CORPORATE GOVERNANCE & CUSTOMER DUE DILIGENCE IN AFRICA.

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This paper evolved from the Afrexim bank compliance project that is establishing a customer due diligence repository for Africa. The objective of this project is to reduce investment risk in Africa while enhancing bank performance. In addition to reducing compliance costs, this project has developed an effective tool for compiling and accessing data on African customers and businesses that can contribute to building confidence to attract investors and trading partners.

This paper includes the findings of market research that surveyed 50 compliance professionals regarding their perceptions of the status of corporate govenance in Africa and how it can be improved to better contribute to the African economy. Participants were drawn from compliance professionals who completed certification training from January to August 2015. This information allows us to analyse the expectations of those on the front line of compliance regarding their own institutions, regulators and corporate entities. Extrapolating from this allows us to make recommendations and formulate strategies for developing and maintaining good corporate governance and the customer due diligence process requirements.

This paper provides a general overview of doing business in Africa, with particular attention to customer due diligence (CDD) and corporate governance (CG) trends in several African countries. We discuss challenges in developing and implementing CDD and CG; analyze the transition to a compliance economy in the context of poverty reduction and sustainable development; outline new and emerging challenges facing Africa and proposing recommendations for improving CDD and CG.

1-Introduction

Corporate Governance is concerned with establishing an appropriate legal, economic and institutional environment that facilitates business enterprise growth.

A growing African economy needs not only to protect its small and medium sized enterprises (SME), but also to provide a legal frame work within which SMEs can develop the competitive edge essential for growth that can attract investment and contribute to expanding the export sector.

With increasing integration into the world economy, financial institutions and corporate entities in Africa face the costs of meeting constantly evolving compliance requirements. This has implications for African trade and trade financing since poor compliance is associated with reduced access to trade services, limits in trade and project finance, increased costs of trade and trade financing, and reduced export competitiveness.

Insufficient, inconsistent and unreliable information on creditors and businesses remains a challenge for African corporate and financial institutions engaging in international transactions. This lack of information limits the diversification and development opportunities that support trade. An African CDD repository will stimulate expansion, promote diversification, and boost the development of African trade that is currently hampered by a lapse/gap in governance processes – particularly in relation to customer due diligence and corporate governance.

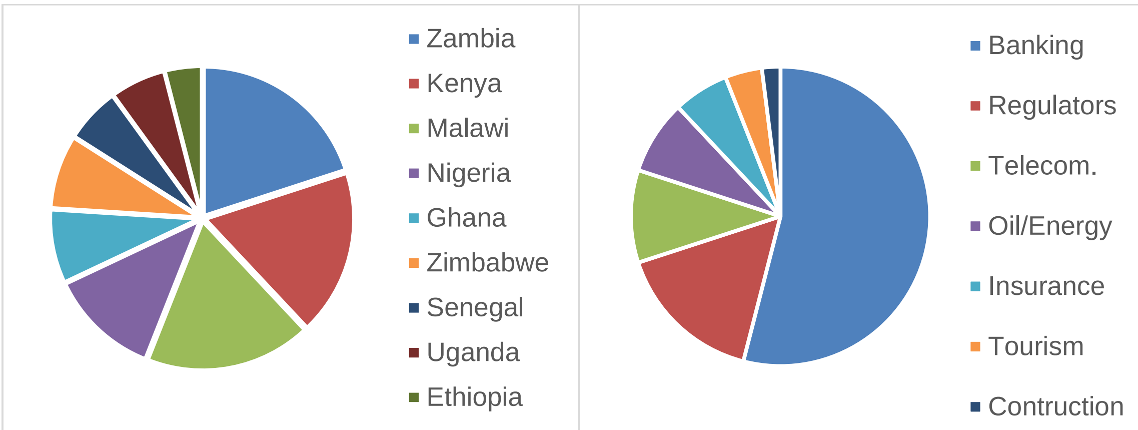
In today's leading economies, a culture of sound corporate governance supports domestic and international investment, assures investors that their investments are secure and efficiently managed in a transparent and accountable manner.

While the need for improved CDD, regulatory compliance, and corporate governance is unquestionable given trends within the world economy, our experiences in Africa have shown us the value of incorporating the specific cultural, historical, social and economic conditions of Africa into any proposed system and/or procedure. We conducted market research to gain insights from those on the frontline of corporate accountability.

From January to August 2015 we sampled 50 compliance professionals who were completing specialized compliance certification. We surveyed these compliance professionals at the start of the training program in order to gain their initial perceptions, so that these did not reflect training content and would be representative of the general attitudes of those with responsibilities related to compliance in Africa.

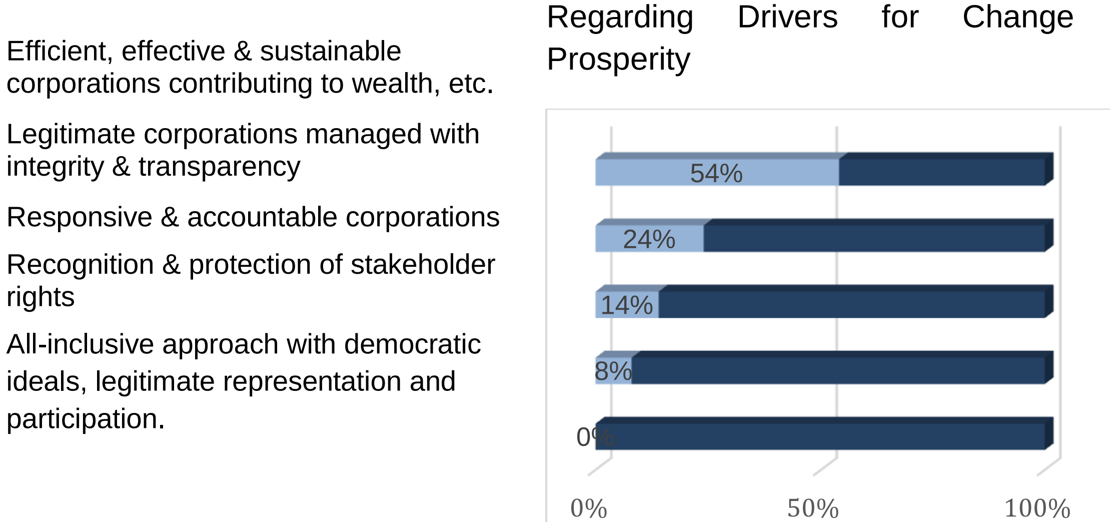
The professionals completing the survey had an average of 5.56 years of compliance related work experience. Sixteen of the professionals surveyed were women and the remaining thirty four were men. Figure 1 gives the breakdown of the countries and industries from which we drew the participants in this research.

Figure 1: Country and Industry of Survey Participants



Among other questions, we asked these professionals about their expectations of corporate culture and the business environment, and what they considered to have the greatest potential for improving corporate governance and thus the business environment in general. Their responses are summarized in Figure 2.

Figure 2: Participant Responses Regarding Drivers for Change & Prosperity



These responses indicate that within Africa economic factors, such as efficient and sustainable corporations are seen as the greatest expectation of institutions, businesses and regulators. The trend in perceptions gave the lowest rankings to political factors, such as legitimate representation and participation – suggesting that apart from providing an environment for growth, the role democratic principles is not perceived as contributing much to national prosperity.

The elements ranked above by survey participants are achievable, but have limited value added for trade unless they can be validated by information. Such information can then be made available to individual, corporate and government decision makers.

