African Research Review

AN INTERNATIONAL MULTI-DISCIPLINARY JOURNAL, ETHIOPIA
AFRREV VOL. 11 (1), SERIAL NO. 45, JANUARY, 2017:88-99
ISSN 1994-9057 (Print) ISSN 2070-0083 (Online)
DOI : http://dx.doi.org/10.4314/afrrev.v11i1.7

Corruption and Public Governance: Implication for Customer Due Diligence in Africa

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Abstract

Certainly, corruption is not a new thing in human societies. It is an age-old menace which can cause tremendous harm to society. Corruption has attained the state of pervasive and phenomenal social behaviors in public service, which has not only eaten deep into the fabrics of African society, but also soiled the character of its people and is hampering the effective delivery of public governance in the continent. In this paper, corruption is principally examined as a governance issue, a challenge to African democratic functioning. It is a failure of both institutions and the larger framework of social, judicial, political and economic checks and balances needed to govern effectively. Therefore, the paper sought to determine the causes and effects of corruption on service delivery in Africa. It is within this context that this paper explored Principal Agent Theory to explain the relationship between corruption, public governance, customer due diligence and the various aspects of development including economic growth and sustainable development. The paper recommended that the way and manner to encourage and assist individuals and financial institutions which work to promote and protect customer due diligence in Africa is to engage them with corruption issues and collaborate more closely with anti-corruption organizations. The paper also concluded that public-private technical assistance is needed for Africa to effectively implement anti-corruption interventions to reduce menace of corruption and recognize the value of good governance as roadmap to sustainable development.

Key Words: Corruption, Public Governance, Customer Due Diligence

Introduction

In recent years, the subject of corruption has received considerable attention. Corruption today in Africa is the most intractable problem. It has attained the state of pervasive and phenomenal social behaviours in public service, which has not only eaten deep into the fabrics of African society, but also soiled the character of its people and is hampering the effective delivery of public governance in the continent. The concept of corruption, juxtaposed with the idea of public governance, should ordinarily be regarded as opposites and non-complementary to one another in the framework of good governance (Adebanwi & Obadare, 2011). While public governance indicates political, economic and social governance process, corruption on its part represents the practices of categories of negative behaviour and actions that impede development in societies. Unfortunately, this has been the gory experience in Africa where corruption has ravaged the economy, the politics and the culture thereby posing a threat to its vast population and the very existence of the continent.

Corruption is being addressed by financial institutions, government agencies, bilateral donors, international organizations, non-governmental organizations (NGOs) and development professionals. Its causes have been measured empirically, as have its impacts on customer due diligence (Agba, 2010, Aderonmu, 2011, Ackerman, 1999). By doing business with dubious customers, financial and designated non-financial institutions are facilitating corruption and state lootings, which denies the nation the chance to be lifted out of poverty and dependency on aid. This is happening despite a raft of Anti-Money Laundering Laws that require them to do due diligence to identify their customers and turn down illicitly acquired funds. But the current laws are ambiguous about how far banks must go to identify the real person behind series of front companies. Also, if a bank has filed a report on a suspicious customer as required by the law, but the authority and the law permit the transaction to go ahead, the bank can take dirty money. So, it may be possible for a bank to fulfil the letter of its legal obligations, yet still do business with these dubious customers. By accepting these customers, financial institutions are directly or indirectly assisting those who are using the assets of the state to enrich themselves or brutalize their own people. According to Afonso and Tanzi (2003), the key steps financial institutions are required to perform to prevent dirty funds entering the system is due diligence to find out who their customer is and where his or her funds have come from. But the current system is full of loopholes, whether in the anti-money laundering laws or the way they are enforced.

