Ethics and Compliance Risk Survey 2014

Ethical and compliance risks faced by South African companies with operations in the Southern African Development Community

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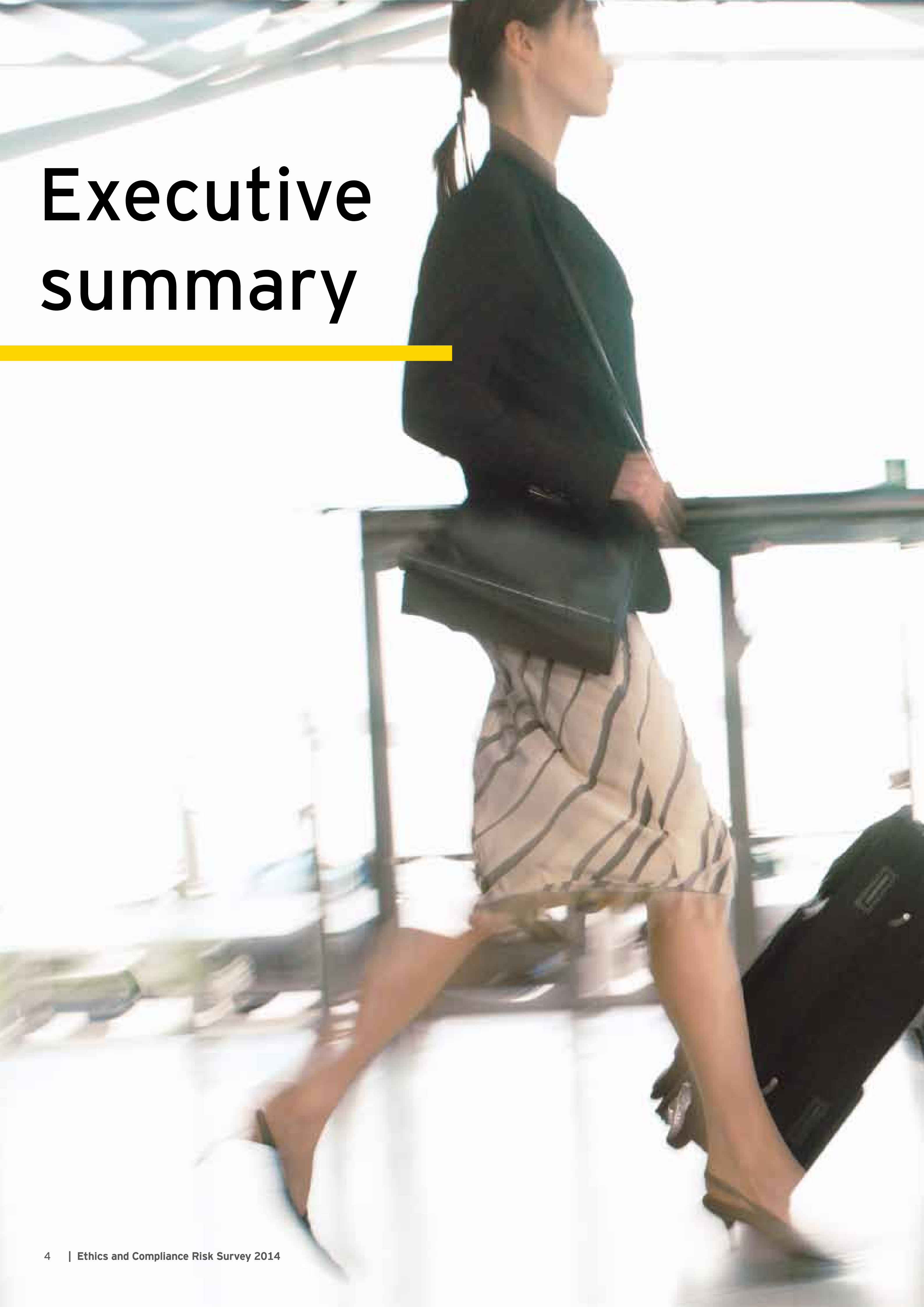


Africa has begun to be seen as a favourable investment and trade destination thanks to its abundant natural resources, its large and youthful population and its improving economic and political landscape.

However, many obstacles to Africa's rise remain, and corruption must be reckoned as one of the major ones.

This research survey looks at the Southern African Development Community (SADC) through the lens of South African companies who do business across the region. South Africa was chosen as it remains one of the primary investors in SADC outside of the oil and gas industries.

Key findings from the Ethics and Compliance Risk Survey 2014 are:

- **Ethical business environment.** Mauritius is the only SADC country to be perceived as having a very or somewhat ethical business environment. The DRC, Angola, Zimbabwe and Mozambique are perceived to be the most corrupt, with both DRC and Angola receiving no positive mentions for an ethical business environment.
- **Regulatory environment.** Botswana, Namibia and Mauritius are considered to have the most effective regulatory environments, with Angola, DRC and Zimbabwe offering the worst.
- **Law enforcement**. Lesotho, Botswana and Mauritius perform best in this area, with DRC, Angola and Zimbabwe the worst.
- **Banking system's compliance with anti-money laundering regulations.** South Africa, Namibia and Mauritius scored highest with Angola, Zimbabwe and the DRC in at the opposite end of the scale.
- **Mauritius,** although considered to be one of the continent's success stories, continues to face challenges with regards to specific forms of corruption: the use of shell companies to hide company ownership, excessive entertainment and gift-giving, and money laundering.
- **Namibia** has been politically stable since independence and is considered to have an attractive business climate. However, corruption remains a hindrance to doing business, exacerbated by a weak and under-resourced judiciary.

‣ **Botswana** is perceived as one of the least corrupt countries in Africa but it, too, is perceived to have specific corruption challenges: non-conformance to contract specifications, bribery of public officials in the tender process, deceptive sales or advertising practices and insider trading.

‣ **Zimbabwe's** chronic economic woes are beginning to abate, but corruption is now perceived to be endemic. It consistently ranked among the bottom three in all the survey questions.

‣ **South Africa** is the engine of economic growth within SADC and its largest economy. While business is generally easier and cheaper to do than in the rest of the region, bribery and corruption are perceived to be especially prevalent in the granting of government contracts and procurement tenders.

An overwhelming conclusion of the survey is that there is a close relationship between corruption and conflict, and that efforts to improve governance can help build stable political entities.

Another important conclusion is that the concept of corruption is too broad to be useful when it comes to remediation: specific programmes to remedy specific forms of corruption are likely to be more effective.

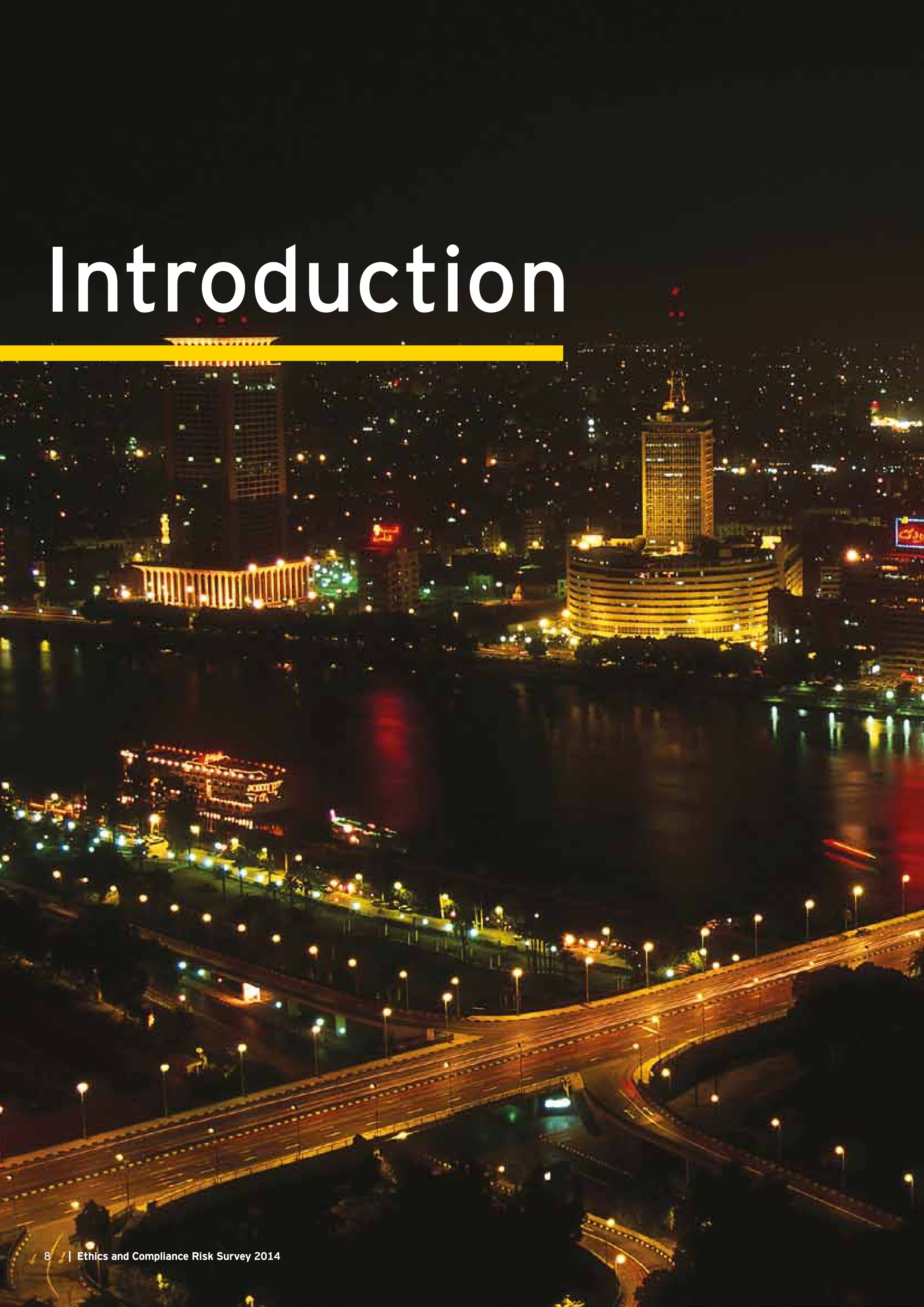
The researchers make the following general recommendations:

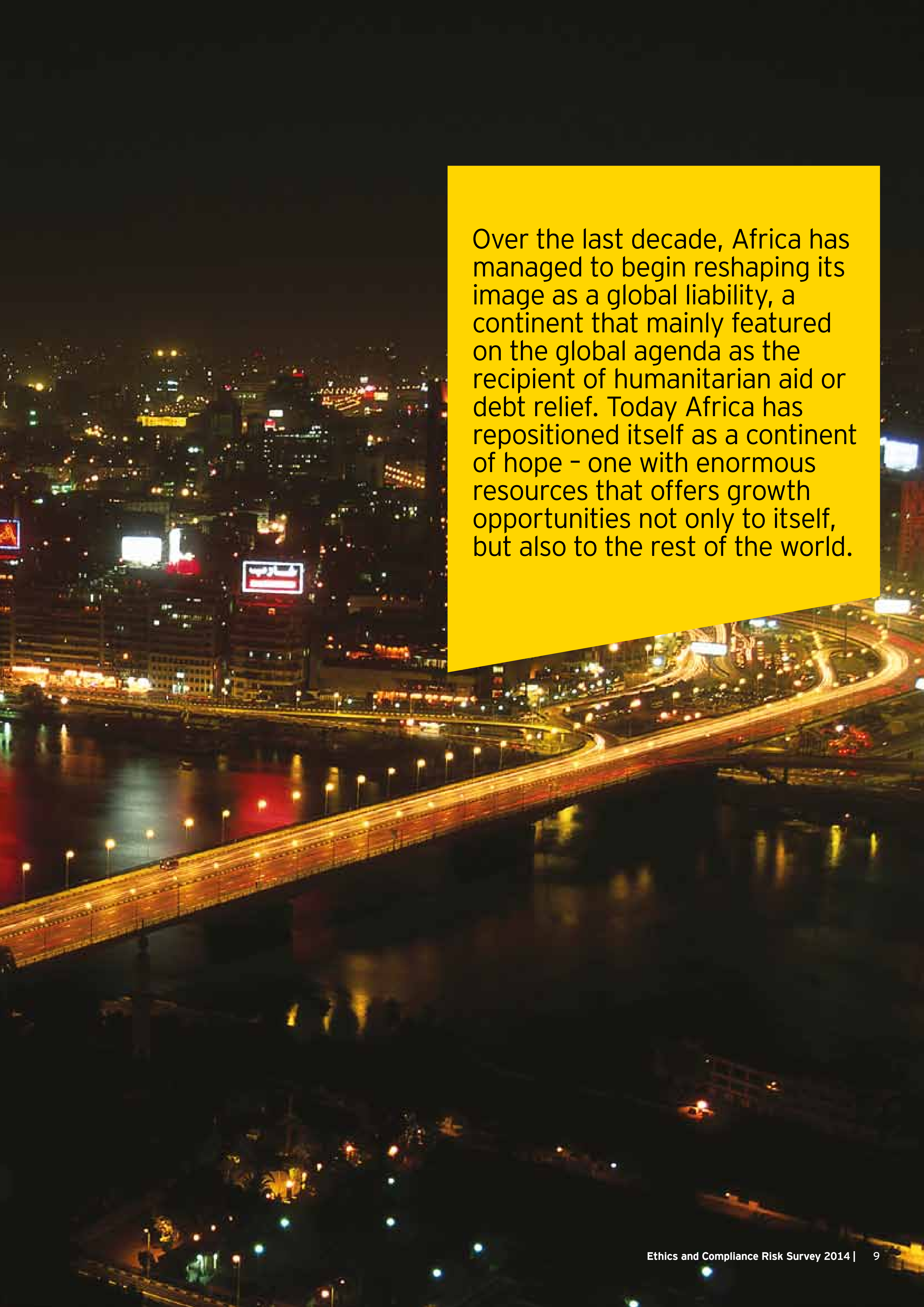
‣ Additional care should be taken when doing business or considering investments in countries that are consistently perceived to be corrupt.

‣ Special interventions (for example, awareness campaigns, training or policy development) are encouraged to deal with tender bribery and political interference in the public procurement process.

‣ Companies should develop a more nuanced understanding of corruption, one that acknowledges the link between corruption and conflict, how the ability of improvements in governance can ameliorate the situation over time.

