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CORRUPTION AND OBSTACLES FOR CONDUCTING BUSINESS IN FORMER FRENCH WEST AFRICA

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Abstract

Purpose of the Study: Corruption and crime exist in most countries but may be more apparent in less developed countries. This study examines the extent of corruption and obstacles to conducting business in some former French West Africa countries.

Methodology: This study uses business owner's and mangers perceptions about the use of gifts or informal payments and obstacles to conducting business in five African countries. Data comes from the World Bank Institute and the European Bank for Reconstruction and Development's Business Environment and Economic Performance study. Data from Benin, Burkina Faso, Niger, Senegal, and Togo were examined. Univariate general linear analysis was used to discover statistical differences between factors by country.

Main Findings: Results show Senegalese managers and owners perceived the lowest obstacles to conducting business among the five countries. Togo business managers and owners are slightly less positive about obstacles they face in their businesses. Businesses in the five countries on average pay about eight percent of their annual sales as gifts/informal payments.

Limitations: The study uses data that is about ten years old. The political and economic environment may have changed in these countries since data collection.

Social Implications: The significant level of obstacles business faces in these countries may significantly reduce foreign direct investment in these countries. Electricity is an obstacle in most of these countries reducing the ability if not the interest in conducting business.

Originality/Novelty of the Study: The French strategy in this region for three hundred years was to rule through the military not the development of economic systems. The results of this strategy may still be apparent in the number and degree of obstacles facing business only 50 years after independence.

Keywords*: Corruption; BEEPS; Africa; French West Africa; Business*

INTRODUCTION

Corruption and crime have been identified as characteristics prevalent in many of the less developed countries. (Corruption Perception Index, 2009) While the impact of crime and corruption may be evident, understanding and in some way quantifying the various facets of the "gray economy" presents a challenge. How one to recognize what is not visible? In some cultures "informal gifts/payment expectations or requests" have been accepted societal norms. In 1977 the U.S. adopted the Foreign Corrupt Practices Act (FCPA) which prohibits giving or taking bribes to further business interests and which the Securities and Exchange Commission interprets broadly (https://www.sec.gov/spotlight/fcpa.shtml). In subsequent acts the Organization for Economic Cooperation and Development (OECD) adopted antibribery policies to reduce corruption in developing countries and to provide a level playing field for doing business internationally (http://www.oecd.org/).

Portuguese initially established settlements on the west African coast and were later displaced by the Dutch (Penn, University of Pennsylvania, West African Studies, https://www.africa.upenn.edu/K-12/French_16178.html). These European countries were interested in the African continent for trade in sugar, ivory, gold, and slaves. In the mid-16th century the Dutch were supplanted by the British and French. The French established a large trade center in St. Louis (Senegal) by the mid-17th century trading for peanuts, gum arabic, and other products from the interior of the continent. West Africans participated in the two World wars witnessing the political situation in Europe and the rest of the world. African soldiers unhappy about their homeland political situations and inequitable treatment by the French government after the Second World War began uprising. At French President De Gaulle's urging the colonies of West French Africa became independent countries from 1958 to 1960.

In the past sixty years some of the former West French African countries have seen a succession of military governments and some have established a fledgling democratic form of government. These countries may face uncontrollable factors such as large numbers of refugees and drug trafficking that have a continuously destabilizing influence in the area. Countries may also face controllable issues such as high maternal mortality rates, large percentage of the population living with HIV, high unemployment rates, low literacy rates, reoccurring droughts and floods, and civic unrest leading to low human development indices. These issues combine to form the backdrop of examining the business leaders' perception of corruption and crime.

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LITERATURE SURVEY

When government officials privately gain from the use of their official powers, political corruption has occurred. Unofficial payments are required in some countries when citizens or businesses desire services such as water, telephone, or electricity. In other countries political corruption is considered a means for enhancing a politician's public salary. Situations supporting the occurrence of corruption include a lack of transparency, inconsistent norms, and practices as legal or illegal varying by country. Prior to 1996 the World Bank considered bribery to be an important component in the functioning of business and government. In 1996 the World Bank declared that bribery was sand in the wheels of commerce and not the grease that made the wheels turn.

Bribery for government contracts was estimated to cost about $400 billion USD (Transparency International, 2006). Paying bribes hurts businesses in four ways: risk of reputation in the country where it pays bribes, reputation among bureaucrats as a bribe payer, risk of reputation in the company's home country, and the degradation of markets (Nichols 2006). Paying a bribe siphons off profits that could have gone to the business and shareholders and gives company profits to government official(s) instead of shareholders. The payment of the bribe lowers the profit margin for the company in that country, and consequently lessens the incentive of the company to invest in the "bribed" country. Corruption systematically reduces private investment by domestic and foreign investors and creates barriers to entry for small and medium sized firms (Hellman and Kaufman 2001). Corruption in construction hurts further by putting lives at risk when structures collapse.