ACDICOG represents a major step towards developing such information infrastructure in Africa. What Africa expects from its institutions is exactly what ACDICOG expects from its members. ACDICOG offers a reliable information collection and aggregation mechanism that can provide high quality information to governments, investors and academics regarding business in Africa.

Our market research revealed insights from compliance professionals into what they believe will improve corporate governance. This information was incorporated into the requirements for and expectations of ACDICOG membership. (Exhibit A what is this?)

2-State of Corporate Governance in Africa

The 1994 King Committee Report and Code of Practice for Corporate Governance in South Africa demonstrated the success of the Africa Capital Markets Forum on the State of Corporate Governance in Africa in stimulating improved corporate governance in the region. This report indicated that Zimbabwe, Ghana, Uganda and South Africa had put in place national institutional mechanisms to promote good corporate governance.

The World Bank and Commonwealth Secretariat has provided support in training, technical assistance and raising awareness in Botswana, Senegal, Tunisia, Mali, Mauritania, Cameroon, Gambia, Mozambique, Mauritius, Sierra-Leone and Zambia to promote the development of appropriate mechanisms to promote good corporate governance.

Our research highlighted several challenges facing African institutions that both impact corporate governance and impede the collaborative approach required to improve national and regional economic status. Lowering compliance costs and reducing investment through the provision of reliable CDD and CG information are necessary for greater integration into the world economy and expanded access to capital.

3- Present Challenges facing African economies

A-Inflation rate

High inflation rates increase the cost of living and decrease the spending power of households through disposable income. In times of high inflation, cash flows are diverted from investment and savings into consumption. High inflation rates impose risks on the currency, increases interest rates, and impacts the ability of the population to borrow money. High inflation also increases the default rate of these borrowers.

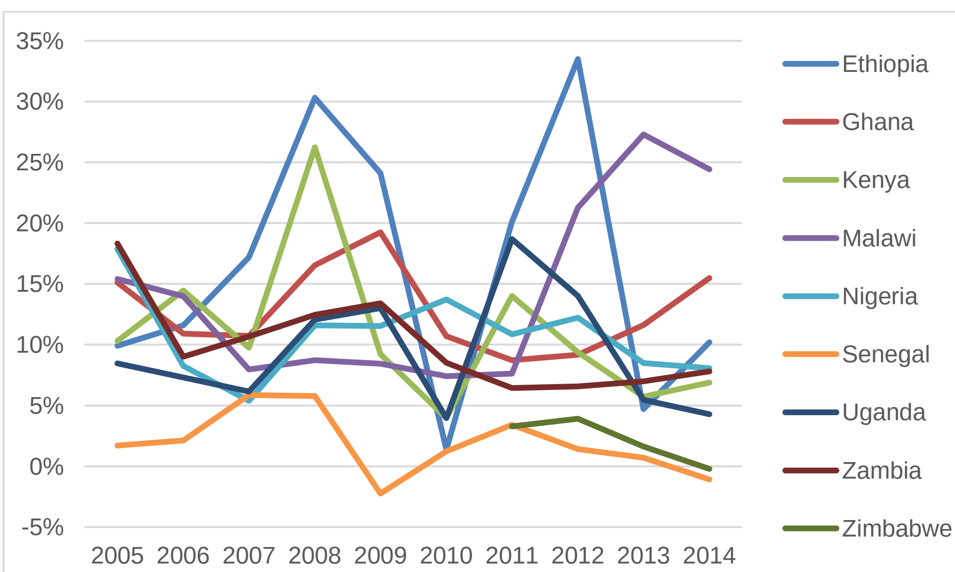
Table 1: Inflation Trends in Africa 2005-2014

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Algeria	1.38	2.31	3.67	4.86	5.73	3.91	4.52	8.89	3.25	2.92
Angola	22.96	13.30	12.25	12.47	13.73	14.47	13.47	10.29	8.78	7.28
Belize	3.64	4.23	2.32	6.39	-1.08	5.58	-3.65	1.31	0.65	0.91
Benin	5.36	3.78	1.30	7.95	2.16	2.31	2.71	6.75	0.97	-1.09
Botswana	8.61	11.56	7.08	12.70	8.03	6.95	8.46	7.54	5.88	4.40
Burkina Faso	6.42	2.33	-0.23	10.66	2.61	-0.76	2.76	3.82	0.53	-0.24
Burundi	13.52	2.81	8.34	24.11	10.98	6.40	9.74	18.01	7.95	4.38
Cabo Verde	0.42	5.37	4.41	6.78	0.98	2.08	4.47	2.54	1.51	-0.24
Cameroon	2.01	5.12	0.92	5.34	3.04	1.28	2.94	2.94	1.95	1.95
Central African Republic	2.88	6.70	0.93	9.27	3.52	1.49	1.30	5.77	1.50	
Chad	7.89	8.04	-8.97	10.30	9.95	-2.08	-3.70	14.02	0.15	1.68
Comoros	3.01	3.37	4.47	1.70	4.36	3.35	1.77	1.77	2.30	0.58
Congo	21.32	13.05	16.95	17.30	2.80	7.10	15.32	9.72	1.63	
Congo, Rep.	3.09	6.54	2.66	7.33	5.30	5.00	1.33	3.89	5.97	0.08
Cote d'Ivoire	3.89	2.47	1.89	6.31	1.03	1.68	4.91	1.31	2.57	0.46
Djibouti	3.10	3.48	4.97	11.96	1.68	3.95	5.07	3.73	2.42	2.89
Egypt	4.87	7.64	9.32	18.32	11.76	11.27	10.05	7.12	9.42	10.15
Equatorial Guinea	5.63	4.42	2.80	6.55	4.69	7.79	6.95	6.15	6.35	
Ethiopia	12.94	12.31	17.24	44.39	8.47	8.14	33.22	22.77	8.08	7.39
Gambia,	4.84	2.06	5.37	4.44	4.56	5.05	4.80	4.25	5.70	5.95
Ghana	15.12	10.92	10.73	16.52	19.25	10.71	8.73	9.16	11.61	15.49
Guinea	31.37	34.70	22.84	18.38	4.68	15.46	21.35	15.22	11.89	9.71
Guinea-Bissau	3.33	1.95	4.62	10.46	-1.65	2.52	5.05	2.13	1.21	-1.51
Guyana	6.93	6.58	12.30	8.10	2.91	2.09	4.98	2.39	1.83	
Kenya	10.31	14.45	9.76	26.24	9.23	3.96	14.02	9.38	5.72	6.88
Lesotho	3.44	6.07	8.01	10.72	7.38	3.60	5.02	6.10	4.93	5.34
Madagascar	18.51	10.77	10.30	9.22	8.96	9.25	9.48	6.36	5.83	6.08
Malawi	15.41	13.97	7.95	8.71	8.42	7.41	7.62	21.27	27.28	24.43
Mali	6.40	1.54	1.41	9.17	2.46	1.11	2.86	5.43	-0.61	0.89
Mauritania	12.13	6.24	7.25	7.35	2.22	6.28	5.64	4.94	4.13	3.54
Mauritius	4.94	8.93	8.80	9.73	2.55	2.89	6.53	3.85	3.54	3.22
Mozambique	7.17	13.24	8.16	10.33	3.25	12.70	10.35	2.68	4.26	2.56