Introduction





Over the last decade, Africa has managed to begin reshaping its image as a global liability, a continent that mainly featured on the global agenda as the recipient of humanitarian aid or debt relief. Today Africa has repositioned itself as a continent of hope – one with enormous resources that offers growth opportunities not only to itself, but also to the rest of the world.

Africa is the continent with the most youthful population – 65% of its more than 1 billion people are under the age of 35. Currently, 40 African countries are involved in either the exploration or production of minerals, oil and gas, and Africa is home to seven of the 10 fastest-growing economies in the world. [1]

Despite these advantages, the legacy of underdevelopment remains an obstacle to realising Africa's potential. 70% of the working-age population is unemployed. Only 25% of Africans have access to electricity.

Corruption must be singled out as one of the most significant hurdles to Africa's development, and a major cause of its underdevelopment. Concerns about corruption and unethical behaviour continue to discourage foreign investment in African countries, and corruption denies ordinary Africans the means to advance because it diverts state and donor funds. A disproportionately high percentage of corrupt countries on the Transparency International Corruption Perceptions Index come from Africa – of the most corrupt quartile, roughly half are African.

The Mo Ibrahim Index on African Governance and the Transparency International Corruption Perceptions Index provide reliable information on governance and ethical standards on the African continent. The table below summarises the average performance of the Southern African Development Community (SADC) over a 13-year period, which indicates a slight improvement over time:

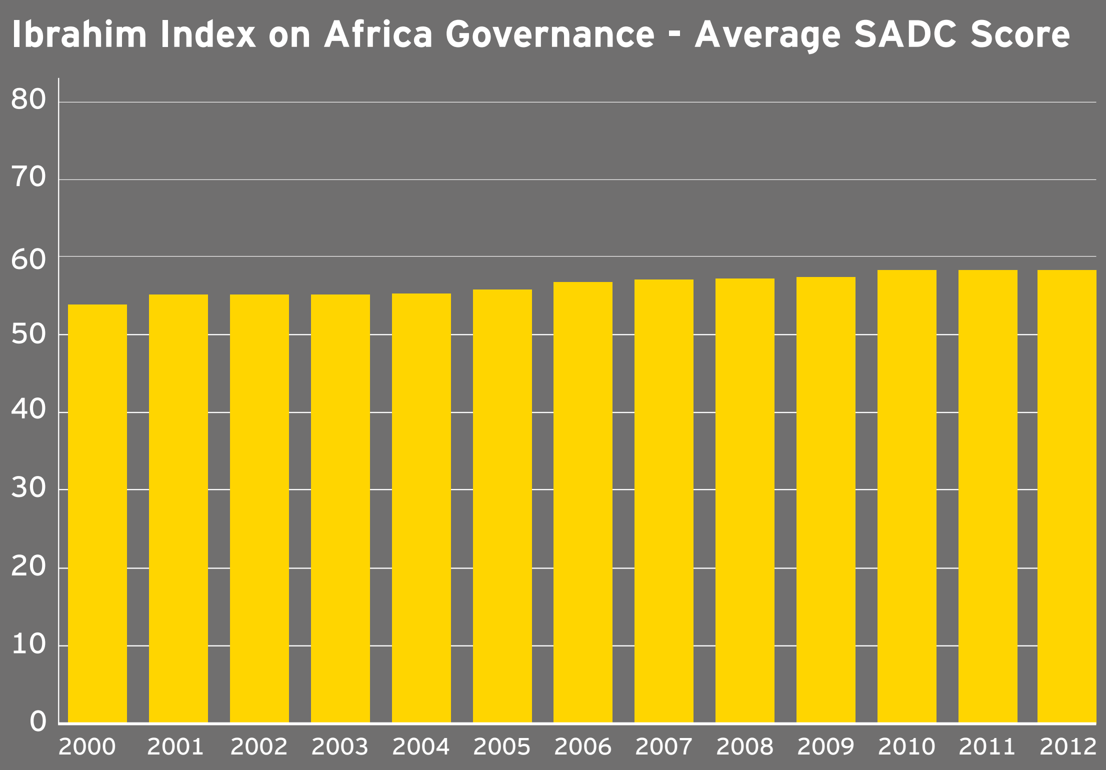


Figure 1: Average of SADC Countries from 2000 to 2012 (Score 0 =100, 100 = best)

1 http://www.weforum.org/content/global-agenda-council-africa-2012-2013, accessed 9 May 2013.

The table below presents the overall and category scores for all SADC countries for 2012:

	OVERALL SCORE	SAFETY & RULE OF LAW	PARTICIPATION & HUMAN RIGHTS	SUSTAINABLE ECONOMIC OPPORTUNITY	HUMAN DEVELOPMENT
SADC (average)	58,3	60,8	56,8	52,3	63,2
Angola	44,5	45,6	42,8	41,0	48,5
Botswana	77,6	88,9	72,9	67,5	81,3
DRC	31,3	24,5	32,3	28,3	40,2
Lesotho	61,9	67,8	69,1	52,3	58,4
Madagascar	45,7	43,9	42,8	46,3	50,0
Malawi	56,9	63,8	61,3	46,4	56,2
Mauritius	82,9	86,8	76,7	79,7	88,5
Mozambique	54,8	57,8	60,3	50,6	50,5
Namibia	69,5	76,3	70,8	63,6	67,5
Seychelles	75,0	73,2	67,6	67,2	92,2
South Africa	71,3	69,8	73,1	65,1	77,4
Swaziland	50,8	59,5	30,1	49,3	64,3
Tanzania	56,9	58,4	61,3	49,7	58,2
Zambia	59,6	66,0	60,1	52,7	59,6
Zimbabwe	35,4	29,7	31,2	25,5	55,1

Table 1: Mo Ibrahim Index on African Governance 2012

The table below summarises the performance of SADC countries in the 2013 Corruption Perceptions Index of Transparency International:

Country Rank	Regional Rank	Country / Territory	CPI 2013 Score	Surveys used	Standard error
30	1	Botswana	64	7	1.6
47	3	Seychelles	54	4	8.2
52	5	Mauritius	52	5	1.1
55	6	Lesotho	49	5	3.6
57	7	Namibia	48	6	3.4
72	9	South Africa	42	9	2.8
82	12	Swaziland	39	4	1.8
83	13	Zambia	38	8	2.1
91	16	Malawi	37	8	1.7
111	21	Tanzania	33	8	2.7
119	23	Mozambique	30	7	2
127	27	Madagascar	28	8	1.9
153	38	Angola	23	7	2.8
154	39	DRC	22	5	4.2
157	41	Zimbabwe	21	8	4.3

Table 2: Transparency International Corruption Perceptions Index 2013

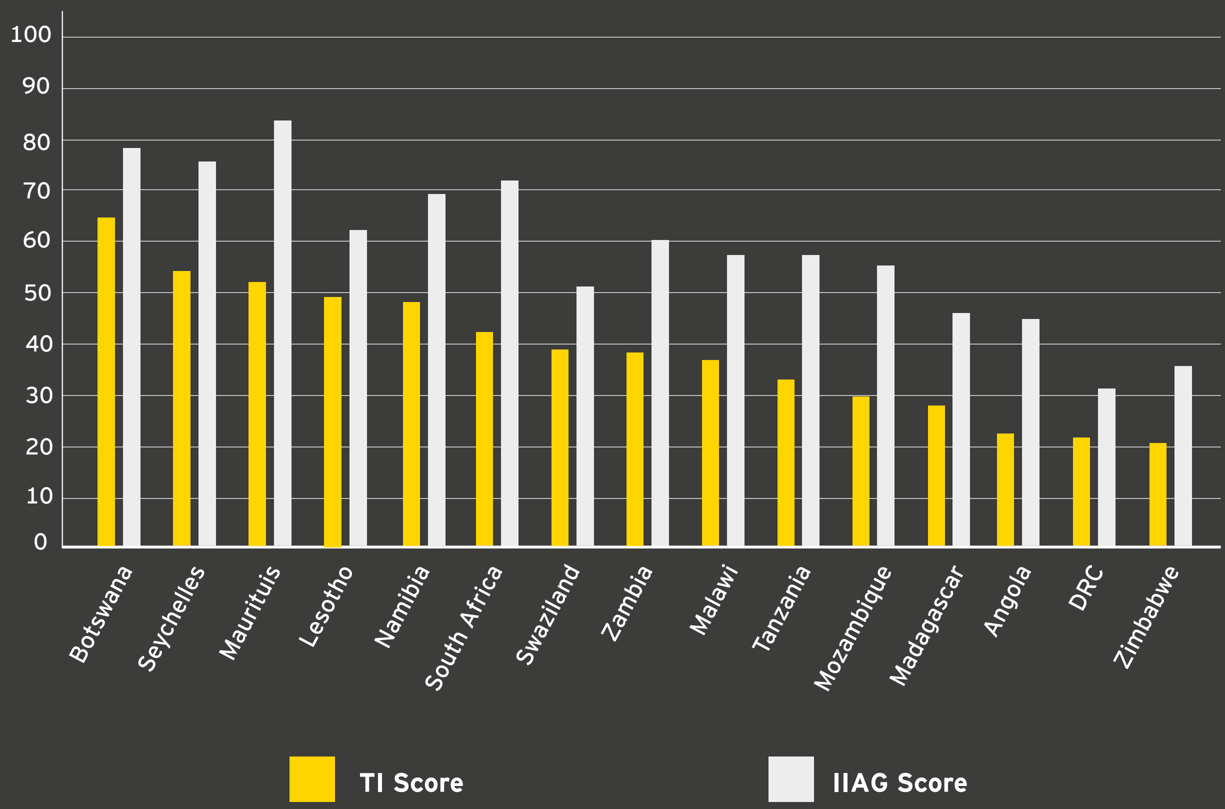


Figure 2: Comparison between Transparency International and Ibrahim Index (100 = best)

Aside from its own particular challenges, Africa is not immune to global risks. The World Economic Forum's "Global Risks 2014" document identified the following global risks as the ones that are of highest concern in 2014. All pertain to Africa:

1. Fiscal crises in key economies
2. Structurally high unemployment/ underemployment
3. Water crises
4. Severe income disparity
5. Failure of climate change mitigation and adaptation
6. Greater incidence of extreme weather events
7. Global governance failure
8. Food crises
9. Failure of a major financial mechanism/ institution
10. Profound political and social instability

Against this backdrop, this report aims to provide insight into ethical and compliance risks faced by South African companies with operations in at least one other member of SADC. This insight could potentially guide investment decisions in these countries, and also provide useful information to assess the efficacy of existing anti-corruption legislation within SADC.

It is acknowledged that this research has a built-in bias in that it only reflects the views of South African companies. It is part of the longer term research agenda of the Centre for Corporate Governance in Africa to complement this research with the views of companies from other SADC countries, and also to include their views about South African companies operating in their countries.

SADC: How corruption affects its development

The Southern African Development Community (SADC) is one of nine regional economic communities in Africa and has a total population of approximately 257.7 million people.

SADC is made up of 15 member states, including Angola, Botswana, Democratic Republic of the Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The membership of Madagascar was suspended following the coup d'état of 2009, but it is still included in this analysis. Madagascar's suspension was lifted in January 2014

There are a number of positive factors that would seem to indicate that SADC is poised for growth. However, there are also a number of factors that act as a drag on development, chief among them corruption.

The positive factors include:

Immense economic potential based on natural resources.

Africa contains approximately 60% of the world's uncultivated arable land, 11% of its oil, 6% of its natural gas and 4% of its coal (Mo Ibrahim Foundation, 2013h: 26, 28). The main investment opportunities in SADC are to be found in the agriculture, mining, manufacturing, tourism, financial services and infrastructure development sectors (National Bank of Angola, 2012: 4).

GDP growth and strong internal investment.

The SADC real GDP growth rate was 1.5% in 2009, 5.5% in 2010, 4.7% in 2011 and 5.1% in 2012 (Hangi, 2012: 8). Mozambique and Zimbabwe are currently two of the fastest growing economies in Africa, with respective GDP growth rates of 7.1% and 9.4% in 2011. DRC, Botswana, Malawi, Lesotho, Mauritius, Seychelles, Tanzania and Zambia managed GDP growth rates of between 4% and 6% in 2011 while Angola, Namibia and South Africa achieved growth rates of approximately 3% and Swaziland reached a growth rate of 1.2% (National Bank of Angola, 2012: 14).

Mauritius, South Africa, Namibia, and Botswana are currently the most affluent countries in SADC. South Africa has the largest economy, which accounts for approximately 70% of the total GDP and 22% of the total population (Hangi, 2012: 8).

Traditionally, significant investment in SADC has come from South African companies and it is believed that, since 2000, South Africa has been the biggest new investor in Africa outside the oil and gas sectors (Games, 2011: 13). Recent years have been characterised by the emergence of many new investors in Africa from Brazil, Russia, India and China together with the continued presence of the United Kingdom, United States and France (Games, 2011: 13). Even with the increased competition, South Africa still remains a major player in Africa and in many cases a springboard for foreign companies looking to enter into African markets (Games, 2011: 13).

Population growth.

Africa's population is growing fast, and it is expected to account for 25% of the world's population (Mo Ibrahim Foundation, 2013h: 1). In fact, the Mo Ibrahim Foundation predicts that Africa's working-age population will be larger than that of China by 2035.

However, balancing these positive factors is a set of negative ones that have the possibility of reducing Africa's potential. While the continent has definitely shown signs of shaking off the economic troubles of the past, there are still major hurdles to be overcome. Two of the most important are conflict and corruption.

Violent conflict has a myriad consequences for affected societies. War increases the prevalence of communicable diseases, economic stagnation, political and social turmoil, regional instability, displacement of local populations and increased poverty (Hoeffler, 2008: 6). One factor that is not always considered is the effect of conflict on corruption and the potential effect of corruption on conflict. According to Huntington (1968: 63): "...the society which has a high capacity for corruption also has a high capacity for violence".

Many countries that are considered to be highly corrupt are not necessarily highly unstable. In these circumstances certain forms of corrupt behaviour may have become so embedded in political, social and economic life that they become the 'rules of the game', recognised as normal behaviour.

It is immensely difficult for foreign companies to establish a foothold in such markets. Thus, in order for developing countries to maximise economic growth, the local business environment has to be accessible to foreign companies. This is one of the motivating factors behind this analysis.