Corruption is a sizable barrier to economic and social development because it undermines rule of law and weakens institutional foundations that support economic development (The World Bank 2009). Corruption exists in every country of the world; however, African countries have systematically failed to stem the tide of corruption (The World Bank 2015). Countries on the African continent are often perceived be the most corrupt in the world (Transparency Internal 2015). This situation provides a unique opportunity to study corruption.

The Regional Anti-Corruption Programme for Africa is an initiative of the UNECA and African Union Advisory Board aimed at increasing the fight against corruption on the African continent. Transparency International calls on governments to fight the scourge of corruption. In a recent survey of 28 African countries, 18 were seen as failing to address corruption by a majority of their citizens.

State capture is the efforts of firms to shape the laws, policies, and regulations of the state to their advantage by providing illicit gain to public officials (Hellman and Kaufman 2001). When economic reform is pursued vigorously, state capture is considerably less. In high state captor countries the captor firm's sales growth is three times than that of non-captor firms (Hellman and Kaufman 2001). In low state captor countries the captor firm's sales growth is two-thirds times that of non-captor firms. Libman (2006) found the relative bargaining power of business and the progress of economic reforms were negatively correlated.

The purpose of this study is to examine World Bank data about the types of corruption and the "grey" economy in the countries that comprise the former French West Africa region. Study results can assist firms in making country decisions, and by non-governmental organizations (NGO), government, and regulatory officials as a basis for making policy decisions.

Overview of the Countries

Examining the characteristics of the countries is a starting point to understanding their similarities and differences. As shown in Table 1, Togo is the smallest country (land area) with the smallest population, forty percent of the population living in cities, over one-half of the population lives below the poverty line, and nearly seven percent are unemployed. Burkina Faso has the largest population with 40% of the population living below the poverty line and an unemployment rate of 77% (CIA World Factbook). Niger has the largest land area, youngest median age, lowest percent of the population living in urban areas, and lowest per capita GDP at $1,200. Senegal has an unemployment rate of 48%, almost half of the population living below the poverty line, and most half of the population living in urban areas.

Table 1: Characteristics of Countries[1]

	Benin	Burkina Faso	Niger	Senegal	Togo
Size (sq km)	112,622	274,200	1.2 Mil	196,722	56,785
Population (July 2017 est.)	11,038,805	20,107,509	19,245,344	14,668,522	7,965,055
Median Age	18.2	17.3	15.4	18.8	19.8
Urban Population	47.3%	29.4%	16.4%	47.2%	41.7%
GDP real growth rate (2017 est.)	5.4%	6.4%	4.2%	6.8%	5.0%
GDP per capita (2017 est.)	$2,200	$1,900	$1,200	$2,700	$1,600
Inflation Rate (2017	2.0%	1.5%	1.0%	2.1%	0.8%

est.)					
Population below poverty line (year est.)	36.2%	40.1%	45.4%	46.7%	55.1%
Unemployment Rate (year est.)	1.0%	77%	6%	48%	6.9%
Exposure	Ocean coastline	Landlocked	Landlocked	Ocean coastline	Ocean coastline

[1] Source: CIA World Factbook

METHODOLOGY

The BEEPS Database

This paper uses data from the Business Environment and Economic Performance Study (BEEPS 2008 and BEEPS 2009) developed jointly by the World Bank Institute and the European Bank for Reconstruction and Development. Managers' perceptions of areas of competition, economic performance, industry concentration, and firm characteristics are examined to understand differences and similarities among these countries. Important facets of firms and industries give an indication of the extent to which economies have moved toward a market system. It is expected that the countries will have differing managerial perceptions and characteristics as economic development goes forward and that economic development will be different from country to country.

Data from questions in BEEPS were analyzed using the univariate general linear model analysis of variance. Student-Newman-Keuls is the method used to determine statistical differences between countries. All statistical differences reported are at the 0.05 level of significance. By examining perception data from the five countries a picture of corruption and the firms' competitive factors emergein each country. The five countries share geographic proximity, and all are former members of the former French West Africa region. Questions from the BEEPS study relating to firm characteristics, firm performance, and corruption and state capture were used for this study.

FINDINGS

Business Obstacles

The colored shading in Table 2 is used to highlight statistical differences between countries. Countries with the same color shading are not statistically different from one another. Countries with different shading are statistically different from one another.