Namibia	2.28	4.96	6.55	9.09	9.45	4.87	5.01	6.72	5.60	5.35
Niger	7.80	0.04	0.05	11.31	0.58	0.80	2.94	0.46	2.30	-0.79
Nigeria	17.86	8.24	5.38	11.58	11.54	13.72	10.84	12.22	8.48	8.06
Rwanda	9.01	8.88	9.08	15.44	6.42	2.31	5.67	6.27	8.04	1.27
Senegal	1.70	2.11	5.85	5.77	-2.25	1.23	3.40	1.42	0.71	-1.09
Seychelles	0.91	-0.35	5.32	36.96	31.75	-2.40	2.56	7.11	4.34	1.39
Sierra Leone			11.65	14.83	9.25	16.64	16.19	12.87	10.27	7.33
South Africa	3.40	4.64	7.10	11.54	7.13	4.26	5.00	5.65	5.45	6.38
South Sudan					5.01	1.17	47.28			
Sudan	8.52	7.20	7.98	14.31	11.25	13.25	22.11	37.39	29.96	36.91
Suriname	9.90	11.28	6.43	14.67	-0.16	6.94	17.71	5.01	1.96	3.35
Swaziland	4.77	5.30	8.08	12.66	7.45	4.51	6.11	8.94	5.62	5.69
Tanzania	5.03	7.25	7.03	10.28	12.14	6.20	12.69	16.00	7.87	6.13
Togo	6.80	2.23	0.96	8.68	3.31	1.83	3.57	2.63	1.77	0.19
Tunisia	2.02	4.49	3.42	4.92	3.52	4.42	3.54	5.14	5.80	4.94
Uganda	8.45	7.31	6.14	12.05	13.02	3.98	18.69	14.02	5.46	4.29
Ukraine	13.57	9.06	12.84	25.23	15.89	9.38	7.96	0.56	-0.28	12.19
Zambia	18.32	9.02	10.66	12.45	13.40	8.50	6.43	6.58	6.98	7.81
Zimbabwe							3.28	3.92	1.63	-0.22

Table 1 shows variability in annual inflation, as measured by the Consumer Price Index and reported by the World Bank's World Development Indicators, across countries and across time. Inflation volatility deters investment as it makes reliable planning difficult for corporate entities, households and individuals.

Figure 3: Trends in Annual Inflation Rates of Select African Countries



To further illustrate4 inflation volatility, Figure 3 shows the inflation rates for the countries in which we conducted our market research surveying fifty compliance professionals. In spite variations in this macroeconomic indicator, the expectations of survey participants regarding institutional pathways to sustainable growth were consistent across countries.

Inflation in Affrica can change considerably within a year. Table 2 gives the monthly inflation rates for the first six months of 2015 for the neigh bouring countries of Tanzania, Kenya and Ghana. These numbers show that while there may be general trends that impact areas within Africa, such as the upward movement in inflation exhibited in the three nations, there are also differences in the response of inflation by country. In Uganda, the relative magnitude of ther change is greatest, but inflation appears to stablize more rapidly than in the Tanzania and Kenya.

Table 2: Monthly Inflation Rates for Three Neighbouring Countries in 2015

Country	Jan	Feb	Mar	Apr	May	Jun
Tanzania	4.0	4.2	4.3	4.5	5.3	6.1
Kenya	5.5	5.6	6.3	7.1	6.9	7.0
Uganda	1.3	1.4	1.9	3.6	4.9	4.9

The above examples of annual and monthly inflation indicate a possible barrier to increasing investment in Africa.

B- Unemployement

Data on employment in Africa is sparse and inconsistent. The concepts of labour force participation, employment, and unemployment used in developed economies are problematic in low-income Africa (Fox and Pimhidzai 2013; Fields 2012). Nevertheless, available information paints a consistent picture: African labour markets are marked by sharp dualism between very small formal employment sectors and large informal employment sectors. The agriculture and urban informal sectors feature pervasive underemployment rather than open unemployment. Labour force participation rates in Sub-Saharan Africa do not differ dramatically from other developing regions – being slightly lower for men and surprisingly higher for women compared to Latin America and South Asia, but lower than East Asia. The historically unique aspect of African labour markets is the extent of informality (Roubaud and Torelli 2013).

Informal employment is defined here as agricultural work, non-wage-employment, and part-time wage employment. In low-income Sub Saharan African countries, informal employment defined in this way accounts for at least

80% of total employment, and can reach **90–95 %** in low-income Sub-Saharan African countries. Government employment exceeds formal private sector employment in Benin, Burkina Faso, Cameroon, Mali, Nigeria, Rwanda and Tanzania compared to Ethiopia, Ghana, Malawi, Mali, Senegal, Uganda and Zambia where private sector employment exceeds that of the public sector. Regardless of the balance between formal private sector and public sector employment, in all these countries both formal private and government employment fall below **10%**, and often below 5% of the labour force. Informal employment in middle-income Sub-Sahara African economies Botswana and South Africa is lower, although still sizeable at **38%** in both cases. Egypt, typical of North Africa, is an intermediate case, with **61%** informal employment and the bulk of the remainder employed in the public sector **30%.**

C-The Impact of Privatization on African institutions

Following independence, almost all African countries adopted highly interventionist import substitution industrialization policies. These policies resulted in the expansion of the public sector and protection of domestic industries. The widespread economic crises of the 1980s reversed the trend of import substitution with the application of structural adjustment policies that resulted in the contraction of the public sector and reduced protection of import-competing industries. Between the late 1970s and the mid-1990s public sector employment declined in absolute terms and even more so as a share of the labour force (Goldsmith 1999).

An initial effect of structural adjustment programmes was the decline in private sector industrial employment, as inefficient import-substituting industries collapsed and non-traditional export growth was disappointing. Around 1995, African growth picked up, resulting in increased formal employment, but from a low base (African Development Bank 2012; Fox and Gaal 2008).

D-Balance of Payments

A country is more likely to have a deficit in its current account under conditions of high price levels, high gross national product, high interest rates, and low barriers to imports. These circumstances may attract foreign investment, depending on conditions in other countries, and the relative exchange rate. The impact on the current account balance of changes in one of the above factors cannot be predicted without considering the effect on the other causal factors. For example, if the U.S. government increased tariffs, Americans would buy fewer imports, which could reduce the current account deficit. But this reduction will occur only if one of the other factors changes to bring about a decrease in the capital account surplus. If none of these other factors changes, the reduced imports from the increased tariff will cause a decline in the demand for foreign currencies (such as the yen, deutsche marks, etc.), which in turn will raise the value of the $US. The increase in the value of the $US will make U.S. exports more expensive and imports cheaper, offsetting the effect of the tariff increase. The net result of the tariff increase will be no change in the current account balance.

Inter-African trade is very important for Africa in mitigating the offsetting trap outlined above so that improvements can be made in the Balance of Payments.

E- Financial Independence and Food Security

When individuals grow their own food, generate their own energy, and garner a livelihood working from a home office or farm for your livelihood, their "costs of living" largely disappears. Such individuals become untethered from the work-earn-spend consumer economy and survive, instead, in a more locally-centred, self-sufficient economy in which monetary income is less essential for a rich life. Building on this model of self-sufficiency has been part of the ethos of many countries in Africa since independence.

Generally, about 16% of the world's population depends on food produced elsewhere. Marianela Fader and others from the Potsdam Institute for Climate Impact Research in Germany, calculated the food production capacity of every nation in the world based on the population, and food and water consumption in each nation. They then compared this productive capacity with each nation's food requirements. Their model included climate data, soil type and land-use patterns to simulate yields for a variety crops. Although many countries currently choose to import food right now, the model showed that there are surprisingly few that could not maintain the same diet and still be food self-sufficient. Faber found that: "Today, 66 countries are not able to be self-sufficient due to water and/or land constraints." This means that 16% of the world's population depend on food imported from other countries.