Africa has had a long history of pervasive and systemic corruption. Transparency International's Corruption Perceptions Index (CPI), which measures the perceived levels of public sector corruption in 177 countries worldwide, indicates that 90% of countries in Sub-Saharan Africa have a score of less than 50. The figure stands at 95% for Eastern and Central Europe and 84% for the Middle East and North Africa. The best-performing region is the European Union and Western Europe with 23% of countries with a score of less than 50 "(100 = highly clean, 0 = highly corrupt)." (Transparency International, 2013b).

DRC, Angola and Zimbabwe are the three worst performing SADC countries on the 2013 CPI rankings. Zimbabwe achieved an overall ranking of 157, which is the lowest ranking of all the SADC countries. The DRC and Angola did not perform much better, achieving rankings of 154 and 153 respectively. The best performing SADC countries are Botswana (30), Seychelles (47) and Mauritius (52) and these are followed closely by Lesotho (55) and Namibia (57). The region's largest economy, South Africa, trails somewhat with a ranking of 72 (Transparency International, 2013b).

The Ibrahim Index of African Governance (IIAG) is an annually published index that provides a statistical measure of governance in 52 African countries (Mo Ibrahim Foundation, 2013c). It is an important yardstick because governance problems have been highlighted as one of the key contributing factors to Africa's historical economic stagnation and social instability (African Governance Outlook, 2012: 7).

Governance is defined by the Ibrahim Index as the provision of social, political and economic goods and services by the state to its citizens, and the framework of analysis is constituted by the following categories: safety and rule of law, participation and human rights, sustainable economic opportunity, and human development (Mo Ibrahim Foundation, 2013c).

The methodology combines more than 100 variables from more than 30 independent African and global sources, with a potential maximum score of 100%. On this ranking, Mauritius, Botswana, the Seychelles and South Africa all rank above 70%, while DRC and Zimbabwe again bring up the rear with rankings in the 30% to 40% band.

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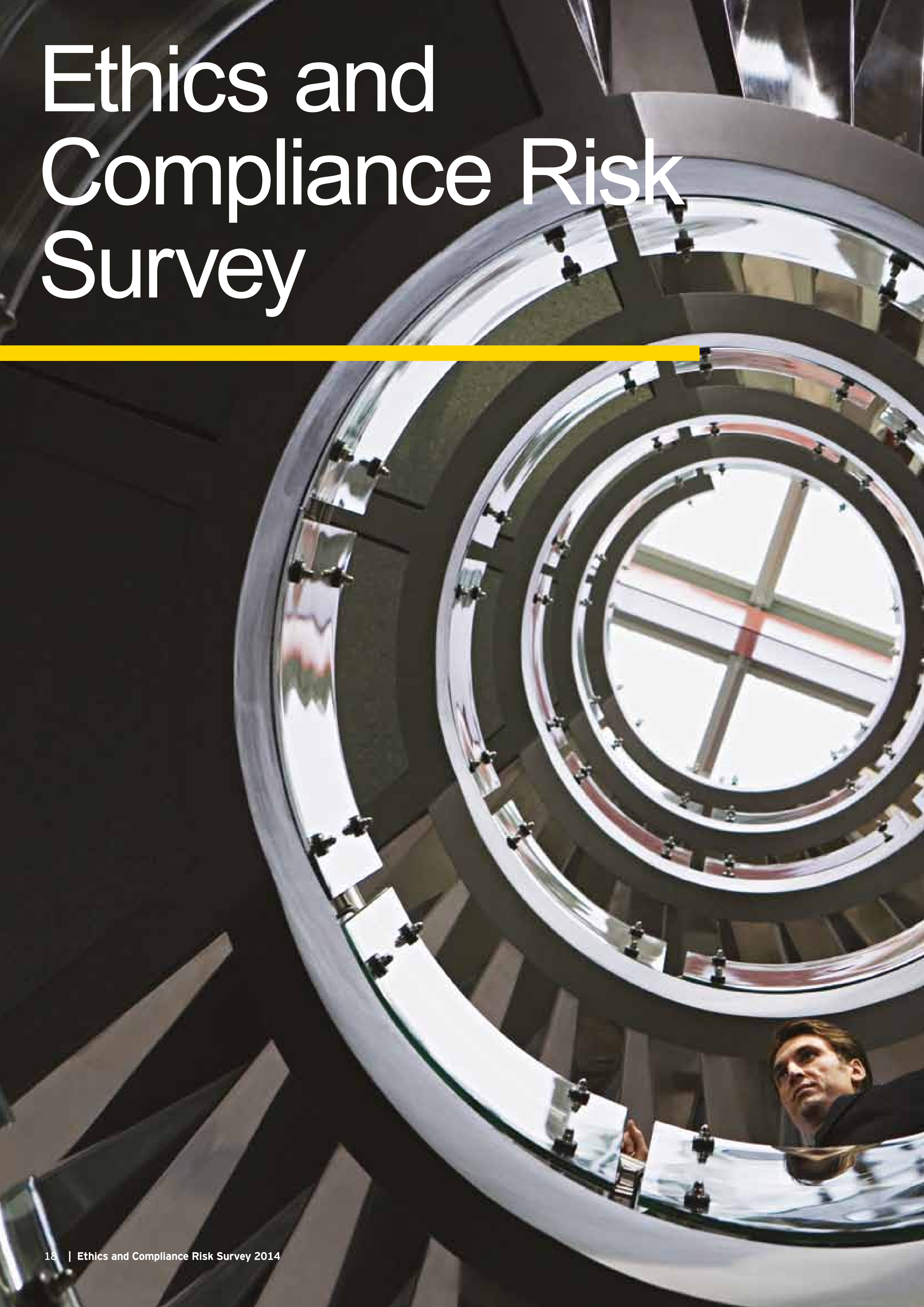
Ethics and Compliance Risk Survey



As already noted, the Ethics and Compliance Risk survey was developed to ascertain the perspectives of South African companies—the region's largest investors outside of the oil and gas sectors—regarding the investment climate of the SADC region.

It was conducted by the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School with generous support from the Hanns Seidel Foundation, Siemens, Commerzbank and EY.

The survey was sent out to 142 companies listed on the Johannesburg Stock Exchange (JSE) with operations, subsidiaries or business partners in the SADC region. The objective was to receive one response per company, preferably from an individual at board or senior-management level.

All the companies were contacted telephonically in order to acquire suitable contact details and a letter of introduction was sent before the survey process was officially started. The survey was active from 1 September to 8 November 2013. During October and November a certain proportion of the companies was contacted telephonically in order to improve the response rate.

The final response rate to the survey was 18.3%, with a total of 26 completed responses received; interviews were conducted with three further companies. It is acknowledged that there was a bias in terms of South African companies rating South African conditions. Obtaining input from all other countries was not possible as part of this project, but is an option for future research.

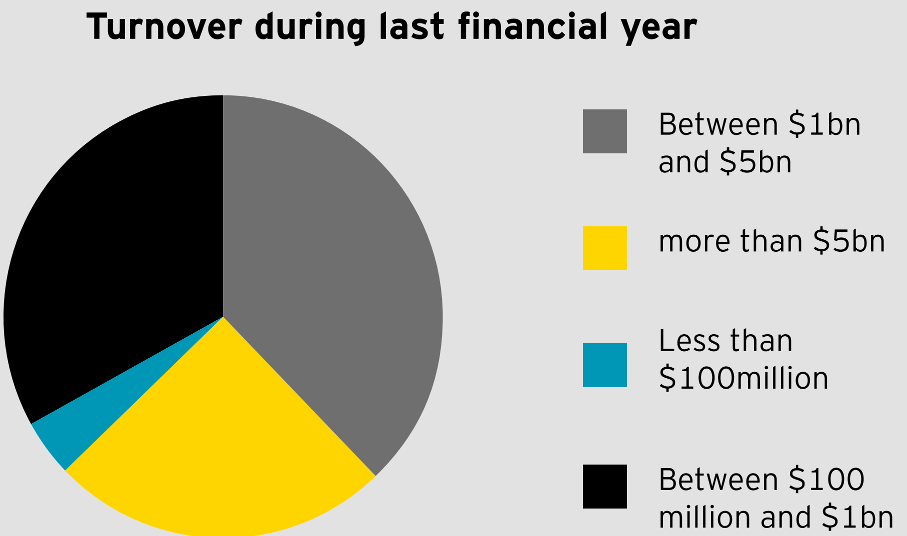
Survey sample

Table 3 depicts the number of respondents per occupational level. The majority of respondents were compliance officers, non-executive directors, risk managers or company secretaries, and 50% of them had been in their position for five years or longer.

Group sustainability manager	2	Non-executive director	3
Legal counsel	2	Company secretary	4
Compliance officer	3	Head of audit	1
Chair of social & ethics committee	1	Investor relations manager	1
Sustainability reporting manager	1	Corporate affairs manager	1
Corporate governance officer	1	Head of responsible business	1
Risk manager	4	Chief executive officer	1

Table 3: Sample

The accompanying chart identifies the size of the responding companies in terms of turnover.



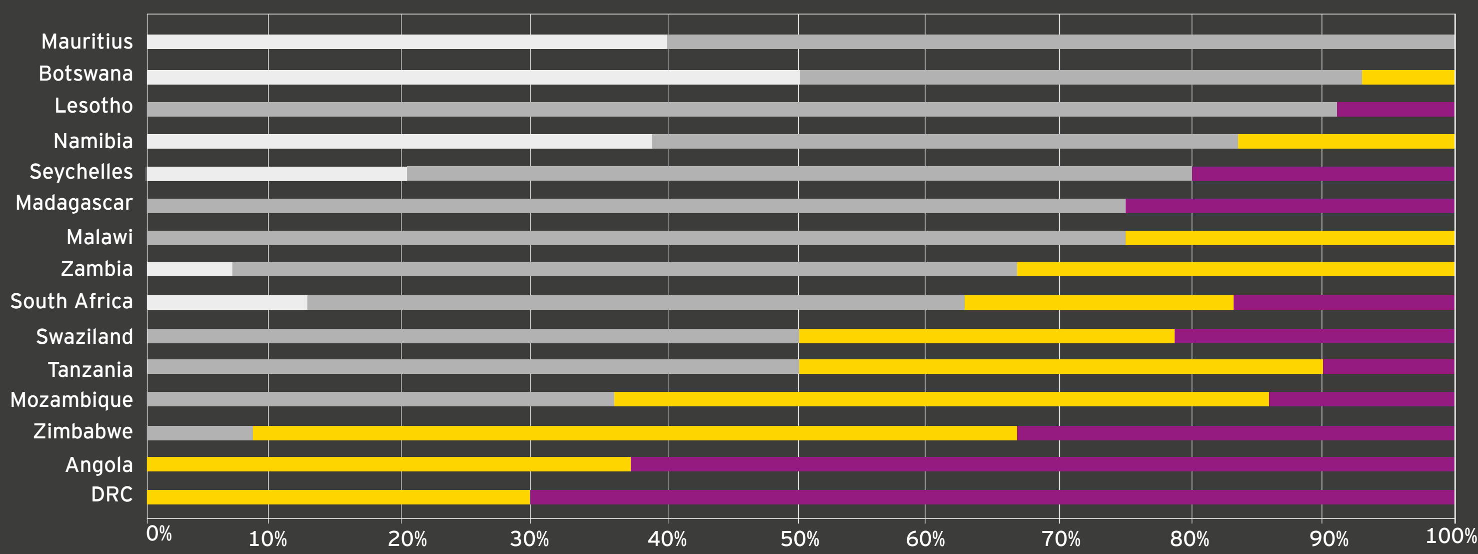
The companies represent a wide range of industries, including utilities, financials, cyclical services, cyclical consumer goods, general industrials, basic industries, non-cyclical consumer goods, information technology, and resources.

Findings

Business environment

The respondents were asked how ethical, in their experience, the business environment is in the specific SADC countries where their company has operations. Figure 3 shows the results. The majority of the respondents indicated that the DRC has the least ethical business environment, followed closely by Angola and Zimbabwe whilst Mauritius, Botswana and Lesotho are considered to have the most ethical business environments.

Business Environment



	DRC	Angola	Zimbabwe	Mozambique	Tanzania	Swaziland	South Africa	Zambia	Malawi	Madagascar	Seychelles	Namibia	Lesotho	Botswana	Mauritius
Very ethical	0	0	0	0	0	0	3	1	0	0	1	7	0	7	4
Somewhat ethical	0	0	1	5	5	7	12	9	6	3	3	8	10	6	6
Somewhat unethical	3	3	7	7	4	4	5	5	2	0	0	3	0	1	0
Very unethical	7	5	4	2	1	3	4	0	0	1	1	0	1	0	0

Figure 3: Business Environment

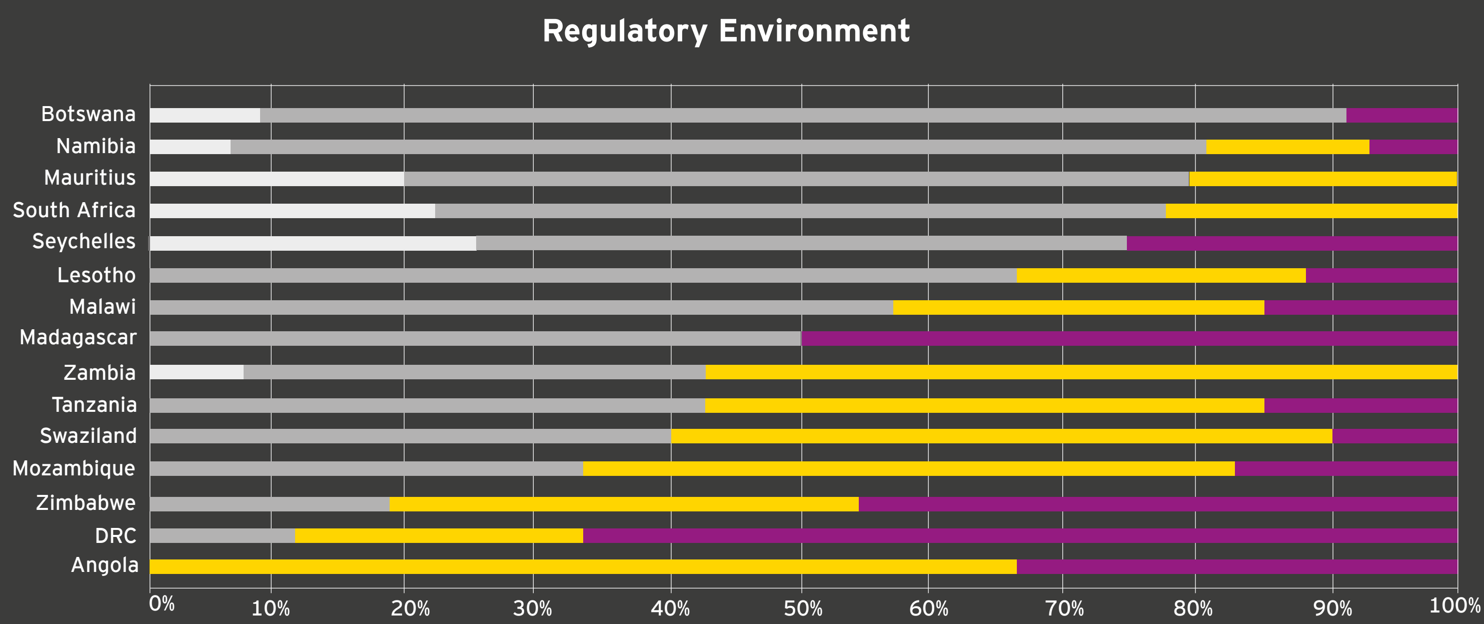
As Figure 3 illustrates, the overall business environment in SADC appears to be relatively ethical, with only the DRC, Angola, Zimbabwe and Mozambique falling below the threshold of 50% seeing their business environments as very ethical.

