorities need to know what to look for. Effective training and its reinforcement means that staff across all organisations are primed and know how to respond appropriately.

Samuel Thompson Essel, executive director of the Ghana Financial Intelligence Centre, is a strong supporter of the new initiative. “I fully embrace the Business Council for Africa project, as it is in line with my organisation’s focus on corruption as a key predicate of money-laundering in Africa,” he says. “The concept of the BCA project resonates with research findings by the Inter-Governmental Action Group Against Money Laundering in West Africa that there is a serious nexus between corruption in Africa and money-laundering, and therefore I am fully committed to this project.”

All training and mentoring is provided free of charge, with the first training session planned to take place in Ghana in early November. It will include officials from the country’s association of commercial banks, the central bank, financial intelligence unit and prosecutors. This will be followed by a second training programme in Kenya, after which the training will be assessed and rolled out further.

Such a collaborative approach can help local agencies ensure their anti-corruption efforts are more joined-up and, therefore, more effective. Africa has enormous economic potential and a highly motivated population. Corruption in business and bureaucracy robs them of the opportunities they deserve.

The Business Council for Africa-Invest Africa’s Annual Kaye Whitman Memorial Lecture will be delivered by Mo Ibrahim, founder and chairman of the Mo Ibrahim Foundation, on September 14.