The countries with the greatest reliance on imports were found in North Africa, the Middle East and Central America, with over half the populations of these regions depending on imported food. Most countries in other regions could become food self-sufficient if they so choose. "Assuming that all low-income economies achieve full potential productivity by 2050 in addition to full cropland expansion – which would be a huge societal and technological challenge and thus a very optimistic assumption – the food self-sufficiency gap will still be equivalent to about 55–123 million people, with over 20 million in Niger and Somalia alone," explained Fader.

4- Status of SMEs – the Kenyan Case Study

In Kenya, the majority of micro, small and medium enterprises fall within the informal sector popularly referred to as *Jua Kali* as they largely start in the open sun under no roof. Strictly speaking, the term *Jua Kali* refers to the full range of enterprises employing between 1-49 workers in all sectors. This sector accounts for over **80%** of Kenya's employment and is currently receiving a lot of government attention as the possible solution to crippling unemployment, especially among the youth. Over **65%** of the Kenyan working-age population is under 25 years old and unemployed. Post-election violence in Kenya in experienced left over 1,000 people dead and 500,000 displaced. While this unrest was politically instigated, it was fuelled by youth unemployment and high levels of poverty. Recognizing the risks of high levels of youth unemployment has re-energised the government's resolve to address this issue with such initiatives as *kazi kwa vijana*.

It is estimated that today, Kenya's informal sector constitutes **98%** of all businesses in the country, accounts for up to 50% of new non-farm employment seekers annually, grows at approximately 12-14% annually, makes up 30% of total employment and contributes to 3% of GDP. Unlike most developing countries Kenya has recognized informal enterprises as more than a residual employer for poor households. In its Sessional Paper Number 2 of 1992, Small Enterprise and Jua Kali Development in Kenya, the government recognized the importance of small-scale and *Jua Kali* enterprises that could be developed to "graduate into the formal sector" and contribute to the creation of new jobs and economic growth. Access to technical and managerial training, work sites, involvement of *Jua Kalis* in technological innovation, and creation of a positive enabling environment are key elements in the Government's *Jua Kali* development strategy.

4.1- **Legal and Regulatory Requirements for Starting a Business**

In Kenya the legal requirements for starting a business include: registration of the company name with the Registrar of Companies, acquiring a Personal Identification Number (PIN) and Value Added Tax (VAT) with the Kenya Revenue Authority (KRA), Trade Licence with the ministry of Trade, and finally the Local authority licences.

In the formal sector, employees are registered for Pay As You Earn (PAYE) taxation with the Kenya Revenue Authority (KRA) so that monthly deductions can be made for taxes, the National Social Security Fund (NSSF), and the National Hospital Insurance Fund (NHIF).

4.2- **Institutional Framework Challenges**

To start a business in Kenya is not easy although the government has tried to streamline the process. There is no one-stop for establishing a business and a number of institutions are routinely involved including:

1. Registrar of Companies
2. Ministry of Trade
3. Kenya Revenue Authority
4. National Social Security Fund
5. National Hospital Insurance Fund (NHIF)
6. Local Authorities like Nairobi, Mombasa, Kisumu etc.
7. National Environment Management Authority (NEMA)

Other agencies are involved depending on the line of business. Ken-Invest [www.investmentkenya.org] offers services to foreign investors that can hasten this process.

The biggest challenges and bottlenecks in doing business in Kenya and in many other African nations is bureaucracy. This can result from the many institutions involved, the licences that add to cost of doing business. Additional barriers to establishing a business include access to credit, limitations in roads, energy and other infrastructure and energy costs.

4.3- **Terrorism, Crime and Corruption**

4.3.1- **Terrorist Threats in Kenya**

The major terrorism threat in Kenya originates outside the country and is posed by extremists linked to Al Shabaab, a militant group in Somalia that is opposed to the Somali government. Al Shabaab has issued public threats against Kenya because of military intervention in Somalia. In response, Kenyan authorities have increased security to counter potential reprisal attacks.

The Westgate Shopping Mall attack in Nairobi in 2013 resulted in 67 deaths – including tourists – and more than 175 injuries. Since then there have been a spate of small-scale grenade, bombing and armed attacks targeting public places and public gatherings in Nairobi (especially the area of Eastleigh), Mombasa, and the North Eastern Province. On 2 April 2015 gunmen stormed Garissa University, killing 147 people.

Attacks seem to be indiscriminate, often to targeting government personnel and facilities. Somali government interests in Kenya have also been targeted. In addition to official buildings, areas frequented by foreigners are common targets – including hotels, bars, restaurants, nightclubs, sporting events, supermarkets, shopping centres, beaches, buses, trains and transportation hubs. Coastal areas have been the target of a large number of attacks. Places of worship including churches and mosques have also been targeted. While travel advisories have been issued to warn tourists of the terrorist risk, these deter foreign investment and limit tourism as a source of income for the country. Terrorism and corruption, like any security issue, raises the cost of doing business within that particular economy.

4.4- **Corruption as a Challenge**

Approximately 70% of firms interviewed for the World Bank Investment Climate Surveys see corruption as an obstacle to the growth and operation of their business (Hall Ward-Driemeeire). According to a study of Ugandan firms, corruption reduces the short-term growth of firms, since they have an effect much greater than that of taxation (Finsman and Svenssons 2002). In Uganda firms pay an estimated average of $8,300 a year in bribes, which represents roughly 8% of their total costs. In Algeria and Kenya 75% of the firms surveyed reported paying a bribe – with firms in Kenya reportedly paying the equivalent of 5% of sales in bribes (Reinikka and Svensson 1999; Svensson 2003).

Corruption is a threat to economic growth for all countries and has a disproportionate effect on small enterprises.

Corruption Perceptions Index 2014

Based on expert opinion from around the world, the Corruption Perceptions Index measures perceived levels of public sector corruption worldwide, and paints an alarming picture. Not one single country gets a perfect score and more than two-thirds score below 50, on a scale from 0 (highly corrupt) to 100 (very clean).

A country or territory's rank indicates its position relative to the other countries and territories in the index. This year's index includes 175 countries and territories. Most of the African countries are below the 50 Mark indicating that they are highly corrupt.

Djibouti	34
Ethiopia	33
Malawi	33
Côte d´Ivoire	32
Mali	32
Mozambique	31
Sierra Leone	31
Tanzania	31
Mauritania	30
Gambia	29
Togo	29
Madagascar	28
Cameroon	27
Nigeria	27
Comoros	26
Uganda	26
Guinea	25
Kenya	25
Central African Republic	24
Congo, Republic of	23
Chad	22
Congo, Democratic Republic of	22
Zimbabwe	21
Burundi	20
Angola	19
Guinea-Bissau	19
Eritrea	18
South Sudan	15
Somalia	8

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Corruption is a problem for all countries. A poor score signals widespread bribery, (lack of punishment for corruption and public institutions that don't respond to citizen needs). Countries at the top of the index also need to act. Leading financial centres in the EU and US need to join with fast-growing economies to stop the corrupt from getting away with it. The G20 needs to prove its global leadership role and prevent money laundering and stop secret companies from masking corruption. Jose Ugaz, Chair of Transparency International said countries with low rankings need to adopt radical anti-corruption measures in favour of their people, while countries towards the top of the index should take measures to ensure they do not export corrupt practices to under developed countries.

Bribes add substantial costs to doing business. Bribes required to speed up processes is equivalent to the imposition of a tax. Small enterprises are affected more by corruption than a large enterprises, which often have specialized departments to deal with aggressive bureaucrats and have individuals with special skills who are responsible for dealing with a large number of regulations. Large enterprises can also use their political power to influence people in public administration or pursue rent-seeking activities to obtain benefits not available to others (Tanzi 1998).