However, it must be remembered that the top five countries represent only a small fraction of the population and overall GDP. The bottom five countries have an estimated total population of 173.23 million and a total GDP of US$ 185.72 billion compared with a total population of 7.693 million and GDP of US$ 41.45 billion for the top five countries (World Bank, 2013). This seems to indicate that a large proportion of business and economic activity in the SADC region occurs in countries that are considered by South African companies to be relatively unethical.

Regulatory environment

Respondents were asked to indicate the quality of the regulatory environment in the countries where they have operations, with specific reference to anti-corruption legislation. As is evident from Figure 4, Botswana, Namibia and Mauritius are considered to have the most effective regulatory environments. Seychelles and South Africa also perform well in this area, with 25% and 22% of respondents respectively indicating that the countries have excellent regulatory environments.

Angola, DRC and Zimbabwe occupy the bottom three positions. The DRC is arguably the worst performer in the area, even though it does not occupy the bottom position; 67% of respondents indicated that the country has a very poor regulatory environment with reference to anti-corruption legislation. The figures are 33% and 46% for Angola and Zimbabwe respectively.



	Angola	DRC	Zimbabwe	Mozambique	Swaziland	Tanzania	Zambia	Madagascar	Malawi	Lesotho	Seychelles	South Africa	Mauritius	Namibia	Botswana
Excellent	0	0	0	0	0	0	1	0	0	0	1	5	2	1	1
Good	0	1	2	4	4	3	5	1	4	6	2	13	6	12	10
Poor	4	2	4	6	5	3	8	0	2	2	0	5	2	2	0
Very poor	2	6	5	2	1	1	0	1	1	1	1	0	1	1	1

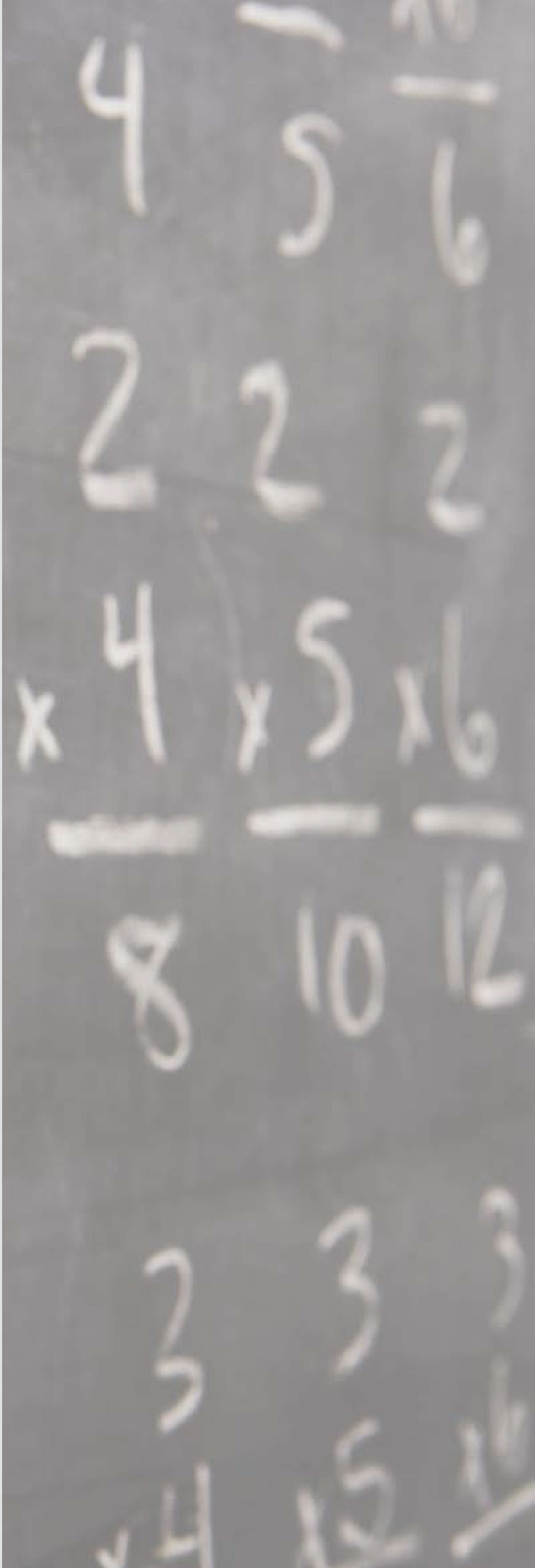
Figure 4: Regulatory Environment

For the SADC region as a whole, only 7% of respondents indicated that there are one or more countries in the region with an excellent regulatory environment; 46% of respondents stated that there are one or more countries in the region with a good regulatory environment, while 30% and 15% of respondents indicated that there are one or more countries with poor and very poor regulatory environments respectively.

While some SADC countries do have well-established regulatory frameworks, the judiciary is often perceived to be ineffective. In Angola, for example, the judiciary seems to be highly corrupt, leading to rulings that favour local companies and lengthy court proceedings. While neighbouring Namibia has one of the best anti-corruption constitutional frameworks and is thus considered to be business-friendly, its judiciary remains inconsistent and vulnerable to political interference. South Africa stands out in this area, with a mature regulatory landscape, an independent judiciary and a vigorous corporate governance framework provided by the King Reports—work on producing King IV is already under way.

In the words of one compliance officer, "[W]e need to, as a country, start to get more African members involved in the King codes so that they can also be compliant with global regulations and become global players from a financial perspective."

The launch of the African Corporate Governance Network in 2013 is one hopeful sign that African business is beginning to buy into the concept of corporate governance, and to lobby for political backing to improve it.



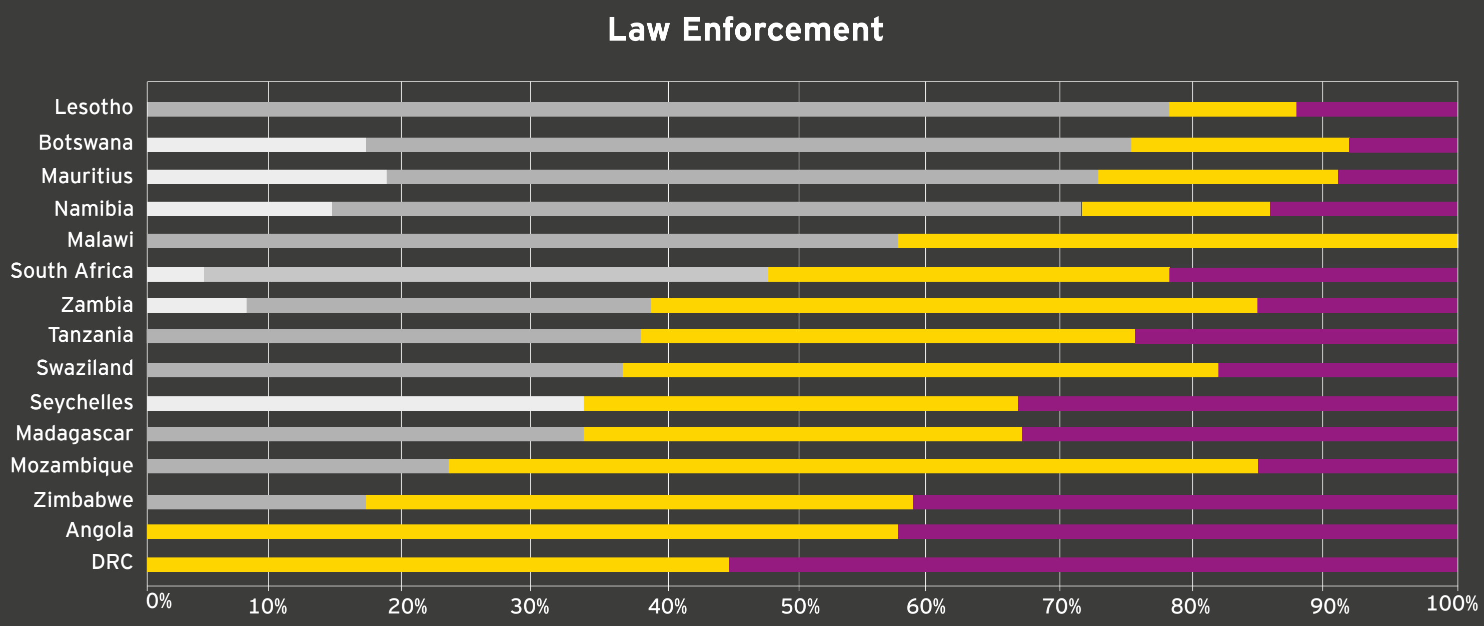
Law enforcement

The respondents were asked about the quality of law enforcement in the countries where they operate, with specific reference to anti-corruption legislation. As indicated in Figure 5, Lesotho, Botswana and Mauritius emerged as the best performers in this area. Botswana, Mauritius and Namibia also performed very well. Again, DRC, Angola and Zimbabwe are the worst performers.

Across the region, the conclusion is that law enforcement is a major problem, with more than half of the respondents indicating that one or more countries have poor or very poor law enforcement with reference to anti-corruption legislation.

Law-enforcement agencies have been a major stumbling block in the fight against corruption in the SADC region. In many countries they have failed to become a successful deterrent to corrupt behaviour; indeed police departments have, in many instances, become the very locus of embedded corruption. According to a survey conducted by Transparency International during 2010/2011 the police is considered to be the most corrupt institution in DRC, Malawi, Mozambique, South Africa, Zambia and Zimbabwe (Transparency International, 2011: 7, 8). [2]

A compliance officer for a financial services company noted that even in South Africa, which has legislation that compares with the best in the world and an independent judiciary, enforcement is poor. This shortcoming applies across SADC, he added. When corruption in law-enforcement institutions is combined with a weak and ineffective judiciary, it becomes increasingly difficult to root out corruption, especially at the level of central government.



	DRC	Angola	Zimbabwe	Mozambique	Madagascar	Seychelles	Swaziland	Tanzania	Zambia	South Africa	Malawi	Namibia	Mauritius	Botswana	Lesotho
Excellent	0	0	0	0	0	1	0	0	1	1	0	2	2	2	0
Good	0	0	2	3	1	0	4	3	4	10	4	8	6	7	7
Poor	4	4	5	8	1	1	5	3	6	7	3	2	2	2	1
Very poor	5	3	5	2	1	1	2	2	2	5	0	2	1	1	1

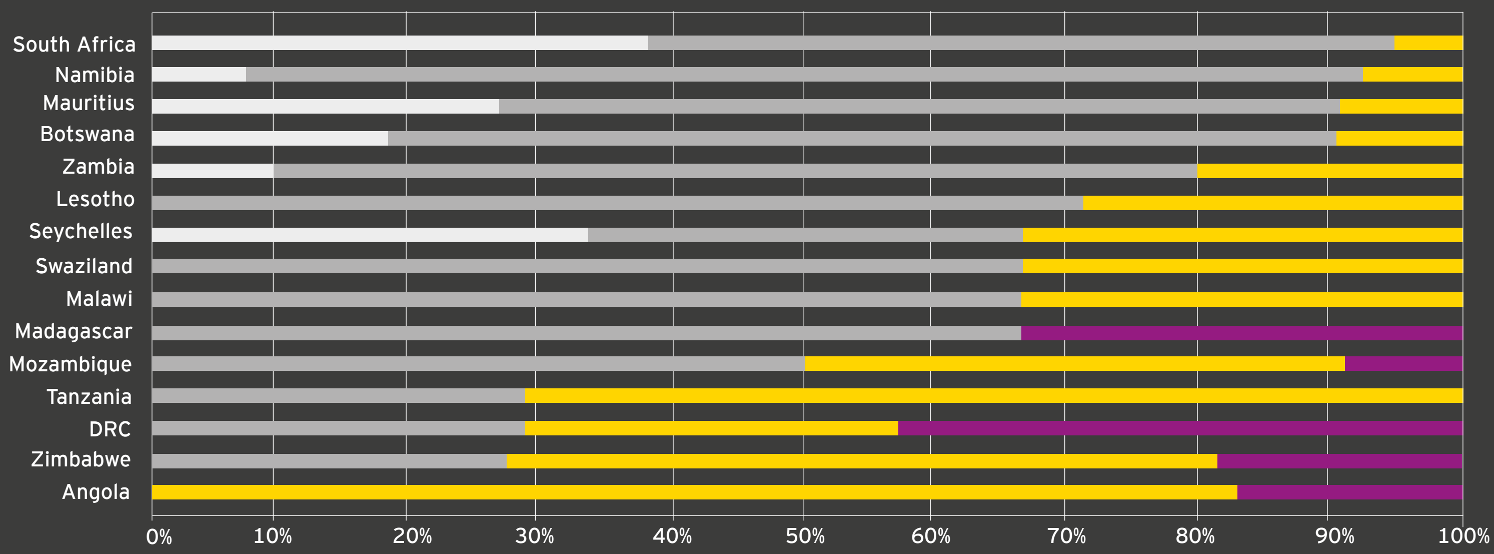
Figure 5: Law Enforcement

[2] The survey was based on interviews conducted with more than 6000 people the six Southern African countries (Transparency International, 2011: 7, 8). In Mozambique, companies rank the police as the most dishonest public sector institution and one has a similar situation in Angola, where the low salary of police officers is often cited as one of the contributing factors to police corruption (Business anti-corruption, 2013c).