Table 2: Perceptions of the Business Environment in 2009[2]

	Benin	Burkina Faso	Niger	Senegal	Togo
Electricity	69	66	73	66	55
Transportation of goods, supplies, and inputs	47	53	53	33	38
Informal sector competitors	71	[redacted]	66	49	57
Access to land	39	59	[redacted]	30	22
Access to finance	62	75	53	52	[redacted]
Tax rates	57	74	66	38	50
Business licensing and permits	30	41	17	28	25
Customs and Trade Regulations	48	55	40	16	36
Tax administration	61	66	44	32	47
Courts	36	44	33	8	46
Labour regulations	27	43	17	11	11
Inadequately educated workforce	38	51	45	16	27
Political	45	43	75	9	69

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	Benin	Burkina Faso	Niger	Senegal	Togo
instability					
Corruption	64	73	75	24	71
Crime, theft, and disorder	54	50	50	17	32
Most serious obstacle facing establishment	Access to finance (30.6%)	Access to finance (22.8%)	Practices of competitors in the informal sector (21.5%)	Electricity (45.8%)	Access to finance (23.2%)
Second most serious obstacle facing establishment	Tax rates (18.4%)	Electricity (16.1%)	Political instability, Tax rates (tie at 14.8%)	Access to finance (23.2%)	Political instability (21.3%)

[2] 0 = No obstacle, 25 = Minor obstacle, 50 = Moderate obstacle, 75 = Major obstacle, 100 = Very severe obstacle

Firms were asked the degree to which electricity was an obstacle to conducting business. Business firms in Togo felt electricity was a moderate obstacle (55), firms in Senegal, Burkina Faso, Benin, and Niger felt electricity was between a moderate and major obstacle (66-73).

Transportation of goods, supplies, and inputs are perceived as a minor to moderate obstacle in Senegal and Togo but a moderate obstacle by firms in Benin, Burkina Faso, and Niger.

Informal sector competitors are seen as a moderate obstacle in Senegal, slightly more than a moderate obstacle in Togo, and between a moderate and major obstacle to operating in Niger and Benin.

Perceptions about access to land were statistically different country to country. In Togo access to land was perceived as less than a minor obstacle, in Senegal slightly more than a minor obstacle, in Benin between a minor and moderate obstacle, and as more than a moderate obstacle in Burkina Faso.

Access to finance is a moderate obstacle to business in Senegal and Niger, between a moderate and major obstacle in Benin, and a major obstacle in Burkina Faso.

Tax rates were seen as an obstacle differently in each country. For business firms in Senegal, tax rates were seen as between a minor and moderate obstacle, firms in Togo saw tax rates as a moderate obstacle, and firms in Benin saw tax rates a slightly more than a moderate obstacle. In Niger firms viewed tax rates as between a moderate and major obstacle and Burkina Faso firms saw tax rates as a major obstacle to the current operation of their business.

Business licensing and permits are between no and a minor obstacle in Niger, a minor obstacle in Togo, Senegal, and Benin, and between a minor and moderate obstacle in Burkina Faso.

Senegalese businesses feel customs and trade regulations are less than a minor obstacle, Niger and Togo businesses feel customs and trade regulations are between a minor and moderate obstacle, while businesses in Benin and Burkina Faso feel customs and trade regulations are a moderate obstacle to their businesses.

Business owners and managers in Senegal perceive tax administration as between a minor and moderate obstacle, while Niger and Togo businesses perceive tax administration as close to a moderate obstacle, and Benin and Burkina Faso businesses perceive tax administration as between a moderate and major obstacle.

The courts are seen as almost no obstacle in Senegal, between a minor and moderate obstacle in Benin and Niger, and almost a moderate obstacle in Burkina Faso and Togo.

Businesses in Niger, Senegal, and Togo feel labor regulations are between no and a minor obstacle, while Benin businesses feel labor regulations are a minor obstacle, and Burkina Faso firms feel labor regulations are close to a moderate obstacle.

Businesses in each country feel that an inadequately educated workforce in their country differs from all the other countries. Senegal firms perceive inadequately educated workforce is between no and a minor obstacle, Togo firms perceive an inadequately educated workforce is a minor obstacle, and firms in Benin perceive an inadequately educated workforce to be between a minor and moderate obstacle. Niger businesses perceive an inadequately workforce to be slightly less than a moderate obstacle and Burkina Faso businesses perceive an inadequately educated workforce as a moderate obstacle.

Political instability is seen as less than a minor obstacle in Senegal, while businesses in Benin and Burkina Faso see political instability as almost a moderate obstacle, and businesses in Togo and Niger see political instability as a major obstacle.

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Corruption is a minor obstacle to firms in Senegal, between a moderate and major obstacle in Benin, and a major obstacle to conducting business in Togo, Burkina Faso, and Niger.

Crime, theft, and disorder are almost a minor obstacle in Senegal, between a minor and moderate obstacle to firms in Togo, and a moderate obstacle in Niger, Burkina Faso, and Benin.

When asked what issue was the most serious obstacle to conducting business, Access to Finance was the top choice in Benin, Burkina Faso, and Togo. For businesses in Niger it was the practices of competitors, and in Senegal it was electricity.