Overregulating is commonly cited as a major source of corruption, since convoluted and overregulated state procedures with long lag times provide government employees with opportunities to solicit bribe.

In Africa, poorly equipped schools, counterfeit medicine and elections decided by money are just but some of the consequences of public sector corruption. Bribes and backroom deals don't just steal resources from the most vulnerable – they undermine justice and economic development, and destroy public trust in government and leaders.

4.4.1- **Corruption in Ghana**

Ghana is an important regional financial center for both legitimate and illicit financial activity – including money laundering. Political stability in Ghana, relatively strong democratic consolidation, and rapid economic growth have reinforced the need for the country to develop a robust anti-money laundering and AML/CFT regime. [WHAT DOES THIS STAND FOR?]

Most of the money laundering in Ghana involves narcotics trafficking, various forms of fraud, and public corruption. Advance fee fraud, lottery, romance, and inheritance scams, e-fraud, credit cards and ATM account numbers, and check cloning are on the increase. Technological advancement has complicated regional AML/CFT efforts as computer systems have become the main conduit for financial crimes. In Ghana, internet fraud schemes known locally as *sakawa* continue to proliferate. Most fraudsters target unsuspecting foreigners.

Public corruption is a major source of laundered funds in Ghana, occurring mainly in relation to public procurement or the awarding of licenses. Criminals launder illicit proceeds through investments in banking, insurance, real estate, automotive and general trading businesses and, reportedly, donations to religious institutions.

Ghana	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	48
World Governance Indicator – Control of Corruption	56

Regulations governing domestic and offshore banks are similar in Ghana. Regulatory compliance is required in performing customer due diligence and can help identify activities that would need to be reported in suspicious transaction reports (STRs); however, monitoring and due diligence procedures are lax.

Attracting foreign direct investment continues to be an integral part of the Government of Ghana's policy and is crucial to maintaining Ghana's current economic trajectory. Foreign investment is particularly important given the recent macroeconomic imbalances – high fiscal and current account deficits -- and to overcome an infrastructure funding gap estimated to be at least $1.5 billion. The Mahama Administration recognizes that inward investment requires an enabling legal environment and is open to discussing issues that impede foreign investment. The Ghana Investment Promotion Center (GIPC) Act of 2013 (Act 865) governs investment in all sectors of the economy and outlines the government's investment framework, but the implementation of this legislation could increase the compliance burden on domestic and international investors.

Mobile telephone technology is one of the fastest growing industries in Ghana. A Mobile Money service is also a new and fast growing service provided by telecommunications companies. Currently there are six operational service providers, inckuding MTN (Scancom), Tigo (Millicom), Airtel (Bharti Airtel), Vodafone, Kasapa and Globacom providing services to over 30 million mobile phone subscribers. The introduction of third generation services has increased the range of services provided by telecommunication operators. 4G technology is now making inroads in Ghana through partnerships between local and internationak service providers. Surfline Communications of Ghana, launched the country's first 4G data network in partnership with French technology company, Alcatel-Lucent. Blu Telecommunications, a Ghanaian owned telecommunications company has also deployed 4G LTE network, partnering with Huawei Technologies. 4G LTE pre-paid data-only service is available in the capital of

Accra and the nearby port city of Tema, but companies hope to take this service nationwide within two years.

The expansion of telecommunications service and the growth of mobile money have raised concerns in the Financial Intelligence Centre (FIC) over money laundering. The use of mobile money platforms by criminals could increase if proactive measures are not implemented concurrently by all stakeholders to address the fraudulent use of mobile money and other advances in cell phone application.

"Currently, criminals operating on the Internet have resorted to the use of mobile money payments to perpetrate their illicit trade. Issues of identification of mobile money patrons — both physical and electronic identity will, thus, become a major challenge in combating money laundering if stakeholders do not marshal forces to adequately regulate this sector," the Chief Executive Officer of the FIC, Mr Samuel Thompson Essel, said. While the introduction of guidelines by the Bank of Ghana (BoG) will ensure greater regulation of the mobile money operations, he said, "I strongly recommend a more stringent regulatory and compliance regime specifically designed to address current and emerging issues pertaining to MM operations."

Mr. Thompson emphasised the need for clarity in law as to what constitutes the electronic identity of a mobile money patron and how regulators and other stakeholders can authenticate such identities.

Ghana's macroeconomic performance has been positive over the past few years despite a few recent challenges. Notable among these economic challenges are continuing shortfalls in tax and non-tax revenues, lower national output, high levels of public debt and the consequential depreciation of the Cedi, which is having adverse effects on economic activity, public expenditure and other macroeconomic variables.

Recent policies such as the removal of subsidies and widening of the tax net seek to increase government income and reduce the fiscal deficit in the medium to long term, whilst the initiation of the Ghana Gas Project in 2015, can potentially reduce pressure on the government finance and also reduce petroleum imports.

In addition, power supply deficits are expected to improve, oil production is set to increase and policy oversight from the IMF will underpin investor confidence moving forward. A combination of macro-economic policies aimed at realising stable inflation, encouraging tangible processes on fiscal consolidation and stabilizing the currency can ensure the country's growth prospects remain positive for the foreseeable future.

The domestic market in Ghana is relatively small, but it is growing. A regional market is provided by the 15 members of the Economic Community of West African States (ECOWAS), though integration of the individual countries is yet to be achieved. The free trade agreement among ECOWAS member countries creates an opportunity for an expanded market for players in the sub-region. ECOWAS recently urged its member states to work towards improving their economic growth in order to meet the 2020 target for the introduction of a single currency.

The government of Ghana, sponsored by the World Bank is also striving to make Ghana the gateway to West Africa by positioning the country as a hub for import, export, storage, assembly, distribution, and manufacturing, as well as transshipment of goods, services and passengers.

4.6- **Data Collection and Information Reliability in Uganda**

The Bank of Uganda ("BoU") *"Monthly Report on the Performance of the Economy, January 2015"* reveals, *inter alia*, that Uganda's:

- total export earnings dropped to US$2,659.59 in 2014 from US$2,828.71 in 2013 as a result of a fall in both coffee and non-coffee formal exports
- inflation rates (for the period between January 2014 and January 2015) was lower (at 1.3) than that of Uganda's neighbors Kenya and Tanzania
- total tax revenue collections in January 2015 amounted to UGX. 799.2 billion- the planned tax revenue having been set at UGX. 815.2
- non-tax revenue collections in January 2015 amounted to UGX. 14.1 billion whereas the planned non-tax revenue had been set at UGX. 18.2 billion.

From an African perspective, the mere fact that Uganda is recording such information is a plus for the country and by extension for Africa. Official data collection such as this helps inform investor decisions about Uganda and provides information on the economic potential that Uganda, as a regional food basket that is able to provide for its own domestic needs and supply food to other African countries.

The systematic recording of economic information is critical to the performance and delivery of a vibrant economy as it provides data for research comparing opportunities in different African economies. Collecting customer due diligence information can also contribute to planning, allocation and decision making. Such information should be holistic and robust enough to encompass the financial, real estate, non-financial services, oil and gas, information communication and technology, and manufacturing sectors – the economic fulcrum driving African economies.

5- Customer Due Diligence and Corporate Governance as a Means of Reducing Compliance Costs in Africa.