Banking system's compliance with anti-money laundering regulations.

The respondents were asked to indicate the effectiveness of the banking systems in SADC countries in complying with the anti-money laundering regulations mandated by the financial regulator/ central **bank.**

How Effective is the Banking Systems in the Implementation and Compliance with Anti-Money Laundering Regulations



	Angola	Zimbabwe	DRC	Tanzania	Mozambique	Madagascar	Malawi	Swaziland	Seychelles	Lesotho	Zambia	Botswana	Mauritius	Namibia	South Africa
Excellent	0	0	0	0	0	0	0	0	1	0	1	2	3	1	8
Good	0	3	2	2	6	2	4	6	1	5	7	8	7	12	12
Poor	5	6	2	5	5	0	2	3	1	2	2	1	1	1	1
Very poor	1	2	3	0	1	1	0	0	0	1	0	0	0	0	0

Figure 6: Effectiveness of Banking Systems

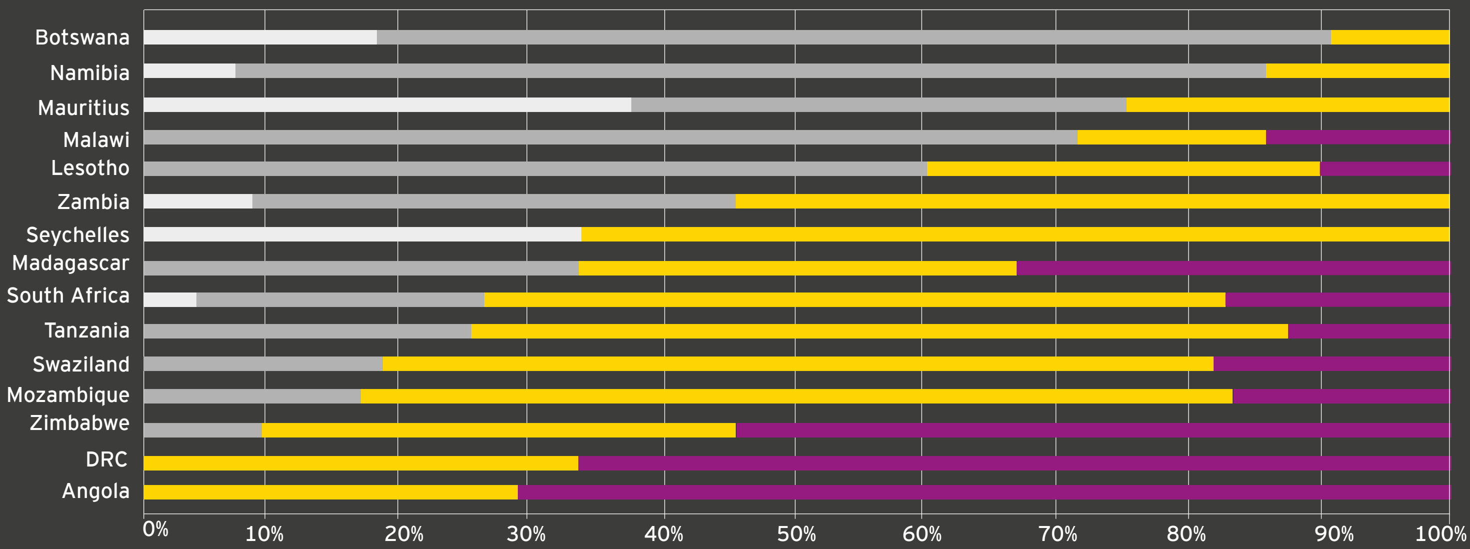
South Africa, Namibia and Mauritius score best, with South Africa particularly excelling. Angola, Zimbabwe and DRC perform worst.

Overall, the SADC region performs better in this category than in the other categories. For the SADC region as a whole, 12% of respondents indicated that there is at least one country with an excellent banking system while 56% of respondents indicated that there are countries in the region with good banking systems. 20% and 6% of respondents indicated that countries in the region had poor and very poor banking systems respectively.

Manipulation of regulatory system for personal interest

The question posed to the respondents was how difficult or easy it is for politically connected persons, government officials, their relatives or close associates to manipulate the regulatory system to advance their personal interests.

Disregarding Regulatory System for Personal Interest



	Angola	DRC	Zimbabwe	Mozambique	Swaziland	Tanzania	South Africa	Madagascar	Seychelles	Zambia	Lesotho	Malawi	Mauritius	Namibia	Botswana
Very difficult	0	0	0	0	0	0	1	0	1	1	0	0	3	1	2
Difficult	0	0	1	2	2	2	5	1	0	4	6	5	3	11	8
Easy	2	3	4	8	7	5	13	1	2	6	3	1	2	2	1
Very easy	5	6	6	2	2	1	4	1	0	0	1	1	1	0	0

Figure 7: Manipulation of Regulatory System of Personal Interest

Botswana, Namibia and Mauritius, along with Malawi, performed well in this category, with Angola, DRC and Zimbabwe at the other end of the scale as usual. South Africa also performs poorly, especially in light of its good performance in the previous category. Overall, the ability of the politically connected to manipulate the regulatory system emerges as very problematic for the SADC region; a total 61% of respondents indicated that it is either easy or very easy to manipulate the regulatory system to advance personal interest in one or more of the SADC countries.

Comparison with Transparency International and Mo Ibrahim studies

Because survey methodologies vary, it is dangerous to compare results and/ or draw direct correlations. However, at a high level it is interesting – and significant – to observe that there are some countries (Mauritius, Botswana and Namibia) that consistently appear in the top third across most categories in several studies, while others (Angola, DRC and Zimbabwe) consistently appear in the bottom third. It is also interesting to note that South Africa has shifted into the middle third in terms of its corruption score, which might explain its appearance in the middle third in terms of business environment.

The table provides a brief summary of the relative positions in terms of the Transparency International, Ibrahim Index and two categories (regulatory environment and business environment) from the current survey.

Rank	Transparency International Score	Ibrahim Index of African Governance Score	Regulatory Environment	Business Environment
1	Botswana	Mauritius	Botswana	Mauritius
2	Seychelles	Botswana	Namibia	Botswana
3	Mauritius	Seychelles	Mauritius	Lesotho
4	Lesotho	South Africa	South Africa	Namibia
5	Namibia	Namibia	Seychelles	Seychelles
6	South Africa	Lesotho	Lesotho	Madagascar
7	Swaziland	Zambia	Malawi	Malawi
8	Zambia	Malawi	Madagascar	Zambia
9	Malawi	Tanzania	Zambia	South Africa
10	Tanzania	Mozambique	Tanzania	Swaziland
11	Mozambique	Swaziland	Swaziland	Tanzania
12	Madagascar	Madagascar	Mozambique	Mozambique
13	Angola	Angola	Zimbabwe	Zimbabwe
14	DRC	Zimbabwe	DRC	Angola
15	Zimbabwe	DRC	Angola	DRC

Table 4: Comparison between surveys

Case studies

Mauritius

Mauritius is considered to be one of Africa's social and economic success stories, having enjoyed years of economic stability, democracy and constitutional order (BBC, 2013a).

According to the World Bank (2013a) Mauritius had a GDP per capita of approximately $9 200. This makes it one of the strongest economies in Sub-Saharan Africa, underpinned by a well-developed legal and commercial infrastructure (Heritage Foundation, 2013a). The country's economy was traditionally focussed on the sugar and textile industries, but it has successfully diversified into other areas such as information technology, financial and business services, and tourism (Heritage Foundation, 2013a). Tourism is the mainstay of the economy, accounting for 10% of GDP (Arouff, 2011).

Mauritius's rapid economic growth increased the risks of money laundering and corruption, which culminated in the establishment of an independent anti-corruption commission in 2002 (Kuris, 2013: 2).

In a recent interview, the compliance officer of a financial services company said: "There has been quite a lot of improvement in Mauritius in terms of improving their regulatory landscape. There is a lot happening, particularly from an anti-money laundering perspective. Their regulator is getting quite proactive in terms of putting measures in place and understanding the risks that their jurisdiction faces and some of Mauritius's anti-money laundering requirements particularly are more stringent than South Africa's."

As already noted above, the country performs well on the corruption indices. It was the best performer in Africa on the 2013 Ibrahim Index of African Governance and has been in the Index's top 10 since 2000. It is also ranked first in the categories of sustainable economic opportunity, personal safety, business environment and welfare (Mo Ibrahim Foundation, 2013b). On Transparency International's 2013 Corruption Perceptions Index, it is ranked fifth in Sub-Saharan Africa and third in SADC.

Mauritius is one of the best performing SADC countries in this analysis, but as is illustrated by Figure 8 there are still various problem areas when it comes to specific forms of corrupt behaviour.

Respondents were asked to indicate how often certain forms of corrupt behaviour occur in the SADC countries where their respective companies have operations. The preceding graph illustrates that the most significant problem area is perceived to be the use of shell structures for hiding the ownership

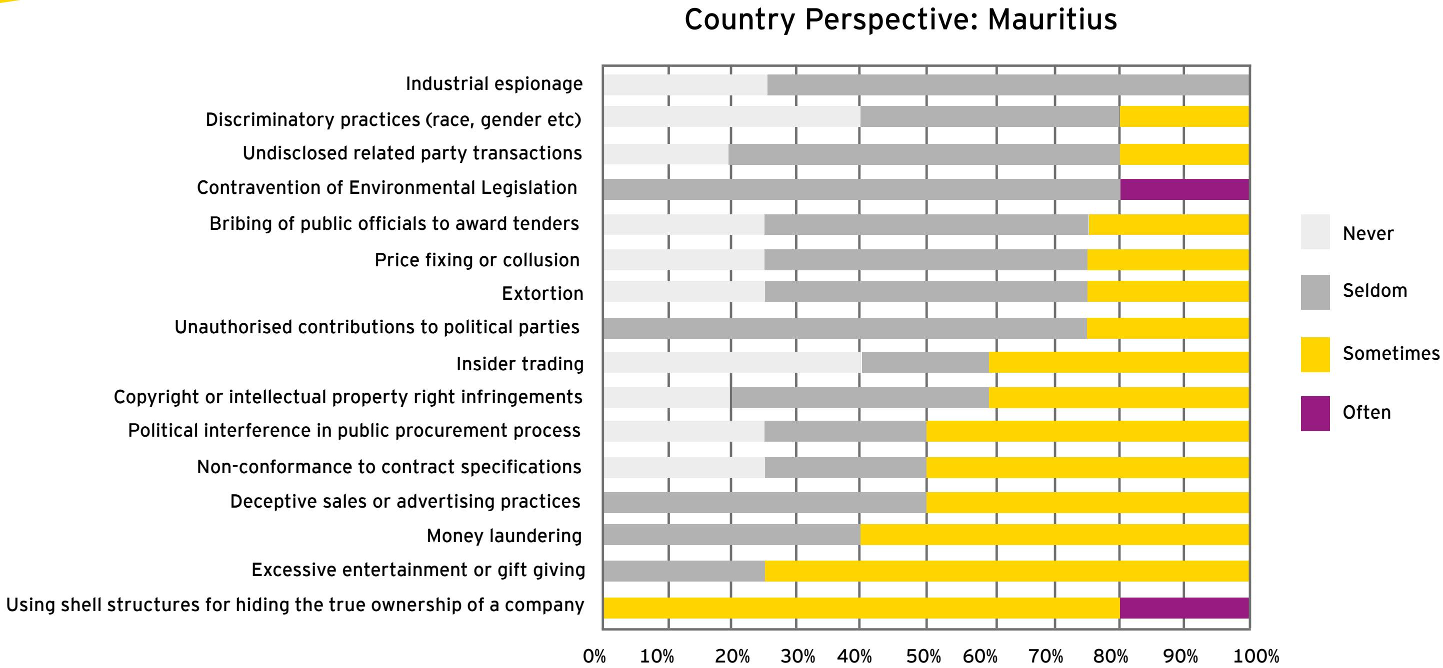


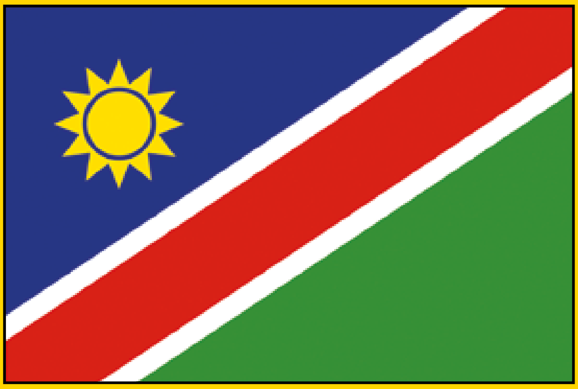
Figure 8: Mauritius: Prevalence of corrupt behaviour

of a company. Other problem areas include excessive entertainment and gift-giving, as well as money laundering.

Public perception in Mauritius is that corruption is more widespread than is internationally claimed. Touria Prayag, the editor of the Mauritian magazine, Weekly, stated that, in Mauritius: "Those who practice corruption at the high levels hardly ever get caught because they become masters of the trade. Nine out of 10 people will tell you we are a very corrupt country. And if you ask them if they had first-hand experience of corruption, they probably haven't. Most people will live their lives without first-hand experience of corruption, but the perception is there and the perception is very strong" (Kuris, 2013b: 4).

Daden Venkatasawmy, former board member of Transparency Mauritius, adds a further insight: "Political parties are the only organisations not obliged to publish accounts, or to have internal elections to determine their directorship.

De facto, they are the best vehicles for money laundering and thus attract financing from individuals and organisations with undeclared or illicit sources of revenue...To me, the corruption actually starts there" (Kuris, 2013bx: 4).



Namibia

Namibia has enjoyed a period of relative stability since achieving independence in 1990 after a long struggle against South Africa (BBC, 2013b). The country has a stable market economy and its democracy can be seen as successful in a region marred by political instability (Business anti-corruption, 2013b). The country is considered to have a very attractive business climate in comparison with its neighbours, with considerable growth opportunities due to its mineral wealth and its proximity to two of the major economies of the region, South Africa and Angola (Business anti-corruption, 2013b).

Namibia's GDP per capita was approximately $5 800 in 2012 (World Bank, 2013b).