However, many countries have negotiated and signed international anti-corruption conventions. The United Nations Office on Drugs and Crime (UNODC) Global Programme against Corruption has acted as a catalyst, helping countries to implement the United Nations Convention against Corruption (UNCAC) (Bouckaert and Van de Walle, 2003). Transparency International (TI) and other civil society actors have created a large forum for discussion and advocacy around its many forms; an international coalition of NGOs has emerged, challenging corruption “from below” (Cooke and Uma, eds. 2001). Yet corruption clearly remains a challenge. Despite countless policy diagnoses, public campaigns to raise awareness, and institutional and legal reforms to improve public administration, research shows that it continues to flourish. Indeed, opinion polls suggest that the public is more pessimistic than before about the likelihood of eliminating it. Combating corruption in public service requires strong collective efforts from different sectors in society acting in co-ordinated ways. The fundamental aim of this paper is to examine and evaluate individuals and financial institutions which work to promote and protect customer due diligence in Africa to engage with corruption issues and collaborate more closely with anti-corruption organizations. It may also assist those who combat corruption to recognize the value of good governance as roadmap to sustainable development.

Conceptual Clarifications

The key words that will prominently engage our discussion in this paper are corruption, public governance and customer due diligence, and therefore it is important that they are defined and clarified from the outset.

(i) Corruption

Corruption is a word that has been defined differently by both public administration practitioners and academicians who study corruption. It means different things to different people depending on the individual´s cultural background, discipline and political leaning. According to Boyne (2003), the manner in which corruption is defined ends up determining what gets modelled and measured. He argued that a brief definition of corruption is difficult to get. He defined corruption as “an act in which the power of the public office is used for personal gain in the manner that contravenes the rules of the game”. Dike (2008) cited by Mulinge and Lesetedi (2002) defined corruption as “a form of antisocial behaviour by an individual or social group which confers unjust or fraudulent benefits on its perpetrators, is inconsistent with the established legal norms and prevailing moral ethos of the land and is likely to subvert or diminish the capacity of the legitimate authorities to provide fully for the material and spiritual well-being of all manners of society in a just and equitable manner”. According to Ogundiya (2010) cited Destas (2006), corruption is viewed by most Africans as a practical issue involving “outright theft, embezzlement of funds or other misappropriation of state property, nepotism and the granting of favour to personal acquaintances and the abuse of the public authority to exact payments and privileges”.

To Transparent International (TI) (2008), corruption has been simply defined as the abuse of public office for private benefit. The scope of this definition has now been extended to cover even the misuse of private office for unconscionable advantage. Corruption includes bribery, extortion and other acts of misconduct such as fraud, embezzlement, gratification, nepotism, stealing, electoral malpractices, inflation of contracts, extortion, influence peddling, false declaration, smuggling, forgery, evasion of taxes, concealment, false declaration as well as money laundering schemes. The Corrupt Practices and Other Related Offences Act, 2000 defined corruption to include ‘bribery, fraud and other related offences’. This definition is meant to be ambulatory of the classes of the acts of corrupt practices for the purpose of investigation and prosecution. Importantly, however, corruption relates to the administration of office, whether in the public or private sector, and the deviation from the rules, laws and procedure that regulates the conducts of officials. It connotes a breach of trust which is destructive of economic growth and development. Nations that condone corruption often experience serious economic, political and social consequences.

(ii) Public Governance

Public governance is certainly not a new term. According to Johnston, (2005), the concept had been dealt with by Max Weber, who in the early twentieth century, without necessarily using the term, “outlined the functions of a bureaucracy that would facilitate development and called for strict observance of the rule of law and legal rationality – and also advised against a mixture of private interests with the public responsibilities of the bureaucrat”. Many African scholars, like Ali Mazrui (2001) and Claude Ake (1993), have dealt with the concept from an African context. The term evolved from the search by economics and political scientists for an all-embracing concept capable of conveying diverse meanings not covered by the traditional term *government*

(Johnston, 2005). UNESCAP (2010) holds that public governance means the process of decision-making and the process by which decisions are implemented (or not implemented). On the other hand, it portrays *good governance* as a sort of *governance* that embodies processes that are participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and (which follow) the rule of law. While it may not be necessary to dwell so much on the current definitions of good governance, as many other definitions appear to have been derived from the aforementioned, it may be important to note that the term comes with its own controversies. Yaqub (2004) referred to it as not just a mere concept, but an "agenda." Cooke and Uma (2008) exposed it as one of the three main requirements for contemporary western aid – the other two being promotion of open market, friendly and competitive economies; and support for democratization and improvement of human rights records.

