CORRUPTION, CORPORATE GOVERNANCE AND ECONOMIC DEVELOPMENT: THE CASE OF AFRICA

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ABSTRACT

Corruption is a complex social, political and economic phenomenon that affects all countries. Corruption undermines democratic institutions, slows economic development and contributes to the governmental instability. Economic development is stunted because foreign direct investment is discouraged and small businesses within the country often find it impossible to overcome the "start-up costs" required because of corruption. Corporate governance can well become a critical ingredient to break a vicious cycle of bribery and corruption. In this paper, the authors argue that the rules of corporate governance, such as accountability, transparency, and fairness have a major impact on controlling and reducing corruption in Africa.

Introduction

Khan (1996) defines corruption as an act which deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private – regarding - motive such as wealth, power or status.

Corruption in Africa is a development and social issue which becomes an impediment to change and a serious constraint on economic growth and poverty reduction. Corruption in African countries has become endemic, as such it is found almost in all aspects of life. Where corrupt practices have become entrenched, large scale corruption by which government officials amass large fortunes co-exist with petty corruption by which officials at almost every level request payment to perform tasks or provide services which they should be doing as part of their job. Over-time, the public sector becomes dysfunctional, the legal system proves ineffectual and the institutions of government lose legitimacy. Such degraded situations cause growing percentage of economic and administrative activity to become informal, thereby future widening the gap between the government and the people.

According to Global Financial Integrity (GFI) a US based anti-corruption organization, the continent of Africa has lost more than $854 billion dollars in illicit financial outflows between 1970 and 2008.

The Illicit flow of such huge amount of money is not the work of African leaders and their associates alone but also that of multinational corporations from the US, Europe, and Asia. For example, the multinational corporations understate their profits and falsify profit documents through their transfer pricing systems [1].

Most of the development programs hinge on the integrity of the emerging political and administrative systems. There is a widespread perception of corruption on the part of prospective investors from within and outside the African countries. Many of the fragile democracies in the continent exhibit governments that are seldom accountable to their citizens beyond elections. In such countries, day-to-day decision making processes remain opaque, unpredictable, and impenetrable for outsiders, while economic systems are being tailored to benefit the insiders.

From the above description, it is clear that there is a linkage between corruption and development. It is clear that the current systems lack the capacity to manage the resources effectively and efficiently to inspire the quality of life of the African people because corruption has become significantly a main threat to good governance and expected development.

Development Challenges Facing Africa

All over the world, countries are struggling to expand their economies and improve living standards. This struggle is particularly poignant in Africa, which has, for a long time, been mired in declining economic performance, rising unemployment, deteriorating national infrastructure, inequality, corruption and increasing poverty.

Persistent internal conflicts and strife have forced the poorest region in the world to divert such proportions of its resources to implement the necessary activities that are required to assist the protracted decline and stagnation in the region.

Another problem facing Africa is the lack of political commitment and crisis of legitimacy largely due to the concentration of political and economic forces as well as wealth in the hands of a small, privileged and entrenched political and economic elite. This scenario has bred mistrust and suspicion amongst the populace. The result is that people are unwilling to pool their resources together to build viable enterprises thereby constraining growth and expansion.

Corporate Governance

Corporate governance is a viable solution to many of the above mentioned problems. Traditionally, it has been viewed as the domain of large companies in developing economies – something of interest to investors and CEO's. However, as experiences of the past several decades show, corporate governance is much more than that. It helps to clean up the governance environment, exposing insider relationships and injecting values of transparency and accountability in both private and public transactions.

The analysis of the linkage between corporate governance and corruption suggests that the improvement in corporate governance may be a catalyst to break the vicious cycle of bribery and corruption. Lack of sound corporate governance has fueled corruption while suppressing sound and sustainable economic decisions. At the country level, improvement in corporate governance may help a country with a high level of corruption to partially offset the negative impacts of the perception of corruption on the flow of capital (both financial and human).

Corporate Governance as a Development Tool

The conventional view of corporate governance has much to do with separation of ownership and control – issues that arise between owners and managers of corporations. As managers and owners may have different interests, owners need guarantees that managers act in the interest of the company (or its owners) rather than in their own interest. Corporate governance establishes the mechanisms necessary to ensure proper actions on behalf of the managers of a corporation.

Weak corporate governance has been linked to the inability of countries to attract investment, financial collapses, persistent corruption, failures of privatization, weak property rights, and many other development challenges countries around the world face.

Africa is characterized by a myriad of corporations but very few listed companies. The vast majority comprises family or small private companies, state-owned corporations, co-operatives and co-operative societies as well as other community-based organizations, not to mention the many informed sector undertakings. Regulatory and supervisory systems are generally weak. History and politics combined to create a privileged few that resist efforts to promote governance.

Corporate Governance as an Anti-corruption Tool

Linkage between high corruption levels and bad governance, as well as high poverty, higher inequality and poor public services are rarely questioned. From a political perspective corruption destabilizes political institutions and leads citizens to question the legitimacy of democratic institutions marred by bribery and extortion.

The reforms to do this can come from many different directions. On the government side there can be checks and balances systems, reform procurement codes, the implementation of independent audits, legal reform, the simplification of tax codes and concentrating on enforcement of existing rules and regulations. Yet, there are reforms that should be implemented by the private sector, one such reform is corporate governance. Effective corporate governance means that transparency values are present, investors receive timely and relevant information, decision making is not behind closed doors, decision makers are held accountable for their actions and managers act in the interest of a company, not their personal interests.

Conclusion

The broader view of corporate governance as a set of mechanism that deals with institutional reform and not just company level changes suggests that it is one of the integral components of successful development strategies. Corporate governance is fundamentally central to building competitive economies, reducing the private sector side of corruption, promoting property rights and creating jobs and wealth – all of which are components of successful poverty alleviation efforts.

While the institutional community has many different corporate governance systems ready for implementation, reforms must avoid the temptation of copying successful initiative from other countries. Successful institutional reforms require building local capacity and commitment to reform efforts, not transferring system from other places.

The importance of ownership of the standards of governance which must be seen as African standards developed, formulated, and ratified by Africans for the well being of Africa and not imposed upon Africa from elsewhere. Corporate governance structures should be adapted to the unique characteristics of each country.

Africa must see corporate governance as vital to its economic and social development so as not to be left behind in today's increasingly global markets.

Notes

[1] Otite, Onigu, 2000 "Corruption against the Norms of African life" in O. Femi (ed). "Effective and efficient implementation of Nigeria's recent Anti-corruption legislation".

[2] Scott, J. 1972. Comparative Political Corruption, Prentice Hall, Englewood Cliffs, N.J.