The second most serious obstacle to businesses was a tie between Tax Rates and Political Instability mentioned by businesses in Benin, Niger, and Togo. Access to Finance was the second most serious obstacle in Senegal, and Burkina Faso businesses rated electricity as the second most serious obstacle.

Corruption and State Capture – Unofficial Payments

Table 3: Requests for a Gift/Informal Payment[3]

	Benin	Burkina Faso	Niger	Senegal	Togo
Electrical connection	1.52	1.81	1.85	1.94	1.74
Water connection	1.57	1.96	1.82	1.95	1.88
Telephone connection	1.70	1.92		1.93	
Construction-related permit	1.60	1.91	1.78	1.79	1.75
Inspections by tax officials	1.83	1.96		1.82	
Import license	1.79	1.90	1.90	1.85	1.83
Operating license		2.00	1.57		

[3] 1 = Yes, 2 = No

Businesses were asked about requests for gift/informal payments when requesting various services, permits, or licenses.

In general, when asking for an electrical, water, or telephone connection, firms in Benin received gift/informal payment requests more often than firms in the other four countries. For an electrical or water connection about half of Benin firms received the gift/informal payment request. Less than two out of ten firms in Burkina Faso, Niger, Senegal, and Togo received the same requests for an electrical or water connection.

No statistical differences among the five countries were seen for gift/informal payment requests when applying for construction permits.During inspections by tax officials, Senegalese and Benin firms received more gift/informal payment requests than firms in Burkina Faso.No statistical differences among the five countries were seen for gift/informal payment requests when applying for import licenses.

About half of Niger businesses had a gift/informal payment request when applying for an operating license, while none of the Burkina Faso firms received a similar request.

Table 4: Percent of Annual Sales as Gift/Informal Payments

	Benin	Burkina Faso	Niger	Senegal	Togo
Percent of annual sales paid in informal gifts		16.64	6.50	6.97	7.47

On average across the five countries, about 8.3% of a firm's annual sales are paid out as gifts/informal payments. Firms in Niger, Senegal, and Togo pay about seven percent of their sales as gifts/informal payments. Firms in Burkina Faso believe they pay over 16% of their annual sales as gifts/informal payments.

Table 5: Public Procurement Kickbacks

	Benin	Burkina Faso	Niger	Senegal	Togo
Percent of contract value paid in informal gifts to secure govt. contract	11.18	9.24	9.00	14.50	8.67

Firms doing business with governments may have to make payments to win the contract. There are no statistically significant differences between these West African countries on the percentage of a contract they paid in informal gifts to secure the government contract. Firms in these five countries pay on average 10.46% of a government contract value in informal gifts.

CONCLUSION

Senegal seems to have fewer obstacles to conducting business than the other countries. Interestingly the World Bank ranks Senegal at the 140th easiest country for doing business, the highest ranking for the former French West African countries investigated in this paper. The other countries rankings were Benin (151) Burkina Faso (148), Niger (144), and Togo (156) (World Bank). If a business operates in these countries they can expect to pay about eight percent of their annual sales as gifts/informal payments. Informal payments for government contracts average about 10.5% of the contract amount.

Studies of corruption can be used by firms to help them understand where to locate operations and the type of operation to undertake. In this study, there are significant differences between countries on several factors. A country with access to electricity is seen as a moderate obstacle to development also has less access to finance. So, if a firm's project needs electricity and has its own access to capital, this might be a reasonable country to look to for a place to locate.

In other countries, political instability is clearly a problem for development. Other countries are not as politically unstable. A firm, all other things equal, might want to look carefully before developing a large scale capital project in a politically unstable country. A promise to allow a project by the government in power might be rejected by the next government.

Results from the study might be used by a firm to develop policies to minimize the negative effects of corruption. U.S. firms should remember the Foreign Corrupt Practices Act when developing these policies and make sure local officials understand what they can and cannot do under the law. Additionally, International Aid organizations can focus on the more dire aspects of local corruption to assist countries in development.

Results from a corruption study could be used in several different analytical approaches. One suggestion we might suggest in future studies, is to select variables that are useful to the firm's needs.

LIMITATIONS

There are two limitations to our study. First, the data is almost ten years old. Examining only Senegal, a new president was elected in 2012 and has instituted many new reforms under his Emerging Senegal Plan. Multiple Eurobond issuances since 2012 show international finance confidence in Senegal. Electricity remains an issue both in availability and cost. This is one example of how these countries have changed since the World Bank collected this data.

Second, the analysis technique is exploratory. There were no hypotheses a priori to our study. Confirmatory analysis requires hypotheses developed before testing with data. Many hypotheses and explanations of the analyzed data may exist.

FUTURE SCOPE

Future research could examine more recent data from the World Bank. In addition an examination of corruption former English colonies in Africa. Then a comparison of corruption in former French versus former English colonies could be employed. In addition, hypotheses could be developed and tested using confirmatory analysis.

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