(iii) Customer Due Diligence

Customer Due Diligence means taking steps to identify your customers and checking they are who they say they are. In practice this means obtaining the following from a customer: Their photograph on an official document which confirms their identity, their residential address or date of birth. The best way to do this is to ask for a government issued document like a passport along with utility bills, bank statements and other official documents. In situations where it is relevant, you also need to identify the (beneficial owner). This may be because someone else is acting on behalf of another person in a particular transaction. Or it may be because you need to establish the ownership structure of a company, partnership or trust. In other words, Customer Due Diligence information comprises the facts about a customer that should enable an organization to assess the extent to which the customer exposes it to a range of risks. These risks include money laundering and terrorist financing.

Theoretical Framework: The Principal Agent Theory

The principal agent theory is what this paper adopted to enable it explain the implication of corruption on public governance and customer due diligence in Africa. According to Macrae, (2002) and Markovitz (2007), the argument in support of this theory is that it is manifested in a business management context involving behaviour, interaction involving the exchange of money. Corruption can be analyzed in terms of principal agent theory, such that bribery can be seen as a market transaction cost which occurs when public officials' discretionary powers to extract financial favour from those seeking government services. This can also be explained in the form of the most in need bids the most in bribes and get the services first, this is as against the normal chain of bureaucratic process in government establishment is by- passed or not observed and ignored with impunity.

In relating principal agent theory to African experience, the theory insists that the maintenance of rule of law and public service rule and procedures requires ethics of accountability, probity and transparency. It is pertinent to note that principal agent theoretical conception of governance emphasizes inclusivity and accountability that are apparently absent in many countries in Africa. Since the attainment of political independence in Africa, Many African countries have been governed by members of a political class whose desire for wealth acquisition and accumulation is insatiable. A major recurring decimal in public governance in Africa since independence is that people who occupy public offices leave those positions of responsibility much wealthier than they were before they assumed those positions. There are even cases of people who could barely eke out a living – before they were appointed or elected into offices – but who suddenly became members of the wealthy and property-owning class. Indeed, there is no doubt that the richest people in Africa today are those who have either personally occupied public offices or have done so through proxies. The reality in Africa is that many countries are controlled by a very greedy and rapacious ruling class whose essence is self-aggrandizement, and to the members of this class, the welfare of the citizenry means very little or nothing to the political leaders.

Implication of Corruption on Public Governance and Customer Due Diligence in Nigeria

The present war against corruption is one of the areas where the Buhari-led administration was able to hit the ground running. This is understandable; given the President's anti-corruption antecedents and pledges he made during the electioneering campaign. The last time Nigerians witnessed a major probe of an administration by a succeeding one was in 1984, after the fall of the Second Republic, when a Buhari-led military regime arrested and put to trial, key actors in that dispensation.

Indeed, his anti-corruption stance was the magic wand that secured Buhari the electoral victory of March 28, 2015. During the campaign, it was easy to see how corruption was established as Nigeria's most intractable problem. Hence, the then opposition party, the All Progressive Congress (APC) vowed to deal with it head-long, if voted into office. Since his inauguration on May 29, 2015, Buhari has taken a number of bold steps aimed at fighting corruption. They include setting up of a Presidential Advisory Committee Against Corruption, headed by professor of law and human rights activist, Prof. Itse Sagay; and the sacking of some purportedly corrupt heads of some government agencies such as Nigerian Maritime Administration and Safety Agency, Nigeria National Petroleum Corporation, and the arrest of seven judges recently among others.