5.1 Customer Due Diligence

The key to a good customer due diligence revolves around these key pillars:

1. **Licensing** : Company registration, documentation, special permits , licensing requirements for business being engaged in
2. **Industry:** Size of industry, global impact, dynamics, players, regulators etc
3. **Political Affiliation:** Is the business a government agency, PEP's [WHAT IS THIS?] on management or board
4. **Shareholding:** Ownership structure, owners details, links to sanctioned countries and/or individuals

5.1.1- Customer Due Diligence Outside the African Context

Currently, certain institutions/infrastructure are in place to champion the CDD drive. Non-African CDD institutions/infrastructure have been established such as the European Committee of Experts on the Evaluation of Anti-Money Laundering and the Financing of Terrorism (Moneyval), the Asian Pacific Group on Anti-Money Laundering (APG), the Financial Action Task Force on Money Laundering, (CFATF), The Eurasian Group (EAG) that collectively make up the Non-African CDD Group. The Non-African CDD Group CDD standards require that certain CDD measures are in place, including:

- identifying the customer and verifying their identity using reliable, independent source documents, data or information
- identifying the beneficial owner, and taking reasonable measures to satisfactorily verify their identity (including, for legal persons and arrangements, taking reasonable measures to understand the action mandates, ownership and control structure)
- obtaining information on the purpose and intended nature of the business relationship
- conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that

relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds

Other key considerations of the Non-African CDD Group are that:

1. institutions should be wary not to tip-off customers about the CDD exercise and thereby jeopardise any on-going or future AML/TF investigations
2. once CDD has been performed on a customer it need not necessarily be considered for each and every transaction the customer undertakes
3. timing of the CDD exercise is fundamental in order not to interrupt business

5.1.2- **African CDD Institutions/Infrastructure**

The oldest and most notable initiative for combatting money laundering and addressing customer due diligence is the Eastern and Southern Africa Anti-Money Laundering Group (ESSAAMLG). In its *"Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism, October 2012"* ESSAAMLG observed that:

> the initial process of due diligence, even if applied in general by a majority of banking institutions, has two major shortcomings in terms of effectiveness: (1) the CDD process rests on documentation which is difficult to obtain for the majority of the population, therefore keeping it out of the formal sector, and (2) obligations related to the identification of beneficial ownership or of a trust constituted according to foreign law do not seem to be applied in practice. As regards the on-going process of due diligence (including simplified and enhanced due diligence), the assessment team is not satisfied that these obligations are being implemented either, as a majority of banks met during the on-site visit did not even seem to understand how to do it. In addition, with regard to the definition of those lower risk and higher-risk categories of customers, the assessment team is not satisfied that public entities and postal services should be considered low risk. With regard to the records to be kept by Financial Institutions, …. does not specify that those should be readily available to the relevant competent authorities. Overall, the assessment of the team is that many important obligations … are not being implemented or enforced, and the regime is currently not effective.

These concerns raised by ESSAAMLG apply to most African countries and African CDD initiatives because these countries and initiatives do not tailor CDD requirements borrowed from the developed world to the African environment.

This should be an area to which more effort, research and innovation is channeled to make CDD implementation in and for Africa a seamless exercise.

The example of Uganda, with some CDD institutions and data gathering processes in place is relevant because they will be employed for the benefit of governments, the business community and investors for research and investment purposes as a one-stop depository for such information. Uganda is aware that CDD helps businesses, governments and other stakeholders keep records pertaining to how their businesses and the economy as a whole are being run, achievements, challenges and areas under which improvement may be identified and implemented for purposes of helping better such businesses and economies as players in the global environment.

The question then arises: what (for example, in Uganda) can be done to improve CDD? Uganda has undertaken a number of initiatives related to CDD:

- Currently the financial services sector benefits from the Credit Reference Bureau (CRB) put in place to keep records of customer credit histories and to monitor potential AML/TF activities because terrorism and money laundering activities in and around Uganda have so negatively affected the economy, investor confidence and interest in the country and hence the government of Uganda. Financial institutions are required by local and international laws, regulations, and standards to establish the origin and purpose of funds being exchanged via the country's numerous financial institutions and money exchange platforms – including mobile money where all users of mobile phones have been required to register for ease of identification.

- In accordance with IMF recommendations, the Bank of Uganda keeps monthly, quarterly and annual economic records of the performance of all sectors of the economy. This acts as a useful resource that investors and business partners can utilize. Reviewing reports available on the Bank of Uganda website allows interested parties access to timely and salient economic information.

- Realizing the challenges faced by consumers in the financial sector and attempting to protect consumers from abuse that can result from CDD shortfalls, the bank of Uganda has put in place *Financial Consumer Protection Guidelines, 2011* and is currently formulating interest rate regulation in an initiative to stabilize money markets, which will greatly impact how business is conducted.

- According to the World Bank (2014) “time required to start a business” website, the time required to start a business varies throughout Africa (19 days in South Africa, 30 days in Kenya, 26 days in Tanzania, 31 days in Nigeria, and 32 days in Uganda). By comparison, it takes only 7 days to start a business in Rwanda. Calls for African countries to re-align their processes may reveal problem areas in each individual economy. Reducing the barriers for business startups can reduce costs, boost investor confidence and contribute to economic growth and development. Uganda’s government is aware of this and has set a target of reducing the startup time by the end of 2015.

- The Uganda Investment Authority encourages all Ugandan businesses to adopt a culture of data collection so that records are kept on how the business is run, revenue streams, etc.

- Initiatives implemented by the Credit Reference Bureau and Bank of Uganda are encouraging developments that the Government of Uganda are seeking to apply throughout all areas of the private sector.

The government and Bank of Uganda are cognizant that one of the biggest remaining challenges in facilitating domestic business activity and foreign investment is working with other African governments and central banks to establish vibrant and consistent African institutions that support, encourage and enhance customer due diligence with respect to African businesses because the current available data in other countries is (a) not up to date, (b) unreliable, and (c) not collected, collated, prepared nor stored by African institutions or persons but rather other non-African stakeholders whose motive cannot be genuinely established.

The ultimate goal for an African CDD repository is to reduce compliance costs, reduce the risk of doing business without essential African CDD data, boost the economic performance of African states to build investor confidence, and attract further investment in African economies, avail stakeholders an opportunity to readily access customer information at a time of their convenience and benefit.

The businesses resulting from stronger institutions would contribute to gradually growing a self-sufficient African middle-class that can provide the costs of feeding, eating, education and medication without reliance on the government, minimal imports to Africa from Europe, USA, etc; and little reliance on foreign institutions like the World Bank and IMF. If Africa sets its own CDD terms and conditions, it will no longer be subject to requirements of USA, European Union, IMF, WB, China, etc.; and this will ensure a stronger African economy that primarily serves the goals and interests of Africans.