Corruption is still a problematic factor when it comes to doing business in Namibia, and some companies have noted that interaction with tax officials occasionally involves bribery (Business anti-corruption, 2013b). Other areas with high levels of corruption are customs, with its costly procedures, and the diamond sector (Business anti-corruption, 2013b).

According to the Heritage Foundation, corruption is pervasive in Namibia, which is exacerbated by inefficient government services and a lack of political will to fight corruption (Heritage Foundation, 2013b).

One of the most significant problem areas in the fight against corruption for Namibia is a deficient and ineffective judicial system, which is vulnerable to political interference (Business anti-corruption, 2013b).

Namibia is ranked seventh in Sub-Saharan Africa on Transparency International's 2013 Corruption Perceptions Index and fifth in the SADC region behind Lesotho (Transparency International, 2013b).

Namibia performed very well on all the questions asked in this survey, which indicates that South African companies' perceive it to have a relatively ethical business environment. In fact, it was ranked in the top four for the SADC region for all the questions asked, as illustrated by Figures 3-7.

For Figure 9, respondents were asked to indicate the frequency of certain types of corrupt behaviour in Namibia. Industrial espionage is said never to occur, but copyright/ intellectual property infringements, unauthorised contributions to political parties and contravention of environmental legislation all are said to occur often by up to 20% of respondents. In the main, though, no one form of corruption presents itself as a particular problem.

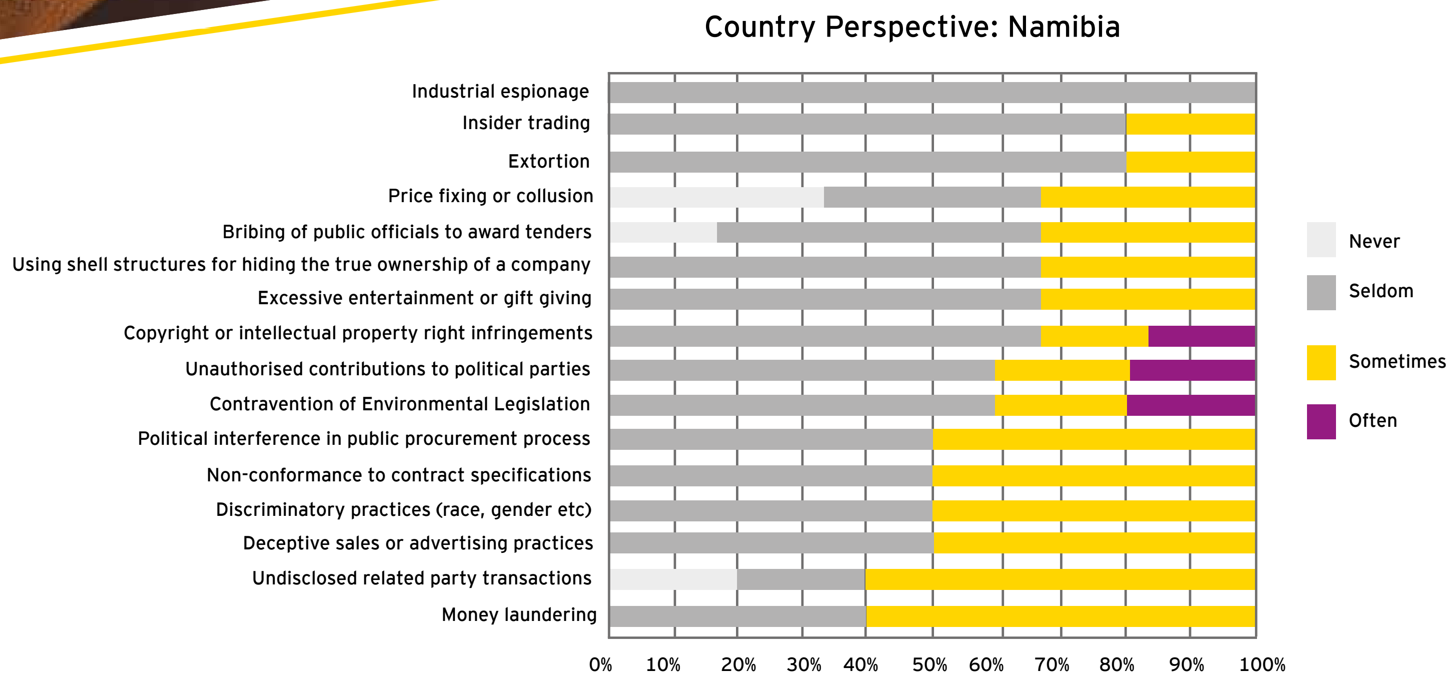


Figure 9: Namibia: Prevalence of corrupt behaviour

There is general agreement that Namibia has an adequate institutional and legal framework for the alleviation of corruption, and a regulatory environment that is perceived to be uncomplicated and business-friendly. As a result, the country is seen as one of the least bureaucratic countries in the region (Business anti-corruption, 2013b). This view was also echoed by a company secretary, employed in the non-cyclical consumer goods Industry, who stated that: "It is probably easier to do business in Namibia, because of less regulation."

Namibia also performs relatively well on the Ibrahim Index for African Governance, on which it is ranked eighth. It has remained in the top 10 since 2000 (Mo Ibrahim Foundation, 2013d). Namibia's biggest improvement since 2000 was in the category of sustainable economic opportunity.

Botswana

Botswana is Africa's longest-standing continuous multi-party democracy and is noted for its political stability, freedom from corruption and good human rights record (BBC, 2013c). It is the world's largest producer of diamonds , with this mineral accounting for 40% percent of GDP. The government is focussed on diversifying the economy to reduce this dependence on a single industry (Heritage Foundation, 2013b). This strategy is showing signs of success, with high levels of foreign investment attracted by low taxes, political stability and an educated workforce (Heritage Foundation, 2013b).

Botswana had a GDP per capita of approximately $7 200 in 2012 (World Bank, 2013c).

Botswana is considered to have one of the lowest levels of corruption in Africa and is the best performing African country on Transparency International's 2013 Corruption Perceptions Index (ranked 30th out of the 177 countries, above certain European countries such as Portugal (33), Spain (40), and Italy (69) (Transparency International, 2013b).

A compliance officer working for a financial services company stated that Botswana's business environment is more ethical than even Mauritius, Namibia and South Africa. The reasons for this were given as the well-established economy, the maturity of the regulator and also the mature supervisory landscape.

Botswana's low level of corruption has not always been the norm. In the 1990s corruption in Botswana was centred on abuse of office, insider trading and the tender process. During this period, the country was hit by various high-profile corruption scandals which led to the establishment of the Directorate on Corruption and Economic Crime (DCEC) (Kuris, 2013a: 1). The DCEC combats corruption through investigation, education and prevention and has won global recognition for its innovative educational efforts and outreach programmes for rural communities and the youth (Kuris, 2013a: 1).

There are however, many questions surrounding the independence of the organisation and its capacity to investigate high-profile officials (Kuris, 2013a: 18). The DCEC is accountable to the president and it is argued that this undermines its effectiveness in the investigation of high-level corruption, but Kuris (2013a: 18) stresses that for all the apparent failure that DCEC has experienced in investigation, its low-profile success in education and prevention has been significant.

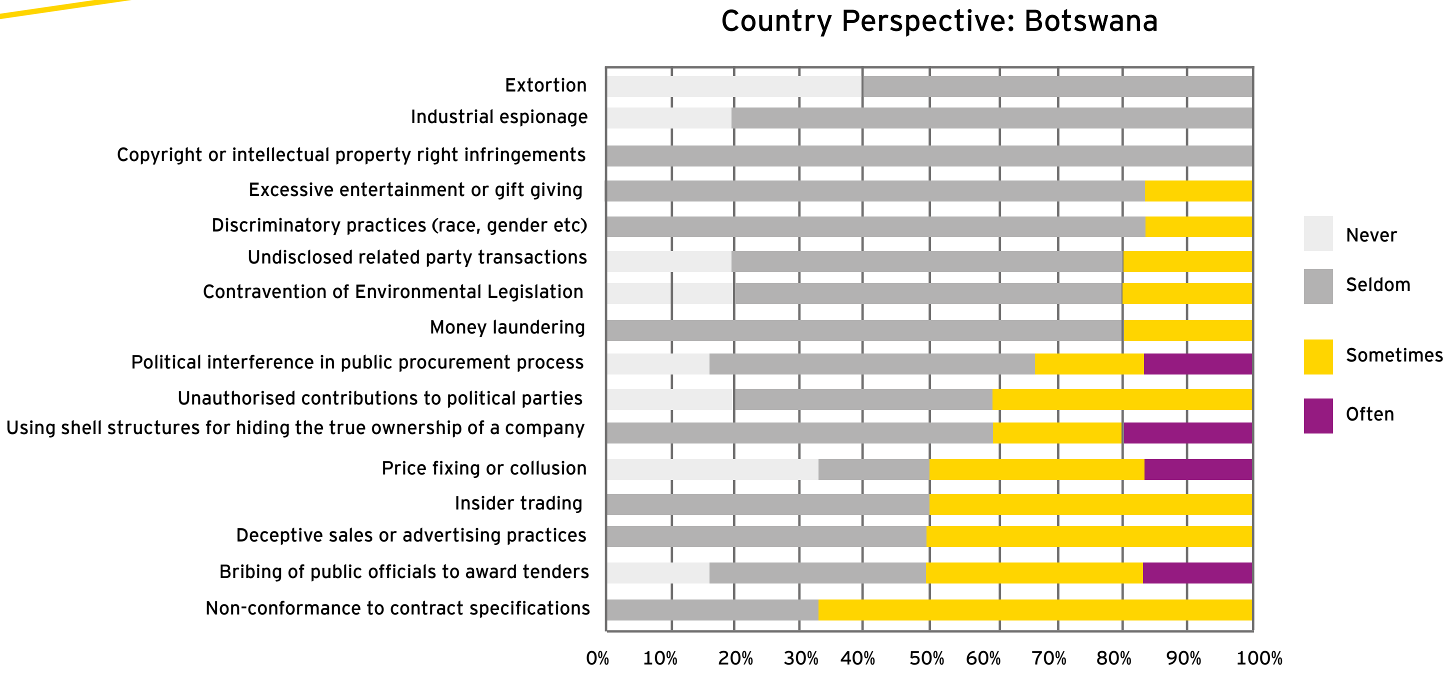


Figure 10: Botswana: Prevalence of corrupt behaviour

Botswana performed very well on all the survey questions, and was not ranked in the top two in respect of only one question, namely the effectiveness of banking systems in complying with the anti-money laundering regulations of the financial regulator/ central bank (Figure 6).

As is evident from Figure 10 above, South African companies still consider Botswana to have some specific corruption problems. Botswana is perceived to have low levels of extortion, industrial espionage and copyright or intellectual property right infringements and relatively high levels of non-conformance to contract specifications, bribery of public officials in the tender process, deceptive sales or advertising practices and insider trading.

With corruption in the tender process and insider trading being some of the major problem areas, it seems that Botswana is still struggling to shake off the problems experienced in the 1990s. Nonetheless, it still has one of the least corrupt business environments in Africa, and according to the Ibrahim Index of African Governance 2013, Botswana is ranked 2nd in Africa overall, and 1st for the category of safety and rule of law, which includes corruption indicators (Mo Ibrahim Foundation, 2013e).

Zimbabwe

Zimbabwe is a nation in deep economic crisis, where endemic unemployment, poverty and political strife are commonplace (BBC, 2013d). Zimbabwe's predominantly agricultural economy collapsed after the forced seizure of the majority of white-owned commercial farms, which led to a fall in production, critical food and fuel shortages, and rampant inflation (BBC, 2013d). Zimbabwe had a GDP of per capita of approximately $787 in 2012. (World Bank, 2013d).

Zimbabwe's economy has now started to recover and stabilise after years of fiscal and monetary mismanagement (Heritage Foundation, 2013c). Zimbabwe experienced a surge in economic growth recently and achieved a GDP growth rate of 9.4% in 2011 (Integrated paper on recent economic developments in SADC, 2012: 14). This economic growth has been largely driven by the mining industry and the gradual ending of hyperinflation linked to the adoption of the US dollar as the official currency (Heritage Foundation, 2013c). Nonetheless, Zimbabwe still has a highly unstable economy. Of special note is the indigenisation law, which requires private business to surrender at least 51% of ownership to Zimbabweans—a requirement that undermines foreign investment (Heritage Foundation, 2013c).

Corruption is considered to be endemic in Zimbabwe. On Transparency International's 2013 Corruption Perceptions Index, Zimbabwe is ranked 157th out of 177 countries worldwide, which is the worst of all the SADC countries (Transparency International, 2013b). Zimbabwe's tax collector, the Zimbabwe Revenue Authority (ZIMRA), reported that the country lost approximately US $2 billion to corruption in 2012 (Chawafambira, 2013). The ZIMRA commissioner-general, Gershom Pasi, stated that corruption in Zimbabwe has reached unprecedented levels and that there is a lack of political will to eradicate it (Sibanda, 2013).

Zimbabwe is consistently ranked in the bottom three for all the survey questions, where it performs marginally better than Angola and DRC (Figures 3-7).