There are generally three types of implications of corruption on public service and customer due diligence in developing states and the African countries are no exception. Corruption produces negative consequences of an economic, political, and administrative nature. These consequences, both individually and collectively, categorically impair the process of development in Africa.

First, we look at the economic consequences. Corruption increases the cost to African governments of doing business. Kickbacks and illegal commissions, which have to be paid to public officials, are simply added to the final costs of contracts, equipment, supplies and so on. This not only increases government expenditures and siphons off scarce funds, but eventually leads to the need to increase revenues either through higher taxes, or by borrowing or by reducing development programs of great importance and, ultimately, to a general welfare loss, lower growth, and macroeconomic distortions for the affected country. In some African countries, corrupt politicians choose investment projects not because of their intrinsic economic worth, but on the opportunity for bribes and kickbacks, these projects present. The enterprise that pays the commission rarely suffers from the payment of the bribe since it is recoverable in the overall costing of the project either through overpricing, cost adjustment during the term of the project, or by tampering with the quality of the work performed or materials used. Taxpayers therefore end up with a costlier project to begin with, or a project of inferior quality that would require costly upkeep. This reduces the productivity of capital spending, which, in turn, hampers growth. It has also been discovered that high-level corruption in public investment can reduce growth by decreasing the government revenue needed to finance productive spending. In the trade sector, corruption results in capital flight and price increases at both the wholesale and retail levels.

Corruption in the trade sector is perhaps the most systematic of the corrupt activities in Africa. The role of trade in African states, and hence, the importance of the import-export sector, loom large and provide many opportunities for corrupt practices to be perpetrated. Bribes have to be paid; for the clearance of goods through customs, for obtaining import licenses, for the shipping of contraband, for exclusion from taxes and fees and so on.

It is estimated by the UN Economic Commission for Africa that Africa's stock of flight capital is US$148 billion (UNECA, 2006). A recent study indicates that Nigeria, Sudan, Kenya and Rwanda are seriously plagued by the capital flight problem (Mutiullah, 2010). Undoubtedly, some of this capital flight represents legitimate transfers abroad. However, the great majority is derived from corrupt activities involving public officials. Since capital is scarce in Africa and is much needed to bolster the development effort, its outflow from the region, on a large scale, is a very disturbing matter.

Capital flight can be regarded as a diversion of resources from domestic real investment to foreign financial investments Brewer and Choi (2007). The country of origin loses the associated benefits of such capital even if the yield from such capital were to be repatriated in the future. The loss of benefits includes income as well as tax revenues. In addition, there is the consequence of the redistribution of wealth from country of origin to country of destination. Capital flight is to be avoided because of its micro and macro impact on development. It destabilizes interest rates and exchange rates, it reflects discrepancies between private and social rates of return, it contributes to erosion of the domestic tax base, it reduces domestic investment, and it necessitates increases in foreign borrowing, which in turn, increase the national cost of borrowing.

Corruption also stifles initiative and enterprise in Africa. Rent-seeking activities tend to have the effect of inflating the cost of doing business (Isham, Kaufmann & Pritchett, 1997). The immediate consequences of such a situation is that entrepreneurs and potential entrepreneurs withdraw from engaging in such investments and the affected economy loses the multiplier benefits that would have been forthcoming with those investments. Corruption therefore slows down investment and economic growth either by crowding out productive investment directly or through the uncertainty created by bribery contracts that are not governed by formal property rights and are therefore not enforceable. Corruption, in this sense, can be seen as a tax, which increases risk and reduces the incentive to invest, over the longer term. Any economy infested with corruption will also suffer from its effects of discouraging potential foreign investors and aid donors.