Inasmuch as governments, national regulators and the compliance stakeholders in African countries have now began to appreciate (and are discussing the need to set in motion) a collaborative African CDD initiative, a number of common challenges must be overcome:

a) *CDD information gathering templates* to date have been set by developed, non-African countries and compliance with these standards in African countries is burdensome, resource intensive and time consuming.

b) *Problems with rating agencies* like Standard and Poors, and Fitch. African countries should move from reliance on rating agencies for purposes of securing debt financing for their budgetary needs, since these agencies do not account for the specifics of the African context. African countries should also discourage the use of such rating agencies within their borders for local businesses that seek financing for their projects.

c) *Existing CDD institutions are typically based in non-African states.* Data collected by outside agencies and the cogency of such data cannot be fully relied upon by African countries and interested investors (as such information is persuasive but not binding, and not free from error). African-based/oriented CDD institutions are essential in developing a system that responds to African needs and can champion the African cause.

d) *Fear of the misuse of CDD data*. There are fears that a centralized African CDD will work against individual business entities and economies by, for example, providing sensitive business information to competing firms, other regional/continental players, etc.;

e) African countries are grappling with debt financing (which is tainted with corruption) and hence some countries view CDD initiatives as expensive, unnecessary ventures aimed at promoting the interests of other players other than the African populace. Such countries should be encouraged to have a long term, rather than a short term, view of the benefits of an African CDD infrastructure;

f) *Increasing compliance costs* until an African-based CDD criteria is put in place. Without a standardized regional system, existing CDD modes will increase compliance costs as Africa is expected to meet both American and European, rather than African standards e.g., especially cumbersome Know-Your-Customer requirements which are meant for mature, developed economies. Implementing systems from more developed companies impose undue burdens on entities that have not developed the required information management capabilities.

g) *Lack of technical capacity and* training of record clerks to participate in CDD scope of work from the grassroots to the greater African platform remains a challenge. This is coupled with the need to employ better technology/software over and above much of the obsolete technology/software that African countries rely on. African countries should therefore work to identify and implement cross-border technologies that support domestic data collection and international trade seamlessly.

h) *Self-interest*. Nationalist interests exist within each African country that seek to protect the economy and business fraternity from competition in the event that a uniform approach to business and collecting CDD information is adopted (especially for countries that are less technically ready to work in or belong to current African regional/continental blocs like the East African Community, Economic Community of West African States, Southern African Development Community.

i) *The negative legacy of financial aid and the neo-colonialism*. Many African states and their citizenry still hold to the notion of western superiority. Evidence of western tastes in education, art, sports, food and clothing can be found in many African countries. While such preferences are relatively innocuous at the individual level, an uncritical adoption of western institutions will not serve Africa in the long run, as outlined above. The thought process must be challenged and changed so that Africans appreciate the potential Africa has to be competitive in the global market place on its own terms.

j) *Incentivizing crime* by celebrating, and encouraging the culture wherein African officials and elected representatives plunder their own resources and invest the funds outside of Africa. Such a culture cannot benefit Africa and therefore must be overcome.

k) *Political and economic instability* remain challenges for many African countries. These perennial problems have plagued the continent for years. It is not sustainable to retain a vicious cycle of wallowing in war and confusion while many citizens are retained in abject poverty and the rest of the world is bettering their systems, economies and sharpening their competitiveness to benefit more from international trade.

l) *Brain-drain* remains a concern within Africa. This loss of expertise constitutes a loss of investment. African nations need strategies to meet the needs of educated Africans to keep them productively engaged in the continent.

m) *The need for strong institutions* is a prerequisite for common standards and greater regional integration. Improved institutional strength would provide national, regional and international benefits as strong continental currencies would be a result.

5.2 CORPORATE GOVERNANCE AND ITS ROLE IN IMPROVING AFRICA'S CORPORATE ENTITIES, FINANCIAL INSTITUTIONS AND DEVELOPMENT OF THE CONTINENT

Corporate governance can be defined as the mechanisms, processes and relations by which corporate entities are controlled and directed.

Whilst corporate governance ensures that companies are able to meet their relevant corporate targets, the ability to meet the stringent standards being set by the international community revolves largely around the business and governance framework set by industry regulators and the business norms of the respective countries.

In Africa, the challenge in creating a corporate governance structure for companies and financial institutions falls to the regulators of the respective industries. Regulators are generally responsible for setting standards in collaboration with industry leaders, paying attention to international standards.

The regulators retain the ability to impose fines and revoke operating licences in order to ensure full compliance to the set standards.

The development of regulatory standards is slow in most countries. In Ghana for example, a significant source of concern stems from data collection and data quality. Data collection and quality lag considerably behind western nations, with most industry regulators not able to provide a timely and up to date database of information to allow comparison and accurate measurement of compliance. Another challenge rests with industry experts, government officials and regulators and their lack of specific training and experience to regulate and govern the industry operations.

Africa's corporate entities, financial institutions and the development of the continent stand to benefit from the results of strong corporate governance infrastructure, norms and practices. The flow on effects of corporate governance include:

1. Greater accountability of corporate boards and corporate entities, shareholders, employees and the business itself to the regulators, government and other stakeholders.
2. The culture of doing business in an ethical manner will be enhanced and institutionalized. This will be a big win for Africa.
3. Easy determination, and honoring, of tax obligations by corporate entities for the benefit of the economyand populace.
4. Easy access to business-related information for research and development through CDD.
5. Confidence in the continent by investors and external business partners who will be able to develop opportunities in African countries based on reliable, up-to-date information.
6. A reduction in business risk and the cost of doing business in Africa.
7. Less plundering of Africa's resources by 'kangaroo businessmen.'
8. Corporate entities, regulators and governments will be able to concentrate on better developing quality of goods and services as opposed to being persistently trapped in a web of corruption, AML/TF investigations, processes and procedures.
9. The promulgation of a strong ethical culture that bridges the public sector, private sector and the general African citizenry.
10. Decision making will transparent and loyalty and commitment from employees, shareholders, governments, regulators and citizenry will increase.

11. Unethical business practices will decrease, as unethical businesses will not remain competitive.
12. African employees and all stakeholders shall be guaranteed fair treatment and equal opportunity in global business environment.
13. African countries will be able to better finance education, health and infrastructure necessary to boost economic development.

The development of a strong corporate governance model, culture and practice to develop depends on a fundamental shift in the way Africa's leaders, institutions and corporate companies think, plan and execute their mandates. Otherwise, governance initiatives and perhaps entire economies are doomed to fail. Changing the corporate culture to inculcate strong governance requires corporate entities, regulators, governments and governmental agencies to actively and mutually:

a. a commitment to compliance with (or amending) applicable local laws to improve disclosure of interest obligations of public sector and private sector human resources, managers, board of directors, customers/clients by seeking to attach close friends, acquaintances and confidants with whom they deal with on a daily/frequent basis;

b. establishing independent compliance and internal audit functions as part of a good and respected corporate governance model;

c. engaging each other more often so as to be able to anticipate and influence/lobby against (or for modification of proposed) new legislation before the same are put in place;

d. continuously championing, encouraging and rewarding ethical conduct so as to motivate and engrave a responsible culture for the individuals', company's, economy's and public's interest;

e. engaging each other to put in place a sound corporate social responsibility function that ensures buy-in from such communities and guarantees their faith and trust in the business, government and the economy;

f. adopt a know-your-employee (KYE) approach to compliance and conduct legal criminal background checks and drug tests before and during their employment life. For such checks/tests, a criminal record or drug addiction is the best behavioral red flag that must be taken into account in screening individuals more susceptible/likely to commit fraudulent, negligent acts to the detriment of the business and national economies; and,

g. developing better reading and training culture for both the learned and unlearned population/human resources with a view to empowering such target groups with relevant/tailored information and skills that will help them perform at their respective jobs and make sound decisions for the individual benefit, as well as that of their businesses and country's economies.

5.3 The EU view on CDD directives

Customer due diligence (CDD) is required by the 2007 international Money Laundering Regulations. Within this context CDD is geared towards identifying suspicious transactions. Knowing your customer allows institutions to better serve them and pin point irregularities in their requests. Stakeholders in the African financial services sector have established an African customer due diligence repository to assist in reducing costs incurred by financial institutions in meeting compliance requirements on African transactions.