It is evident from Figure 11 that South African companies uniformly perceive that Zimbabwe is plagued by high levels of corruption. Insider trading is the only area where more than 50% selected the frequency of occurrence as "seldom". For all the other areas, more than 50% of respondents indicated that the specific type of corrupt behaviour either occurs sometimes, or

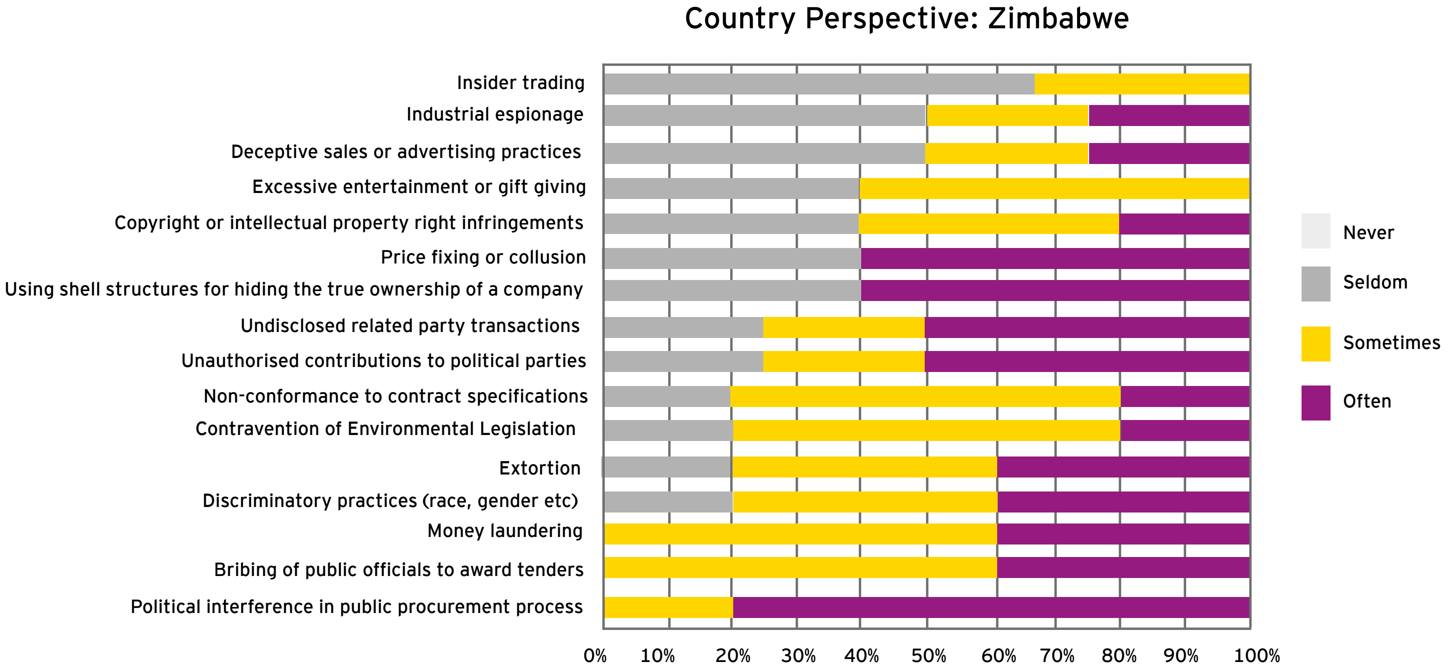


Figure 11: Zimbabwe: Prevalence of corrupt behaviour

often. The main problem areas are perceived to be political interference in the public procurement process, where 80% of respondents indicated that this behaviour occurs on a regular basis, bribery of public officials to award tenders, and money laundering.

Zimbabwe requires major public sector reforms and political will to curtail corruption. Zimbabwe is ranked 47th out of 52 African countries on the Ibrahim Index for African Governance 2013 and has remained in the bottom 10 since 2000 (Mo Ibrahim Foundation, 2013f).

South Africa

South Africa has the second biggest economy in Africa since the recalibration of Nigeria's GDP, but still faces major problems such as widespread poverty, high crime rates, poor public education and endemic unemployment (Heritage Foundation 2013d). South Africa is one of the world's largest producers and exporters of gold and platinum, and the country's mining services, agriculture and manufacturing industries rival those of the developed world (Heritage Foundation 2013d). South Africa accounts for approximately 70% of SADC's total GDP and 22% of total population (Hangi, 2012: 8).

South Africa's GDP per capita was approximately $7 500 in 2012 (World Bank, 2013e).

The South African media reports frequently on corruption scandals involving high-profile individuals, but petty corruption is not particularly pervasive if one compares the situation in South Africa with that of other African countries (Business anti-corruption, 2013a). According to Transparency International's 2013 Corruption Perceptions Index, South Africa is ranked 72nd internationally and 6th in the SADC region, behind Namibia and Lesotho (Transparency International, 2013b).

Corruption and bribery are especially widespread in the granting of government contracts and procurement tenders (Business anti-corruption, 2013a).

Compared with other Sub-Saharan African countries, it is generally simpler and less costly to open a business in South Africa, and import/export procedures are relatively straightforward (Business anti-corruption, 2013a). However, the regulatory environment is still considered to have high levels of red tape, which makes the business environment more difficult than it needs to be.

South Africa's scores were uneven across the survey, with particularly poor ratings in law enforcement with reference to anti-corruption legislation (Figure 5) and manipulation of the regulatory system for personal interest (Figure 7). It is evident that the South African government has been effective in its efforts to eradicate certain forms of corruption but many other problem areas remain. Figure 12 illustrates that many South African companies still perceive corruption to be widespread in South Africa.

South Africa does not perform particularly well in any of the areas in figure 12. One reason for this could be that the respondents all live and are employed in South Africa, and are therefore more exposed to media reports of corruption in South Africa, or are more likely to have witnessed corrupt acts, than in the other SADC countries.

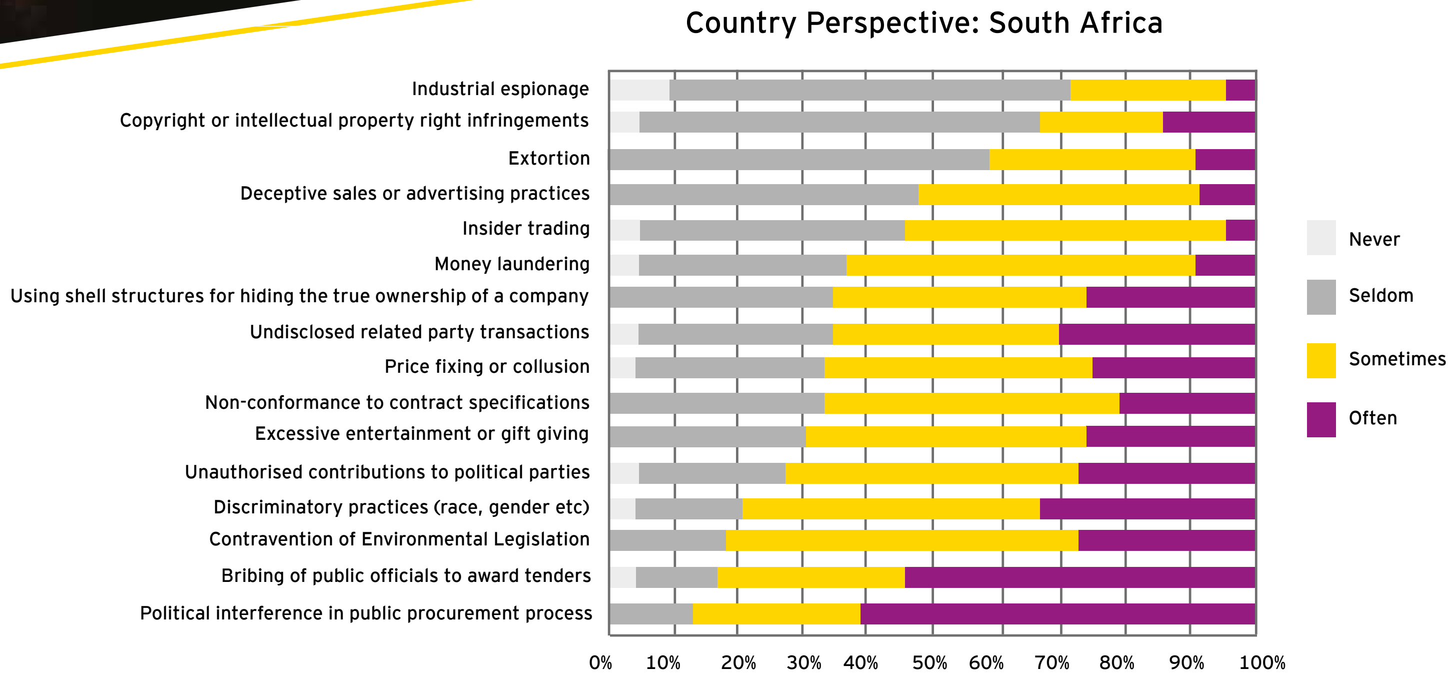


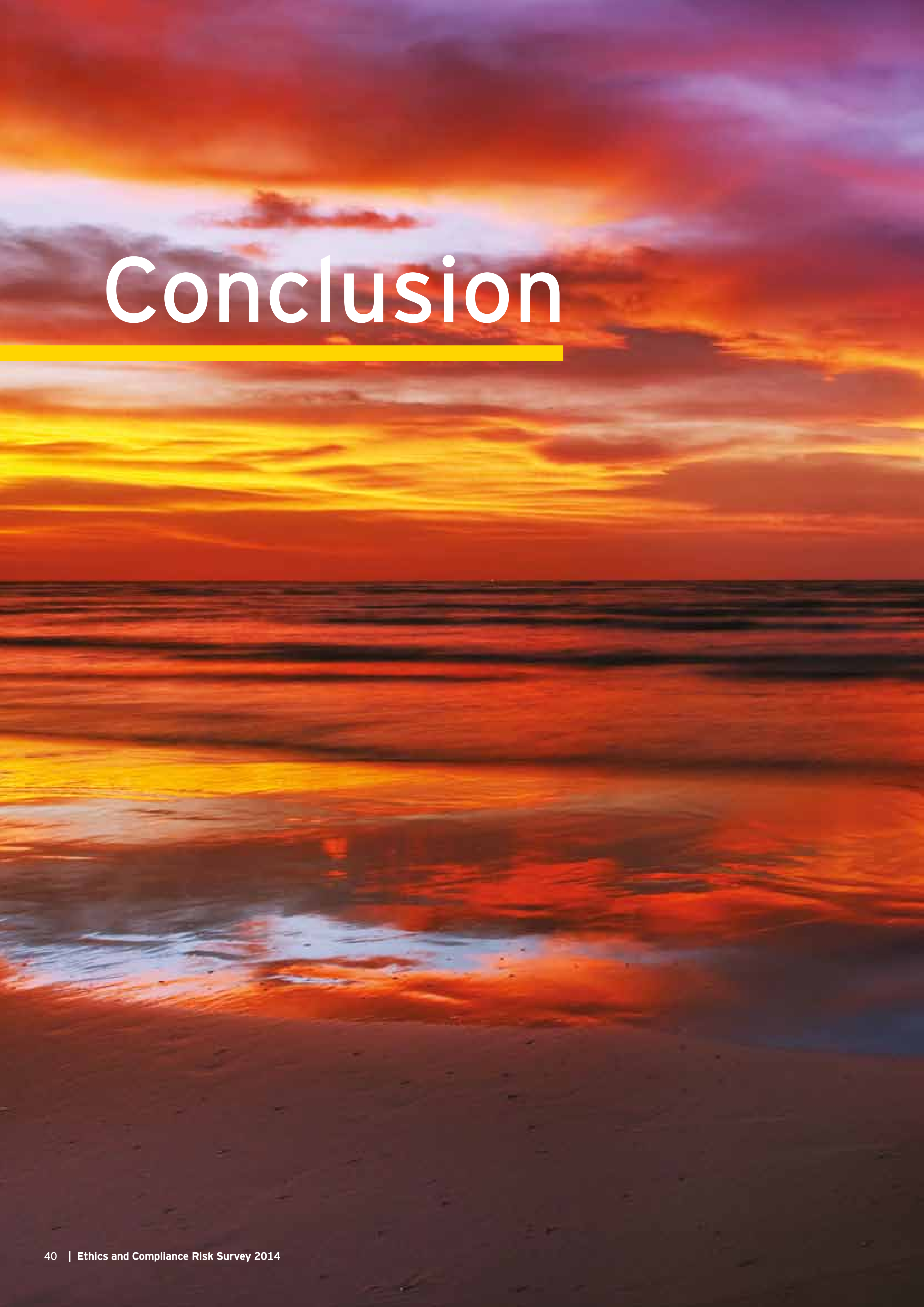
Figure 12: South Africa: Prevalence of corrupt behaviour

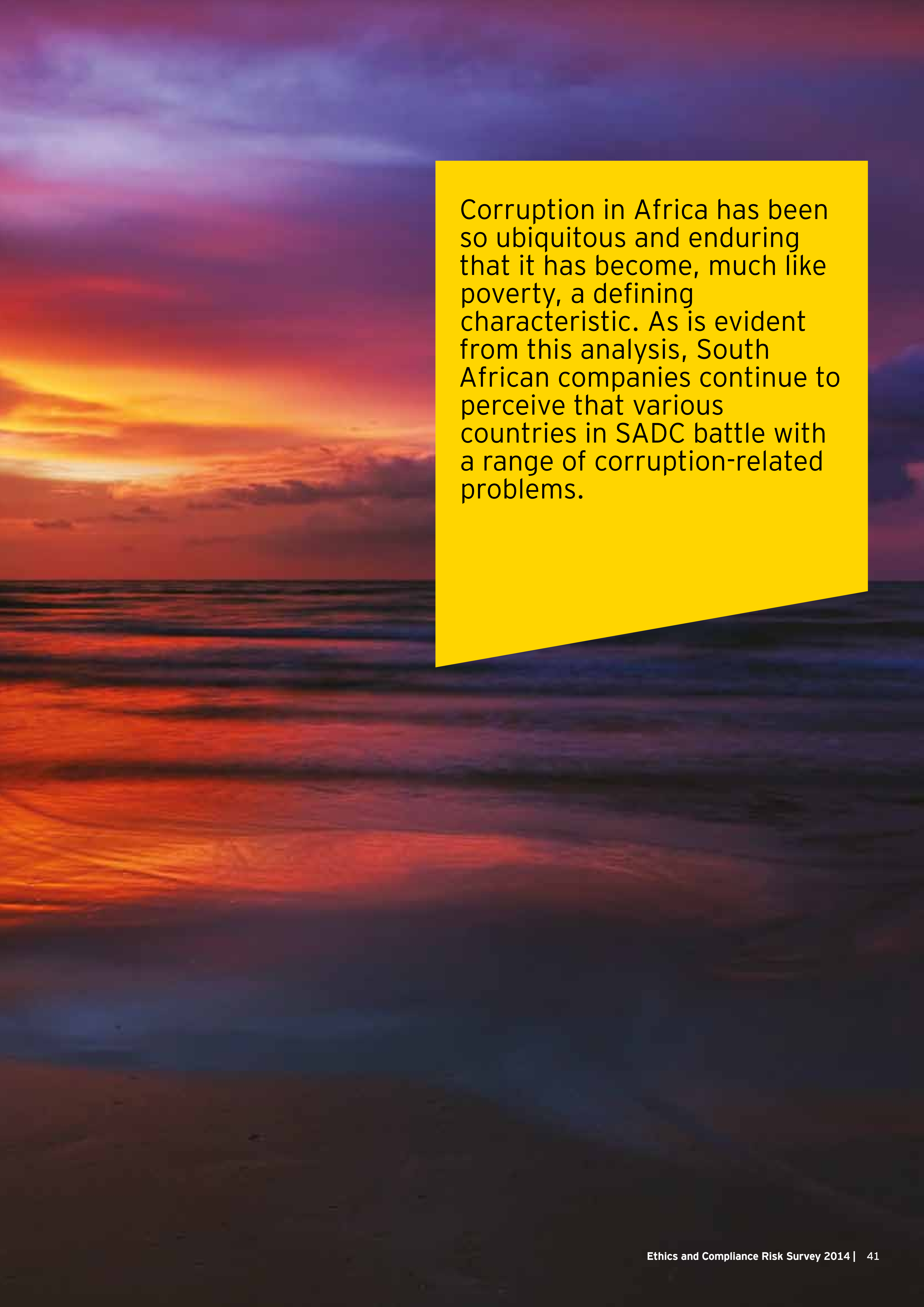
A significant statistic to consider is the fact that 60% of respondents are of the opinion that political interference in public procurement occurs on a frequent basis. South Africa has had numerous procurement scandals at both central and provincial government levels, involving politicians and public officials with the ability to influence tender procedures (Business anti-corruption, 2013a).