Recommendations

The fight against corruption should go hand-in-hand with more general efforts to improve public governance. However, success in more general reform efforts should be seen as neither a necessary nor sufficient condition for eliminating corruption, nor should the difficulties to be overcome in implementing broad-based reforms be used as an excuse for delay in tackling corruption. Furthermore, even in an otherwise well-ordered system of governance; corruption can thrive in the absence of effective vigilance and enforcement. Sustained action is required at two levels to address the root causes of corruption and tackle all its manifestations:

1. **Systemic Reforms**, which target the underlying weaknesses in policy, administration and politics, and create an environment conducive to the elimination of corruption;
2. **Specific, Focused National Anti-Corruption Strategies:** In mounting a serious national anti-corruption program, the first step of securing a strong commitment at the highest political level to fight corruption is often the most difficult hurdle. When corruption is widespread, particularly where it involves the political establishment, this may

involve serious political risks, despite popular support for cleaner government. The solution may be an amnesty for corrupt acts committee in the past, combined with an explicit code of conduct, spelling out minimum standards of universal applicability, which will be enforced vigorously from the start of the new anti-corruption program.

3. **Popular Mobilization against Corruption:** The most potent force in the fight against corruption is the widespread resentment of corrupt practices and popular support for firm action. Anti-corruption programmes need to be designed to meet the expectations of citizens and with public participation. They are likely to be more effective when they are built on the foundation of popular empowerment, nationally owned and designed to meet national circumstances.

4. **The Collaboration between Private Sector and Civil Society:** The concept of good governance extends beyond government. Although an anti-corruption strategy usually focuses initially on preventing the use of public office for private gain, support could be enhanced if the dangers of unethical practices in the private sector and non-governmental institutions are more widely appreciated. Corrupt behaviour (e.g. by corporate purchasing agents, or in job recruitment) can be as destructive of the performance of businesses or of non-governmental organizations (NGOs) as it is of government. Private corporations, NGOs and all other sectors of civil society have a stake in combating a culture of corruption. Moreover, even where governments are less than enthusiastic in tackling corruption, popular support and the agencies of civil society can still be mobilized in support of an anticorruption agenda.

5. **The Need for an International Response:** There is a strong case on a number of grounds for international cooperation in fighting corruption:

   - Countries embarking on an anti-corruption strategy can learn from the experience of those that have already had some success in reducing corruption; furthermore, international co-operation can reinforce national efforts to combat corruption;

- In a globalized economy, transactions across borders are of increasing importance, but are often difficult to monitor by national authorities acting alone;
- International transactions may sometimes provide a conducive environment for corrupt practices, where actors are willing to engage in dubious practices abroad that would be unacceptable at home;
- International financial transactions provide opportunities for the laundering of financial gains from corrupt practices.
- Given the global nature of corruption, there should be no double standards. Anti-corruption measures should apply equally to rich and poor countries. They should target those who are directly guilty of corrupt behaviour, as well as those who facilitate corruption (e.g. by providing money laundering opportunities). They should penalize both bribers and bribes (i.e. those who offer, as well as those who accept bribes).

Conclusion

Corruption has had detrimental effects on Africa's economic, political, and social development and also makes public governance and customer due diligence inefficient. In the absence of democratic institutional arrangements that make the engagement in corrupt practices difficult, prevent systemic corruption-funded patronage, as well as limit state intervention in private exchange, the political leadership was inclined to over-regulate economic activity. It also created bloated, expensive, corrupt, and inefficient bureaucracies, which have been a major constraint on sustainable growth and development. It is unfortunate that after fifty-seven years of independence in Africa, the forlorn hope of the innocent citizens of this continent is far from being realized. The hopes of freedom that brought smiles and celebration at independence have largely been substituted, with gloom, pessimism and despondency. It is quite instructive to recall that in comparison with other continent, particularly, Asia that we were in the same league in the 1960s, Africa remains perhaps the only one that had failed to achieve its full potentials. Asian countries like Malaysia, South Korea and many of the Tiger nations of Asia have all left us behind even though we had much more potential than most of them in 1960. Even a city state like Singapore has transformed into a first world status in under thirty years from being a third world country.

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