The EU Third Anti-Money Laundering (AML) Directive states that CDD shall include procedures for:

1. Identifying the customer on the basis of documents, data or information obtained from a reliable and independent source;
2. Identifying, where applicable, the beneficial owner and taking risk-based and adequate measures to understand the ownership and control structure of the customer;
3. Obtaining information on the purpose and intended nature of the business relationship;
4. Conducting ongoing monitoring of the business relationship including ensuring that the transactions being conducted are consistent with the knowledge of the customer, the business and risk profile, including, where necessary, the source of funds and ensuring that documents, data or information held are kept up-to-date.

With CDD becoming a necessary part of business, corporations and governments can take a risk-based approach to determine the extent and quality of information required and the steps to be taken to meet the requirements.

Western models of CDD require reliance on Institutions that are either under-developed or conspicuously absent in most of African economies. These institutions verify and authenticate information. In the absence of such institutions, a centralized system would be an important intermediate stage in establishing a repository. In Kenya for instance, the Credit Reference Bureau (CRB) determines and reports creditworthiness. This system, which relies heavily on data provided by commercial banks, has proven to be effective since the CRB operates within an established legal framework.

In the absence of a centralized CDD system, individuals, firms and other stakeholders must rely on established mechanisms that may, or may not, report data on a regular basis. These mechanisms include:

- a credit or financial institution
- auditor, or EEA equivalent
- insolvency practitioner, or EEA equivalent
- external accountant
- tax adviser
- independent legal professional

Professional associations are another potential source of information if the sector or industry is subject to mandatory professional registration under the law.

5.1 Passporting Clients Between Jurisdictions as a Possible Solution

Many firms have branches or affiliated offices ('international offices') in other jurisdictions and will have clients who utilise the services of a number of offices in different national locations. It is not necessary for a client to provide original identification material to each different national office they deal with.

Some firms may have a central international database of CDD material on clients to which they can refer. Where this is the case, corporate CDD material and procedures should be in accordance with the EU's Third AML Directive. Additional information, if required, should be added to the central database. Alternatively, initial CDD approval controls put in place could be sufficiently stringent to ensure that a client is compliant over the full range of activities.

Some firms may wish to rely on their international offices to provide a letter of confirmation that CDD requirements have been undertaken with respect to the specific client. Such information can only be relied upon under the terms of Regulation 17 [WHAT ARE THESE?] and the CDD is completed in accordance with that regulation.

Finally, firms without a central database may wish to undertake country-level CDD measures with respect to the client, but ask their international office to supply copies of the verification material, rather than approaching the client directly themselves. Such an approach does not create reliance, but outsourcing instead.

It is important to remember that because of the range of services most international firms offer, a client at one office who is not a Politically Exposed Persons (PEP) in that country, may be a PEP when utilizing different services at different location. As such, each national office need a process to check whether a client passported into your office is a PEP and, if so, undertake appropriate enhanced CDD measures.

5.2 Natural Persons Requirements

A natural person's identity can be determined a number of ways including: name, current and past addresses, date of birth, place of birth, physical appearance, employment and financial history, and family circumstances. Evidence of identity can include identity documents such as passports and photo-card driving licences, or other forms of confirmation, including assurances from persons within the regulated sector or those in your firm who have dealt with the person for some time.

In most cases face-to-face verification of producing a valid passport or photo-baring identification should enable most clients to meet AML/CTF identification requirements. It is considered good practice to require either a government document that verifies the client name and address, or name and date of birth, or a government document that verifies the client's full name and another supporting document which verifies their name and either their address, or date of birth.

5.3 Cost of registering a Business in Africa as a challenge

Starting a business

Region or economy	Procedures (number)	Duration (days)	Cost (% of GN per capita)
East Asia and Pacific	8	52	48.3
Europe and Central Asia	9	42	15.5
Latin America and Caribbean	11	70	60.4
Middle East and North Africa	10	39	51.2
High-income OECD	6	25	8.0
South Asia	9	46	45.4
Sub-Saharan Africa	11	63	225.2

Source: *World Bank 2004a.*

Lengthy registration and licensing procedures obstruct business

In most African countries registration and licencing are serious obstacles to establishing a business. Seven African nations are among the ten nations with the greatest barriers to registering a business. Business registration costs in Africa far exceed those in all other regions – with the number of registration procedures and registration times among the highest in the world. Angola, Chad, the Democratic Republic of Congo, Togo and Guinea are the world's most difficult nations in which to formalize a business.

Within the African region there are also positive examples of nations meeting world benchmarks in their business environment – Morocco, Ethiopia, Zambia and Tunisia outperform a number of nations within the dynamic Asian and Latin American region. For example in India, the registration process takes 89 days and costs the equivalent of $265US; and in Vietnam start time for a business is 56 days, which is close to the African average of 59 days. Morocco performs best on this indicator in Africa, requiring a mere five procedures to register a business, which on average takes 11 days and costs of $195US. In Tunisia the process involves 9 procedures that take 14 days and cost $277.24US on average.

In absolute terms business registration costs in all African countries are higher than in countries with similar GDP per capita. In Denmark a business can be registered with no fees and in New Zealand, the world's second most efficient system, the cost is only $39. In Africa, the Average cost of registering a business is $785US, with Ethiopia the lowest at $74US and Angola Highest at $6,621US (World Bank 2004a)

The nature of procedures in Chad, the country with the greatest number of required procedures in Africa, differs greatly from that of Morocco, the country with the lowest number. Business registration costs in Chad exceed those of Morocco by more than four times, not accounting for opportunity costs.

5.4 Simplifying Business Registration recommendation.

Worldwide differences in registration procedures show that business registration need not entail high costs and/or long durations. Ethiopia shows what can be done with simple measures. In 2003, the cost of registering a business was reduced by 80% by abolishing the requirement to publish notices in two newspapers. The process of publication in a journal or newspaper takes 90 days in Angola. In Egypt publication costs account for 52% of the registration costs. The countries with the easiest registration procedures – such as Morocco, Ethiopia, Zambia and South Africa – require no published notice (World Bank 2004a).

The Most efficient way to reduce the number of registration procedures is to create single-access points. Using an existing agency to be the single point for assembling representatives from various other agencies involved in business registration has proven effective – for example the system in Kenya since 2003. Front-line officials in such agencies should speak the first language of the people they serve, removing a constraint for many informal businesses needing to deal with the bureaucracy. Morocco has a one-stop shop, reducing the number of registration procedures to five. Reform efforts in Mozambique include the introduction of a one-stop business registration agency.

5.5 Standardization of CDD Processes recommendation

There is increasing pressure to adopt principle-based, risk-based approaches to AML and CFT and to move away from checklist approaches. Institutions must assess specific customer risk as well as risk by customer type, business relationships, structured products, and services.

6. Concluding Recommendations

This paper not provided a general overview of CDD and CG in Africa, but it also raises issues that can be utilized to create comparative advantage – as shown by the case studies and examples. Within Africa some countries have been able to adapt a well-tested foreign policy approaches to create fluid and compliance business processes. Others have adjusted international policies to the domestic environment to streamline procedures and enhance efficiency.

We recommend dialogue between nations and international and domestic stakeholders to identify best practices and leverage lessons learned, so that proven processes and innovations that take the specific conditions of the African environment into account in creating advantage can be generalized at the continental level, building on enhancing the strength of critical areas such as CDD and CG. Working collaboratively, Africa should first insist on strengthening each individual economy in terms of institutional framework and corporate governance structures. This will pave the way towards establishing a legal framework for the continent into which the different national systems will report. Efforts towards having a standard currency is a welcome idea. This can be seen as strengthening of African currencies. Africa can benefit from a common market and the development of regional trade preference to ensure that it competes in the global market as a block.

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