One of the most high-profile of the procurement scandals, relating to the arms deal, appears to reach to the highest levels of the government. A commission has been appointed to investigate the allegations, but the process is slow with some parties having already withdrawn in protest at its alleged intent to whitewash the government.

A company secretary, employed in the non-cyclical consumer goods industry, summed up what is a common view: "There is a lot of regulation in South Africa, where we try and ensure that we follow global best practice. Again, the structures are there, whether or not we adhere all the time is an issue. If anything we may be over regulated, but I think we are in a strong regulatory environment. … Botswana is probably the most ethical, and I think probably Namibia and South Africa are similar and probably, relative to the others, more ethical. I think there are well-established structures in South Africa which help make it a more ethical territory than the others. I mean, we are a leader with things like King III, so I think we have got all the structures there to try and ensure that it is a more ethical country."

Conclusion





Corruption in Africa has been so ubiquitous and enduring that it has become, much like poverty, a defining characteristic. As is evident from this analysis, South African companies continue to perceive that various countries in SADC battle with a range of corruption-related problems.

While some countries, like Botswana and Mauritius, for example, have been successful in reducing corruption, even they face specific issues.

Angola, Zimbabwe and the DRC are considered by respondents to be the three most corrupt countries in SADC. This perception is supported by Transparency International's 2013 Corruption Perceptions Index and the Ibrahim Index for African Governance 2013.

Why have certain SADC countries been successful in their anti-corruption efforts while others have struggled? One answer could be that immense stores of resources become the focal point of sporadic violence and political upheaval, which in turn exacerbate the downward spiral caused by corruption, poverty, disease and inefficient government. This supports the contention that conflict and corruption affect each other.

Although the actual extent and nature of the reciprocity between corruption and conflict may be open for debate, the different fates of the DRC and Angola seem to support the contention that the two affect one another closely. The latter has been able to secure a lasting peace, it seems, because it has consistently worked to reduce corruption over a long period, even though it has abundant natural resources acting as an incentive for corrupt practices. The DRC, by contrast, remains both conflict-ridden and corrupt (see the sidebar for a more detailed analysis).

What conclusions can one draw from this analysis, other than the already accepted opinion that Zimbabwe, Angola and DRC are the most corrupt countries in SADC?

One conclusion is that corruption is too wide a concept to be useful. It covers a range for behaviours, and alleviation efforts can only be successful if a context-specific approach is followed. Two of the most significant problems across the SADC region are bribery in the tender process, and political interference in the public procurement process. Specific actions designed to reduce these two forms of corruption would yield better results that generalised anti-corruption programmes. Whilst recognising the limitations of this study, specifically the fact that the findings are based on perceptions from one country only, the following general recommendations can be made in conclusion:

- Additional care should be taken when doing business or considering investments in countries that are consistently perceived to be corrupt.
- Special interventions (for example, awareness campaigns, training or policy development) are encouraged to deal with tender bribery and political interference in the public procurement process.
- Companies should develop a more nuanced understanding of corruption, one that acknowledges the link between corruption and conflict, as well as the ability of improvements in governance to ameliorate the situation over time.

The close relationship between conflict and corruption: Two African case studies

Angola is Africa's second-largest oil producer and so possesses huge potential for economic prosperity for its people. The country is recovering from a civil war that lasted for 27 years (BBC, 2013g: 7). According to the US Department of State (2013) Angola has one of the most difficult business environments in the world, with pervasive corruption, poor infrastructure, an underdeveloped financial system, high transportation costs and bureaucratic and port inefficiencies. However there are hopeful signs. There has been a significant improvement in governance since 2000. According to the 2013 Ibrahim Index (IIAG) Angola is in the top five most improved countries in Africa when it comes to governance (Mo Ibrahim Foundation, 2013a). According to the IIAG Angola is one of only two countries, the other being Rwanda, with consistent year-on-year governance improvement since 2000. The biggest area of improvement for Angola is Safety and Rule of Law, which measures judicial functions, property rights, accountability, national security, personal safety and corruption amongst others (Mo Ibrahim Foundation, 2013a). The situation in Angola is definitely improving.

The DRC possesses a similarly generous natural endowment of resources – Al Jazeera has dubbed it a sleeping economic giant. It has not, however, shown the same level of improvement. The history of DRC has been one of civil war and corruption with immense violence fuelled by mineral wealth and natural resources (BBC, 2013f: 6). The DRC was the centre of what some called Africa's World War; a five year conflict between governmental forces supported by Angola, Namibia and Zimbabwe against rebels backed by Uganda and Rwanda (BBC, 2013f: 6). A peace treaty was signed in 2003, but the country still remains very unstable and various rebel groups and militias are still active (BBC, 2013f: 6). As was stated earlier, DRC has one of Africa's largest populations of internally displaced persons with approximately 2.7 million (Internal Displacement Monitoring Centre, 2012). Corruption has become thoroughly entrenched within public and non-public sectors, which hampers the effectiveness of anti-corruption initiatives.

The DRC has only now started to emerge from a long period of instability and the country is faced with a persistent governance crisis which is exacerbated by poor infrastructure, a weak regulatory environment, ineffective rule of law and institutional incapacity (Chêne, 2010: 1). With a diverse range of systematic social and governance issues, the government has a limited capacity to face corruption problems (Chêne, 2010: 1). Recently however, a strong legal framework to address corruption has been established, but the effectiveness of this framework is severely compromised because the judiciary is weak and lacks resources, and is vulnerable to political interference (Chêne, 2010: 1). Chêne also notes that the media and civil society find it difficult to hold public officials accountable because they run the risk of arrest, intimidation and harassment.

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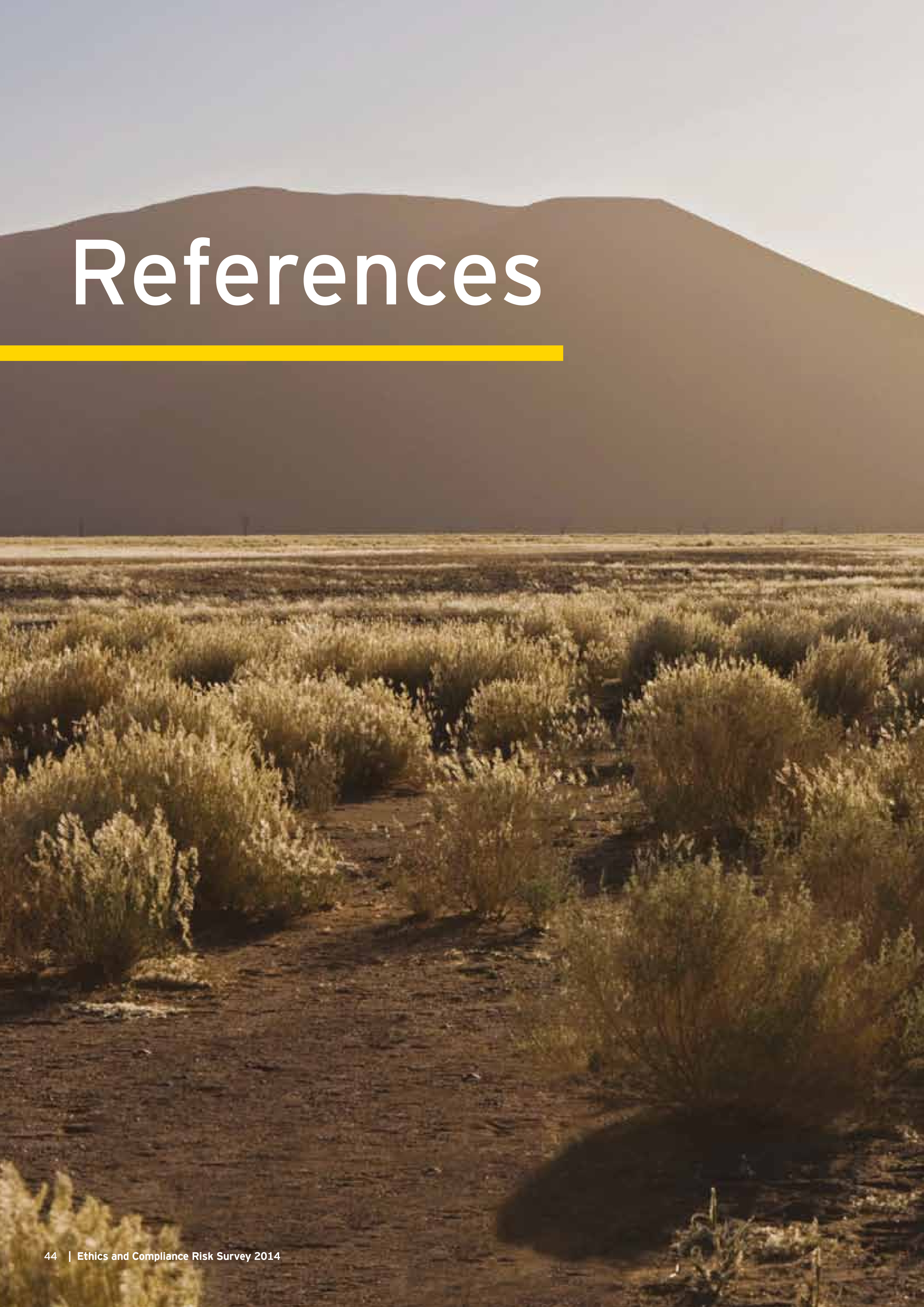

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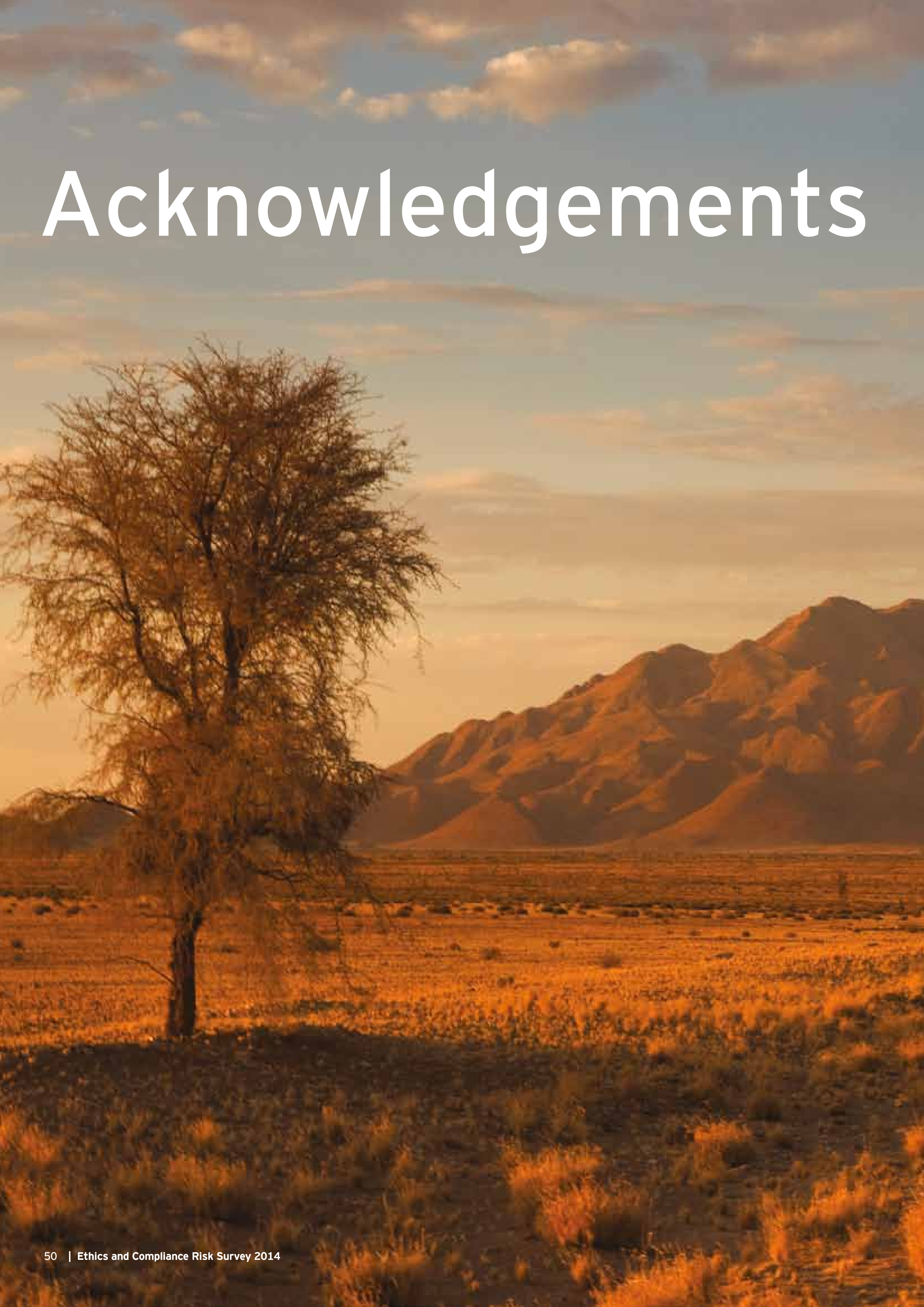
Acknowledgements



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